

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF COSTS CLAIMED BY
WEST VIRGINIA ADVOCATES,
INCORPORATED
CHARLESTON, WEST VIRGINIA**

**OCTOBER 1, 1998
THROUGH
MARCH 31, 2001**



JANET REHNQUIST
Inspector General

**MAY 2002
A-03-01-00511**

NOTICES

THIS REPORT IS AVAILABLE TO THE PUBLIC at <http://oig.hhs.gov>

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, Office of Inspector General, Office of Audit Services, reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5.)

OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed as well as other conclusions and recommendations in this report represent the findings and opinions of the HHSIOIG/OAS. Final determination on these matters will be made by authorized officials of the HHS divisions.





DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL
OFFICE OF AUDIT SERVICES
150 S. INDEPENDENCE MALL WEST
SUITE 316
PHILADELPHIA, PENNSYLVANIA 19106-3499

May 20, 2002

Our Reference: Common Identification Number A-03-01-00511

Robert Peck, Executive Director
West Virginia Advocates, Incorporated
Litton Building, 4th Floor
1207 Quarrier Street
Charleston, West Virginia 25301-1842

Dear Mr. Peck:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General, Office of Audit Services' report entitled "**Audit of Costs Claimed by West Virginia Advocates, Incorporated, Charleston, West Virginia.**" A copy of this report will be forwarded to the action official noted below for his/her review and any action deemed necessary.

Final determination as to the action taken on all matters will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), OIG, OAS audit reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise (See 45 CFR Part 5).

To facilitate identification, please refer to Common Identification Number A-03-01-00511 in all correspondence related to this report.

Sincerely yours,

A handwritten signature in cursive script that reads "David M. Long".

David M. Long
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

Director, Division of Audit Resolution
Office of Audit Resolution and Cost Policy
Department of Health and Human Services
200 Independence Avenue, SW
Room 522E
Washington, D. C. 20201

EXECUTIVE SUMMARY

Background

The West Virginia Advocates, Incorporated (WVA) is a non-profit agency designated by the Governor of West Virginia to assist people with disabilities under the Federally mandated national protection and advocacy system. The services WVA provides are funded by Federal, state and private sources. The WVA operates five distinct Federal protection and advocacy programs which address the diverse needs of people with disabilities. Our review focused on funds provided by two Federal agencies: the Administration for Children and Families (ACF) and the Substance Abuse and Mental Health Services Administration (SAMHSA), both of which are Department of Health and Human Services (HHS) organizations.

The ACF, Administration on Developmental Disabilities (ADD), provides funding to the WVA for the Protection and Advocacy for Persons with Developmental Disabilities (PADD) program. The PADD program was created in 1975 to pursue legal, administrative and other appropriate remedies to protect and advocate the rights of individuals with disabilities under all applicable Federal and State laws. The PADD clients must have a developmental disability as defined by Federal law (a chronic mental and/or physical condition evident prior to age 22 which causes substantial functional limitations in three or more areas of life activity).

The SAMHSA, Center for Mental Health Services (CMHS), provides funding to the WVA for the Protection and Advocacy for Individuals with Mental Illness (PAIMI) program. The PAIMI program was established in 1986. Grantees are mandated to protect and advocate the rights of individuals with mental illness and investigate reports of abuse and neglect in facilities that care for these individuals. The PAIMI clients must have significant mental illness or emotional impairment and must reside in a residential facility (or have resided in one within the past 90 days).

For the period October 1, 1998 through March 31, 2001, WVA received \$1,383,679 in Federal funds from ACF and SAMHSA. The ACF reimbursed the WVA \$695,238 for the PADD program and SAMHSA reimbursed the WVA \$688,441 for the PAIMI program.

Objectives

The objectives of our audit were to determine if the WVA properly accounted for funds received for the PADD and PAIMI programs during the period October 1, 1998 through March 31, 2001 and to determine if the funds were claimed in accordance with Federal requirements.

Summary of Findings

The WVA charged excessive indirect costs of \$47,196 to the PADD and PAIMI programs for the period of October 1, 2000 through March 31, 2001. The excessive indirect costs claimed were attributable to WVA applying an incorrect rate and changing its allocation method without approval. The WVA had no policies to assure that credit card purchases were program related, not of a personal nature, allowable, allocable and accounted for properly. Although WVA has

since implemented a credit card policy, the policy does not require supervisory review of all credit card charges. The lack of a requirement for supervisory review and approval of credit card charges before claims are submitted to Accounting may result in inappropriate charges being allocated to programs. The WVA's travel policies did not require advance approval for all travel or that travel expense statements be submitted in a timely manner after the completion of travel, to ensure that travel expenses meet the test of reasonable, necessary and allowable. Furthermore, WVA did not have adequate policies in place to ensure that time and attendance was correctly maintained and that programs were being charged for salaries and wages in accordance with regulations.

Recommendations

We recommend that WVA:

1. Refund \$22,858 to the PADD program and \$24,338 to the PAIMI program of excessive indirect costs; and
2. Establish adequate written policies and procedures relating to credit card charges, travel, and time and attendance.

WVA Response

The WVA responded to a draft report describing our findings and recommendations by providing additional supporting documentation for the questioned direct costs in our report. The WVA did not provide comments to the other findings and recommendations in our report.

The WVA's response to our draft report is included as Appendix A to this report. We reviewed the additional supporting documentation provided by WVA. Modifications were made in the final report based on the supporting documentation submitted.

HHS Office of Audit Resolution and Cost Policy (OARCP) Response

In its response to the indirect cost findings in our draft report, OARCP agreed with our findings. The OARCP stated that an adjustment in indirect cost recovery is required due to WVA's "self-determined" rate increase. The OARCP stated that a change in the allocation method without advance approval is a violation of the Rate Agreement.

The OARCP response to our draft report is included as Appendix B to this report. We summarized OARCP's response along with our comments after the indirect cost finding in our report. Modifications were made in the final report based on OARCP's response.

SAMHSA Response

In the SAMHSA response letter dated February 25, 2002 to our draft report, the SAMHSA had no comments to the findings and recommendations in our report.

The SAMHSA response to our draft report is included as Appendix C to this report.

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INTRODUCTION

BACKGROUND

The West Virginia Advocates, Incorporated (WVA) is a non-profit agency designated by the Governor of West Virginia to assist people with disabilities under the Federally mandated national protection and advocacy system. The services WVA provides are funded by Federal, state and private sources. The WVA operates five distinct Federal protection and advocacy programs which address the diverse needs of people with disabilities. Our review focused on funds provided by two Federal agencies: the Administration for Children and Families (ACF) and the Substance Abuse and Mental Health Services Administration (SAMHSA), both of which are Department of Health and Human Services (HHS) organizations.

The ACF, Administration on Developmental Disabilities (ADD), provides funding to the WVA for the Protection and Advocacy for Persons with Developmental Disabilities (PADD) program. The PADD program was created in 1975 to pursue legal, administrative and other appropriate remedies to protect and advocate the rights of individuals with disabilities under all applicable Federal and State laws. The SAMHSA, Center for Mental Health Services (CMHS), provides funding to the WVA for the Protection and Advocacy for Individuals with Mental Illness (PAIMI) program. The PAIMI program was established in 1986, which mandated grantees to protect and advocate the rights of individuals with mental illness and investigate reports of abuse and neglect in facilities that care for these individuals.

For the period October 1, 1998 through March 31, 2001, WVA received funding of \$3,167,895 from Federal, state and private sources. We audited Federal funds from ACF and SAMHSA totaling \$1,383,679 for this period. The WVA was reimbursed \$695,238 for the PADD program by ACF and \$688,441 for the PAIMI program by SAMHSA.

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of our audit were to determine if the WVA properly accounted for funds received for the PADD and PAIMI programs during the period October 1, 1998 through March 31, 2001 and to determine if the funds were claimed in accordance with Federal requirements. Our audit was conducted in accordance with generally accepted government auditing standards.

As part of our review of internal controls we made a determination not to rely on WVA's internal controls. Instead, we increased our substantive testing. Our audit was performed at WVA during the period June and July 2001. The WVA formally responded to our draft report on March 20, 2002. To accomplish our objectives we:

- ✓ obtained an understanding of how WVA's accounting system functioned;
- ✓ identified all credit cards maintained by WVA and reviewed all credit card charges made during the period October 1, 1998 through March 31, 2001 for allowability, allocability, and reasonableness;

- ✓ reviewed various financial reports including the Financial Status Reports, audited financial statements, and the general ledger;
- ✓ judgmentally selected a sample of travel, training, equipment and other cost transactions to determine if the charges were (1) in accordance with approved policies; (2) grant related and not of a personal nature; (3) allowable and allocable to the grant; and (4) accounted for properly; and
- ✓ reviewed employee time and attendance policies and sampled selected time sheets to determine if procedures were being followed to ensure that time and attendance records were correctly maintained.

RESULTS OF REVIEW

The WVA claimed and was reimbursed \$1,383,679 for the period October 1, 1998 through March 31, 2001, under its programs with PADD and PAIMI. We determined that WVA:

- claimed excessive indirect costs of \$22,858 to the PADD program and \$24,338 to the PAIMI program for the period of October 1, 2000 through March 31, 2001;
- did not have adequate written policies and procedures related to credit card charges, travel, and time and attendance; and
- engaged a Certified Public Accounting (CPA) firm that had a potential conflict of interest with a subsidiary of the CPA firm, which was also under contract with WVA.

By letter dated March 20, 2002, WVA responded to a draft of this report. The WVA response to our findings and recommendations was to provide additional supporting documentation for the questioned direct costs in our report. We reviewed at the additional supporting documentation provided by WVA and made adjustments to our report when warranted. The WVA did not provide comments on the other findings and recommendations in our report. The response is included as Appendix A to this report.

INDIRECT COSTS

The WVA claimed \$189,416 in indirect costs, consisting of \$95,211 for PADD and \$94,205 for PAIMI. We determined that \$72,353 of the indirect costs charged to PADD and \$69,867 of the indirect costs charged to PAIMI were allowable, and \$22,858 and \$24,338, respectively, were unallowable.

The WVA claimed excessive indirect costs in the amount of \$47,196 which were attributable to applying an incorrect rate. The WVA was authorized to claim indirect costs under the direct allocation method, using its approved provisional rate of 15 percent of modified total direct costs for the period October 1, 1998 through September 30, 2000. The Division of Cost Allocation

(DCA) approved this provisional rate. A rate agreement was issued in November 2000, which finalized the provisional 15 percent rate to 13.4 percent, going back to the period beginning October 1998. The WVA used a rate of 13.4 percent of total modified direct costs, except as noted below. The WVA changed its allocation of indirect costs to the simplified allocation method for the period October 1, 2000 through March 31, 2001, which caused its indirect rate to go above the approved DCA provisional rate. The WVA stated that during this period, “All administrative personnel salaries/expenses and etc. were put under its administrative cost center and was not reallocated.” The table below shows the excessive indirect cost rates charged to the PADD and PAIMI programs for the period October 1, 2000 through March 31, 2001. The excess of claimed to allowed amounts was calculated by comparing the actual rates and amounts charged to the allowed rate of 13.4 percent.

Excessive Indirect Costs and Percentage

	<u>PADD</u>		<u>PAIMI</u>	
	Rate Used	Unallowed	Rate Used	Unallowed
October 2000	26.80%	\$3,420	33.80%	\$4,256
November 2000	24.60%	\$2,409	25.00%	\$2,671
December 2000	35.80%	\$4,800	28.80%	\$3,119
January 2001	41.60%	\$6,735	40.60%	\$7,030
February 2001	21.20%	\$1,368	27.60%	\$2,474
March 2001	38.90%	\$4,126	43.90%	\$4,788
Total		\$22,858		\$24,338

The WVA officials reportedly recognized that the indirect cost rates were excessive and reverted to the approved indirect cost rate as of April 1, 2001. However, WVA did not make any adjustments to the indirect costs charged to the PADD and PAIMI programs for the period October 2000 through March 2001.

WVA Response

In the WVA’ response letter dated March 20, 2002 to our draft report, the WVA did not comment on this finding.

HHS Office of Audit Resolution and Cost Policy (OARCP) Comment

The OARCP agreed that an adjustment in indirect cost recovery is required due to WVA’s “self-determined” rate increase.

OIG Comment

The OIG has no additional comments to this finding.

POLICIES AND PROCEDURES

While performing the audit at WVA, we repeatedly requested supporting documentation and explanations for cost claimed. While WVA provided some supporting documentation for costs claimed, other supporting documentation provided was inadequate to determine the nature, type, reasonableness or necessity of the expense during the time of our review.

We allowed WVA staff sufficient time to provide supporting documentation. We provided a written request for documentation at the start of our audit. The WVA staff indicated that due to its high employee turnover it was unable to locate additional supporting documentation. The WVA did not have policies and procedures in place to meet the requirements for supporting source documentation for accounting records as required by 45 CFR Part 74.21, "*Standards for Financial Management Systems*" which state:

- (b) Recipients' financial management systems shall provide for the following:
 - (6) Written procedures for determining the reasonableness, allocability and allowability of costs in accordance with the provisions of the applicable Federal cost principles and the terms and conditions of the award.
 - (7) Accounting records, including cost accounting records, that are supported by source documentation.

In response to our draft of this report WVA was eventually able to locate and provide additional supporting documentation requested at the start of our audit. The WVA provided a significant quantity of supporting documentation to address the questioned direct costs in our draft report. We reviewed the additional supporting documentation provided by WVA. Adjustment to the amount of questioned costs were made in the final report to the extent that the supporting documentation submitted was sufficient. Costs questioned in this report represent costs for which adequate support has still not been provided.

Credit Cards

During our audit period WVA had no policies to assure that credit card purchases were program related, not of a personal nature, allowable, allocable and accounted for properly. The WVA's lack of a credit card policy allowed the opportunity for inappropriate use of its credit cards and for unallowable costs to be charged to its programs. The WVA did not require that all receipts for credit card charges be reviewed by a responsible supervisory official having first hand knowledge of the charges to verify that the charges represent an allowable and allocable grant charge, as required by 45 CFR Part 74.21.

Since our audit period, WVA has implemented policies for credit card charges, approved by WVA's board of directors in June 2001. The WVA's new credit card policies require employees to receive delegated authority by the Executive Director in order to use credit cards. The new credit card policies state that, "It will be the responsibility of each employee to check charges on the monthly credit card statement and make sure appropriate receipts are attached. Any

questioned amount will be the responsibility of the employee until resolved. Accounting will need to receive the statement with all receipts in the Charleston office by the 5th day of the month . . .”. The new policies also provide that if the employee does not resolve the costs in question, the amount paid by WVA for those costs will be deducted from the employee’s payroll check. The new WVA policies require employees to sign an affidavit which holds them responsible for charges made to the credit card.

Although WVA has implemented a credit card policy, the policy does not require supervisory review of all credit card charges. The lack of a requirement for supervisory review and approval of credit card charges before claims are submitted to Accounting may result in inappropriate charges being allocated to programs. Requiring supervisory review and approval of credit card charges before submission to Accounting would improve controls and increase the likelihood that inappropriate costs would be identified before being charged to programs.

Travel

We judgmentally selected a sample of travel transactions to determine if the charges were (1) in accordance with approved policies, (2) grant related and not of a personal nature; (3) properly accounted for, and (4) allowable and allocable to the programs. On certain travel expense statements, the purpose was not sufficient to support the necessity of the travel, as required by 45 CFR Part 74.21 that costs charged be adequately documented to determine allowability of costs.

The WVA did not ensure that its employees complied with its travel policies and clearly define the purpose for travel costs and ensure that all travel expense statements have adequate supporting documentation attached. The WVA was able to later provide supporting documentation to support the necessity of the travel, in response to our draft of this report.

The WVA initiated new travel policies in June 2001. However, these new travel policies still do not require advance approval for travel or submission of travel expense statements in a timely manner after the completion of travel to ensure that travel expenses met the test of reasonable, necessary and allowable.

Time and Attendance

The WVA’s time and attendance policies did not ensure that employee time and attendance records were correctly maintained and that programs were charged for salaries in accordance with a system that was acceptable and in accordance with the provisions of OMB Circular A-122.

We performed a review of time sheets for 10 judgmentally selected WVA employees to determine if adequate procedures were in place to ensure that time and attendance was correctly maintained and that programs were properly charged. Time and attendance records were maintained through use of a bi-monthly time sheet completed by each employee. Procedures specified that time sheets would be signed by the employee, supervisor and the Executive Director. The WVA’s personnel policies stated that, “each employee will be responsible for maintaining daily, accurate record of their time. The time sheets are to be signed by the

employees verifying that the information is accurate and submitted on the 15th and the last working day of each month . . .”. However, WVA personnel policies did not state a requirement for time sheets to be approved by supervisory officials having first hand knowledge of the activities performed by the employees, as required by OMB Circular A-122.

The OMB Circular A-122, Attachment B- Selected Items of Cost, paragraph 7.m., *Support of Salaries and Wages*, state:

“(1) Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports . . .

(2) Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards . . .”.

The WVA employees did not always sign their time sheets in a timely manner. Time sheets were not signed by employees for up to 2 months after the pay period end date. The supervisor did not review and sign other time sheets for up to 5 months after the pay period end date.

Supervisors’ reviews sometimes resulted in adjustments to employees’ time sheets. These adjustments consisted of reallocating time spent on program activities. Because WVA supervisors did not review and sign the employees’ time sheets in a timely manner, they may not have had first hand knowledge of the activities performed by the employees, or knowledge that the distribution of activity represented a reasonable estimate of the actual work performed by employees during the periods covered by the time sheets as required by OMB Circular A-122.

The WVA did not have adequate policies in place to ensure that time and attendance was correctly maintained and that programs were charged for salaries and wages in accordance with regulations. However, since our review, WVA has initiated new time and attendance policies. Time sheets are due in the accounting department with all necessary signatures and approval within 3 working days following the pay period end date.

WVA Response

In the WVA’ response letter dated March 20, 2002 to our draft report, the WVA did not comment on this finding.

OIG Comment

The OIG has no additional comments on this finding.

OTHER MATTERS

A potential conflict of interest was identified involving WVA's CPA firm, whose partners were members of the American Institute of Certified Public Accountants (AICPA), and a subsidiary of the CPA firm, both of which entered into contracts with WVA. The CPA firm performed audits for WVA in Fiscal Years (FY) 1997, 1998, and 1999. From February 1999 through September 2000 WVA had a contract with the CPA firm's subsidiary for the purchase of computer equipment and computer maintenance. The contracts with the subsidiary totaled \$40,939, of which \$31,743 related to the PADD and PAIMI programs. The equipment included computers, servers, printers, and backup drives. The AICPA Code of Professional Conduct, ET Section 102, Integrity and Objectivity, paragraph .01 Rule 102, restricts a member CPA performing an audit for the client and other professional services by requiring the CPA to (1) maintain objectivity and integrity, (2) be free of conflicts of interest and (3) not knowingly misrepresent facts or subordinate judgment to others. Adherence to these requirements was the responsibility of the CPA firm.

In addition, the AICPA Code of Professional Conduct, Section 102 - Integrity and Objectivity, paragraph .03 102-2, Conflicts of Interest, states:

*“ A conflict of interest may occur if a member performs a professional service for a client or employer and the member or his or her firm has a relationship with another person, entity, product or service that could, in the member's professional judgment, be viewed by the client, employer, or other appropriate parties as impairing the member's objectivity. **If the member believes that the professional service can be performed with objectivity, and the relationship is disclosed to and consent is obtained from such client, employer, or other appropriate parties, the rule shall not operate to prohibit the performance of the professional service**” (emphasis added).*

Although WVA knew of the relationship between the CPA firm and its subsidiary, WVA was not aware of the CPA firm's professional obligation to disclose the relationship and obtain client consent, or of the potential conflict of interest it presented. The audit report prepared by the CPA firm did not disclose the CPA's relationship with its subsidiary. As a result, WVA's audits for FYs 1998 and 1999 were performed by a firm that may have been in violation of the Code of Professional Conduct of the AICPA.

WVA Response

In the WVA's response letter dated March 20, 2002 to our draft report, the WVA did not comment on this matter.

OIG Comment

The OIG has no additional comments on this matter.

CONCLUSION AND RECOMMENDATIONS

The WVA had no policies to assure that credit card purchases were program related, not of a personal nature, allowable, allocable and properly accounted. Although WVA has implemented a credit card policy, the policy does not require supervisory review of all credit card charges. The lack of a requirement for supervisory review and approval of credit card charges before claims are submitted to Accounting may result in inappropriate charges being allocated to programs. The WVA's travel policies did not require advance approval for all travel or that travel expense statements be submitted in a timely manner after the completion of travel to ensure that travel expenses meet the test of reasonable, necessary and allowable. In addition, WVA's procedures relating to other direct and indirect costs were not adequate to assure there was documentation to support that the charges were reasonable and necessary. Furthermore, WVA did not have adequate policies in place to ensure that time and attendance was correctly maintained and that programs were being charged for salaries and wages in accordance with regulations.

We, therefore, recommend that WVA:

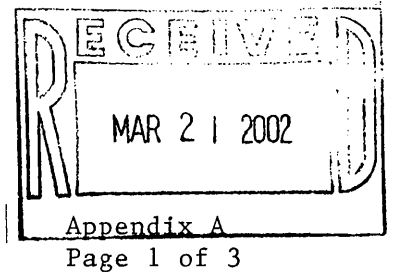
1. Refund \$22,858 to the PADD program and \$24,338 to the PAIMI program of excessive indirect costs; and
2. Establish adequate written policies and procedures relating to credit card charges, travel, and time and attendance.

APPENDIX

WVA

West Virginia Advocates

The Protection and Advocacy System for West Virginia



March 20, 2002

Ms. Anita Anderson
U.S. Department of Health & Human Services
Office of Inspector General
Office of Audit Services
150 S. Independence Mall, West – Suite 316
Philadelphia, PA 19106

Re: Common Identification Number
A-03-01-00511

Dear Anita:

Attached you will find the following information relative to our audit review:

1. Summary of cost allocation which gives a brief description of how expenses were allocated.
2. Indirect Cost Agreement dated 10/5/01 (13.40%).
3. Various spreadsheets reviewing indirect costs for audit period.
4. Copies of correspondence with Division of Cost Allocation and the Federal Audit Clearinghouse regarding indirect cost proposal, etc.
5. Independent audited financial statements for fiscal years FY 00 and FY 01.

We are sending all of the documentation you requested by UPS Ground Service. The materials will be shipped on Thursday, March 21st and you should have by Monday, March 25th. As the materials have not been packed, I am estimating there will be between 2 and 3 boxes.

The information has been placed in binders and organized into three sections described as follows:

General Ledger

Information has been set up in the basic format as your findings. Account number, month/year and program. Each section includes a spreadsheet with the detailed trial balance information followed by the paid check copy, the invoice with receipts (if applicable), cost allocation spreadsheets, and supplemental documentation.

Each check has been separated by a beige divider sheet for ease in referring back to the trial balance information sheet. Each month/year separated by a pink divider sheet.

All expense amounts and pertinent information has been highlighted.

304-346-0847 or 1-800-950-5250 (V/TDD)
(Fax) 304-346-0867
Litton Building 4th Floor
1207 Quarrier Street, Charleston, West Virginia 25301-1842

Ms. Anita Anderson
March 20, 2002
Page Two

MasterCard Charges

Information from your spreadsheet was organized by credit card statement periods. Each section includes a spreadsheet with the credit card information being reviewed followed by the paid check copy, the statement, receipts, expense description, and the cost allocation spreadsheets. Supplemental documentation has been separated from the receipts by a blue divider sheet and cross-referenced to the expense amount.

All expense amounts and pertinent information has been highlighted.

Travel Reimbursements

Information has been set up in the same order as your findings. Each section (by employee) includes a copy of your spreadsheet followed by the expense sheet, receipts (if applicable) and supplemental documentation.

All expense amounts and pertinent information has been highlighted.

Due to the amount of copies, full case notes have not been sent. If required, let us know and we will forward.

We have attempted to keep the format consistent in order to assist with your review. If there is anything else you need in order to simplify this task, please let me know immediately.

Sincerely,



Barbara A. Criner
Administrative Director

bc

Enclosures



West Virginia Advocates

The Protection and Advocacy System for West Virginia

January 24, 2002

Mr. David M. Long
Regional Inspector General
for Audit Services
Department of Health & Human Services
Office of Inspector General
Office of Audit Services
150 S. Independence Mall West
Suite 316
Philadelphia PA 19106-3499

Re: West Virginia Advocates
Common Identification Number A-03-01-00511

Dear Mr. Long:

I am in receipt of your letter and the draft report entitled, "Audit of Cost Claimed by West Virginia Advocates (WVA). After review of the report, I would respectfully request a fifteen-day extension in an effort to locate supporting documentation for this report.

Should you have additional questions or concerns, please do not hesitate to contact me at (304) 346-0847. I look forward to hearing from you in the very near future.

Sincerely,

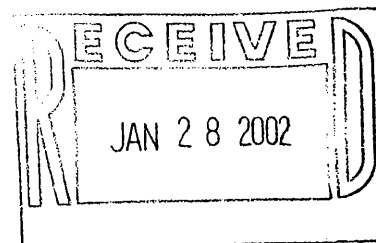
A handwritten signature in cursive script that reads "Deborah L. Mitchem".

Deborah L. Mitchem
Interim Executive Director

/dlm

cc: Anne Gentry, WVA Board President

304-346-0847 or 1-800-950-5250 (V/TDD)
(Fax) 304-346-0867
Litton Building 4th Floor
1207 Quarrier Street, Charleston, West Virginia 25301-1842



WEST VIRGINIA ADVOCATES, INC.

Office of Audit Resolution comments on draft report entitled "Audit of Costs Claimed by West Virginia Advocates (WVA), Charleston, West Virginia."

CIN A-03-01-00511

Violation of Terms of Rate Agreement:

P. 8 We agree with you that an adjustment in indirect cost recovery is required due to WVA's "self-determined" rate increase. WVA changed its methodology of allocation of indirect costs from the direct allocation method to the simplified allocation method, which caused their claimed rate to go up (they later reverted to the approved rate, but with no adjustment for their period of over-claiming based on the higher rate). To add further support to your point of excess dollars charged, a change in the allocation method without DCA advance approval is a violation of the Rate Agreement. On the Rate Agreement, under Accounting Changes, Section B, "This agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from the use of this Agreement require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances."

Excessive indirect costs related to change in allocation methodology:

P. 8 You state that WVA was authorized to use its approved provisional rate of 15% for the period October 1998 through September 2000, but that WVA used a rate of 13.4% instead. In fact, a rate agreement was issued in November 2000, which finalized the provisional 15% rate to 13.4%, going back to the period beginning October 1998. Therefore WVA was correct in claiming only 13.4%. 13.4% was also the provisional rate for the period after October 1, 2000. When you recalculated their disallowed indirect costs in the table on p. 9 for the period after October 1, 2000, you compared the rate used to 15%. It should have been compared to 13.4%, which was the approved provisional rate for that period. I recalculated the excess amounts to be \$22,858 for PADD and \$24,338 for PAIMI using 13.4% instead of 15%.

Inconsistent use of rates:

P. 9 Just a comment - We agree that WVA was not allowed to increase their rates due to non-approval of a change in allocation methods. Even if they had permission, however, they should not have used different rates for the two programs in question. The Rate Agreement applies to "All Programs."

Even though you have specifically identified costs to the two programs, we feel that due to the cross-cutting system issues, the full resolution responsibility should be assigned to this office.

To: ANITA ANDERSON@OIG.OAS@PHILA
From: Michael Walsh@OIG.OAS@PHILA
Certify: N
Priority: Normal
Subject: Fwd: West Virginia Advocates
Date: Wed Dec 31 19:00:00 1969 Eastern Standard Time
Attached: WestVirginiaAdvocates_IAudit.wpd, Headers.822

----- Original Message -----

To: Michael Walsh@OIG.OAS@PHILA
From: "Walsh, Lisa (HHS/OS)" <Lisa.Walsh@hhs.gov>
Date: Wednesday, February 27, 2002 at 11:27:49 am EST
Attached: WestVirginiaAdvocates_IAudit.wpd, Headers.822

Mike, attached is <<WestVirginiaAdvocates_IAudit.wpd>> a wordperfect file with comments on CIN A030100511 draft audit report. Feel free to call me if you have any questions on what I've written.

Department of Health & Human Services
Office of Audit Resolution and Cost Policy
200 Independence Avenue, SW
Room 522E
Washington, DC 20201
lisa.walsh@hhs.gov
phone 202-401-2766
fax 202-401-2814



DEPARTMENT OF HEALTH & HUMAN SERVICES

Appendix C

Substance Abuse and Mental
Health Services Administration

Center for Mental Health Services
Center for Substance Abuse
Prevention
Center for Substance Abuse
Treatment
Rockville MD 20857

FEB 25 2002

TO: Michael Walsh, Audit Manager, OIG

FROM: Executive Officer, SAMHSA

SUBJECT: Draft Audit Report-Audit of Costs Claimed by West Virginia Advocates
(WVA), Charleston, West Virginia; A-03-01-00511

As requested in your January 23 memorandum. We have reviewed the above-subject draft report and we have no comments on the draft. Thank you for providing us the opportunity to comment on the report.

Richard Kopanda

