



FEB 2, 1996

REGION IV  
P.O. BOX 2047  
ATLANTA, GEORGIA 30301

CIN: A-04-94-00078

Donald R. Taylor, Executive Director  
Mississippi Department of Human Services  
750 North State Street  
Jackson, Mississippi 39202

Dear Mr. Taylor:

This final report provides you with the results of our review of the Mississippi Department of Human Services' (MDHS) Learn, Earn and Prosper (LEAP) program. As a major component of Mississippi's Job Opportunity and Basic Skills (JOBS) program, LEAP is designed to help participants increase their literacy, earn a High School Equivalency Diploma (GED), and prepare for employment.

**OBJECTIVE**

The objectives of our review were to determine if: (1) LEAP established and met contract performance goals and (2) costs claimed for the LEAP contract were allowable expenditures.

**SUMMARY OF FINDINGS**

The MDHS awarded a contract to the University of Mississippi to operate the LEAP program. The contract scope of services contained several duties and responsibilities, but did not include criteria to measure outcomes and hold the University accountable under the contract.

Improving literacy is a cornerstone to moving JOBS participants successfully from welfare to work. The absence of measurable performance objectives could preclude a meaningful evaluation of how well the program succeeded in moving LEAP participants toward self-sufficiency.

Performance indicators are a composite of program inputs, outputs, outcomes, productivity, timeliness, quality, and other factors relating to program activities. Performance indicators promote program improvement by pointing to areas of excellence and weakness. Performance measures are used to quantify the level of performance. Given scarce resources and a myriad of good causes competing for them, each program needs to show internal and external reviewers as well as program management that its resources are being used efficiently and wisely.

Although the contract did not define performance indicators or contain performance measures, we were able to measure the outcomes of two indicators - participants' rate of attendance and GEDs obtained.

Between February 1993 and December 1994, LEAP served about 4,300 JOBS participants at a cost of \$15.3 million. The University calculated an average daily attendance of 53 percent of enrollment and 377 of the 720 LEAP participants who sat for the GED exam passed.

In our limited review of LEAP expenditures, we found that Mississippi reported \$747,031 in LEAP contract expenditures that we believe do not meet Federal reimbursement requirements. We also noted \$1,045,097 in expenditures warranting further review by the State Auditors, who have overall responsibility for this grantee.

We recommend the MDHS include performance indicators and measures in future Department of Health and Human Services (HHS) funded contracts. We also recommend MDHS refund the Federal Government \$665,768 for the Federal share of unallowable costs, re-evaluate the reasonableness of \$1,045,097 in expenditures, and review the contract for additional unallowable costs.

The MDHS agreed with our recommendation to evaluate the LEAP contract to determine what changes are needed, including performance indicators and measures in future HHS funded contracts. However, the MDHS disagreed with the facts and conclusions leading to our program recommendation. In regard to our financial recommendations, MDHS disagreed. The MDHS' comments are summarized in the body of the report and are enclosed as Appendix B in their entirety except for the enclosures. Enclosures to the comments are available upon request.

## **BACKGROUND**

### **The Job Opportunities and Basic Skills Program**

The JOBS program was established by the Family Support Act (FSA) of 1988 and implemented statewide in Mississippi in Fiscal Year 1993. Federal regulations state that the purpose of the JOBS program is to provide Aid to Families with Dependent Children (AFDC) recipients with the education, training, and support services necessary to gain employment and become economically self-sufficient. States are required to have four components. These include: educational activities below the postsecondary level, jobs skill training, job readiness activities, job development and placement activities.

States have the flexibility to design their JOBS program to meet local needs. In Mississippi, the Department of Human Services is the agency responsible for administering the JOBS program. Between October 1, 1991 and December 31, 1994 the MDHS spent \$45.1 million for JOBS. Of the \$45.1 million, MDHS spent \$15.3 million (34 percent) for project LEAP.

Mississippi JOBS		
FFY	Total JOBS Expenditures	LEAP Expenditures
1992	\$16.5	\$5.1
1993	15.0	0.8 <sup>1</sup>
1994	11.7	8.2
1995 <sup>2</sup>	1.9	1.2
TOTALS	\$45.1	\$15.3

#### The LEAP Contract

In October 1992, the MDHS contracted on a sole source cost-reimbursement basis with the University of Mississippi. The contract was designed to satisfy the JOBS program requirement for an educational component through which JOBS participants could achieve levels of literacy prerequisite to finding and holding employment. The objective of the contract was to provide training, employment and education opportunities to JOBS participants through a satellite system feeding 62 LEAP sites throughout the State. Under the contract, the University was to:

- A. provide training via satellite;
- B. provide facilitators and on-site coordinators;
- C. prepare and distribute materials needed for telecast training, and
- D. prepare materials appropriate to the secondary level and appropriate to the JOBS participants' employment goals which include:

---

<sup>1</sup> The State used Federal Fiscal Year (FFY) 1992 funds for LEAP in FFY 1993 (Year 1). The State amended the Year 1 contract (October 1, 1992 to September 30, 1994) to include \$809,895.

<sup>2</sup>The FFY 1995 amounts represent expenditures for the first quarter of FFY 1995.

1. activities designed to prepare a person to qualify for a GED;
2. basic and remedial education equivalent to a grade level of at least 8.9;
3. education in English proficiency;
4. preparing vocational training components in specific occupational areas; and
5. assisting in preparing participants for work by activities to familiarize them with work-place expectations, work behavior and attitudes.

### **SCOPE**

The objectives of our review were to determine if: (1) LEAP established and met contract performance goals and (2) costs claimed for the LEAP contract were allowable expenditures.

Our review covered the period October 1, 1992 through December 31, 1994, except for our review of indirect cost which was extended through February 1995.

Our review of contract performance was limited to an assessment of LEAP's goal of preparing a person to qualify for a GED. From LEAP records, we determined the number of LEAP participants who had earned their GED.

We reviewed case files for a random sample of 130 LEAP participants who had earned their GED. Appendix A contains the details of our sampling methodology.

From the case files, we determined the number of LEAP participants who had earned their GED and continued to receive public assistance. For those participants who were no longer receiving public assistance, we reviewed the case files to identify the reason the participant was removed from public assistance and whether they were self-sufficient.

After on-site work revealed potential financial problem areas, we expanded our objective to determine the allowability of selected LEAP expenditures. We performed a limited review of the LEAP contract's monthly budget summaries for the period October 1, 1992 through December 31, 1994. We judgmentally selected charges and reviewed the related supporting documentation.

To determine the allowability of indirect costs, we traced the costs from the University of Mississippi's accounting records to the Financial Status Reports filed by the MDHS. We reviewed the charges to determine if they were computed using the negotiated

indirect cost rate, and if they were claimed at the appropriate Federal Financial Participation rate (FFP).

Our review of internal controls was limited to the reconciliation of costs reported to the Federal Government and a review of the University of Mississippi's fiscal policies and procedures. We did not place reliance on the University's or MDHS' internal controls; rather, we relied on substantive testing for our review results.

Field work was performed at the MDHS in Jackson, the University of Mississippi in Oxford, and at various case management entities around the State. Our field work was started in June 1994 and completed in May 1995. Subsequently, additional work was required, in August and September 1995, to analyze data provided by MDHS in August 1995. Our review was conducted in accordance with generally accepted government auditing standards.

The MDHS' comments are summarized in the body of the report and are enclosed as Appendix B in their entirety except for the enclosures. Enclosures to the comments are available upon request.

### DETAILED RESULTS OF REVIEW

The contract scope of services contained several duties and responsibilities, but did not provide performance indicators or measures. However, we did select two indicators - attendance and GEDs - to measure. The University calculated an average daily attendance of 53 percent of enrollment and 377 LEAP participants had earned a GED. Additionally, Mississippi claimed over \$747,031 in LEAP contract expenditures that do not meet Federal reimbursement requirements. We also noted, \$1,045,097 in expenditures warranting further review.

#### PERFORMANCE MEASUREMENTS

Performance indicators are a composite of program inputs, outputs, outcomes, productivity, timeliness, quality, and other factors relating to program activities. Performance indicators promote program improvement by pointing to areas of excellence and weakness. Performance measures are used to quantify the level of performance.

The contract between MDHS and the University contains specific duties and responsibilities but does not provide a means for assessing performance and outcomes. Instead, the contract stated that the scope of services will be performed and completed in a "satisfactory manner as determined by the Agency." Because LEAP is a major portion of the Mississippi JOBS program, MDHS should be able to evaluate its performance. Performance indicators and measures are the cornerstone to evaluating a program's effectiveness.

While MDHS is not mandated by Federal law or regulation to establish performance measures, the Federal Government recognizes their importance. For example, in order to improve Federal programs, Congress enacted The Government Performance and Results Act of 1993. The Act requires Federal agencies to improve program effectiveness through the establishment of measurable performance indicators.

Evaluating contract and program results depends on clear goals as well as criteria or benchmarks for measuring the achievement. The LEAP contract does not contain performance indicators or measures. For example, while the contract cites the types of services to be provided, it does not cite the number of participants to be served. Also, the contract provides for activities designed to prepare a person to qualify for a GED; however, it does not cite the number of participants expected to obtain a GED. Consequently, we were unable to measure LEAP's performance using prescribed measurement criteria. However, we did perform a limited review of two indicators - attendance and GEDs.

### **Attendance**

Although the LEAP contract does not specify attendance goals, the University established a "Participant Attendance Policy" for LEAP. The policy states that in order for a Project LEAP site to continue, there must be an average daily attendance of 75 percent of enrollment.

The University calculated LEAP's average daily attendance to be 53 percent for the period June 1994 through November 1994. Moreover, the records the University used to calculate the average daily attendance showed only 10 of 62 sites had an average daily attendance of 75 percent.

With an average daily attendance of 53 percent of enrollment, LEAP did not meet the established attendance policy of 75 percent. By comparing actual performance to a predetermined standard such as 75 percent, MDHS can make needed adjustments.

On the other hand, when measurable goals are not established it is difficult to gauge a program's performance. Such was the case for GEDs.

### **GEDs Earned**

The attainment of a GED is one important indicator of participants' progress in improving their literacy level, employment opportunities, and ultimately, their chances for self-sufficiency. The significance of earning a GED is recognized in the LEAP contract's scope of services. However, the contract did not establish performance goals for the number of GED's to be earned.

Between February 1993 and December 1994, LEAP enrolled about 4,300 JOBS clients. Of the 4,300 LEAP enrollees, 720<sup>3</sup> (17 percent) sat for the GED exam. Of those sitting for the exam, 377 passed. While we were able to determine the number of participants who sat for the GED exam and the number who passed, there were no performance indicators available to determine the effectiveness of the results.

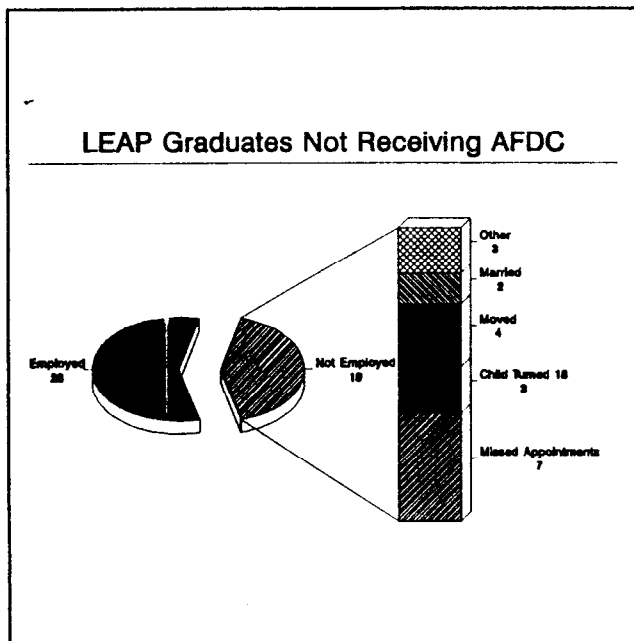
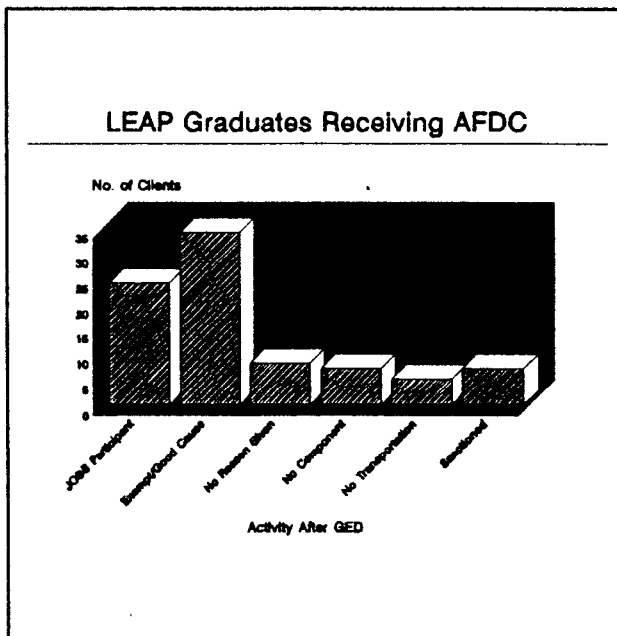
In order to determine how well GED earners progressed toward self-sufficiency, we selected a random sample of 130 JOBS participants who earned a GED through the LEAP contract. Although we identified the number of GED earners who became self-sufficient, there were no measurable goals to gauge the results. Our observations were as follows.

---

<sup>3</sup>Some individuals may have sat for the GED exam more than once. Therefore, some individuals may be included in the total more than once.

**65 Percent of GED Earners Receiving AFDC**

As of December 31, 1994, 85 (65 percent<sup>4</sup>) of the 130 graduates had their GEDs for an average of 319 days and were receiving AFDC payments. Twenty-four of the graduates were enrolled in JOBS and continued to prepare for employment. The data in the files indicated that the remaining 61 were no longer JOBS participants for various reasons. For example, some were sanctioned for not meeting participation requirements while others lacked transportation or an available component.



**Remaining 35 Percent No Longer Receiving AFDC**

The remaining 45 (35 percent<sup>5</sup>) were no longer receiving AFDC payments. However, of these 45, 26 were taken off AFDC because they had become self-sufficient. The remaining 19 were removed from public assistance because they had moved, married, lost custody of their children, no longer had children below age 18, or skipped re-evaluation appointments.

<sup>4</sup>At the 90 percent confidence level, the lower limit is 59.7 percent and the upper limit is 70.5 percent.

<sup>5</sup>At the 90 percent confidence level, the lower limit is 29.5 percent and the upper limit is 40.3 percent.



Without established goals, it is difficult to measure the performance of LEAP in relation to GED's earned and participants' progress toward self-sufficiency.

### **Establishing Performance Measures**

We identified other literacy programs available throughout Mississippi. These programs could be used as potential sources to assist MDHS in establishing indicators and measures for the LEAP contract.

Based on information provided by the Mississippi Governor's Office of Literacy, as of May 1995 the State had 553 adult education classes statewide. Two of the significant adult education programs available in Mississippi are Adult Basic Education (ABE) and Job Training Partnership Act (JTPA). We were told by State and Federal education officials these programs are similar to LEAP insofar as they provide adult literacy for education levels 0 through GED preparation and are offered in most LEAP locations. The ABE and JTPA utilize performance measures and standards for their programs.

The LEAP, ABE, and JTPA programs produced the following results. Approximately 7.5 percent of LEAP students received diplomas compared to 10 percent for ABE and 11 percent for JTPA. The cost per enrollee for LEAP, JTPA and ABE was \$2,606<sup>6</sup>, \$1,301, and \$158<sup>7</sup>, respectively. These costs cover basic and remedial education as well as GED preparation. Also, there is some variation in the length of the instruction period. We were not able to develop strict cost comparisons between the three programs because of the absence of detailed records to distinguish cost relating only to GED preparation.

Because ABE and JTPA are similar in objectives to LEAP and have been in operation a number of years, they could be helpful to MDHS in establishing performance indicators and measures. For example, these programs may provide guidance on how many participants are to be served and in what capacity, e.g., English proficiency, vocational training and GED preparation.

---

<sup>6</sup> To exclude possible first year start-up cost, our calculation was based on LEAP's second year of operations, October 1, 1993 through September 30, 1994.

<sup>7</sup>Source: Unaudited ABE and JTPA data from the Mississippi Department of Economic and Community Development and the Mississippi State Board for Community and Junior Colleges.

### **Summary**

The University's contract contains several duties and responsibilities but does not provide performance indicators or measures for achieving the goals. Therefore, we could not assess LEAP's performance in achieving its goals. However, we did select two measurable outcomes - attendance and GEDs - for review. Our review showed average daily attendance was 53 percent of enrollment and 377 LEAP participants had earned a GED. The measurable outcomes we identified and the results of other similar literacy programs could be helpful to MDHS in establishing indicators and measures for the LEAP contract.

### **Recommendation**

In view of these circumstances and scarce resources, MDHS should closely evaluate its LEAP contract and determine what changes are needed. This should include establishing performance indicators and measures and holding the University accountable for performance under the contract. The MDHS's comments and our response to these comments follow.

### **MDHS Comments**

The MDHS agreed with our recommendation to evaluate the LEAP contract to determine what changes are needed, including performance indicators and measures in future HHS funded contracts. However, the MDHS disagreed with the facts and conclusions leading to our recommendation.

The MDHS was of the opinion that performance standards were in place for their contract with the University. According to MDHS, these standards are in the form of Employability Development Plans (EDP) established for each JOBS participant and provision (D) of the contract with the University.

The MDHS also stated the graphs in the draft report are inappropriate because of the Office of Inspector General's (OIG) failure to compare the clients' progress to the path set forth in the EDP.

### **OIG Response**

During the course of our review of case files, we examined the EDPs for each of the 130 LEAP GED earners sampled (see paragraph 4 of Scope section). The EDPs reflect the goals of individual JOBS participants and do not serve as a performance measure for LEAP as a whole. The EDPs might be useful to measure how well an individual is achieving his or her goals but it doesn't measure overall success of the LEAP program.

In regard to the relationship between the graphs and the EDPs, we believe our graphs appropriately show how the GED earners progressed toward self-sufficiency. Our graph shows 24 of the GED earners were enrolled in JOBS and continued to follow the path indicated on their EDP. Another 26 were taken off AFDC because they had become self-sufficient, indicating that they had met their EDP goals. The remaining 80 were no longer enrolled in JOBS and therefore, did not appear to be following the path set forth in their EDPs--eventually to become self-sufficient.

**MDHS Comments**

The MDHS believes our attendance finding is incomplete in that it does not address Federal JOBS attendance regulations regarding mandatory, exempt, and sanctioned participants. Moreover, MDHS stated the 75 percent participant attendance policy is not a standard in the contract, but is a "totally artificial and too ambitious" goal adopted by the University.

**OIG Response**

We agree our review did not seek to assess MDHS' success in meeting Federal participation and attendance requirements. Therefore, we did not determine whether the average daily attendance of 53 percent reported by the University considered client status, such as mandatory, exempt, or sanctioned.

Rather, the purpose of our review was to determine if LEAP established and met contract performance goals. Because there were no contract performance goals, we turned to LEAP policy. Whether or not the University's own policy was "artificial and too ambitious", our recommendation is that MDHS establish an appropriate goal under the contract.

Moreover, we do not believe it is too ambitious to expect at least 75 percent attendance.

**MDHS Comments**

The MDHS stated the number we reported for GEDs earned is inaccurate. The MDHS provided a listing showing 466 GEDs earned.

**OIG Response**

During the course of our review, we used the most current information available to determine the number of GEDs earned. We reported 377 GEDs earned based on our examination of either the actual GED diplomas or the earners' GED test scores. We were assured by University personnel that we had complete and accurate information.

The information cited by MDHS in their written response consists solely of a listing of GEDs earned by site. No documentation, such as copies of test scores or diplomas, was provided to substantiate the number of GEDs earned shown on the listing. However, the issue is not whether the number of GEDs earned is good or bad. Rather, the issue is that measurable goals are needed to gauge a program's performance.

**MDHS Comments**

The MDHS was of the opinion that LEAP was not comparable to the ABE and JTPA programs because of significant differences in the demographics of the populations served, the services offered, availability of services, and program administration.

The MDHS also stated that our ABE cost figures excluded indirect costs.

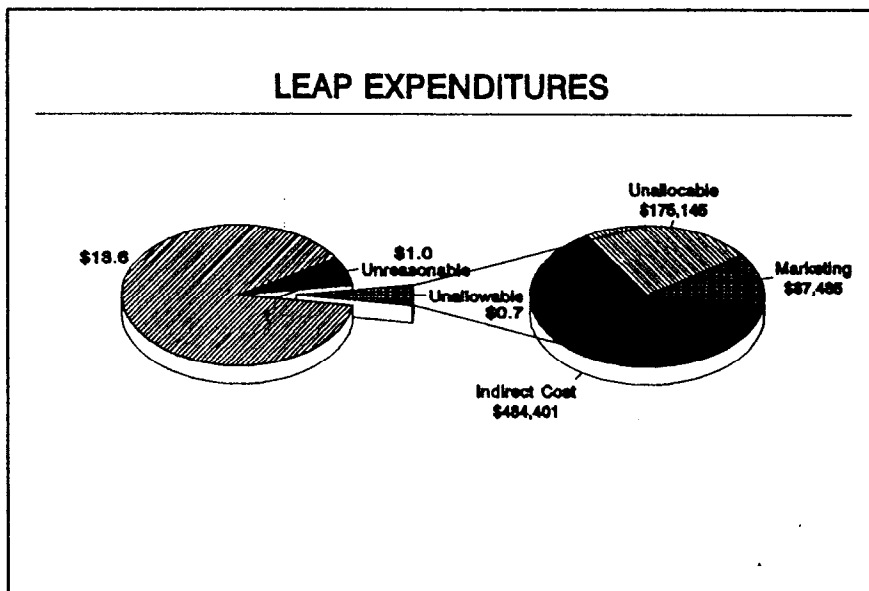
**OIG Response**

We acknowledged in our report that LEAP, ABE and JTPA were similar. We still believe this to be true. However, the issue is that MDHS should look at these existing programs.

The ABE and JTPA cost figures we used include all costs associated with the programs, including indirect costs. However, the LEAP cost figures include the University's indirect cost but exclude the State's administrative costs.

**CONTRACT EXPENDITURES**

Based on a limited review, we believe that \$747,031 of the \$15.3 million in LEAP expenditures claimed for the period October 1, 1992 through December 31, 1994 do not meet Federal reimbursement regulations and are unallowable. We also noted expenditures totaling \$1,045,097 warranting further review.



### Indirect Costs

Under applicable regulations, we believe indirect costs were over-claimed by \$484,401 for the period May 1994 through February 1995. The MDHS claimed indirect cost at a higher FFP rate than allowed by Federal regulations.

The MDHS claimed indirect cost relating to LEAP using their Federal Medical Assistance Percentage (FMAP) rate of about 79 percent. Federal regulations limit FFP to 50 percent for indirect costs. Specifically, 45 Code of Federal Regulations (CFR) § 250.73 (b)(1)(ii) and (c), state FFP will be available:

*"at 50 percent for: indirect personnel cost which are excluded from JOBS matching at the FMAP rate...; non-personal services costs associated with these indirect personnel costs, including space, travel, utilities, equipment, and supplies...The costs of services and activities purchased under contract by the State... must be segregated according to the requirements of the FMAP rate...and the requirements for 50 percent matching."*

The MDHS disagreed with our conclusion that indirect cost should be claimed at 50 percent. According to MDHS, all subcontract costs, such as LEAP, are direct cost to the State and therefore, are reimbursable at the FMAP rate.

The term "indirect cost" is defined in Office of Management and Budget (OMB) Circular A-87 as:

*"...those (a) costs which are incurred for the common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the result achieved. The term 'indirect costs', as used herein, applies to costs of this type originating in the grantee department, as well as those incurred by other departments in supplying goods, services, and facilities, to the grantee department."*

We believe the University's indirect cost, which the State is maintaining, should be allowed as direct cost at the higher FMAP rate, clearly meet the above definition of "indirect costs" and therefore should be matchable at only the 50 percent rate.

By using the incorrect Federal participation rate, the MDHS over-claimed LEAP related indirect cost by \$484,401. As of February 1995, \$58,041 of the \$484,401 in over-claimed indirect cost had been reimbursed by the Federal Government.

### Recommendation for Indirect Cost

We recommend MDHS refund the Federal Government \$58,041 in indirect cost as of February 1995 and any additional indirect cost the Administration for Children and Families (ACF) reimbursed at the higher FMAP rate subsequent to February.

### MDHS Comments

The MDHS continues to believe that all subcontract costs, such as LEAP, are direct cost to the State and therefore, are reimbursable at the FMAP rate. They also believe that this constitutes ACF policy, citing an Action Transmittal dated February 15, 1990.

The MDHS further noted as significant that the University had a separate indirect cost rate for the LEAP program.

### OIG Response

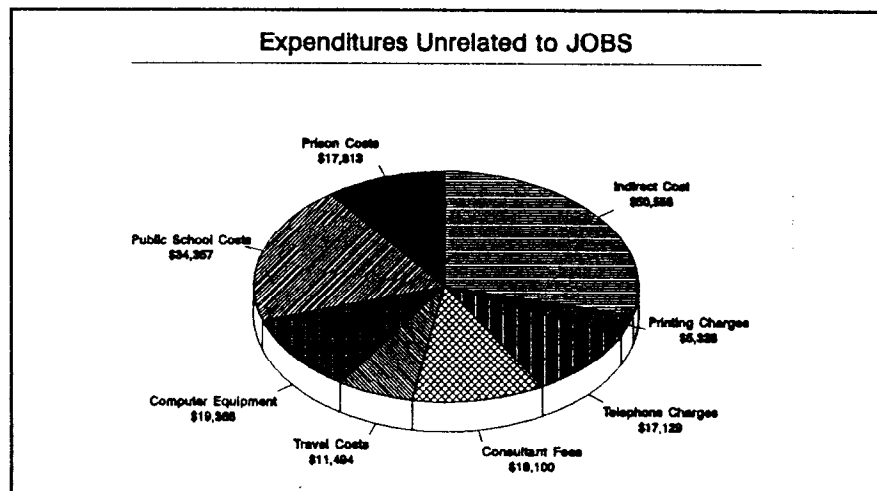
In our opinion, the regulations at 45 CFR § 250.73 (b)(1)(ii) and (c), which are clear on their face, supersede the guidance ACF may have provided to MDHS in their Action Transmittal.

In response to MDHS' comment about the establishment of a separate indirect cost rate for LEAP, the existence of such a rate has no bearing on whether indirect costs should be claimed at an enhanced rate of FFP.

### Costs Not Allocable to JOBS

The MDHS used \$175,145 in JOBS funds for expenditures which were unrelated to the JOBS Program and did not benefit JOBS participants. Therefore, the expenditures were not allocable to the JOBS grant.

The OMB Circular A-21 states a cost is allocable to a sponsored agreement if (a) it is incurred solely to advance the work under the sponsored agreement, (b) it benefits both the sponsored agreement and other work of the institution, in proportions that can be approximated through the use of reasonable methods, or (c) it is necessary to the overall



operation of the institution and is deemed to be assignable in part to sponsored projects.

#### **Prison Costs**

The MDHS claimed \$17,813 for operating LEAP in prisons. The University of Mississippi provided LEAP to prisoners in the Rankin County Correctional Facility (\$12,094) and Greenville City Jail (\$4,197). The University also paid a consultant (\$1,522) to assist in implementing LEAP in prisons.

Under contract with the Rankin County Correctional Facility, the University agreed to provide LEAP from March 1994 to June 1995 for \$50,200. However, the University did not bill the correctional facility until January 30, 1995, after we brought the matter to their attention. Subsequent to our on-site work, the University received the \$50,200 from the Department of Corrections. We did not determine if JOBS was properly credited for this program income. Costs associated with providing LEAP to the Rankin County Correctional Facility include transponder time, equipment, supplies, educational material, master teacher's salary and freight charges.

The University offered LEAP to the Greenville Jail free of charge. However, the JOBS program claimed costs of \$4,197 for supplies, educational material and freight charges associated with providing LEAP to the Greenville City Jail.

#### **Public School Costs**

The MDHS claimed \$34,357 for operating LEAP in public schools. The operating costs represents transponder time for the LEAP broadcast. The University of Mississippi offers LEAP to public schools through a program called Satellite Network Alternative Program (SNAP). The University entered into an agreement with 10 schools giving them the right to "pull down" the satellite transmission of LEAP. The University collected a \$100 licensing fee from each school for the use of LEAP during the period February through August 1994. According to University officials, the schools did not use LEAP the first year. Therefore, LEAP was provided to the 10 schools free of charge for the next school year.

The MDHS stated SNAP was a pilot program to evaluate LEAP for possible use in secondary schools, Head Start and Chapter 1 programs. The MDHS also stated because transponder time is a fixed cost, no additional expenses were incurred to provide SNAP.

The MDHS did not provide any evidence to show SNAP was used as a program evaluation tool. In regard to MDHS' statement that transponder time is a fixed cost, we concur. However, fixed costs should be allocated to all benefiting activities. The ACF addressed this issue in a letter to MDHS dated December 22, 1994. The letter advised MDHS to include fixed costs, such as production and transmission cost, when establishing billing rates for selling LEAP to other users.

According to MDHS, billing rates for LEAP have been established. Furthermore, had these billing rates been in effect at the time the University agreed to provide LEAP to the schools, the schools would have paid about \$10,000<sup>8</sup> more than the \$34,357 we calculated.

#### **Computer Equipment Charges**

The MDHS claimed \$19,366 for computer and related equipment which should have been reimbursed through indirect cost. An additional \$38,802 in computer and related equipment could not be identified as LEAP equipment or located at the time of our on-site work. The University purchased 46 computer work stations (computer and monitor), 2 notebook computers, and 12 Laser Jet 4, one desk jet and 2 dot matrix printers even though there were only 29 LEAP employees.

During our on-site work, we were not able to locate all of the computer equipment because some had not been properly identified or tagged and the University's property control log was incomplete. We identified computer and related equipment used by University employees whose duties were administrative in nature and whose time and effort could not be directly allocated to JOBS. The employees' salaries should be accounted for as indirect costs; and therefore, the costs associated with the employees should also be included as indirect cost. Examples of these employees include the Resource Development Receptionist, Secretary and Grants Coordinator.

The MDHS stated an employee's time does not necessarily have to relate to equipment time. In other words, equipment charged to a Federal account does not have to be used only by employees paid from the grant as long as the work being performed directly relates to the grant.

The MDHS did not provide evidence to show the equipment assigned to non-LEAP employees was used for LEAP purposes. If an employee devoted a significant amount of time to LEAP,

---

<sup>8</sup>Calculation based on 30 slots per school.



the employees' time should be allocated to the grant. Our analysis showed the effort of the employees in question was devoted to general University business.

Subsequent to our review, MDHS provided a listing showing the location of the equipment as of August 1995. Although we were unable to verify the information reported by MDHS, our analysis of the August listing showed:

- equipment totaling \$19,366 was assigned to staff who were either non-LEAP employees or did not work on LEAP full-time based on the University payroll and other records; and
- equipment totaling \$38,802 either did not have property control numbers identifying it as LEAP equipment or the location reported by MDHS was not consistent with our review.

The August listing also showed two computer work stations were assigned to one employee.

Our observations demonstrate a need for further review of this matter and improvement in internal controls.

#### **Travel Costs**

The MDHS claimed \$11,494 for travel by non-LEAP employees and for purposes unrelated to JOBS. Examples include:

- trips to make presentations regarding SNAP;
- a trip to Portland, Maine by the Chairman of the Social Work Department to attend an educational conference;
- a trip to Washington to meet with the Secretary of Education and a Mississippi United States Senator; and
- trips by University Telecommunications and Resource Center employees to broadcasting conventions in Las Vegas.

The MDHS stated some of the trips were for presentations to expand LEAP. The MDHS believes the JOBS program benefitted from these trips. The MDHS further stated some of the trips were to increase the technical knowledge of the University staff involved in the LEAP broadcast.

The LEAP is not the sole program produced by the University. In fact, the University has an entire department devoted to

teleproduction activities. Thus, the knowledge gained at the convention by University telecommunication employees would benefit all users of the Telecommunications and Resource Center.

In addition, MDHS stated some of the trips were for discussions regarding grant proposals which would provide additional resources for LEAP. However, OMB Circular A-21, J.34. prohibits direct charging of proposal costs.

#### **Consultant Fees**

The MDHS claimed \$19,100 for a consultant to develop ideas for other grants including a nutritional satellite program.

The MDHS concurred this consultant fee should not have been charged to the JOBS program.

#### **Telephone Charges**

The MDHS claimed \$17,129 for telephone charges which should have been paid through the indirect cost reimbursement. We identified long distance and cellular telephone charges for University employees whose duties were administrative in nature and whose time and effort could not be directly allocated to JOBS. The employee's salaries should be picked up as indirect costs provided the costs benefitted the program; and therefore, the costs associated with the employees should also be included in indirect cost. Examples of these employees include the Director, Operations Manager, Accountant and Assistant Accountant of the University's Department of Resource Development.

The MDHS advised us Circular A-21, Revised Transmittal Memorandum No. 5, (9)(6), Departmental Administration expenses, states "...care should be exercised to ensure that costs incurred for the same purpose in like circumstances are treated consistently as either direct or indirect costs. For example, ...telephone toll charges, ...shall be treated as direct costs wherever identifiable to a particular cost objective."

The MDHS went on to say the University personnel whose telephone charges were questioned were involved with LEAP from time to time which may have required them to make long distance phone calls on behalf of LEAP. However, the University did not specifically identify calls that were made "from time to time" by administrative personnel. Rather, some of the administrative personnel charged 100 percent of their long distance calls to LEAP.

### **Printing Charges**

The MDHS claimed \$5,328 for printing charges unrelated to JOBS. The printing services included the cost of "Ole Miss" and "Resource Development" stationery, as well as printed information for SNAP and a program called Star Schools.

The MDHS stated they used "Ole Miss" and "Resource Development" stationery for LEAP business until the need for "Project LEAP" stationery was identified. The MDHS also contends the printed information for SNAP was brochures used to disseminate information to public schools, children of AFDC recipients and teenage mothers about the availability of LEAP. The MDHS further said the expansion of LEAP through SNAP would result in potential future income for the JOBS program.

No documentation was provided to show these expenditures benefitted JOBS clients. Furthermore, in our opinion potential future income for the JOBS program does not justify the expenditures claimed.

The MDHS agreed the \$162 in printing costs associated with Star Schools should not have been charged to the JOBS program.

### **Indirect Cost**

The MDHS claimed unallowable indirect cost of \$50,558 related to unallocable expenditures.

### **Recommendations for Costs Not Allocable**

We recommend the MDHS refund \$121,103 representing the Federal share of \$175,145 of unallocable costs. We also recommend MDHS ensure that the \$50,200 paid by the Department of Corrections is properly credited to the JOBS program and proper accountability is maintained for equipment purchased with Federal funds. A further review needs to be made of the \$38,802 in computer and related equipment to determine the allocability and relationship to the LEAP program.

### **MDHS Comments**

The MDHS disagreed with our recommendation to refund \$121,103 of unallocable costs. The MDHS agreed that the \$50,200 paid by the Department of Corrections should be credited to the JOBS program timely. The MDHS stated that the marketing costs we have questioned would be allowed under an "interpretation in the making" by ACF that such costs shall be "attributed" to program income.

The MDHS stated they were unable to adequately respond to the issues raised in the draft report regarding telephone and computer equipment charges because the OIG did not provide detailed documentation.

The MDHS further stated an agreement was reached at the exit conference to allow the cost of travel to Washington, D.C. to brief the Secretary of Education and a Mississippi United States Senator.

### OIG Response

On July 21, 1995, we provided MDHS with a listing of individuals whose telephone calls were in question and a listing of equipment that could not be located or was being used by non-LEAP employees at the time of our on-site review. This information was again provided on January 12, 1996.

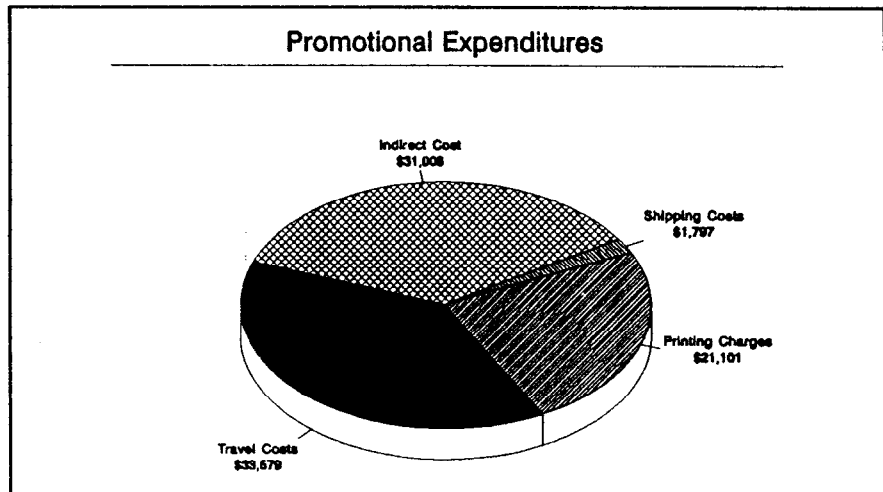
Regarding travel to Washington, D.C., we reached no agreement to withdraw our recommendation and continue to believe the travel cost is not allocable to the LEAP program.

An informal draft interpretation by ACF would have no binding significance on our review. Moreover, even if non-grant supported marketing costs were netted from actual program income, such costs might still be unallowable under applicable cost principles.

### Unallowable Marketing and Public Relations Activities

The MDHS used \$87,485 in JOBS funds for various expenditures which were promotional in nature and did not benefit JOBS participants.

The OMB Circular A-21, Section J.1.f.(2)(i) states the costs of displays, demonstrations and exhibits are unallowable and J.1.f.(3) states promotional items and memorabilia are unallowable.



### **Travel Costs**

The MDHS claimed \$33,579 in unallowable travel costs to sell LEAP at educational, business and governmental conferences. Examples include travel to:

- Vienna, Austria; San Jose, California; Phoenix, Arizona; and other locations to present LEAP;
- Washington D.C. to visit various Federal agencies to present project LEAP and solicit other grants or contracts;
- Boston to present LEAP at a Governor's conference;
- Louisville, Kentucky to present LEAP for Head Start at a Family Literacy Conference; and
- Chicago to present LEAP to the National Restaurant Association.

The MDHS stated all of the trips were for presentations to expand LEAP and disseminate information. The MDHS believes the JOBS program benefitted from these trips because of the potential for generating future income. In our opinion, potential future income for the JOBS program does not justify the expenditures claimed.

In addition, MDHS stated some of the trips were for discussions regarding grant proposals which would provide additional resources for LEAP. However, OMB Circular A-21, J.34. prohibits direct charging of proposal costs.

### **Printing Charges**

The MDHS claimed \$21,101 in unallowable costs for the printing of over 15,000 LEAP brochures, over 11,000 teacher posters and a multitude of business cards.

The MDHS stated the printed material was used to disseminate information to existing and potential students, teachers, and MDHS staff. These items appear promotional in nature and no documentation was provided to show otherwise.

### **Shipping Costs**

The MDHS claimed \$1,797 for unallowable Federal Express charges to ship promotional materials to other Federal and State agencies, private corporations and TV stations. For example, on one Federal Express bill, the University sent packages to over 50 correctional institutions across the country.

The MDHS stated the packages were sent to Federal and State agencies to disseminate LEAP. They further stated these packages were sent to the agencies for the generation of future program income.

In our opinion, potential future income for the JOBS program does not justify the expenditures claimed.

#### **Indirect Cost**

The MDHS claimed unallowable indirect cost of \$31,008 related to marketing and public relations expenditures.

#### **Recommendations for Marketing and Public Relations**

We recommend the MDHS refund \$60,265 representing the Federal share of \$87,485 for unallowable marketing and public relations costs.

#### **MDHS Comments**

The MDHS disagreed with our recommendation. The MDHS reiterated its position that they marketed LEAP to generate program income that would be used to expand and enhance the JOBS program in the State. According to MDHS, their marketing efforts resulted in the receipt of about \$140,000 to date. The MDHS is projecting LEAP sales of \$1.9 million in the next two fiscal years.

The MDHS also believes the A-21 criteria the OIG cites for unallowable marketing cost is not applicable because they "...had no displays, demonstrations, and exhibits."

#### **OIG Response**

We continue to believe potential future income for the JOBS program does not justify the expenditures claimed. Moreover, regardless of MDHS' income "projections", the costs are unallowable based on OMB Circular A-21, J.1.d. which states:

"The only allowable public relations costs are:

- (1) Costs specifically required by sponsored agreements;
- (2) Costs of communicating with the public and the press pertaining to specific activities or accomplishments which result from performance of sponsored agreements; or
- (3) Costs of conducting general liaison with news media and government public relations officers, to the extent that such activities are limited to

communication and liaison necessary to keep the public informed on matters of public concern such as notices of contract/grant awards, financial matters, etc."

### **Costs Warranting Further Review**

We noted expenditures totaling \$1,045,097 warranting further review. The OMB Circular A-21, Section C.3. states one of the major considerations involved in the determination of the reasonableness of a cost is whether or not the cost is of a type generally recognized as necessary for the operation of the sponsored agreement.

### **Mobile Computer Labs**

The MDHS claimed \$527,625 for the lease and maintenance of two Mobile Computer Labs over a 2-year period. Each lab has 12 state of the art computer stations.

The labs were approved on the basis of the University of Mississippi needing them to provide services in remote areas within Mississippi where a LEAP site could not be located. Based on our observations, University publications, and conversations with State and University officials, we were able to determine the mobile labs were used at existing LEAP sites in Jackson and Greenville, Mississippi. Both Jackson and Greenville are large metropolitan areas. On March 31, 1995, LEAP officials told us the labs were also used at remote locations.

On April 11, 1995, we requested information from MDHS regarding the locations of the mobile labs for the period October 1, 1992 through December 31, 1994. In August 1995, MDHS provided the information. In its response, MDHS agreed the labs were located in Jackson, Greenville and Clarksdale prior to October 1, 1994. They provided a list showing the mobile labs have served 12 LEAP sites and are currently serving 4 very rural and remote locations. However, no evidence was provided to show when the labs were at each site; therefore, we cannot validate this information.

According to MDHS, the labs were a tremendous success because over 500 enrollees were served and 83 GEDs were awarded as a result of the labs. As documentation, the MDHS provided charts showing weekly enrollment and average daily attendance (ADA) at some of the lab sites. However, time periods shown on the charts do not always agree with the time periods the labs were reported to be at the sites. For example, MDHS stated the labs were in use at the Ruleville and Sardis sites after October 1994. However, the enrollment and ADA information the MDHS provided only

covered periods prior to January 1994. Furthermore, MDHS did not provide any comparative data showing the lab sites' enrollment and ADA was any higher than sites without labs.

The GED information provided only the number of GEDs earned by site. No identifiers or dates were included. We believe the numbers are misleading. For example, MDHS stated 20 GEDs were earned from the Jackson, Duling Street site. Based on documents obtained from the University, as of December 31, 1994, only nine GEDs were earned at this site. According to MDHS, the mobile labs were not used at this site after October 1, 1994. Therefore, any GEDs earned subsequent to our site work are not attributable to the labs. Moreover, MDHS did not provide any comparative data showing the percentage of clients who earned GEDs at lab sites was greater than at the sites without labs.

#### **Printing Charges**

The MDHS claimed \$2,932 for unreasonable printing costs. The printed items included: LEAP stickers; participant information sheets; welcome cards for teacher training; and LEAP cards. These items could have been printed using more economical means available to LEAP.

#### **Indirect Cost**

The MDHS claimed indirect cost of \$390,975 related to the above costs warranting further review.

Additionally, the MDHS used JOBS funds for other costs that were unreasonable. However, because of limited documentation, we were unable to quantify the amount. We did determine the total amount charged to JOBS for the cost categories and identified some examples of unreasonable expenditures.

#### **Food Service Charges**

The MDHS claimed \$22,146 for food service. The costs include charges by the University Food Service and local restaurant charges for LEAP employees and guests. For example, LEAP was charged for 120 box lunches, muffins and coffee from the University Food Service. No documentation was available to show the purpose of the food order. In another case, LEAP was charged for food ordered by the Department of Communicative Disorders.

#### **University Bookstore Charges**

The MDHS claimed \$110,419 for University Bookstore charges. While some of the charges for supplies appeared reasonable, other charges did not. For example, LEAP was charged for



items such as T-shirts, hats, coffee mugs, umbrellas, business card holders and leather portfolios. No documentation was available to show the purpose of the individual charges and their benefit to LEAP.

#### **Recommendation for Costs Warranting Further Review**

We recommend MDHS request the State Auditor to evaluate the use of the mobile labs, University printing services, food service and bookstore charges and determine the amount of unallowable expenditures.

#### **MDHS Comments**

The MDHS did not concur that the issues OIG raised warrant further review. The MDHS is confident the expenditures were necessary for the operation of LEAP. The MDHS continues to believe the use of the mobile computer labs was necessary and reasonable. As documentation of this, MDHS provided the OIG with a revised listing of the locations and average daily attendance for these locations.

#### **OIG Response**

We continue to believe the use of the computer labs should be evaluated. The MDHS has not provided any comparative data showing the percentage of clients who earned GEDs at lab sites was greater than at the sites without labs.

#### **MDHS Comments**

Similarly, MDHS believes the reasonableness of printing, food service and bookstore charges has been documented in earlier submissions to the OIG. As an example, they cite the submission of documentation showing that the "box lunches" were provided for all LEAP teachers during an annual training session.

#### **OIG Response**

We reviewed information submitted by MDHS concerning printing, food service and bookstore charges. The information did not document the necessity of the charges. For example, as documentation that the food service charges were for LEAP activities, the MDHS provided us with a narrative statement that said, "Food service...and local restaurants provide breakfast and lunch for LEAP teacher conferences held in Oxford and Jackson." In our opinion, narrative statements alone do not constitute documentation that the charges were reasonable and necessary.

**OTHER MATTERS**

In addition to basic literacy education, GED preparation and job readiness/life skills training, the LEAP contract called for the University to "prepare vocational training components for JOBS participants in technical jobs skills and equivalent knowledge and abilities in a specific area." However, our review found no evidence this service was provided. Also, MDHS told us no specific job training was provided by LEAP.

Moreover, the contract was not modified to delete the vocational training requirement. There was no data available to determine how much of the original estimated contract cost was applicable to the vocational training activity.

- - - - -

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, Office of Audit Services (OAS) reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to the exemptions in the Act which the Department chooses to exercise.

We request that you respond within 30 days from the date of this letter to the HHS action official shown below. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

To facilitate identification, please refer to the above Common Identification Number (CIN) (A-04-94-00078) in any correspondence related to this report.

Sincerely yours,



Charles J. Curtis  
Regional Inspector General  
for Audit Services, Region IV

**Direct Reply To:**

Regional Administrator  
Administration for Children  
and Families  
101 Marietta Tower, Suite 821  
Atlanta, Georgia 30301

cc:  
Mr. Steve Patterson  
State Auditor  
P.O. Box 956  
Jackson, Mississippi 39205

**REVIEW OF MISSISSIPPI'S LEARN, EARN AND PROSPER CONTRACT  
SAMPLE OF CLIENTS WHO EARNED A GENERAL EDUCATION DIPLOMA**

**POPULATION**

The universe consisted of LEAP participants who earned their GED according to the University of Mississippi's (University) LEAP data base. The data base shows 258 participants for the period February 1, 1993 through August 17, 1994.

**SAMPLING FRAME**

The University provided a printout that identifies LEAP participants who have earned a GED. Each line item on the printout shows the participants identification number, Social Security number, name, date earned the GED, date first attended LEAP, date last attended LEAP, entry level determined by test, and entry level determined by teachers.

**SAMPLING UNIT**

The sampling unit is a line item on the printout representing a LEAP participant who earned a GED.

**SOURCE OF RANDOM NUMBERS**

Random numbers were generated by the Region IV Statistical Specialist using the HHS, OIG, OAS Random Number Generator.

**METHOD OF SELECTING SAMPLE ITEMS**

The line items on the computer printout were numbered sequentially. Random numbers were generated based on the sequential numbers.

**APPRAISAL OF SAMPLE RESULTS**

We used our sample to project the occurrence of certain types of errors. The results of these projections are presented below. The results presented are at the 90 percent confidence level.

REVIEW OF MISSISSIPPI'S LEARN, EARN AND PROSPER CONTRACT  
SAMPLE OF CLIENTS WHO EARNED A GENERAL EDUCATION DIPLOMA

Percent of LEAP Graduates No Longer Receiving AFDC

Quantity Identified in Sample	45
Percent Identified in Sample	34.615%
Lower Limit	29.457%
Upper Limit	40.310%

Percent of LEAP Graduates Still Receiving AFDC

Quantity Identified in Sample	85
Percent Identified in Sample	65.385%
Lower Limit	59.690%
Upper Limit	70.543%



JAN 8 1996

STATE OF MISSISSIPPI  
DEPARTMENT OF HUMAN SERVICES

Donald R. Taylor  
Executive Director

December 29, 1995

RECEIVED

JAN 02 1996

Mr. Charles Curtis  
Regional Inspector General  
for Audit Services  
Region IV  
P.O. Box 2047  
Atlanta, GA 30301

Dear Mr. Curtis:

Thank you for your letter of December 14 with the attached draft audit report on the LEAP program. We are somewhat disturbed by the draft report in light of our December 11th meeting and information contained in your letter. The draft report remains unchanged from the version that we discussed at our meeting even though we agreed to several areas where changes could occur in tone and wording. As your letter states in the third paragraph, "Based on the extent of informal comments already received and as agreed to at the December 11, 1995 exit conference,...", we believed that the draft would incorporate the changes. It does not. In an attempt, once again, to bring closure and move forward, we reiterate the following comments, (all of which were presented at our December 11 meeting).

First and foremost, we continue to be concerned with the tone of the report. We acknowledge some improvement, but the report still has a discernable bias. As we discussed and concurred, this report is based on your review of our program and your understanding of the program requirements. It may or may not represent the final position of the federal government, but it does represent your opinion. In some places opinions are identified as such, while elsewhere are represented as facts.

For example, on Page 11 you conclude, "We believe the University's indirect cost, which the State is maintaining should be allowed as direct cost at the higher FMAP rate, clearly meets the above definition of "indirect costs" and thereafter should be matchable at only the 50 percent rate." This is a fair statement (though we believe it is incorrect) in that it expresses your opinion,

identifies it as such, acknowledges that there is a dispute, and draws a conclusion.

On the other hand, on Page 2 of the draft you state, "In our limited review of LEAP expenditures, we found that Mississippi claimed \$747,031 in LEAP contract expenditures that did not meet Federal reimbursement requirements." This statement is clearly unfair. It is presented as fact, with no acknowledgement that it is your opinion, based on your interpretation of federal requirements and without acknowledgement that your opinion is disputed by the state, and in some instances by other agencies in your own department.

Moreover the statement is misleading in that it infers that if more than a "limited review" had been done more expenditures would have been found that didn't meet federal requirements. This inference has no basis.

At our meeting, you indicated that this was not your intention and that all parties should understand that the entire draft was the opinion of the OIG and would be delivered to ACF for resolution. You also indicated that the tone of the draft would be reviewed from this position. Yet no evidence of changes in the draft are apparent.

Per your request, we will state our position on each of your recommendations. However, given the extensive discussion to date, the absence of information the OIG agreed to furnish the state regarding key issues, the tremendous amount of supporting information that we have provided, and the lack of agreed upon changes to this draft, we believe that it is paramount to note the basis for these recommendations and our position on each.

#### RECOMMENDATION #1

Your first recommendation is contained on Page 9 of the report. It recommends that we evaluate the LEAP contract to determine what changes are needed including performance standards and measures. We concur with this recommendation as stated however, as we discussed at the December 11 meeting and in previous correspondence and meetings, the discussion of salient issues preceding this recommendation needs to be addressed.

With regard to the report's discussion of performance measures, we concur that there should be standards in a contract of this type, and as we discussed at our meeting, we believe that we have such standards in place. They are in the form of individual plans for each participant in JOBS and provision (D) of the contract's Scope of Services requires that the University.. "prepare materials appropriate to the secondary level and appropriate to the JOBS participants' employment goals...". These plans are required by federal regulations and each participant's progress is monitored

against these plans and a review of the clients selected in the OIG's sample would have revealed a formal Employability Development Plan for each client in the LEAP program. Your staff apparently was unaware of this regulation and chose to develop their own measures of program performance---Attendance and GEDs Earned.

For attendance, the report notes that the University established its own "Participant Attendance Policy" of 75 percent and the University found that attendance averaged 53 percent. The report concludes that the program failed to meet the policy and therefore, "By comparing actual performance to a predetermined standard such as 75 percent, MDHS can make needed adjustments." The attendance portion of the report is incomplete in that it does not address key issues pertinent to establishing JOBS attendance regulations. Absent from this report is whether or not the clients sampled were mandatory or exempt and what the scheduled hours of literacy were for each of these clients. The 75% rule is of scheduled hours and not always represents twenty hour of literacy. Without reviewing the Employability Development Plans such a review is incomplete. Also absent from this report is detailed examination of whether or not those who were mandatory and not attending 75% of their scheduled hours were in fact given "good cause" or were being sanctioned. Again, without examining these records any report concerning attendance is incomplete. Failure to include these factors in this review certainly do not meet "generally accepted government standards"

As both MDHS and the University have explained on a number of occasions, (see attached response from the University) including the exit conference on the 11th, the 75% has no basis in fact for being a standard in the contract. It was a goal, unilaterally adopted by the University, with no basis or other factor for program comparison. Though admirable it was totally artificial and too ambitious. Your staff would have been better served to compare the 53% attendance figure to attendance figures from other JOBS programs in the region. We are confident that you would have found that the 53% is quite high and in fact over two and one-half times the 20% rate mandated by federal regulations.

Based on the stated objectives of the OIG review the matter of attendance should be removed entirely from the report or the objectives should be revised to include matters not covered in the contract between the State and the University.

For GEDs, it is true that the contract does not "establish performance goals for the number of GEDs to be earned. The number of GED's obtained cited in the report is inaccurate. Included in the attached response from the University is an exhibit detailing the number of GEDs obtained during the period reviewed. But as you noted, the contract does take into consideration the importance of GEDs in the scope of services provided. We concur that the GED is an important factor on the road to self sufficiency, however it is

not the only important factor. The report analysis makes it appear it is the only factor. There are many other factors that represent progress toward self sufficiency and these are spelled out in each individual's Employability Development Plan.

The graphs contained in the report revealing tracking results of the clients sampled who received GEDs is inappropriate in relation to the context of the stated objectives of the OIG's efforts. Again the absence of the OIG's attention to the Employability Development Plans is evident. The statement made by the OIG that "...it is difficult to measure the success of LEAP in relation to GEDs earned and the participants' progress toward self-sufficiency" is without merit. Such a statement can only be made if a review of the EDPs reveals such. In our meeting of December 11th, your reviewers stated that they had not, in fact, reviewed any of the EDPs for the clients sampled.

If such a review was made, then the graphs would show how many sampled did in fact follow the path set forth in their respective EDPs. Again, statements leave the reader believing that the results are negative. In this case the absence of any comparison to LEAP's GED completion rate or post GED tracking in relationship to the EDP gives the reader the impression that the results of LEAP are anything but positive. The state contends that LEAP's GED completion rate is one that is in fact praiseworthy, and considering the population served should be considered a model for other literacy programs serving the same clientele.

Finally, in this section we note that you continue to compare LEAP to the JTPA and ABE programs. As we have indicated in previous communications, these programs are significantly different in the demographics of the populations served; the services offered; availability of service; and program administration. Yet you continue to rely on the misinformation provided by unnamed state and federal education officials who told you that the three programs are similar. We have provided copies of studies conducted by the University and HHS regarding the special learner needs of the JOBS program and still the report continues to compare "apples to oranges". This does not appear to meet "generally accepted government auditing standards".

Included in the University's response attached hereto are additional copies of these studies (Enclosure 1)

In our meeting of December 11th, you stated that the comparisons contained in the report were solely for the purpose of suggesting the state consider the performance measures of these programs when addressing the issue with the University. If in fact this was the reason for comparison, why does the OIG continue to include cost comparisons in this discussion? Although the state has submitted extensive data supporting the fact that these other programs do not all meet the "20 Hour Rule" set by federal regulations, this was



again broached in our meeting and elicited surprise on the part of the Washington staff when apprised that ABE, was on average only available three to four hours per week. According to the State Board for Community and Junior Colleges 1994-1995 Annual Report, a copy of which is enclosed, (Enclosure 2) the ABE program served 22,857 clients and provided 210,000 instructional hours at a cost of \$5,400,000. Based on this report, the amount of instruction the average Mississippi ABE learner received was less than ten hours for the entire program year. The average LEAP participant received over 155 hours of instruction during the same period. The ABE cost cited in the report does not include the indirect costs associated with running the program, only the ABE set-aside funding made available through the State Department of Education. Based on this report, the per client direct cost of ABE was \$236 and the direct cost per instructional hour was \$25.71 as compared to LEAP's projected year four cost of \$5.32 per instructional hour.

According to a U.S. Department of Education study released in April of 1994, the average U.S. mean direct cost for adult education is \$4.57 per learner instructional hour. The difference between the U. S. mean direct cost vs LEAP's is .75 (cents). This data has been previously submitted to the OIG and it was our understanding that your staff would consider such comparisons in light of the ABE literacy programs not providing a twenty hour per week class. It is apparent from the study commissioned by the U. S. Department of Education that cost comparisons are better served on a per instructional hour basis. These costs comparisons are attached as an exhibit to the University's response (Enclosure 1).

Considering the source footnoted by the OIG for the costs of JTPA and ABE as being , "Unaudited data from the Mississippi Department of Economic and Community Development and the Mississippi State Board for Community and Junior Colleges", and the information regarding the ABE program submitted herein, it is apparent that the costs comparisons cited on page 9 are incorrect and do not meet "generally accepted government auditing standards".

Since costs comparisons are not part of the objectives stated by the OIG and if the language regarding comparisons are for the purpose of performance measure only, the state requests that the cost per enrollee language be removed from the report altogether or the objectives be rewritten and equivalent audits performed on ABE and JTPA programs to produce viable data.

#### RECOMMENDATION #2

The second part of your audit deals with the allowability of costs. With regard to the allowability of a contractor's indirect cost as a direct cost to the state and therefore claimable at the enhance rate, we continue to disagree. We have acknowledged that HHS could adopt a rule affirming your position through rulemaking, but HHS

has not done so to date. MDHS, like other agencies throughout the country, has claimed contractor's indirect costs as a direct cost to the program. As stated above, and during our meetings, you have indicated that this is the position of the OIG and that final resolution of the issue will be accomplished by ACF and the Department of HHS. We think that this is a reasonable approach and we continue to encourage the Federal government to resolve its interagency differences in-house, rather than singling out a state to highlight a federal dispute.

It was our understanding from the December 11th meeting that the audit was conducted against applicable statutes and regulations, and that the OIG would take into consideration the guidance received by the state from ACF's own consultant. This guidance was in the form of an Action Transmittal dated February 15, 1990. Included in this AT was a sample budget of "Harnessing Public Matching Funds: A Worked Example" that blueprinted the method of claiming the indirect rate at the higher rate. A copy of the AT is attached hereto as a part of the state's response (Enclosure 3). To the best of our knowledge this AT has not been rescinded by ACF and is still in force and effect.

Some surprise on the part of the Washington staff was evident when it was noted that this contract had a separate established indirect cost rate by OMB. The University's indirect rate is 70% and the LEAP rate is 45.2%. This rate was determined to be the cost experienced by the University for providing the LEAP program to the State and was set by OMB.

We do not concur with your recommendation that we refund \$58,041 to the federal government.

### RECOMMENDATION #3

With regard to "Costs Not Allocable to JOBS", we disagree with the recommendation that we refund \$121,103 to the federal government. We, in fact have had difficulty in determining how you arrived at the figure \$121,103, given the different numbers included under your findings for this section. Nevertheless, our position remains the same. We do agree that those funds received from the sale of LEAP to the Mississippi Department of Corrections be credited to the JOBS program in a timely manner. Included in the University's response attached hereto (Enclosure 1) is a description of the procedures in effect dealing with program income. We agree that in several instances, the University may have overreached the contract, and we will make the necessary adjustments to both their contract and the federal claim.

We have, however, discussed each of these issues with the OIG staff on several occasions. We have provided justification and documentation for each category of expenditure. The University has explained their telephone calling card procedures to your staff,

provided information on the location of computer equipment and answered a number of questions on each item. On those points regarding telephone charges and computer equipment, the OIG was to provide the state with detailed documentation as to those areas of concern. To date the state has not received this information. Without this information the state is unable to adequately respond.

We were under the impression that you agreed with our positions on a number of items and that they were being addressed in this draft, but when we read it we found that they were not. For instance, we distinctly recall that all parties agreed that it would be inappropriate to disallow the cost of travel to Washington D. C. to brief the Secretary of Education and Senator Lott of Mississippi on the LEAP program. Yet it is still disallowed in this draft.

#### RECOMMENDATION #4

"Unallowable Marketing and Public Relations Activities" continues to perplex us. We disagree with the recommendation that we refund \$60,265 to the federal government. As we have discussed at our meetings, we are marketing LEAP to generate program income that will be used to expand and enhance the JOBS program in the State. Your analysis states that A-21 prohibits "displays, demonstrations, and exhibits" but does conclude that some of the travel associated with the LEAP program, as well as some printing and shipping costs are unallowable.

We have discussed these issues and provided documentation. Your report continues to disallow the cost of travel to the National Governors Conference at the request of Governor Fordice to market LEAP to other Governors. It also disallows the cost of travel for other marketing trips.

Informal reports from ACF financial management personnel indicate that an interpretation is in the making that marketing costs can only be attributed to the program to the extent that they are offset against program revenue. We raised questions about how this was to be applied; what timeframes were applicable; and how HHS wanted marketing costs accounted for. To the best of our knowledge, none of the questions have been addressed.

Given the fact that our efforts to market LEAP have been highly successful, we continue to believe that you should reevaluate this section of the report. Clearly the A-21 justification for the disallowance is not applicable----"we have no displays, demonstrations, and exhibits."

Further, our efforts have led to 12 contracts with other agencies and local school districts within the state resulting in approximately \$140,000 of revenue already received and contracts in place with projected revenues of \$200,000, over the next fiscal

year. In addition, we are in the process of executing a contract with the State of Massachusetts for \$200,000 to use LEAP, and a contract with USDA which will generate \$765,000 in additional revenue. Our current projections are that LEAP sales will generate 1.9 million total dollars of revenue in the next two fiscal years. That is a 21 to 1 return on an investment of \$87,485, that you are now trying to disallow. If a business could make \$1.9 million on \$87,485 of marketing expense, stockholders would be elated. In our case taxpayers are the stockholders. We strongly disagree with your opinion, stated on Page 17 that "potential future income for the JOBS program does not justify the expenditures claimed."

#### RECOMMENDATION #5

We welcome the input of the State Auditor in this or any other matter, but do not concur that these issues warrant such a review. We are confident that these expenditures were necessary.

In regard to the use of the mobile computer labs, the state believes that sufficient information has been furnished to the OIG to establish the use thereof. Included in the attached University response is additional supporting data regarding the location and use of the mobile labs. The comments made by the OIG regarding these labs are outside the scope of the stated objectives of the audit. Information has been furnished to the OIG showing that the labs are used to enhance existing LEAP sites and in particular those with a high degree of nonreader enrollees.

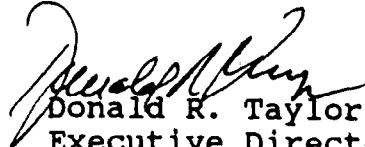
As cited by the OIG, Circular A-21, section C.3. states one of the major considerations involved in the determination of the reasonableness of a cost is whether or not the cost is of a type generally recognized as necessary for the operation of the sponsored agreement. It is our opinion that the documentation previously provided to the OIG fully demonstrates that the state's use of these labs meets the definition of "necessary for the operation of the sponsored agreement" and any reference to GEDs and attendance are outside the scope of the audit.

The same position is held for printing charges, food service charges and University Bookstore charges listed in the report. Documentation previously furnished the OIG clearly shows that all items listed under "Printing Charges", "Food Service Charges" and "University Bookstore Charges" clearly demonstrates that these expenditures were in keeping with the above citation. For example, the state has shown that the "box lunches" were provided for all LEAP teachers during an annual training session. Included in the University's response attached hereto is additional information regarding the issues discussed under this section (Enclosure 1).

In the spirit of the State/Federal partnership we are anxious to resolve the matters at hand in a positive and constructive manner. Complex programs create complex problems and it is our hope that

resolution of this matter can be quickly established and the knowledge gained from the experience can be utilized to benefit the program.

Sincerely,

  
Donald R. Taylor  
Executive Director

DRT:klm

Enclosures