



JUL 19 1994

Memorandum

Date

June Gibbs Brown
June Gibbs Brown
Inspector General

From

Subject

Type of Costs Incurred Under AIDS Grants Awarded to the Pennsylvania Department of Health (A-03-93-00351)

To

Philip R. Lee, M.D.
Assistant Secretary for Health

The attached final report presents the results of our review of the types of costs incurred under the Acquired Immunodeficiency Syndrome (AIDS) grants awarded to the Pennsylvania Department of Health (DOH) by the Public Health Service (PHS). Our review was performed to determine the extent to which Federal AIDS funds awarded to DOH were used for grant administration versus the provision of AIDS related services.

Our review was a follow-on to our review of the Florida Department of Health and Rehabilitation Services (HRS). In a report to PHS on March 31, 1993, we reported that 40 percent of HRS' Fiscal Year (FY) 1989 expenditures for two AIDS cooperative agreements awarded by the Centers for Disease Control and Prevention (CDC) were for grant administration.

The PHS responded quickly to our report on the Florida HRS and instructed CDC to make a study of administrative costs incurred under 16 grants awarded by CDC to various States. The CDC study showed that on the average 16.3 percent of AIDS funds were spent on grant administration. The results per individual State ranged from a low of 7.8 percent to a high of 31.7 percent. The CDC concluded that no further action was required but that it would continue to review grant budget applications to ensure that the overwhelming majority of its AIDS funds are used for programmatic efforts.

Our review in Pennsylvania revealed the need for continued review of AIDS grants awarded by all components of PHS and not just those awarded by CDC. We determined that:

- o 28 percent of the FY 1992 expenditures for all AIDS grants were for grant administration. This included 29 percent of expenditures made under two grants awarded by CDC; 22 percent of expenditures made under a grant awarded by the Health Resources and Services Administration (HRSA); and 40 percent of the expenditures made under a grant awarded by the Substance Abuse and Mental Health Services Administration.

- o Federal guidelines do not specifically identify direct and administrative expenditures, thus making it difficult to determine the portion of grant funds expended directly for services provided to recipients.
- o the 5 percent spending cap on grant administration for the AIDS grant awarded by HRSA was effective only as applied to direct spending by DOH. It was not effective in containing administrative costs incurred by community based organizations which accounted for 93 percent of all expenditures under the grant, and 97 percent of all expenditures for grant administration.

We are recommending that PHS, in support of the Report of National Performance Review, consider: (1) developing a performance measure for AIDS grants based on the extent that grant funds are used for grant administration versus provision of direct services; and (2) establishing criteria for evaluating grant applicants and administering grants using the fixed fee-for-service concept. We are also recommending that PHS, by applying a methodology similar to that used by CDC, review, on a periodic basis, AIDS grants awarded by its other components to determine the extent that AIDS funds are being used for administration purposes rather than the direct provision of services.

In a memorandum dated May 4, 1994, PHS responded to a draft of this report. The PHS concurred with the intent of our recommendations and recognized the need to maintain a reasonable balance between cost for administration and cost to provide direct services. The PHS believes, however, that its current policies and procedures for evaluating budget proposals are effective for ensuring that costs are reasonable, necessary, and in compliance with applicable limitations. The PHS will continue to monitor the amount of administrative costs through its grant application and negotiation process.

We would appreciate being advised within 60 days on the status of corrective actions taken or planned on our recommendations. Please refer to Common Identification Number A-03-93-00351 in all correspondence relating to this report. Should you wish to discuss issues raised by our review and our recommendations, please call me or have your staff contact Michael R. Hill, Assistant Inspector General for Public Health Service Audits, at (301) 443-3582.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**TYPE OF COSTS INCURRED UNDER
AIDS GRANTS AWARDED TO THE
PENNSYLVANIA DEPARTMENT OF
HEALTH**



JUNE GIBBS BROWN
Inspector General

JULY 1994
A-03-93-00351



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Memorandum

Date

From

June Gibbs Brown
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Inspector General

Subject

Type of Costs Incurred Under AIDS Grants Awarded to the Pennsylvania Department of Health (A-03-93-00351)

To

Philip R. Lee, M.D.
Assistant Secretary for Health

This final report contains the results of our review of the types of costs incurred under Acquired Immunodeficiency Syndrome (AIDS) grants awarded to the Pennsylvania Department of Health (DOH) by the Public Health Service (PHS). This report is a follow-on to our report of March 31, 1993, in which we provided PHS the results of our review of the extent to which the Florida Department of Health and Rehabilitation Services (HRS) used AIDS grant funds for grant administration versus direct provision of AIDS related services.

In our review of Florida's HRS, we determined that 40 percent of the Fiscal Year (FY) 1989 expenditures for two AIDS cooperative agreements (hereafter referred to as grants) awarded by PHS' Centers for Disease Control and Prevention (CDC)¹ were for grant administration. In our review of Pennsylvania's DOH, we determined that 28 percent of the FY 1992 expenditures for all AIDS grants² were for grant administration. Our review also determined that:

- o AIDS grants awarded by agencies other than CDC also experienced relatively high rates of administrative expenditures.
- o Federal guidelines do not specifically identify direct and administrative expenditures, thus making it difficult to determine the portion of grant funds expended directly for services provided to recipients.
- o The 5 percent spending cap on grant administration for the AIDS grant awarded by the Health Resources and Services Administration (HRSA) was effective only as applied to direct spending by DOH. It was

¹ Prior to the Preventive Health Amendments of 1992, the name of the organization was Centers for Disease Control.

² The DOH was awarded four AIDS grants, two of which were awarded by CDC, one by the Health Resources and Services Administration, and one by the Substance Abuse and Mental Health Services Administration.

not effective in containing administrative costs incurred by the community based organizations (CBO) which accounted for 93 percent of all expenditures under the grant, and 97 percent of all expenditures for grant administration.

The PHS responded quickly to our report on the Florida HRS and instructed CDC to make a study of administrative costs incurred under 16 grants awarded by CDC. The CDC, in planning its study, recognized the lack of definitive guidance to grantees relative to direct versus administrative expenditures, and, as a consequence, developed its own methodology for identifying such expenditures. We believe CDC's methodology was very similar to the methodology that we used in Florida and Pennsylvania. One major difference however, was that CDC performed its review based on grant files, while we made on-site reviews to both HRS and DOH where more documentation and information describing the expenditures were available.

The CDC study indicated that the average percentage of administrative costs to total AIDS grant costs awarded was 16.3 percent, ranging from 7.8 percent to 31.7 percent. The CDC concluded that no further action was required but that it would continue to review AIDS grant budget applications received to ensure that the overwhelming majority of CDC AIDS funds awarded are used for programmatic efforts.

Our review in Pennsylvania revealed the need for continued review of AIDS grants awarded by PHS and not just those awarded by CDC. Furthermore, we believe that the percentage of AIDS funds used for administrative purposes rather than for the direct provision of services could be developed into an effective measure of program performance, in line with one thrust of the Report of the National Performance Review (NPR).

According to the report, the Government Performance and Results Act of 1993 (Act) is "...a pivotal first step toward measuring whether federal programs are meeting their intended objectives." The report states that agencies should not limit themselves to the minimum mandates of the law but to begin performance measurement now.

The report also calls for strengthening the partnership in intergovernmental delivery of services. Specifically, reimbursement systems for administrative costs of Federal grant disbursements should be modified to provide a fixed fee-for-service option in lieu of costly reimbursement procedures covering actual administrative costs of grant disbursement.

In our opinion, the extent to which AIDS grant funds are used for grant administration as opposed to the direct provision of AIDS related services to recipients is indeed a valuable performance measure. By comparing organizations' success in concentrating grant funds on providing services, PHS would be able to identify the most effective organizations, determine why they are effective, and use their operations as a model for other organizations that spend an inordinate portion of their grant funds on administration.

We, therefore, recommend that PHS, in support of the NPR recommendation, consider: (1) developing performance measures for AIDS grants based on the extent that grants are used for grant administration versus provision of direct services; and (2) establishing criteria for evaluating grant applicants and administering grants using the fixed fee-for-service concept. We are also recommending that PHS, by applying a methodology similar to that used by CDC, review, on a periodic basis, AIDS grants awarded by its other components to determine the extent that AIDS funds are used for administration versus the direct provision of services.

In a memorandum dated May 4, 1994, PHS responded to a draft of this report. The PHS concurred with the intent of our recommendations and recognized the need to maintain a reasonable balance between cost for administration and cost to provide direct services. The PHS believes however, that its current policies and procedures for evaluating budget proposals are effective for ensuring that costs are reasonable, necessary, and in compliance with applicable limitations. The PHS will continue to monitor the amount of administrative costs through its grant application and negotiation process.

We have summarized PHS' response along with our comments after the Conclusions and Recommendations section of this report, and have included the entire response as an Appendix to this report.

BACKGROUND

In response to a congressional request, the Office of Inspector General (OIG) reviewed two grants awarded to the Florida HRS in FY 1989 by CDC. The purpose of the grants was to fund AIDS education, and other AIDS related activities such as surveillance and testing. The HRS reported that about \$10.7 million was expended under the two grants in FY 1989.

On March 31, 1993, we issued a management advisory report³ to the Acting Assistant Secretary for Health. We reported that 40 percent of the grant funds awarded to HRS were expended on grant administration. These results raised a concern that available AIDS funds were not being used in the most efficient and effective manner possible. We informed the Acting Assistant Secretary for Health that we were going to expand our review to other States.

The CDC, HRSA and Substance Abuse and Mental Health Services Administration (SAMHSA) award AIDS grants to State Health Departments which are responsible for administering the grants. Furthermore, depending on the objectives of the grant, funds may be allocated to subrecipients such as other county health units (CHU) and CBOs. For example, grant funds may be awarded directly to a State Health Department, who then will allocate funds to a CHU, who then will distribute funds to a CBO.

The NPR recommends that the intergovernmental service delivery be strengthened; specifically, reimbursement procedures for administrative costs of Federal grants be simplified. The Act, which is strongly supported by the NPR established a framework for performance standards. The legislative history of this Act expresses a congressional belief that "...regular and systematic measurement and reporting of program performance, compared to pre-established goals..." is needed.

We also coordinated our review with a study that CDC performed at the request of PHS. Such coordination, in our opinion, helped ensure consistency in the review methodology and the broadest possible coverage of the issues under study.

At PHS' request, CDC studied 16 AIDS and Human Immunodeficiency Virus (HIV) grants awarded by CDC during FY 1991. The CDC evaluated these grants to identify the administrative costs incurred under the grants. The CDC performed the review using its own methodology for identifying direct and administrative expenditures. We believe CDC's methodology is similar to the methodology that was used in Florida and Pennsylvania. However, CDC concluded that no further action was required but that it would continue to review AIDS grant budget applications received to ensure that the majority of funds were being used for programmatic efforts. Our review showed the need for continued review of AIDS grants awarded by PHS and not just those awarded by CDC.

³ Office of Inspector General. Review of the Type of Costs Incurred Under AIDS Cooperative Agreements Awarded to the Florida Department of Health and Rehabilitative Services. (A-91-04027).

OBJECTIVE, SCOPE AND METHODOLOGY

Our review, performed in accordance with generally accepted government auditing standards, was conducted to determine the extent to which Federal AIDS and HIV funds awarded by PHS to the Pennsylvania DOH were used for grant administration versus the provision of AIDS related services. Using the PHS Grants Management Information System, we determined that DOH was awarded four AIDS grants in FY 1992. The grants, totaling \$5,747,900, were:

- o AIDS Prevention Project grant awarded by CDC for a 1-year period ended December 31, 1992 in the amount of \$2,747,615;
- o HIV/AIDS Surveillance and Seroprevalence Project grant awarded by CDC for a 1-year period ended December 31, 1992, in the amount of \$818,715;
- o HIV Care (Ryan White) grant awarded by HRSA for a 1-year period ended March 31, 1992, in the amount of \$1,633,564; and
- o HIV/AIDS and Related Diseases Among Substance Abusers grant awarded by SAMHSA for a 1-year period ended August 31, 1993, in the amount of \$548,006.

To accomplish our objective, we visited CDC and obtained copies of the grant documents and other information from the grant files. We also visited the DOH and its Bureau of HIV/AIDS, Harrisburg, Pennsylvania and reviewed files for the four grants. We reviewed budget documentation and expenditure reports and met with DOH officials to determine the amount and use of funds expended under the grants.

To determine the extent that grant funds were used for administrative purposes, we utilized actual expenditure data contained in expenditure reports and the financial status reports. Where the expenditure data was not available or not explicit, we utilized the budget data contained in the grant application and notice of grant award.

We researched Federal regulations concerning the definition of administrative costs. We were unable to identify any specific criteria which defines in explicit terms what administrative costs are. We noted that the PHS Grants Policy Statement (10/01/90) defines indirect costs as:

"Costs that are incurred for common or joint objectives and which therefore cannot be identified specifically with a particular project or program."

We considered all indirect costs to be administrative in nature. Direct costs, however, can also be administrative in nature if the costs were for support functions rather than for the direct provision of the services rendered under the grant. These support functions could include such costs as salary, travel, supplies and other support type costs.

To classify a cost as either directly involved in the provision of services or administrative, we reviewed each grant separately paying particular attention to their objectives, account descriptions and position descriptions funded by the grants. Based on this methodology, it is possible for a cost to be classified as administrative for one grant and as direct for another grant. We discussed the costs classifications with DOH personnel. They indicated that certain costs contained both direct and administrative elements, hence we made certain revisions to our classifications. With just a few minor exceptions, DOH personnel agreed with the classifications cited in this report.

The CDC, in its study of 16 AIDS and HIV grants, recognized the lack of definitive guidance to grantees in identifying direct versus administrative expenditures. The CDC developed its own methodology for identifying direct and administrative expenditures. This methodology was similar to the methodology that we used in Pennsylvania. However, CDC performed its review based on grant files, while we performed on-site reviews at DOH where more documentation and information was available.

RESULTS OF REVIEW

Of the \$5,747,900 awarded to DOH under the four AIDS grants, we determined that \$5,534,332 was expended. Although \$5,534,332 was expended, our review was limited to an available combination of expenditures and budget documentation in the amount of \$5,117,868. The DOH reported that \$4,569,862 was expended under the two CDC grants and one HRSA grant, and that \$548,006 was budgeted under the SAMHSA grant in FY 1992. The expenditures were made by the DOH, CHUs, and CBOs.

Our review of these expenditures showed that \$3,660,967, or 72 percent was expended on providing direct services (referred to as direct expenditures) to the target populations, and \$1,456,901, 28 percent was expended on grant administration as shown below.

REVIEW OF EXPENDITURES BY AWARDING AGENCY					
Agency	Direct Expenditures	%	Administrative Expenditures	%	Total Expenditures
CDC	\$2,504,304	71%	\$1,000,430	29%	\$3,504,734
HRSA	826,641	78%	238,487	22%	1,065,128
SAMHSA	330,022	60%	217,984	40%	548,006
Total	<u>\$3,660,967</u>	<u>72%</u>	<u>\$1,456,901</u>	<u>28%</u>	<u>\$5,117,868</u>

The DOH expended some of the grant funds and distributed the rest of the grant funds to CHUs and CBOs as shown below.

REVIEW OF EXPENDITURES BY RECIPIENT OF GRANT FUNDS						
Unit	Direct Expenditures	%	Administrative Expenditures	%	Total Expenditures	%
DOH	\$1,909,807	74%	\$ 688,064	26%	\$2,597,871	51%
CHUs	588,979	59%	409,446	41%	998,425	19%
CBOs	1,162,181	76%	359,391	24%	1,521,572	30%
TOTAL	<u>\$3,660,967</u>	<u>72%</u>	<u>\$1,456,901</u>	<u>28%</u>	<u>\$5,117,868</u>	<u>100%</u>

As shown in the above chart, a significant portion of expenditures of both the recipient of grant funds--DOH--and the subrecipients of grant funds--CHUs and CBOs--were for grant administration.

In comparing these results to our results in Florida, we noted that unlike Florida's HRS which spent only 9 percent of grant funds earmarked for use by HRS for providing services directly by HRS, Pennsylvania's DOH spent 74 percent of its earmarked grant funds on providing services. On the other hand CHUs and CBOs in Florida spent 93 percent and 94 percent of grant funds respectively, on direct services while Pennsylvania CHUs and CBOs spent only 59 percent and 76 percent of grant funds, respectively, on direct services. The increase in administrative spending by the CHUs and the CBOs takes on added significance considering that the mandated cap on administrative spending for the HRSA grant is not being applied to these expenditures.

Details on the four grants follow.

AIDS PREVENTION PROJECT

The AIDS Prevention Project, totaling \$2,747,615 was awarded to DOH by CDC for the budget period January 1, 1992 through

December 31, 1992. The objective of the grant is to provide HIV counseling, testing, referral and partner notification.

During the grant period, a total of \$2,872,423 was expended. The DOH attributed the deficit to misclassifications of costs, whereas costs were charged to this grant year that should have been charged to the previous or subsequent grant year. The DOH indicated that adjustments would be made to appropriately charge the grant. Of the \$2,872,423 expended, \$2,066,063, or 72 percent was for direct services to the targeted populations and \$806,360, or 28 percent, was for administrative functions.

As shown in the following chart, DOH accounted for most of the grant expenditures.

CLASSIFICATION OF GRANT EXPENDITURES					
Unit	Direct Expenditures	%	Administrative Expenditures	%	Total Expenditures
DOH	\$1,484,086	75%	\$495,166	25%	\$1,979,252
CHUs	370,762	58%	268,978	42%	639,740
CBOs	211,215	83%	42,216	17%	253,431
Total	<u>\$2,066,063</u>	<u>72%</u>	<u>\$806,360</u>	<u>28%</u>	<u>\$2,872,423</u>

As shown above, 75 percent of DOH's expenditures were for direct services while 25 percent were for administrative functions. Direct expenditures included: salaries and fringe benefits of community health nurses and public health program representatives; travel; training; subscriptions; medical and educational supplies; clinical services; and an advertising promotion. Administrative expenditures included: salaries and fringe benefits of a public health executive and clerk typists; indirect costs; repairs; office supplies; housekeeping supplies; drugs (non-AIDS); data processing services; printing of unrelated AIDS material; interest/penalties; a telephone network; and conference expenses.

Seven CHUs spent grant funds, of which 58 percent was for direct services and 42 percent was for administrative functions. Direct expenditures included: salaries and fringe benefits of personnel such as microbiologists, outreach workers, public health nurses and counselors; AIDS testing; clinical and medical supplies; and AIDS educational material and publications. Administrative expenditures included salaries and fringe benefits of personnel such as clerk typists, program coordinators and a health planner.

Five CBOs spent grant funds, of which 83 percent was for direct services and 17 percent was for administrative

functions. Direct expenditures included: salaries and fringe benefits of personnel such as outreach workers, counselors, and a laboratory technician; lease of a van; a hotline; risk assessments; and AIDS testing. Administrative expenditures included: salaries and fringe benefits of personnel such as project directors, a program coordinator and a secretary; and audit costs.

HIV/AIDS SURVEILLANCE AND SEROPREVALENCE PROJECT

The HIV/AIDS Surveillance and Seroprevalence Project, totaling \$818,715 was awarded to DOH by CDC for the budget period January 1, 1992 through December 31, 1992. The objectives of the grant are to accurately measure the incidence and prevalence of HIV infection in the population and to utilize the data for targeting and implementing HIV prevention programs.

During the grant period, \$632,311 was expended, of which \$438,241, or 69 percent, was expended for direct services to the targeted populations, and \$194,070, or 31 percent, was for administrative functions. As shown in the following chart, DOH accounted for most of the grant expenditures.

CLASSIFICATION OF GRANT EXPENDITURES					
Unit	Direct Expenditures	%	Administrative Expenditures	%	Total Expenditures
DOH	\$425,721	71%	\$177,480	29%	\$603,201
CHUs	1,927	13%	13,267	87%	15,194
CBOS	10,593	76%	3,323	24%	13,916
Total	<u>\$438,241</u>	<u>69%</u>	<u>\$194,070</u>	<u>31%</u>	<u>\$632,311</u>

As shown above, 71 percent of DOH's expenditures were for direct services while 29 percent were for administrative functions. Direct expenditures included: salaries and fringe benefits of personnel such as epidemiology program specialists, microbiologists, a science research associate, and a laboratory technician; laboratory supplies; subscriptions; and travel. Administrative expenditures included: salaries and fringe benefits of personnel such as a statistical analyst, an administrator and a clerk typist; office supplies; data processing services; printing of unrelated AIDS material; educational supplies not related to AIDS; interest/penalties; and conference expenses.

Two CHUs spent grant funds, of which 13 percent was for direct services and 87 percent was for administrative functions.

Direct expenditures included salary and fringe benefits of public health nurses, AIDS testing, and clinical supplies. Administrative expenditures included the salary and fringe benefits of administrative assistants and clerk typists.

One CBO spent 76 percent of the grant funds received for direct services and 24 percent for administrative functions. Direct expenditures included salaries and benefits for laboratory technicians and AIDS testing. Administrative expenditures included general and administrative costs, malpractice and liability insurance, professional fees, and recruitment and training.

HIV CARE GRANT

The HIV Care Grant (Ryan White Grant), totaling \$2,241,191 was awarded to DOH by HRSA for the budget period April 1, 1991 through March 31, 1992. The grant was awarded to establish/support consortia for public organizations and CBOs operating within specified regions in the State. The grant also included costs for the provision of drug therapies approved by the Food and Drug Administration to prolong life or prevent deterioration of health arising from HIV disease to low-income individuals. The drug therapy portion of this grant was administered by the Department of Public Welfare's (DPW) Office of Medical Assistance Programs. The DOH transferred \$1,008,535 of grant funds to DPW for this purpose. We did not include these funds in our review.

During the grant period, \$1,065,128 was expended, of which \$826,641, or 78 percent, was for direct services and \$238,487, or 22 percent, was for administrative functions.

CLASSIFICATION OF GRANT EXPENDITURES					
Unit	Direct Expenditures	%	Administrative Expenditures	%	Total Expenditures
DOH	\$ 0	0%	\$ 4,673	100%	\$ 4,673
CHUs	63,529	96%	2,750	4%	66,279
CBOs	763,112	77%	231,064	23%	994,176
Total	<u>\$826,641</u>	<u>78%</u>	<u>\$238,487</u>	<u>22%</u>	<u>\$1,065,128</u>

The DOH spent \$4,673 of grant funds, all of which was for administrative functions such as conference expenses, freight charges, travel, motorized equipment rental and educational supplies (non-AIDS). This amounted to less than 1 percent of the total grant award. The remaining \$1,060,455 was passed to seven CBOs which spent \$994,176 and passed the remaining \$66,279 to three CHUs.

Seven CBOs spent grant funds, of which 77 percent was for direct services and 23 percent was for administrative functions. Direct expenditures included: salaries and fringe benefits for personnel such as case managers, outreach workers, and an early intervention specialist; educational and training material; rent; a newsletter; HIV direct client care services; brochures; program travel; and emergency services. Administrative expenditures included: salaries and fringe benefits of personnel such as project coordinators, secretaries, and executive directors; fiscal services; audit fees; development consultant; office supplies; meeting expenses; legal fees; indirect costs; planning services; monitoring and reporting services; advertisement for positions; and an administrative fee.

Three CHUs spent grant funds, of which 96 percent was for direct services and 4 percent was for administrative functions, including expenditures for painting and administrative costs. Direct expenditures included personnel costs for AIDS testing and clinical supplies. Administrative expenditures included salaries and fringe benefits of an administrative assistant and a clerk typist.

The percentage of grant funds spent on administration was lower for this grant than any of the other three grants that we reviewed. According to HRSA and DOH staff, a spending cap of 5 percent was placed on administrative expenditures directly incurred by DOH. This spending cap, according to HRSA staff, is required by Public Law 101-381, The Ryan White Comprehensive AIDS Resources Emergency Act of 1990. Section 301 of the Public Law under Administration states that:

"A State may not use in excess of 5 percent of amounts received under a grant awarded under this part for administration, accounting, reporting, and program oversight functions."

The State spent less than 1 percent of the grant funds on administration. Thus, the cap was effective in that regard. We noted, however, that the cap did not apply to grant expenditures made by CHUs and CBOs, and was, therefore, not totally effective in containing all grant administrative costs.

HIV/AIDS AND RELATED DISEASES AMONG SUBSTANCE ABUSERS

The HIV/AIDS and Related Diseases Among Substance Abusers grant totaled \$548,006 and was awarded to DOH by SAMHSA for the grant period September 30, 1992 through August 31, 1993.

The objectives of the grant are to: (1) provide preventive interventions to persons who are identified as high risk; (2) obtain information about the population of injecting drug users in order to provide more effective information to them on preventing infection by and transmission of the HIV; and (3) designing and providing preventive interventions to inform and effect behavior relative to the spread of the HIV. Because the grant period was not completed, we utilized the narrative explanations for the line items included in the award to identify administrative costs.

Of the \$548,006 budgeted, \$330,022, 60 percent, was budgeted for direct services to the targeted populations, and \$217,984, or 40 percent, was budgeted for administrative functions.

CLASSIFICATION OF GRANT EXPENDITURES						
Unit	Direct Expenditures		Administrative Expenditures		Total Expenditures	
		%		%		
DOH	\$ 0	0%	\$ 10,745	100%	\$ 10,745	
CHUs	152,761	55%	124,451	45%	277,212	
CBOs	177,261	68%	82,788	32%	260,049	
Total	<u>\$330,022</u>	<u>60%</u>	<u>\$217,984</u>	<u>40%</u>	<u>\$548,006</u>	

The DOH budgeted \$10,745 of grant funds, all for administrative functions, including indirect costs.

Two CHUs budgeted 55 percent of their grant funds for direct services and 45 percent for administrative functions. Budgeted direct costs included: salaries and fringe benefits for personnel such as a phlebotomist, a case manager and an outreach worker; clinical supplies; pamphlets; and a purchase of a motor home. Budgeted administrative costs included: salaries and fringe benefits of project coordinators, administrative assistants and a fiscal assistant; travel; indirect costs; desks and chairs; pens and paper; audit costs; staff development; advertising for positions; and an evaluation consultant.

Two CBOs budgeted 68 percent of their grant funds for direct services and 32 percent for administrative functions. Budgeted direct costs included the salaries and fringe benefits of a social worker, an outreach worker and a mobile physician; and medical supplies. Budgeted administrative costs included the salaries and fringe benefits of project coordinators, an evaluator assistant, an administrative assistant and an evaluation consultant; travel; and indirect costs.

CONCLUSIONS AND RECOMMENDATIONS

Our review of four AIDS grants awarded to DOH showed that 28 percent of the actual or budgeted expenditures of AIDS grant funds were for grant administration. The portion of grant funds that DOH spent on administration was significantly lower than the 40 percent portion spent by Florida's HRS. One reason for this reduction is that, unlike the Florida HRS which accounted for 38 percent of the grant expenditures but only 5 percent of the expenditures for service, the Pennsylvania DOH accounted for 51 percent of the grant expenditures and 52 percent of the expenditures for service.

The PHS responded quickly to our report on Florida's HRS and instructed CDC to review its grant awards. The CDC reviewed 16 AIDS grants awarded to various States and determined that the administrative cost in the 16 awards ranged from 7.8 percent to 31.7 percent.

On average, 16.3 percent of grant funds were used for grant administration. We noted, however, that for eight of the grants (50 percent) over 25 percent of the grant funds were for administration. The CDC's results differ somewhat for our reviews in Florida and Pennsylvania. Since we believe that CDC's methodology was very similar to our methodology used in the study, we believe that some of the difference is accounted for by the fact that we performed our reviews on-site at the State agencies where more definitive documentation and information on the nature of the expenditures were available.

The CDC concluded in its study that while it did not intend to take further action to control administrative costs of AIDS grants, it would continue to review closely AIDS grant budget applications to ensure that the overwhelming majority of CDC AIDS funds awarded are used for programmatic efforts. We believe this is a positive step.

Our review in Pennsylvania has shown, however, that a similar scrutiny is required for all AIDS grants awarded by PHS. In addition, we believe that through such scrutiny, PHS could develop a useful performance measure based on the extent that AIDS grant funds are used for administrative purposes.

Such a performance measure could, for example, identify States and organizations that concentrate their available funds on providing services rather than on grant administration. Conversely, the performance measure could also identify States and organizations that spend an inordinate amount of grant funds on administrative costs. Lessons could be learned from such a comparison and improvements made. For this to be accomplished, however, PHS would first have to establish a

standard definition of what is an administrative cost and what is a direct service cost. It became clear from the CDC study that a current standard definition was not in use prior to the study.

The Act established a framework for performance standards. The NPR encourages Federal agencies to begin now to integrate performance measurement into their operations and not limit themselves to the minimum mandates of the Act.

The NPR states that Office of Management and Budget (OMB) Circular A-87 (Cost Principles for State and Local Governments) should be modified to provide a fixed fee-for-service option in lieu of costly reimbursement procedures covering actual administrative costs of grant disbursement.

We believe the concept of providing a fixed fee-for-service option in place of actual administrative costs is another grant administration mechanism that can result in more AIDS funding being used for the direct provision of services. Further, this concept could be incorporated in PHS' grant awarding process. For example, AIDS grant applicants could be evaluated and given greater consideration in the grant selection process for using a fixed fee-for-service for administration costs.

We, therefore, recommend that PHS:

1. In support of the NPR recommendation consider:
 - a. developing a performance measure for AIDS grants based on the extent that grant funds are used for grant administration versus provision of direct services;
 - b. establishing criteria for evaluating grant applicants and administering grants using the fixed fee-for-service concept; and
2. Applying a methodology similar to the one used by CDC, review on a periodic basis AIDS grants awarded by its other components to determine the extent that AIDS funds are being used for administrative purposes rather than the provision of direct services.

PHS RESPONSE AND OIG COMMENTS

In its response to our draft report, PHS provided some general comments and addressed each of our recommendations. Some of PHS' general comments also relate to the specific recommendations. Before summarizing PHS' response relative to our recommendations, we first want to address a general comment dealing with our categorization of administrative costs.

The PHS stated that some of the costs that we classified as administrative costs do not appear to be true administrative costs in all cases. As a result, PHS believes that we have overstated the administrative costs in our report.

For the most part, the methodology used by PHS in its review of 16 grants and our methodology followed in this review are very similar. We attribute most of the difference in results to the fact that we visited the State agency and had access to more detailed information than did the PHS reviewers who were not on-site at the State agency.

We based our cost categorization on our review of grant objectives, account descriptions, and position descriptions funded by the grant. We classified all indirect costs as administrative. We classified direct costs as administrative if they were for support functions rather than for direct provision of services. We recognize that there is some subjectivity in this type of classification. That is why we pointed out in the report that PHS would first have to establish a standard definition of what is an administrative cost and what is a direct service cost. The CDC study made it clear that a standard definition was not in use prior to the study.

The PHS response to our recommendations along with our comments are summarized below.

The PHS concurs with the intent of our recommendation to develop a performance measure for AIDS grants based on the extent that grant funds are used for grant administration versus provision of direct services. However, PHS believes that its current process for evaluating grant budget proposals is effective and does not believe that such a performance measure is necessary. The PHS, however, will continue to stress to PHS grants staff the need to closely monitor the amounts proposed for administrative costs, particularly in those cases where the amounts proposed are higher than average experience.

The CDC's study of 16 grants revealed 2 important points. One, there was a wide variance in the percentage of grant funds used for administrative purposes. Administrative costs ranged from 7.8 percent to 31.7 percent of grant funds. Two, in developing its own study methodology, CDC made it clear that there was no standard definition of administrative cost prior to the development of the methodology.

We believe both of these points warrant further attention from PHS. Emphasizing to staff the need to closely monitor administrative costs, as agreed to by PHS, is one option. Another option is our recommendation that PHS establish a performance measure, using standard definitions of administrative cost and cost of providing services. This would enable PHS to systematically identify those grantees with aberrant patterns of administrative costs, such as the one cited in its own study as having a 31.7 percent administrative rate. Lessons could be learned, improvements could be made, and more efficient provision of services could ultimately result.

The PHS concurred with the fixed fee-for-service concept as proposed by the NPR, but as suggested in the NPR, will await the revision of OMB Circular A-87. Once OMB Circular A-87 is revised, PHS will take action as appropriate.

We believe this action meets the intent of our recommendation.

The PHS agrees with the intent of our recommendation to periodically review, using a methodology similar to the one used by CDC, AIDS grants awarded by its other components to determine the extent that grant funds are used for administrative purposes. The PHS will advise its components of the CDC study and the OIG report and ask them to be vigilant in continually assessing administrative costs contained in proposals for AIDS funds.

We believe that this action, for the most part, meets the intent of our recommendation. We believe, however, that periodic reports should be prepared showing the results of the cost assessments made by the components and actions taken by them.

We would appreciate being advised within 60 days on the status of corrective actions taken or planned on our recommendations. Please refer to Common Identification Number A-03-93-00351 in all correspondence relating to this report. Should you wish to discuss issues raised by our review and our

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recommendations, please call me or have your staff contact
Michael R. Hill, Assistant Inspector General for Public Health
Service Audits, at (301) 443-3582.

APPENDIX



MAY 4 1994

MEMORANDUM

From: Deputy Assistant Secretary for Health Management Operations

Subject: Office of Inspector General (OIG) Draft Report "Type of Costs Incurred Under AIDS Grants Awarded to the Pennsylvania Department of Health," A-03-93-00351

To: Inspector General, OS

Attached are the PHS comments on the subject OIG draft report. We concur with the intent of the report's recommendations and recognize the need to maintain a reasonable balance between costs for administration and costs for the provision of services in grant awards. However, we believe that PHS' current policies and procedures for evaluating budget proposals are effective for ensuring that costs in approved budgets are reasonable, necessary, and in compliance with any applicable limitations. We will continue to monitor the amount of administrative costs in grant budgets through our grant application and negotiation processes.

Anthony L. Itteilag
 Anthony L. Itteilag

Attachment

IG	_____
SAIG	_____
PDIG	_____
DIG-AS	_____
DIG-EI	_____
DIG-OI	_____
AIG-MP	_____
OGC/IG	_____
EXSEC	_____
DATE SENT	5/5

RECEIVED
 OFFICE OF INSPECTOR GENERAL
 MAY 5 - 1994

COMMENTS OF THE PUBLIC HEALTH SERVICE ON THE
OFFICE OF INSPECTOR GENERAL (OIG) DRAFT REPORT
"TYPE OF COSTS INCURRED UNDER AIDS GRANTS AWARDED TO THE
PENNSYLVANIA DEPARTMENT OF HEALTH."
(A-03-93-00351)

GENERAL COMMENTS

The OIG draft report states that 28 percent of Fiscal Year 1992 expenditures under all Acquired Immune Deficiency Syndrome (AIDS) grants awarded to the Pennsylvania Department of Health (DOH) were for grants administration. The OIG based its conclusion on a review of four AIDS grants. They included one Health Resources and Services Administration grant under the Ryan White program, one Substance Abuse and Mental Health Services Administration (SAMHSA) grant, and two Centers for Disease Control and Prevention (CDC) grants. The OIG believes that its audit indicates the need for continued review of AIDS grants awarded by all components of the Public Health Service (PHS).

We note that in computing its average percentage of "administrative costs," the OIG report included administrative costs incurred by subrecipient organizations as well as those incurred by the DOH. However, none of the AIDS grants reviewed by OIG has a statutory or regulatory limitation on the amount of grant funds that may be expended for administrative costs by subrecipient organizations.

The Ryan White legislation provides that "A State may not use more than five percent of amounts received under a grant awarded under this part [Title II of the Act] for administration, accounting, reporting and program oversight functions." In addition, the program announcement for the SAMHSA grant included a programmatic requirement that limited the primary recipient's expenditures for administrative overhead to two percent of the amounts awarded to subrecipients. A review of the OIG data shows that DOH has complied with the limitations under the Ryan White and SAMHSA grants.

In addition, although the CDC grants did not contain limitations on the amount of funds that could be used for administration, expenditures for administration by DOH were reasonable. We note that the percentages of funds expended at the DOH level for administration on the two CDC grants reviewed by OIG (25 and 29 percent) were within the range of percentages developed in a Spring 1993 study of 16 AIDS grants awarded by CDC to State health departments. The CDC study was performed in response to the OIG's earlier review of AIDS grants awarded by CDC to the Florida Department of Health and Rehabilitative Services. The CDC study concluded that the

face financial ruin, and more importantly disrupt the study or program.

The following are our comments on the recommendations.

OIG RECOMMENDATION

We, therefore, recommend that PHS:

1. In support of the Report of the National Performance Review recommendation consider:
 - A. Developing a performance measure for AIDS grants based on the extent that grant funds are used for grant administration versus provision of direct services;

PHS COMMENTS

The PHS supports the proposals of the NPR and we concur with the intent of this OIG recommendation. We agree that it is important to ensure that administrative costs charged to grants are kept to a minimum. In this regard, we believe that the process we currently use for evaluating grant budget proposals is effective for ensuring that costs in approved project budgets are necessary for the provision of the services specified, reasonable, and in compliance with the applicable Government cost principles and any applicable limitations, including those for grant administration.

The amount of funds expended for administration is an issue that affects all grants awarded by PHS. The PHS has long-established policies and procedures for the review of grant budget proposals. In general, organizations applying for PHS grant funds must provide a detailed cost proposal as part of the application process. These proposals are evaluated by a Program Review Committee and program staff to ensure that all proposed costs are necessary for the proposed project. In addition, the PHS agency grants management personnel conduct pre-award financial evaluations of all budget proposals to ensure that the proposed costs are reasonable. This financial evaluation includes a review of costs proposed for project administration as well as for the provision of services. Where necessary, the PHS agency is assisted by financial capability reviews and pre-award evaluations conducted by OIG staff.

For the reasons indicated above, we do not believe that a performance measure, such as the one recommended by OIG, is necessary. However, we will continue to stress to PHS grants staff the need to closely monitor the amounts proposed for