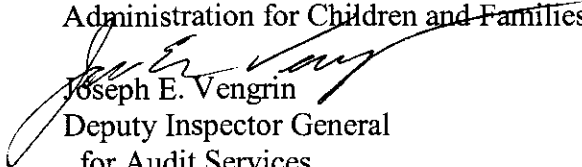




DEC 14 2004

TO: Joan Ohl
Commissioner, Administration on Children, Youth,
and Families
Administration for Children and Families

FROM: 
Joseph E. Vengrin
Deputy Inspector General
for Audit Services

SUBJECT: Review of Title IV-E Training Costs in Maine for State Fiscal Years 2001
Through 2003 (A-01-03-02503)

Attached is an advance copy of our final report on Title IV-E training costs in Maine. We will issue this report to the Maine Department of Health and Human Services (the agency) within 5 business days.

Our objective was to determine whether the agency complied with Office of Management and Budget (OMB) Circular A-87 and Administration for Children and Families (ACF) guidance in claiming Federal reimbursement for costs for foster care and adoption assistance training.

The agency did not comply with OMB Circular A-87 and ACF guidelines for claiming costs for reimbursement. Specifically, the agency (1) did not allocate preservice training costs between the Federal and State programs, (2) incorrectly calculated the Federal share of indirect costs, and (3) inaccurately reported the amount claimed for Federal reimbursement.

These problems occurred because agency officials:

- did not follow ACF's policy on allocating training costs,
- did not follow ACF's program announcement on calculating the Federal share of indirect costs, and
- did not establish written policies and procedures for claiming training costs and did not properly train accounting staff on how to prepare accurate claims for Federal reimbursement.

As a result, the agency misstated Federal claims for training costs during State fiscal years 2001 through 2003. Identified errors resulted in \$4.3 million in overstatements and \$1.3 million in understatements, for a net Federal overstatement of \$3 million.

We recommend that the agency:

- make a financial adjustment of \$3 million on its next Federal Quarterly Report of Expenditures,
- allocate preservice training costs as required by ACF's policy,
- calculate the Federal share of indirect costs according to ACF's program announcement on Federal regulations, and
- develop written policies and procedures for claiming accurate training costs and train accounting staff on how to prepare accurate claims for Federal reimbursement.

In its response, dated August 10, 2004 (see appendix), the agency agreed with our recommendations.

If you have any questions or comments about this report, please do not hesitate to contact me, or your staff may contact Peter J. Koenig, Acting Assistant Inspector General for Grants and Internal Activities, at (202) 619-3191. Please refer to report number A-01-03-02503 in all correspondence.



DEC 16 2004

Office of Audit Services
Region 1
John F. Kennedy Federal Building
Boston, MA 02203
(617) 565-2684

Report Number: A-01-03-02503

Mr. John R. Nicholas
Commissioner
Department of Health and Human Services
11 State House Station
Augusta, Maine 04333-0011

Dear Mr. Nicholas:

Enclosed are two copies of the Department of Health and Human Services, Office of Inspector General (OIG) report entitled "Review of Title IV-E Training Costs in Maine for State Fiscal Years 2001 Through 2003." A copy of this report will be forwarded to the action official below for his review and any action deemed necessary.

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

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

Please refer to report number A-01-03-02503 in all correspondence.

Sincerely yours,

A handwritten signature in black ink, reading "Michael J. Armstrong".

Michael J. Armstrong
Regional Inspector General
for Audit Services

Enclosures – as stated

Direct Reply to HHS Action Official:

Mr. Hugh F. Galligan
Regional Administrator
U.S. Department of Health and Human Services
John F. Kennedy Federal Building, Room 2000
Boston, Massachusetts 02203

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF TITLE IV-E TRAINING
COSTS IN MAINE FOR STATE FISCAL
YEARS 2001 THROUGH 2003**



**DECEMBER 2004
A-01-03-02503**

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

The OIG's Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the department.

Office of Evaluation and Inspections

The OIG's Office of Evaluation and Inspections (OEI) conducts short-term management and program evaluations (called inspections) that focus on issues of concern to the department, the Congress, and the public. The findings and recommendations contained in the inspections reports generate rapid, accurate, and up-to-date information on the efficiency, vulnerability, and effectiveness of departmental programs. The OEI also oversees State Medicaid fraud control units, which investigate and prosecute fraud and patient abuse in the Medicaid program.

Office of Investigations

The OIG's Office of Investigations (OI) conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and of unjust enrichment by providers. The investigative efforts of OI lead to criminal convictions, administrative sanctions, or civil monetary penalties.

Office of Counsel to the Inspector General

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. The OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within the department. The OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops compliance program guidances, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

Notices

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

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

OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of HHS/OIG/OAS. Authorized officials of HHS divisions will make final determination on these matters.



EXECUTIVE SUMMARY

BACKGROUND

The Federal and State Governments share in the maintenance, administrative, and training costs of the foster care and adoption assistance programs as detailed in each State's approved cost allocation plan. Costs of training to prepare prospective employees for their future job responsibilities as State caseworkers are eligible for Federal reimbursement, as are costs to reinforce or develop additional knowledge and skills for current caseworkers. The Federal share is 50 percent for indirect training costs and 75 percent for direct training costs.

In Maine, the Department of Health and Human Services is the State IV-E agency (the agency) responsible for the State and Federal foster care and adoption assistance programs. The agency claimed \$15.2 million (\$11.5 million Federal share) in direct and indirect training costs for these programs during our audit period, State fiscal years (SFY) 2001 through 2003.

OBJECTIVE

Our objective was to determine whether the agency complied with Office of Management and Budget (OMB) Circular A-87 and Administration for Children and Families (ACF) guidance in claiming Federal reimbursement for costs for foster care and adoption assistance training.

SUMMARY OF FINDINGS

The agency did not comply with OMB Circular A-87 and ACF guidelines for claiming costs for reimbursement. Specifically, the agency (1) did not allocate preservice training costs between the Federal and State programs, (2) incorrectly calculated the Federal share of indirect costs, and (3) inaccurately reported the amount claimed for Federal reimbursement.

These problems occurred because agency officials:

- did not follow ACF's policy on allocating training costs,
- did not follow ACF's program announcement on calculating the Federal share of indirect costs, and
- did not establish written policies and procedures for claiming training costs and did not properly train accounting staff on how to prepare accurate claims for Federal reimbursement.

As a result, the agency misstated Federal claims for training costs during SFYs 2001 through 2003. Identified errors resulted in \$4.3 million in overstatements and \$1.3 million in understatements, for a net Federal overstatement of \$3 million.

During our review, the agency initiated corrective action to address these issues.

RECOMMENDATIONS

We recommend that the agency:

- make a financial adjustment of \$3 million on its next Federal Quarterly Report of Expenditures,
- allocate preservice training costs as required by ACF's policy,
- calculate the Federal share of indirect costs according to ACF's program announcement on Federal regulations, and
- develop written policies and procedures for claiming accurate training costs and train accounting staff on how to prepare accurate claims for Federal reimbursement.

STATE AGENCY COMMENTS

In its response, dated August 10, 2004 (see appendix), the agency agreed with our recommendations.

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION	1
BACKGROUND	1
Claiming Costs for Federal Reimbursement.....	1
Types of Training That Maine Provided.....	2
OBJECTIVE, SCOPE, AND METHODOLOGY	2
Objective.....	2
Scope.....	2
Methodology.....	2
FINDINGS AND RECOMMENDATIONS	3
COST ALLOCATIONS	3
Federal Requirements	3
Unallocated Preservice Training Costs.....	4
CALCULATION OF THE FEDERAL SHARE OF INDIRECT COSTS	4
Federal Requirements	4
Incorrect Calculation of the Federal Share of Indirect Costs.....	4
Noncompliance With ACF’s Program Announcement	5
FEDERAL AMOUNT CLAIMED	5
Federal Requirements	5
Inaccurate Reporting of Federal Amount Claimed.....	5
RECOMMENDATIONS	6
STATE AGENCY COMMENTS	6
APPENDIX	
STATE AGENCY COMMENTS	

INTRODUCTION

BACKGROUND

The U.S. Department of Health and Human Services, ACF funds foster care and adoption assistance programs under Title IV-E of the Social Security Act. The foster care program finds and supports temporary placements for children who cannot remain safely at home. The adoption assistance program finds and supports permanent placements for children who cannot return safely to their homes.

The Federal and State Governments share in the maintenance, administrative, and training costs of the foster care and adoption assistance programs as detailed in each State's approved cost allocation plan. Costs of training to prepare prospective employees for their future job responsibilities as State caseworkers are eligible for Federal reimbursement, as are costs to reinforce or develop additional knowledge and skills for current caseworkers. The Federal share is 50 percent for indirect training costs and 75 percent for direct training costs.

In Maine, the Department of Health and Human Services is the agency responsible for the State and Federal foster care and adoption assistance programs. The agency claimed \$15.2 million (\$11.5 million Federal share) in direct and indirect training costs for these programs during our audit period, SFY 2001 through SFY 2003.

Claiming Costs for Federal Reimbursement

Rates used to calculate training costs for Federal reimbursement include the saturation rate and the Federal funding rate.

The saturation rate is the quotient of adoption assistance and foster care cases meeting Title IV-E eligibility requirements divided by total cases in each of these programs. The agency calculates the saturation rate quarterly and uses it to allocate allowable costs between the Federal and State programs.

The Federal funding rate represents the Federal Government's share of properly allocated and allowable costs. If indirect training costs cannot be distinguished from other indirect costs, they must be claimed at the 50-percent rate allowed for reimbursement of administrative costs rather than the enhanced 75-percent rate allowed for direct training.

To calculate reimbursable training costs, total training costs are first multiplied by the Title IV-E saturation rate. The resulting amount is then multiplied by the Federal funding rate to determine Federal reimbursement to the agency. States receive reimbursement for the Federal share of Title IV-E training costs by submitting a quarterly report of expenditures to ACF.

Types of Training That Maine Provided

During the audit period, the agency had several contracts with the University of Maine (the university) to provide foster care and adoption assistance training. The university offered several types of training:

- preservice, designed to prepare prospective employees for their future job responsibilities;
- inservice, designed to reinforce or develop additional knowledge and skills for more seasoned employees; and
- parent training, designed to provide prospective and current foster and adoptive parents with the skills and knowledge needed to care for foster and special-needs adoptive children.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the agency complied with OMB Circular A-87 and ACF guidance in claiming Federal reimbursement for costs for foster care and adoption assistance training.

Scope

Our review of internal control policies and procedures was limited to obtaining an understanding of the process used to report foster care and adoption assistance training costs for reimbursement for SFYs 2001 through 2003. During that period, the agency claimed \$15.2 million (\$11.5 million Federal share) in direct and indirect training costs for these programs.

We performed our fieldwork at the Department of Health and Human Services in Augusta and Portland, ME, from October 2003 through March 2004.

Methodology

To determine whether Maine appropriately claimed training costs for Federal reimbursement, we:

- reviewed applicable Federal laws and regulations,
- reviewed methods by which Maine recorded and allocated training costs,
- tested the Federal funding rates used in the determination of Federal dollars claimed, and

- reconciled total foster care and adoption assistance training costs claimed on the quarterly Federal Title IV-E financial reports to Maine’s quarterly cost allocation plans.

We conducted our audit in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

The agency did not comply with OMB Circular A-87 and ACF guidelines for claiming costs for reimbursement. Specifically, the agency (1) did not allocate preservice training costs between the Federal and State programs, (2) incorrectly calculated the Federal share of indirect costs, and (3) inaccurately reported the amount claimed for Federal reimbursement.

These problems occurred because agency officials:

- did not follow ACF’s policy on allocating training costs,
- did not follow ACF’s program announcement on calculating the Federal share of indirect costs, and
- did not establish written policies and procedures for claiming training costs and did not properly train accounting staff on how to prepare claims for Federal reimbursement.

As a result, the agency misstated Federal claims for training costs during SFYs 2001 through 2003. Identified errors resulted in \$4.3 million in overstatements and \$1.3 million in understatements, for a net Federal overstatement of \$3 million.

The agency informed us that it had initiated corrective action to address these issues.

COST ALLOCATIONS

Federal Requirements

Federal guidance for allocating training costs includes OMB Circular A-87 and ACF Policy Announcement ACYF-PA-90-01.

According to OMB Circular A-87, “A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.”

ACF Policy Announcement ACYF-PA-90-01, dated June 1990, requires States to use the saturation rate to allocate foster care and adoption assistance costs. According to ACF officials, caseworkers handle a variety of cases; some meet Federal Title IV-E criteria,

whereas others are strictly State cases. Therefore, the costs of training caseworkers should be allocated to each benefiting program so that the Federal Government does not bear the full cost. The saturation rate is calculated for each quarterly claim.

Unallocated Preservice Training Costs

For all 12 quarters, the agency did not allocate preservice training costs between the Federal and State programs. Contrary to ACF policy, the agency claimed 100 percent of the training costs for Federal reimbursement. If the agency had used the saturation rate as required, an average of 68 percent (the quotient of eligible to total cases) of the training costs would have been allocated to the Federal Government, with the balance of 32 percent allocated to the State program.

As a result, the agency overclaimed preservice costs by \$1.4 million for SFYs 2001 through 2003.¹

CALCULATION OF THE FEDERAL SHARE OF INDIRECT COSTS

Federal Requirements

Federal requirements for calculating the Federal share of indirect costs include regulations at 45 CFR § 1356.60(c) and an ACF program announcement.

If indirect training costs are not distinguished from other indirect costs, 45 CFR § 1356.60(c) applies. This regulation limits the Federal share for all administrative expenses, including indirect costs, to 50 percent. The ACF April 1994 program announcement allows the States to claim 75 percent of indirect costs directly related to training, provided that these costs can be distinguished from indirect costs that are not related to training. The Departmental Appeals Board (DAB) reinforced this position in DAB Nos. 1422 and 1530, which state that in order to claim Federal funding at the 75-percent rate, the State must show that its indirect costs consist entirely of allowable costs.

Incorrect Calculation of the Federal Share of Indirect Costs

The agency incorrectly calculated the Federal share of indirect costs for all 12 quarters by using a rate of 75 percent instead of 50 percent.

When the university billed the agency for training, the invoices included both direct and indirect costs. To calculate indirect costs, the university multiplied direct training costs by its indirect cost rate, which was an overall rate that was not specific to training.

¹We note that we would report a similar finding under ACF's earlier, 1985 policy governing the allocation of training costs, which was replaced by ACF Policy Announcement ACYF-PA-90-01. Under that earlier policy, training costs must be allocated among benefiting programs unless at least 85 percent of training costs are attributable to Title IV-E. (See October 7, 1985, memorandum from the Commissioner of ACF's Administration on Children, Youth, and Families.)

Instead, the indirect cost rate applied to the general operation of the university and therefore did not meet the requirement for the enhanced Federal funding rate of 75 percent.

The agency, in claiming costs for Federal reimbursement, correctly used the 75-percent rate to calculate the Federal share of direct training costs. However, the agency incorrectly used the same rate to calculate the Federal share of indirect costs. The agency should have used the 50-percent rate for indirect costs because it did not distinguish indirect training costs from other training costs.

As a result, the agency overstated the Federal share of indirect costs by \$1.2 million.

Noncompliance With ACF's Program Announcement

Agency officials did not follow ACF's program announcement on the Federal regulation. The officials believed that the university's indirect costs should be classified as training costs and claimed at the 75-percent rate regardless of whether the university's indirect cost rate included both training and nontraining costs.

We discussed the charging of indirect costs with ACF officials, who agreed that we had properly applied the program announcement. The officials also agreed that the agency incorrectly used the 75-percent rate because it did not distinguish between training and nontraining costs. Even if the agency had done so, ACF noted, in general very few of the indirect costs could have been claimed at the 75-percent rate.

FEDERAL AMOUNT CLAIMED

Federal Requirements

Regulations at 45 CFR § 95.507(b)(8)(iii) require that an adequate accounting system exist to support claims made under a cost allocation plan and that accurate information be provided in support of the proposed cost allocation plan.

Inaccurate Reporting of Federal Amount Claimed

All 12 quarterly claims submitted for Federal reimbursement included inaccurate costs, as follows:

- **Duplicate claims**—The agency claimed the same inservice training costs as both inservice training costs and preservice training costs in all 12 quarters, resulting in \$1.65 million in overstated costs.
- **Clerical errors**—The agency used incorrect amounts to claim indirect costs in all 12 quarters, resulting in \$1.32 million in understated costs.

- **Unrecorded adjustments**—A retroactive adjustment for an overpayment claimed in one quarter had not been recorded, resulting in \$91,000 in overstated costs.

Thus, the agency overstated costs by a net \$421,000. These errors occurred because the agency lacked written policies and procedures for claiming training costs and did not properly train accounting staff on how to prepare accurate claims for Federal reimbursement.

RECOMMENDATIONS

We recommend that the agency:

- make a financial adjustment of \$3 million on its next Federal Quarterly Report of Expenditures,
- allocate preservice training costs as required by ACF's policy,
- calculate the Federal share of indirect costs according to ACF's program announcement on Federal regulations, and
- develop written policies and procedures for claiming accurate training costs and train accounting staff on how to prepare accurate claims for Federal reimbursement.

STATE AGENCY COMMENTS

In its response, dated August 10, 2004 (see appendix), the agency agreed with our recommendations.

APPENDIX

John Elias Baldacci
Governor



John R. Nicholas
Commissioner

***Maine Department of Health and Human Services
11 State House Station
Augusta, Maine 04333-0011
Bureau of Child and Family Services***

August 10, 2004

Michael Armstrong
Office of Audit Services
Region I
John F. Kennedy Federal
Building
Boston, Massachusetts 02203

RE: Report #: A-01-03-02503

Dear Mr. Armstrong:

This letter is a response to the Office of Inspector General, Office of Audit Services' draft report entitled "Review of Title IV-E Training Costs in Maine for the period July 2000 through July 2003."

The findings and recommendations are clear and we do not disagree with them. What is not spoken about in the report is our reasons for claiming 100% of the training costs for Federal Reimbursement. The Child Welfare Training Institute, along with the Bureau of Child and Family Services worked closely with our Regional ACF Office for several years in regards to not using the saturation rate. The Regional ACF Office knew we were claiming at 100%. Federal regulations were not clear at the time and the ACF Office worked closely with us to get a clear interpretation. The ACF interpretation of the Federal Regulations, dated April 1994, was not given to us until the current audit was being conducted. The over claim for pre-service training was not intentional. As soon as we became aware of the ACF interpretation of the Federal regulation we started allocating pre-service training costs correctly.

As per your recommendations, we are now allocating pre-service training costs as required by ACF's policy. We have also implemented using 50% Federal Share for all indirect costs. Written policies and procedures for claiming training costs accurately and training of the financial staff are currently being worked on.


Physical Location of:
Augusta Central Office
221 State Street
Augusta, Maine 04333-0011

(207) 287-5060
Fax: (207) 287-5282
TTY: (207) 287-5048

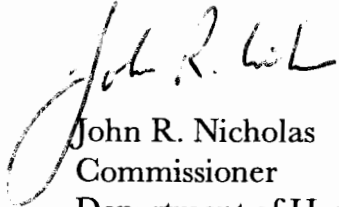
Michael Armstrong
August 10, 2004
Page Two

Thank you and your staff for their support and diligence during this audit.

Sincerely,



Christopher J. Beerits
Acting Director
Bureau of Child and Family Services



John R. Nicholas
Commissioner
Department of Health and Human Services