



096674

204.36

REPORT TO THE CONGRESS

72-0044



LM096674

36  
13

Continuing Problems In Paying State Claims For Administrative Expenses Of Public Assistance Programs B-164031(3)

Social and Rehabilitation Service  
Department of Health, Education,  
and Welfare

BY THE COMPTROLLER GENERAL  
OF THE UNITED STATES

~~700956~~

FEB. 7, 1972

096674



COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

B-164031(3)

61  
To the President of the Senate and the  
Speaker of the House of Representatives

This is our report on continuing problems in paying State claims for administrative expenses of public assistance programs. These programs are administered at the Federal level by the Social and Rehabilitation Service of the Department of Health, Education, and Welfare.

Our review was made in California and Pennsylvania pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Copies of this report are being sent to the Director, Office of Management and Budget, and to the Secretary of Health, Education, and Welfare.

*James B. Argets*

Comptroller General  
of the United States

C o n t e n t s

	<u>Page</u>	
DIGEST	1	
CHAPTER		
1	INTRODUCTION	5
	Conditions for Federal payment of administrative expenses	7
2	NEED FOR HEW TO PERIODICALLY REVIEW STATE CLAIMS FOR EXPENSES OF ADMINISTERING PUBLIC ASSISTANCE PROGRAMS	10
	California	11
	Pennsylvania	14
	HEW reviews	19
	Prior GAO reports	19
3	CONCLUSIONS AND RECOMMENDATIONS	21
	Conclusions	21
	Recommendations to the Secretary of Health, Education, and Welfare	22
4	AGENCY COMMENTS AND ACTIONS	23
APPENDIX		
I	Letter dated June 14, 1971, from the Assistant Secretary, Comptroller, Department of Health, Education, and Welfare, to the General Accounting Office	27
II	Comments of Pennsylvania Department of Public Welfare, dated December 29, 1970	31
III	Comments of California Department of Social Welfare, dated February 19, 1971	32
IV	Summary of excess claims and related adjustments for administrative expenses of the Pennsylvania Department of Public Welfare	34

APPENDIX

Page

V	Principal officials of the Department of Health, Education, and Welfare having responsibility for matters discussed in this report	35
---	--	----

ABBREVIATIONS

GAO	General Accounting Office
HEW	Department of Health, Education, and Welfare
AFDC	Aid to families with dependent children

D I G E S T

WHY THE REVIEW WAS MADE

The Federal Government shares with the States the expense of administering the public assistance programs for the needy--the States spent \$1.3 billion for this purpose in fiscal year 1970; the Federal share was about \$800 million.

Because of the large expenditures in administering these programs, the General Accounting Office (GAO) reviewed the claims made by California and Pennsylvania for such expenses. During fiscal year 1970 these two States spent \$383 million, or 30 percent of the \$1.3 billion nationwide total.

FINDINGS AND CONCLUSIONS

Payments by the Department of Health, Education, and Welfare (HEW) to California and Pennsylvania for administrative expenses exceeded authorized amounts. These excess payments occurred because HEW's system for paying claims did not ensure that such claims were proper. (See p. 10.)

GAO found excess payments to the two States of about \$3.7 million--\$2 million for two counties (Los Angeles and San Diego) in California (see p. 11) and \$1.7 million State-wide for Pennsylvania (see p. 14). California claimed payment for administrative expenses for all 58 counties on the same basis; State officials estimated that, State-wide, the excessive payments could amount to \$7 million.

The excess payments to California could have been avoided if HEW had promptly reviewed the claims and had disapproved those which exceeded authorized amounts. Likewise such payments to Pennsylvania could have been avoided if HEW had promptly (1) resolved questions concerning payment rates and conditions to be met in making claims and (2) determined whether the amounts claimed were proper.

Pennsylvania has repaid the excess amounts; California has not.

To avoid excess payments for administrative expenses, Federal, State, and local officials must promptly identify and resolve policy questions. When questions arise concerning claim procedures--such as those noted in this report--HEW should direct States to claim payment on the basis of the lowest authorized rates. Such action would eliminate the necessity for

FEB. 7, 1972

HEW to recover funds when a lower rate is determined to be appropriate and when prior claims have been made at higher rates. Moreover HEW can readily make additional payments if a higher rate is determined appropriate.

In view of the large amount of administrative expenses being claimed annually by all the States (\$800 million), the amount of payments nationwide in excess of authorized amounts could be substantial. (See p. 21.)

Prior GAO reports

Problems concerning payment of administrative expenses under California's public assistance programs were pointed out in GAO reports in 1967 and 1969. In an October 1969 report to the Secretary of HEW, GAO pointed out that settlements had not been made with California for administrative expenses for Los Angeles and San Diego Counties during various periods from fiscal years 1962 through 1965.

GAO recommended timely resolution of the questioned claims because millions of dollars of claims in other States depended upon the settlement of California's claims. As of November 1971 these claims had not been settled. (See p. 19.)

RECOMMENDATIONS OR SUGGESTIONS

The Secretary of HEW should ensure that:

- Issues relating to claims are resolved promptly.
- When issues are unresolved, States are directed to claim payment at the lower rates until the issues are resolved.
- States adhere to prescribed conditions and rates of payment.
- When payments in excess of authorized amounts are identified, prompt actions are taken to recover the excess payments.

Also the Director of the HEW Audit Agency should give increased attention to evaluating the effectiveness of State procedures for claiming administrative expenses.

Because California has not repaid the excess payments, the Secretary of HEW should adjust California's future claims for the excess payments and should ensure that future claims are made correctly.

Further the Secretary of HEW should reach an agreement with State officials in California and other States for settlement of claims previously questioned by GAO and the HEW Audit Agency. (See p. 22.)

AGENCY ACTIONS AND UNRESOLVED ISSUES

HEW agreed with GAO's conclusions and recommendations and said that it:

- Had established procedures to expedite policy decisions as new questions arose and had developed guidelines for allocating administration and service costs.
- Would prescribe the use of lower rates of payment when there were delays in establishing correct rates and would provide for retroactive adjustments if higher rates were determined to be appropriate.
- Was exploring ways to monitor State practices and was considering a plan to establish a surveillance and review operation which would permit early correction of deficient procedures and more timely adjustment of excessive claims.
- Was in the process of settling claims previously questioned by GAO and the HEW Audit Agency. (See pp. 23 and 24.)

The HEW Audit Agency stated that it would give attention to the effectiveness of State procedures and controls for claiming administrative expenses. (See p. 24.)

California did not agree with GAO that Federal funds had been overclaimed. California stated that it seemed logical for HEW to allow the same payment conditions under all programs so that a consistent approach would be followed. The State contended that the lack of a definitive response from HEW had led it to believe that its approach eventually would be approved and that, because of the tacit approval, exceptions to payments made seemed unjustified. (See p. 25.) HEW is negotiating with California to settle the questioned payments. (See p. 23.)

The actions taken or promised by HEW, if properly implemented, should improve the effectiveness of HEW in making correct payments.

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report contains no recommendations requiring legislative action by the Congress. It does contain information on weaknesses in HEW's system of paying States for administrative expenses under these Federal-State programs, suggestions for correction, and improvements proposed by HEW.

## CHAPTER 1

### INTRODUCTION

The Social Security Act, as amended (42 U.S.C. 301), authorizes annual appropriations to the Department of Health, Education, and Welfare to assist States in administering and furnishing services to persons receiving public assistance under the following titles of the act.

<u>Title</u>	<u>Program</u>
I	Old-age assistance
IV	Aid to families with dependent children (AFDC)
X	Aid to the blind
XIV	Aid to the permanently and totally disabled
XVI	Optional combined plan for titles I, X, and XIV

Except for the AFDC program, these programs are referred to as adult programs. The programs are administered at the Federal level by the Administrator of the Social and Rehabilitation Service, HEW. State plans--which provide the basis for Federal grants to the States for these programs--are approved by the 10 Regional Commissioners of the Service.

Under the act States have the primary responsibility to initiate and administer the programs. The Regional Commissioners determine whether approved State programs adhere to the provisions of the State plans and to the Federal policies, requirements, and instructions of HEW's Handbook of Public Assistance Administration and program regulations.

At the time of our review, the Regional Commissioners in the HEW regional offices in San Francisco, California, and

New York, N.Y., provided general administrative direction for the public assistance programs in California and Pennsylvania, respectively.<sup>1</sup>

The HEW Audit Agency is responsible for audits of the manner in which Federal and State responsibilities relative to the public assistance programs are being discharged.

For fiscal year 1970 the 50 States and four other jurisdictions<sup>2</sup> spent about \$8 billion under their public assistance programs. About \$5 billion was the Federal share. These amounts include administrative expenses of about \$1.3 billion and about \$800 million, respectively.<sup>3</sup>

Our examination of claims made by States for Federal funds in reimbursement for part of their expenses in administering the public assistance programs was made in California and Pennsylvania because these States accounted for 30 percent of the total amount spent for this purpose during fiscal year 1970. California's administrative expenses amounted to about \$332 million (Federal share, \$219 million; State and county share, \$113 million), and Pennsylvania's amounted to about \$51 million (Federal share, \$30 million; State share, \$21 million).

Pennsylvania's programs are administered through 67 county assistance offices supervised by the State Department of Public Welfare. California's public assistance programs are administered through 58 county welfare offices supervised by the State Department of Social Welfare. In California we examined claims submitted by Los Angeles and San Diego Counties because these counties accounted for 36 percent of the total amount of the State's claims for Federal funds to

---

<sup>1</sup>In July 1970, HEW realigned its regions and the Regional Commissioners in the HEW regional office in Philadelphia, Pennsylvania, began providing administrative direction for HEW programs in Pennsylvania.

<sup>2</sup>The District of Columbia, Guam, Puerto Rico, and the Virgin Islands.

<sup>3</sup>Administrative expenses include costs of providing services to public assistance recipients and employee-training costs.

finance administrative expenses of its public assistance programs. In Pennsylvania we examined claims applicable to the entire State.

CONDITIONS FOR FEDERAL PAYMENT  
OF ADMINISTRATIVE EXPENSES

States may be reimbursed from Federal funds for part of their expenses of administering public assistance programs. The 1962 amendments to the Social Security Act increased the Federal share from 50 to 75 percent for expenses of providing services which help recipients of public assistance to attain self-care and self-support or to strengthen family life. The Federal share for administrative expenses--such as those for accounting, custodial services, utilities, and other overhead costs--indirectly related to the providing of services to recipients remained at 50 percent.

In 1967 amendments to the act specified special conditions to be met and rates of payment to be allowed for administrative expenses applicable to the AFDC program. State welfare agencies were required to develop and maintain a plan of family services for each parent and child receiving AFDC assistance.<sup>1</sup> Each plan was to be based on a recipient's special circumstances and requirements. Beginning in July 1968 States' furnishing of family services was made mandatory; however, States could have made claims for expenses of providing such services at the higher 1967 prescribed rates as early as January 1968.

In administering this aspect of the 1967 amendments, HEW required that the functions of arranging for or providing services to AFDC recipients (service function) be performed by persons other than those who determine eligibility for financial assistance (nonservice function).

---

<sup>1</sup>Family services are defined as services to a family, or any member thereof, for the purpose of preserving, rehabilitating, reuniting, or strengthening the family and such other services as will assist members of a family to attain or retain capability for maximum self-support and personal independence.

For States where these functions were performed by different persons, the rate of Federal payment for the last half of fiscal year 1968 and for fiscal year 1969 was set at 85 percent for AFDC service function costs and at 50 percent for AFDC nonservice function costs. The higher rate of 85 percent was set as an incentive for the States to separate the responsibility for providing these activities. After fiscal year 1969 payment rates of 75 and 50 percent were authorized for the costs of the service and nonservice functions, respectively. These rates also applied to any administrative expenses related to the service and nonservice functions.

For States where the service and nonservice functions were performed by the same persons (mixed functions), the rate for Federal payment of salaries and related expenses under the AFDC program was set at 75 percent for fiscal year 1969, 60 percent for fiscal year 1970, and 50 percent thereafter.

The conditions and rates of payment for the adult programs remained as authorized by the 1962 amendments; that is, 75 percent for service functions and 50 percent for administrative expenses.

#### Procedures for claiming cost sharing of administrative expenses

To claim Federal funds for administrative expenses of public assistance programs, States prepare cost allocation plans which, after approval by HEW Regional Commissioners, provide the basis for such claims. Cost allocation plans generally provide for (1) distinguishing the administrative expenses of public assistance programs from other State agency program expenses, (2) allocating administrative expenses among the public assistance programs, and (3) determining under each public assistance program the amount of expenses subject to the different rates of Federal cost sharing.

Each State submits a quarterly expense report to HEW which shows, by public assistance program, the total benefits paid to recipients. The State submits also separate quarterly reports showing the total amounts spent for service and

nonservice administrative expenses that are subject to Federal cost sharing. These reports (claims) provide the basis for HEW payments to the States. The correctness of such reports can be determined only by a review of the States' cost allocation plans and by an examination of the detailed fiscal records maintained by the States which support the amounts claimed.

Because a State agency has primary responsibility for administering public assistance programs under the Social Security Act, HEW places upon the State agency the responsibility for ensuring, through proper staff instruction and the normal administrative processes of supervision and control, that expenditures included in the computation of the State's claims for Federal funds are proper and are supported by adequate documentation. If HEW determines that any charges in the amounts claimed by the States are incorrect, the claims can be adjusted by HEW on future claims. HEW, however, usually requests the States to make such adjustments.

## CHAPTER 2

### NEED FOR HEW TO PERIODICALLY REVIEW STATE CLAIMS FOR EXPENSES OF ADMINISTERING PUBLIC ASSISTANCE PROGRAMS

HEW's procedures for the submission of State claims for reimbursement for administrative expenses do not provide for the submission of sufficient information to enable HEW to determine the correctness of the claims, and submission of sufficient information to make such determinations appears to impracticable.

Claims for administrative expenses which exceed authorized amounts cannot be readily identified by HEW regional and headquarters officials without making onsite examinations of the States' records. Social and Rehabilitation Service procedures governing administration of the public assistance programs do not require periodic reviews of a State's claims for Federal payments to ensure that such claims are properly based on an approved cost allocation plan.

Both California and Pennsylvania claimed administrative expenses in amounts that exceeded those authorized, and HEW paid the claims. Payments to California for Los Angeles and San Diego Counties for the period July 1968 through March 1970 exceeded authorized amounts by about \$2 million and resulted from the basing of the claims under the adult programs at rates higher than those authorized for Federal payment of administrative expenses. California estimated that such excessive payments for the entire State could be about \$7 million.

In Pennsylvania such excess payments totaled about \$1.7 million on a State-wide basis and resulted from (1) using improper payment rates in computing the amounts of the claims and (2) including expenses not approved by HEW as allowable under the public assistance programs.

## CALIFORNIA

### Claims for expenses of employees performing nonservice functions

In September 1968 the State Department of Social Welfare instructed county welfare offices to claim Federal payment at 75 percent instead of at 50 percent for salaries of employees performing nonservice functions in the adult public assistance programs during fiscal year 1969. This action was based on (1) the premise that these employees would perform both service and nonservice functions even though the adult cases involved little or no service and (2) the department's desire to maintain consistency in the claim procedures for all public assistance programs by extending the payment conditions applicable to the AFDC program to the adult programs.

HEW program regulations allowed salary costs of employees performing mixed functions, that is, both service and nonservice functions, under AFDC to be claimed at 75 percent for fiscal year 1969, but, even under that program, salaries of employees who performed only nonservice functions were restricted to the 50-percent sharing rate. (See p. 8.)

In accordance with the State's instructions, Los Angeles and San Diego Counties classified the salaries of certain employees assigned nonservice functions as though they were performing mixed functions. Our analysis of the records supporting the counties' claims submitted from July 1968 through September 1969 showed that payments made by HEW for salaries of these employees and supporting clerical staff exceeded authorized amounts by about \$639,000.

### Claims for administrative expenses

Although HEW regulations permitted Federal payment under the adult programs for administrative expenses (such as those for accounting, custodial services, and other overhead costs) only at the 50-percent rate, California claimed and was paid for such costs at the 75-percent rate applicable to service-related administrative expenses under the AFDC program. As a result the amounts paid by HEW for Los Angeles and San Diego Counties exceeded authorized amounts by

\$1.3 million for the period July 1, 1968, through March 31, 1970.

The State claimed payment for administrative expenses at the higher 75-percent rate because, under its adult programs, the service functions were being (or had been) separated from the nonservice functions. According to State Department of Social Welfare officials, the State believed that such separation entitled it to use the 75-percent rate because this rate had been established by HEW for claiming related administrative expenses when the service functions were separated from the nonservice functions under the AFDC program.

#### HEW-State actions

In September 1968 the counties in California received notice from the State Department of Social Welfare to use the higher rate. At the same time the department amended the State plan to implement these new claim procedures and submitted a revised cost allocation plan to HEW for approval. The counties were notified that retroactive adjustment of claims made at the higher rates might be necessary if the revised cost allocation plan was not approved by HEW.

HEW regional officials reviewed the State's revised cost allocation plan and in November 1968 advised the department that they questioned the claiming of Federal payments at the rate of 75 percent for the adult programs and that the matter was being referred to the HEW central office for final decision.

In February 1969 the HEW central office wrote to its regional office and stated that, although the HEW cost allocation policies for the adult programs might be changed at a future date, California's proposal should be judged in relation to the current policies. The HEW regional office notified the State in April 1969 that it still had reservations about the State's revised cost allocation plan. The State, however, continued to claim and receive payment under the revised plan.

HEW central office officials stated that the February 1969 letter to the region had been intended as a definitive

decision--to be conveyed to the State--that, until the HEW policy on cost allocation for the adult programs was revised, the 1962 amendment requirement of 50 percent was applicable to administrative expenses for these programs. According to these HEW officials, the State continued to claim Federal payments at the higher rates because regional officials did not interpret the central office February 1969 letter as a definitive decision and did not so notify the State.

In a discussion of the State's claims in October 1970, HEW central and regional office officials agreed that the State's claims for payment of administrative expenses for nonservice functions under the adult programs should have been limited to the 50-percent rate. We were told that the questioned payments would be adjusted against future claims made by the State. HEW officials further advised us that California had estimated that such excessive payments for the entire State, from July 1968 through November 1969, could amount to \$7 million.

On October 28, 1970, HEW informed the State that its claims constituted an overcharge against Federal funds requiring recomputation and adjustment against future grant awards. The State was told to reduce its claims for payment of administrative expenses for nonservice functions under the adult programs from 75 percent to 50 percent for costs claimed during the period July 1968 through September 1970. As of November 1971 this matter had not been resolved.

PENNSYLVANIA

Claims for service and nonservice costs

Pennsylvania's claims for payment of administrative expenses under the AFDC program during fiscal year 1970 were based on an incorrect cost distribution formula which, for the 6-month period October 1969 through March 1970, resulted in HEW's paying the State about \$627,000 over the amounts authorized.

HEW regulations describe the standards and several methods for determining the administrative expenses and the rates to be used in claiming Federal payment. The regulations provide that payment during fiscal year 1970 be made at

- 75 percent for employees performing service functions;
- 60 percent for employees performing both service and nonservice functions (mixed); and
- 50 percent for other costs, such as expenses of non-service employees, rentals, and office equipment and supplies (nonservice functions).

Pennsylvania amended its State plan in December 1969 to incorporate the provisions of the HEW regulation, and the changes were approved by HEW.

Our analysis of the State's claims for payment covering the period October 1969 through March 1970 showed that non-service costs amounting to \$7,780,647 were allocated and paid as follows:

<u>Amount allocated</u>	<u>Rate of payment (function)</u>	<u>Amount claimed and paid</u>
\$1,822,228	75% (service)	\$1,366,671
2,802,589	60 (mixed)	1,681,553
<u>3,155,830</u>	50 (nonservice)	<u>1,577,915</u>
<u>\$7,780,647</u>		<u>\$4,626,139</u>

These costs--which were not service or mixed function costs--were eligible only at the 50-percent rate. Payment at this rate would have amounted to \$735,815 less than the amount claimed.

During the same period service costs of \$751,087 were incorrectly allocated and claimed at the lower 60- and 50-percent payment rates although they were eligible for payment at 75 percent. Thus the State's claims would have been increased by \$108,843; the net amount for the errors in the State's claims was \$626,972.

HEW regional officials stated that the State's cost distribution formula which they had approved did not comply with HEW regulations. They stated also that the defect in the formula had been overlooked at the time of approval. HEW directed the State to correct its claims for Federal payment. The State reduced its subsequent claims by \$616,795 for the net amount for the errors in its claims.<sup>1</sup> (See app. IV.)

The State also amended or submitted other claims under the AFDC program during fiscal year 1970 on the basis of the correct cost allocation procedure, which resulted in reducing such claims by \$883,000 compared with the amount which would have been claimed under the improper cost allocation procedure.

#### Claims for expenses of employees performing nonservice functions

The State did not allocate salary and travel expenses of employees under the AFDC program between service and nonservice functions. As a result all such expenses were claimed at the maximum rate of 75 percent.

HEW regulations applicable to the AFDC program provided that, as of January 1, 1968, costs for full-time service functions and nonservice functions could be claimed at

---

<sup>1</sup>The State's adjustment differed slightly from our computation due to revised program cost allocation factors used by the State in adjusting its claims.

85 and 50 percent, respectively. These rates applied only if these functions were separated and were performed by different persons and if the approved State plan met other requirements of the 1967 amendments to the Social Security Act.

For the 6 months ended June 30, 1968, Pennsylvania did not separate these functions and did not have an approved State plan which met the prescribed requirements. According to HEW regulations the State was required to use the claim procedures under its existing State plan in effect prior to January 1, 1968, in making claims for the 6-month period. These procedures provided for allocating costs between service and nonservice functions and claiming them at the service (75 percent) and nonservice (50 percent) rates, respectively.

In initially submitting its claims for the 6-month period, the State allocated the costs between service and nonservice functions but claimed service function costs at 85 percent instead of 75 percent. At HEW's request the State adjusted its claims. Although HEW approved the adjustment, the method used by the State was incorrect. The State claimed both service and nonservice function costs at 75 percent instead of allocating the costs between the two functions and claiming them at 75 and 50 percent, respectively. As a result the adjusted claims were overstated by \$583,344 for the 6-month period ended June 30, 1968.

HEW officials agreed that an allocation of the costs should have been made and stated that the approval of the State's proposed method for this period had been an oversight on their part. At HEW's request the State reduced its subsequent claims by \$583,344. (See app. IV.)

#### Claims for Governor's branch offices

The State claimed Federal payments for administrative expenses incurred in operating 21 Governor's branch offices during the 14-month period August 1967 to September 1968. Although payments for such expenses were not authorized by HEW, payments of about \$400,000 were made.

These 21 offices--serving 12 communities--were established to assist persons living in low-income areas in obtaining information and services relating to employment, housing, financial aid, legal advice, and education. In August 1967 Pennsylvania submitted to HEW a proposed amendment to its State plan to permit the claiming of Federal funds for part of the costs of operating the Governor's branch offices. HEW regional officials informed the State that, although the proposed amendment was generally acceptable, additional information was needed. The State furnished the additional information, and, in December 1967, the HEW regional office submitted the proposal and its views to the HEW central office.

After a delay of almost 14 months, the HEW central office furnished policy clarification and guidance to the regional office regarding the State's proposal. The regional office advised the State in February 1969 that the amendment had been approved and that--effective October 1, 1968--the appropriate share of the cost of operating the offices could be claimed for Federal payment.

The State claimed Federal funds for the operation of the Governor's branch offices from the time they were established in August 1967, although HEW approval had not been obtained. State officials told us that they believed HEW approval to be imminent and that they did not anticipate that it would take almost 18 months. They also stated that, because of an oversight, an adjustment for the overclaims had not been made.

HEW regional officials told us that they were not aware that the State had claimed payment for expenses of operating these offices prior to October 1968 and that they had assumed that such expenses would be claimed only after HEW approved the proposed amendment. After we brought this matter to their attention, HEW regional officials requested the State to adjust its claims for expenses claimed prior to October 1, 1968. The State reduced its subsequent claims by \$399,959. (See app. IV.)

## Claims for State headquarters employees

Claims under all the public assistance programs for salary and travel costs of certain State headquarters employees exceeded authorized amounts by about \$69,300 during the period January 1968 to March 1970, because the State classified these expenses as service functions instead of as nonservice functions.

Employees of the State Bureau of Assistance Policies and Standards develop State policies and standards and State plan material for all federally aided public assistance programs. The State classified the work of these employees as service functions and claimed payment of 75 percent for their salary and travel costs.<sup>1</sup>

The work of these employees covered both service and nonservice functions. HEW regional officials agreed that the State's claims for these costs were incorrect because the higher rate applied only to persons working entirely on service functions and that the 50-percent nonservice rate should have been used. Computation of the Federal share of these costs at the 50-percent rate showed that the State had been paid about \$69,300 in excess of authorized amounts.

HEW directed the State to correct its cost allocations and to make appropriate adjustments for the excess payments. The State reduced its subsequent claims by \$69,552.<sup>2</sup> (See app. IV.) The State also amended or submitted other claims during fiscal year 1970 on the basis of the correct cost allocation procedures, which resulted in reducing such claims by \$10,800 compared with the amount which would have been claimed under the incorrect cost allocations.

---

<sup>1</sup>85 percent was allowed for the AFDC program through fiscal year 1969.

<sup>2</sup>See footnote on page 15.

## HEW REVIEWS

We discussed the audit of administrative expenses with HEW Audit Agency officials who stated that the established policy of the Audit Agency was to give priority to program-type reviews covering large expenditures of Federal funds rather than to administrative-type reviews. We were told that the Audit Agency's work plans provided audit time for the public assistance programs and that emphasis would be placed on the more important aspects of program operations. No specific provision was made for the audit of related administrative expenses.

The HEW Audit Agency has not audited Pennsylvania's claims for administrative expenses since 1966. For fiscal year 1967 through 1970, claims for the Federal sharing of administrative expenses submitted by Pennsylvania totaled about \$146 million, including the Federal share of about \$86 million. The Audit Agency has made limited reviews of selected segments of administrative expenses under the public assistance programs in California. We believe that, considering the significant amounts of administrative expenses being claimed by all the States, the Audit Agency should give increased attention to evaluating the effectiveness of the controls covering administrative expenses as well as to program operations.

## PRIOR GAO REPORTS

In commenting on two prior GAO reports relating to the administration of Federal payments for administrative expenses under California's public assistance programs,<sup>1</sup> HEW stated that--because of the growing complexities of these programs--it recognized the need to consider the development of additional methods of Federal supervision and control over public assistance programs.

---

<sup>1</sup>Report to the Congress entitled "Review of Federal Financial Participation in Administrative Costs of Public Assistance Programs in Certain Counties of California" (B-114836, December 6, 1967), and report to the Secretary of HEW (B-164031(3), October 10, 1969), on review of actions taken on the matters presented in the December 1967 report.

The need for timely direction in the application of new legislation and in the implementation of compliance review procedures is demonstrated by this review which shows that little has been accomplished by HEW--at least in California and Pennsylvania--to minimize deficiencies of the type discussed in this report.

These deficiencies illustrate how problems that should have been considered and resolved in their earlier stages can develop into matters which are difficult and time consuming to resolve. For example, in our October 10, 1969, report to the Secretary of HEW, we pointed out that agreement had not been reached with respect to the settlement of past claims made by California for Los Angeles and San Diego Counties for administrative expenses during various periods from fiscal years 1962 through 1965; both GAO and the HEW Audit Agency had questioned these claims several years earlier.

Because the settlement of millions of dollars of claims questioned by the HEW Audit Agency in a number of other States depended upon the settlement of California's claims, we recommended that the Secretary of HEW require timely resolution of the questioned claims. In commenting on our October 1969 report, HEW stated:

"We do not believe there is a need for the Secretary to set a time limit of any kind, but we offer assurances to GAO that we intend to expedite the resolution of this issue in California and elsewhere."

As of November 1971 these claims had not been settled. In our opinion, this extended delay exemplifies the difficulties which the Federal Government faces in attempting to obtain adjustments from States for questioned payments on an after-the-fact basis.

## CHAPTER 3

### CONCLUSIONS AND RECOMMENDATIONS

#### CONCLUSIONS

HEW's system for paying States' claims for expenses of administering the public assistance programs did not provide for ensuring that the claims were consistent with applicable legislation and other Federal requirements.

Payments for administrative expenses claimed by California and Pennsylvania that we reviewed exceeded authorized amounts by about \$3.7 million--\$2 million for two counties (Los Angeles and San Diego) in California and \$1.7 State-wide for Pennsylvania. California claimed payment for administrative expenses for all 58 counties on the same basis. State officials estimated that, State-wide, the excessive payments could amount to \$7 million.

Payments to California in excess of authorized amounts could have been avoided if HEW had promptly reviewed the claims and had disapproved payments in excess of the authorized amounts. Likewise such payments made to Pennsylvania could have been avoided if HEW had promptly (1) resolved questions concerning payment rates and conditions to be met in making claims and (2) determined whether the amounts claimed were proper.

To avoid excess payments for administrative expenses, Federal, State, and local officials must promptly identify and resolve policy questions. When questions arise concerning claim procedures--such as those noted in this report--HEW should direct States to claim payment on the basis of the lowest authorized rates. Such actions would eliminate the necessity for HEW to recover funds when a lower rate is determined to be appropriate. Moreover HEW can readily make additional payments if a higher rate is determined to be appropriate.

In view of the large amount of administrative expenses being claimed annually by all the States (\$800 million) and of the matters discussed in this report relating to the correctness of the claims made by California and Pennsylvania,

we believe that the amount of payments nationwide in excess of authorized amounts could be substantial.

RECOMMENDATIONS TO THE SECRETARY OF  
HEALTH, EDUCATION, AND WELFARE

In view of the continuing problems in administering the Federal-State public assistance programs, we recommend that the Administrator of the Social and Rehabilitation Service be required to develop and implement controls designed to ensure that:

- Issues relating to claims for payment of administrative expenses are resolved promptly.
- When issues are unresolved, States are directed to claim payment at the lower rates until the issues are resolved.
- States are adhering to prescribed conditions and rates of payment.
- When payments in excess of authorized amounts are identified, prompt actions are taken to recover the excess payments.

Pennsylvania has repaid the excess payments by reducing the amounts of subsequent claims. California, however, has not made any repayments. Therefore we recommend that the Administrator of the Social and Rehabilitation Service be required to make appropriate adjustments in California's future claims for the excess payments of administrative expenses and to ensure that future claims are made on the correct basis.

We recommend also that the Director of the HEW Audit Agency be required, as part of the Audit Agency's reviews of the public assistance programs, to give increased attention to evaluating the effectiveness of State procedures for claiming administrative expenses.

We recommend further that appropriate HEW and State officials reach agreement on claims previously questioned in California and other States by GAO and the HEW Audit Agency.

## CHAPTER 4

### AGENCY COMMENTS AND ACTIONS

By letter dated June 14, 1971, HEW furnished us with its comments and the comments by the Pennsylvania Department of Public Welfare and the California Department of Social Welfare. (See apps. I, II, and III.)

HEW generally agreed with our conclusions and recommendations. HEW stated that:

- It had established control procedures to ensure expediting policy issuance as new policy questions arose and had developed guidelines for allocating administration and service costs.
- The lack of definitive guidelines for allocating costs had been caused by a lack of time between enactment of the enabling legislation and its effective date to interpret policy and to implement guides and controls, including staffing and assignment of functions.
- It would prescribe the use of the lower rates of payment for the Federal share of administrative expenses when there were delays in establishing correct rates and would provide for retroactive adjustments if higher rates were determined to be appropriate.
- It was exploring ways to monitor State practices within the limits of its manpower available and was considering a plan to establish a surveillance and review operation that would enable the Department to pursue early correction of deficient procedures and to effect more timely adjustment of excessive claims.
- California had been notified that there were overcharges and that a recomputation and an adjustment against future claims was required. The HEW Audit

Agency has been requested to audit the California claims for administrative costs for the period July 1968 through September 1970.<sup>1</sup> California has notified HEW that existing regulations will be adhered to in future claims. The Social and Rehabilitation Service, within the limits of its available manpower, will monitor such claims.

With respect to the negotiation and settlement of claims previously questioned by GAO and the HEW Audit Agency, HEW stated that:

- Except for a relatively small adjustment in two counties, California's computation (an alternative method) of the Federal share of social service costs in the AFDC program satisfactorily supported the Federal funds claimed. The HEW regional office is pursuing past payments for items other than social services, and California's claims should be settled in the near future.
  
- The alternative method used in California was used also by Illinois, Nevada, and Wisconsin to support social service claims questioned by HEW auditors. Satisfactory material to resolve the questions raised in Missouri by GAO and in Ohio by HEW is expected shortly.

Subsequent to receipt of the HEW letter of June 14, 1971, we discussed the audit of administrative expenses with HEW Audit Agency officials. The HEW Audit Agency's work plan for fiscal year 1972 provides for reviews in 28 States of their public assistance programs. An official of the Audit Agency informed us that attention would be given in these reviews to evaluating the effectiveness of State procedures and controls for claiming administrative expenses.

---

<sup>1</sup>In its report dated October 29, 1971, covering the review of claims for all 58 counties, the Audit Agency agreed with our conclusion concerning California's claims and recommended that California return over \$11 million to the Federal Government.

The California Department of Social Welfare disagreed with our conclusion that California had overclaimed Federal funds. (See app. III.) The department stated that it seemed logical for HEW to allow the same 75-percent Federal sharing in administrative expenses under the adult programs as was allowed under the AFDC program so that a consistent fiscal approach would be followed. The department stated also that the lack of a definitive response from HEW to their revised cost allocation plan had led it to believe that its approach eventually would be approved. The department concluded that, because of the tacit approval, exceptions to payments made seemed unjustified.

Although HEW later approved the 75-percent rate for the adult programs, the effective date for applying the rate was October 1, 1970. California, however, had applied the higher rate effective July 1, 1968.

- - - -

GAO believes that actions taken or promised by HEW, if properly implemented, should help to improve the effectiveness of HEW in making payments to the States for expenses of administering the Federal-State public assistance programs.

BEST DOCUMENT AVAILABLE



DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE  
OFFICE OF THE SECRETARY  
WASHINGTON, D.C. 20201

JUN 14 1971

Mr. John D. Heller  
Assistant Director, Civil Division  
United States General Accounting Office  
Washington, D. C. 20548

Dear Mr. Heller:

The Secretary has asked me to respond to the draft report on the GAO Review of Overpayment for Administrative Expenses for Public Assistance Programs in California and Pennsylvania Shows a Need for Management Improvements. Enclosed are the Department's comments on the findings and recommendations in your report.

We appreciate this opportunity to comment prior to issuance of the final report and also appreciate your continuing interest in the Public Assistance Program.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "J. B. Cardwell".

James B. Cardwell  
Assistant Secretary, Comptroller

Enclosure

## APPENDIX I

### OVERPAYMENT FOR ADMINISTRATIVE EXPENSES FOR PUBLIC ASSISTANCE PROGRAMS IN CALIFORNIA AND PENNSYLVANIA SHOWS A NEED FOR MANAGEMENT IMPROVEMENT

The Department is in general agreement with the conclusions and recommendations in this report. Our responses to GAO's recommendations are set forth below. (As requested, we are attaching comments from the State of Pennsylvania and the State of California on this report.)

#### GAO Recommendation

That controls be established to insure there is prompt resolution of policy questions relating to claims for Federal sharing of administrative costs.

#### Department Comment

As recommended, we have established control procedures (at the Headquarter's level) to ensure the expediting of policy issuance as new policy questions arise. We have developed guidelines for cost allocations in connection with administration and service costs; these are in the final stages of clearance and issuance.

We would like to point out that problems noted by GAO in this area - lack of definitive guidelines - were caused by a lack of time between enactment of the enabling legislation and its effective date. In effect, we were left without any lead time for developing policy interpretations and implementing guides and controls, including staffing and assignment of functions.

#### GAO Recommendation

That States are directed to claim reimbursement at the lower levels of reimbursement until issues are resolved.

#### Department Comment

We are in agreement that where there is a delay in establishing the correct rate of matching for selected activities the use of the lesser one will be prescribed with retroactive adjustments authorized where a more liberal rate is subsequently determined to be appropriate.

BEST DOCUMENT AVAILABLE

GAO Recommendation

Controls should be established to ensure that (a) States are adhering to agreed upon claiming procedures, and (b) prompt and vigorous action is taken in those instances where overpayments are identified to correct the deficient procedures being followed, and obtain adjustment for excess amounts already paid.

Action should be taken to ensure that appropriate adjustments are made in California's future requests for reimbursement and that future claims are made on the basis of corrected claiming procedures.

Department Comment

We agree that a definite need exists to strengthen the Department's capabilities in this area. We are currently exploring ways to monitor State Agency practices within the limited manpower available. In this connection, we are considering a plan for the establishment of a surveillance and review operation to enlarge upon our capabilities in connection with this entire, broad area. It will enable the Department to pursue the early correction of deficient procedures and effect adjustment of excessive claims in a more timely manner.

The Department has recovered the overpayments made to the State of Pennsylvania. California has been informed that its claims represent an overcharge against Federal funds which will require recomputation and adjustment against its future grant awards. California was instructed to reduce its claims from 75 percent to 50 percent for such administrative costs improperly claimed between July 1, 1968 and September 30, 1970. Subsequently, the Social and Rehabilitation Service of this Department has requested the HEW Audit Agency to conduct an audit of the California claim for administrative costs for the period July 1, 1968 through September 30, 1970. California has informed us by letter dated February 19, 1971 that existing regulations will be adhered to in subsequent claims for reimbursement of administrative costs. SRS will monitor such claims within the manpower available.

## APPENDIX I

### GAO Recommendation

That intense negotiations commence between HEW and State officials to reach a settlement of claims previously questioned in California and elsewhere by GAO and the HEW Audit Agency.

### Department Comment

The State of California was provided with an alternative method of computing the Federal share of Social Service costs in Aid to Families with Dependent Children (AFDC). The Department has reviewed the computations prepared by the State Agency and these satisfactorily support the Federal funds claimed except for a relatively small adjustment in two counties.

The Regional Office is pursuing the past overpayments for items other than Social Services revealed in the GAO and HEW audit reports on California. Therefore, the claims pertaining to California should be settled in the near future.

The alternative method used in California was also used to fully support the claims made in Illinois, Nevada and Wisconsin to which the HEW auditors had taken exception on Social Service claims.

Satisfactory material using this alternative method has not yet been received to resolve questions raised earlier in Missouri by GAO and in Ohio by HEW but is expected shortly.

BEST DOCUMENT AVAILABLE

COMMONWEALTH OF PENNSYLVANIA  
DEPARTMENT OF PUBLIC WELFARE  
HARRISBURG

THE SECRETARY

December 29, 1970

TELEPHONE NUMBER  
787-2600, 787-3600  
AREA CODE 717

Miss Z. Z. Larimer, Chief  
Assistance Payments  
Social and Rehabilitation Service  
Department of Health, Education, and Welfare  
Region III  
Post Office Box 12900  
Philadelphia, Pennsylvania 19108

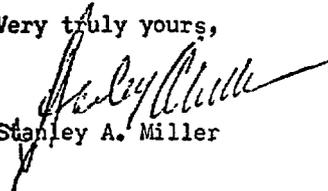
Dear Miss Larimer:

This is in response to your letter of December 14, 1970 forwarding a copy of the draft of the Proposed GAO Report to Congress on their review of our claims for Federal financial participation in expenditures for administration and services.

We have reviewed the report and are in accord with its contents. The indicated adjustments decreasing our claims were made in our expenditure reports for the quarter ending June 30, 1970. Additional adjustments were made in the reports for the July-September quarter: \$8,021 for the cost of headquarter's employees for the period from January 1, 1968 to June 30, 1968, and \$9,255 for the costs of the Governor's Branch Offices for the three months' period ending September 30, 1968.

An additional adjustment of \$4,706 for the cost of headquarter's employees will be made in the expenditure reports for the quarter ending December 31, 1970.

Very truly yours,

  
Stanley A. Miller

APPENDIX III

STATE OF CALIFORNIA HUMAN RELATIONS AGENCY

RONALD R. AGAN, Governor

DEPARTMENT OF SOCIAL WELFARE

744 P STREET  
SACRAMENTO 95814



February 19, 1971

Mrs. Lucy H. Ellison  
Deputy Regional Commissioner  
Social and Rehabilitation Service  
U.S. Department of Health, Education and Welfare  
Federal Office Building  
50 Fulton Street  
San Francisco, California 94102

Dear Mrs. Ellison:

Thank you for the extended time to reply to your December 18, 1970, letter to Mr. Martin regarding the GAO draft report on their review of claims for federal financial participation in public assistance program administrative expenses.

In general, the draft report accurately summarizes events which took place. However, we do not agree with the report's conclusion that California has overexpended federal funds.

Page 11 of the draft report correctly indicates that California believed that 75 percent federal reimbursement was appropriate for administrative support costs associated with the service function under adult public assistance programs. This was the same approach which was allowed for the AFDC programs.

This belief, that a consistent fiscal approach should be followed, was based on the virtually identical state plans for services related to adult and AFDC programs submitted to HEW (Manual Letter No. 19, July 25, 1968). Increased federal sharing for AFDC programs as a reward for separation of service and income maintenance activities was offered by HEW in July 1968, when California had already accomplished complete separation in the adult OAS program.

It was therefore logical to allow adult programs the same 75 percent federal sharing offered to AFDC programs, and California clearly stated that this approach of fiscal consistency was being followed (Circular Letter No. 2199 dated September 27, 1968). By lack of definite response from HEW, we were led to believe that this approach would eventually be ratified by HEW.

BEST DOCUMENT AVAILABLE

Mrs. Lucy H. Ellison

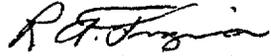
-2-

February 19, 1971

The new federal adult services policies now agree with our approach of fiscal consistency and provide 75 percent reimbursement for adult programs. However, we understand that these policies cannot be implemented prior to October 1, 1970.

Because of the tacit approval we received, any exceptions to payments which have been made seem unjustified. If you wish, we will be pleased to discuss this matter with you and your staff.

Sincerely yours,



R. A. Fugina, Deputy Director  
Management Services Branch

APPENDIX IV

SUMMARY OF EXCESS CLAIMS AND  
RELATED ADJUSTMENTS FOR ADMINISTRATIVE EXPENSES  
OF THE PENNSYLVANIA DEPARTMENT OF PUBLIC WELFARE

<u>Description</u>	<u>Period</u>		<u>Amount of excess claim</u>	<u>Adjustment made by State</u>
	<u>From</u>	<u>To</u>		
Claims for expenses of employees performing non-service functions	1-1-68	6-30-68	\$ 583,344	\$ 583,344
Claims for headquarters employees	1-1-68	3-31-70	69,289	69,552 <sup>a</sup>
Claims for Governor's branch offices	8-1-67	9-30-68	399,959	399,959
Claims for service and nonservice costs	10-1-69	3-31-70	<u>626,973</u>	<u>616,795<sup>a</sup></u>
<b>Total</b>			<u>\$1,679,565</u>	<u>\$1,669,650</u>
<u>Assistance programs</u>				
AFDC			\$1,520,132	\$1,508,706
Aid to the blind			14,023	14,099
Aid to the permanently and totally disabled			56,249	56,985
Old-age assistance			71,934	72,447
Medical assistance			<u>17,227</u>	<u>17,413</u>
<b>Total</b>			<u>\$1,679,565</u>	<u>\$1,669,650</u>

<sup>a</sup>The State agency's adjustment differed slightly from the amount of excess claims computed by us due to revised program cost allocation factors used by the agency in correcting its claims.

PRINCIPAL OFFICIALS OF THE  
DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE  
HAVING RESPONSIBILITY FOR MATTERS  
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF HEALTH, EDUCATION, AND WELFARE:		
Elliot L. Richardson	June 1970	Present
Robert H. Finch	Jan. 1969	June 1970
Wilbur J. Cohen	Mar. 1968	Jan. 1969
John W. Gardner	Aug. 1965	Mar. 1968
ADMINISTRATOR, SOCIAL AND REHABIL- ITATION SERVICE:		
John D. Twiname	Mar. 1970	Present
Mary E. Switzer	Aug. 1967	Mar. 1970

Copies of this report are available from the U. S. General Accounting Office, Room 6417, 441 G Street, N W., Washington, D.C., 20548.

Copies are provided without charge to Members of Congress, congressional committee staff members, Government officials, members of the press, college libraries, faculty members and students. The price to the general public is \$1.00 a copy. Orders should be accompanied by cash or check.