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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D.C. 20548



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HUMAN RESOURCES  
DIVISION

B-164031(3)

FEB 11 1977

The Honorable  
The Secretary of Health, Education,  
and Welfare

Dear Mr. Secretary:

In a letter dated December 29, 1975, Congressman Edward G. Biester, Jr., informed us of a Pennsylvania State senator's concern about possible misuse of Federal funds by local county boards of assistance of Pennsylvania's department of public welfare. The Congressman indicated that the Federal Government reimbursed Pennsylvania for social service positions at a rate of 75 percent, although some of the positions may have been occupied by employees performing income maintenance functions which should be reimbursed at a 50-percent rate. The Congressman stated that the same situation may be occurring with Work Incentive (WIN) program positions which are reimbursed at a 90-percent rate, and he asked for our assistance in answering the following questions:

1. How many positions have been funded in the Commonwealth of Pennsylvania and at what reimbursement rate?
2. What limitations and/or guidelines are established for these positions?
3. How would the misuse of funds be determined?
4. What is the penalty for misusing such funds?

In response to the Congressman's letter, we interviewed Federal and State agency personnel and reviewed State agency procedures for recording costs and preparing claims for Federal reimbursement. Because of the complex cost allocation procedures, we did not make a detailed audit of costs claimed for Federal reimbursement. We interviewed State agency personnel responsible for program and fiscal management and administration personnel in the department of public welfare at Harrisburg. In addition, we reviewed cost allocation plans, pertinent Federal and State regulations, and related accounting

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records. We also interviewed manpower administration personnel at the department's regional office in Philadelphia and staff members at the Bucks County assistance offices. We interviewed program, financial management, audit, and legal personnel at the Department of Health, Education, and Welfare (HEW) region III office in Philadelphia.

The information we obtained is summarized below.

NUMBER OF POSITIONS FUNDED  
AND RATE OF REIMBURSEMENT

As of October 1975 the county boards of assistance offices employed 9,840 employees throughout the State. These employees work on Federal programs which the Federal Government reimburses at varying rates. While some programs are entirely State funded, personnel administering those programs also work on federally reimbursed programs.

We could not determine specific rates of Federal payments for each of the 9,840 employees because personnel costs are accumulated by cost centers and allocated to programs and categories of assistance. The allocation process does not identify the number of positions attributable to each program and category of assistance.

FEDERAL REIMBURSEMENT LIMITATIONS

Limitations on staffing are not imposed by Federal regulations, except where dictated by funding level restrictions. The maximum level of Federal funding for social services under title XX of the Social Security Act, enacted January 4, 1975, is \$2.5 billion for any 1 year.

Allocations are made to States on the basis of their population. For fiscal year 1976 Pennsylvania was allocated \$142 million compared to \$143 million in 1975. Federal reimbursements to Pennsylvania for social services in 1975 totaled slightly more than \$126 million.

At the State level, an overall staffing ceiling is established through the budgetary process and applied to individual county boards of assistance offices. State regional offices are responsible for monitoring and enforcing these staff limitations.

CONTROLS OVER MISUSE OF FUNDS

The Pennsylvania Department of Public Welfare has established controls to monitor the propriety of cost accumulation

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and allocation to programs and categories of assistance. These controls are designed to minimize the possibilities of Federal funds being misused through improper charges or reimbursements at higher than authorized rates.

For example, the State is continually sampling workers at the county offices to determine what program they are working on. Sample results are checked against workers' job assignments and cost coding.

At the Federal level, HEW approves State cost allocation plans. An official in HEW's Philadelphia regional office said that HEW reviews quarterly claims for Federal funds only to identify major variations or trends. The official said his recent review of the State agency concentrated on the allocation of central office costs and he did not review cost allocations at the county boards of assistance.

The HEW audit agency reviews Federal reimbursement claims to determine their validity and compliance with Federal regulations. In some instances, the audit agency has found improper charges and recommended that the State agency make appropriate adjustments. In its latest audit of administrative costs covering July 1, 1969, through June 30, 1974, the HEW audit agency recommended a major revision in allocating administrative costs which resulted in an overall decrease of about \$11 million in Federal claims for fiscal year 1975.

#### PENALTY FOR MISUSE OF FUNDS

HEW may withhold funds or adjust claims if there are improper charges, but usually requires the State agency to adjust subsequent quarterly claims.

HEW officials said that, unless evidence shows an intent to defraud, there normally are no additional penalties for improper charges resulting in misuse of funds.

#### CLAIMS FOR FEDERAL FUNDS AT RATES HIGHER THAN AUTHORIZED

The Pennsylvania county boards of assistance's personnel costs for fiscal year 1975 were about \$135.7 million, including about \$107.3 million charged to Federal programs. The Federal share was about \$59.3 million.

There are varying rates of Federal financial participation in States' costs of administering federally supported welfare programs. For example, the rates are 90 percent for the WIN

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program and family planning services, 75 percent for social services and training activities, and 50 percent for income maintenance activities.

Since the Congressman's letter suggested that the State agency may have claimed Federal reimbursement for county boards of assistance's personnel costs at improper rates, we reviewed the method used by the State agency during fiscal year 1975 to compute Federal claims for such costs. This included a review of the results of a random sample of workers selected by the State to establish rates used for distributing costs to some programs.

County personnel interviewed workers included in the sample at specific times during 1 month of each quarter to establish which program and category of assistance the worker was presently engaged in.

If at least 85 percent of the sampled workers were performing their designated activities, workers not performing designated activities (out-of-function) were considered to be working on their designated jobs for Federal-sharing purposes. Thus, if 15 percent or less of the workers were out-of-function, the combined salaries of all designated social workers were claimed at the 75-percent rate.

Federal regulations (45 C.F.R. 220.61) in effect during the period covered by our review provided that only workers performing social service work substantially on a full-time basis were to be considered social service workers for Federal-sharing purposes. The full-time requirement for 75-percent Federal-sharing was intended to separate the delivery of social services from income maintenance activities and to improve the administration of social services.

An HEW official informed us that, under the regulations, social service workers performing any regularly assigned income maintenance activities were not engaged in full-time social service work. According to HEW, the State agency erroneously interpreted the regulations as permitting all workers to be considered as working substantially full time on their designated activities if not more than 15 percent of the workers were working out-of-function at the times of the samples. This interpretation was not set forth in the State's HEW-approved cost allocation plan for claiming Federal reimbursement for administrative costs.

The State's sample has shown that some workers perform other than their designated job activities. For example, at

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the time of the sample designated social service workers were working on income maintenance activities while designated income maintenance workers were working on social service activities. WIN positions are not included in the sample, and it does not appear that WIN personnel are performing functions which are reimbursable at less than 90 percent.

Based on the 1975 sample, the State agency concluded that about 9 percent of the designated social service workers were performing income maintenance activities, and about 3 percent of the designated income maintenance workers were performing social service activities. Because less than 15 percent of workers were performing out-of-function, the salaries of all workers were charged to their designated activities--social service and income maintenance. The sample indicates that the Federal Government was overcharged at least \$429,000 because cost applicable to designated social workers who were performing income maintenance work was claimed at 75 percent, instead of the required 50 percent.

Because reimbursement was to be at the 75-percent rate only for workers who performed social service work substantially on a full-time basis, none of the charges applicable to designated income maintenance workers who performed social service work could be charged at the 75-percent rate.

We discussed this matter with an HEW headquarters official to obtain HEW's views on the validity of the State agency's interpretation of the Federal regulations. The HEW official said that Pennsylvania's allocation method was incorrect.

Effective October 1, 1975, social services are covered under title XX of the Social Security Act (added by the Social Service Amendments of 1974, enacted January 4, 1975) which requires social service activities to be administered by a single State agency. The Federal regulations (45 C.F.R. 220.61) which limited the Federal sharing rate of 75 percent to full-time social service workers are no longer in effect. Currently, States are permitted to allocate costs among Federal programs based on the time that workers devote to the various activities. Pennsylvania continues to use a random sample of workers to distribute costs, but the costs are now distributed on the basis of sample results.

#### CONCLUSIONS

Apparently, some of the problems which resulted in Pennsylvania's overcharges during 1975 have been corrected. However, the complex State organizational structure and the number and variety of activities to which costs must be allocated

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to receive Federal reimbursement at the proper rates make it difficult for the State to account for the costs and for HEW to effectively monitor their propriety.

RECOMMENDATION

Because the erroneous procedures used by Pennsylvania were not shown in the HEW-approved cost allocation plan, we recommend that the Secretary of HEW have the Administrator of the Social and Rehabilitation Service, HEW, take action to recover the \$429,000 overcharge.

STATE AND AGENCY COMMENTS

The Pennsylvania Department of Public Welfare did not agree that erroneous procedures were used or that there was an overcharge to the Federal Government. The State referred to its sample, which showed that 91 percent of the designated social service workers were performing social service activities, and stated that it believed that 91 percent was substantial and that its method was consistent with HEW's requirement that periodic checks must be made to assure that designated social service workers are performing social service work substantially on a full-time basis.

Under HEW's regulations, reimbursement was to be at the 75 percent rate only for persons doing social service work substantially on a full-time basis. The State's sample showed that designated social service workers were performing income maintenance work, which tends to support the allegation that the State claimed Federal reimbursement at improper rates. We believe that the State's sample is the best available means for establishing the extent to which reimbursement was made at the 75 percent rate for persons who did not perform social service work substantially on a full-time basis. Based on the sample, there was an overcharge of \$429,000.

In a letter dated November 30, 1976, commenting on a draft of this report, HEW concurred with our recommendation and stated that the Administrator of the Social and Rehabilitation Service will take action to recover \$429,000 in overclaims from the State of Pennsylvania.

As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the House and Senate Committees on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

