

**REVIEW GUIDE FOR
PUBLIC ASSISTANCE COST ALLOCATION PLANS**

**U.S. Department of Health and Human Services
Program Support Center
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REVIEW GUIDE FOR PUBLIC ASSISTANCE COST ALLOCATION PLANS

I. INTRODUCTION

This Review Guide was developed to assist the Division of Cost Allocation (DCA) negotiation staff in their review and approval of public assistance (PA) cost allocation plans and plan amendments prepared by State PA agencies. The Guide, originally developed in 1983, is being updated to recognize revisions which have been made to OMB Circular A-87 (A-87), "Cost Principles for State, Local and Indian Tribal Governments" and changes which have occurred in the PA programs.

This Guide includes information relative to the processing of State PA agency plans and plan amendments, collectively referred to as public assistance cost allocation plans (Plans), the respective responsibilities of the DCA and the U.S. Department of Health and Human Services' (DHHS) Operating Divisions and Federal Agencies in this process, and factors which should be considered by DCA staff in their reviews. The Guide also includes information relative to various categories of cost incurred by PA agencies, a glossary of frequently used terms, selected program information, and reference materials.

Although this Review Guide is reasonably comprehensive, it is not a substitute for professional judgement nor does it dictate the extent of review to be performed. The DCA negotiator should consider the complexity of the Plan submission, the amount of Federal financial participation (FFP) involved, prior experience with the PA agency, and the results of audits of the PA Agency in determining the scope and type of review to be conducted.

Subpart E of 45 CFR Part 95 establishes the basic cost allocation plan requirements that the PA agency must follow in the preparation of a Plan. Unlike other types of organizations where an indirect cost rate is established for a specified

period of time, PA agencies are required to amend the Plan whenever it becomes outdated due to organizational changes, changes in Federal law or regulation, or other changes occur which make the allocation basis or procedures described in the approved Plan invalid.

PA agencies are responsible for reviewing and analyzing their operations and for developing a Plan that will adequately describe how administrative costs are identified, measured, and allocated to benefitting programs. Because of each State's unique organizational structure and program configuration, the Plan must recognize the individual characteristics of the PA agency's operation while adhering to the cost principles prescribed in A-87 and other applicable Federal regulations. In developing a Plan, PA agencies may use the guidance contained in the draft guide titled "A Guide for State and Local Government Public Assistance Agencies/Departments-Procedures for the Preparation and Submission of Cost Allocation Plans"¹, hereafter referred to as the State Guide.

Both the State Guide and this Review Guide are structured to follow the general flow of PA agency costs to benefitting programs. For example, the costs of the PA agency director's office, a department-wide general administrative cost, may be allocated, in part, to specialized services (i.e., automated data processing (ADP) operations), to intermediate cost pools (i.e., the Income Maintenance (IM) cost pool and the Social Services (SS) cost pool), and to direct programs. Cost related to the IM and SS cost pools are further allocated to benefitting programs on the same basis used to distribute the salaries of the IM workers and the SS workers. The cost categories described in this Review Guide follow a similar progression.

The DCA is responsible for reviewing a proposed Plan to determine whether the PA agency's methods used to identify,

¹ "A Guide for State and Local Government Public Assistance Agencies/Departments-Procedures for the Preparation and Submission of Cost Allocation Plans" (November 1981) was prepared by the DHHS' Office of Procurement, Assistance and Logistics. The draft guide, though not formally issued, is referred to by the DCA as a source to assist State PA agencies in Plan preparation and submission. However, it should be noted when referencing this State Guide that it has not been updated to recognize changes which have occurred with respect to the PA programs nor does it include the May 17, 1995 revisions to A-87 or the issuance of ASMB C-10, the implementation guide for A-87.

measure, and allocate costs to benefitting programs are equitable and in accordance with the cost principles in A-87 and other applicable Federal regulations. As part of that review process each affected DHHS' Operating Division and Federal Agency (collectively referred to as OPDIVs in this Review Guide) is responsible for reviewing and commenting on the fairness of the cost allocation methodologies described in the Plan and the allowability of costs with respect to their program(s).

The DCA review will be influenced, in part, by the type of administrative structure used (State administered vs. State supervised), the organization of the PA agency, and whether the proposal is a new Plan or Plan amendment. An on-site review for new Plans or major Plan amendments, along with information received from the OPDIVs, may indicate the need for revisions to the proposed submission.

The scope and depth of analysis required for each proposal submission must be tailored to the circumstances; therefore, sound judgement must be exercised in adapting the steps of this Review Guide to each negotiation. In some cases the DCA negotiator's review of a PA agency's proposal may identify the need for more cost pools and/or different allocation bases than those recommended in the State Guide or included in the PA agency's proposal. The need for additional cost pools or more refined allocation bases should be balanced by the materiality of the costs involved.

II. PROCESSING AND REVIEW OF THE PLAN AND PLAN AMENDMENTS

A. PROCESSING PLAN AND PLAN AMENDMENTS

A PA agency is required to submit a Plan or Plan amendment, as appropriate, whenever its currently approved Plan becomes outdated for any of the reasons cited in 45 CFR Section 95.509(a). If the PA agency has not submitted a Plan during a given State fiscal year, an annual statement shall be submitted to the DCA certifying that its approved Plan is not outdated (45 CFR Section 95.509(b)).

The Plan submission by the PA agency required under 45 CFR Section 95.507(a) should describe the procedures used to identify, measure, and allocate all PA agency costs incurred in support of the programs it operates, administers or services. The procedures used by the PA agency must conform to the accounting principles and standards prescribed in A-87, be compatible with the State Plan for PA programs submitted to the OPDIVs, and supported by sufficiently detailed information to permit the DCA Director to make an informed judgement as to their correctness and fairness.

STEPS	COMMENTS
<p>1. Upon receipt of the Plan, the DCA negotiator will review the submission to determine if it is materially complete and contains the information specified in 45 CFR 95.507(b). The PA agency's submission should include:</p> <ul style="list-style-type: none">a. An organizational chart showing the placement of each organizational component.b. A listing of all Federal and non-Federal	<p>A complete Plan submission should address all PA agency costs except expenditures for financial assistance, medical vendor payments, and payments for services and goods provided directly to program recipients (45 CFR 95.505). The submission by the PA agency should provide sufficient copies of the Plan for distribution to each affected OPDIV.</p> <p>A proposed Plan amendment revising only selected plan areas would include the materials listed under step A.1.a. through A.1.i. considered necessary for the review of the</p>

STEPS

programs performed, administered, or serviced.

- c. A description of the activities performed by each organizational component and where not self explanatory an explanation of the benefits provided to Federal programs.
- d. The procedures used to identify, measure, and allocate costs to each benefitting program and activity, including activities with different FFP rates.
- e. The estimated cost impact resulting from proposed changes to a previously approved Plan.
- f. A statement stipulating that wherever costs are claimed for services provided by a governmental agency outside the PA agency they will be supported by a written agreement which includes, at a minimum, the specific service(s) being purchased, the basis upon which the billing is made by the provider agency, and a stipulation that the billing will be based on the actual costs incurred (45 CFR 95.507(b)(6)).

COMMENTS

proposed amendment. However, items A.1.e. and A.1.h. should be included by the PA agency with each amendment submitted.

An incomplete Plan submission should be discussed with the PA agency and the necessary information obtained **prior** to processing. If the submission does not substantially comply with the requirements in 45 CFR 95.507, the DCA will return the submission to the PA agency noting the major deficiencies and request that the Plan be resubmitted (HHS GAM Chapter 6-200, included for reference in Section XI.A. of this Review Guide).

An exception to this exists for the costs of school-based administrative services provided by local school districts and claimed by the State PA agency under the Title XIX program. For Plan requirements related to these services refer to Section XI.B. of this Review Guide.

STEPS

- g. If the PA programs are administered by local government agencies under a State supervised system the PA agency's Plan will also include a cost allocation plan(s) for local agencies.
- h. A certification by a duly authorized official of the PA agency containing the statements shown in 45 CFR 95.507 (b) (8) (i) - (iv).
- i. Other information as necessary to establish the validity of the procedures used by the State agency to identify, measure, and allocate costs.

COMMENTS

Review steps pertaining to local PA plans are contained in Section VII of this Review Guide. These steps cover specific concerns related to local PA plans and supplement the review steps included in the other sections of this Review Guide.

Other information provided with a complete Plan submission may include:

- Schedules reporting PA agency expenditure information for a representative period, e.g., a month or a quarter. This would include:
 - PA agency expenditures broken out by organizational component.
 - For each component whose costs are directly assigned to a program, the schedules should identify the amount of expenditures directly assigned, the program and program fund source charged, and the FFP rate applied.

STEPS

COMMENTS

-- For each component whose costs are assigned to a cost pool, the schedules would identify the component's expenditures and cost pool assignment.

-- For each cost pool the schedules would:

--- Report the total expenditures to be allocated.

--- Describe the allocation base used.

--- Show the distribution of cost pool expenditures to benefitting programs, program fund source(s), and the FFP rate(s) applied.

The cost allocation schedules used by the PA agency in the development of their quarterly claims would include much of this information and should be used to the extent possible.

– The Plan should also include information relative to the effort reporting and effort certification systems used to identify worker effort to programs. The specific information provided with the Plan submission is described under Section VI. of this Review Guide.

STEPS

COMMENTS

2. Plan submissions considered complete will be provided to each affected OPDIV for their review and comment.

The OPDIVs are responsible for the review of the Plan with respect to their program(s). Their responsibilities in the Plan review process are described throughout this Review Guide. The DCA transmittal memo will usually request the OPDIVs to provide their comments within 30 calendar days from the date of the memo.

B. REVIEW OF PLAN AND PLAN AMENDMENTS

The review steps may vary depending upon whether the State has submitted a new Plan, a revised Plan, or an amendment to an existing Plan. For example, if the State has submitted an amendment to a previously approved Plan, then the review steps would be limited to the proposed changes rather than a review of the entire Plan. The reviewer should be aware that a Plan amendment may require additional changes beyond what the State PA agency is proposing. This section discusses the roles of both the DCA and OPDIVs in the review process. After ensuring that the submission is complete and provided to the affected OPDIVs, the review process should begin.

The OPDIVs have an important role in the approval of the proposed Plan. The DCA relies on the fiscal and programmatic expertise of the OPDIV staff in their review and the OPDIVs' comments are considered in determining whether the Plan is approvable. OPDIV staff should have a thorough understanding of their program's special requirements in order to evaluate the proposed Plan. In addition, an OPDIV should be able to identify changes to the PA organization, its program(s) and the State Program Plan, as well as any changes in Federal law, regulations and policy applicable to its program(s). The comments provided by the OPDIVs should address the acceptability of the proposed Plan, specifically describe any concerns they have with it, and cite specific program or regulatory requirements in support of their position. If an OPDIV does not submit comments or an acceptable justification for an extension in time to comment within the time period requested in the DCA transmittal memo, the DCA will assume that the OPDIV has no adverse comments and will proceed accordingly.

STEPS

1. Review the proposed Plan to determine that all support services and benefitting departmental programs and activities have been properly identified (e.g., Federal and non-Federal PA programs, as well as other State agency programs serviced by the public assistance agency, etc.).

a. Review the current organization chart.

COMMENTS

The OPDIV should review the Plan to determine and comment on:

- The fairness of the Plan allocation methods with respect to its programs.
- Whether its programs benefit from the costs that would be allocated to them.
- Whether its programs would be allocated costs they are precluded from paying by law or regulation.
- The appropriateness of the effective date.
- Any other information it believes is pertinent to the DCA's assessment of the plan (i.e., whether the PA agency has implemented and started to claim costs based on the proposed Plan).

If this is a new grantee, the organization chart will provide useful information in understanding the organizational structure and in identifying both support services and department activities. For an existing grantee, a comparison of the revised organization chart with the prior organization chart can highlight changes that should be addressed in the revised Plan.

STEPS

COMMENTS

- b. Compare the proposed Plan to the approved Plan.

- c. Identify the support service costs, e.g., General Administration, Space Related Expenses, etc., and the cost pools to which they are assigned. Specific review steps for some of these activities are covered in Section III. of this Review Guide.

- d. Identify all special cost categories, i.e., ADP, Quality Control, Legal Services, Staff Development and Training, Income Maintenance and Social Services Worker Related Costs, etc. Specific review steps for some of these cost categories are covered in Sections IV. and V. of this Review Guide.

A comparison of the proposed Plan to the approved Plan may identify additional changes which have been made that require further analysis by the reviewer and other revisions that may be required to the Plan.

The Plan should identify the various support service components included in each cost pool. Some Plans may propose to combine various categories of support service cost into a single cost pool for allocation rather than assigning them to individual cost pools which are separately distributed on the allocation bases recommended in the State Guide. The reviewer must evaluate the propriety of this abbreviated approach to ensure that combining categories of cost in this manner results in an equitable distribution of costs. The need for additional cost pools may, in part, depend on the materiality of the costs involved.

These categories customarily constitute the most significant costs which are included for allocation through the Plan and consequently require a more in-depth review. The Plan should identify the cost components included in each of these cost categories and the cost pool to which each is assigned. The reviewer should have a clear understanding of the allocation statistics used and their relationship to the cost pool components when determining the acceptability of the State agency's proposed cost allocation methodology.

STEPS

- e. Identify all departmental activities including both public assistance and non-public assistance programs (e.g., Federal, State and Local programs, Block grants, etc.). For a list of programs commonly included in a PA Agency, see Section X. of this Review Guide.

2. Determine that the proposed Plan adequately identifies and assigns costs to all cost objectives to include those with different FFP rates, or those subject to cost limitations, or subject to specific programmatic reporting requirements.

COMMENTS

In the proposed Plan, support services and special cost categories may not be allocated to all benefitting activities. For example, several smaller non-public assistance programs may be organizationally located in the State or Local public assistance agency. These programs may include youth camps, veterans centers, homes for the deaf, blind or disabled, Head Start centers, etc. These programs must be allocated costs in proportion to the benefits they receive.

Most block grants are not subject to A-87 requirements and have ceilings on the amount of administrative costs which are reimbursable. The Plan must allocate administrative costs to block grants without regard to reimbursement limitations. Costs allocable to a particular program or cost objective may not be allocated to other programs to avoid restrictions imposed by law or regulation.

It is the responsibility of the OPDIVs to provide the DCA with information on enhanced FFP rates, cost limitations, and specific reporting requirements which create cost allocation issues that should be addressed in the Plan.

Some programs or activities within a program (e.g., Medicaid Management Information Systems) or specific cost elements within an activity (e.g., salaries and related fringe benefits within the Skilled Professional Medical

STEPS

COMMENTS

3. If a Plan amendment is being reviewed, an analysis should be made to determine the effect on other parts of the approved Plan.

Personnel activity) are subject to enhanced FFP rates. It is critical that the Plan identify these functions/activities for costing purposes if enhanced funding is to be claimed.

Some programs are subject to funding limitations, and/or definitions of program or administrative costs that should be identified in the Plan and considered during the review. For example, the TANF Block Grant defines its costs in terms of administrative costs, information technology costs, and program services costs. TANF administrative costs are subject to a 15% administrative cap while information technology and program services costs are not. As a result of the administrative cap, there may be an incentive for the PA agency to identify TANF administrative costs as either information technology or program services costs.

The OPDIVs comments should address the acceptability of the Plan with respect to specific program requirements as well as administrative limitations which have cost allocation plan implications.

Certain procedures can significantly influence the assignment of other costs. For example, a change in the program assignment of worker effort can affect the distribution of other administrative cost pools to benefitting programs. The addition of a new program or

STEPS

COMMENTS

	<p>change in program regulations or policy interpretations can also affect the allocation of administrative cost pools.</p> <p>The OPDIVs should comment on the acceptability of the changes proposed with respect to their program(s).</p>
<p>4. Review the cost impact analysis provided by the PA agency.</p>	<p>The cost impact analysis should be reviewed to determine the materiality of the proposed changes and identify the sections of the Plan impacted by the proposal. The reviewer should assure that the proposed Plan has addressed all of the required changes.</p>
<p>5. Previous concerns raised about the proposed change(s) should be addressed in the Plan.</p>	<p>Previous correspondence containing open issues or previously agreed upon changes should be reviewed to determine whether the Plan has been updated to address these items.</p>
<p>6. Review the latest audit reports (e.g., A-133 Single Audit, HHS OIG Audit, State Internal Audit or any other audit regarding the Plan) to identify potential problem areas.</p>	<p>Audit findings and recommendations can offer insight into the operations of the PA agency and can include issues of concern to both the OPDIVs and the DCA.</p>
<p>7. Review the Plan for unallowable costs.</p>	<p>Refer to A-87, Attachment A, Section C, for guidelines on factors affecting the allowability of costs and Attachment B for selected items of cost.</p> <p>The State is required to certify that the Plan was prepared in accordance with A-87. The standard</p>

STEPS

COMMENTS

	<p>language included in the approval letter also advises the State that the costs claimed for FFP must be allowable under the law, A-87 and program regulations.</p> <p>The OPDIV comments should notify the DCA of any allocated costs it is precluded from paying and should cite the specific regulation in the comments it provides to the DCA.</p>
8. Review the OPDIV comments received on the proposed Plan. If deficiencies are found in the Plan, the DCA is responsible for developing a government-wide position.	<p>The OPDIV's comments should be adequately documented in writing. If there are deficiencies found in the Plan, the OPDIV should advise the DCA that additional information is needed or that the submission is not acceptable, and clearly outline its area(s) of concern. If appropriate, the OPDIV should cite specific regulations, DAB decisions, etc. to support its position, and recommend the changes needed to rectify the exception.</p> <p>If the OPDIV disagrees with the DCA position, the disagreement should be resolved in accordance with the procedures in HHS GAM 6-200-60.</p>
9. Obtain any additional information needed from the PA agency in response to the review.	<p>Requests for additional information should be documented whenever the issues are material and will impact on the timeliness of the DCA's decision regarding the acceptability of the Plan.</p>

STEPS

COMMENTS

10. Negotiation of Plan changes.

a. If the proposal is not acceptable, the DCA will negotiate appropriate changes to the Plan.

The DCA should determine whether it is necessary for the OPDIVs to participate in any discussions with the State. This will depend on the complexity of the questions and issues raised. The OPDIVs should participate in discussions if the issues relate to the allocability or allowability of costs with respect to their programs. It is especially important where costs may be restricted by program regulations.

If a formal negotiation conference is held, the affected OPDIVs may attend the conference.

b. If an agreement on the changes to the Plan is reached, a written agreement will be signed by the PA agency and/or the DCA, or the PA agency will submit a revised Plan in accordance with the understandings reached at negotiation.

The DCA should ensure that the revised Plan is submitted in a timely manner. An approval letter is issued after the revision is reviewed and accepted by the DCA and the affected OPDIVs.

C. CONCLUDING ACTIVITIES

1. Issue a formal approval letter if the Plan is found to be acceptable.

The approval letter should specify the effective date of the Plan or Plan amendment, and will include the conditions contained in HHS GAM 6-200-20, Section C.

STEPS

document the positions taken by the DCA and the OPDIVs.

4. Comply with the record retention policy.

COMMENTS

adequately document positions taken, either in accepting or rejecting critical elements of a proposal.

The DCA should maintain a copy of the currently approved Plan as well as subsequent Plan amendments and documentation submitted by the PA agency until that Plan is superseded by a subsequently approved Plan submission. Generally, superseded Plans as well as all Plan amendments should be retained for a period of four years from the date of their approval or disapproval.

It is recommended that the PA agency be requested to submit a consolidated Plan incorporating all subsequently approved amendments at least every four years. However, at the discretion of the DCA Director, a consolidated plan may be requested more frequently depending on the number and/or nature of the plan amendments which have been approved.

A Plan or Plan amendment may be retained in excess of the four year period for the following reasons:

- Pending litigation, claim, or other action involving the Plan or Plan amendment which was initiated prior to the expiration of the four year period.
- At the discretion of the DCA Director.

III. SUPPORT SERVICES COST CATEGORIES

A PA agency requires a variety of support services to effectively administer and/or supervise the PA programs. Support services can generally be grouped into four basic categories of cost: general administration expenses, administrative services expenses, space related expenses, and regional/district office expenses.

The methods used to identify support services costs for a PA agency can vary. The most commonly used method relies on the approved Plan which describes the various support service components of the organization and explains how the State agency identifies, measures, and allocates those costs to benefitting programs. However, support services costs may also be identified by the PA agency through the application of a Federally approved indirect cost rate(s) or a Federally approved amount of support services costs. These other methods are more commonly associated with a certain type of State department, referred to as an “umbrella department”. A State umbrella department includes all or most of the human services functions in one major department, e.g., public health, mental health, public assistance, etc. These functions are administered by different agencies/divisions within that department. The indirect cost rate(s) or amount(s) approved for use is based upon the State department’s annual submission of an indirect cost allocation plan for review and approval by the cognizant Federal agency.

The Plan should describe the method(s) used to identify and allocate support services costs to benefitting functions and programs. The State Guide recommends specific distribution bases to be used and allocation sequences to be followed in the development of the Plan. The recommended allocation bases should be used unless it can be clearly demonstrated that a particular base does not result in an equitable distribution of costs and an alternative allocation basis is needed.

Each OPDIV should comment on the fairness of the cost allocation methods in the Plan, whether its program(s) benefit from the costs allocated to it, and whether its program(s) would be allocated costs they are precluded from paying by law or regulation.

A. GENERAL ADMINISTRATION COSTS

The expenses included under this category support the overall operations and programs of the PA agency. The general administration (GA) costs include costs incurred within the PA agency for its executive offices responsible for agency-wide direction and supervision, policy formulation, and planning and evaluation. GA costs also include costs incurred outside the PA agency which support its operations, e.g., central service costs identified in the approved State-wide cost allocation plan.

<u>STEPS</u>	<u>COMMENTS</u>
1. Determine that the Plan specifies how the GA costs will be identified by the PA agency.	For umbrella departments, this may be accomplished through the application of a Federally approved indirect cost rate(s) or amount(s). To prevent cost duplication when a Federally approved indirect cost rate(s) or amount(s) is used, the Plan should identify the organizational components included in the development of the indirect cost rate(s) or amount(s). The acceptability and treatment of those costs are determined by the review and approval of the annual indirect cost allocation plan by the cognizant Federal agency.
2. Where the PA agency identifies the GA costs for allocation through the Plan, analyze the GA cost pool(s) and determine that the costs represent allowable GA type expenses and that those costs have been consistently treated.	The organization chart and functional statements included in the Plan should be reviewed in determining whether the units categorized as GA are acceptable. There may be units included in the GA cost pool that are responsible for a specific functional area (e.g., IM, SS, or small semi-independent programs). The costs of those

STEPS

COMMENTS

3. Review the allocation base(s) and determine that all benefitting agency operations and programs receive an appropriate allocation of GA cost.

units should be specifically assigned to that function and not classified as a GA cost.

The costs must be allowable in accordance with A-87, Attachment A, Section C. and Attachment B.

The recommended allocation base for distributing the GA cost pool to benefitting programs, functions, and activities is the number of full time equivalent (FTE) personnel.

B. ADMINISTRATIVE SERVICES COSTS

The expenses under this category are those that have been incurred within the agency, are normally general in nature, and benefit more than one program or functional area. Administrative services costs include: accounting, budgeting, personnel, purchasing, communications, research and statistics, mail and other general business operations.

STEPS

COMMENTS

1. Determine that the Plan specifies how the administrative services costs will be identified by the PA agency.

For umbrella departments this may be accomplished through the application of a Federally approved indirect cost rate(s) or amount(s). To prevent any cost duplication when a Federally approved indirect cost rate(s) or amount(s) is used, the Plan should identify the organizational components included in the development of the indirect cost rate(s) or amount(s). The

STEPS

COMMENTS

2. Where the PA agency identifies administrative services costs for allocation through the Plan, analyze the administrative services cost pool(s) and determine that the costs represent allowable costs and that those costs have been consistently treated.
3. Review the allocation base(s) and determine that all benefitting agency operations and programs receive an allocation of administrative services costs.

acceptability and treatment of those costs are determined by the review and approval of the annual indirect cost allocation plan by the cognizant Federal agency.

The organization chart and functional statements included in the plan should be reviewed in determining whether or not the units have been properly categorized as administrative services costs.

The costs must be allowable in accordance with A-87, Attachment A, Section C. and Attachment B.

The recommended allocation base for distributing the administrative services cost pool is the number of full time equivalent (FTE) personnel of the benefitting programs, functions, and activities. However, PA agencies may discretely identify and separately allocate administrative services components on a more representative basis (i.e., the accounting operations are allocated based on the number of accounting transactions processed during the quarter).

There may be semi-independent activities or other State

STEPS

COMMENTS

4. Determine that the Plan provides for the consistent treatment of administrative services costs to all programs.

agencies which benefit from the administrative services provided by the PA agency. For example, the PA agency may provide payroll services to other State agencies or personnel and payroll services to semi-independent activities. These non-PA agency operations should receive an allocation of applicable administrative services costs to the extent that they benefit from those services.

In some accounting operations, staff efforts can be directly identified to a specific program (e.g., accounting for child support collections) and their compensation directly charged to that program. Inconsistent costing will occur if the costs of similar program specific accounting efforts are included in a cost pool and distributed to all programs, including the program that was directly charged.

The OPDIV's should assure that direct charges to their program(s) are appropriate and should comment on any inconsistencies caused by those charges.

C. SPACE RELATED COSTS

Space related costs are incurred for the operation of the facilities in which the PA agency is located. Examples of the types of expenses included in this cost category are: rental of facilities, depreciation of buildings and equipment, janitorial and maintenance costs, security costs, utilities and insurance expenses. The PA agency can occupy space in state owned or privately owned facilities. A building may be solely occupied by and benefit a single program or activity, or the

facility's space may be shared by multiple programs, functions and activities. The space related expenses may be charged by the PA agency directly to a program, or included in a separate cost pool or as a component of a cost pool for allocation. Due to the significance of these expenses and the variety of situations which can exist, the Plan should fully identify and describe the treatment of all space related expenses by the PA agency.

STEPS	COMMENTS
<p>1. Determine that the Plan adequately identifies and describes the various types of space related costs incurred in support of the PA agency's operations.</p>	<p>Space related expenses can be incurred directly by the PA agency or can be incurred by another State agency on behalf of the PA agency, or some combination of these two. Space related expenses incurred by another State agency can be billed or allocated to the PA agency through a State-wide cost allocation plan or an Umbrella Department's indirect cost allocation plan approved by the cognizant Federal agency. The Plan should identify all space related expenses and describe how they are identified by the PA agency.</p> <p>To prevent cost duplication when an indirect cost allocation plan is used, the Plan should identify the organizational components and types of space related costs included in the development of the indirect cost rate, amount, or billing rate for space which is approved.</p>
<p>2. Determine that only allowable space related expenses are included in the Plan. The following should be considered when making this determination:</p>	<p>The cognizant Federal agency is responsible for determining that only allowable space related costs are allocated or billed to the State PA agency. With respect to space related expenses incurred on behalf of the PA agency by another State agency, the allowability of the</p>

STEPS

COMMENTS

- space related expenses should be determined by the review and approval of the State-wide cost allocation plan or the Umbrella Department's indirect cost allocation plan, as appropriate. Where these expenses are not covered by a Federally approved cost allocation plan, the reviewer should determine that the space related expenses are allowable in accordance with A-87, Attachment A, Section C, and Attachment B.
- a. The Plan provides for the use of the straight line method in calculating depreciation expense.
- A-87, Attachment B, Section 15.e., provides that the straight line method of depreciation should be used in the absence of clear evidence indicating that the consumption of the asset is significantly greater in the early portion of the asset's life.
- b. Facility rental costs are determined in accordance with A-87.
- A-87, Attachment B, Section 38., addresses the limitations on rental costs under sale and lease back arrangements, less-than-arms length leases, and capital leases under GAAP.
- c. The Plan defines equipment capitalization thresholds in accordance with A-87.
- A-87, Attachment B, Section 19.a.(2), defines the equipment capitalization level as the lesser of the level established by the governmental unit for financial statement purposes, or \$5,000. However, in accordance with 45 CFR Section 95.705, equipment acquired under the PA programs should be depreciated when the acquisition cost is more than \$25,000 per unit. For ADP equipment refer to Section IV.A. of this Review Guide.

STEPS

3. Determine that the PA agency's allocation base(s) used to distribute space related expenses is a reasonable measure of the cost of the facilities used by the benefitting programs.

4. Determine that the space related expenses are consistently treated and assigned to all benefitting programs.

COMMENTS

Space related expenses may be directly identified and charged by the PA agency to a specific program(s), function(s), or activity(ies). This may be based upon specific identification when the program, function, or activity is the sole occupant of the facility, or through an allocation based upon net assignable square footage or other representative basis when the facility is occupied by more than one program, function, or activity.

Where the space shared by more than one function is not separately identified by function (i.e., the IM and SS functions), the space related expenses may be allocated to each function based upon the FTE of the functions which occupy the space. The space related expenses can then be included in the appropriate cost pool (i.e., the IM or SS cost pool) for further allocation.

In some instances, the PA agency may identify and charge space related expenses directly to a selected program(s). This may occur where a smaller program such as the Child Support program or the Vocational Rehabilitation program is located in a separate facility. When space related expenses are directly charged to a program(s), then only the space related expenses for the GA and administrative services cost categories which benefit all programs may be allocated to the program(s) directly charged.

D. REGIONAL AND DISTRICT OFFICE COSTS

Some states have regional or district offices to oversee the operations of one or more local offices. Besides direct line supervision, the regional offices may provide policy interpretation, program development and evaluation, and quality control activities.

<u>STEPS</u>	<u>COMMENTS</u>
1. Where a PA agency has regional and/or district offices, determine that the costs included in the Plan represent allowable costs.	The costs must be allowable in accordance with A-87, Attachment A, Section C and Attachment B.
2. Determine that the Plan provides that the costs of regional and/or district office activities will be consistently treated and allocated to all benefitting programs.	<p>Costs that benefit a single program or function can be directly assigned to the benefitting program or function, provided that comparable regional or district office costs that benefit other programs or functions are not allocated to the program(s) or function(s) directly charged. Where the regional and district office activities benefit more than one function, the recommended allocation base is the number of FTE personnel at the local office level in the benefitting functions.</p> <p>The Plan should provide for the consistent treatment of these costs. For example, inconsistent costing would occur where supervisory costs are directly identified and assigned to the Child Support program while comparable supervisory costs related to other programs are included in a cost pool and allocated to all programs, including the Child Support program.</p>

IV. SPECIAL COST CATEGORIES

A number of specialized categories of service are provided in support of the PA programs. These categories would include data processing (ADP), quality control, legal services, fraud investigation and prosecution, staff development and training, internal audit, etc. Generally, these services are separately identified organizationally and in the accounting system. Depending on the State's structure, these specialized services may be provided by PA agency staff or by organizational units outside the PA agency, to include those with department-wide responsibilities in an umbrella department or by State central service departments under the approved State-wide cost allocation plan. The PA agency should have analyzed its operations and identified the organizational units and costs of these specialized services. When material in amount, specialized services such as these should be separately identified and allocated in the Plan. The review steps apply to both State administered and to State supervised systems unless otherwise indicated.

The objective of this section is to determine whether the PA agency's Plan properly recognizes and allocates the costs of these specialized categories of service.

A. ADP

Data processing expenses generally represent a significant cost to the PA agency. ADP support can be provided by a State-wide central services facility, by the State umbrella agency, by the PA agency, and/or by an outside contractor(s). The variations in the arrangements for ADP services, the amounts and types of ADP costs incurred, and level of FFP in those costs can influence the extent of the review.

Aside from ADP support for administrative activities (i.e., accounting, personnel, etc.), PA agencies often require the development and operation of uniquely designed ADP systems, such as a client information system or a client eligibility system, to administer the PA programs. This section of the Review Guide provides review steps and commentary for use in determining the adequacy of the PA agency's proposed ADP cost allocation methodologies.

Departmental regulations covering FFP for ADP equipment and services are identified in 45 CFR Part 95, Subpart F. In addition, each program may also have special requirements regarding ADP costs.

STEPS

1. Determine that the Plan adequately describes the various ADP services supporting the PA agency operations and identifies both the organization(s) providing the services and the costs related to those services.

2. Where ADP services are charged to benefitting programs, functions, and activities based upon a billing rate structure, determine that the Plan adequately describes the costing and charging methodology used. The following should be considered in making this determination:
 - a. The costing and charging methodology identifies each of the ADP services provided and its related cost.

 - b. The costing and charging methodology assigns the costs of the ADP facility to all users. The plan should describe how costs are identified and assigned to individual projects and programs.

COMMENTS

The plan should identify the ADP services and costs used to support the agency's programs, functions, and activities. This would include the services used to support the administrative activities as well as those specialized systems used in the administration of the PA programs, such as a client eligibility system, a Medicaid Management Information System (MMIS), etc.

This step does not apply to ADP services provided to the PA agency by organizations whose ADP costing and charging methodologies have been reviewed and approved by the cognizant Federal agency. Therefore, this step would not apply to an ADP facility whose billing rate structure has been reviewed and approved by the DCA as part of the State-wide cost allocation plan or approved as a billed service by the cognizant Federal agency as part of a State agency's departmental cost allocation plan.

Where the charges to a PA agency are based upon a Federally approved costing and charging methodology, the review of ADP costs may be limited to the identification and treatment of those charges by the PA agency as described in their Plan and covered under steps IV.A.3. through 5. of this Review Guide.

STEPS	COMMENTS
c. The Plan describes the basis upon which each billed service is charged.	
d. Where the ADP billing rates are established based upon estimated costs (e.g., historical, projected, or budgeted costs), the Plan provides for their periodic reconciliation and adjustment to actual costs.	These reconciliations should be made in accordance with A-87, Attachment C, Section E.3.
3. Determine that the Plan adequately identifies and describes the PA agency's treatment of ADP services and systems costs. The following should be considered when making this determination:	
a. The Plan provides that systems development costs will be allocated in accordance with the Federally approved Advanced Planning Document (APD).	<p>Prior approval may be required under 45 CFR Part 95, Subpart F, in order for the State agency to receive FFP in the costs of ADP equipment and services which exceed specified dollar limitations. ACF's Office of State Systems Policy is responsible for coordinating the review and approval of the APD amongst the affected OPDIVs and other participating Federal agencies.</p> <p>The TANF program is an exception to this. According to our Department's Administration for Children and Families (ACF) the TANF program is not subject to the prior approval requirements in Subpart F.</p>

STEPS

COMMENTS

- b. The Plan provides that the operational costs incurred by the PA agency for ADP services and systems will be separately identified.
- c. The Plan describes the methodology(ies) used in allocating ADP services and systems costs to benefitting programs and identifies the programs to which those costs are allocated.

The OPDIVs should assure that the ADP costs are covered by an approved APD where required and the OPDIVs comments should confirm that the allocation of developmental costs described in the Plan conforms with the approved APD methodology. 45 CFR Section 95.631(a) provides for the separate identification of developmental costs in the Plan.

45 CFR Section 95.631(b) provides for the separate identification of ADP operational costs in the Plan.

The reviewer should determine that the operational costs of ADP services and systems are identified and allocated to all users based on methodologies reflective of the services provided. Allocation base data which relies on recipient counts by program, case counts by program, etc., is commonly used when system usage data does not provide sufficient detail to identify costs to the program level.

For example, the PA agency may identify costs incurred for the maintenance and operation of the State agency's wide area network (WAN). The costs related to the WAN could be allocated to benefitting activities and functions

STEPS

COMMENTS

	<p>(i.e., IM, SS, etc.) based upon the assignment of devices connected to the network. Further allocations may be required to identify these costs to programs. The WAN costs allocated to the IM function, for example, could be allocated to the benefitting IM programs based upon the IM Random Moment Time Study (RMS) statistics.</p> <p>The OPDIVs should comment on the acceptability of the assignment and allocation of ADP services and systems costs to their program(s).</p>
4. Determine that the Plan addresses the treatment of ADP equipment by the PA agency.	<p>The treatment of ADP equipment should adhere to the requirements in A-87, Attachment B, Sections 19. and 38. and 45 CFR Part 95 Subpart G.</p>
5. Determine that the Plan identifies ADP costs that are subject to enhanced FFP rates and/or subject to specific program funding requirements.	<p>The OPDIVs should advise the DCA of unique program requirements relative to ADP services and systems which have cost allocation implications. The OPDIVs should also comment on the acceptability of the plan with respect to those requirements. These program requirements could involve:</p> <ul style="list-style-type: none">– Enhanced FFP allowed for certain ADP costs. The Plan should separately identify ADP costs claimed at an enhanced rate.

STEPS

COMMENTS

6. County level ADP costs should be similarly identified and addressed in the Plan in terms of Steps IV.A. 1 through 5 above, as applicable.

- ADP expenses which need to be identified as administrative costs or non-administrative costs for the purpose of identifying costs subject to program limitations.
- Certain ADP expenses which qualify for the exception to A-87, Attachment A, Section C.3.a. and are allowed under more than one Federal program. For example, according to ACF policy the State Automated Child Welfare Information System (SACWIS) legislation and implementing regulations created a limited exception to that requirement that satisfied the criteria in ASMB C-10. As a result, ACF allows SACWIS costs related to the support of State-funded foster care and adoption activities to be charged to the Title IV-E program.

ADP costs at the county level may be allocated to benefitting programs and activities on a basis other than usage (i.e., staff counts, IM worker time study results, etc). When this occurs, the reviewer needs to assess the appropriateness of the allocation methodology. The level of analysis should be guided by the materiality of the dollars and FFP involved.

B. QUALITY CONTROL

A quality control (QC) function to identify eligibility and over/under payment errors is mandated under the Food Stamp and Medicaid programs. However, some States continue to perform QC reviews for other programs such as TANF. A State may have an integrated QC function or a separate QC function by program. The QC reviews performed may be based upon a sample of the entire population of a program's cases; however, under the Medicaid program, a State can be approved to perform targeted QC reviews which are directed at certain segment(s) of the Medicaid case population.

<u>STEPS</u>	<u>COMMENTS</u>
1. Determine that the Plan identifies and describes the organization and operation of the State agency's QC function.	The Plan materials should indicate whether the State agency has an integrated QC function or a separate QC function for each program.
2. Determine that the Plan identifies the costs associated with the QC function.	The QC activity is normally performed by a separate organizational unit(s) and its costs are readily identifiable.
3. If an integrated QC function is used, determine that the Plan methodology for distributing QC costs among programs is a reasonable measure of the QC effort devoted to each program.	The recommended allocation base is the number of reviews completed during the quarter. However, time reports or an acceptable substitute system as provided for under A-87, Attachment B, Section 11.h., should be used when a separate QC activity is performed for a specific program but not for the other programs, or if significantly more effort is required to review one type of program case in comparison to the other types of cases reviewed. Where a time reporting system or a substitute system is maintained, the plan should include a copy of the effort

STEPS

COMMENTS

4. Where a separate QC function is established for each program, determine that the Plan describes the documentation maintained by the State agency to support the salaries and wages assigned to each program.

report, a copy of the effort reporting instructions and definitions used, and an explanation as to how these QC costs are identified and allocated to benefitting programs.

The plan should describe the documentation maintained by the PA agency to support staff salaries related solely to one Federal program as required by A-87, Attachment B, Section 11.h.(3).

C. LEGAL SERVICES

The PA agency may have a legal services unit which provides legal support for the agency's day-to-day operations as well as a fair hearings and appeals unit responsible for conducting administrative hearings under the PA programs.

1. Legal Services:

The types of legal services provided to the PA agency normally include the provision of legal advice and opinions, contract review, assistance in the promulgation of administrative rules and regulations, litigation services, etc. These services may be provided "in-house" by PA agency legal staff, under contractual arrangements with another State agency (e.g., the Attorney General's Office), or by private counsel.

STEPS

COMMENTS

- a. Determine that the Plan describes the various types of legal services used by the PA agency and identifies the organization(s) providing the service.

STEPS

COMMENTS

- b. Determine that the Plan identifies and describes the cost treatment accorded each of the various types of legal services.

- c. Determine that legal services costs are allocated to benefitting programs in a manner which is reflective of the legal efforts devoted to each program.

The reviewer should assure that the costs related to each of the various types of legal services are treated consistently regardless of the organization providing the service.

The State Guide recommends that direct hours be used in assigning these costs to benefitting activities and programs. Contractually provided services should be directly assigned to the program requiring the services.

2. Fair Hearings and Appeals:

The Fair Hearings and Appeals unit is responsible for assuring due process in administrative hearings under the PA programs, providing an independent review and decision regarding previously denied client assistance or services.

STEPS

COMMENTS

- a. Determine that the Plan provides for the identification of costs related to “fair hearings”.

- b. In describing the activities of the Fair Hearings and Appeals unit, determine that the Plan identifies all of the various types of cases heard under each program by this unit.

By regulation this function must be conducted by an impartial official or designee of the PA agency who was not directly involved with the initial determination of the action being appealed. PA agencies may have a unit designated to preside over these proceedings.

STEPS

COMMENTS

- c. Determine that the allocation base distributes fair hearings and appeals costs on a representative basis to benefitting programs.

The recommended allocation base in the State Guide is the number of hearings disposed of (completed) for each program during the quarter. However, an alternative allocation base should be used if the efforts associated with a given program are consistently and significantly different than those required on other programs.

Effort reporting is an acceptable alternative. Where effort reporting is used, the Plan should identify the categories of effort and describe how the costs of these efforts are allocated to benefitting programs. If agreed to, weighting factors represent another alternative. These factors should reflect the different levels of effort required on each of the various types of appeal. Where such factors are used, the Plan should describe how they are developed and provide that the factors are reviewed and updated at least annually.

D. FRAUD INVESTIGATION AND PROSECUTION

The investigation and prosecution of suspected fraud and abuse cases can be provided by PA agency staff or by other agencies and organizations under contract with the PA agency.

Fraud investigation activities may include both a “front end” or pre-payment system and a “back end” or post-payment system. “Front end” detection systems involve the investigation of suspicious cases, where fraud and abuse are anticipated to occur. “Back end” or post payment systems involve suspected cases of fraud and abuse identified by eligibility workers and referred to the organization responsible for conducting the investigation.

STEPS

COMMENTS

- | | |
|--|--|
| 1. Identify the organization(s) providing fraud investigation and prosecutorial services. | If these functions are provided by a governmental unit(s) outside the PA agency, the activities would be subject to the plan statement required by 45 CFR, Section 95.507 (b)(6). |
| 2. Determine that the Plan describes the activities performed by the organization(s) and provides for the identification of all costs related to those activities. | The OPDIVs should comment on the allowability of the activities and costs allocated to its program(s). |
| 3. Determine that the allocation base provides an equitable distribution of costs to benefitting programs. | A case count basis can be used to distribute these costs unless it can be shown that the effort associated with one program is consistently greater than another. For example, investigative costs could be allocated based upon the number of fraud and abuse cases investigated during the quarter. Time reports can be used as an alternative (i) when unique activities are required for some programs, or (ii) if it is shown that the effort associated with one program is consistently greater than another. |

E. STAFF DEVELOPMENT AND TRAINING

Normally the PA agency has a staff development and training function to support its workers and the programs which it supervises or administers. The PA agency may have a separate staff development and training unit(s) or it may have specific staff assigned to perform this function. PA agency staff may be responsible for curriculum development as well as instruction or the PA agency may contract for these services with another organization such as a University, with designated PA agency staff responsible for the administration of these contracts.

The staff development and training function can be described in terms which are relevant to the purpose of cost allocation. With respect to the Plan, the following items should be considered, where applicable, in defining this function:

- Provider of staff development and training: The PA agency units involved with staff development and training should be identified in the plan and their responsibilities described.
- Subject matter of the training: Training can include:
 - training of an administrative nature, e.g., training in clerical procedures, general office training, etc.;
 - training which is supportive of more than one program, e.g., training in the eligibility determination process, training in effective client interviewing techniques, etc.;
 - training which relates to only one program but more than one fund source, i.e., foster care training which benefits both the Title IV-E and non-Title IV-E funded portions of that program;
 - training which is specific to a program, such as Food Stamp issuance training.
- Length of the training: The training may be of short-term or long-term duration.

- Individuals receiving the training: The training may be provided to PA agency staff as well as staff from other organizations, to include staff from other State agencies, nonprofit agencies, etc.
- FFP rates: The training costs claimed can be subject to different FFP rates depending upon the program regulations.

Because of the unique staff development and training requirements and regulations, specific comments from each OPDIV regarding the acceptability of costs allocated to its program(s) are essential in evaluating this area.

STEPS	COMMENTS
1. Determine that the Plan adequately identifies and describes the operation of the PA agency's staff development and training function.	The contractual training costs incurred by the PA agency may be segregated from the operational costs (i.e., staff salaries, fringe benefits, travel, etc.) of this function. The Plan should identify and address all staff development and training costs incurred regardless of the organization providing the training or how these costs are recorded by the PA agency.
2. Determine that the Plan procedures identify the full cost of the training function.	Central office and local PA agency staff (i.e., eligibility workers, supervisors, etc.) may be involved in course development and/or used as trainers. Appropriate documentation as described in A-87, Attachment B, Section 11.h. should be maintained to support the identification of the staff salaries related to these efforts.
3. Determine that the Plan describes the method(s) used by the PA agency to identify and measure the cost of training provided to the benefitting	In identifying the cost of training related to a particular function or program, the PA agency may use a cost per participant, a cost per course, or a cost per day approach

STEPS

function(s), program(s) and program funding source(s).

COMMENTS

depending upon the situation. When training programs benefit more than one program and an allocation is made based upon budgetary data using a cost per participant, a cost per course, etc., the Plan should provide that an adjustment from budgeted costs to actual costs will be made at least annually.

Training costs allocated to a particular function should normally be allocated to benefitting programs on the same basis as the cost of the salaries of the workers assigned to that function. For example, general training provided to the IM workers could be allocated to benefitting programs on the basis of the IM RMS results for the period. Any specialized training provided which relates to only one program and program fund source should be identified and assigned to that program.

Training costs identified to the Foster Care program or the Adoption Assistance program normally require further allocation to recognize the benefits provided to both the Title IV-E and the non-Title IV-E funded portions of those programs. In practice, this allocation is generally based upon the ratio of the Title IV-E eligible foster care or adoption cases to the total foster care or adoption cases.

STEPS

4. Determine that the procedures described in the Plan appropriately recognize specific program requirements with respect to the types of cost which may be claimed as training and the FFP rate which applies.

COMMENTS

These ratios are respectively referred to as the “IV-E foster care penetration rate” and the “IV-E adoption penetration rate”.

A PA program may have specific requirements concerning the type of training which is allocable to it, the types of costs which may be claimed as training, and the FFP rate which applies. For example, specific program requirements currently exist with respect to training costs attributable to the Title IV-D and Title IV-E programs which should be recognized.

- Title IV-D program: 45 CFR 304.23(d):

This regulation provides that education and training programs and educational services are not allowable for FFP under the Title IV-D program except the direct cost of short term training provided to IV-D agency staff pursuant to 45 CFR 304.20(b)(2)(viii) and 304.21. The Plan should provide that the full cost of training benefitting the Title IV-D program is identified and assigned or allocated to it and should also recognize that this cost may not be claimed for reimbursement. This reimbursement restriction should not affect the application of the cost allocation principles and the

STEPS

COMMENTS

identification of the full cost of training benefitting this program.

- Title IV-E foster care and adoption assistance programs: 45 CFR 1356.60(b) and 45 CFR 235.63 through 235.66(a):

These regulations address the specific circumstances and types of costs which may be claimed as training at the 75% FFP rate under the Title IV-E programs. The costs are addressed in terms of staff development personnel assigned to training functions, agency training sessions, and training and education outside the agency.

As a result of specific requirements which may exist with respect to each program, the OPDIVs' comments should be relied on when determining whether the Plan methodology properly identifies costs which can be included and claimed as training under the various PA programs.

F. INTERNAL AUDIT

PA agencies may have an internal audit function responsible for reviewing agency operations to ensure that the PA agency adheres to State Program Plan requirements, State and Federal rules and regulations, as well as other administrative and program policies.

<u>STEPS</u>	<u>COMMENTS</u>
1. Determine whether the PA agency has an internal audit function.	
2. Determine that internal audit costs are allocated in a manner which is representative of the effort devoted to each program or function.	The recommended allocation base is audit hours. The internal audit function is normally job specific and the audits can encompass an extended period of time. Audit efforts identified to a particular program should be allocated to that program. Where an audit benefits more than one program, the costs may be included in the appropriate cost pool for further allocation.

V. INCOME MAINTENANCE AND SOCIAL SERVICES WORKER RELATED COSTS

The Income Maintenance (IM) and Social Services (SS) functions represent the largest administrative cost pools in a State or Local PA agency. They are usually distinct organizational units because the IM and SS workers perform different functions. The IM worker is responsible for determining program eligibility and performing related case management and case maintenance activities for the financial assistance programs, nutritional assistance programs, and medical assistance programs. The SS worker is responsible for providing for, or arranging for, a wide variety of social services, to include child welfare services such as foster care and adoption assistance, as well as adult services. The IM and SS functions can be administered by the same PA agency, by different units within an umbrella agency, or by separate PA agencies within the State.

Within the IM and SS cost pools, workers having direct contact with clients constitute the single greatest component of costs. Therefore, the costs of each pool are normally allocated to benefitting programs based on some measure of direct worker effort. Since direct worker effort controls the assignment of the majority of administrative costs, it is critical that this area be closely reviewed.

The PA agency should have a separate effort reporting system for both the IM and SS functions, unless the two functions are combined into a single unit, in which case a single system covering both functions would be required. The State Guide recommends that an RMS be used as the standard basis for identifying worker effort by program. If an alternative methodology is used, it must be supported by an analysis demonstrating that it distributes costs in an equitable manner to all benefitting programs. It must also conform to the requirements in A-87, Attachment B, Section 11.h., Support of Salaries and Wages.

In addition to the salaries and wages of direct workers, the IM and SS cost pools may include the salaries and wages of supervisory, clerical and other support personnel, related fringe benefit costs, non-personnel costs, and allocated shares of support services costs (i.e., general and administrative costs, administrative services costs, etc.), special costs (i.e., ADP costs, etc), as well as an allocable amount of shared regional, district, and local office support costs.

The review steps in this section apply to both State administered and State supervised systems. The local level section of this Review Guide should also be consulted when reviewing a State supervised system (see Section VII).

A. SHARED INCOME MAINTENANCE AND SOCIAL SERVICES COSTS

A PA agency that is responsible for administering both the IM and SS programs will typically have separate IM and SS units assigned to regional and/or local field offices. The shared support costs of these offices must be allocated to both the IM and SS units, as well as to other programs and functions that benefit from them.

The objective of this section is to determine whether the Plan properly identifies and distributes shared support costs of regional and local office operations to benefitting functions and programs.

STEPS	COMMENTS
<p>1. Determine that the Plan identifies and describes the shared regional and/or local office support costs.</p>	<p>The Plan should describe this cost pool of shared regional and/or local office costs in sufficient detail for the reviewer to understand the types of costs included in the cost pool and how they benefit the various functions and programs to which they are allocated.</p> <p>The shared pool of regional and/or local office support costs can include the costs of supervisory and clerical support staff, as well as space related costs and other non-personnel costs. It can also include costs allocated from the support services and special cost categories identified in the Plan.</p>

STEPS

2. Determine that the Plan identifies all programs supported by or conducted at the regional and local offices.

3. Determine that the proposed cost allocation methodology results in an equitable distribution of these shared costs.

COMMENTS

An organization chart for the regional and local offices can assist in identifying the functions and programs which benefit from the shared support services provided at the regional and/or local office level. In addition to the IM and SS functions, other functions and programs such as the Child Support program may benefit from shared support services provided by the regional and local offices.

The recommended allocation base is the number of full time equivalent (FTE) personnel assigned to the benefitting functions and programs conducted at the regional and local office level.

However, not all shared support costs at the regional and local office level may benefit all programs conducted at those locations. In such cases, additional cost pools and allocation bases may be required to achieve an equitable distribution of costs. For example, the Child Support program may be directly charged for local office supervisory and clerical support staff. In order to avoid the inconsistent treatment of these types of cost, a separate cost pool would be required to allocate comparable local office supervisory and clerical support staff to non-Child Support functions and programs.

B. INCOME MAINTENANCE AND SOCIAL SERVICES COSTS

The IM cost pool generally includes the costs of activities related to the operation of the IM programs (i.e., the TANF program, Food Stamp program, Medicaid program, State sponsored cash assistance and medical assistance programs, etc.) in the local offices. These activities include the initial screening and eligibility determination of applicants, periodic redetermination of program eligibility, and other on-going case maintenance and case management activities performed by the IM worker. The IM worker activities can benefit a single program, or they can benefit multiple programs. The costs of activities that benefit multiple programs are referred to as "common" costs. These common activities generally occur during intake/prescreening, when making initial eligibility determinations and redeterminations, or when doing case maintenance.

The SS cost pool generally includes the costs of activities related to the provision of social services to adults and children. The SS workers perform various client related activities, to include determining program eligibility for foster care and adoption subsidies, investigating reported incidences of child abuse or neglect, making arrangements for homemaker or housing services, providing or arranging for counseling services, and performing other activities related to protective and preventive services for adults and children. Allowable activities can be funded under Title IV-E, SSBG, Title IV-B, Title XIX, TANF, as well as other Federal and State programs depending upon the eligibility of the client and the type of activity performed.

The objective of this section is to determine whether the Plan properly identifies the costs associated with the IM and SS functions and allocates these costs on an equitable basis to benefitting programs.

<u>STEPS</u>	<u>COMMENTS</u>
1. Determine that the Plan adequately describes the composition of each cost pool.	The Plan should identify and describe the organizational units and types of cost assigned to the IM and SS cost pools. Each cost pool would include the salaries and

STEPS

COMMENTS

2. Determine that the method(s) used by the PA agency to identify IM and SS worker effort to benefitting programs conforms with the requirements in A-87.

3. Determine that the method(s) used to document worker effort identifies and properly defines worker activities with respect to each of the benefitting programs.

fringe benefits of IM or SS staff, non-personnel costs charged to the IM or SS functions, and apportioned shares of costs allocated to the IM or SS functions from other cost pools, to include those from the support services and special cost categories, as well as shared regional and/or local office support costs.

The State Guide recommends the use of an RMS to identify worker effort. Another substitute system should only be used if the PA agency can demonstrate that it results in an equitable allocation of costs to benefitting programs and it conforms with the standards established in A-87, Attachment B, Section 11.h., Support for Salaries and Wages.

The employee or RMS observer will be responsible for completing the time study or observation form. The determination of the program(s) and activity identified at the time of the RMS observation will be made using the PA agency's prescribed activity and program definitions included in the Plan. Therefore, the definitions must be precise and include sufficient detail to enable a worker or sample taker to properly identify the worker's effort for all of the activities performed.

STEPS

activities will be identified and charged to each program.

6. Determine that the Plan adequately identifies and describes the IM and SS worker efforts which require a supplemental allocation methodology to distribute the costs of these efforts to the appropriate program/program funding source.

COMMENTS

reviewed to determine that only allowable worker activities are charged to Federal programs. For example, the Title IV-E Foster Care program does not allow FFP in the costs of providing social services to recipients; the Title IV-D Child Support program does not allow FFP in the costs of activities performed by either the IM or SS workers.

The OPDIVs should comment on the allowability of the worker activities which are charged to their program(s).

The program eligibility for certain clients served may not be known at the time the activity is performed by the worker. As a result, a supplemental allocation will be required to identify this effort to benefitting programs and program funding sources. For example, when a SS worker performs allowable foster care case management activity on behalf of a foster care “candidate”, the “candidate’s” eligibility under the Title IV-E program may not have been established. In cases such as this, the cost of the allowable foster care activity relative to the Title IV-E program is customarily determined based on the application of the “IV-E foster care penetration rate”.

The OPDIVs should comment on the need for and the acceptability of any subsequent allocation methodologies

STEPS

COMMENTS

7. The Plan should identify IM and SS worker activity subject to program administrative cost limitations.

required in determining the cost charged to their programs.

The Plan and/or the Plan's fund matrix should identify any worker activity that is subject to administrative cost limitations. For example, the IM and SS fund matrices should identify the worker activities subject to the fifteen percent limitation on TANF administrative costs. The Plan should provide that amounts in excess of the allowable limit will not be charged to other Federal programs.

The OPDIVs should comment on any administrative limitations required by their program(s) which are affected by the cost allocation process. The activities subject to that limitation should be identified in the Plan by the PA agency and the OPDIV's comments should address the acceptability of the activities which have been identified.

8. Determine that the Plan adequately describes how non-personnel costs are allocated to the benefitting programs.

Generally, non-personnel costs are allocated using the same methodology as personnel costs. If it is determined that a material inequity exists in using the same allocation base, then an alternative base should be considered. The direct charging of non-personnel costs may be permitted as long as similar types of costs

STEPS

COMMENTS

9. Where an RMS is used, determine that the Plan identifies any adjustments required to the IM or SS cost pool.

incurred for other programs are consistently treated as direct costs.

The OPDIVs should review and comment on the acceptability of the treatment of non-personnel costs with respect to their program(s), to include any proposed direct charges.

The PA agency may have IM or SS staff which have been excluded from the RMS and directly charged to a program. In describing the IM or SS cost pool to which the RMS results are applied, the Plan should clearly identify those staff as well as their related support costs and explain that these costs have been removed from the cost pool prior to the application of the RMS results.

For example, the PA agency may have a discrete group of IM workers located in a hospital district office who work solely on the Medicaid program. Where the PA agency directly identifies and charges those costs to the program, the IM cost pool must be adjusted to exclude the costs associated with that hospital district office prior to applying the IM RMS results. In addition to explaining the adjustment, the plan should also describe the documentation maintained to support the salaries of these directly charged staff as required by A-87,

STEPS

COMMENTS

Attachment B, Section 11.h., Support of Salaries and Wages.

The OPDIVs should comment on the appropriateness of these direct charges to their programs.

VI. EFFORT CERTIFICATION AND EFFORT REPORTING SYSTEMS

Personnel services costs are a major part of the administrative costs of public assistance programs. Therefore, accurate identification of worker effort is necessary in determining the proper cost for each program. The basic standards for the support of salary and wages are described in A-87, Attachment B, Section 11.h., Support of Salaries and Wages, and include:

- Effort Certifications used for employees that work solely on a single Federal award or cost objective.
- Personnel Activity Reports used for employees that work on multiple activities or cost objectives.
- Substitute systems for allocating salaries and wages approved by the cognizant Federal agency. Substitute systems using sampling methods should meet acceptable statistical sampling standards. Acceptable substitute systems include random moment time studies (RMS) used to support the identification of IM and SS worker effort under the PA programs.

This section covers review steps and comments regarding the support for salary and wage distributions with respect to effort certification, personnel activity reporting, and random moment time studies used by the PA agency.

A. EFFORT CERTIFICATION

For employees that work solely on a Federal award or cost objective, charges for employee effort must be supported by periodic certifications of effort as described in A-87. These certifications must be prepared at least semi-annually and signed by the employee or supervisor having first hand knowledge of the work performed by the employee.

STEPS

1. For employees that are expected to work solely on a single Federal award or cost objective, determine that the plan provides for the periodic certification of employee effort as required by A-87, Attachment B, Section 11.h.(3).
2. Determine that this certification process is adequately described in the Plan.

COMMENTS

The Plan should include information which describes the certification process in terms of its frequency and the position/working relationship of the individual authorized to certify effort if other than the employee. The Plan should also include a copy of the effort certification form as well as the instructions related to its completion.

The effort certification would normally include the name of the employee covered by the certification, indicate the reporting period covered, identify the program worked on, include a statement certifying the employee worked solely on that program, and provide space for the employee's signature. If someone other than the employee signs/certifies the effort, the certification statement should also stipulate that the individual attesting to the employee's effort had first hand knowledge of the employee's activities during the reporting period.

STEPS

COMMENTS

The Plan should also indicate the PA agency's components subject to this certification process.

B. PERSONNEL ACTIVITY REPORTS

For employees that work on multiple activities or cost objectives (i.e., more than one Federal award, an indirect cost activity and a direct cost activity, etc.), their salary distributions should be supported by personnel activity reports or equivalent documentation which meet the standards described in A-87. These standards generally require that personnel activity reports (PAR), which account for an employee's total activity during the reporting period, be prepared at least monthly and signed by the employee.

STEPS

COMMENTS

1. Determine that the Plan provides for the use of a PAR or equivalent documentation to support the salary assignment of an employee charged to more than one activity or cost objective as required by A-87, Attachment B, Section 11.h.(4).

Salary distributions for employees who work on multiple activities and/or cost objectives should be supported by a PAR or equivalent documentation which meets the standards described in A-87, Attachment B, Section 11.h.(5).

2. Determine that the PA agency's PAR system defined in the Plan is acceptable and is in accordance with A-87, Attachment B, Section 11.h.(5).

The Plan submission should include the following types of information relative to the PA agency's PAR system:

- A description of how the PAR system operates, the period covered by the PAR, the frequency with which it is completed, etc.

STEPS

COMMENTS

- A copy of the employee PAR
- A copy of the related program and activity definitions as well as instructions related to the PAR's completion.
- Where the activities performed are for a specific client, the PAR form should also provide that information regarding the name or case number of the client served be recorded. This information provides an audit trail for purposes of evaluating and validating the efforts reported.
- Identification of the PA agency's organizational units subject to the PAR system and those units responsible for its operation.
- A description of how the PAR results are accumulated and applied to the PA agency's costs.
- A program fund matrix or similar document should be included which identifies the program and program fund source(s) charged for each effort reporting activity.

STEPS	COMMENTS
3. Determine that the activities identified on the PAR are properly defined and include only allowable activities under each program.	The comments provided by the OPDIVs should be relied on in determining the acceptability of the efforts identified and charged to their programs.

C. SUBSTITUTE SYSTEMS - RANDOM MOMENT TIME STUDY

In a PA agency, IM and SS workers perform a wide range of activities which may be eligible for reimbursement under Federal programs. However, PA agencies do not customarily use a PAR system to support the salary distributions of these workers. This is due, in part, to the diversity of the activities performed by the worker as well as the client's eligibility for various programs.

An RMS requires a minimal amount of IM or SS worker effort to complete in comparison to a PAR system and is less disruptive to the worker. As a result, an RMS is the substitute system customarily used for identifying the effort and allocating the IM and SS worker salaries. However, the results from an RMS which is poorly designed, improperly implemented, or where RMS participants are inadequately trained can adversely affect the RMS results and cost reimbursement under the Federal programs.

An RMS system relies on statistical sampling using the laws of probability to estimate total worker effort based on a limited number of worker observations. The use of a statistically valid study allows for the identification of worker effort and cost under the PA programs with a measurable degree of confidence and precision. Because these are usually two distinct worker populations, IM and SS, performing different functions, each population will have its own specific RMS designed to identify the activities performed and the programs that benefit.

More specific information on the design and implementation of an RMS is contained in Appendix C of the State Guide.

This section includes review steps and guidance to assist the reviewer in determining whether the RMS proposed by the PA agency will accurately reflect worker effort and result in an equitable distribution of costs to benefitting programs. The same steps apply when reviewing either an RMS for IM workers or an RMS for SS workers unless otherwise noted.

STEPS	COMMENTS
<p>1. Determine that the PA agency has provided sufficient information to permit a thorough review of the design of the RMS.</p>	<p>The Plan should include the following information related to the RMS:</p> <ul style="list-style-type: none"> – A description of the sample design, to include: <ul style="list-style-type: none"> -- type of sample (simple random sample, stratified sample, cluster sample, etc.), -- the expected level of precision of sample estimates (confidence level, allowable sampling error, and rate of occurrence) on which the calculations of sample size are based, -- the sample universe and sample size, -- the local offices and types of worker included in the sample universe, and -- the period covered by the sample.

STEPS

COMMENTS

- A description of the operation of the RMS, to include:
 - the random sample selection process,
 - the method used to take the worker observation (worker completed form, RMS observer, etc.), and
 - the period in which the RMS observations are taken and the cost period to which the RMS results are applied.
- A description of how the sample results are accumulated and applied.
- A description of the controls in place with respect to the performance of the RMS and the evaluation of the RMS results.
- Copies of the RMS forms, RMS definitions, and instructions.
- A fund matrix or similar document which identifies the program and program fund source charged for each of the RMS responses and the FFP rate applied.

STEPS

2. Determine that the proposed RMS system conforms to the confidence level, precision, and sample size requirements recommended in the State Guide.

3. Determine whether or not the entire workday is included in the sample universe.

4. Determine whether or not the entire direct worker population is included in the sample universe.

COMMENTS

The State Guide recommends a confidence level of 95% with a sampling error of +/-2% for activities with a rate of occurrence of at least 5%; for activities with a rate of occurrence of less than 5%, a precision of +/-5% is recommended.

The sample size needed may be determined from the formula included in the State Guide. The State Guide specifies that a minimum 2,000 valid observations per sample period be obtained. A "valid observation" is defined as any observation other than a "non-strike". A "non-strike" occurs whenever a selected employee could not be contacted at the selected moment, i.e., the employee no longer works in the office, the employee is on a flex-schedule and not at work at the time of the observation, etc.

Some States allow their workers to work flex time or some other non-standard work schedule. The sample universe should give appropriate consideration to all hours worked by the employee to include flex time or non-standard work schedules. The PA agency must provide appropriate support for excluding any hours from the sample universe.

The sample universe should normally include all workers with direct client contact (direct workers). The Plan

STEPS

COMMENTS

5. Determine that the Plan identifies the PA agency unit(s) responsible for the administration and operation of the RMS.

should clearly identify and explain why any direct workers are excluded from the sample universe. For example, the IM RMS universe may exclude direct workers in a hospital district office working solely on the Medicaid program. Appropriate adjustments to the IM cost pool must also be made to eliminate all costs, including support services costs, related to those direct workers excluded from the sample universe.

Additionally, if those excluded workers are charged directly to a Federal program(s), appropriate documentation must be maintained to support the charges for their salaries as required by A-87, Attachment B, Section 11.h.

The Plan should specify the responsibilities of each PA agency unit involved with the administration and operation of the RMS. The Plan should identify the unit responsible for receiving the completed RMS forms and describe the controls in place to assure all observation forms are promptly returned and properly completed, as well as the procedures followed when forms are not returned or are incomplete.

STEPS

6. Determine that the controls over the RMS process described in the Plan are adequate to ensure the accuracy of the RMS results.

COMMENTS

Those controls may include:

- Periodic training provided to the RMS observers and direct workers to assure they understand the RMS process. Training material should explain the purpose of the RMS and should not introduce concepts which foster any form of bias.
- A subsample of observations taken by someone other than the designated sample taker. The results of this subsample, normally about 10% of the total RMS observations, should be compared to the results of the RMS. The reason(s) for any significant differences should be investigated and any problems disclosed should be promptly resolved.
- Computations should be routinely made to ensure that the desired precision and confidence levels are being achieved.
- Comparisons of the RMS results should be made with other related statistical data. Significant differences noted in those relationships between periods should be investigated to assure that the RMS is operating properly and any problems disclosed are promptly resolved.

STEPS

COMMENTS

7. Determine that the RMS instructions are clear and free from bias. The activity definitions used by the workers in responding to the RMS should also be reviewed to determine that they adequately identify and describe the activities performed by the workers and that only allowable activities will be charged/allocated to benefitting programs.

- Reviews of the RMS operations should be made periodically by the PA agency to assure it is operating properly. This would include its operation at the local office level to determine whether the workers understand the RMS process as well as the RMS instructions and definitions, and that the RMS forms are properly completed.

The RMS instructions must clearly define each program and activity category on the observation form. The RMS form must include **all** programs and program activities performed by the workers. It is important that the worker understands how to determine the program(s) being worked on and the activity performed as the worker may be with a client at the moment selected for observation.

The fund matrix should show by funding source, how each valid program and activity combination listed on the RMS form will be charged. The OPDIVs' comments should be relied on when determining the adequacy and acceptability of the activity definitions with respect to their programs.

8. Determine that the RMS form includes sufficient

The observation form is the link between the activity

STEPS

information to provide an adequate audit trail.

COMMENTS

performed by the worker at the time of the RMS observation and the statistics applied to the cost pool. The sample form should include the following information: employee name, office, observation date and time, a space to list the client name and/or case number worked on, identification of the program worked on and activity being performed at the time of the observation, etc.

If the employee was on leave at the time of the selected RMS observation, time and attendance records maintained by the PA agency can be used to verify this.

9. Determine that the Plan provides for updating the RMS for programmatic changes.

The PA agency should have written procedures which provide that the RMS unit be advised of changes to the programs operated by the PA agency so that changes to the RMS forms and instructions may be made in a timely manner.

VII. LOCAL LEVEL PLANS

States may deliver PA services under either a "State administered" or a "State supervised" system.

Under a State administered system, state employees may work in central, regional and local offices where they are responsible for administering PA programs. These offices may be assigned to service specific geographic populations and/or administer specific programs.

Under a State supervised system, there is an agreement or contract between the State PA agency and an agency at the local level where the local agency, using its own employees and/or contractual services, administers the PA programs under the supervision of the State. These local agencies are typically Counties but may also include Municipalities. In some instances, non-profit or for-profit organizations may also enter into agreements with the State agency to administer the PA programs. The State provides program policy, direction, and funding to the local organization for the services it provides. The funding arrangements, and the extent to which programs are funded, may vary by State, with the State PA agency fully or partially funding the costs incurred by local agencies in their administration of the PA programs. The costs incurred by the local agency under the PA programs are identified, measured, and allocated in accordance with the local agency Plan and reported to the State agency. The State agency accumulates these expenditures by program for inclusion in their quarterly claims for FFP under each of the Federally assisted programs.

The differences between a State administered system and a State supervised system present some cost allocation issues of concern to the reviewer. Under a State administered system, the normal administrative support activities (e.g., space related costs, personnel, accounting, ADP, etc.) may be part of the State PA agency's ongoing operations or provided by other State agencies and included in the State-wide central services cost allocation plan. As such, the cost allocation methodologies should be consistently applied irrespective of the physical location of the State offices or program operations. However, under a State supervised system, there may be differences in the organizational structure (e.g., central services, size, etc.) or program operations (e.g., generic vs. dedicated workers, non-public assistance programs, etc.) among the local agencies which may necessitate several different cost allocation methodologies.

Consequently, there may be a need for more than one cost allocation plan to account for these differences, or there may be a need to have multiple cost allocation methodologies included in a single Plan that addresses the differences that exist among the local agencies.

This section provides criteria to be considered when determining the need for additional cost allocation plans at the local level as discussed in 45 CFR Part 95 Section 95.507(b)(7). It also contains supplemental review steps that should be used in conjunction with other parts of this Review Guide in evaluating cost allocation plans for local agencies in a State supervised environment. Where more than one local level plan or cost allocation methodology is found to be necessary, each should be subjected to the appropriate review steps outlined in other sections of this Review Guide.

A. DETERMINING THE NUMBER OF LOCAL LEVEL PLANS

Under a State supervised system, the State PA agency Plan should include a separate Plan(s) covering the local agencies responsible for administering the PA programs. In State supervised systems, it is not unusual for a few local PA agencies to account for a significant portion of the PA program activity in terms of the number of staff employed, the number of cases managed, etc. In order to properly identify, measure, and allocate or assign administrative costs to benefitting programs it may be necessary to have more than one local level Plan.

This section discusses those factors that should be considered when determining the number of local-wide Plans required to adequately identify, measure, and allocate local agency costs to benefitting programs. The existence of any one of these factors in itself is not necessarily sufficient to warrant the development of more than one local level Plan. It is possible to maintain a single local level Plan and address these differences through specific exceptions to it. Where this occurs, the local level Plan must specifically identify the exception(s), describe the circumstances which necessitated the exception(s), and identify the local agencies to which these differences apply.

STEPS

COMMENTS

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|---|---|
| 1. Are similar accounting systems maintained by all local PA agencies? | Some States mandate the accounting system, account codes, etc. to be used by the local governments, including the PA agencies. Identical or similar systems would be a factor which favors the use of a single Plan for all local PA agencies. |
| 2. Do all local PA agencies allocate and assign costs consistently? | State PA agencies may require local units to identify, report, and allocate costs in the same manner. The consistent treatment of costs by the local PA agencies would favor the use of a single local level Plan. |
| 3. Are the organizational structures of the local PA agencies significantly different? | A local PA agency may be part of an umbrella department or have responsibility for an organizational component operating outside the PA program areas, e.g., a County Home, a Division of Mental Health, etc., while the other local agencies in the State operate only the PA programs. The cost allocation effect of such differences should be recognized in the Plan. |
| 4. Is the manner in which the local PA agency provides services sufficiently different from the other agencies to warrant separate treatment? | In some cases a local agency may contract for the services which are routinely performed by agency employees in the other local agencies. The methods and cost of these services in that local agency may be sufficiently different to necessitate separate treatment. |

STEPS

COMMENTS

5. Is the caseload, employee size, or functions performed by a local agency significantly different from those of the other local agencies?

These factors can affect how staff are assigned within the local agency. Larger agencies may assign staff to work on one program/function (e.g., income maintenance), whereas smaller agencies may assign staff to work on multiple programs/functions (e.g., social services and income maintenance). It may be difficult for one Plan to adequately address these differences.

B. REVIEW OF THE LOCAL LEVEL PLAN

The reviewer should assure that the local level Plan adequately describes the operations and methods used by the local agency to identify, measure, and allocate costs to benefitting programs. Similar review steps to those previously described in this Review Guide can be followed in the review of these Plans and in evaluating the acceptability of the proposed methodologies. The reviewer should determine that the following areas are adequately addressed in the local level plan submission.

STEPS

COMMENTS

1. The reviewer should determine that the Plan identifies the various types of organizations administering the PA programs, the activities they perform, and the services they provide. The type(s) of organization(s) involved in the administration of the PA programs can have an effect on cost allocation.

Under a State supervised system, administration of the PA programs can be performed by local governmental agencies (e.g., a County Department of Human Services), by non-profit organizations, and/or by for-profit organizations under contract with the State agency. The Plan should identify each of these types of organizations and describe the activities they perform and the services they provide. The appropriate Federal cost principles

STEPS

COMMENTS

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2. Determine that the Plan identifies the programs, program fund sources, and services administered at the local level by these organizations. This information should be provided for all programs, to include those funded by Federal and/or State funding sources as well as those sponsored by funding at the local level.

applicable to each type of organization should be recognized in the identification, assignment, and allocation of administrative costs.

Differences in the organization of the local governmental agencies can also affect cost allocation and need to be recognized in the Plan. For example, County organizations can include combined agencies such as a County Department of Human Services which administers both the SS and IM programs, or they may have separate agencies such as a County Department of Economic Assistance which administers the IM programs and a County Department of Social Services which administers the SS programs. In a combined agency, shared costs which benefit both the IM and SS functions must be identified and the Plan should describe the allocation of those costs to benefitting functions.

A State agency's claims for FFP under each program includes both the agency's costs incurred in the supervision of the PA programs and the local organizations' costs incurred in the administration of those programs and reported to the State agency. The level of State agency participation in these local costs can vary by program and the State agency can fully or partially reimburse local organizations for the costs incurred.

STEPS

3. Determine that the Plan describes how all costs of the local organizations are identified, measured and allocated to benefitting functions and programs.

COMMENTS

The State agency will normally provide instructions to the local organizations on how costs incurred in the administration of programs at the local level are to be identified and reported by the PA agency/organization. These materials should be considered in the review of the methodologies described and the Plan should give appropriate recognition to the Federal cost principles applicable to each type of organization administering the program(s).

The allocation base(s) used should be reviewed to determine that all benefitting activities are appropriately identified and included in the distribution base. In addition to the Federally funded PA programs, the local organization may operate State and locally funded PA programs such as medical assistance and/or cash assistance programs. These programs may have State specific names/titles, i.e., General Assistance, Safety Net, etc., and will cover clients who need assistance but do not qualify under a Federally funded program. The local organization can also operate non-PA programs which benefit from and should receive an allocation of costs. These programs can be Federal, State and/or locally funded. The Head Start program is an example.

STEPS

COMMENTS

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|----|---|---|
| 4. | Determine that the Plan explains and describes how costs identified to the IM and SS functions are accumulated and allocated to the benefitting programs. | Where an RMS is used, the reviewer should assure that the Plan properly identifies the costs included in the IM or SS cost pool for allocation and explains how the results from the RMS are accumulated and applied. The State may use a single state-wide RMS, a separate RMS for each local organization, a stratified RMS for large, medium and small local organizations, or some other RMS sample design that can be supported as appropriate to the circumstances. The RMS review steps in Section VI. C. of this guide should be used to evaluate the acceptability of the proposed RMS. If an alternative method to the RMS is used, it must conform to the standards in A-87, Attachment B, Section 11.h. |
| 5. | Determine that the Plan identifies how costs allocated to the local PA agency from non-PA local agencies are identified, accumulated and allocated to the benefitting PA agency programs. | The local PA agency may receive services from non-PA local agencies. These services may be allocated through the local government's central services cost allocation plan or included as a component of an indirect cost rate. They can also be covered under individual purchase of services agreements. Regardless of the methodology used, the Plan should identify these costs and explain how they will be allocated to the benefitting programs. |
| 6. | Determine that the Plan specifies whether State generated or local agency statistics will be used to allocate costs. | Cost allocation statistics used to allocate the various cost pools may be generated by the State and/or by the local agency. State PA agencies may require the local organizations to use consolidated state-wide allocation |

STEPS

COMMENTS

statistics or they may require each local organization to use allocation statistics applicable to their operations. In either case, there should be consistency in both the type and source of the statistics used by the local agencies. The Plan should include specific guidance on this.

VIII. ONE-STOP CENTERS (Reserved)

IX. GLOSSARY OF TERMS

Administrative Costs - All costs allocated or incurred by the State agency except expenditures for financial assistance, medical vendor payments and payments to third parties in compensation for services or goods provided directly to program recipients. These State agency costs include all administrative costs, both direct and indirect, incurred in support of the various programs administered or supervised by the State agency. Within the context of a particular program, the term administrative cost can be defined to include only certain types of cost (e.g., the TANF program regulations specifically define administrative costs which are subject to the 15% cap).

ADP Cost Allocation Plan - A narrative description of the methods and procedures, supported by appropriate cost schedules, the State will use in identifying, accumulating and distributing costs assigned to data processing systems and facilities.

Case Management - Many activities may be identified as case management. However, in relation to a specific client, applicant, or case the typical activities include documentation, needs assessment, evaluation, referral to services, monitoring, transportation, completing forms or supervisory consultations.

Common Activities and Common Costs - Common activities and costs which benefit more than one program. These activities can include intake/processing, initial eligibility determination, redetermination, etc., and are customarily identified through the effort reporting system used by the IM and SS workers.

Direct Costs - Those costs (e.g., salaries and wages, fringe benefits, travel, and supplies) that can be specifically identified to a particular program. For this Guide, the term program refers to the final cost objective where costs are ultimately charged after completion of the costing process. It could include a program that is subject to one rate of FFP, or to a specific programmatic activity which is subject to an incentive FFP rate.

Federal Financial Participation (FFP) - The Federal government's share of expenditures incurred by a State under the various public assistance programs. Commonly stated as a percentage of allowable cost as specified under the applicable program regulations (e.g., 50% FFP, 75% FFP, etc.).

Income Maintenance Worker (IM) - The title used to refer to a worker whose main efforts will be to determine initial and on-going client eligibility under the IM programs (i.e., TANF, Food Stamp, Medicaid, State sponsored cash or medical assistance, etc.). These workers have direct contact with the client and their efforts normally involve activities such as initial client screening, eligibility determination, redetermination, case maintenance, case management, etc.

Indirect Costs - Costs incurred for common or joint purposes that cannot be specifically identified to a particular program or intermediate cost pool. Indirect costs must be allocated to the intermediate cost pools or the individual programs that benefit from those costs.

Local Agency - The County or Municipal government Agency that is responsible for the administration of public assistance programs in a State supervised system.

OPDIV - A term to include all Federal agencies involved in the review and approval of the public assistance cost allocation plan. Depending on the programs operated by the State Agency, OPDIV could include ACF and CMS (formerly HCFA) within DHHS, and the Departments of Agriculture, Education and Labor.

Public Assistance Cost Allocation Plan (PACAP or Plan) - A narrative description of the methods and procedures the State agency will use in identifying, measuring and allocating all State agency costs incurred in support of all programs administered or supervised by the State agency.

Public Assistance (PA) Program - The programs to provide assistance or services to eligible clients as cited in 45 CFR 95.503. These programs are authorized by specific legislation such as the Social Security Act, or by other Federal Departments such as Agriculture, Education or Labor.

Random Moment Time Study (RMS) - A work sampling technique for statistically determining the amount of effort spent by a group of employees on various activities. A RMS study consists of a number of individual observations of employee activities taken at randomly selected points in time. Based on these observations, the total effort of a group of employees can be estimated with a measurable degree of confidence and precision that the results approximate those had the employees been observed 100% of the time.

Social Service Worker (SS) - The title used to refer to a worker whose main efforts will be to determine client eligibility and provide case management services to eligible clients under the social services and child welfare programs, i.e., Title XX, Title IV-B, Title IV-E, etc. These workers have direct contact with the client and their efforts can involve protective service investigations, eligibility determination, redetermination, as well as the referral to or provision of social services.

State Administered System - A system where the development of the State plans, policies and procedures as well as their implementation and operation at the local level are performed directly by the State. The employees located at the local level are State employees and the costs incurred at that level are obligations of the State. Any services provided by a local government must be contracted for (unless provided for under a Local-Wide Cost Allocation Plan) and paid by the State if the State wishes to claim the cost of the services under any Federal program.

State PA Agency - The State agency administering or supervising the administration of one or more of the State plans for the PA programs cited in 45 CFR Part 95, Subpart E, Section 95.503. A State agency may be an organizational part of a larger State department that also contains other components and agencies.

State (Program) Plan - The comprehensive written commitment by the State agency to administer or supervise the administration of the individual public assistance program in accordance with all Federal requirements. The State plan is usually approved yearly by each OPDIV and considered in their review of the Plan.

State Supervised System - A system where the State Plans, policies and procedures are established at the State level, but the programs are operated at the local level under the supervision of the State agency. Local level organizations that administer the PA programs normally include local government agencies such as a county Department of Human Services, but may also include non-profit or for profit organizations under contract with the State PA agency. The local level organizations must accumulate their costs and other required data in accordance with the format and instructions provided by the State PA agency.

X. PROGRAM DESCRIPTIONS

A. Title IV-A, Temporary Assistance for Needy Families (CFDA No. 93.558)

Objective: To provide assistance to needy families with children so that children can be cared for in their own homes; to reduce dependency by promoting preparation, work, and marriage; to reduce and prevent out-of-wedlock pregnancies; and to encourage the formation and maintenance of two-parent families.

Beneficiary Eligibility: Needy families with children, as determined eligible by the State, Territory or Tribe in accordance with the plan submitted to the Department of Health and Human Services (HHS).

Regulations: 45 CFR, (starts at) Part 260. Block grant with administrative costs limited to 15 percent of total costs excluding certain Information Technology expenses. A-87 rules apply.

Federal Agency: Administration for Children and Families, Department of Health and Human Services

Web Site Address: <http://www.acf.dhhs.gov/programs/ofa>

B. Title IV-B, Child Welfare (CFDA 93.645)

Objective: To provide grants to States and Indian Tribes under Title IV-B of the Social Security Act. Services are available to children and their families without regard to income. Publicly funded Child Welfare Services are directed toward the goal of keeping families together. They include preventive intervention so that, if possible, children will not have to be removed from their homes. If this is not possible, placements and permanent homes through foster care or adoption can be made. In addition, reunification services are available to encourage the return home, when appropriate, of children who have been removed from their families.

Beneficiary Eligibility: Children and family services under Title IV-B, subparts 1 and 2, must be available on the basis of need for services and must not be denied on the basis of income or length of residence in the State or within the Indian Tribe's jurisdiction.

Regulations: 45 CFR 1355 and 45 CFR 1357. Formula Grants. States receive Federal matching at the rate of 75 percent of expenditures up to the limit of each State's allocation.

Federal Agency: Administration for Children and Families, Department of Health and Human Services

Web Site Address: <http://www.acf.dhhs.gov/programs/cb>

C. Title IV-D, Child Support Enforcement (CFDA No. 93.563)

Objective: To enforce the support obligations owed by absent parents to their children, locate absent parents, establish paternity, and obtain child, spousal and medical support.

Beneficiary Eligibility: The State must provide enforcement services to (1) all applicants for, or recipients of TANF, Foster Care Maintenance Payments, and Medicaid, for whom an assignment to the State of support rights has been made and who are in need of such services; (2) all individuals who cease to receive TANF; (3) individuals who provide authorization to the IV-D agency to continue support enforcement services; and (4) any other individual who is in need of such services and who has applied for them.

Regulations: 45 CFR, Chapter III, Parts 301 through 307; Part 304 concerns Federal Financial Participation

Federal Agency: Administration for Children and Families, Department of Health and Human Services

Web Site Address: www.acf.dhhs.gov/programs/cse

D. Title IV-E, Foster Care (CFDA No. 93.658)

Objective: To provide funds to States to assist with: the costs of foster care maintenance for eligible children; administrative costs to manage the program; and training for staff, for foster parents and for private agency staff. The purpose of the program is to help States provide proper care for children who need placement outside their homes, in a foster family home or an institution. Funds may not be used for the costs of social services provided to a child, the child's family, or the child's foster family.

Beneficiary Eligibility: A child placed in foster care who meets the following criteria: (1) the removal from the home occurred pursuant to a voluntary placement agreement or was the result of a judicial determination; (2) the child's placement and care are the responsibility of the State; (3) such child has been placed in a foster family home or child care institution pursuant to a voluntary agreement or judicial determination as referred to in (1); and (4) such child would have received aid under Title IV-A at the time of placement, or resided with a relative eligible for such aid within six months prior to such placement.

Regulations: 45 CFR 1355 – 1356. Formula Grants. States receive Federal matching at the rate of 75 percent of training costs and 50 percent of other administrative costs.

Federal Agency: Administration for Children and Families, Department of Health and Human Services

Web Site Address: <http://www.acf.dhhs.gov/programs/cb>

E. Title IV-E, Adoption (CFDA No. 93.659)

Objective: To assist in paying maintenance costs for adopted children (AFDC or SSI eligible) with special needs, e.g., children who are older or handicapped. Funds are also used for the administrative costs of managing the program and training staff. The goal of this program is to facilitate the placement of hard to place children in permanent adoptive homes and thus prevent long, inappropriate stays in foster care.

Beneficiary Eligibility: Beneficiaries are children who: (1) Are AFDC (as in effect July 16, 1996), IV-E-FC, or SSI recipients or are eligible for AFDC (as in effect July 16, 1996), IV-E-FC, and SSI; or (2) have been determined by the State to be special need, e.g., a factor or condition which makes it reasonable to conclude that they cannot be adopted without adoption assistance; a State determination that the child cannot or should not be returned home; and a reasonable effort has been made to place the child without providing financial or medical assistance.

Regulations: 45 CFR 1355 – 1356. Formula Grants. States receive Federal matching at the rate of 75 of training costs and 50 percent of other administrative costs.

Federal Agency: Administration for Children and Families, Department of Health and Human Services

Web Site Address: <http://www.acf.dhhs.gov/programs/cb>

F. Title XX, Social Services Block Grant (CFDA No. 93.667)

Objective: To enable each State to furnish social services best suited to the needs of the individuals residing in the State. Federal block grant funds may be used to provide services directed toward one of the following five goals specified in the law: (1) to prevent, reduce, or eliminate dependency; (2) to achieve or maintain self-sufficiency; (3) to prevent neglect, abuse, or exploitation of children and adults; (4) to prevent or reduce inappropriate institutional care; and (5) to secure admission or referral for institutional care when other forms of care are not appropriate.

Beneficiary Eligibility: Under Title XX, each eligible jurisdiction determines the services that will be provided and the individuals that will be eligible to receive services.

Regulations: 45 CFR 96. A block grant with no matching requirement.

Federal Agency: Administration for Children and Families, Department of Health and Human Services

Web Site Address: <http://www.acf.dhhs.gov/programs/ocs>

G. Child Care and Development Fund (CFDA No. 93.575)

Objective: To increase the availability, affordability, and quality of child care services. The program offers Federal funding to: (1) provide low-income families with the financial resources to find and afford quality child care for their children; (2) enhance the quality and increase the supply of child care for all families, including those who receive no direct assistance under the CCDF; (3) provide parents with a broad range of options in addressing their child care needs; (4) strengthen the role of the family; (5) improve the quality of, and coordination among, child care programs and early childhood development programs; and (6) increase the availability of early childhood development and before- and after-school care services.

Beneficiary Eligibility: Children under age 13 (or up to age 19, if disabled or under court supervision), who reside with a family whose income does not exceed 85 percent of the State median income for a family of the same size, and reside with a parent (or parents) who is working or attending job training or educational program, or are in need of, or are receiving protective services.

Regulations: 45 CFR, Parts 98 and 99. Administrative costs limited to five percent of total expenses.

Federal Agency: Administration for Children and Families, Department of Health and Human Services

Web Site Address: <http://www.acf.dhhs.gov/programs/ccb>

H. Refugee and Entrant Assistance (CFDA No. 93.566)

Objective: To subsidize States for assistance provided to refugees, asylums, Cuban and Haitian entrants, and certain Amerasians from Vietnam for resettlement throughout the country, by funding maintenance and medical assistance, and social services for eligible refugees, asylums, Cuban and Haitian entrants and certain Amerasians from Vietnam.

Beneficiary Eligibility: Refugees who meet requirements of the refugee and entrant assistance program in the State in which they reside.

Regulations: 45 CFR 400 Subpart E and Subpart G

Federal Agency: Administration for Children and Families, Department of Health and Human Services

Web Site Address: www.acf.dhhs.gov/programs/orr

I. Title XIX, Medical Assistance Program (CFDA No. 93.778)

Objective: To provide financial assistance to State for payments of medical assistance on behalf of cash assistance recipients, children, pregnant women, and the aged who meet income and resource requirements, and other categorically-eligible groups.

Beneficiary Eligibility: Low-income persons who are over age 65, blind or disabled, members of families with dependent children, low-income children and pregnant women, certain Medicare beneficiaries.

Regulations: 42 CFR, Chapter IV, Subchapter C, starting with Part 430. Open-ended program (i.e., no limit on claims).

Federal Agency: Centers for Medicare and Medicaid Services (formerly Health Care Financing Administration), Department of Health and Human Services

Web Site Address: <http://www.cms.hhs.gov>

J. Title XXI, State Children's Health Insurance Program (CFDA No. 93.767)

Objective: To provide funds to the States to enable them to initiate and expand child health assistance to uninsured, low-income children. Assistance should be provided primarily by two methods: (1) obtain health insurance coverage that meets the requirements in Section 2103 relating to the amount, duration, and scope of benefits; or (2) expand eligibility for children under the State's Medicaid program.

Beneficiary Eligibility: Low-income children; or children whose family income exceeds the Medicaid applicable income level but does not exceed 50 percentage points above the Medicaid applicable income level; and are not found to be eligible for medical assistance under Title XIX or covered under a group health plan or under health insurance coverage.

Regulations: 42 CFR, Parts 447 and 457. Administrative costs limited to 10 percent of total expenses except for certain costs as shown in 42 CFR 457.228.

Federal Agency: Centers for Medicare and Medicaid Services (formerly Health Care Financing Administration), Department of Health and Human Services

Web Site Address: <http://www.cms.hhs.gov>

K. Food Stamp Program (CFDA Nos. 10.551 & 10.561)

Objective: To improve the diets of low-income households by increasing their food purchasing ability. It also provides for the operation of the program, including eligibility determination and issuance of food stamps to eligible households.

Beneficiary Eligibility: Households may participate if they are found by local welfare officials to be in need of food assistance. Examples include most households who are receiving some form of welfare assistance, or are unemployed, part-time employed, working for low wages, or living on limited pensions. Eligibility is based on family size, income, and level of resources. Able-bodied adults with certain limited exceptions must meet a work requirement.

Regulations: 7 CFR 271 - 282 and 3015.

Federal Agency: Food and Nutrition Service, Department of Agriculture

Web Site Address: <http://fns.usda.gov>

L. Food Stamp Program - Employment and Training (CFDA No. 10.561)

Objective: To provide Federal financial aid to State agencies for costs incurred to operate the Food Stamp Employment and Training Program (FSET).

Eligibility Requirements: Agreements are between the USDA-FNS and State cooperators.

Regulations: 7 CFR 273. States' FSET programs are funded by individual grants requiring no State matching; should a State's costs exceed the grant allocation, additional funding is available on a 50 percent basis.

Federal Agency: Food and Nutrition Service, Department of Agriculture

Web Site Address: <http://fns.usda.gov>

M. Workforce Investment Act (CFDA No. 17.255)

Objective: To design, with States and local communities, a revitalized, workforce investment system that provides workers with the information, advice, job search assistance, and training they need to get and keep good jobs and provides employers with skilled workers.

Beneficiary Eligibility: Title I Youth not less than 14 years old and not more than age 21 identified as low-income and with a specific attribute (e.g., school dropout, homeless, pregnant, etc.). Under Title I Adult and Dislocated Worker Training Activities, core services must be universally accessible to adults and dislocated workers through One-Stop Career Centers. Intensive services may be provided to adults and dislocated workers who are unemployed and unable to employment through core services.

Regulations: 20 CFR 660 - 671. Formula grant.

Federal Agency: Employment and Training Administration, Department of Labor

Web Site Address: <http://www.dol.gov>

XI. REFERENCE MATERIALS

A. HHS Grants Administration Manual 6-200

HHS Transmittal 82.03 (6/1/82)

Subject: Cost Allocation Plans for Public Assistance Programs

6-200-00 Purpose

- 10 Applicability
- 20 Processing Cost Allocation Plans
- 30 Failure to Amend Cost Allocation Plans
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6-200-00 Purpose

This Chapter prescribes procedures for processing cost allocation plans for public assistance programs and defines the responsibilities of the Divisions of Cost Allocation (DCAs) and the Department's Operating Divisions for review and approval of the plans. It also defines the responsibilities of the Operating Divisions and DCAs for monitoring State compliance with their approved cost allocation plans, resolving problems involving a State's failure to comply with its approved plan, and making disallowances of administrative costs inappropriately charged to the programs.

6-200-10 Applicability

This Chapter applies to cost allocation plans developed by State agencies for all public assistance programs including those authorized by Title I, IV-A, IV-B, IV-C, IV-D, IV-E, X, XIV, XVI(AABD), and XIX of the Social Security Act and the Refugee Act of 1980 (P.L. 96-212).

6-200-20 Processing Cost Allocation Plans

A. Submission of Plans

State public assistance agencies will submit their proposed cost allocation plans and plan amendments (collectively referred to as "plans") to the DCA responsible for the region in which the State is located. The plans must conform to the requirements in Subpart E of 45 CFR Part 95.

B. Review of Plans

1. Upon receipt of a proposed plan, the DCA will immediately review the plan and if materially complete will distribute a copy of the plan to all Operating Divisions funding the State agency, the DHHSAA and other concerned Federal agencies for review and comment. If the plan does not substantially comply with the requirements of Subpart E of 45 CFR Part 95, the DCA will return it to the State agency noting the major deficiencies with a request that the plan be resubmitted in accordance with the requirements of Subpart E.
2. Each Operating Division and Federal agency will review the plan and provide the DCA with its comments on (a) the fairness of the cost allocation methods in the plan, (b) whether its programs benefit from the costs that would be allocated to them, (c) whether its programs would be allocated costs they are precluded from paying by law or regulation, and (d) any other information it believes is pertinent to the DCA's assessment of the plan. The comments must be provided to the DCA within 30 calendar days from the date of the

DCA's transmittal memo. All comments should cite specific program or regulatory requirements. If an Operating Division has no comments, it shall so advise the DCA. If an Operating Division or Federal agency does not submit comments or an acceptable justification for an extension within the 30-day period, the DCA will assume that the Operating Division or Federal agency has no comments and will proceed accordingly.

3. The DCA will review the plan and the Operating Division or other Federal agency comments on the plan. If deficiencies are found in the plan, the DCA, after considering the comments and conferring with the involved Operating Divisions and Federal agencies, will establish a Government-wide position. If an Operating Division or Federal agency disagrees with the DCA's position, the disagreement will be resolved in accordance with the procedures in 6-200-60.

C. Acceptable Plans

If the plan is found acceptable as proposed, the DCA will send an approval letter to the State with copies to the Operating Divisions and Federal agencies. The approval letter will specify the effective date of the plan and will include the following conditions:

1. The approval is based on information provided by the State and is void if the information is later found to be materially incomplete or inaccurate.
2. The costs claimed for Federal financial participation must be allowable under the law, the cost principles contained in OMB Circular A-87, and program regulations.
3. Any other conditions the DCA feels are necessary in light of the circumstances involved.

D. Negotiation of Plan Changes

1. If the proposed plan is not acceptable, the DCA will negotiate appropriate changes to the plan with the State. If a formal negotiation conference is held, the affected Operating Divisions and Federal agencies may attend the conference.
2. If an agreement on the changes to the plan is reached, either a written agreement will be signed by the State and the DCA or the State will submit a revised plan in accordance with the understandings reached at the negotiation, or both, depending on which approach is most practical under the circumstances. The DCA will ensure that the revised plan is submitted in a timely manner and will send an approval letter to the State as soon as possible after the revision is received. If the revision is not submitted in a timely manner, the DCA will proceed as if it and the State could not agree on the changes to the plan. Agreement and approval letters will include the conditions described in Subsection C. of this Section.
3. If an agreement on the changes to the plan cannot be reached, the DCA will notify the State by registered mail, return receipt requested, that the plan is disapproved. This notification will:
 - a. Advise the State that it may appeal the determination to the Regional Director in accordance with 45 CFR Part 75.;
 - (Note: 45 CFR Part 75 has been rescinded. The State may appeal the determination to the Departmental Appeals Board in accordance with 45 CFR Part 16)**
 - b. Provide the reasons for the determination and the changes required in sufficient detail to enable the State to respond;

- c. Request the State to adjust any claims it has made based on the disapproved plan; and
- d. Advise the State that disallowances will be made for any inappropriate claims (including past as well as future claims) that are not adjusted in accordance with subparagraph c. above. (See 6-200-50 for procedures for making disallowances.)

A copy of the notification will be sent to all Operating Divisions funding the State agency, the DHHSAA and other affected Federal agencies.

E. Time Requirements

The DCA will notify the State within 60 days after receipt of the proposed plan: (1) that the plan is either approved or disapproved, (2) the changes required to make the plan acceptable, or (3) the additional information needed to evaluate the proposed plan. If the DCA cannot make a determination within the 60-day period, it will so advise the State.

6-200-30 Failure to Amend Cost Allocation Plan

- A. If as a result of a review or from other information obtained, it is determined that a State agency failed to amend its cost allocation plan as required by 45 CFR 95.509, the DCA will notify the State that an amended plan is required and that disallowances will be made if it is not submitted within a reasonable period of time. This notification will indicate why the plan needs to be amended, request the State to review not only the sections of the plan that are in question but also the overall plan to identify any other changes that may be required, and specify a reasonable due date for submission of the amended plan. If the amended plan or an acceptable justification for an extension is not submitted by the due date, disallowances will be made in accordance with the procedures in 6-200-50.

- B. If a State fails to submit an annual certification that its plan is not outdated under the provisions of 45 CFR 95.509(b), the DCA will contact the State to obtain the certification. If the State indicates that the certification was not submitted because it intends to amend the plan, the DCA will issue the notification described in Subsection A. of this Section (modified as necessary to fit the circumstances).

6-200-40 Compliance With Approved Plans

- A. Except as otherwise provided in 45 CFR 95.517, a State may claim FFP for administrative costs only in accordance with its approved cost allocation plan. The Operating Divisions are responsible for monitoring State compliance with the approved plans, although reviews in this area may also be made by the DCA and the Audit Agency. As indicated in Chapter 1-105 and 45 CFR 95.519, the DCA is responsible for resolving "cross cutting" issues (i.e., issues affecting the programs of more than one Operating Division or Federal agency) which are disclosed by audits or other reviews of a State's compliance with its approved cost allocation plan.
- B. Operating Divisions will notify the DCA of any problems found in their reviews of a State's compliance with its approved cost allocation plan. If the DCA determines that the issue affects only one Operating Division, that Operating Division will resolve the issue with the State. If the DCA determines that the issue is cross-cutting, the DCA will resolve the issue in consultation with the affected Operating Divisions and Federal agencies.
- A. The resolution of cross-cutting issues disclosed by audits will be coordinated in accordance with the procedures in Section 1-105-70 of Chapter 1-105. These procedures (modified where necessary to fit the circumstances) should also be followed in coordinating the resolution of cross-cutting issues disclosed by other reviews of State's compliance with its cost allocation plan. In the latter case, the DCA will notify the affected Operating Divisions and Federal agencies of the issues and the Operating Divisions/Federal agencies will provide their comments to the DCA within 30 calendar days of the DCA's notification.

6-200-50 Cost Disallowances

- A. Cost disallowances will be made for inappropriate claims resulting from a State's failure to comply with its approved cost allocation plan (except as otherwise provided in 45 CFR 95.517) or its failure to submit an amended plan as required by 45 CFR 95.509. Disallowances will also be made if a State claims FFP based on a proposed cost allocation plan in accordance with 45 CFR 95.517 and does not retroactively adjust the claims (if necessary) to conform to the plan as ultimately approved by the DCA or as ultimately determined through the appeals process.
- B. If the disallowance involves an issue which affects only one Operating Division, that Operating Division will determine the amount of the disallowance and notify the State. Prior to issuing the disallowance, the Operating Division shall consult with the DCA to ensure that the issue does not affect the programs of other Operating Divisions or Federal departments. If the disallowance involves a cross-cutting issue, the DCA, with the assistance of the affected Operating Divisions and other Federal agencies, will determine the amount inappropriately claimed under each program. The DCA will notify the State of the amount applicable to each program. Also a copy of the letter will be sent to each Operating Division and affected Federal Agency.
- C. Disallowance notifications made by:
 - 1. The OPDIVS will:
 - Be made by registered mail, return receipt requested;
 - Specify the amount of the disallowance and the reason(s) for the disallowance;
 - Advise the State of the procedure for recovering the disallowance (e.g., an adjustment to the next quarterly expenditure report);

- Advise the State that it may appeal the determination; and
- Advise the State of the regulation under which the appeal is to be made, the Board or official to whom the appeal must be submitted and the period within which the appeal must be submitted. [Notifications issued by the DCA should cite 45 CFR Part 75 Notifications issued by an Operating Division should cite that Operating Division's regulation.]

2. The DCA's will:

- Be made by registered mail, return receipt requested;
- Specify the amount of the disallowance for each program and the reason(s) for the disallowance;
- Advise the State that it may appeal the determination;
- Advise the State of the regulation under which the appeal is to be made, the Board or official to whom the appeal must be submitted, and the period within which the appeal must be submitted; and,
- Advise the State that it will be contacted by the respective Operating Divisions concerning the recovery of the disallowance applicable to each program.

The Operating Division in following up the DCA's notification will: (1) contact the State concerning the recovery of the disallowance as soon as possible after the issuance of the DCA's notification, (2) cite the DCA's notification as the basis for the recovery, (3) advise the State of the procedure for recovering the disallowance (e.g., an adjustment to the next quarterly expenditure report, etc.) and (4) indicate that the State has previously been advised of its right to appeal the disallowance in the DCA's notification.

6-200-60 Resolution of Internal Disagreements

In reviewing proposed cost allocation plan, resolving problems related to a State's failure to comply with its approved plan, and determining disallowances, every effort should be made to reach a unified Government-wide position. If the parties are unable to reach a unified position and an Operating Division or Federal agency strongly disagrees with the DCA's position, the Operating Division or agency may appeal the matter in accordance with the following procedures:

1. If an Operating Division disagrees with the DCA's position, it may appeal to the Assistant Secretary for Management and Budget (ASMB), and, if it disagrees with ASMB's decision, to the Under Secretary (US) or the US's designee.
2. If another Federal agency disagrees with the DCA's position, it may appeal to the Financial Management Branch, Office of Management and Budget. In these cases, the DCA will advise the Federal agency that it may appeal to OMB.
3. If an Operating Division or Federal agency wishes to appeal the DCA's determination, it must so advise the DCA within 10 calendar days, and must submit the appeal within 30 calendar days, after it is informed of the DCA's position. These time periods also apply to appeals of decisions made by ASMB to the US (except that the starting date for the 10 and 30-day periods would be the date of ASMB's decision). If an Operating Division or Federal agency disagrees with the DCA's position, but does not choose to appeal the matter, the DCA's position will prevail.
4. The DCA will advise the Office of Procurement and Assistance Financial Management of disagreements that an operating Division or Federal agency intends to appeal.

B. Processing Plan Amendments For School-Based Administrative Services Provided By Local School Districts Claimed Under Title XIX

Normally, Plan requirements with respect to the identification and measurement of the cost of services provided by a governmental agency outside the PA agency are addressed by including the statement required under 45 CFR 95.507(b)(6). This statement provides that the governmental agency will support charges for services it provides with a written agreement which includes, at a minimum, three basic requirements, i.e., it will define the service(s) being purchased, it will specify the basis upon which the billing is made, and it will include a stipulation that the billing will be based upon actual cost incurred. An exception to this exists for the costs of school-based administrative services provided by local school districts and claimed by the PA agency under the Title XIX program.

For these school-based administrative services, PA agency plan amendments submitted to the DCA should include the following information:

- A statement that the PA agency will be claiming the costs of these services.
- Reference the document, by name and date, which contains the proposed reimbursement policies, methodologies, and procedures used to identify the cost of these services.
- The effective date of the amendment.

The following process should be followed in the review and disposition of the proposed amendment:

- Upon receipt of the amendment, the DCA will notify the PA agency that approval of the amendment awaits the completion of the review of the referenced document by our Department's Centers for Medicare and Medicaid Services (CMS).

- The referenced document should be submitted by the PA agency directly to CMS for review. During their review, the CMS will correspond directly with the PA agency regarding any additional information or revisions required .
- The CMS staff will notify the DCA of the results of its review and based upon their notification the DCA will issue a determination letter which either approves or disapproves the proposed amendment. CMS staff must provide the DCA with the rationale and basis for any amendment which is to be disapproved. This information will be incorporated in the DCA's disapproval letter.
- If the PA agency appeals the DCA's disapproval of the amendment, CMS will be responsible for representing the Department in the appeal.

C. Other Reference Materials:

- “A Guide for State and Local Government Public Assistance Agencies/Departments-Procedures for the Preparation and Submission of Cost Allocation Plans” (DRAFT), November 1981
- 45 CFR 95, Subpart E, “Cost Allocation Plans”
- 45 CFR 95, Subpart F, “Automatic Data Processing Equipment and Services - Conditions for Federal Financial Participation (FFP)”
- 45 CFR 95, Subpart G, “Equipment Acquired Under Public Assistance Programs”
- OMB A-87, “Cost Principles for State, Local and Indian Tribal Governments”
- ASMB C-10, “A Guide for State, Local and Indian Tribal Governments”
- Grants Administration Manual/Grants Policy Directives
- 45 CFR Part 16, “Procedures of the Departmental Grant Appeals Board”
- Internet Sites:
 - OMB Circulars - www.whitehouse.gov/omb/grants/index.html
 - HHS Cost Policy Issuances (including ASMB C-10) - www.hhs.gov/grantsnet
 - CFR Sections - www.access.gpo.gov/nara/cfr/index.html
 - HHS DAB Decisions - www.hhs.gov/dab/index.html
 - Catalog of Federal Domestic Assistance - www.cfda.gov