City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 25, 2022

TO: EXTERNAL AUDITORS

FROM: ROBERT SNYDER, CHIEF INTERNAL AUDITOR

SUBJECT: LRT COMPLIANCE REVIEW

Background

On November 30th, 2021, the Virginia Department of Social Services (VDSS) Local Review Team (LRT) issued a finalized review of reimbursements claimed by the Alexandria Department of Community and Human Services (ADCHS). The compliance review generated no findings, but the LRT identified areas in which the agency did not fully comply with VDSS personnel guidelines.

Recommendations

The LRT made recommendations in the following areas: 1) Salaries and fringe benefits costs, and 2) Administrative operating costs. To address these recommendations, the LRT team requested that DCHS complete a Corrective Action Plan (CAP). Listed below are the items of the corrective action plan:

a. Review payroll cost allocations periodically and at year end to ensure any amounts submitted for reimbursement are accurate and reasonable, and the agency will maintain adequate documentation to support any payroll allocations.

b. Strive to complete employee annual performance evaluations in a timely manner.

c. Ensure that On-Call pay that exceeds the maximum reimbursable rate is paid with pass-through or local funds only.

d. Review and strengthen its administrative expenditure allocation procedures to ensure compliance with federal cost principles.

e. Review its employee educational assistance program(s) to ensure fringe benefits are in compliance with the Federal Uniform Guidance, and to determine eligibility for funding under the Title IV-E program through BL 873, Cost Code 87303 (when applicable).

f. Closely examine all of their monthly expenditures being submitted for reimbursement in LASER to ensure that any Program-related expenditures are not charged to administrative budget lines, and

g. Review all expenditures to verify that costs prepared for reimbursement are allowable and comply with all state and federal cost principles.

Conclusion

OIA verified that VDSS had approved the completion of the CAP and also compared DCHS's results with those of other Northern Virginia Localities. Other localities had similar recommendations regarding their compliance with VDSS policies. Based on the departments completion of the measures specified by VDSS we consider this engagement closed. Should you have any questions, please contact me at robert.snyder@alexandriava.gov or via phone a 703.746.4742.

Review of Local Expenditure Reimbursements
Alexandria Department of Community and Human Services
For July 2019

On November 30, 2021, the Local Review Team (LRT) finalized its review of reimbursements of certain expenditures claimed by the Alexandria Department of Community and Human Services (ADCHS) through the Locality Automated System for Expenditure Reimbursement (LASER). Specifically, the LRT conducted a desk review of ADCHS's July 2019 expenditures for the following budget lines (BLs):

- 850 – Local Out-Stationed Eligibility Staff
- 855 – Staff and Operations Base Budget
- 858 – Staff and Operations Pass-Through

The results of the review are summarized below:

Salaries and Fringe Benefits Costs

For staff salaries and fringe benefits transactions, test work indicated that ADCHS properly reported payroll expenditures under the appropriate LASER budget line and account codes. LETS classification codes appropriately reflected employee job responsibilities as evidenced by reviews of job descriptions, performance evaluations, and other relevant personnel records. In addition, the agency followed proper time reporting guidelines and the staff were properly included or excluded from the VDSS Random Moment Sampling (RMS) process. Test work also indicated that the salary amounts were adequately documented by comparing personnel transaction documents to LETS reports and payroll registers/reports obtained from the city. The city's payroll records agreed with the salaries and associated fringe benefits amounts reported in LASER.

However, the LRT identified areas in which the agency did not fully comply with VDSS personnel guidelines. Below are the related findings and recommendations.

1. *Strengthen Allocation Procedures*

   Since the prior LRT review, ADCHS took steps to allocate and factor out costs associated with the top administrative staff under the Community & Human Services umbrella and other workers that either do not perform reimbursable activities themselves and/or supervise employees who do not perform programs or activities. For this review, 16 of the 46 sampled employees, portions of their payroll costs were allocated to Organization Codes that were not related to core DSS reimbursable activities. However, the agency's allocation procedures were either not adequately documented, or they continue to fall short of the requirements set forth in the federal cost principles, as follows:

   a. Allocations Based on Estimates Not Routinely Reconciled

      It appeared that the agency's methods to allocate the costs were either a reasonable estimate of time and effort, or a percentage of the Organization Code's budget. However, a systematic re-evaluation and reconciliation of the estimates is not conducted at year-end to ensure that the amounts submitted throughout the year and year-end is accurate. Instead, supervisors only review the estimates as needed if there are changes in positions, addition/reduction of programs, change of hours, etc.

b. Allocation Calculations Not Adequately Documented
The agency provided forms that were completed and signed by supervisors that reflected changes in allocations. According to management, division directors calculate the average time spent within a project that forms the basis for the allocations that are noted on the allocation form. However, the forms did not include any documentation to support the percentage estimates or the reason for any changes. When additional information was requested for select employees, ADCHS only provided the responsibilities of the position, as well as an indication of what percentage of the employees' time would be spent on each program based on *expected* demand. Documentation needed to identify the allocation method (i.e. case counts, sample direct labor hours, etc.) and to verify the calculations was not provided.

c. Unreasonable Allocation
For two division chiefs, the agency split their payroll costs evenly across the number of programs supervised, based on an estimated average time that the managers spend on each program. However, it is not reasonable to assume that the managers would spend equal time across all programs. Instead, a method that better meets the requirements of federal cost principles for supervisors would be to allocate the costs based on the percentage of FTE's supervised in each program.

d. Payroll Allocation Error
The payroll costs for the Director of the Center for Children & Families was allocated 100% to a DSS cost center. However, the center provides some services that are associated with non-DSS programs. According to the agency, the 100% allocation to DSS was an error. Instead, the amount submitted to VDSS reimbursement should have been 37%. The agency reclassified the position accordingly, applied the current allocation percentage, and submitted a credit adjustment in LASER for the incorrect allocation.

Federal cost principles require that costs be assigned to one or more cost objectives in reasonable proportion to the benefit provided. In addition, as stated in 2 CFR 200.430(i) of the Federal Uniform Guidance – *Standards of Documentation of Personnel Expenses*, charges to federal awards for salaries and wages must be based on records that accurately reflect the work performed, and support the distribution of the wages among specific activities or cost objectives. Budget estimates alone do not qualify as support for allocations to federal grants, but may be used for interim accounting purposes, provided:

i. The *system* for establishing estimates produces reasonable approximations of the activity actually performed,

ii. Significant changes in the work activity are identified and entered in the records in a timely manner, and

iii. The agency's system of internal controls includes processes to review after-the-fact interim charges made to a grant, and to make the necessary adjustments to ensure that the total amount charged is accurate, allowable, and properly allocated.

Recommendation
ADCHS should strengthen its allocation procedures to ensure compliance with federal cost principles by (1) reviewing all cost allocations throughout the year and at year-end to ensure that any amounts submitted for reimbursement in LASER are accurate and reasonable, and (2) maintaining adequate documentation that supports the allocation calculations based on actual data.

2. *Delays in Completing Performance Evaluations*
For 21 of the sampled employees, performance evaluations were not completed in a timely manner. Consequently, merit increases were also delayed, which resulted in a need for the payment of retroactive wages. This, in turn, lead to a discrepancy between the city's payroll records and payroll per LETS during the period in which retroactive salaries were paid.

Recommendation
ADCHS should strive to ensure that annual performance evaluations are completed on time. As stated in Chapter 6 Section I of the Administrative/Human Resources Manual for LDSS (HR Manual), annual performance evaluations are required of all employees, and are to be completed at least one month prior to the annual performance evaluation date.

3. *On-Call Rate Exceeded Maximum Reimbursement Rate*
For six of the employees tested, a portion of their payroll costs were not made in accordance with state policies, as they exceeded the *maximum* allowable range per the VDSS Administrative/Human Resources Manual (HR Manual) for LDSSs. The employees received On-Call pay at their normal hourly rate, as specified in the agency's Compensation Plan. Although the HR Manual does allow the LDSSs to compensate employees the equivalent to one hour of pay at the employee's normal hourly rate, the policy specifically states that reimbursement by VDSS is limited to the maximum rate allowed (Chapter 2, Section G(2)). As a side note, the agency may provide additional compensation if the additional dollars are available from Pass-Through or non-VDSS sources, but only the maximum of $16 per 8-hour shift may be submitted for reimbursement (for the period under review). Any costs over the maximum on-call threshold amount(s) should be submitted in LASER using Fund Code 0033 – *Local Only - Non-reimbursable*, or using Pass-Through funds (i.e. Budget Line 858 – *Staff & Operations – Pass Through*). As a result of the LRT review, ADCHS processed a credit in LASER for $1,576 to correct this error.

Recommendation
ADCHS should implement procedures to ensure that all payroll costs submitted for reimbursement are in accordance with state policy, which includes both the VDSS Local Finance Guidelines Manual (FGM) and HR Manual. The portion of any On-Call pay that exceeds the VDSS maximum reimbursable rate is to be paid with Pass-Through or Local Only funds. It should also be noted that the maximum On-Call rate of pay increased to $25 per 8-hour shift effective July 1, 2020.

Administrative Operating Costs

Test work for other administrative operating costs indicated that ADCHS submitted expenditures for reimbursement net of all applicable credits, and costs were treated consistently. Invoices were properly canceled and costs were not duplicated or previously submitted for reimbursement through other federal or state funds.

However, the LRT identified areas in which the agency did not fully comply with the cost principles tested. The findings, recommendations, and corrective action plan are discussed below.

4. *Inequitable Cost Allocations*

   As previously mentioned, since its last LRT review, the agency took steps to evaluate its cost allocation procedures. However, for 4 of the invoices reviewed, the allocation methods were not in accordance with federal principles, and resulted in the excess allocation of costs to ADCHS.

   a. One invoice for water/sewer at the Mt. Vernon Avenue location was not allocated based on the percentage of rental space, which was the method applied to all other Facility costs. In this instance, when the invoice was processed for payment, some of the organization's cost codes did not have sufficient funds, as it was close to fiscal year end. Therefore, the agency re-allocated the invoice to cost codes that still had available funds. As a result, ADCHS was allocated an additional $163 in costs that did not represent its fair share.

   b. One invoice for $6,680 for janitorial services at Mt. Vernon Avenue was allocated 100% to the Eligibility cost code. According to the agency, the Fiscal Officer specified that the work be performed for Eligibility only. However, the invoice and the contract do not support this, as they clearly state that the costs are for cleaning the Mt. Vernon facility. Therefore, only 81% of the invoice should have been charged to ADCHS - related cost codes in accordance with the Facility allocation plan, which is based on square footage. The difference of $1,269 is not allocable to ADCHS.

   c. An invoice for heating fuel ($65), and one invoice for restroom supplies ($178) at the Mt. Vernon location were also only allocated to ADCHS-related cost codes. As mentioned above, in accordance with the Facility allocation plan (based on occupied square footage), 81% of the costs, or $197, should have been allocated to ADCHS. The remaining $46 was not allocable to the agency and is therefore not reimbursable.

   Recommendation

   ADCHS should strengthen its allocation procedures to ensure compliance with federal cost principles. Invoices for facility-related costs should be allocated in accordance with the Facility plan the agency developed, which was based on occupied square footage. Allocations may not be based on the availability of funds. In addition, allocations must be reasonable, documented, and should be reviewed throughout the year and at year-end to ensure that any amounts submitted for reimbursement in LASER are reasonable and accurate.

As a result of the LRT review, ADCHS processed a credit in LASER for $1,315 to correct items (b) and (c) above. The LRT will work with the LRU to recoup the $163 in administrative expenditures identified in item (a) that are not allocable to ADCHS-related activities.

5. *Other Questionable Allocations*

For six of the invoices reviewed, the allocation methods were not clearly defined or documented, were not in accordance with federal principles, and may have resulted in the charging of costs to DSS-related grants, which, in turn, do not relate to the benefits received.

a. The allocations for two invoices for temporary staff were based on estimated time and effort, per contract terms. Of these, one invoice for an Eligibility worker was split 50/50, which does not appear to be a reasonable estimate. Likewise, the WEX fuel card invoice was allocated based on an estimate of how much each department uses the fuel card. As previously mentioned, estimates alone do not qualify as support for allocations to federal grants, but may be used for interim accounting purposes, provided the estimates are based on reasonable approximations, and are routinely reviewed to ensure that the allocations are accurate.

b. One of the locations on the copier lease invoice was a recreation center that also partly housed an ADCHS shelter. The entire invoice (i.e. all lease locations) was allocated based on the square footage of the Mt. Vernon facility plan. However, the recreation center was not located in the Mt. Vernon facility. The cost of the copier at the shelter location should have been allocated based on usage or square footage of the ADCHS office at that facility.

c. An invoice for web hosting at the Workforce Development Center was split evenly between allowable and non-allowable ADCHS cost codes, with no data to support the allocation. A more reasonable method to allocate costs would be based on applicable customer counts or occupied square footage.

Recommendation

Again, ADCHS should review its cost allocation methodologies and calculations to ensure compliance with federal cost principles. For facility and administrative expenses that are shared among more than one program, the costs should be allocated to each program using an acceptable allocation base.

6. *Employee Tuition Assistance*

ADCHS submitted Tuition charges of $10,607 for reimbursement under the LASER Administrative budget lines for a Family Service Specialist seeking a Master's Degree in Social Work in order to meet compliance requirements of the Code of Virginia's social work title protection regulations.

Tuition costs that are being treated as a fringe benefit may be submitted under the Administrative budget lines. However, under 2 CFR 200.432.j.2 of the Uniform Guidance, a fringe benefit in the form of tuition is limited to the tax-free amount allowed per section 127 of the IRS as amended, which is $5,250 per calendar year. Further, the VDSS Local FGM Section 4.30 – *LASER Account Codes*, under Account Code 52820 – *Education – Tuition Assistant*, states the employee must successfully complete the courses *before* costs may be reported for reimbursement. In the noted instance, the costs were submitted for reimbursement upon registration.

According to ADCHS, the staff member did not complete the ongoing course. Therefore, the LRT will work with the LRU to recoup the state and federal portions of the $10,607 in tuition costs. Upon successful completion of the course, the agency may resubmit the expense as a fringe benefit, subject to the maximum $5,250 amount.

<u>*Recommendation*</u>
ADCHS should treat Employee Tuition Assistance costs as fringe benefits that are subject to IRS limitations, and are not to be submitted in LASER for reimbursement until after the employee has successfully complete any course(s).

It should also be noted that employees might be eligible for tuition assistance under the Title IV-E program, through BL 873, Cost Code 87303 – *Title IV–E Approved Employee Education Assistance Program*. Prior to authorizing educational assistance to employees, the agency should review each situation to determine if the employee is eligible for the Title IV-E program under Cost Code 87303. If so, prior to instituting the program, the agency should submit an application for the Title IV-E Training Grant, which is available on FUSION.

7. <u>*Improperly Submitted Program-Related Expenses*</u>
   The agency improperly charged seven Program-related expenses for reimbursement under Administrative budget lines as follows:

   a. Family Partnership Meeting Participant Costs: Two invoices totaling $180 for childcare costs related to Family Partnership Meetings were incorrectly claimed under Administrative BL 855 – *Staff and Operations*. As stated in the VDSS 'FPM Incentive Funds' page on Fusion, although administrative costs to the agency for the facilitation of Family Partnership Meetings may be submitted under BL 855, funds used to provide *direct* support to participants, such as child care costs, are to be transferred from BL 855 to BL 829 – *Family Preservation and Support*, and then claimed under BL 829. The costs are not to be claimed directly under BL 855.

   b. Client Support Services: Two invoices totaling $595 for recreation/after school programs for clients were improperly coded and charged to Account Code #56001 – *Office Supplies* under Administrative BL 855 – *Staff and Operations.*

   c. Client Expenses: Two invoices totaling $177 for clothing and accessories for a client's prom were also charged to Account Code #56001 – *Office Supplies* under Administrative BL 855 – *Staff and Operations*.

d. Purchase of Meal for Youth: One invoice for $12 for a meal for a youth was improperly claimed for reimbursement. Although the cost of meals for foster children while transporting could be submitted for reimbursement under LASER BL 855 through June 30, 2017, effective July 1, 2017, the children's meals/travel should have been reported under BL 830 – Child Welfare Supplemental Services.

Based on the above items, ADCHS subsequently submitted a credit in LASER for the $12 to correct item (d). However, the LRT will work with the LRU to recover the remaining federal and state portions of the $952 in Program related costs that were improperly charged to the Administrative budget lines.

Recommendation
ADCHS should evaluate its internal controls to ensure that Administrative expenditures submitted for reimbursement relate to allowable activities, goods and services, and are charged to the appropriate budget line, cost, and account codes in accordance with state and federal requirements. On the other hand, Program costs directly associated with providing or purchasing services for clients should be reported under the proper programmatic budget lines and cost codes. In the future, the agency should direct any questions of where costs should be charged for reimbursement to their Regional Administrative Manager (RAM) or Program Specialist.

8. *Other Unallowable Costs*
ADCHS also submitted five invoices for reimbursement that included costs that are unallowable in accordance with state and federal cost principles:

a. Sales Tax: For one invoice, sales tax of $6 was included in the amount submitted for reimbursement.

b. Unnecessary Expenses: One invoice for $33 was for Thank You cards for the agency's social Gala event. The purchase of greeting cards do not have a programmatic purpose, and are not considered as a legitimate use of Federal funding. Under the Code of Federal Regulations (CFR), 2 Section 200, Uniform Guidance, the federal government included additional language to clarify the purpose of limiting allowable costs to make the best use of Federal resources. As stated in §200.438 - *Entertainment*, any costs associated with *social* activities, except where specific costs have a programmatic purpose and are authorized in advance by the awarding agency, are not allowable.

c. Meal Costs: Three invoices totaling $946 were for catering and/or group meals. With the exception of one invoice that was marked as "Tuesday Retreat," the documentation provided did not include the purpose of the meals, or a list of attendees. As stated in FAQ #41 of Section 7 of the VDSS Local FGM, meal expenses associated with meetings or conferences are reimbursable "if the primary purpose of the meeting is to provide technical information, program training or other policy information to local department of social services (LDSS) staff." Documentation to support the claim would include the meeting agenda and list of attendees.

> Unfortunately, in their efforts to promote efficient spending, the federal government has specified that meals and related costs are subject to strict scrutiny in view of its prohibition of paying for entertainment costs with federal funds. Federal agencies have further stipulated that recurring business meetings, such as staff meetings, should not be broadly considered as 'meetings for the primary purpose of disseminating technical information' in order to justify charging meals or refreshment costs to grants.

It should be noted that based on the above findings, ADCHS submitted a subsequent credit in LASER for the $985 in unallowable costs.

Recommendation
In the future, ADCHS should closely review all their monthly expenditures to verify that costs submitted for reimbursement are allowable and comply with all state and federal policies. Any portions of the expenses that are not allowable, (including sales tax), should be deducted from the reimbursement amount and submitted using *Fund Code 0033 – Non-Reimbursable – Local Only*.

Corrective Action Plan
Based on subsequent correspondence received January 12, 2022, VDSS and ADCHS officials agreed to the following corrective action plan:

1. ADCHS will:

    a. Review payroll cost allocations periodically and at year end to ensure any amounts submitted for reimbursement are accurate and reasonable, and the agency will maintain adequate documentation to support any payroll allocations;

    b. Strive to complete employee annual performance evaluations in a timely manner;

    c. Ensure that On-Call pay that exceeds the maximum reimbursable rate is paid with pass-through or local funds only;

    d. Review and strengthen its Administrative expenditure allocation procedures to ensure compliance with federal cost principles;

    e. Review its employee educational assistance program(s) to ensure fringe benefits are in compliance with the Federal Uniform Guidance, and to determine eligibility for funding under the Title IV-E program through BL 873, Cost Code 87303 (when applicable);

    f. Closely examine all of their monthly expenditures being submitted for reimbursement in LASER to ensure that any Program-related expenditures are not charged to Administrative budget lines, and

    g. Review all expenditures to verify that costs prepared for reimbursement are allowable and comply with all state and federal cost principles.

2. The LRT will work with the VDSS Local Reimbursement Unit (LRU) to recoup the federal and state portions of the $11,722 as follows:
    a. $163 in Administrative expenditures that are not allocable to legitimate DSS-related activities;
    b. $10,607 in Tuition costs that were not yet eligible for reimbursement, and
    c. $952 in Programmatic costs that were incorrectly charged to Administrative budget lines.

The LRT would like to express their appreciation for the documentation provided by ADCHS during the review process. If the LRT can be of any further service, please feel free to contact either member noted below.

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