

DEPARTMENT OF BENEFIT PAYMENTS

184 P Street, Sacramento, CA 95814



January 30, 1976

ALL-COUNTY LETTER NO. 76-21

TO: ALL COUNTY WELFARE DIRECTORS

SUBJECT: STATUS OF FEDERAL AUDITS

REFERENCE:

Listed below are the outstanding federal audit issues involving county funds that have an impact on a statewide basis. This listing does not include individual county audits conducted by the Department of Health, Education, and Welfare Audit Agency as they are transmitted on a county-by-county basis.

1. Food Stamp Issuance and Commodity Costs

Period: July 1, 1966, through December 31, 1970.

DHEW Position: Bank charges for food stamp issuance and food commodity storage and issuance costs do not qualify for federal financial participation.

State Position: The State claims these costs were factored out by a cost allocation plan submitted to and approved by SRS Regional staff.

Status: The State appeal was denied by the SRS Administrator and the State was ordered to adjust the September 30, 1974, Quarterly Report of Expenditures. A complaint for declaratory judgment and injunctive relief was filed against DHEW December 10, 1974. The injunction was granted and the claim cut was not implemented. The case is now in process in the Federal District Court.

Amount: \$3,279,520 county funds to December 30, 1970.

DHEW has identified an additional six million dollars with new audits. These audits are in the appeal process.

2. Adult Services

Period: July 1, 1968, through September 30, 1970.

DHEW Position: California claimed for Adult Social Services at the 75 percent rate for overhead and mixed caseloads prior to the implementation of federal regulations allowing this rate.

State Position: The claiming was done with full federal knowledge and tacit approval. As federal regulations were changed October 1, 1970, retroactive claiming should have been allowed.

Status: The California appeal was denied and California was ordered to adjust the Quarterly Report of Expenditures. Litigation resulted in a preliminary injunction March 7, 1975, therefore adjustment was not made. The case is now in process in the Federal District Court.

Amount: \$11,020,249.

3. Income Maintenance Costs - AFDC-U

Period: July 1, 1968, through September 30, 1971.

DHEW Position: DHEW claimed that county administrative costs for non-federal AFDC-U cases did not qualify for federal financial participation. The county claims were to be changed effective October 1, 1971.

State Position: The State claimed these costs were part of an approved cost allocation plan and should be allowed. The audit exception recognized that some costs qualified for federal financial participation and asked the state to determine these costs. The county claiming format was changed under protest October 1, 1971, to factor out the nonfederal costs. The claiming format was again changed March 1, 1973, to reflect a greater percentage of federally eligible costs, namely, the costs of the eligibility determination and a request to claim retroactive for these costs was filed with SRS.

Status: The appeal was denied by the SRS Administrator.

<u>Amount:</u>	Total Amount of Exception	\$4,671,905
	Exception July-September 1971	<u>333,707</u>
	Gross Exception in Negotiation	\$5,005,612
	Less: Adjustment for Eligibility	
	Determinations in Audit Period	<u>\$2,985,352</u>
	Net Exception to be Adjusted	\$2,020,260
	County Reclaim for Period 10/71-3/73	<u>1,220,828</u>
	Net Effect on County Funds	<u>\$ 799,432</u>

4. County Data Processing and Warrant Writing Costs

Period: July 1, 1968, through September 30, 1971.

DHEW Position: DHEW claimed that county EDP and warrant writing costs should not be included in the 75 percent FFP rate pool but restricted by direct charging to the 50 percent rate.

State Position: The State contended the costs were part of the approved cost allocation process. It was also claimed that direct charging only certain support costs resulted in inequity.

Status: The appeal was denied by the SRS Administrator March 1975. SRS withheld \$1.8 million from the December grant amount. All-County Letter No. 75-258 lists the individual county shares withheld from the January administrative advances. The Attorney General filed suit against HEW in District Court in San Francisco on December 30, 1975, (California vs. Mathews).

Amount: \$1,807,173.

5. A-87 Deferral

Period: January 1, 1970, through June 30, 1972.

DHEW Position: The SRS review team deferred advances and finally disallowed, by administrative action, retroactive A-87 claims submitted by eight counties on the basis that the certification of the county A-87 plan was after the State cutoff date of June 30, 1972.

State Position: The State contends that SRS does not have the legal right to take what amounts to an audit exception by administrative action. Further, the action is improper because it is based on criteria developed after the period of claiming, and not supported by Federal regulations.

Status: DHEW removed the federal monies from funds sent to the State but returned the funds pursuant to a court order. An appeal to the SRS Administrator has been filed and has not been answered. Concurrent litigation on the process of deferral resulted in a favorable California decision, but a Federal appeal is anticipated.

Amount: \$4,133,016.88.

Counties Involved: Contra Costa, El Dorado, Monterey, Sacramento, San Diego, San Luis Obispo, Sierra, Ventura.

6. Return of Federal Funds on Marin Clearances

Period: 1966 to date.

DHEW Position: DHEW has requested that the Federal share of all State audits cleared by the Marin decision be identified and refunded.

State Position: The State contends that the Marin decision prohibits the State from adjusting county administrative errors. The State also contends that the decision accurately describes the causes of administrative errors which arise at all levels of government, that no one level should bear the fiscal responsibility for these errors and the concept of inherent errors is consistent with the establishment of "tolerance levels" in the DHEW Quality Control Program.

Status: The Regional Commissioner has denied the State's appeal. The appeal to the SRS Administrator is in process.

Amount: \$1,000,000 (Estimated).

If you have any questions on the above audits, contact Del LeClaire at 916/445-7046.

Sincerely,



GARY G. ADAMS
Deputy Director

cc: CWDA