

DEPARTMENTAL GRANT APPEALS BOARD

Department of Health and Human Services

SUBJECT: Neighborhood Services Department
Detroit, Michigan
Docket No. 79-7
Decision No. 110

DATE: July 15, 1980

DECISION

The Neighborhood Services Department (NSD) appealed, by letter dated March 14, 1979, from the December 13, 1978 determination of the Office of Human Development Services (OHDS) disallowing \$11,881 charged to NSD's program year J (September 1, 1974 to August 31, 1975) Head Start grant.

NSD operated a part-day, full year Head Start program for the last two months of program year "J", which ended August 31, 1975. Prior to July 1, 1975, this program had been administered by the Detroit Human Resources Development Department. The program was funded by Head Start Grant No. 0113-J/H, and, during program year J, it received \$2,238,416 in federal funds.

The Auditor General for the City of Detroit submitted an audit of NSD and its delegate agencies for program year J on March 31, 1978, as required by 42 USC §2835 (1978). On May 30, 1978, the Regional Audit Director of the HEW Audit Agency completed reviewing this audit. The Director's report, audit control number 05-84519, questioned \$58,198 of the costs incurred by NSD and its delegate agencies, the Detroit Public Schools and the Catholic Social Services of Wayne County. After NSD had responded to this report, OHDS determined that \$11,613 of the costs should be disallowed.

The total costs disallowed by OHDS can be broken down into categories as follows:

\$	31	. . .	Ineligible program cost: Travel.
	237	. . .	Excess of allowable rates: Private car rental and meeting costs.
	11,613	. . .	Undocumented costs.

NSD agreed that the first two items, totalling \$268, represented costs that could not be charged to the grant. In addition, NSD agreed with \$2,996 of the disallowance in the third category because it could not document the expenditures. Therefore, NSD accepted a total of \$3,264 of the disallowance. \$8,617 remains in dispute, which can be broken down in into three categories as follows:

\$1,913 . . . space
3,200 . . . parent stipends
3,504 . . . travel, supplies, equipment.

Space

The audit showed an expenditure of \$3,879 for space costs and rentals. Of this, the auditors questioned \$1,913 relating to space used by the NSD central staff in administering the Head Start program. This space was located within the main administrative offices of the Mayor's Committee for Human Resource Development. No formula demonstrating what portion of this space was actually devoted to Head Start program objectives has been presented by NSD.

NSD admits that no acceptable space allocation formula was developed but argues that the costs incurred were reasonable based on personnel costs of over \$76,000. To substantiate its argument, NSD offers, by comparison, the budget of a delegate agency with a similar size budget, which shows a roughly equivalent expenditure for the same cost item.

As OHDS indicates, reasonableness is not the sole measure of whether a cost is allowable. The question of whether an expenditure is reasonable is a distinct issue from whether it may be properly attributed to the objectives of a program grant. This Board has previously stated that the most elementary principle of grant administration is the requirement that a grantee have documentation to show that claimed expenditures were, in fact, incurred to further the purposes of the project. University of Minnesota, DGAB Docket No. 77-4, Decision No. 44, August 14, 1978. In addition, Part 74 of Title 45 of the Code of Federal Regulations, which applies to all grants made by OHDS to state and local governments, provides that an allowable cost must not only be necessary and reasonable for administration of the grant program, but must also be allocable to the objectives of that specific program. 45 C.F.R. Part 74, Subpart Q, Appendix C, Part I, (C)(1)(a) (1974). A cost, though reasonable, is allocable to a program only to the extent that the benefits achieved by incurring that cost accrue to that particular program. *Id.* at (C)(2). Since NSD is an agency within the Detroit government, 45 CFR Part 74, Subpart Q, Appendix C appears to apply.

The space costs questioned and disallowed were for the use of space within the administrative offices of the Mayor's Committee for Human Resource Development. Petitioner concedes that no space allocation formula was ever developed to specify the portion of this space in fact used to administer the Head Start program. Without such a formula, it cannot be determined to what extent the use of this space benefited the Head Start program. Since the cost can not be shown to be allocable, the expenditure violates the requirements of 45 CFR Part 74, Subpart Q, Appendix C, Part I, (C)(1)(a).

2. Parent Stipends

\$3,200 of the undocumented costs were for parent stipends, ostensibly paid to parents of children enrolled in the program for attendance at policy council meetings. The stipends were paid with checks issued subject to the internal controls of Detroit's accounting system, which includes an independent voucher audit section. No documentation, such as sign-in sheets or minutes of the policy meetings, identification of persons attending, or vouchers for expenses reimbursed, has been provided by the NSD.

Section 244 of the Economic Opportunity Act of 1964, 42 USC 2836(1), establishes the authority to fund parent stipends in the forms of allowances and reimbursements.

Regulations promulgated under the authority of this section, and which apply to this grantee, state that "the accounting records of allowance payments and expense reimbursements are required to be available for public inspection..." 45 CFR 1068.5-4(d). NSD's lack of documentation violates this regulation.

NSD, however, argues that OHDS is required to assume from the fact that the checks were issued that documentation at one time existed to justify this cost. Pointing to safeguards in the accounting system of the city of Detroit, which issued the checks, NSD relies on the following syllogism: Before the checks were issued by the checkwriting section, the Head Start section was required to provide supporting documentation. The checks were issued. Therefore, the supporting documentation must have existed at that time.

The effect of NSD's argument would be to shift the burden of proving that costs should be allowed from the Grantee to the Agency to determine that a cost is unallowable. Section 243 of the Economic Opportunity Act of 1964 authorizes the Agency to impose fiscal responsibility and accounting requirements on the recipients of Head Start grants in order to insure that recipients have an accounting system with internal controls adequate to safeguard the grantee's assets. 42 U.S.C. §2385 (1974). To meet this goal, the applicable regulations require the grantee to make and retain records of expenditures, and to support these records with source documentation. 45 C.F.R. Part 74.61 (b), (f), (g) (1974). These provisions clearly place the burden of establishing allowability of costs on the grantee. In addition, documentation in this area is crucial in order for the Agency to determine whether eligible people received the stipends and whether disbursement was done correctly under the regulations (See 45 CFR 1068.5-3).

3. Supplies, Equipment, Travel

OHDS stated in its response to the appeal that documents discovered by NSD since the time of the original audit are sufficient to support \$1231 of the costs disallowed in this category. This total includes a purchase of "liner buff", costing \$1,027, and a purchase of two tables for \$204. Each of these purchases is supported by vouchers showing the item purchased and acknowledging receipt. Copies of checks demonstrate that payment in the proper amount and to the proper party was made. Therefore, \$1231 of the disallowance in this category will be overturned. The rest of the questioned items are as follows:

Supplies:

A purchase order for books from Elk Grove Press in Endicino, California. The amount of purchase is \$389; beneath this figure is the handwritten comment, "8/2/73, Cancel, \$389.00." The order states "Delivery date by 8/2/72", but it was not marked approved for payment until June 16, 1975. The order gives no indication of receipt, and no evidence of payment is attached.

A check in the amount of \$389, payable to Children's Press in Chicago Illinois. There is no purchase order or voucher for materials from this vendor.

A voucher for purchase of a camera lens, signed to indicate receipt. The amount of the purchase on the original is \$249.50. On the copy, this figure has been scored through in ball point pen, and the figure \$180 substituted. No check showing the actual amount of payment is included.

Equipment:

A voucher, signed to indicate receipt, for a purchase totaling \$501 from International Radio. The voucher is for "equipment as per the attached sheet." No such sheet is included; neither is there any evidence of payment.

A voucher, stamped and initialed "received", for four chairs, costing \$299.44. No evidence of payment is included.

Travel Expenses:

A list of persons ostensibly reimbursed for mileage expenses during program year "J". The list supplies the name of the driver, the number of miles reimbursed, the formula for reimbursement, and the total amount paid to each driver. It is offered as documentation for \$903.71 in costs. The list was prepared by an accountant for NSD in response

to a request from OHDS on June 12, 1979. None of the original documentation from which the summary was compiled has been made available, nor is there any evidence of actual payment to these drivers.

As was noted above on page 2, documentation that a cost is allocable to the grant project is a basic requirement of grant administration. To be an allowable cost, an expenditure must be necessary and reasonable for efficient administration of the program to which it is charged. 45 C.F.R. Part 74, Appendix C(I)(c)(1) (1974). It must conform to the limitations set forth in pertinent statutes and regulations, and the benefits realized must accrue to the program. Id. at (C)(2)(a). The burden of showing that an expenditure meets these conditions and is allowable rests on the grantee, who is required to maintain a financial management system with procedures adequate to determine the allowability and allocability of costs. 45 C.F.R. Part 74.61(f) (1974). This system must provide for retention of records identifying the application of grant funds, supported by source documentation. 45 C.F.R. Part 74.61(b), (g) (1974).

As OHDS has stated in its response to the appeal, documentation should be available to show, at the very least, 1) the item or items purchased and their cost, 2) that the item was used for the benefit of the grant program, 3) that the item was in fact received, and, 4) that the cost of the item was actually paid by the grantee. Such documentation is essential for the Agency to determine the amount properly chargeable to the grant.

NSD has submitted vouchers for three purchases without including canceled checks or other evidence of payment by the delegate agency. These orders are for four chairs, a camera lens, and books from Elk Grove Press. For the last two of these three items, ambiguities in the orders themselves make the lack of payment documentation especially fatal. For the camera lens, while the price on the voucher is \$249.50, a different figure, \$180, has been inserted in ink. There is no evidence to show which amount, if either, was actually paid. As for the books ordered from Elk Grove Press, the "amount" column of the voucher contains the handwritten notation, "8/2/73 Cancel". Again, there is no evidence of payment, and, moreover, no evidence of receipt of the goods. While the order is marked "approved for payment, 6/16/1975", the target date for delivery is August 31, 1972, two years before the program year for which the costs are claimed.

NSD has also submitted a check for \$389 payable to Children's Press. There is no documentation to show that anything was ever ordered from this vendor. Documentation of payment alone, without a description of the items purchased, cannot establish an allowable cost, since it cannot then be determined that the items purchases were necessary or reasonably related to program objectives.

This flaw is also evident in the material offered to support a purchase from International Radio. NSD seeks to document this cost with a voucher for a purchase in the amount of \$501. The voucher does not describe the items purchased, referring instead to descriptions on an attached sheet. This sheet has not been produced.

Finally, the mileage sheet offered in support of the delegate agency's travel expenses is incomplete. Prepared four years after the close of program year "J", it gives no indication of the nature of the travel being reimbursed or of the drivers' role in relation to the Head Start program. Without this information, it cannot be determined how this travel benefited the program. As was noted in Head Start of New Hanover Conty, Inc., DGAB Docket No. 78-94, Decision No. 65, September 25, 1979, while after-the-fact documentation will not necessarily be rejected by the Board, such documentation is clearly less acceptable than contemporaneous records and must face a burden of persuasion which it must meet by specificity and precision. As an after-the-fact reconstruction, this summary cannot be considered adequate documentation without some information about the materials and methods used in compiling it.

Therefore, the documentation submitted by NSD to support the remaining \$2,273.12 in question in this category is insufficient or inadequate in establishing the purpose of the expenditure or the amount actually paid or that the expenditures are grant-related and allowable. This part of the disallowance must be upheld.

Conclusion

For the reasons stated above, out of the \$8,617 appealed by NSD, the grantee's appeal of \$1,231 is sustained and \$7,386 is denied.

/s/ Clarence M. Coster

/s/ Donald G. Przybylinski

/s/ Frank L. Dell'Acqua, Panel Chairman