

DEPARTMENTAL GRANT APPEALS BOARD

Department of Health and Human Services

SUBJECT: Southeast Mississippi Community DATE: May 31, 1981
 Action Agency
 Hattiesburg, Mississippi
 Docket No. 79-59
 Decision No. 185

DECISION

Background

By letter dated November 2, 1977, the Chief, Technical Assistance Branch, Office of Human Development Services (OHDS, Agency), Region IV, notified Southeast Mississippi Community Action Agency (Grantee) that \$64,836 was disallowed as an overexpenditure and that these "costs in excess of the approved budget [are] not allowable [and] must be paid with cash from non-federal sources." This determination was based on an audit (Audit Control No. 04-76289) of the Grantee's Head Start grant in grant year J (year ended April 30, 1977).

The Grantee filed an application for review with Region IV on December 7, 1977 but the application was not forwarded by the Region to the Board until March 22, 1979. This decision is based on the application for review, the Agency's response to the appeal, the Grantee's response to questions posed by the Board, an Order to Show Cause and the Grantee's response, and several conference calls among the parties and the Panel Chair. In response to the Grantee's appeal, the Agency has taken the position that the excess costs issue is not subject to the Board's jurisdiction and moved that the Board dismiss the appeal for lack of jurisdiction. This motion was denied in the Board's Order to Show Cause.

Statement of the Case

The notification of disallowance does not set forth the reasons for the disallowance but merely refers the Grantee to the audit report.

The audit report states that the Grantee's Head Start program was established in 1966 as authorized by Section 222 of the Economic Opportunity Act of 1964, as amended, and during the audit period served approximately 785 children in Forrest and Stone Counties, Mississippi.

The "Statement of Revenues, Expenses and Changes in Fund Balances for Year Ended April 30, 1977" (page 6 of the audit report) shows that the total OHDS funds budgeted were \$932,803, while the expenditures of OHDS funds totaled \$997,639. The Grantee contributed \$338,639 towards its non-Federal share while it was only budgeted to contribute \$233,201; according to the Grantee the non-Federal share contribution was all in-kind and was in the areas of volunteer services and space donation. The Audit Report shows the over-expenditure to be as follows:

	Approved	Expended
Fringe Benefits	\$ 75,000	\$ 76,768
Equipment	4,000	24,945
Supplies (non-food)	33,462	42,255
Other	159,759	213,808
	<u>\$272,221</u>	<u>\$357,776</u>
	\$357,776	
	<u>-272,221</u>	
Total Overexpenditure =	\$ 85,555	

Adjustments Are:

Underexpenditure Personnel	\$18,246
Travel	<u>2,473</u>
	\$20,719
Overexpenditure Amount	\$85,555
Adjustments	<u>20,719</u>
Amount Disallowed	\$64,836

Grantee's Argument

The Grantee admits that there was an overexpenditure but states that it has:

made the necessary changes as suggested by the auditor to improve our accounting system. The overexpenditure was the result of a change in our accounting system. Near the end of the grant we changed to the open and close purchase order system. Through this change we lost an accurate figure of our payables. This resulted

in the over-expenditure...The budget over-run was in the form of liabilities. These liabilities have been paid in the current grant we are in now (emphasis added). (Application for Review, p.1.)

The Grantee asks that its excess non-Federal share be used to offset the overexpenditure.

Discussion

The audit report shows overexpenditures in four budget categories - fringe benefits, equipment, supplies, and other. In its response to questions posed by the Board's Executive Secretary, the Grantee stated that the overexpenditure was in the form of "liabilities" including:

several items that were in Accounts Payable. These included buses that had been ordered but had not been received by the end of the grant; food items that had been received but not paid for by the end of the grant; and other approved items for which payment was withheld until after April 30...These liabilities have been paid in the current grant we are in now.

From the facts provided by the Grantee, which the Agency does not dispute, we find that while certain equipment and supply purchases may have been reflected in the Grantee's records for year J, these items were paid for in year K from year K funds. Although the Grantee alleges that the total overexpenditure is comprised of liabilities paid for in year K, the record is not sufficient for us to conclude that the total overexpenditure for equipment and supplies is attributable to amounts actually expended in year K from year K funds. In addition, the record will not support a conclusion that any of the overexpenditure for the remaining budget categories, "fringe benefits" and "other", are attributable to amounts actually expended in year K from year K funds. However, it is clear that at least a portion of the total overexpenditure is attributable to amounts expended in year K from year K funds.

Accordingly, the Board concludes that there can be no overexpenditure for year J which results from the expenditure of year K funds in year K. Therefore, to the extent that the disallowance represents the expenditure of year K funds in year K, that portion of the disallowance is overturned. The parties should determine whether the total supposed overexpenditure of \$85,555 is attributable to year K expenditures. To the extent the overexpenditure in year J is in fact attributable to the expenditure of year J funds and not offset by the \$20,719 underexpenditure adjustment, the disallowance is sustained. If the parties cannot agree on the amount properly disallowed, the Grantee can return to the Board for resolution of that question. This decision does not preclude the Agency from examining the Grantee's year K expenditures to determine their allowability.

Conclusion

For the reasons stated above, we overturn the disallowance of \$64,836 except to the extent that it represents actual expenditures in year J that were in excess of that year's grant.

/s/ Cecilia Sparks Ford

/s/ Norval D. (John) Settle

/s/ Donald F. Garrett, Panel Chair