

EXECUTIVE DIGEST

STATEWIDE COST ALLOCATION PLAN

INTRODUCTION

This report contains the results of our financial related audit* of the Statewide Cost Allocation Plan (SWCAP), Department of Management and Budget (DMB), for the period October 1, 1994 through September 30, 1997.

AUDIT PURPOSE

This financial related audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Financial related audits are conducted at various intervals to permit the Auditor General to express an opinion on the State's financial statements. Also, this audit complements our departmentwide financial audits, including the provisions of the Single Audit Act of 1984, which are conducted pursuant to Act 251, P.A. 1986.

BACKGROUND

A SWCAP is the mechanism by which a state identifies, summarizes, and allocates indirect costs* in a logical and systematic manner. The SWCAP also includes financial and billing rate information for billed central services* directly charged to agencies or programs through internal service funds* . A SWCAP is required for the State to obtain reimbursement from the federal government for the costs of central support services provided to operating departments by the Department of Civil Rights, Department of Civil Service, DMB, Department of Treasury, and Office of the Auditor General.

The DMB Office of Financial Management is responsible for the State's SWCAP. Since 1986, DMB has contracted with a private consultant to prepare the SWCAP.

The State submits a proposed SWCAP based on estimated costs and a final SWCAP based on actual costs to the U.S. Department of Health and Human Services (HHS). HHS is the cognizant agency that annually approves the SWCAP and negotiates the Cost Allocation Agreement with DMB, establishing Statewide indirect costs for the State's operating departments. The Statewide indirect costs are established on a fixed with carry-forward basis*. The most recent Cost Allocation Agreement approved indirect costs for fiscal year 1996-97, which included estimated costs for the fiscal year 1996-97 proposed SWCAP and carry-forward costs from the fiscal year 1994-95 final SWCAP.

DMB provides the approved indirect costs to the State's operating departments to obtain federal reimbursement of Statewide indirect costs. The amount of reimbursement for these Statewide indirect costs is determined by each operating department's method of billing indirect costs for different federal assistance programs. Statewide indirect costs allocated to operating departments and other funds for fiscal year 1996-97 were \$77.7 million.

**AUDIT OBJECTIVES
AND CONCLUSIONS**

Audit Objective: To assess the allowability of SWCAP costs in accordance with the Office of Management and Budget (OMB) Circular A-87.

Conclusion: We concluded that SWCAP costs were in accordance with OMB Circular A-87. However, we

identified a reportable condition* involving allowable costs (Finding 1).

Audit Objective: To assess the reasonableness of the SWCAP methodology used to allocate central support service costs to user departments.

Conclusion: We concluded that the SWCAP allocation methodology was reasonable.

Audit Objective: To assess the timeliness of DMB's distribution of SWCAP costs to user departments.

Conclusion: We concluded that DMB distributed SWCAP costs to user departments in a timely manner.

Audit Objective: To assess whether the SWCAP complied with OMB Circular A-87 regarding the federal allowance for retained earnings of internal service funds and the related documentation requirements.

Conclusion: We concluded that the SWCAP generally complied with OMB Circular A-87 regarding the federal allowance for retained earnings; however, we identified a reportable condition involving excess working capital reserves (Finding 2). We also concluded that DMB complied with documentation requirements.

AUDIT SCOPE

Our audit scope was to examine the final Statewide Cost Allocation Plans that were completed in our audit period. Our audit scope was primarily to examine the final Statewide Cost Allocation Plan for fiscal year 1994-95, which was approved by HHS in the fiscal year 1996-97 Cost Allocation Agreement. We also examined the final

Statewide Cost Allocation Plans for fiscal years 1995-96 and 1996-97 and the proposed Statewide Cost Allocation Plans for fiscal years 1997-98 and 1998-99 on a limited basis because these costs will be included in future Cost Allocation Agreements. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

AGENCY RESPONSES

Our audit report contains 2 findings and corresponding recommendations. DMB's preliminary response indicated that it agreed with both recommendations, has complied with one recommendation, and will comply with the other recommendation.