

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**MARYLAND'S CHILD SUPPORT  
ADMINISTRATION GENERALLY CLAIMED  
ADMINISTRATIVE COSTS THAT WERE  
ALLOWABLE AND ALLOCABLE**

*Inquiries about this report may be addressed to the Office of Public Affairs at  
[Public.Affairs@oig.hhs.gov](mailto:Public.Affairs@oig.hhs.gov).*



**Amy J. Frontz**  
Deputy Inspector General  
for Audit Services

**March 2023**  
A-01-22-02500

# ***Office of Inspector General***

<https://oig.hhs.gov>

---

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

## ***Office of Audit Services***

The Office of Audit Services (OAS) provides auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations. These audits help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

## ***Office of Evaluation and Inspections***

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

## ***Office of Investigations***

The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/or civil monetary penalties.

## ***Office of Counsel to the Inspector General***

The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

# *Notices*

---

**THIS REPORT IS AVAILABLE TO THE PUBLIC**  
at <https://oig.hhs.gov>

Section 8M of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG website.

## **OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

## Report in Brief

Date: March 2023

Report No. A-01-22-02500

U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES  
**OFFICE OF INSPECTOR GENERAL**



### Why OIG Did This Audit

Under the Child Support Enforcement Program (CSE program), the Federal Government and States share administrative costs related to locating noncustodial parents, establishing paternity and support orders, and collecting and distributing child support payments. In a prior audit, we found that one State claimed unallowable and unsupported CSE program administrative costs for Federal reimbursement. In Maryland, child support services are provided under cooperative reimbursement agreements with various entities.

We reviewed administrative costs claimed by Maryland under its agreement with the Maryland Judiciary, Administrative Office of the Courts (AOC), because it was the largest agreement in terms of administrative costs claimed by the State for Federal fiscal year (FFY) 2021.

Our objective was to determine whether Maryland claimed administrative costs for the CSE program that were allowable and allocable in accordance with Federal and State requirements.

### How OIG Did This Audit

We reviewed the salary and fringe benefit costs of 158 AOC employees charged to the CSE program during FFY 2021 (audit period) as well as indirect costs charged through the application of a de minimis rate of 10 percent.

## Maryland's Child Support Administration Generally Claimed Administrative Costs That Were Allowable and Allocable

### What OIG Found

Maryland generally claimed AOC administrative costs for the CSE program that were allowable and allocable, and the overall effect of the errors we identified during our audit period were immaterial. However, we determined that Maryland did not have an adequate invoice review process to ensure that AOC salary and fringe benefits allocated to the CSE program were accurate and supported and that the AOC properly calculated indirect costs charged to the CSE program.

### What OIG Recommends and Maryland Comments

We recommend that Maryland: (1) periodically review the allocation and support of payroll costs invoiced by the AOC, and (2) verify that the AOC calculates indirect costs charged to the CSE program by applying the de minimis rate of 10 percent to the correct allocation base.

In written comments on our draft report, Maryland concurred with our recommendations. Maryland also described the actions it will take to address the recommendations. For example, Maryland said it would periodically conduct site reviews, beginning April 1, 2023, and evaluate the AOC billing process, internal controls, and supporting documentation to verify the allocation and support of payroll costs invoiced by the AOC.

**TABLE OF CONTENTS**

INTRODUCTION.....1

    Why We Did This Audit.....1

    Objective .....1

    Background .....1

        Child Support Enforcement Program.....1

        Maryland Department of Human Services, Child Support Administration .....1

        Cooperative Reimbursement Agreement Between the State Agency and the  
        Maryland Administrative Office of the Courts .....2

    How We Conducted This Audit.....2

FINDINGS .....3

    Salary and Fringe Benefits Improperly Allocated.....3

    Unsupported Salary and Fringe Benefits Claimed for Two Employees .....4

    Indirect Cost Rate Was Applied to the Incorrect Allocation Base .....4

RECOMMENDATIONS.....5

MARYLAND DEPARTMENT OF HUMAN SERVICES, CHILD SUPPORT  
ADMINISTRATION COMMENTS .....5

APPENDICES:

    A: Audit Scope and Methodology .....6

    B: Maryland Department of Human Services, Child Support  
    Administration Comments .....8

## INTRODUCTION

### WHY WE DID THIS AUDIT

Under the Child Support Enforcement Program (CSE program), child support payments from noncustodial parents (parents who do not have primary care, custody, or control of the child) are collected and distributed to custodial parents. The Federal Government and States jointly fund and administer the CSE program. In a prior audit, we found that one State claimed unallowable and unsupported CSE program administrative costs for Federal reimbursement.<sup>1</sup> We selected the Maryland Department of Human Services, Child Support Administration (State agency) for this audit based on a risk assessment.

### OBJECTIVE

Our objective was to determine whether the State agency claimed administrative costs for the CSE program that were allowable and allocable in accordance with Federal and State requirements.

### BACKGROUND

#### Child Support Enforcement Program

The CSE program was established in 1975 under Title IV-D of the Social Security Act. At the Federal level, the Administration for Children and Families (ACF) Office of Child Support Enforcement (OCSE) administers the CSE program. At the State level, program responsibilities include locating noncustodial parents, establishing paternity and support orders, and collecting and distributing child support payments. All costs incurred to carry out these responsibilities are considered administrative costs. The Federal Government matches State CSE program administrative costs at a rate of 66 percent. These matching funds are not capped, so the Federal share of CSE program costs increases as States spend more. During Federal fiscal year (FFY) 2021, OCSE paid \$3.5 billion (Federal share) in CSE program administrative costs.

#### Maryland Department of Human Services, Child Support Administration

In Maryland, child support services are provided by the State agency under cooperative reimbursement agreements (CRAs) and contracts with various entities, including sheriff departments, offices of State attorneys, and city and county courts. In FFY 2021 the State agency entered into 33 CRAs to perform various child support services.

---

<sup>1</sup> [Vermont's Office of Child Support Needs Better Oversight Over Its Administrative Costs Claimed Audit](#) (A-01-18-02501), Sept. 6, 2019.

## **Cooperative Reimbursement Agreement Between the State Agency and the Maryland Administrative Office of the Courts**

The Maryland Administrative Office of the Courts (AOC) is the central support agency for the State judicial branch and provides a broad range of support services to circuit courts located in each of Maryland's 23 counties and the city of Baltimore. Circuit courts handle family law cases such as divorce, custody, and child support.

The State agency entered into a CRA with the AOC to provide services related to the establishment of paternity and the establishment, enforcement, and modification of child support through circuit courts in all 24 jurisdictions in Maryland. According to the CRA, costs eligible for reimbursement includes the salaries and fringe benefits of circuit court clerks, supervisory clerks, magistrates, and a grant coordinator, as well as indirect costs and other operating costs. Reimbursement is contingent upon submission of a certified and itemized quarterly invoice in the format provided by the State agency.

For FFY 2021, the State agency claimed reimbursement of \$7,745,214 (\$5,111,841 Federal share) for CSE program costs incurred under the CRA with the AOC. This was the highest dollar CRA in Maryland for FFY 2021, representing 34 percent of all CSE program administrative costs claimed under CRAs.

### **HOW WE CONDUCTED THIS AUDIT**

Our review covered State agency reported AOC administrative costs included on line 1b of the ACF form 396 Quarterly Financial Reports for FFY 2021 (audit period) totaling \$7,745,214 million (\$5,111,841 million Federal share).<sup>2</sup> Of this amount, we reviewed \$7,570,545 million (\$4,996,559 million Federal share), which represented over 97 percent of the AOC administrative costs reimbursed by the State agency during our audit period.

Specifically, we reviewed the salary and fringe benefit costs of 158 AOC employees charged to the CSE program representing nearly 89 percent of the total Title IV-D costs invoiced under the CRA. We also reviewed indirect costs representing nearly 9 percent of the total Title IV-D cost invoiced under the CRA. These costs were charged through the application of the de minimis rate of 10 percent to modified total direct costs (MTDC).

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

---

<sup>2</sup> The OCSE-396 instructions for line 1b define Title IV-D administrative expenditures as "expenditures for the routine administration and operation of the Child Support Enforcement Program."

Appendix A contains the details of our audit scope and methodology.

## **FINDINGS**

The State agency generally claimed AOC administrative costs for the CSE program that were allowable and allocable, and the overall effect of the errors we identified during our audit period were immaterial. However, we determined the State agency did not have an adequate invoice review process to ensure AOC salary and fringe benefits allocated to the CSE program were accurate and supported and that the AOC properly calculated indirect costs charged to the CSE program.

### **SALARY AND FRINGE BENEFITS IMPROPERLY ALLOCATED**

A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with the relative benefits received (45 CFR § 75.405 (a)). The standards for the documentation of personnel expenses requires that charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must be supported by a system of internal control that provides reasonable assurance that the charges are accurate, allowable, and properly allocated. The records must also support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award, a Federal award and non-Federal award, an indirect cost activity and a direct cost activity, two or more indirect activities that are allocated using different allocation bases, or an unallowable activity and a direct or indirect cost activity (45 CFR §§ 75.430(i)(1)(i) and (vii)).

We found that for 12 of the 158 employees reviewed, the State agency improperly allocated AOC salary and fringe benefits to the CSE program. While the overall effect of these errors to the CSE program was less than 1 percent of the salaries and fringe benefits claimed during the period, the errors resulted in some overstatements and some understatements of salaries and fringe benefits claimed during the period.<sup>3</sup>

These errors occurred because the spreadsheet used by the AOC to calculate the amount of salary and fringe benefits to allocate to the CSE program contained manual data entry errors. For example, the AOC inputted the wrong number of hours one employee worked on the CSE program. These errors were not detected because the AOC and the State agency did not perform a second-level review of the spreadsheet calculations.

---

<sup>3</sup> Of the 12 employees with errors, 7 employee salaries claimed were overstated by \$13,153 (Federal share) and 5 employee salaries claimed were understated by \$38,499 (Federal share).

## **UNSUPPORTED SALARY AND FRINGE BENEFITS CLAIMED FOR TWO EMPLOYEES**

The standards for the documentation of personnel expenses requires that charges to Federal awards for salaries and wages be based on records that accurately reflect the work performed. These records must be supported by a system of internal control that provides reasonable assurance that the charges are accurate, allowable, and properly allocated (45 CFR § 75.430(i)(1)(i)).

We found that salary and fringe benefit expenses were not supported by adequate time and effort reporting documents for 2 of the 85 AOC employees reviewed who worked less than 100 percent of their time on the CSE program. For example:

- For one employee, the State agency was unable to provide timesheets for an employee who claimed 112 hours under the CSE program.
- For one employee, there was an 81.75-hour variance between the amount of hours supported by the timesheet (44.25 hours) and the amount of hours claimed (126 hours).

The State agency was unable to provide the missing timesheets or explain the reason for the variance. The overall effect of these unsupported time and effort report documents to the CSE program was immaterial representing less than 1 percent of the salaries and fringe benefits claimed during the period.

## **INDIRECT COST RATE WAS APPLIED TO THE INCORRECT ALLOCATION BASE**

Federal requirements specify that a non-Federal entity that has never received a negotiated indirect cost rate may elect to charge a de minimis rate of 10 percent of MTDC,<sup>4</sup> which may be used indefinitely. Costs must be consistently charged as either indirect or direct costs but may not be double charged or inconsistently charged as both. If chosen, this methodology once elected must be used consistently for all Federal awards until such time as a non-Federal entity chooses to negotiate for an indirect cost rate (45 CFR § 75.414 (f)). A cost is allocable to a cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with the relative benefits received (45 CFR § 75.405 (a)). Under the CRA, the AOC elected to charge a de minimis rate of 10 percent in lieu of negotiating for an indirect cost rate.

We found that the AOC improperly calculated the amount of indirect cost claimed under the CSE program. Specifically, the AOC did not charge a de minimis rate of 10 percent of MTDC as

---

<sup>4</sup> MTDC means all direct salaries and wages, applicable fringe benefits, materials and supplies, services, travel, and up to the first \$25,000 of each subaward (regardless of the period of performance of the subawards under the award). MTDC excludes equipment, capital expenditures, charges for patient care, rental costs, tuition remission, scholarships and fellowships, participant support costs, and the portion of each subaward in excess of \$25,000. Other items may only be excluded when necessary to avoid a serious inequity in the distribution of indirect costs and with the approval of the cognizant agency for indirect costs (45 CFR § 75.2).

required. Rather, the AOC charged the de minimis rate of 10 percent to employee salaries and fringe benefits but excluded supply and subaward expenditures from the calculation.

The State agency did not review the calculation prior to payment of the quarterly invoice to ensure the indirect cost rate was applied to the correct allocation base. The overall effect of using the incorrect allocation base during our audit period was immaterial; however, continuing this practice could result in a disproportionate share of indirect cost being allocated to the CSE program.

### **RECOMMENDATIONS**

We recommend that the Maryland Department of Human Services, Child Support Administration:

- periodically review the allocation and support of payroll costs invoiced by the AOC, and
- verify that the AOC calculates indirect costs charged to the CSE program by applying the de minimis rate of 10 percent to the correct allocation base.

### **MARYLAND DEPARTMENT OF HUMAN SERVICES, CHILD SUPPORT ADMINISTRATION COMMENTS**

In written comments on our draft report, the State agency concurred with our recommendations. The State agency described the actions it will take to address the recommendations. For example, the State agency said it would periodically conduct site reviews, beginning April 1, 2023, and evaluate the AOC billing process, internal controls, and supporting documentation to verify the allocation and support of payroll costs invoiced by the AOC. The State agency's comments are included in their entirety as Appendix B.

## APPENDIX A: AUDIT SCOPE AND METHODOLOGY

### SCOPE

Our review covered State agency reported AOC administrative costs included on line 1b of the ACF form 396 Quarterly Financial Reports for the period of October 1, 2020, through September 30, 2021, totaling \$7,745,214 million (\$5,111,841 million Federal share).<sup>5</sup> We reviewed salaries and fringe benefits and indirect costs, which represented over 97 percent of the total administrative costs invoiced by the AOC and reimbursed by the State agency during our audit period, totaling \$7,570,545 million (\$4,996,559 million Federal share).

We did not assess the State agency's overall internal control structure. Rather, we limited our review to the State agency's internal controls related to invoice processing to ensure the accuracy of AOC reported administrative expenditures under the CSE program.

We conducted our fieldwork at the State agencies office located in Baltimore, Maryland; the Administrative Office of the Court Office in Annapolis Maryland; and one circuit court in Annapolis, Maryland, from May 26, 2022, through October 14, 2022.

### METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal and State laws and regulations related to the CSE program;
- reviewed the Maryland State Plan and the cooperative reimbursement agreement requirements for the reimbursement of expenditures related to the CSE program;
- interviewed State agency, AOC, and circuit court officials to gain an understanding of the CSE program;
- reconciled the AOC invoices with the State's accounting system;
- conducted interviews with State agency and AOC staff to gain a greater understanding of how the quarterly itemized invoices are prepared and processed for payment;
- reviewed the allocation of the 158 employees charged to the CSE program to include their positions, duties, timesheets, or certification (if working 100 percent on the IV-D program) invoiced under the CRA;

---

<sup>5</sup> The OCSE-396 instructions for line 1b define Title IV-D administrative expenditures as "expenditures for the routine administration and operation of the Child Support Enforcement Program."

- reviewed indirect cost charged to the IV-D program through the application of the de minimis rate of 10 percent; and
- discussed the results of our review with the AOC and the State agency.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



March 10, 2023

Mr. Curtis M. Roy  
Regional Inspector General – Audit Services  
Department of Health and Human Services  
Office of Inspector General  
Office of Audit Services, Region I  
JFK Federal Building  
15 New Sudbury Street, Room 2425  
Boston, MA 02203

Dear Mr. Roy:

Enclosed, please find the Maryland Department of Human Services' (DHS) response to the U.S. Department of Health and Human Services, Office of Inspector General's draft audit report titled *Maryland's Child Support Administration Generally Claimed Administrative Costs That Were Allowable and Allocable*.

Please contact me at (410) 767-7109 or [rafael.lopez@maryland.gov](mailto:rafael.lopez@maryland.gov) if you have any questions, or Marva Sutherland, DHS Inspector General, at the following number: 443-378-4060 or via email at [marva.sutherland@maryland.gov](mailto:marva.sutherland@maryland.gov).

In service,

A handwritten signature in black ink, appearing to read 'Rafael López', is written over a white background.

Rafael López  
Secretary

Enclosures:

cc:

Carnitra White, Principal Deputy Secretary  
Daniel Wait, Deputy Secretary of Operations  
Kevin Guistwite, Executive Director, Child Support Administration  
Stafford Chipungu, Chief Financial Officer  
Marva Sutherland, Inspector General  
Shelly-Ann Dyer, Assistant Inspector General for Audits  
Webster Ye, Chief of Staff



**Maryland Department of Human Services  
Child Support Administration  
Agency's Response**

**MARYLAND DEPARTMENT OF HUMAN SERVICES' RESPONSE**

The Maryland Department of Human Services (DHS), Child Support Administration (CSA) concurs with the recommendations from the U.S. Department of Health and Human Services (HHS) Office of Inspector General (OIG):

- DHS, CSA's Internal Audit/Quality Assurance and Cooperative Reimbursement Agreements (CRA) Units will periodically conduct site reviews beginning April 1, 2023, to evaluate the Administrative Office of the Courts (AOC) billing process, internal controls, and supporting documentation to verify the allocation and support of payroll costs invoiced by the AOC.
  
- DHS, CSA's Internal Audit/Quality Assurance and CRA Units met in February 2023 with the AOC to discuss indirect costs eligible to be charged by applying the de minimis rate of 10 percent to the correct allocation base which is included in the contract. DHS, CSA Internal Audit/Quality Assurance and CRA Units will schedule periodic follow up meetings with the AOC to review and ensure ongoing clear understanding of appropriate direct/indirect costs to be charged to the Child Support Program.