

**Memorandum**

Date FEB 10 1999

From June Gibbs Brown  
Inspector General *June G. Brown*

Subject Follow-on Review of the Office of Inspector General Audit of Title IV-E Foster Care Eligibility in California - (A-09-98-00075)

To Olivia A. Golden  
Assistant Secretary for  
Children and Families

This memorandum is to alert you to the issuance of our final report on February 12, 1999. A copy is attached.

The purpose of this audit was to perform a follow-on review of a prior Office of Inspector General (OIG) audit of title IV-E foster care eligibility in California (Common Identification Number: A-09-92-00086). The prior audit report, issued March 18, 1994, covered eligibility for Federal financial participation (FFP) in title IV-E maintenance payments claimed by the California Department of Social Services (the State) during the period October 1, 1988 through September 30, 1991. This follow-on review was made at the request of the Administration for Children and Families (ACF), Region IX, and related to the State's disagreement over some reported foster care cases ineligible for the Federal title IV-E program as well as amounts over claimed.

The prior audit included a review of a statistical sample of foster care maintenance payments claimed for Federal reimbursement for the above time period. As a result of the review, we identified a significant number of errors in program eligibility determinations and/or payment rates. In the final audit report, we estimated that \$103.4 million (Federal share \$51.7 million) was incorrectly claimed by the State for FFP. The report included procedural recommendations with which the State generally concurred. However, because of a moratorium imposed at that time by the Omnibus Budget Reconciliation Act of 1993 in seeking repayments of Federal funds under the title IV-E program, we did not recommend a monetary recovery. The State did not concur with our sampling methodology or the projected amount of ineligible payments that was included in the report.

Subsequent to the issuance of the final report, ACF informed the State that the process to collect a disallowance relating to the OIG audit was being set into motion since the moratorium on monetary recoveries had expired. The State submitted to ACF supplemental information to contest some of the foster care payment findings identified

in the prior audit. The final submission of supplemental information by the State was made on August 12, 1997. Upon review of the State's information, ACF continued to uphold most of the audit findings in the prior audit report, but also made an initial determination subject to our review to reverse 48 of the 411 errors we reported earlier. Accordingly, in a memorandum dated March 19, 1998, ACF requested us to review the disputed cases and to recalculate the disallowance amount for the prior audit.

The objectives of the follow-on audit were to: (i) determine whether a possible reversal of 48 errors was sufficiently supported; (ii) make adjustments to the audit results, as appropriate, based on supplemental State data; and (iii) recalculate the estimate of Federal funds that the State had claimed as foster care maintenance payments which did not meet the requirements for FFP under the title IV-E foster care program.

Based on our review, we determined that:

- The State provided adequate support for ACF to reverse 35 of the 48 errors. For the remaining 13 errors, our review showed, and ACF Region IX agreed, that the prior audit findings were appropriate and should not be reversed.
- The State had inappropriately claimed \$77,907,357 (Federal share \$38,953,679) in foster care payments which were not eligible for FFP during the period from October 1, 1988 through September 30, 1991.

Any questions or comments on any aspect of this memorandum are welcomed. Please call me or have your staff contact John A. Ferris, Assistant Inspector General for Administrations of Children, Family, and Aging Audits, at (202) 619-1175.

Attachment

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**FOLLOW-ON REVIEW OF THE OFFICE  
OF INSPECTOR GENERAL AUDIT OF  
TITLE IV-E FOSTER CARE ELIGIBILITY  
IN CALIFORNIA**



**JUNE GIBBS BROWN**  
**Inspector General**

**FEBRUARY 1999**  
**A-09-98-00075**



## Memorandum

Date: FEB 12 1999

From: OIG Office of Audit Services, Region IX

Subject: Follow-on Review of the OIG Audit of Title IV-E Foster Care Eligibility in California  
(Common Identification Number: A-09-98-00075)

To: Sharon M. Fujii, Regional Administrator  
Administration for Children and Families, Region IX

This memorandum provides you with the results of our follow-on review of the Office of Inspector General (OIG) audit of title IV-E foster care eligibility in California (Common Identification Number A-09-92-00086). The prior audit report, issued on March 18, 1994, covered the eligibility for Federal reimbursement of title IV-E foster care maintenance payments claimed by the California Department of Social Services (State) during the period October 1, 1988 through September 30, 1991. This follow-on review was made at the request of the Administration for Children and Families (ACF), Region IX, and related to the State's disagreement over some of the prior audit findings involving the ineligibility of certain foster care cases for the Federally-funded title IV-E program as well as amounts over claimed.

A copy of this follow-on audit report will be forwarded to the action official listed below for final determination on the matters reported. You are requested to respond to that official within 30 days of the issuance of this report, addressing the matters reported and actions taken or planned on the report recommendation.

Associate Commissioner, Children's Bureau  
Administration on Children, Youth and Families  
330 C Street, S.W.  
Mary E. Switzer Building, Room 2070  
Washington, D.C. 20204

In the prior audit, our review of a statistical sample of 805 payments disclosed that 313 payments contained 411 errors in program eligibility determinations and/or payment rates. We estimated that \$103.4 million (Federal share \$51.7 million) was incorrectly claimed by the State for Federal financial participation (FFP). We made procedural recommendations with which the State generally concurred. However, the State did not concur with our sampling methodology, or that the State erroneously claimed the projected amount of Federal funds during the 3-year period covered by the audit.

The State submitted supplemental information to ACF to contest the findings on 191 of the 313 foster care payments identified in our final report. Specifically, the State was challenging 212 of the 411 errors cited in the final audit report. Upon review of the State's information, ACF

continued to uphold the audit findings on 164 of the 212 errors. For the remaining 48 errors, ACF initially made a determination to reverse the prior audit findings. However, ACF provided the OIG with an opportunity to review the cases and discuss the issues. Accordingly, this follow-on review was made to determine whether there was adequate support for the reversal of the prior audit findings for the 48 errors cited by ACF.

## SUMMARY OF RESULTS

Our review disclosed that:

- There was adequate support for ACF to reverse 35 of the 48 errors. For the remaining 13 errors, our review showed, and ACF Region IX officials agreed, that the prior audit findings were appropriate and should not be reversed.
- The State had inappropriately claimed \$77,907,357 (Federal share \$38,953,679) in foster care payments which were not eligible for FFP during the period from October 1, 1988 through September 30, 1991.

We recommend that ACF take action to obtain a refund of \$38,953,679 from the State for Federal title IV-E funds over claimed for foster care maintenance payments during the period October 1, 1988 through September 30, 1991.

## INTRODUCTION

### BACKGROUND

On March 18, 1994, the OIG issued an audit report titled "AUDIT OF TITLE IV-E FOSTER CARE ELIGIBILITY IN CALIFORNIA FOR THE PERIOD OCTOBER 1, 1988 THROUGH SEPTEMBER 30, 1991" (CIN: A-09-92-00086). In the audit report, we identified several areas in which the State needed to make improvements to help ensure that Federal eligibility requirements were met for foster care payments claimed for FFP. Our audit included a review of a statistical sample of 805 foster care payments for which FFP was claimed during the period October 1, 1988 through September 30, 1991. Our review of the sample payments found that 313 payments contained 411 errors in program eligibility determinations and/or payment rates. The audit report cited that an estimated \$103.4 million (Federal share \$51.7 million) was incorrectly claimed by the State for FFP. The State generally concurred with our procedural recommendations but generally disagreed with our determinations of ineligibility, statistical sampling methodology, and the inclusion in the report of the projected amount incorrectly claimed for FFP.

In our report, we stated that the enactment of the Omnibus Budget Reconciliation Act of 1993 precluded the Secretary of the Department of Health and Human Services from seeking any repayment of Federal funds claimed under title IV-E of the Social Security Act until October 1, 1994. Accordingly, the audit report, issued in March 1994, did not make any recommendation for a monetary recovery.

On December 23, 1994, ACF informed the State that the process to collect a disallowance relating to the OIG audit was being set into motion since the moratorium on monetary recoveries had expired. As a result of the audit and ACF's action, the State submitted to ACF supplemental information to contest the findings on 191 of the 313 foster care payments identified in our final report. Specifically, the State was challenging 212 of the 411 errors cited in the final audit report. The final submission of supplemental information by the State was made August 12, 1997.

Upon review of the State's information, ACF continued to uphold the audit findings on 164 of the 212 errors. For the remaining 48 errors, ACF initially determined that there was sufficient evidence to support the reversal of the prior audit findings. In a memorandum dated March 19, 1998, ACF requested a recalculation of the disallowance amount for the prior OIG audit based on the supplemental documentation submitted by the State. In the memorandum, ACF invited us to review the cases and discuss the related issues.

## **OBJECTIVES, SCOPE AND METHODOLOGY**

Our audit was made in accordance with generally accepted government auditing standards. The objectives of the follow-on audit were to: (i) determine whether the issues involving the 48 errors described above were sufficiently supported to reverse the prior audit findings of ineligibility or overpayments, in light of the evidence and facts obtained during the prior audit as well as with title IV-E criteria; (ii) make adjustments to the audit results, as appropriate, for those cases in which there was sufficient support to reverse the prior audit findings; and (iii) recalculate the estimate of Federal funds that the State had claimed as foster care maintenance payments which did not meet the requirements for FFP under the title IV-E foster care program.

To accomplish the audit objectives, our review included an analysis of ACF's findings, an examination of the supplemental documentation submitted by the State, and discussions with ACF staff. We did not review the issues involving the 164 errors in which ACF had decided to uphold the original audit findings nor the supplemental information provided by the State for these errors.

To estimate the amount of foster care maintenance payments inappropriately claimed by the State, we revised the sample results to reflect decreases in the error amounts where appropriate, and extrapolated the revised results using the statistical appraisal method applied in the prior audit. The amount determined not to be eligible for FFP represented the lower limit at the 90 percent two-sided confidence level. See the Attachment for a description of the sampling methodology.

Because of the limited purpose of the follow-on review, an assessment of ACF's internal controls related to the resolution of final audit reports issued by the OIG was not considered necessary to achieve the audit objectives. Our audit was conducted between March 1998 and October 1998 with field work performed at the ACF's office in San Francisco, California.

## RESULTS OF AUDIT

In our follow-on review, we determined that there was adequate support for ACF to reverse 35 of the 48 errors. Discussions with ACF on the remaining 13 errors have resulted in our mutual agreement that the prior audit findings of ineligibility or overpayments were appropriate. As a result of our review, we estimated that the State had inappropriately claimed \$77,907,357 (Federal share \$38,953,679) in foster care payments which were not eligible for FFP during the period from October 1, 1988 through September 30, 1991. Accordingly, we recommend that ACF take action to obtain a refund of \$38,953,679 in Federal funds from the State for the OIG audit of title IV-E eligibility in California (CIN: A-09-92-00086).

The 13 errors consisted of:

- Four errors related to the use of unauthorized specialized care rates by Los Angeles County. Prior to using certain specialized care rates, Los Angeles County policies required specific approval by authorized county officials. However, the appropriate approvals were not obtained in these four cases.
- Four errors related to the lack of adequate support to demonstrate that the foster children were deprived of parental support. In each case, documentation in the case files showed that both parents were in the home and that one of the parents was employed; thus, the deprivation of parental support standard was not met.
- Three errors related to the claiming of shelter care rates by San Bernardino County rather than the authorized foster care rates. The use of shelter care rates was not approved for the foster care program; thus, the excess amount claimed over the authorized foster care rate was not allowable for FFP.
- Two errors related to the lack of evidence demonstrating that the judicial determinations required under the title IV-E foster care program were made by the courts.

In August 1998, we provided ACF with the results of our follow-on review and requested that ACF provide comments before issuing this audit report. In a memorandum dated September 30, 1998, ACF agreed with our determinations.

As a result of our review, we have revised our sample results as follows:

	Prior Report Findings	Revised Findings	Difference
Number of Errors	411	376	(35)
Number of Related Payments Considered Not Eligible for FFP	313	287	(26)
Total Amount of Sample Error Payments	\$ 194,222	\$ 172,630	\$(21,592)
Estimate of Disallowance Amount:			
Total	\$103,403,279	\$77,907,357	\$ (25,495,922)
Federal Share	\$ 51,701,640	\$38,953,679	\$ (12,747,961)

As shown in the above table, the reduction in the number of related payments considered not eligible for FFP (26) was less than the reduction in the number of errors (35). This difference occurred because the related payments for 9 of the 35 errors contained another issue in which all or part of the payments were not eligible for FFP. Accordingly, these 9 payments were included in the revised findings of 287 error payments listed in the above table.

## RECOMMENDATION

We recommend that ACF take action to obtain a refund of \$38,953,679 from the State for Federal title IV-E funds over claimed for foster care maintenance payments during the period October 1, 1988 through September 30, 1991 based on deficiencies disclosed in our prior OIG audit of title IV-E eligibility in California (CIN: A-09-92-00086).



Lawrence Frelot  
Regional Inspector General  
for Audit Services

Attachment



## STATISTICAL SAMPLING METHODOLOGY

Our prior audit used the Rao, Hartley, Cochran (RHC) multistage sampling approach to draw a sample in two stages. In the first stage, eight primary sample units were selected. A primary sample unit consisted of the payments claimed by one county on the monthly expenditure report submitted to the State. Thus, the selection of the 8 primary sample units was made from the 2,087 county monthly expenditure reports submitted to the State for October 1988 through September 1991. To recognize the differences in size between counties, the primary sample units were assigned a weighting factor. The weighting factor was the total number of Federal "persons count" claimed by a county in a month. A "persons count" represented the total aid payment made on behalf of an eligible child for a month regardless of the number of warrants that may be issued for that month. The primary units selected in the first stage were as follows:

<u>County</u>	<u>Monthly Report</u>
Riverside	August 1989
San Diego	January 1990
Los Angeles	July 1990
Marin	November 1989
San Bernardino	May 1990
Los Angeles	May 1991
Los Angeles	January 1990
Santa Clara	October 1988

In the second stage of this sampling approach, a random sample of payments was drawn from the payroll ledgers supporting the 8 primary units either using single stage random numbers or sets of 2 random numbers. The type of random numbers used depended on whether the counties maintained the payment records on computerized or manual records. In our selection process, random numbers were considered valid only if they contained a Main Payroll payment. Since there was only one Main Payroll payment for a child each month, this limitation helped ensure that each case had only one chance of being selected in a given month. Any transaction, such as a supplemental payment, related to the Main Payroll payment was included as part of the sample payment as long as the transaction was claimed prior to the start of our audit.

A sample of 100 payments was used for all of the counties except Marin County. This was because the number of Main Payroll payments in Marin County for November 1989 totaled 105. Because this represented the entire universe, we reviewed all 105 payments in Marin County. Therefore, the total number of sample payments for the 8 primary units was 805.

To determine whether the 805 payments were made on behalf of children who met Federal eligibility requirements, we examined the supporting documentation in the case files related to each of the payments. The results of our reviews were used to estimate an amount for which FFP was not available using the RHC appraisal method. The amount was calculated using the difference estimator, and represented the lower limit of the 90 percent two-sided confidence level.