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GAO

Report to the Chairman, Subcommittee on Human Resources, Committee on Ways and Means, House of Representatives

June 2006

FOSTER CARE AND ADOPTION ASSISTANCE

Federal Oversight Needed to Safeguard Funds and Ensure Consistent Support for States' Administrative Costs

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GAO-06-649

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Highlights

Highlights of GAO-06-649, a report to the Honorable Wally Herger, Chairman Subcommittee on Human Resources, Ways and Means Committee, House of Representatives

Why GAO Did This Study

Policymakers have expressed concern over how costs to administer the Foster Care and Adoption Assistance programs are contributing to overall increased federal expenditures for these programs, estimated by the Congressional Budget Office to rise from about $6 billion in fiscal year 2003 to $8 billion in fiscal year 2008. The purpose of these programs is to provide financial support for the proper care of children who need placement outside their homes and find adoptive homes for children with special needs. They are authorized under Title IV-E of the Social Security Act and administered by the Department of Health and Human Services' Administration for Children and Families (ACF). GAO was asked to address (1) how the amounts and types of administrative costs changed from FY 2000 to FY 2004; (2) the reasons for differences in and among states in administrative spending and how these differences affect program services; and (3) whether HHS's oversight of administrative costs provides adequate controls over program spending.

What GAO Recommends

GAO recommends a number of actions for HHS to better safeguard federal resources and ensure consistent federal support for state administration of foster care and adoption assistance. HHS did not explicitly agree or disagree with the recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-06-649.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Cornelia M. Ashby at (202)-512-7215 or ashbyc@gao.gov.

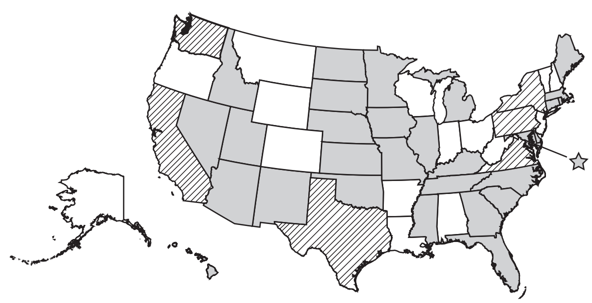
June 2006

FOSTER CARE AND ADOPTION ASSISTANCE

Federal Oversight Needed To Safeguard Funds And Ensure Consistent Support For States' Administrative Costs

What GAO Found

Total federal expenditures to help states pay for the costs of administering their Foster Care and Adoption Assistance programs increased 7 percent between fiscal years 2000 and 2004 from approximately $2.5 to $2.6 billion, when adjusted for inflation. Over a third of states received increased federal assistance, but over 80 percent of the increase was limited to six states, as shown in the figure below. Nearly all of the federal expenditures—89 percent in fiscal year 2004—were for costs related to child placement services. However, inconsistencies in how states tracked and reported data precluded analysis of the types of cost incurred within this category.



States that accounted for 80% of the increase in claims from fiscal year 2000 to fiscal year 2004 (6 states)

Other states that accounted for 20% of the increase in claims from fiscal year 2000 to fiscal year 2004

States with decreased administrative cost claims from fiscal year 2000 to fiscal year 2004

Source: GAO analysis of HHS data.

Our review of spending in 11 states between fiscal years 2000 and 2004 showed that the methods states used to identify eligible children and related staff costs for serving them were two primary reasons for differences in IV-E spending within and among states. One state changed how it identified eligible children and calculated the proportion of eligible children, resulting in higher IV-E costs. Other states varied in their practice of claiming costs for serving children not yet removed from their homes or living in places ineligible for foster care payments. Because states use other funding sources to supplement or supplant IV-E, the effect of IV-E spending on program services is unclear.

HHS has not implemented a strategic approach in its monitoring efforts to ensure adequate control over program spending. Oversight staff located in the regional offices are not correlated with the risk of states claiming inappropriate costs. Oversight is also hindered by inadequate guidance, including lack of a current financial review manual. While HHS clarified policies concerning whether certain expenditures are allowable in critical areas, policies were not uniformly applied across regions.

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Abbreviations

ACF	Administration for Children and Families
AFDC	Aid to Families with Dependent Children
CFSR	Child and Family Services Review
CMS	Centers for Medicare & Medicaid Services
DCA	Division of Cost Allocation
FFP	Federal Financial Participation
GATES	Grants Application and Tracking and Evaluation System
HHS	Department of Health and Human Services
OIG	Office of Inspector General
SACWIS	Statewide Automated Child Welfare Information System
SSBG	Social Services Block Grant
SSI	Supplemental Security Income
TANF	Temporary Assistance to Needy Families
TCM	Targeted Case Management

United States Government Accountability Office
Washington, DC 20548

June 15, 2006

The Honorable Wally Herger
Chairman
Subcommittee on Human Resources
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

Policymakers have expressed concern over how costs to administer the Foster Care and Adoption Assistance programs are contributing to overall increased federal expenditures for these programs, estimated by the Congressional Budget Office to rise from about $6 billion in fiscal year 2004 to $8 billion in fiscal year 2008. These programs, authorized under Title IV-E of the Social Security Act and administered by the Department of Health and Human Services' Administration for Children and Families (ACF), help states provide care for eligible children who have been removed from their homes due to child abuse or neglect, and provide funds to adoptive parents of eligible special needs children.

Administrative costs for these programs include all expenditures on behalf of Title IV-E eligible children other than payments to foster families and adoptive parents, such as case management. The federal government generally reimburses the states for 50 percent of eligible administrative costs with no limit. States also use funding from other federal sources such as Medicaid, which may provide a higher match rate for administrative costs.[1] States must document their use of program funds in

[1]Medicaid is a federal-state program that finances medical and health services for eligible individuals and provides funds to states for targeted case management services that help low income individuals gain access to needed medical, social, educational, and other services and coordinates individuals' use of providers. Targeted case management enables states to provide case management services to a defined group or groups of Medicaid-eligible individuals without providing the same service to all Medicaid beneficiaries statewide, as normally required by Medicaid law. Groups are targeted primarily on the basis of shared characteristics, such as children placed in foster care. The federal government matches state Medicaid spending for medical assistance according to a formula based on each state's per capita income. The federal share can range from $0.50 to $0.83 for every dollar spent; therefore, some states may receive a higher federal match rate for administrative costs associated with foster care children if these costs are charged to Medicaid rather than IV-E.

federally approved state plans. At the federal level, ACF approves IV-E state plans and the Centers for Medicare & Medicaid (CMS) are responsible for approval of state Medicaid plans. In addition, some states use block grant funds from programs, such as Temporary Assistance to Needy Families (TANF), that do not require states to match funds.[2] Because Title IV-E only covers costs associated with IV-E eligible children, states use other federal funding sources to help pay for administrative costs related to children that do not meet the IV-E requirements. IV-E eligibility criteria include among other requirements, having been removed from the home pursuant to a judicial determination and being eligible for the Aid to Families with Dependent Children Program as it was in effect in 1996.

In response to concerns about the growth of costs claimed under Title IV-E, Congress enacted legislation as part of the Omnibus Budget Reconciliation Act of 1990[3] that was intended to provide better information on the types of administrative costs states claim for federal reimbursement. As a result, HHS added separate categories to its reporting form that require states to distinguish costs related to placing a child in foster care from other program activities. In addition to reporting amounts for staff training and development of a statewide automated child welfare information system (SACWIS), HHS requires states to break out costs related to child placement and other activities into five types: (1) case management for children in foster care, (2) case management for children at risk of being placed into foster care, (3) eligibility determination, (4) information system operating costs and (5) other costs, such as licensing of foster homes.

In light of more available information and the continued rise in administrative costs, you asked us to determine (1) how the amounts and types of federal expenditures for Foster Care and Adoption Assistance administrative costs changed between fiscal years 2000 and 2004; (2) the reasons for differences in and among states in administrative spending and how these differences affect program services; and (3) whether HHS's oversight of administrative expenditures provides adequate controls over program spending.

[2]However, states are required to maintain a significant portion of their own historic financial commitment to their welfare programs as a condition of receiving their full TANF allotments.

[3]Pub. L. No. 101-508 (1990).

To determine how federal expenditures for administrative costs changed during fiscal years 2000 to 2004, we analyzed state claims for expenditures provided by ACF.[4] These data distinguished expenditures by type of costs such as child placement services, training, and development of state automated systems. We determined the data were sufficiently reliable for this purpose. To determine the reasons for differences in and among states in administrative spending and how these differences affect program services, we (1) conducted site visits to five states—California, Kansas, Pennsylvania, South Carolina, and Washington; (2) conducted phone interviews with state officials responsible for program and fiscal operations in six additional states—Illinois, Maryland, Michigan, New York, Texas, and Wisconsin; and (3) obtained financial data and perspectives from these 11 states through a structured data collection instrument. These 11 states accounted for about 64 percent of fiscal year 2004 federal administrative costs and represented diversity in the change in administrative costs, total spending on foster care and adoption assistance programs, geographic location, and also provided examples of state and county operated programs. While we did not fully assess the reliability of the data the state agencies reported on the instrument, we reviewed the data to determine that the responses were complete and reasonable and found the data to be sufficiently reliable for the purposes of this report. We also analyzed state allocation plans and financial reports. To assess HHS oversight of administrative expenditures, we reviewed Title IV of the Social Security Act, related regulations on allowable expenditures, guidance issued by ACF, and audit reports from HHS's Office of Inspector General. We also interviewed officials in HHS's Division of Cost Allocation, Office of Grants Management, and Centers for Medicare & Medicaid Services, and Office of the Inspector General, as well

[4]There are some limitations in the data we used for our analysis. The data ACF provided represent states' claims for reimbursement rather than actual IV-E expenditures and reflect when the states made the claims to the federal government rather than when the costs were incurred. States may make corrections to claims within 2 years of their original filing. When they make such corrections, these are attributed to the year the corrected claim is made, rather than the year the claim was incurred. Therefore, ACF data can include prior quarter claims for costs incurred over the past 2 years and not previously reported. Prior quarter claims made up about 7 percent of 2000, 2001, and 2002 claims;17 percent of 2003 claims; and 10 percent of 2004 claims. Claims data will differ from federal reimbursement reported in two ways. First, claims data includes payments that may have been deferred and possibly denied by HHS and reports them in the year they are claimed, rather than the year they are paid. Secondly, claims data includes claims that HHS has disallowed and will, therefore, never be paid; however, according to officials, this represents a very small portion of states' claims.

as 6 of HHS's 10 regional offices primarily responsible for oversight of expenditures.

We conducted our work from June 2005 through June 2006 in accordance with generally accepted government auditing standards.

Results in Brief

Total federal expenditures to help states pay for the costs of administering the Foster Care and Adoption Assistance Programs increased 7 percent from fiscal years 2000 to 2004, from approximately $2.5 to $2.6 billion,[5] but analysis of changes in the types of costs incurred was limited due to inconsistencies in how states tracked and reported data over time. While over a third of the states received greater federal reimbursements of administrative costs in fiscal year 2004 than in fiscal year 2000, six states accounted for over 80 percent of the increase. California alone was responsible for approximately 31 percent of the total increase. Nearly all of the federal expenditures—89 percent in fiscal year 2004—were for costs related to child placement services such as managing cases as children progress through the child welfare system and finding appropriate foster and adoptive homes. We were unable to use the data to analyze changes at a more detailed level because not all states complied with the criteria for reporting costs or interpreted the criteria the same. For example, at least one region did not require states to report costs as instructed on the reporting form. Some federal and state officials told us, however, that caseworker costs such as developing and reviewing case plans accounted for the bulk of the increase during this time period and were primarily associated with the salaries and benefits of caseworkers.

Our review of state IV-E spending in 11 states between fiscal years 2000 and 2004 showed that methods states used to identify eligible children and the related staff costs for serving them were two primary reasons for differences in federal expenditures within and among states; but it is unclear how these differences affected services to children. Washington more than doubled its costs charged to IV-E between fiscal years 2000 and 2004 by changing the formula used to calculate the number of eligible children and by changing methods to determine a child's eligibility. More significant for some states is the extent that they claim costs for serving children not yet removed from their homes—known as foster care

[5]These numbers have been adjusted for inflation in fiscal year 2000 dollars. The nominal increase was 17 percent, from approximately $2.5 billion to $2.9 billion.

"candidates." Wisconsin, for example, reported that about half of its total fiscal year 2004 IV-E administrative costs were for candidates, while Michigan reported candidate costs of only 1 percent. States also differed in the extent that they used other federal programs instead of IV-E for administrative costs or had increases or decreases in their state budgets for social services. For example, while most states charged IV-E for all eligible foster care case management costs, a majority of South Carolina's case management costs were charged to Medicaid. Officials in all 11 states reported taking action to improve services, such as reducing ratios of caseworkers to children by hiring or reallocating staff, and collaborating with the court system to improve the legal processes and reduce the time that children spend in foster care. However, the effect of IV-E expenditures on program services is unclear because states use various funding sources and a change in IV-E funding does not necessarily result in a change in the funding of child welfare services.

HHS's oversight of state claims is insufficient to provide adequate control over program spending. According to HHS officials, because of retirements and restructuring efforts, staff do not always have the qualifications or experience to fulfill oversight responsibilities. HHS has not redistributed its staff commensurate with the risk of states claiming inappropriate costs. Consistent oversight is also hindered by inadequate guidance, including lack of a current financial review manual. Regional offices have developed their own protocols for reviewing states' quarterly claims for reimbursement, which has resulted in inconsistent oversight of state costs. In addition, while HHS clarified policies on the allowability of certain expenditures—including costs for candidates and the use of Medicaid funding for services for children in foster care—policies were not uniformly applied across regions. For example, two states located in two regions, charged certain foster care costs to Medicaid instead of Title IV-E, while HHS officials from a third region required a state to discontinue this practice. Further, questionable claiming practices have not been systematically addressed. For example, although two regions and HHS headquarters officials cited problems with how states are documenting and allocating costs for candidates, HHS's Division of Cost Allocation has not systematically reviewed state allocation procedures to address this problem.

In this report, we are recommending that the Secretary of Health and Human Services direct the Assistant Secretary for the Administration for Children and Families to take action to better safeguard federal resources and ensure consistent federal support for states' administration of foster care and adoption assistance programs.

In this report, we are recommending that the Secretary of Health and Human Services direct the Assistant Secretary for the Administration for Children and Families to take several actions to better safeguard federal resources and ensure consistent federal support for states' administration of foster care and adoption assistance programs. In its written comments on a draft of this report, HHS did not explicitly agree or disagree with our five recommendations, but stated that it would implement or consider implementing four of them in whole or in part. A copy of the written comments from the Department of Health and Human Services is in appendix II.

Background

Title IV-E of the Social Security Act authorizes funds to states to help cover the costs of operating their Foster Care and Adoption Assistance programs. These programs primarily provide financial support for the care of eligible children who have been removed from their home due to abuse or neglect, as well as to families who adopt eligible children with special needs from the foster care system. Table 1 illustrates the eligibility criteria for the Foster Care and Adoption Assistance Programs.

Table 1: Eligibility Criteria for the Foster Care and Adoption Assistance Programs

Foster Care Program	Adoption Assistance Program
A judicial determination has been made that conditions in the home from which the child was removed were contrary to the child's welfare and reasonable efforts were made to prevent removal; A judicial determination has been made that the state has documentation that it made reasonable efforts to finalize a permanency plan; A judicial determination has been made that the state has responsibility for placement and care of the child; But for the removal from the home, the child would have qualified for the Aid to Families with Dependent Children (AFDC) program as it was in effect on July 16, 1996; and The state has verification of provider safety requirements. If removal is the result of a voluntary placement agreement, a state must obtain a judicial determination that continued placement is in the child's best interest.	Children must have a special need that is defined as the state determining that a child should not or could not be returned to the home of his or her parents, and certain factors, such as age; membership in a sibling unit or minority group; or emotional, mental, or physical conditions that would make finding an appropriate adoptive home difficult. Special needs children must also meet at least one criterion from the following list: (a) the child is a dependent child who would have been eligible for AFDC, as it existed in 1996; (b) the child is eligible for Supplemental Security Income (SSI); (c) the child is a child of a minor parent who is in foster care already and receiving foster care maintenance payments under Title IV-E; or (d) the child received adoption assistance previously, but the adoption dissolved or the adoptive parents died.

Source: Title IV-E of the Social Security Act.

Although most foster care funds support children who have been placed outside of the home due to abuse or neglect, they may also be used to support placing a child in a child care institution, such as a juvenile justice facility not operated primarily for detention, pursuant to voluntary agreements or decisions made by the courts that stipulate removal from the home is in the best interests of the child. Title IV-E also authorizes financial support to states to help defray the costs of administering the programs. Administrative costs cover expenses states incur to identify eligible children, refer them for services, and plan for permanent placement, including administrative costs to facilitate the adoption of special needs children, the training of staff, and the development and operation of a statewide automated child welfare information system that helps states manage their child welfare cases as well as report child abuse and neglect, foster care, and adoption information to the federal government.

Program Funding and Costs

Title IV-E provides an open-ended entitlement for administrative costs on behalf of children who meet certain federal eligibility criteria. The federal government shares the cost of administration 50-50 with states.[6] Total federal expenditures, including administrative costs, for the Title IV-E Foster Care and Adoption Assistance programs were $6 billion in fiscal year 2004 and estimated to rise to $8 billion in fiscal year 2008, according to the Congressional Budget Office. Of the $6 billion, $2.9 billion was for the cost of administering these programs with approximately 90 percent going towards administering the Foster Care Program.

Title IV-E is one of many funding sources states use to provide child welfare services. Title IV-B of the Social Security Act authorizes funds to states for a broad range of services, including child protection, family preservation, other support services, and adoption services. The Child Abuse Prevention and Treatment Act authorize grants and research funds designed to improve child protective services, offer services aimed at preventing abuse and neglect, and increase the knowledge about ways to prevent child maltreatment. Additionally, states may use federal funds from other programs with a focus much broader than child welfare, such as Title XX's Social Services Block Grant (SSBG), Medicaid, and TANF to provide some support for child welfare services.

[6]Training costs are the exception and reimbursed at 75 percent.

States report their administrative costs to ACF in three main categories: child placement services and other administrative activities,[7] training, and development of statewide automated child welfare information systems (SACWIS development). The Omnibus Budget Reconciliation Act of 1990[8] required that certain foster care costs be further categorized to provide better information about reimbursement for administrative costs. HHS's current reporting form requires states to distinguish among five types of costs related to child placement as shown in table 2. Because this requirement does not apply to the Adoption Assistance program, adoption assistance administrative costs are only reported in two categories, child placement services and training.[9]

[7]On Form ACF IV-E-1, Title IV-E Foster Care and Adoption Assistance Financial Report: State Quarterly Report of Expenditures and Estimates, this category is titled "State and Local Administration." For simplification and purposes of our review, we use the term, "child placement services," to refer to case management services for children placed in foster care and at risk of being placed in foster care as well as other administrative costs such as eligibility determination and SACWIS operating costs.

[8]Pub. L. No. 101-508 (1990).

[9]Costs for SACWIS Development are charged only to the Foster Care program.

Table 2: State Reporting Requirements and Federal Reimbursement Rates for Allowable Administrative Costs under the Foster Care and Adoption Assistance Programs

General reporting requirements	Federal reimbursement rate	Title IV-E allowable activities
• Child Placement Services • Case management for children in foster care • Case management for children at risk of placement into foster care[a] • Eligibility determination • Statewide Automated Child Welfare Information Systems (SACWIS) operation • Other administration	• 50%	• Development, review, or revision of case plans or the supervision or management of cases, including preparation for and participation in judicial proceedings, as well as referral to services for children placed in foster care • Development, review, or revision of case plans or the supervision or management of cases, including preparation for and participation in judicial proceedings, as well as referral to services for children still living at home • Verification and documentation of eligibility • Operation of statewide automated child welfare information systems • Other costs not mentioned above that are related to running the program such as setting the rates paid to foster care institutions, recruitment and licensing of homes, and issuing payments to families
SACWIS development costs	50%	Establishing states' automated child welfare information systems[b]
State and local training	75%	Training of personnel employed by state or county agencies administering the program and training current and prospective foster parents
Adoption Assistance Program		
Child placement services	50%	All costs related to running the program such as conducting adoptive home studies, recruiting adoptive homes, placement of a child into a home, and the negotiation and review of adoption agreements.
State and local training	75%	Training of personnel employed by state or county agencies administering the program and training current and prospective adoptive parents

Source: ACF Form IV-E-1 and HHS regulations.

[a]On ACF Form IV-E-1, these costs are entitled "Pre-Placement." In order for a child to be considered at risk of placement, or a "candidate" for foster care as they are commonly referred to, states must have one of the following documentation: (1) case plan that identifies foster care as the goal absent preventative services, (2) eligibility form used to document the child's eligibility for Title IV-E, or (3) evidence of court proceedings related to the child's removal from the home.

[b]To qualify for federal funding for SACWIS, states must prepare and submit an advance planning document (APD) to the Children's Bureau, in which they describe the state's plan for managing the design, development, and operation of a SACWIS that meets federal requirements and state needs in an efficient, comprehensive, and cost-effective manner.

States report quarterly the costs of administering their Foster Care and Adoption Assistance programs to ACF in accordance with cost allocation plans they developed and ACF approved. These cost allocation plans describe how the state will identify, measure, and allocate administrative costs across federal programs such as Title IV-E, Medicaid, and TANF that may serve overlapping populations with overlapping state resources. States use a variety of methods to allocate costs among programs such as (1) the direct charge of costs to a specific program based on the number of full-time employees, or (2) use of a time study to identify how workers involved in multiple programs are spending their time. Most states employ a random moment time study, a statistical tool for estimating the amount of time employees spend performing specific activities, such as case management. By collecting a relatively few representative moments of employee time, an agency is able to estimate the total distribution of employee time statewide. This information is used to document and support claims for federal matching funds by program.

In addition, states generate an eligibility statistic—often referred to as a penetration rate—that represents the proportion of IV-E eligible children (numerator) relative to all children served by the state foster care or adoption assistance programs (denominator). States then apply this rate to all IV-E allowable costs to determine how much of these costs are eligible for federal reimbursement.[10]

The following is a simplified illustration of a state's claiming process:

A state randomly surveys caseworkers throughout the quarter and find that they spend 40% of their time conducting case management work for children placed in foster care. The caseworker costs—salary, benefits, and a portion of overhead—is $200,000 for the quarter. Then 40 percent of the $200,000, or $80,000, might be chargeable as IV-E case management costs. However, the caseworkers are assisting both IV-E eligible and non-eligible children; only the costs for assisting the eligible children can be claimed. To calculate the portion of the $80,000 that can be charged to IV-E, the state multiples $80,000 by the eligibility statistic. If the eligibility statistic is 70% (70% of the children served are IV-E eligible) then the case management cost that can be charged to Title IV-E for that quarter are $80,000 times .7=$56,000. The state subsequently receives 50 percent of that amount, or $28,000, in reimbursement for those case management costs.

In addition to claiming costs for IV-E eligible children who have been placed in foster care, states are permitted to also claim costs for IV-E eligible children who are at serious risk of removal from the home. States can demonstrate children are candidates for foster care by either seeking to remove the child from the home or determining that absent effective preventive services, the child would be placed in foster care. In order to claim costs for foster care candidates, states can either determine whether or not the candidates are actually IV-E eligible or use a cost allocation approach based on both determination of foster care candidacy and potential IV-E eligibility. Because states interpreted policy regarding

[10]The penetration rate is not applied to eligibility determination costs because costs related to determining whether a child is eligible for Title IV-E reimbursement are allowable regardless of whether the child is found to be eligible or not.

candidates differently, HHS issued formal guidance in 2001 designed to clarify at what point a child is considered a candidate, who has the authority to make such a determination, and the types of costs allowed. In addition, the guidance stipulated that states were no longer able to claim administrative costs for children in unlicensed facilities under the guise they were candidates for foster care.[11]

The Deficit Reduction Act

The Deficit Reduction Act[12] incorporated many of the provisions outlined in ACF guidance. The act specified the administrative costs that can be claimed for children who meet all eligibility criteria except placement in a licensed foster care setting.[13] It also clarified the specific case management services permitted for Medicaid reimbursement including:

- assessment of an eligible individual to determine service needs by taking a client history, identifying an individual's needs, and gathering information to form a complete assessment;
- development of a specific care plan based on the information collected through an assessment that specifies the goals and action to address the medical, social, educational, and other services needed by the individual;
- referral and related activities to help an individual obtain needed services; and
- monitoring and follow-up activities, including activities and contacts to ensure the care plan is effectively implemented and adequately addresses the individual's needs.

The act asserts that Medicaid can be charged when "there are no other third parties liable to pay for such services," including a medical, social, educational or other program that provides reimbursement. It also specifies that targeted case management services for children in foster

[11]While this guidance was issued in 2001, due to objections from states and other interested parties that HHS did not allow for public comment, HHS sought to codify the guidance and issued a notice of proposed rulemaking in January 2005.

[12]Pub. L. No. 109-171 (2006).

[13]The Deficit Reduction Act also effectively nullified the 9th Circuit U.S. Court of Appeals decision of *Rosales v. Thompson*, 321 F. 3rd 835 (2003), which allowed a state to determine in some instances whether a foster child would have met the AFDC portion of the Title IV-E eligibility requirements while living in the home of a relative like a grandmother.

care would not cover activities including but not limited to the completion of required foster care documentation, assessing adoption placement, and recruiting potential foster care parents.

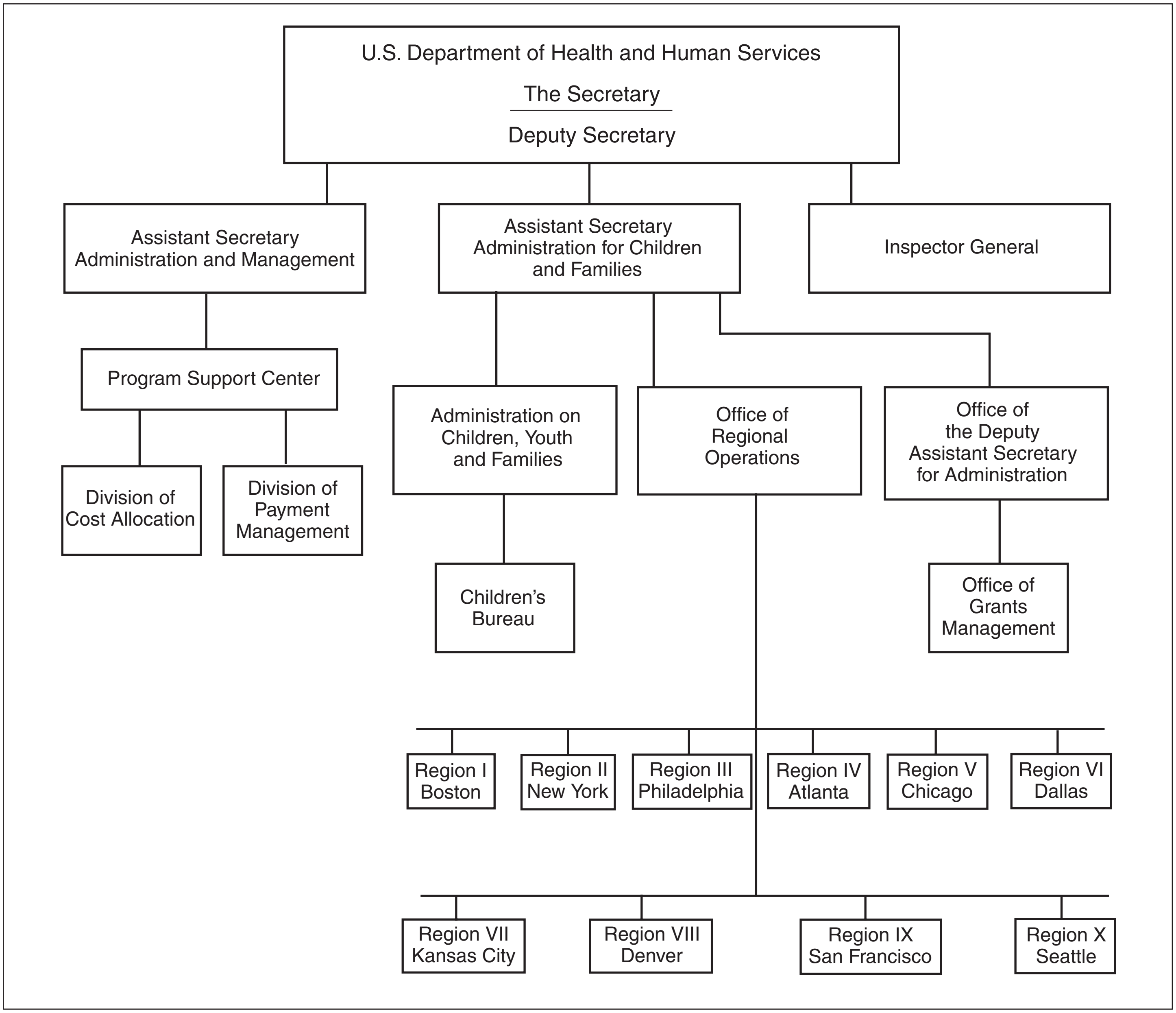
Organization Structure and Oversight Activities

ACF is responsible for the administration and oversight of Title IV-E funding to states. HHS headquarters staff develop policies and procedures for states to obtain and use federal funds, while staff—financial operations specialists—in HHS's 10 regional offices perform frontline activities to oversee financial internal control processes. One key oversight activity includes verifying the accuracy and appropriateness of the costs states claim for federal reimbursement on their quarterly expenditure reports. Depending on resources, regional offices may conduct on-site reviews related to expenditure claims. Regional offices are also responsible for resolving any findings from the Office of Management and Budget Circular A-133 audit which requires non-federal entities that spend more than $500,000 of federal funds each year to obtain an audit of its financial statements that includes verification of compliance with federal rules.

ACF also monitors state compliance with federal child welfare laws and performance through (1) Title IV-E Eligibility Reviews and (2) Child and Family Services Reviews (CFSR). The Title IV-E Reviews ensure that states are properly determining the eligibility of children for federal foster care support and making correct claims for reimbursement. Passage of the Adoption and Safe Families Act helped spur the creation of the CFSR by emphasizing the outcomes of safety, permanency, and well-being for children. Based on a review of statewide data, interviews with community stakeholders and some families receiving services, and a review of a sample of 50 child welfare cases, HHS determines whether a state achieved substantial conformity with: (1) outcomes related to safety, permanency, and well-being, such as keeping children protected from abuse and neglect and achieving permanent, stable living situations for children; and (2) key systemic factors, such as having an adequate case review system and an adequate array of services. States are required to develop program improvement plans to address identified shortcomings. Since fiscal year 2000, all 50 states have undergone at least one IV-E Eligibility Review, and some have had a second. ACF completed its first round of on-site reviews for the CFSR in all 50 states, District of Columbia, and Puerto Rico in March of 2004.

Other HHS agencies have responsibility for reviewing the financial management of state programs and ensuring claims for expenditure are allowable and allocable in accordance with federal regulations and guidelines. HHS's Division of Cost Allocation (DCA) is responsible for reviewing states' public assistance cost allocation plans, resolving audits that involve cost allocation issues, and providing technical assistance and guidance to federal departments and agencies. DCA and ACF work together to review state cost allocation methods to ensure the cost distribution to the federal government is appropriate and accurate, in accordance with Office of Management and Budget guidelines. HHS's Office of Inspector General (OIG), Office of Audit Services, provides all auditing services for HHS. OIG 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 in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout HHS. Figure 1 illustrates the entities responsible for oversight of expenditures for foster care and adoption assistance administrative costs.

Figure 1: HHS Entities Responsible for Oversight of IV-E Expenditures for Foster Care and Adoption Assistance Administrative Costs



Source: GAO analysis of HHS information.

Title IV-E Expenditures for Administrative Costs Have Increased, but Data Deficiencies Limit Analysis by Type of Cost

Federal expenditures to states for administering the Foster Care and Adoption Assistance programs increased between fiscal years 2000 to 2004, but data limitations prevent a determination of how the types of federal expenditures changed. While federal expenditures increased in a little over a third of the states during this period, changes in a few states drove the nationwide increase and federal expenditures declined in fiscal year 2004. States reported incurring almost all foster care costs in one category: child placement services. Nationwide changes in the five types of costs within this category could not be analyzed, however, because states did not always adhere to the federal reporting criteria or interpreted the criteria differently. Despite the data deficiencies, some state and federal officials said that staff costs related to case management were primarily responsible for the increase in overall administrative expenditures.

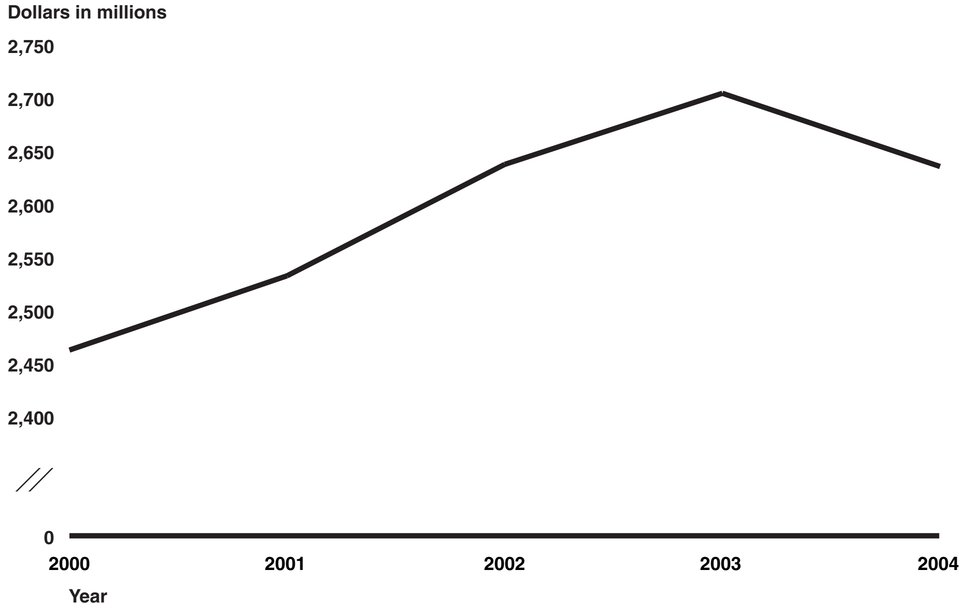
Federal expenditures have increased 7 percent from fiscal years 2000 to 2004 primarily due to changes in a few states

Federal expenditures to all states for administering the Foster Care and Adoption Assistance programs increased by $173 million (7 percent) from fiscal years 2000 to 2004, after adjusting for inflation.[14] However, a steady increase in expenditures over the first 3 years was followed by a decrease in the final year as shown in figure 2.[15]

[14]The inflation adjustment was made using 2000 as the base year. Without adjusting for inflation, the increase was 17 percent, or $409 million.

[15]This decline may be in part due to a decline in the foster care caseload eligible for IV-E due to program rules that rely on 1996 income standards to determine eligibility. CBO projects a steady decline for nearly 10 years.

Figure 2: Change in Total Federal Expenditures for Foster Care and Adoption Assistance Administrative Costs



Source: GAO analysis of HHS data.

Note: Figure based on data adjusted for inflation in fiscal year 2000 dollars.

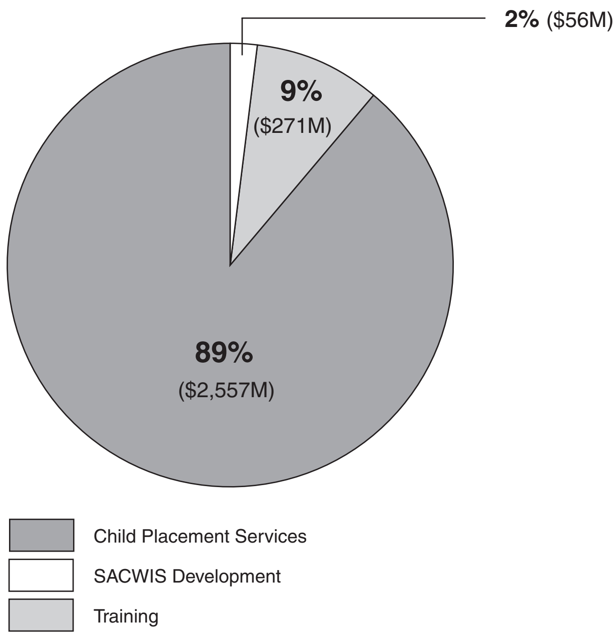
The $173 million overall increase in federal expenditures resulted from increases totaling $318 million in 21 states, including the District of Columbia, offset by decreases totaling $145 million in the remaining states. Among the 21 states with increased federal expenditures, 6 states accounted for the majority of the increase, over 80 percent, as shown in figure 3. California alone was responsible for 31 percent of the total increase in federal expenditures. Among the 30 states reporting a decrease in administrative costs, the change was distributed more evenly, with 13 states accounting for 81 percent of the decrease. (See app.I for detailed information on the amount of administrative costs by state for fiscal years 2000 and 2004.)

Figure 3: Change in Federal Expenditures for Foster Care and Adoption Assistance Administrative Costs between Fiscal Years 2000 and 2004 by State

Source: GAO analysis of HHS data.

Among the three broad reporting categories of administrative costs for the Foster Care and Adoption Assistance programs, costs for child placement services accounted for nearly all of the federal expenditures—89 percent in fiscal year 2004, followed by costs for staff training and development of child welfare data systems, as shown in figure 4.

Figure 4: Foster Care and Adoption Assistance Administrative Costs by Category for Fiscal Year 2004



Source: GAO analysis of HHS data.

Note: Figure based on data adjusted for inflation in fiscal year 2000 dollars.

Child placement costs drove the increase in overall administrative expenditures between fiscal years 2000 and 2004, for a total increase of $173 million, while costs related to the development of SACWIS increased by $10 million and staff training costs decreased by a similar amount.[16]

Inconsistencies in state reported data limit analysis of how types of costs have changed, but according to officials case management services accounted for the majority of increased expenditures

States have not consistently reported foster care costs by type within one of the three broad categories of administrative costs—the child placement services category—precluding a detailed analysis of how these types of costs have changed over time.

ACF provides instruction to states on how to report costs. States are to report foster care child placement services costs by five different types:

- Costs to determine a child's eligibility for coverage under the Title IV-E Foster Care program.
- Case management costs for a child in foster care.
- Case management costs for a child at risk of placement into foster care.
- Costs to operate the Statewide Automated Child Welfare Information System.
- Other administrative costs not falling in the other categories.

There are three primary reasons for variation among states in reporting child placement services by these types.

- Not all states complied with the reporting instructions for costs associated with foster care child placement services. Some states reported their costs by just one or two types. For example, Pennsylvania did not begin reporting costs among the five types until fiscal year 2004 after being directed to do so by its cognizant ACF regional office in March of 2003. Pennsylvania had reported nearly all costs before that time as "other administration." Therefore, the substantial increase in case management costs reported by Pennsylvania may have been primarily due to compliance with the reporting requirements in fiscal year 2004 rather than

[16]Using nominal numbers all three categories had increased costs: child placement services costs increased by $383 million, costs related to the development of SACWIS increased by $15 million, and staff training costs increased by $11 million.

actual changes in costs incurred. Over the last several years at least two regions have required states to report their child placement services costs by the five types.

- States interpreted the reporting instructions differently. Kansas, Texas, and New York use private contractors for a large portion of case management activities. Kansas and Texas reported these costs as "other administration," whereas New York reported them as "case management." States also vary in how they reported overhead and other costs not directly related to assisting a specific child. For example, Illinois reported costs for negotiating and setting the rates they pay foster care institutions as case management costs, while other states reported this cost as "other administration."

- States differed in how they claimed costs between the Foster Care and Adoption Assistance programs. For example, Kansas charged administrative costs such as case management for children who are eligible for adoption, the recruitment and study of adoptive homes, and licensing of adoptive homes to the Foster Care program while Washington, charged these activities to the Adoption Assistance program.

Despite the data limitations, state officials reported that costs related to the salaries and benefits of staff performing foster care case management activities accounted for the majority of foster care administrative costs ranging from 50 to 96 percent of total program costs. In addition, some state and federal officials we interviewed indicated that costs for case management activities drove the increase in overall administrative costs between fiscal years 2000 and 2004.

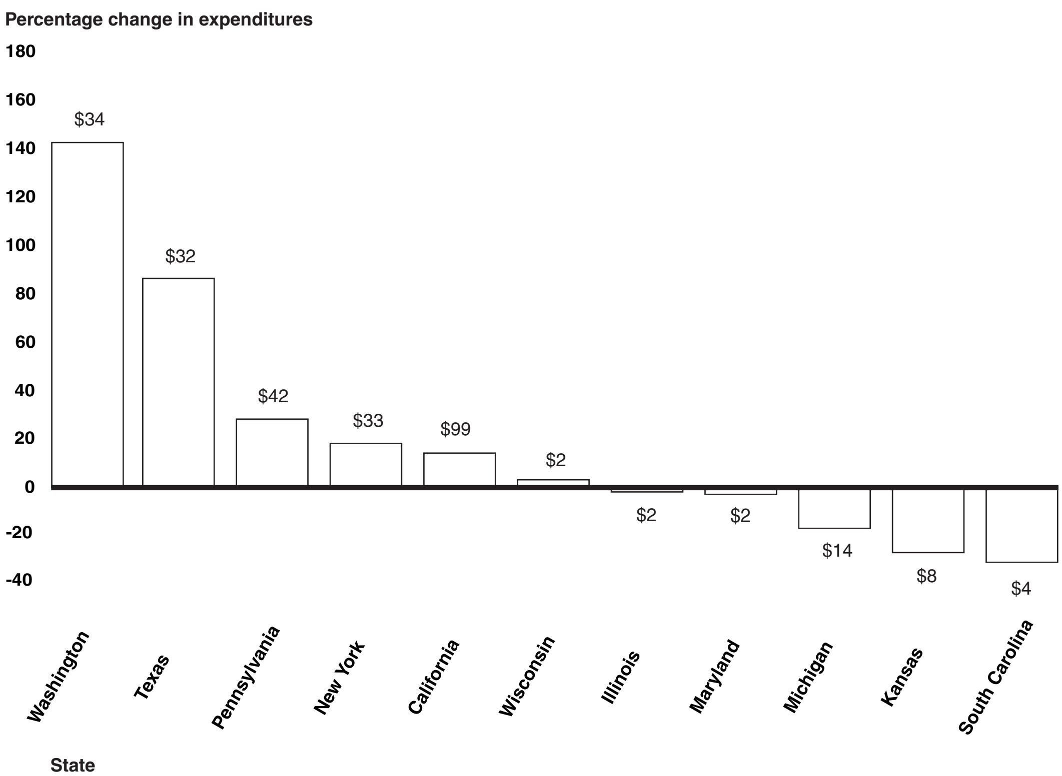
State IV-E Spending Reflects Changes in Staffing, Children Served, and Cost Claiming Practices, but Impact on Services Is Unclear

Our review of 11 states between fiscal years 2000 and 2004 showed that state Foster Care and Adoption Assistance spending within and among states reflected differences in methods used to identify eligible children and related staff costs, but these changes could not be linked to children's services. Among states with increased spending, four states hired more caseworkers, increased their salaries, and/or changed how caseworker time is allocated among foster care and other programs. In states with decreased spending, there were declines in the number of children for whom states could claim costs and state budget cuts. States differed in the extent that they included case management costs for children who are in facilities that are ineligible for foster care maintenance payments, or the extent that they used other funding sources to pay for administrative costs that could be charged to IV-E. All 11 states reported expanding or implementing initiatives to improve services to children; however, the effects of IV-E funding cannot be separated from those of other funding sources or initiatives.

State IV-E claims changed due to rising staff costs and changes in eligible children and state budgets; states differ in cost claiming practices and use of alternative funding

Among the 11 states we reviewed, 6 increased their IV-E administrative cost claims for the Foster Care and Adoption Assistance Programs between fiscal years 2000 and 2004, with increases ranging from 3 percent in Wisconsin to 142 percent in Washington; another 5 states had decreased costs ranging from 2 percent in Illinois to 24 percent in South Carolina, as shown in figure 5.

Figure 5: Changes in IV-E Administrative Expenditures for 11 States, FY 2000-2004 (Dollars in millions)



Source: GAO analysis of HHS data.

Note: Figure based on data adjusted for inflation in fiscal year 2000 dollars.

States provided various reasons for the increase or decrease in total administrative costs. For those eight states that had greater than a 5 percent change in costs, reasons cited most frequently as contributing to these changes included the amount of costs claimed for candidates, changes in staff allocation methods, and changes in the proportion of IV-E eligible children, as shown in table 3.

Table 3: Major Reasons Cited by 8 States for Changes in IV-E Administrative Costs from Fiscal Years 2000 to 2004

	Revised allocation of staff costs	Change in proportion of IV-E eligible children	Costs claimed for children identified as candidates	State spending	Use of other federal funding source
States with overall increased costs					
California			↑	↑	
Pennsylvania			↑		
New York	↑	↓	↑	↑	
Washington	↑	↑			↓
Texas		↑	↑		
States with overall decreased costs					
South Carolina	↑		↑	↓	
Kansas			↑	↓	
Michigan		↓	↓		↑

Source: State officials.

Changes in Allocation, State Share of Spending, and Staffing

A common reason cited for increased administrative costs were changes states made to the methodology used for measuring and allocating caseworker time, which resulted in identifying more costs eligible for IV-E reimbursement. Two states—New York and Washington—reported making various changes in their time studies that significantly increased the amount of IV-E expenditures claimed from fiscal years 2000 to 2004. For example, Washington reported that in fiscal years 2003 and 2004, time studies were developed and implemented for contractors providing specialized IV-E allowable case management services, which enabled the state to claim federal funding for these activities. New York officials also reported that an update of their time studies for private, nonprofit agencies serving children in New York City lead to better identification of costs eligible for IV-E reimbursement and increased its amount of administrative costs. California officials highlighted efforts to ensure that staff were adequately trained resulting in an increase of its training costs by more than a third over this time period. California requires that all new and existing county program staff be trained to a standard statewide curriculum.

State budget changes between fiscal years 2000 and 2004 were reported to also affect IV-E claims in several of the states we reviewed. For example, New York highlighted increases in state funding to pay for staff and programs to improve services, that in turn increase federal expenditures. However, two states—Kansas and South Carolina—reported significant decreases in IV-E expenditures as a result of cuts in state budgets and spending. South Carolina, for example, reported that the severe budget crisis between fiscal years 1998 and 2003 resulted in a more than 40 percent decrease in state funding from approximately $140 million to $80 million for the Department of Social Services, and an associated reduction in IV-E expenditures.[17,18] Michigan also reported decreased state spending for foster care, but attributed the change to fewer children in the overall foster care system.

Changes in the Proportion of IV-E Eligible Children

Most states reported a change in the proportion of IV-E eligible children—penetration rate—between fiscal years 2000 and 2004 that contributed to changes in IV-E administrative costs. Washington substantially increased its rate by excluding children from the calculation that the federal government does not require be included, such as children in the custody of a Native American tribe or whose eligibility had not yet been determined. On the other hand, South Carolina's rate decreased by more than half in part due to problems with its SACWIS, according to officials. The remaining states reported a change of 10 percentage points or less, as shown in table 4.

[17] In addition to foster care and adoption assistance, other programs impacted by the budget cuts included child and adult protective services, child care, food assistance, domestic violence prevention, and welfare.

[18] These state funding amounts were not adjusted for inflation.

Table 4: Change in Penetration Rate between Fiscal Years 2000 and 2004

State	Penetration rate in 2000	Penetration rate in 2004	Percentage point change in penetration rate between 2000 and 2004	Reason cited for change greater than 5%
Washington	37%	68%	31	Clarified which children could be used in calculating the rate. Revised and automated the IV-E eligibility guide and initiated focused training and audits for IV-E eligibility staff. Worked with state attorney general office to standardize state court order language.
Texas	60%	67%	7	Focused training on documenting certain eligibility criteria. Developed policy guidance for the eligibility staff. Upgraded the SACWIS system with an enhanced IV-E eligibility function.
Michigan[a]	56%	61%	5	Not applicable (N/A)
Illinois[a]	74%	73.5%	(0.5)	N/A
Maryland[a]	70%	66%	(4)	N/A
Kansas[a]	58%	54%	(4)	N/A
California[a,b]	80%	75%	(5)	N/A
Wisconsin	79%	71%	(8)	Fewer eligible children due to 1996 income standards. State enforcement of stricter eligibility issued in 2000.[c]
New York[d]	63%	53%	(10)	Fewer eligible children due to 1996 income standards.
South Carolina	55%	24%	(31)	Technical problems with SACWIS. Issues concerning administrative costs for cases where maintenance payments are funded from Supplemental Security Income instead of IV-E.[e]

Source: State officials.

Note: Pennsylvania did not provide changes in the penetration rate because counties calculate their own rates for IV-E reimbursement; however, state officials reported that the statewide rate had not changed over the past few years.

[a]Illinois, Maryland, Michigan, Kansas, and California reported a change of 5 percent or less, for which we did not request an explanation.

[b]In California, the statewide rate is used for budgeting purposes; counties calculate their own rate for IV-E reimbursement.

[c]The federal IV-E rules issued in January 2000 created stricter requirements for the state to prove that it is contrary to the welfare of a child to remain in their home and that the state had made reasonable efforts to prevent removal.

[d]New York provided two rates—one for upstate counties and one for New York City; both rates decreased about 10 percent. The rates shown in the table are for the upstate counties.

[e]If a child is eligible for IV-E and receives Supplemental Security Income (SSI), the state has the choice to fund the family's maintenance payments from SSI rather than IV-E funds. However, the state may claim federal financial participation under IV-E for administrative activities performed on behalf of that child.

Cost Claims for Candidates and Children Served by the Juvenile Justice System

The portion of total administrative costs states spend on behalf of candidates results in spending differences among states. Eight states reported that candidates were responsible for administrative costs ranging from 1 percent in Michigan to 73 percent in South Carolina, as shown in table 5. Claiming costs for candidates can help states offset declines in their IV-E eligible population. For example, while New York's eligible population decreased by almost 44 percent between fiscal years 2000 and 2004, the costs charged for candidates more than doubled during this time period. In addition, South Carolina, which had an overall decline in IV-E administrative costs between fiscal years 2000 and 2004, reported that IV-E reimbursement for candidates increased from about $965,000 in fiscal year 2000, to more than $3.7 million in fiscal year 2004.

Table 5: Costs for Foster Care Candidates as an Approximate Percentage of Total Fiscal Year 2004 IV-E Foster Care Administrative Costs

State[a]	Percentage of IV-E administrative costs that were for foster care candidates in FY 2004[b]
South Carolina	73[c]
Wisconsin	50
Texas	46[c]
New York	25[d]
Illinois	9
Washington	7
Kansas	2
Michigan	1[e]

Source: State officials.

[a]Data for California, Pennsylvania, and Maryland were not available at the state level. However, Sacramento County in California, reported that about 27 percent of costs were for such children and Delaware County in Pennsylvania reported that about 40 percent of costs were for candidates.

[b]These percentages represent the proportion of IV-E costs only and do not include the amount for costs charged to other sources such as Medicaid.

[c]South Carolina and Texas charged some case management costs to Medicaid.

[d]New York reported that this was for local district costs.

[e]Michigan used some Social Service Block Grant (SSBG) and TANF funds for case management costs for candidates.

According to an ACF official, state claims for candidates vary because states differ in their interpretation of regulations regarding reimbursement of costs for these children and some states are more aggressive in their candidate claiming practices. Pennsylvania officials told us that Region III had disallowed claims related to candidates because the state had not appropriately applied a penetration rate to the pool of costs, as required by HHS. State officials commented that it had used the same approved allocation method since it began claiming costs for candidates in the last 10 to 15 years and was not told until recently that the method was not in accordance with HHS cost allocation principles. In addition, in 2005, the HHS Office of Inspector General and ACF regional staff recommended large disallowances of costs claimed for candidates in Delaware and Virginia respectively. Delaware was denied almost $6 million of claims for quarters from December 1999 through June 2003 for also not applying a penetration rate to candidate costs. For Virginia, more than $28 million was denied for 8 quarters in fiscal year 2003 through fiscal year 2005 for absence of a methodology for allocating costs for candidates, charging for unallowable activities, failure to demonstrate that the children were eligible, and other problems with documentation. Michigan officials told us they reduced the amount of costs claimed on behalf of candidates because they did not want to risk the region denying reimbursement for certain claims based on insufficient documentation of caseworker effort or candidacy status.

States may also receive reimbursement for administrative claims for IV-E eligible children that receive services through the juvenile justice system, both children receiving services as candidates and those in placement settings that are not operated primarily for detention. Three states—California, Pennsylvania, and Texas—reported increases in IV-E claims for children receiving services in the juvenile justice system. Pennsylvania officials said that the state had reviewed the activities of juvenile justice workers and determined that they were conducting case management activities comparable to child welfare workers, such as developing a case plan and providing services to keep those children in their home. Submitting claims for administrative costs for these children in accordance with the state's approved cost allocation plan had resulted in significant increases in IV-E reimbursement. Texas officials reported that 165 of the state's 254 counties had agreements with the state to pass along a portion of their juvenile justice costs for IV-E reimbursement. California officials reported that their counties also had such agreements; Los Angeles County Probation Department officials reported that expenditures for these children increased from about $22 million in fiscal year 2001 to more than $40 million in fiscal year 2005—an increase of nearly 85 percent.[19]

Claims for Children in Ineligible Facilities

Most of the states we reviewed reported increasing their IV-E reimbursement by charging for costs related to eligible children placed in certain types of settings ineligible for foster care maintenance payments. The most commonly used ineligible setting in fiscal year 2004 was the home of unlicensed relatives, utilized by 6 of 11 states responding to this question as shown in table 6. Kansas charged costs for children in six different types of ineligible facilities, such as hospitals and detention centers. Two states, Michigan and South Carolina, reported that they did not charge IV-E for children in any ineligible facility.

Table 6: Ineligible Facilities Used by Certain States to Claim IV-E Administrative Costs in Fiscal Year 2004[a]

State	Unlicensed relative care	Psychiatric or medical hospitals	Detention centers	Public institutions that accommodate more than 25 children	Facilities operated primarily for children determined to be delinquent	Other
California		✓			✓	
Illinois	✓					
Kansas	✓	✓	✓	✓	✓	✓[b]
Maryland	✓					
Michigan						
New York[c]						
Pennsylvania	✓[d]					
South Carolina						
Texas	✓					
Washington						✓[e]
Wisconsin	✓					

Source: State officials.

[a]These kinds of facilities may provide services to foster care children but are ineligible for foster care maintenance payments.

[b]Kansas also charged for secure care facilities.

[c]New York charges for the listed facilities when a child spends at least 1 day of the month of the time study in the above IV-E setting.

[d]Pennsylvania only places a child in unlicensed relative care if ordered by a judge.

[e]Washington claims costs for “for profit foster homes.”

[19] These figures were not adjusted for inflation.

The Deficit Reduction Act of 2005,[20] limiting states' ability to claim administrative costs for children in unlicensed foster homes or ineligible facilities will decrease federal expenditures to most of these states. Effective retroactively to October 1, 2005, states are prohibited from charging administrative costs for children in these facilities with one exception—they may charge these costs to IV-E for eligible children residing in an unlicensed relative home, but only for 12 months or for the average amount of time it takes the state to license the home, whichever is shorter.[21] Kansas officials estimated that as a result of this rule, their claims could be reduced by as much as $10 million a year and Texas officials estimated that their claims would decrease by about $3 million annually.

Differences in Federal Funding Sources

State IV-E administrative costs differ among states based on the extent that states charge other federal programs instead of IV-E. Three of the 11 states reported using one or more federal funding sources in fiscal year 2004 to fund some services for costs reimbursable by IV-E. They used block grant funding under programs such as TANF and SSBG to reduce their overall share of costs because they do not require a match of state funds, and there is less restriction on their use. Additionally, two of the three states charged costs to Medicaid that required a state match of less than 50 percent.

- South Carolina officials reported using TANF emergency assistance funds to cover most costs associated with a child in foster care for the first 12 months; using TANF eliminated the need of a state match. They said that IV-E program funds are used primarily for costs associated with preparing and participating in judicial proceedings, eligibility determination, licensing and home studies.

- Michigan officials said that their IV-E claims decreased when they began charging activities they thought would be challenged by the ACF regional office to another funding source, such as SSBG or TANF. For example, Michigan began charging about 60 percent of foster care training costs to

[20] Deficit Reduction Act of 2005, Pub. L. No. 109-171 (2006).

[21] States may charge administrative costs for children in unlicensed homes only for as long as the length of the time it normally takes to license a home or up to 12 months—whichever is shorter. For children placed in other ineligible facilities, such as psychiatric or medical hospitals, claims may be made but only for 1 calendar month and only if they are subsequently moved back to an eligible setting.

SSBG because of disagreements with ACF in developing their allocation methodology.

- Washington officials said that prior to 2001, Medicaid was used to fund some case management services for all children that were eligible for Medicaid, including those that were IV-E eligible. However, the Center for Medicare and Medicaid Services (CMS) objected and negotiated with the state to no longer use Medicaid for these services. This change resulted in additional charges to IV-E and contributed to the 27 percent increase in the amount of case management claims from fiscal year 2000 to fiscal year 2001.

States Implemented Initiatives to Improve Services, but the Extent That Improvements Are Related to Changes in IV-E Expenditures Is Unclear

Officials in all 11 states reported initiating efforts to improve services to children in their foster care and adoption assistance programs to address findings from federal reviews, state studies, or lawsuits; however, an increase or decrease in IV-E spending cannot be linked to changes in services for children. One reason is that spending may go up or down unrelated to services. For example, while hiring more staff has shown to improve services, changing methods used to track staff time and costs may have little or no effect on services. In addition, because states make extensive use of non-IV-E funding sources, the change in IV-E expenditures does not necessarily reflect changes in the overall funding of states' child welfare systems.

All states reported taking action to improve services to children in their foster care programs, using funding from IV-E and other sources. Between fiscal years 2001 and 2004, ACF evaluated all 50 state child welfare programs through the Child and Family Services Review (CFSR). [22] These reviews evaluated states on outcomes for children related to safety, permanency, and well-being and on systemic factors such as the statewide information, case review, and quality assurance systems. In response to any identified deficiencies, states developed a program improvement plan (PIP) to document planned corrective actions, which was reviewed and approved by ACF. The most common initiatives were those to expedite permanency planning, increase staff and training, and collaborate with

[22] The CFSR is a results-oriented, comprehensive monitoring review system designed to assist states in improving outcomes for children and families who come into contact with the nation's public child welfare systems. It was developed and implemented by HHS in response to the mandate of the Social Security Amendments of 1994 to promulgate regulations for reviews of states' child and family services.

courts to facilitate a child's permanent placement and improve services as shown in table 7.

Table 7: Foster Care Program Services Increased or Implemented Since Completion of CFSR Reviews for 11 States

State	Recruit foster families	Training foster care parents	Licensing activities	Increase family and support services	Increase in-person contact with child	More outreach to biological parents	Increase monitoring of contract provided services	Increase use of private contractors	Collaborate with courts	Other
California	✓	✓	✓	✓	✓				✓	✓
Illinois		✓		✓		✓		✓	✓	✓
Kansas				✓						✓
Maryland	✓	✓	✓				✓	✓	✓	
Michigan		✓				✓			✓	✓
New York		✓	✓	✓		✓			✓	✓
Pennsylvania									✓	✓
South Carolina	✓	✓		✓	✓	✓	✓		✓	
Texas	✓		✓	✓	✓	✓			✓	
Washington		✓			✓		✓		✓	
Wisconsin	✓	✓	✓	✓	✓	✓			✓	✓

Source: State officials.

While all 11 states made changes to program services in response to CFSR findings, some also had other reasons: the Maryland legislature provided resources to reduce the ratios of caseworkers to children in response to concerns about program deficiencies due to staff shortages, and Washington made changes as part of a settlement in a lawsuit. The actions states took to achieve program improvements varied. For example,

- Expediting permanency planning. Most states we studied reported an increased emphasis on family preservation and support services and more outreach to biological parents in an effort to either maintain children in their homes or to expedite reunification if the child is in foster care. Some states have implemented "Concurrent Planning" programs in which at the same time that efforts are being made for reunification, other permanency goals, such as adoption, are pursued should reunification fail. [23] For

[23] The Adoption and Safe Families Act of 1997, Pub. L. No. 105-89, encourages the use of Concurrent Planning, and it requires that states make reasonable efforts to find permanency for children who cannot return to their biological parents.

example, in California, Los Angeles County officials reported positive results with their concurrent planning program. Between fiscal years 2003 and 2005, reunification of children with their families within 12 months or less increased from about 36 percent to 45 percent. In addition, during this same time period, adoptions within 23 months or less increased from about 9 percent to 15 percent.

- Increased collaboration with courts to remove barriers and improve services. Ten states reported increased coordination or collaboration with the courts to improve services provided by either their foster care or adoption assistance programs or both. For example, Pennsylvania officials reported establishing a statewide Legal Services Initiative in which paralegals work with caseworkers to move cases through the system faster and reduce the time that a child is in foster care. Officials in one county said that this initiative had helped to reduce a child's time in foster care from an average 38 months to about 27 to 28 months between fiscal years 2000 and 2005.

Some states provided new resources or reallocated existing resources for their PIP to address the deficiencies identified in their CFSR and one state reported that state budget limitations made it difficult to develop or implement their PIP. For example, the California legislature approved more than $13 million to develop the California Child and Family Service Review System. This system, a part of the state PIP, requires California's counties to conduct self-assessments, improvement plans, peer quality case reviews, and data integrity improvements. Wisconsin and Texas reported reallocating existing resources for new staff position to implement program improvement strategies. On the other hand budget limitations in Kansas made it difficult to maintain progress in all areas that were identified as needing improvement and lead the state agency to renegotiate their program improvement goals with ACF.

HHS Oversight of Program Spending Has Been Compromised by an Absence of Strategic Risk-Based Monitoring

HHS has not implemented a strategic approach in its monitoring efforts to ensure adequate control over program spending. The number and skills of financial specialists located in the regional offices are not correlated with the risk of states claiming inappropriate costs. In addition, according to officials, HHS does not have a current financial review manual, and regional offices have developed their own protocols resulting in inconsistent review of claims across states. HHS did clarify policies in several critical areas that affect spending—including the use of Medicaid funding for case management services--but these policies were not consistently applied across regions.

HHS has not targeted its resources to high-risk regions

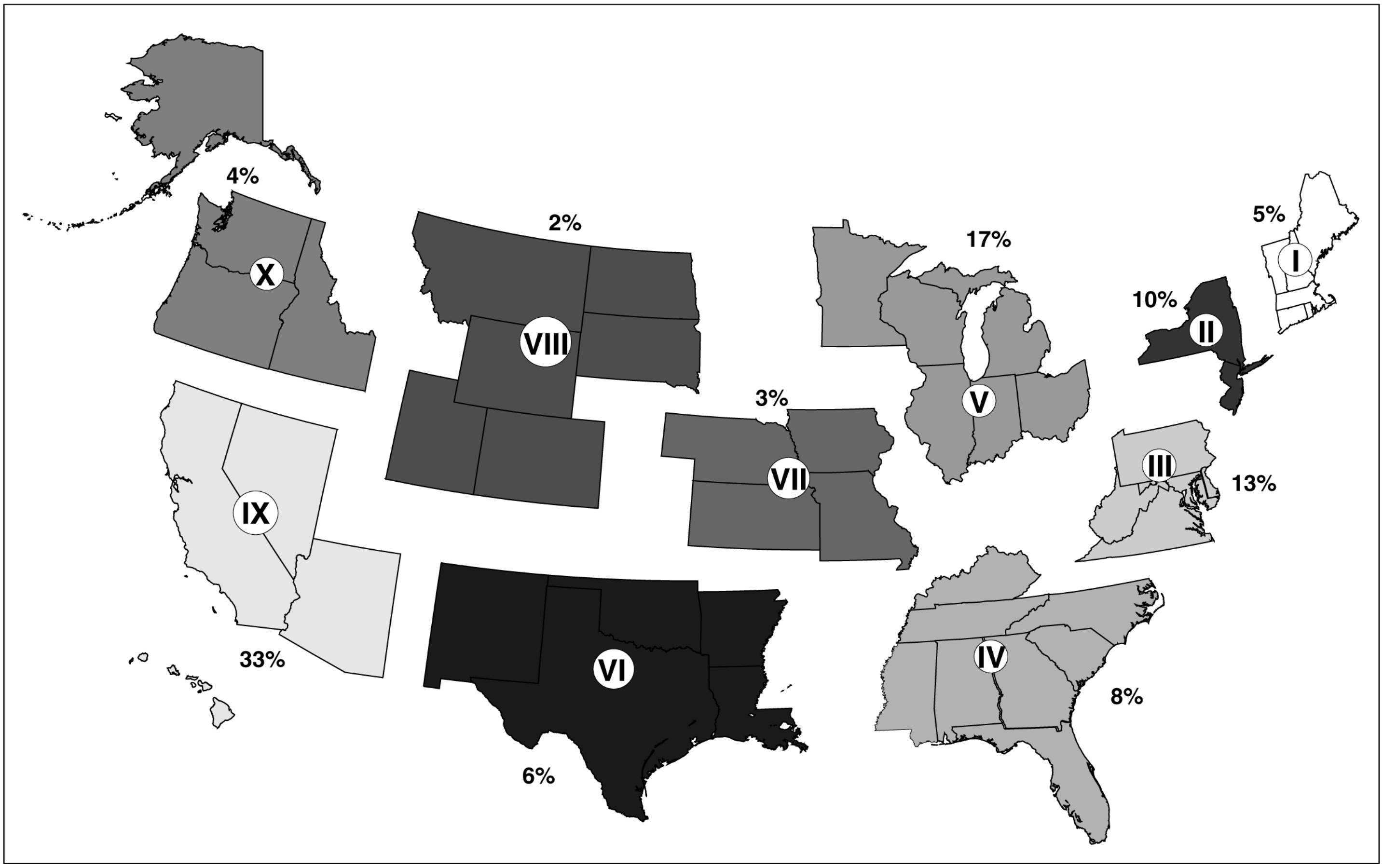
Staffing levels and the financial expertise of regional office staff reviewing states' claims for reimbursement of their administrative costs have decreased over time, and HHS has not shifted or targeted its remaining resources to high-risk areas or states. Financial specialists in HHS's 10 regional offices are tasked with a variety of financial oversight responsibilities including:

- Review quarterly expenditures.
- Provide technical assistance to states regarding fiscal policy and cost allocation issues.
- Review and resolve findings from the Single Audit.
- Review cost allocation amendments and make recommendations to the Division of Cost Allocation.
- Provide support for the IV-E Eligibility Reviews.
- Provide support for HHS Inspector General's IV-E audits and inspections.

According to officials, the number of financial specialists with the necessary expertise has declined since the early 1990s. This decline resulted primarily from retirements and a change in staff roles and responsibilities. Typically, the regions have 2-3 financial specialists for oversight of ACF programs. In region VII, three financial specialists review 3 percent of national IV-E administrative costs for 4 states, while three financial specialists in region V review 17 percent of national IV-E costs for 6 states. Additionally, one financial specialist with limited experience with the IV-E programs, reviewed costs for California that amounted to more than 30 percent of national administrative spending in fiscal year 2004.

Figure 6 illustrates the percentage of total administrative costs by HHS regional office.

Figure 6: Percentage of Fiscal Year 2004 Total Foster Care and Adoption Assistance Administrative Costs for States Located In HHS's 10 Regional Offices



Source: GAO analysis of HHS data.

Note: Percentages add to more than 100 due to rounding.

Financial specialist positions across the country have increasingly been filled with staff that have a programmatic rather than a financial background, a concern shared by headquarters and regional staff. For example, one regional grants manager told us that the IV-E programs in his region are particularly vulnerable to unallowable state claims because, in addition to a significant workload, two financial specialists have little experience and lack the financial skills to review claims in accordance with cost allocation plans. In addition, officials from two regions cited inadequate training resources. According to ACF central office officials, degrees in accounting or finance are no longer required for these positions.

Cognizant ACF officials cited an increased workload and competing responsibilities as obstacles to oversight of program spending. For example, due to time staff spent on quarterly expenditure reviews and Title IV-E eligibility reviews, according an official in one region, the resolution of Single Audit findings were not always accomplished in the required 6-month time frame and, as a result, questioned costs were not always promptly recovered. In addition, officials from two regions noted that they suspect states are not claiming training costs correctly, but cited a lack of resources to effectively address the problem. Of the six regions we spoke with, officials from three reported 0 dollars disallowed during fiscal years 2000 to 2004 while officials from the other three reported disallowances ranging from about $18 to $24 million.[24]

Although ACF is aware of problematic claiming practices in some states, ACF has not taken a strategic approach to assess risk and target its resources accordingly. Effective agency control structures depend on assessing risk and implementing oversight activities to address those areas identified at greatest risk. [25] However ACF's ability to provide strategic oversight is complicated by regional structures that differ. In some regions, staff are assigned oversight responsibility by state and review multiple ACF programs, while in other regions, staff are assigned oversight responsibility by program and review multiple states. An additional complication is the absence of direct authority over regional financial

[24] This figure excludes disallowances that resulted from the Title IV-E Eligibility Reviews.

[25] See GAO 05-176. The five components of internal controls are (1) control environment—creating a culture of accountability within the entire organization—program offices, financial services, and regional offices--by establishing a positive and supportive attitude toward improvement and the achievement of established program outcomes; (2) risk assessment—identifying and analyzing relevant problems that might prevent the program from achieving its objectives. Developing processes that can be used to form a basis for measuring actual or potential effects of these problems and manage their risks; (3) control activities—establishing and implementing oversight processes to address risk areas and help ensure that management's decisions—especially about how to measure and manage risks—are carried out and program objectives are met; (4) information and communication—using and sharing relevant, reliable, and timely information on program-specific and general financial risks. Such information surfaces as a result of the processes—or control activities—used to measure and address risks; and (5) monitoring—tracking improvement initiatives over time, and identifying additional actions needed to further improve program efficiency and effectiveness.

specialists. In most regions, financial specialists are supervised by Program Office Managers who report to the Regional Administrator rather than the Office of Grants Management, the entity responsible for approving federal expenditures to states. ACF has a restructuring effort underway to ensure more consistent policy administration of ACF programs that may address this issue. The estimated completion date is the end of fiscal year 2006.

Lack of standard guidance and absence of information sharing among HHS offices limit financial oversight

HHS does not have a current financial review guide to standardize oversight across regions, and oversight findings among various regional offices have not been shared to better ensure consistency and appropriateness of federal expenditures to states, according to regional and central officials we interviewed. HHS last issued a review guide over 15 years ago, and while staff in multiple regional offices have begun an effort to compile a current financial review guide consisting of best review practices, this guide is not expected to be completed for at least 3 years. In the interim, each region follows its own monitoring process and the level of oversight varies according to regional practice.

- *Triggers for review*. Some regions review changes in cost claims of more than 5 percent by specific category such as case management, while at least one region only reviews changes of 5 percent for total claims, without determining whether there were larger cost changes within categories. One region took action to ensure states appropriately claimed their costs by category, but officials from another region told us they do not pay attention to how states categorize costs.

- *Claims analysis*. Region IX officials said they recently started analyzing California's claims to compare the most recent 4 quarters of costs to the previous 4 quarters, while one method used in Region V is to compare costs from quarter to quarter using a ratio of administrative costs to the average number of children in foster care. Region IV officials told us they use a standard set of spreadsheets comparing claims across states in the region to analyze trends in expenditures and differences in states' claims.

- *On-site reviews*. Region VII officials, who were responsible for 3 percent of 2004 expenditures, indicated that financial specialists visit their respective states quarterly to trace state expenditures to original documents or review a selected sample of expenditures to ensure compliance with specific regulations. Region IV officials, responsible for 8 percent of expenditures, discontinued quarterly reviews due to a reduction in resources 5 years ago, and now have a goal for financial specialists to visit some of their assigned states once a year. Officials in Region V, responsible for 17 percent of fiscal year 2004 expenditures, noted that financial specialists rarely conduct on-site reviews. In addition to lack of standardization in review of claims, inadequate guidance from HHS headquarters has resulted in key differences in the approval of state claims.

- Regions vary in the technical assistance provided to states. According to regional officials, states did not uniformly identify and adequately document their processes used to classify children as candidates. One state official noted that its region helped the state develop a document that would meet requirements to claim candidate costs appropriately; however, other states did not receive similar technical assistance.

- Region officials allow states to treat children differently in calculating their penetration rate. A state in one region removed cases with pending eligibility from its total count of children, resulting in higher federal reimbursement, while this practice was disallowed for a state in a different region.

- Officials from one region with oversight responsibility for the Medicaid program assert that there is a wide disparity in the amount of costs for case management activities states submit to the Medicaid program for children in foster care that some medical costs should be charged to the IV-E program.[26]

However, ACF took action in 2005 to standardize state claiming practices in three important areas that were subsequently included in the Deficit Reduction Act of 2005:

- administrative costs claimed for children living in facilities that are not eligible for maintenance payments;

[26] In June 2005, GAO reported that Georgia and Massachusetts were charging Medicaid for costs that appeared to be unallowable under CMS policy. Specifically the claims were for services that appeared to be integral components of non-Medicaid programs. CMS has denied claims for similar programs in other states. In fiscal year 2002, for example, CMS denied a state plan amendment proposal to cover TCM services in Illinois, and in fiscal year 2004 it found TCM claims in Texas unallowable, in part because the TCM services claimed for reimbursement were considered integral to other state programs. In Texas, such children were served by the state's child welfare and foster care system. See GAO, *Medicaid Financing: States' Use of Contingency-Fee Consultants to Maximize Federal Reimbursements Highlights Need for Improved Federal Oversight*, GAO-05-748 (Washington, D.C.: June 2005).

- administrative costs claimed for children living in an unlicensed foster family home; and
- time frames for determining or re-determining a child's eligibility for IV-E programs.

ACF and CMS jointly issued guidance in 2001 to clarify which foster care costs could be charged to Medicaid rather than IV-E, but according to CMS officials, this guidance contained errors that caused confusion regarding appropriate targeted case management (TCM) claims. Since 2004, CMS policy regarding the use of TCM services for children in foster care has been based on a 2004 Administrator's decision that denied approval of a Medicaid state plan amendment requested by Maryland to provide TCM services to children in the state's foster care program because such services were available under the IV-E program.[27] However, CMS has not consistently applied its policy for allowable TCM services.[28] The Deficit Reduction Act superseded previous policy clarifications and defined TCM services as well as activities that are not permitted for children in foster care such as assessing adoption placements.

The lack of information sharing among regions further compromises oversight. According to central and regional officials, financial specialists do not routinely communicate with other regions or headquarters to discuss issues related to state claiming practices. Quarterly conference calls to discuss financial oversight were discontinued due to scheduling difficulties about 2 years ago according to officials in one region. While there is a monthly call between headquarter and regional staff regarding the IV-E programs, these calls focus primarily on programmatic rather than fiscal concerns. Additionally, while information on the amount of expenditures deferred and disallowed as well as the reason for each quarter is collected through ACF's Grants Application Tracking System, this information is not summarized and shared across regions. ACF central

[27] See CMS, *Disapproval of Maryland State Plan Amendment No. 02-05*, Docket No. 2003-02 (Aug. 27, 2004). The Administrator's decision was based in part on a statement in the legislative history accompanying the legislation authorizing coverage for TCM services that payment for TCM services must not duplicate payments to public agencies or private entities under other program authorities. See H.R. Rep. No. 99-453, at 546 (1985). We did not evaluate the bases for CMS's policy as part of this review.

[28] In June 2005, GAO recommended that CMS clarify and communicate its policies on TCM and ensure policies were consistently applied across states. See GAO, *Medicaid Financing: States' Use of Contingency-Fee Consultants to Maximize Federal Reimbursements Highlights Need for Improved Federal Oversight*, GAO-05-748 (Washington, D.C.: June 2005).

office officials told us they could not provide reliable data on the amount of claims that are disallowed each year. Further, one official noted that financial specialists are not held accountable for updating the final amounts disallowed following resolution between ACF and the states.

Although ACF and DCA officials both conduct reviews of the foster care and adoption assistance programs' administrative claiming practices, these offices do not routinely coordinate to share findings in order to prioritize areas for review in other states, according to officials in one region. For example, although officials in two regions and the HHS central office cited problems with how states have documented and allocated costs for candidates, according to one regional official, DCA has not systematically reviewed state allocation procedures to address this problem. Officials from two regional offices expressed frustration at the minimal level of involvement DCA has in terms of reviewing cost allocation practices. One official indicated that DCA often relied on ACF regional officials to address questions related to the technical aspects of claiming processes, though this was primarily the responsibility of DCA. According to HHS's Office of Inspector General, in the past, DCA staff reviewed state cost allocation plans annually but this no longer occurs, due to a reduction in staff.

OIG audits continue to find gaps in oversight of state cost allocation plans and program regulations. From October 2004 through April 2006, the OIG recommended disallowances of more than $20 million related to administrative costs in seven states. Audits found inappropriate training claims, claims made to cost centers not approved in the state's cost allocation plan, and inappropriate methods used to calculate costs for children identified as candidates for foster care. As of April 2006, an additional eight audits were in progress.

Conclusions

Federal spending to support state administration of the Foster Care and Adoption Assistance programs increased between fiscal years 2000 and 2004, but a few states have accounted for most of this change. While federal expenditures under Title IV-E have reflected an increase in some states' spending for child welfare systems over this time period, they also reflect more concerted efforts by states to identify costs in the child welfare system that are allowable for federal reimbursement. While we could not link IV-E spending to changes in services, states uniformly reported taking action to improve services in response to federal oversight reviews of their overall child welfare system.

Ensuring that the oversight environment and monitoring activities for foster care and adoption assistance administrative costs are consistent across states is a critical aspect currently missing in federal efforts to support state administration of the Foster Care and Adoption Assistance programs while maintaining control over program spending. The lack of updated guidance and coordination among HHS's oversight offices has resulted in disparate practices that may be causing HHS to miss opportunities for safeguarding federal funds and preventing HHS from providing consistent support for states efforts to serve Title IV-E eligible children. Requiring states to break out administrative costs into various categories was intended to provide more visibility to spending patterns, but this has not been achieved due to lack of enforcement by some ACF regional offices. Further, the absence of a risk-based approach in the allocation of oversight staff weakens ACF's control over program spending. Without consistent and appropriate oversight and monitoring, HHS has little assurance that Title IV-E resources are being safeguarded to serve eligible children.

Recommendations for Executive Action

To better safeguard federal resources and ensure consistent federal support for state administration of foster care and adoption assistance, we recommend that the Secretary of the Department of Health and Human Services direct the Assistant Secretary for the Administration for Children and Families to take the following five actions:

- Expedite the development of the financial review guide regions use to monitor state claims for federal reimbursement and develop an effective means of communicating current policy and oversight findings across regions and states.
- Coordinate with other HHS offices such as the Division of Cost Allocation and CMS to ensure consistent policy implementation across regions and states.
- Standardize the method states use to calculate the percentage of children served by foster care and adoption assistance programs that are eligible for federal reimbursement of administrative costs.
- Through ACF regional offices, remind states that reporting administrative costs by certain categories is a requirement and provide technical assistance to help states comply with the requirement.

- Assess the relative risk of improper federal expenditures to states for administrative costs and redistribute oversight staff accordingly.

Agency Comments and Our Evaluation

We received written comments on a draft of this report from HHS that are reprinted in appendix II. HHS did not explicitly agree or disagree with our five recommendations, but stated that it would implement or consider implementing four of them in whole or in part. Specifically, HHS said that it would implement our recommendation to issue guidance to state agency staff, reminding them of the need to comply with federal reporting requirements and the availability of regional office staff to provide technical assistance. Regarding our recommendation that HHS standardize the method states use to calculate the percentage of children served by foster care and adoption assistance programs that are eligible for federal reimbursement of administrative costs, HHS said that this calculation is straightforward and that it would discuss the issue of state inconsistencies with its regional staff to ascertain if there is a problem and how best to address it. HHS said that an ongoing organizational restructuring expected to be completed by September 30, 2006, affected immediate implementation decisions for two recommendations. HHS said it would wait until after this restructuring to determine its ability to implement our recommendation to expedite the development of a financial review guide and implement a more effective means of sharing current policy and oversight findings across regions. While HHS said it would take our recommendation to redistribute oversight staff under advisement as it proceeds with its restructuring effort, HHS viewed its implementation as impractical because it could require either relocating staff across the country or reassigning fiscal responsibility to program staff. However, HHS also said that it would continue to focus on areas where there is the greatest need for intervention. Regarding our recommendation on coordination among HHS's offices, HHS described some existing coordination activities but did not indicate that it would ensure consistent policy implementation across regions and states.

We do not believe organizational restructuring reduces HHS's continual responsibility to safeguard federal resources and ensure consistent federal support for state administration of foster care and adoption assistance programs. Therefore, we continue to recommend that HHS take action to ensure that its regional staff are providing consistent oversight of state implementation of federal policy and that the oversight results of its various offices are effectively coordinated to ensure consistent federal support for state administration of foster care and adoption assistance. Further, we do not believe that HHS's inability to immediately physically relocate staff among regional offices precludes redistributing oversight responsibility among regional staff, and we continue to recommend that HHS use a risk-based approach to do so.

We will send copies of this report to congressional committees, the Secretary of Health and Human Services, and other interested parties.

We will also make copies available to others on request. In addition, the report will be available at no charge on GAO's Web site at http://www.gao.gov.

If you have any questions about this report, please contact me at (202) 512-7215 or ashbyc@gao.gov. Other contacts and acknowledgments are listed in appendix III.

Sincerely yours,

Cornelia M. Ashby

Cornelia M. Ashby
Director, Education, Workforce
and Income Security

Appendix I: IV-E Expenditures for Administrative Costs by State

State	2000 IV-E administrative claims for expenditures	2004 IV-E administrative claims for expenditures	Change in claims for expenditures from FY 2000 - FY 2004	Percent change in claims for expenditures from FY 2000 – FY 2004
Washington	$23,974	$58,128	$34,154	142.5
New Hampshire	3,860	9,182	5,322	137.9
Texas	37,327	69,313	$31,986	85.7
Wyoming	828	1,370	$542	65.5
Alaska	8,083	13,121	5,038	62.3
Indiana	11,352	18,360	7,008	61.7
West Virginia	6,215	9,841	3,626	58.3
Oregon	18,945	26,619	7,674	40.5
Virginia	36,627	50,859	14,232	38.9
New Jersey	30,928	42,320	11,392	36.8
Pennsylvania	149,289	191,708	42,419	28.4
Arkansas	18,412	23,595	5,183	28.2
New York	178,104	210,775	32,671	18.3
California	713,090	812,000	98,910	13.9
Louisiana	32,787	37,024	4,237	12.9
Vermont	5,192	5,765	573	11.0
Alabama	14,972	16,544	1,572	10.5
Ohio	129,198	138,244	9,046	7.0
Montana	6,165	6,416	251	4.1
Wisconsin	67,738	69,558	1,820	2.7
Colorado	27,380	27,503	123	0.4
Total increase of 21 states:			**$317,779**	
Tennessee	14,281	5,900	(8,381)	-58.7
Delaware	10,388	5,443	(4,945)	-47.6
Mississippi	10,655	6,414	(4,241)	-39.8
D.C.	18,869	12,225	(6,644)	-35.2
South Carolina	12,556	8,706	(3,850)	-30.7
Kentucky	29,420	20,757	(8,663)	-29.4
Oklahoma	22,672	16,203	(6,469)	-28.5
Kansas	28,883	21,066	(7,817)	-27.1
Missouri	45,378	35,478	(9,900)	-21.8
Connecticut	63,860	50,351	(13,509)	-21.2
North Carolina	36,934	29,950	(6,984)	-18.9
Michigan	78,626	65,005	(13,621)	-17.3

State	2000 IV-E administrative claims for expenditures	2004 IV-E administrative claims for expenditures	Change in claims for expenditures from FY 2000 - FY 2004	Percent change in claims for expenditures from FY 2000 – FY 2004
Iowa	16,068	13,309	(2,759)	-17.2
North Dakota	7,656	6,347	(1,309)	-17.1
Idaho	5,615	4,741	(874)	-15.6
Florida	112,247	94,854	(17,393)	-15.5
Rhode Island	9,640	8,380	(1,260)	-13.1
Massachusetts	47,276	41,114	(6,162)	-13.0
Nebraska	10,650	9,363	(1,287)	-12.1
Minnesota	58,293	51,505	(6,788)	-11.6
South Dakota	3,052	2,729	(323)	-10.6
Arizona	29,609	26,662	(2,947)	-10.0
New Mexico	14,248	13,105	(1,143)	-8.0
Georgia	36,396	34,145	(2,251)	-6.2
Nevada	11,411	10,780	(631)	-5.5
Utah	17,097	16,442	(655)	-3.8
Maryland	64,909	62,858	(2,051)	-3.2
Maine	8,013	7,879	(134)	-1.7
Illinois	115,402	113,541	(1,861)	-1.6
Hawaii	14,521	14,507	(14)	-0.1
Total decrease of 30 states:			**($144,866)**	
Total change in claims for expenditures:			**$172,913**	

Source: Analysis of HHS data.

Appendix II: Comments from the Department of Health and Human Services

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

JUN 6 2006

Ms. Cornelia M. Ashby
Director, Education, Workforce,
and Income Security Issues
U.S. Government Accountability Office
Washington, DC 20548

Dear Ms. Ashby:

Enclosed are the Department's comments on the U.S. Government Accountability Office's (GAO) draft report entitled, "FOSTER CARE AND ADOPTION ASSISTANCE: Federal Oversight Needed to Safeguard Funds and Ensure Consistent Support for States' Administrative Costs" (GAO-06-649). These comments represent the tentative position of the Department and are subject to reevaluation when the final version of this report is received.

The Department appreciates the opportunity to comment on this draft report before its publication.

Sincerely,

Daniel R. Levinson

Daniel R. Levinson
Inspector General

Enclosure

The Office of Inspector General (OIG) is transmitting the Department's response to this draft report in our capacity as the Department's designated focal point and coordinator for U.S. Government Accountability Office reports. OIG has not conducted an independent assessment of these comments and therefore expresses no opinion on them.

COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES ON THE GOVERNMENT ACCOUNTABILITY OFFICE'S DRAFT REPORT ENTITLED, "FOSTER CARE AND ADOPTION ASSISTANCE: FEDERAL OVERSIGHT NEEDED TO SAFEGUARD FUNDS AND ENSURE CONSISTENT SUPPORT FOR STATES' ADMINISTRATIVE COSTS" (GAO-06-649)

The U.S. Department of Health and Human Services (HHS) appreciates the opportunity to comment on the draft report. We look forward to working with the Government Accountability Office (GAO) on this and other pertinent issues addressed in this report.

GAO Recommendation

To better safeguard Federal resources and ensure consistent Federal support for State administration of foster care and adoption assistance, we recommend that the Secretary of the Department of Health and Human Services direct the Assistant Secretary for the Administration for Children and Families to take the following five actions:

- Expedite the development of the financial review guide regions use to monitor State claims for Federal reimbursement and develop an effective means of communicating current policy and oversight findings across regions and States.
- Coordinate with other HHS offices such as the Division of Cost Allocation and the CMS to ensure consistent policy implementation across regions and States.
- Standardize the method States use to calculate the percentage of children served by foster care and adoption assistance programs that are eligible for Federal reimbursement of administrative costs.
- Through HHS regional offices, remind States that reporting administrative costs by certain categories is a requirement and provide technical assistance to help States comply with the requirement.
- Assess the relative risk of improper Federal expenditures to States for administrative costs and redistribute oversight staff accordingly.

HHS Response

As indicated in the report, HHS's financial management staff in several regional offices has begun an effort to compile a current financial review guide consisting of best review practices. HHS has begun an organizational restructuring that will include both financial management and fiscal staff and anticipates completion by the end of fiscal year 2006. HHS should then be better able to determine its ability to expedite the development of the financial review guide, as well as implement a more effective means of sharing with regional staff oversight findings across regions and States. Until then, however, HHS will continue to use the Child Welfare Policy Manual and Program Instructions to communicate pertinent program policy to the regions and the States.

HHS coordinates with the Division of Cost Allocation (DCA) on a regular basis since HHS is responsible for providing comments on cost allocation plans and amendments submitted to DCA by States. As noted in the report, in conjunction with DCA, HHS reviews State cost allocation methods to ensure that the cost distribution to the Department's programs is appropriate and accurate. HHS also continues communicating with CMS staff regarding current and proposed policy as it impacts the title IV-E foster care program, particularly around target case management and costs associated therewith.

While GAO may have identified one inconsistency among the regions regarding calculation of a title IV-E penetration rate, HHS does not believe this is a widespread problem. As described in the report, the calculation of a penetration rate is straightforward. HHS will address this topic with regional staff to ascertain if there is a problem and how best to address it.

HHS will issue written guidance to State agency staff reminding them of the need to complete all categories of administrative costs as required on States' title IV-E financial reports (form HHS-IV-E-1) regarding the availability of regional staff to provide technical assistance to States and regarding HHS's role in ensuring States' compliance.

HHS will take this recommendation under advisement as we proceed with our organizational restructuring. HHS views this recommendation as impractical because it would require either relocating staff across the country or reassigning fiscal responsibilities to program staff (a strategy GAO documents in this report as inappropriate). HHS will continue to focus on areas where there is the greatest need for staff intervention.

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Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Cornelia M. Ashby (202) 512-7215

Staff Acknowledgments

In addition to those named above, Lacinda Ayers, Assistant Director, Rebecca A. Christie (Analyst-in-Charge), Deirdre G. Brown, and Nancy Purvine made key contributions to this report. Jim Rebbe, Jerry Sandau, and Jay Smale also provided key technical assistance.

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