



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office Of Inspector General  
Office Of Audit Services

November 26, 2008

Region II  
Jacob K. Javits Federal Building  
26 Federal Plaza  
New York, NY 10278

Report Number: A-02-06-02006

Ms. Kimberly S. Ricketts  
Commissioner  
Department of Children and Families  
222 South Warren Street  
P.O. Box 729  
Trenton, New Jersey 08625-0729

Dear Ms. Ricketts:

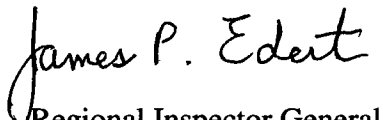
Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of Title IV-E Administrative and Training Costs in New Jersey for the Period January 1, 2005 through December 31, 2005." We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, this report will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Audit Manager John Madigan at (518) 437-9390, extension 224 or through e-mail at [John.Madigan@oig.hhs.gov](mailto:John.Madigan@oig.hhs.gov). Please refer to report number A-02-06-02006 all correspondence.

Sincerely,

  
Regional Inspector General  
for Audit Services

Enclosure

**Direct Reply to HHS Action Official:**

Clinton McGrane  
Grants Officer  
Department of Health and Human Services  
Administration for Children & Families  
26 Federal Plaza, Room 4114  
New York, New York 10278

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF TITLE IV-E  
ADMINISTRATIVE AND TRAINING  
COSTS IN NEW JERSEY FOR THE  
PERIOD JANUARY 1, 2005,  
THROUGH DECEMBER 31, 2005**



Daniel R. Levinson  
Inspector General

November 2008  
A-02-06-02006

# ***Office of Inspector General***

<http://oig.hhs.gov>

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

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# *Notices*

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Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, Office of Inspector General reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5).

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

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

## **EXECUTIVE SUMMARY**

### **BACKGROUND**

Title IV-E of the Social Security Act, as amended, authorizes Federal funds for States to provide foster care and adoption assistance for children under an approved State plan. At the Federal level, the Administration for Children and Families (ACF) administers the Title IV-E program. In New Jersey, the Department of Children and Families (the State agency) administers the program.

Federal funds are available to States for specified Title IV-E administrative and training costs. Pursuant to Federal regulations (45 CFR part 95, subpart E), States must allocate such costs to the Title IV-E program in accordance with a cost allocation plan approved by the Department of Health and Human Services, Division of Cost Allocation. The State agency's approved cost allocation plan identifies the cost centers that support its Title IV-E expenditures. The State agency uses a random moment study (RMS) ratio and Title IV-E ratio (IV-E ratio) to allocate administrative and training costs to the Title IV-E program. The RMS is based on employee activity and the IV-E ratio is based on the number of Title IV-E-eligible foster care clients.

### **OBJECTIVE**

Our objective was to determine whether the Title IV-E administrative and training costs claimed for calendar year (CY) 2005 were properly allocated through the RMS and IV-E ratios in accordance with Federal requirements and the State's public assistance costs allocation plan.

### **SUMMARY OF FINDINGS**

Of the \$52,634,881 (\$27,951,326 Federal share) that the State agency allocated through the RMS and IV-E ratios and claimed as Title IV-E administrative and training costs for CY 2005, \$52,384,067 (\$27,818,735 Federal share) was allocated in compliance with Federal requirements. The State agency improperly allocated the remaining \$250,814 (\$132,591 Federal share) to the Title IV-E program because it used inflated IV-E ratios.

### **RECOMMENDATION**

We recommend that the State agency refund \$132,591 to the Federal Government.

### **STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

In its comments on our draft report, the State agency concurred with our recommendation to refund \$132,591 to the Federal Government. The State agency also indicated that, contrary to what State officials informed us during our review, the State agency maintained RMS data to support its quarterly ratios used to allocate administrative and training costs to the Title IV-E program. We subsequently reviewed the RMS data and found it to be complete and accurate.

Based on our evaluation of the additional information, we revised our report accordingly. The State agency's comments appear in their entirety as the appendix.

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## INTRODUCTION

### BACKGROUND

#### **Title IV-E Program**

Title IV-E of the Social Security Act (the Act), as amended, authorizes Federal funds for States to provide foster care and adoption assistance for children under an approved State plan. At the Federal level, the Administration for Children and Families (ACF) administers the Title IV-E program. In New Jersey, the Department of Children and Families (the State agency) administers the program.

Federal funds are available to States for the following Title IV-E administrative and training costs:

- Administrative costs include staff activities such as case management and supervision of children placed in foster care or considered to be Title IV-E candidates, preparation for and participation in court hearings, placements of children, recruitment of foster parents, and licensing of foster homes and institutions. The Federal funding rate for administrative costs allocable to the Title IV-E program is 50 percent.
- Training costs include the training of personnel employed or preparing for employment by the State or local agency administering the Title IV-E State plan and the training of current or prospective foster care or adoptive parents, as well as personnel of childcare institutions. Certain State training costs qualify for an enhanced 75-percent Federal funding rate.

Pursuant to Federal regulations (45 CFR part 95, subpart E), States must allocate costs to the Title IV-E program in accordance with a public assistance cost allocation plan approved by the Department of Health and Human Services, Division of Cost Allocation (DCA), after ACF reviews and comments on the fairness of the cost allocation methodologies. Cost allocation plans must conform to the accounting principles and standards in Office of Management and Budget (OMB) Circular A-87, “Cost Principles for State, Local, and Indian Tribal Governments.” The circular requires that costs be allocated to programs based on the relative benefits received and be adequately documented. ACF’s “Child Welfare Policy Manual” (the ACF Policy Manual) states that training costs must be allocated to benefiting programs and describes allowable administrative costs.

#### **New Jersey’s Cost Allocation Plan**

The cost centers supporting the State agency’s Title IV-E expenditures are identified in its cost allocation plan, which DCA approved July 1, 2003. On a quarterly basis, the State agency uses a random moment study (RMS) and Title IV-E ratio (IV-E ratio) to allocate administrative and training costs to the Title IV-E program. The RMS ratio is based on employee activity and the IV-E ratio is based on the number of Title IV-E-eligible foster care clients.

## **OBJECTIVE, SCOPE, AND METHODOLOGY**

### **Objective**

Our objective was to determine whether the Title IV-E administrative and training costs claimed for calendar year (CY) 2005 were properly allocated through the RMS and IV-E ratios in accordance with Federal requirements and the State's public assistance costs allocation plan.

### **Scope**

We reviewed the \$52,634,881 in Title IV-E administrative and training costs that the State agency allocated through the RMS and IV-E ratios and claimed for CY 2005.

We limited our review of internal controls to obtaining an understanding of the State agency's process for claiming Title IV-E administrative and training costs and the procedures used to collect, summarize, and allocate costs to the program.

We performed our fieldwork at the State agency in Trenton, New Jersey, from August 2006 through December 2007.

### **Methodology**

To accomplish our objective, we:

- reviewed Federal laws, the ACF Policy Manual, and the State's cost allocation plan;
- discussed the cost allocation plan with State agency officials;
- reconciled \$52,634,881 in expenditures allocated to the Title IV-E program through the RMS and IV-E ratio to Forms ACF-IV-E-1 submitted for CY 2005;
- reviewed the Title IV-E claims and supporting cost allocation schedules;
- reviewed the RMS and IV-E ratios used to allocate and claim Title IV-E administrative and training costs;
- requested documentation for the quarterly RMSs used to allocate administrative and training costs;
- identified the data base of 13,309 Title IV-E clients that the State agency included in the numerator for its calculation of the quarterly IV-E ratios;
- reviewed the data base to determine whether the clients were appropriately included in the quarterly IV-E ratios; and

- determined whether training costs were claimed at the appropriate federal financial participation rate of 50 or 75 percent.

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

## **FINDINGS AND RECOMMENDATIONS**

Of the \$52,634,881 (\$27,951,326 Federal share) that the State agency allocated through the RMS and IV-E ratios and claimed as Title IV-E administrative and training costs for CY 2005, \$52,384,067 (\$27,818,735 Federal share) was allocated in compliance with Federal requirements. The State agency improperly allocated the remaining \$250,814 (\$132,591 Federal share) to the Title IV-E program because it used inflated IV-E ratios.

### **INACCURATE TITLE IV-E CASE COUNTS**

State and local governments allocate administrative costs to the Title IV-E program in accordance with a cost allocation plan that must be approved by DCA. Federal regulations (45 CFR § 95.507(a)) state that the cost allocation plan must “(1) Describe the procedures used to identify, measure and allocate all costs to each of the programs operated by the State agency” and “(2) Conform to the accounting principles and standards prescribed in Office of Management and Budget Circular A-87 . . . .” Pursuant to 45 CFR § 95.517, any costs to the title IV-E program must be claimed “only in accordance with [the State’s] approved cost allocation plan. Any costs claimed based on a methodology not approved in the State’s cost allocation plan are improper and will be disallowed under 45 CFR § 95.519.

In accordance with its approved public assistance cost allocation plan, the State agency allocated administrative and training costs to the title IV-E program using RMS and IV-E ratios. However, the IV-E ratio, a quarterly ratio of total Title IV-E-eligible foster care clients (numerator) to total foster care clients (denominator), improperly included in the numerator 362 clients who were not Title IV-E eligible during CY 2005, thereby inflating the ratios. These clients were Title IV-E eligible in a prior period, but did not have any claims or had prior period claims adjusted during our audit period. The State’s Service Information System, which produced quarterly IV-E ratios, should have excluded these clients from the count. As a result, the State agency improperly claimed \$250,814 (\$132,591 Federal share) in reimbursement.<sup>1</sup>

The overpayment occurred because of a system error. The State agency did not have proper edits in place to distinguish between current claims and prior claim adjustments when calculating the quarterly ratios. We brought the error to the attention of State agency officials, who agreed that the 362 clients should not have been included in the quarterly ratios. State officials also

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<sup>1</sup>We adjusted the numerator by 362 clients and determined the impact of the adjustment on Title IV-E administrative and training costs by recalculating the costs through the CY 2005 cost allocation plan.

indicated that, as of July 2007, the State implemented an information system that accounts for the accuracy of the client counts. We did not test the system as part of our audit.

### **RECOMMENDATION**

We recommend that the State agency refund \$132,591 to the Federal Government.

### **STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

In its comments on our draft report, the State agency concurred with our recommendation to refund \$132,591 to the Federal Government. The State agency also indicated that, contrary to what State officials informed us during our review, the State agency maintained RMS data to support its quarterly ratios used to allocate administrative and training costs to the Title IV-E program. We subsequently reviewed the RMS data and found it to be complete and accurate. Based on our evaluation of the additional information, we revised our report accordingly. The State agency's comments appear in their entirety as the appendix.

# **APPENDIX**

**State of New Jersey**DEPARTMENT OF CHILDREN AND FAMILIES  
PO Box 729  
TRENTON, NEW JERSEY 08625-0729JON S. CORZINE  
GovernorKIMBERLY S. RICKETTS  
Acting Commissioner

September 16, 2008

James P. Edert  
Regional Inspector General for Audit Services  
Department of Health & Human Services  
Region II  
Jacob K. Javits Federal Building  
26 Federal Plaza  
New York, NY 10278

Re: Report Number A-02-06-02006

Dear Mr. Edert:

We have reviewed your draft report entitled "Review of Title IV-E Administrative and Training Costs in New Jersey for the Period January 1, 2005 through December 31, 2005" dated August 6, 2008. The state's responses are as follows:

*In the Summary of Findings, the report indicates that the State's allocation of \$15,910,880 (\$8,297,128 Federal share) was not in compliance with Federal requirements and the State's cost allocation plan and that the State could not provide the names of the individuals sampled.*

The \$8,297,128 in set aside costs can be supported by available data. While the state agency officials could not provide the names for the sampled period using the Service Information System (SIS), historical information is available and is stored in off site data archives. The information can be readily accessed and is available at any time for review by the Office of Inspector General (OIG) audit team or the Administration for Children and Families (ACF). The State staff responding during the audit were unaware that the Office of Information Technology maintains this information and was able to provide the names of the individuals sampled during CY 2005. This deficiency has been corrected and the staff advised of the availability of the information.

*In the Summary of Findings the report indicates the State needed to develop and implement policies and procedures to maintain Random Moment Study (RMS) data in compliance with Federal record retention requirements.*

This finding appears to be related to the above finding concerning the retention of data in support of the \$8,297,128 in set aside costs and the response is that the records are appropriately maintained. The State agency has consistently followed policies and procedures commensurate with the system of record (SIS) at the time the review was conducted. In August 2007, the Department of Children and Families (DCF) implemented

James P. Edert  
September 16, 2008  
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a new system of record – New Jersey Statewide Protective Investigation, Reporting and Information Tool (NJSPIRIT), a federally approved SACWIS system.

Detailed steps are followed in order to generate accurate random moment study results involving:

- On a daily basis, random observation samples are generated. The random observation samples notify case-carrying workers to be observed. These samples are conducted Monday through Friday 9 a.m. – 5 p.m. in order to record their activities.
- The observed workers then enter their activity information for the specified “point in time.”
- On a quarterly basis, the activity results are analyzed and the system identifies how each activity will be allocated using the approved methodology for the Cost Allocation Plan.
- The results are filtered through the Cost Allocation Plan and a hard copy is provided to the Administration for Children and Families on a quarterly basis.
- The reports will be available in the system to support claims for more than 3 years from the submission of the expenditure reports.

An electronic tickler simultaneously appears on the desktop of the worker and RMS coordinator. The tickler remains on both desktops until the RMS is completed. If it is not completed timely, the tickler escalates to the attention of the casework supervisor.

The State policy regarding the RMS can be found in the DYFS Policy Manual, DYFS Form 28-1; Random Moment Study revised 8-22-2007. The form is completed in the NJSPIRIT application by accessing it through the RMS Observation Window. This template is only completed outside of the NJSPIRIT application as part of a contingency plan when the application is unavailable. Users are still required to create the form in NJSPIRIT when the application becomes available. Only identifying information is pre-filled. The worker completes the remainder of the RMS Observation Window. The worker may print the form and return it to the RMS coordinator manually, if necessary.

*In response to the findings and recommendations concerning the use of inflated ratios.*

During the audit period, the data used to claim the costs of various residential providers was derived from a computer interface. Many of the residential providers had submitted bills at intervals other than a monthly cycle. Therefore, we captured the claiming data as it was submitted following the approved methodology. With the implementation of NJSPIRIT, we have corrected these issues. Specifically, we are able to capture the data more accurately by having all claiming, payment and client information in one system. We concur with the finding of \$132,591 Federal Financial Participation.

James P. Edert  
September 16, 2008  
Page 3 of 3

I hope this information addresses your concerns. If you require additional information, please contact Alfonso Nicholas at 609-633-6904.

Sincerely,

Kimberly S. Ricketts  
Acting Commissioner

c: Kara Wood, DCF Chief of Staff  
John Ducoff, DCF Director, Legal Compliance and Strategic Planning  
Mary Helen Cervantes, DCF Director, Communications & Legislation  
Janet Zatz, DCF Director, Administration  
Catherine Schafer, DCF Director, Audit and Contract Negotiation  
Doris Windle, DCF Director, Budget and Revenue  
Donna Younkin, DCF Director, Information Technology and Reporting  
Alfonso Nicholas, DCF Manager, Office of Revenue and Financial Reporting