



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Office of Audit Services
1100 Commerce, Room 6B6
Dallas, TX 75242

Common Identification Number: A-06-01-00068

September 21, 2001

Mr. Roy D. Kindle
Director
Division of Children and Family Services
Arkansas Department of Human Services
Lafayette Building
523 S. Louisiana Street, Suite 550
Little Rock, Arkansas 72203

Enclosed are two copies of the U. S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' (OAS) report entitled "Review of Arkansas' Participation in Title IV-B, Subpart 2 of the Social Security Act, Promoting Safe and Stable Families for Fiscal Years 1994 through 1999." Your complete response to our draft report is included as an attachment to this report. Should you have any questions or comments concerning the matters commented on in this report, please direct them to the HHS official named below.

In accordance with the principles of the Freedom of Information Act, (5 U.S.C. 552, as amended by Public Law 104-231), OIG, OAS reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)

To facilitate identification, please refer to Common Identification Number A-06-01-00068 in all correspondence relating to this report.

Sincerely yours,

Gordon L. Sato
Regional Inspector General
for Audit Services

Enclosure- as stated

Direct Reply to HHS Action Official:
Mike Hill, Director
Division of Financial Integrity
Room 702, Aerospace Building
370 L'Enfant Promenade S.W.
Washington, D.C. 20447

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF ARKANSAS'
PARTICIPATION IN TITLE IV-B,
SUBPART 2 OF THE
SOCIAL SECURITY ACT,
PROMOTING SAFE AND STABLE
FAMILIES FOR
FISCAL YEARS 1994 THOROUGH 1999**



**SEPTEMBER 2001
A-06-01-00068**

Office of Inspector General

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

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The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. The OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within the Department. The OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops model compliance plans, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

Department of Health and Human Services

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Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC

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In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, Office of Inspector General, Office of Audit Services, reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5.)

OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed as well as other conclusions and recommendations in the report represent the findings and opinions of the HHS/OIG/OAS. Final determination on these matters will be made by authorized officials of the HHS divisions.



September 21, 2001

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Mr. Roy D. Kindle
Director
Division of Children and Family Services
Arkansas Department of Human Services
Lafayette Building
523 S. Louisiana Street, Suite 550
Little Rock, Arkansas 72203

Dear Mr. Kindle:

This report provides you with the results of our review of Arkansas' Department of Human Services, Division of Children and Family Services' (DCFS) participation in Title IV-B, Subpart 2 Promoting Safe and Stable Families Program in fiscal years (FY) 1994 through 1999. The review was part of an ongoing nationwide review being conducted by the Office of Audit Services. The objectives of our review were to determine: (1) the reasons why DCFS did not use all Federal funds for the Promoting Safe and Stable Families Program and (2) if DCFS met its cost sharing requirements.

The DCFS did not use \$3,658,873 in grant awards from FYs 1994 through 1999. This occurred because DCFS did not take full advantage of the funding available in FY 1994 for planning and developing its Promoting Safe and Stable Families Program. The DCFS did not spend any grant funds available at the inception of the program. Instead it was not until the second year of the 2-year grant before any funds were spent. This pattern of not spending funds until the second year of the 2-year grant period has continued and currently still exists.

The DCFS officials explained that a combination of factors made administering the program difficult and contributed to the State's spending patterns and resulting unobligated balances. These factors included operating with an outdated accounting system, difficulty contracting and procuring services, and the disbanding of the Family Preservation Unit. The DCFS also had a contract for in-home parenting services which DCFS paid for with State general revenue funds when the services related to family preservation.

Based on the information provided by DCFS officials, DCFS met its required 25 percent State cost match for FYs 1994 through 1999.

In its response to our draft, DCFS concurred with the recommendations in the draft report. See Appendix for a complete copy of the response.

The results of this review will be incorporated in our consolidated report addressed to the Administration for Children and Families (ACF).

Background

Beginning in FY 1994, ACF began issuing grants for two components, Family Preservation and Family Support Services, to State child welfare agencies and Indian tribal programs to promote family strength and stability, enhance parental functioning, and protect children. States were required to expend a significant portion of the grant on each component. In 1997, Family Preservation and Family Support Services under Title IV-B, Subpart 2 was renamed Promoting Safe and Stable Families. The new program provides funding for four separate service components: (1) preventative family preservation services; (2) time-limited family reunification services; (3) adoption promotion and support services; and (4) community-based family support services for families at risk or in crisis. States now were required to expend at least 20 percent of the grant on each of the 4 components.

Federal Financial Participation in program costs is 75 percent and the States must provide a 25 percent cost match. Funding for the Promoting Safe and Stable Families Program was \$305 million in FY 2001 and is proposed to increase by \$200 million to \$505 million for FY 2002.

Objectives, Scope, and Methodology

The objectives of our review were to determine why DCFS did not use all Federal funds for the Promoting Safe and Stable Families Program and if DCFS satisfied its matching requirements. Our review was conducted in accordance with generally accepted government auditing standards. As part of our review, we obtained an understanding of the internal control structure relative to the compilation of the amounts DCFS reported on the Standard Form (SF) 269 reports. However, the objectives of this review did not require an assessment of these internal controls.

To accomplish our review objectives we:

- verified the mathematical accuracy of and reviewed the SF 269 reports that DCFS submitted to ACF for FYs 1994 through 1999;
- reviewed support for the financial information claimed on DCFS' SF 269s reported as Federal outlays for the 1997, 1998 and 1999 grants and State cost match for the 1998 grant; and
- interviewed DCFS officials to determine why DCFS had unobligated Federal funds in each FY 1994 through 1999.

We obtained and reviewed the financial status reports for the Promoting Safe and Stable Families Program submitted by all States for FYs 1994 through 1999. These reports

showed that 11 States including Arkansas either reported over \$1 million of unobligated Federal funds or did not meet the required cost match. We selected Arkansas because the State reported unobligated Federal funds of \$3,658,873 during FYs 1994 through 1999. We conducted our field work at the Arkansas Department of Human Services, Division of Children and Family Services in June 2001.

Results of Review

Federal Grant Funds

The DCFS did not use \$3,658,873 in Promoting Safe and Stable Families Program funds from FYs 1994 through 1999. In reviewing financial data supporting grant expenditures, we found DCFS did not spend any grant funds available at the inception of the program. Instead it was not until the second year of the 2-year grant before any funds were spent. This pattern of not spending funds until the second year of the 2-year grant period has continued and currently still exists. As a result, DCFS has had unobligated balances for each grant award since the inception of the program.

In addition to impacting the spending pattern noted, DCFS officials gave the following explanations as to other factors that made administering the program difficult and contributed to the inability to spend grant funds:

- Accounting System - The accounting system DCFS had was outdated and only tracked expenditures, not obligations or unliquidated obligations, thus making it difficult for program managers to effectively manage their budgets. However, DCFS officials stated that a new accounting system will be implemented July 1, 2001 that will greatly improve the State's ability to financially monitor its programs.
- Difficulty Contracting and Procuring Services – The process DCFS must follow to contract with providers is very time consuming. Additionally, at times, contractors are unable to spend all of their money. However, by the time it becomes apparent that a contractor is not going to be able to spend all its funds, it takes at least 3 months to amend the contract, deobligate the funds and reallocate them elsewhere. Since DCFS is only spending grant money in the second year of each grant, 3 months is a significant amount of time.
- Family Preservation Unit Disbanded - The entire Family Preservation Unit was disbanded in 1998. This had an impact on DCFS' ability to spend grant funds and it had an unobligated balance of over \$900,000 during that year.
- Contractual Arrangement - The DCFS had a contract for about \$1 million each year for in-home parenting services. This contract existed for a number of years and DCFS paid for these services with State general revenue funds when the services related to family preservation. This contractual arrangement comes to an

end this year and DCFS can begin using Promoting Safe and Stable Families grant funds to continue providing these services.

While the DCFS has had difficulties in the past within its Promoting Safe and Stable Families Program, it has taken several steps toward improving the situation. As mentioned earlier, a new accounting system was put in place in July 2001 which should improve the State's ability to financially monitor its programs. Additionally, as part of a Child and Family Services Review, DCFS did a self-assessment and identified areas in which additional services can be provided. The DCFS is also implementing a system of quality assurance to review and evaluate the quality of its child welfare services.

State Cost Match

A DCFS official explained that DCFS has an allocation process which splits expenditures between the State and Federal share. This official further explained that DCFS only draws down Federal funds in the amount allocated as the Federal share of expenditures. In reviewing the SF 269s, we noted that in the second year of the FY 1998 grant, Federal funds were drawn down each quarter and no State match was reported. The entire State match was reported in the final report, for the quarter ended September 30, 1999.

We selected two quarters to review the State match during this period. The quarter ending March 31, 1999 was selected because the SF 269 reported no State match and the quarter ending September 30, 1999 was selected because the SF 269 reported the entire State match for the year. We reviewed documentation provided by a DCFS official to support the State's match for these two quarters. The documentation provided support that the State match was actually met each quarter and supported the explanation that only the Federal share of expenditures is being drawn down. The information reported by DCFS on the SF 269s regarding the State match was incorrectly reported during each of the quarters for the second year of the FY 1998 grant. However, the information was correctly reported in the cumulative column on the final SF 269 for the period ending September 30, 1999.

Based on our understanding of the draw down process, our limited testing of the FY 1998 grant, and our review of the SF 269s, we were satisfied that DCFS met its required 25 percent State match for FYs 1994 through 1999.

Recommendation

The DCFS is taking steps toward improving its Promoting Safe and Stable Families Program. However, we recommend that DCFS: (1) work towards eliminating the practice of only spending funds in the second year of the 2-year grant period and (2) ensure accurate reporting on the SF 269 financial reports submitted to ACF.

Auditee Comments

In its response to our draft report, DCFS concurred with the recommendations in the draft report. See Appendix for a complete copy of the response.

Sincerely,

A handwritten signature in black ink that reads "Gordon L. Sato". The signature is written in a cursive style with a large initial 'G'.

GORDON L. SATO
Regional Inspector General
for Audit Services



Arkansas Department of Human Services
Division of Children and Family Services

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September 20, 2001

Gordon L. Sato
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Audit Services
1100 Commerce, Room 6B6
Dallas, Texas 75242

Common Identification Number: A-06-01-00068

Dear Mr. Sato:

The Arkansas Division of Children and Family Services (DCFS) concurs with the recommendations outlined in review CIN-A-06-01-00068.

DCFS will strive to accomplish those goals during this upcoming Federal Fiscal year and we look forward to our continued relationship and support from the Region VI office.

Sincerely,

Roy Kindie
by Pat Page
Roy Kindie
Director