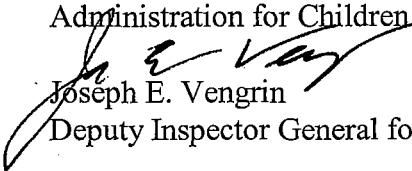




APR - 4 2006

**TO:** Joan E. Ohl  
Commissioner, Administration for Children, Youth and Families  
Administration for Children and Families

**FROM:**   
Joseph E. Vengrin  
Deputy Inspector General for Audit Services

**SUBJECT:** Audit of Costs Claimed for the Statewide Automated Child Welfare Information System in California, Santa Clara County, January 1, 1999, Through June 30, 2003 (A-09-04-00068)

Attached is an advance copy of our final report on costs claimed for the statewide automated child welfare information system (SACWIS) in California. We will issue this report to the California Department of Social Services within 5 business days.

The Administration for Children and Families (ACF) requested this audit. In response to this request, we performed audits of Santa Clara and Sacramento Counties. We selected these counties based on discussions with ACF program officials and the materiality of dollars claimed for reimbursement. This report contains findings for Santa Clara County (Santa Clara) only.

SACWIS is a comprehensive case management tool that supports social workers' foster care and adoption assistance case management practice. Reimbursement for SACWIS costs is available to a State under Title IV-E. In California, the Child Welfare Services Case Management System (CWS/CMS) is the federally approved SACWIS. The State and counties jointly developed CWS/CMS as an automated online case management system to allow child welfare workers to share and track information on child welfare service cases from initial contact through termination of services.

Our objective was to determine whether costs that Santa Clara claimed for Title IV-E reimbursement were allowable under Federal and State regulations.

During the period January 1, 1999, through June 30, 2003, Santa Clara claimed \$6,721,367 as CWS/CMS-related costs for reimbursement under Title IV-E. We found that \$572,927 was not allowable pursuant to Federal and State regulations, and we could not determine the allowability of the remaining \$6,148,440.

- Santa Clara claimed \$572,927 (\$286,464 Federal share) of unallowable costs that were not (1) related to the operation of CWS/CMS as required by 45 CFR § 1355.52, (2) submitted for State approval as required by ACF Action

Transmittal 93-3 and State Division 28 Regulations, or (3) adequately supported as required by Office of Management and Budget (OMB) Circular A-87.

- For the balance of \$6,148,440 (\$3,074,220 Federal share), Santa Clara claimed operating costs that were not allocated to all child welfare service system applications shared on the county's network as required by Federal regulations (45 CFR § 1355.52) and OMB Circular A-87. These costs related not only to the operation of CWS/CMS but also to other system applications and activities within Santa Clara. Until Santa Clara performs an allocation, we are unable to determine how much of the \$3,074,220 Federal share was properly claimed.

These costs were improperly claimed because Santa Clara did not have adequate internal controls to ensure that (1) only CWS/CMS-related operating costs were claimed for Federal reimbursement under Title IV-E, (2) all requests for CWS/CMS-related acquisitions of data processing equipment and services were submitted to the State for prior approval, (3) all costs claimed were adequately supported, and (4) operating costs were properly allocated to all child welfare service system applications or activities shared on the county network.

We recommend that the State:

- refund the \$286,464 Federal share of the \$572,927 of unallowable costs claimed;
- work with ACF to determine what portion of the \$6,148,440 (\$3,074,220 Federal share) is allowable for reimbursement under Title IV-E and refund the Federal share of any unallowable costs identified;
- review costs that Santa Clara claimed for reimbursement under Title IV-E subsequent to the audit period for issues similar to those identified and refund the Federal share of any unallowable costs identified; and
- instruct Santa Clara to strengthen internal controls to ensure that costs claimed are (1) related to the operation of CWS/CMS and allowable under Title IV-E, (2) submitted to the State for prior approval, (3) adequately supported, and (4) properly allocated to all child welfare service system applications or activities shared on the county network.

In written comments on the draft report, the State agreed to refund \$279,042 (Federal share). However, the State maintained that \$14,844 of the \$572,927 of unallowable costs did not require prior State approval. The State did not concur with the recommendation regarding the \$6,148,440 of costs not allocated to all child welfare service system applications or activities. Nevertheless, the State said that it was working with Santa Clara to establish an appropriate methodology to allocate these costs and would share the information with ACF to resolve this finding. The State agreed with the remaining two recommendations.

After considering the State's comments, we modified the final report as appropriate. Regarding the \$14,844 of unallowable costs, State Division 28 Regulations require prior State approval for any project that exceeds the \$10,000 threshold. Neither the State nor Santa Clara could demonstrate that the costs making up this amount related to individual projects that were below the \$10,000 threshold.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Joseph J. Green, Assistant Inspector General for Grants and Internal Activities, at (202) 619-1175, or Lori A. Ahlstrand, Regional Inspector General for Audit Services, Region IX, at (415) 437-8360. Please refer to report number A-09-04-00068.

Attachment



APR - 7 2006

Region IX  
Office of Audit Services  
50 United Nations Plaza, Room 171  
San Francisco, CA 94102

Report Number: A-09-04-00068

Mr. Dennis J. Boyle  
Director  
California Department of Social Services  
744 P Street, MS 17-11  
Sacramento, California 95814

Dear Mr. Boyle:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Audit of Costs Claimed for the Statewide Automated Child Welfare Information System in California, Santa Clara County, January 1, 1999, Through June 30, 2003." A copy of this report will be forwarded to the HHS action official noted on the next 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 the HHS action 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.

In accordance with the principles of the Freedom of Information Act (5 U.S.C. § 552, as amended by Public Law 104-231), OIG reports issued to the Department's grantees and contractors are made available to the public to the extent the information is not subject to exemptions in the Act that the Department chooses to exercise (see 45 CFR part 5).

Please refer to report number A-09-04-00068 in all correspondence.

Sincerely,

Lori A. Ahlstrand  
Regional Inspector General  
for Audit Services

Enclosures

**Direct Reply to HHS Action Official:**

Nash Simonet  
Director, Division of Financial Integrity  
Room 702, Aerospace Building  
370 L'Enfant Promenade SW.  
Washington, DC 20447

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**AUDIT OF COSTS  
CLAIMED FOR THE  
STATEWIDE AUTOMATED CHILD  
WELFARE INFORMATION SYSTEM  
IN CALIFORNIA**

**SANTA CLARA COUNTY  
JANUARY 1, 1999, THROUGH  
JUNE 30, 2003**



**Daniel R. Levinson  
Inspector General**

**APRIL 2006  
A-09-04-00068**

# ***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:

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

The 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. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

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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. OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within HHS. OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops compliance program guidances, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.

# *Notices*

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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 the information 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 this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.





## **EXECUTIVE SUMMARY**

### **BACKGROUND**

The Administration for Children and Families (ACF) requested that we review the statewide automated child welfare information system (SACWIS) in California. In response to this request, we performed audits of Santa Clara and Sacramento Counties. We selected these counties based on discussions with ACF and the materiality of dollars claimed for reimbursement under Title IV-E. This report contains findings for Santa Clara County (Santa Clara) only.

SACWIS is a comprehensive case management tool that supports social workers' foster care and adoption assistance case management practice. By law, SACWIS is required to support the reporting of data to the Adoption and Foster Care Analysis Reporting System and the National Child Abuse and Neglect Data System. As part of the Omnibus Budget Reconciliation Act of 1993, Congress provided Federal funding for SACWIS under Title IV-E.

In California, the Child Welfare Services Case Management System (CWS/CMS) is the federally approved SACWIS. The two State organizations that oversee the operation of CWS/CMS are the California Department of Social Services and the Health and Human Services Data Center (referred to collectively in this report as the State). The State and counties jointly developed CWS/CMS as an automated online case management system to allow child welfare workers to share and track information on child welfare service cases from initial contact through termination of services. Initial implementation of CWS/CMS began in 1995 with pilot programs in three counties: Glenn, Los Angeles, and Santa Clara. Statewide implementation was completed by December 1997.

California's child welfare service programs are supervised by the State and administered by the 58 counties. Each quarter, each county submits operating costs for CWS/CMS-related activities to the State. Operating costs include the use of supplies, software, hardware, and personnel directly associated with the functioning of the automated system. The State consolidates these costs and submits a claim under Title IV-E to the Federal Government for reimbursement at the 50-percent rate.

### **OBJECTIVE**

Our objective was to determine whether costs that Santa Clara claimed for Title IV-E reimbursement were allowable under Federal and State regulations.

### **SUMMARY OF FINDINGS**

During the period January 1, 1999, through June 30, 2003, Santa Clara claimed \$6,721,367 as CWS/CMS-related costs for reimbursement under Title IV-E. We found that \$572,927 was not allowable pursuant to Federal and State regulations, and we could not determine the allowability of the remaining \$6,148,440.

- Santa Clara claimed \$572,927 (\$286,464 Federal share) of unallowable costs that were not (1) related to the operation of CWS/CMS as required by 45 CFR § 1355.52, (2) submitted for State approval as required by ACF Action Transmittal 93-3 and State Division 28 Regulations, or (3) adequately supported as required by Office of Management and Budget (OMB) Circular A-87.<sup>1</sup>
- For the balance of \$6,148,440 (\$3,074,220 Federal share), Santa Clara claimed operating costs that were not allocated to all child welfare service system applications shared on the county's network as required by Federal regulations (45 CFR § 1355.52) and OMB Circular A-87. These costs related not only to the operation of CWS/CMS but also to other system applications and activities within Santa Clara. Until Santa Clara performs an allocation, we are unable to determine how much of the \$3,074,220 Federal share was properly claimed.

These costs were improperly claimed because Santa Clara did not have adequate internal controls to ensure that (1) only CWS/CMS-related operating costs were claimed for Federal reimbursement under Title IV-E, (2) all requests for CWS/CMS-related acquisitions of data processing equipment and services were submitted to the State for prior approval, (3) all costs claimed were adequately supported, and (4) operating costs were properly allocated to all child welfare service system applications or activities shared on the county network.

## RECOMMENDATIONS

We recommend that the State:

- refund the \$286,464 Federal share of the \$572,927 of unallowable costs claimed;
- work with ACF to determine what portion of the \$6,148,440 (\$3,074,220 Federal share) is allowable for reimbursement under Title IV-E and refund the Federal share of any unallowable costs identified;
- review costs that Santa Clara claimed for reimbursement under Title IV-E subsequent to the audit period for issues similar to those identified and refund the Federal share of any unallowable costs identified; and
- instruct Santa Clara to strengthen internal controls to ensure that costs claimed are (1) related to the operation of CWS/CMS and allowable under Title IV-E, (2) submitted to the State for prior approval, (3) adequately supported, and (4) properly allocated to all child welfare service system applications or activities shared on the county network.

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<sup>1</sup>ACF action transmittals outline actions grantees are expected or required to take and clarify program regulations and requirements. The OMB Circular A-87 establishes cost principles for Federal grants to State, local, and Indian tribal governments.

## **STATE'S COMMENTS**

In written comments on the draft report, the State agreed to refund \$279,042 (Federal share). However, the State maintained that \$14,844 of the \$572,927 of unallowable costs did not require prior State approval. The State did not concur with the recommendation regarding the \$6,148,440 of costs not allocated to all child welfare service system applications or activities. Nevertheless, the State said that it was working with Santa Clara to establish an appropriate methodology to allocate these costs and would share the information with ACF to resolve this finding. The State agreed with the remaining two recommendations.

The full text of the State's comments is included as an appendix to this report.

## **OFFICE OF INSPECTOR GENERAL'S RESPONSE**

After considering the State's comments, we modified the final report as appropriate. Regarding the \$14,844 of unallowable costs, State Division 28 Regulations require prior State approval for any project that exceeds the \$10,000 threshold. Neither the State nor Santa Clara could demonstrate that the costs making up this amount related to individual projects that were below the \$10,000 threshold.

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**STATE’S COMMENTS**

## **INTRODUCTION**

### **BACKGROUND**

The Administration for Children and Families (ACF) requested that we review the statewide automated child welfare information system (SACWIS) in California. In response to this request, we performed audits of Santa Clara and Sacramento Counties. We selected these counties based on discussions with ACF and the materiality of dollars claimed for reimbursement under Title IV-E. This report contains findings for Santa Clara County (Santa Clara) only.

SACWIS is a comprehensive case management tool that supports social workers' foster care and adoption assistance case management practice. Each State is encouraged to add complementary functionality to its SACWIS, such as support for child protective and family preservation services. In addition, each State has the option of incorporating other programs into a SACWIS, such as Temporary Assistance for Needy Families emergency assistance, juvenile justice, and child care. By law, SACWIS is required to support the reporting of data to the Adoption and Foster Care Analysis Reporting System and the National Child Abuse and Neglect Data System.

In California, the Child Welfare Services Case Management System (CWS/CMS) is the federally approved SACWIS. Two State organizations oversee the operation of CWS/CMS: the California Department of Social Services and the Health and Human Services Agency Data Center (referred to collectively in this report as the State). The Department of Social Services has overall responsibility for CWS/CMS and provides regulatory oversight and administrative support. The Health and Human Services Agency Data Center has information technology responsibilities for reviewing and approving CWS/CMS-related equipment acquisitions and services.

### **Foster Care and Adoption Assistance Data Collection System**

In 1986, Congress amended Title IV-E of the Social Security Act by adding section 479, which required the Federal Government to institute a foster care and adoption assistance data collection system.

### **Statewide Automated System**

As part of the Omnibus Budget Reconciliation Act (OBRA) of 1993 and Personal Responsibility and Work Opportunity Reconciliation Act, Congress provided Federal funding for SACWIS under Title IV-E. The legislation provided each State with the opportunity to receive Federal reimbursement at an enhanced rate of 75 percent to plan, design, develop, and implement a SACWIS. The enhanced rate was available for projects in development during the period October 1, 1993, through September 30, 1997, and was reduced to 50 percent thereafter. After a system became operational, Federal reimbursement under Title IV-E was at the 50-percent rate. Section 474 of the Social Security Act also provided that Title IV-E would absorb all system costs for foster care and adopted children without regard to their Federal eligibility.

## **California Statewide Automated System**

In 1989, California enacted Senate Bill 370, which required a single statewide CWS/CMS to be implemented by July 1, 1993. In 1993, ACF approved the State's request for enhanced Federal funding under the provisions of OBRA. The State and counties jointly developed CWS/CMS as an automated online case management system to allow child welfare workers to share and track information on child welfare service cases from initial contact through termination of services. The primary objective of CWS/CMS is to manage all child welfare service programs; assist in providing adequate services for children at risk of abuse, neglect, and exploitation; and meet the objectives that Senate Bill 370 mandated.

In 1995, the State began pilot programs for CWS/CMS in three counties: Glenn, Los Angeles, and Santa Clara. Statewide implementation was completed by December 1997.

## **Administration of California's Statewide Automated System**

California's child welfare service programs are supervised by the State and administered by the 58 counties. Each county organizes and operates its own programs based on local needs but must comply with State and Federal regulations.

Allowable CWS/CMS-related costs may be claimed under Title IV-E. Each quarter, each county submits operating costs for CWS/CMS-related activities to the State. Operating costs include the use of supplies, software, hardware, and personnel directly associated with the functioning of the automated system. The State consolidates these costs and submits a claim under Title IV-E to the Federal Government for reimbursement at the 50-percent rate.

## **Santa Clara County**

Before CWS/CMS implementation, counties had the option to operate a system with either a coexistent or dedicated status. A county with a coexistent status shares system applications, including CWS/CMS, within the same operating environment. A county with a dedicated status limits the operating environment to the CWS/CMS application.

In March 1996, Santa Clara implemented CWS/CMS. Santa Clara chose a coexistent status and integrated the CWS/CMS application into its operating environment with other child welfare service system applications.

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

### **Objective**

Our objective was to determine whether costs that Santa Clara claimed for Title IV-E reimbursement were allowable under Federal and State regulations.

### **Scope**

Our audit period was January 1, 1999, through June 30, 2003. For this period, Santa Clara claimed \$6,721,367 as CWS/CMS-related operating costs for reimbursement under Title IV-E.

We reviewed data processing costs that Santa Clara claimed to determine whether the costs were related to the operation of CWS/CMS. We limited our review of internal controls to the procedures that the State and Santa Clara used to approve, allocate, and claim costs for reimbursement under Title IV-E. Meeting the audit objective did not require a complete understanding or assessment of the internal controls of either the State or Santa Clara. We conducted fieldwork at the ACF office in Washington, DC, State offices in Sacramento, CA, and the Santa Clara County office in San Jose, CA.

## **Methodology**

To accomplish our objective, we:

- reviewed Federal and State regulations, policies, and procedures pertaining to reimbursement of CWS/CMS-related operating costs;
- interviewed ACF, State, and Santa Clara officials;
- obtained an understanding of project and fiscal monitoring of CWS/CMS-related activities at the State and Santa Clara;
- obtained an understanding of the process that the State used to claim Federal reimbursement for CWS/CMS-related operating costs at Santa Clara;
- reviewed Santa Clara's policies and procedures for claiming CWS/CMS-related operating costs;
- reviewed Santa Clara's requests for CWS/CMS-related acquisitions of data processing equipment and services;
- traced and reconciled Santa Clara's claimed costs for reimbursement under Title IV-E to supporting documentation;
- analyzed documentation supporting CWS/CMS-related operating costs that Santa Clara claimed; and
- discussed our findings and recommendations with ACF, Santa Clara, and State officials.

We performed the audit in accordance with generally accepted government auditing standards.

## **FINDINGS AND RECOMMENDATIONS**

During the period January 1, 1999, through June 30, 2003, Santa Clara claimed \$6,721,367 as CWS/CMS-related costs for reimbursement under Title IV-E. We found that \$572,927 was not

allowable under Federal and State regulations, and we could not determine the allowability of the remaining \$6,148,440.

- Santa Clara claimed \$572,927 (\$286,464 Federal share) of unallowable costs that were not (1) related to the operation of CWS/CMS as required by 45 CFR § 1355.52, (2) submitted for State approval as required by ACF Action Transmittal 93-3 and State Division 28 Regulations, or (3) adequately supported as required by Office of Management and Budget (OMB) Circular A-87.<sup>1</sup>
- For the balance of \$6,148,440 (\$3,074,220 Federal share), Santa Clara claimed operating costs that were not allocated to all child welfare service system applications shared on the county's network as required by Federal regulations (45 CFR § 1355.52) and OMB Circular A-87. These costs related not only to the operation of CWS/CMS but also to other system applications and activities within Santa Clara. Until Santa Clara performs an allocation, we are unable to determine how much of the \$3,074,220 Federal share was properly claimed.

These costs were improperly claimed because Santa Clara did not have adequate internal controls to ensure that (1) only CWS/CMS-related operating costs were claimed for Federal reimbursement under Title IV-E, (2) all requests for CWS/CMS-related acquisitions of data processing equipment and services were submitted to the State for prior approval, (3) all costs claimed were adequately supported, and (4) operating costs were properly allocated to all child welfare service system applications or activities shared on the county network.

## **COSTS NOT ALLOWABLE**

Santa Clara claimed \$572,927 (\$286,464 Federal share) of costs for reimbursement under Title IV-E that were not allowable pursuant to Federal and State regulations. These unallowable costs consisted of (1) \$361,419 that was not related to the operation of CWS/CMS, (2) \$171,274 that did not receive the required prior State approval, and (3) \$40,234 that was not adequately supported.

### **Costs Not Related to the Operation of the Child Welfare Services Case Management System**

Pursuant to 45 CFR § 1355.52(c), "Expenditures for the operation of the automated information system . . . are eligible for [Federal reimbursement] at the 50 percent matching rate." Also, 45 CFR § 95.605 clarifies that "Operation includes the use of supplies, software, hardware and personnel directly associated with the functioning of the [automated] system."

Santa Clara claimed \$361,419 of direct costs that did not meet the eligibility requirement for reimbursement under Title IV-E because these costs were not related to the operation of CWS/CMS. Of the \$361,419 claimed:

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<sup>1</sup>ACF action transmittals outline actions that grantees are expected or required to take and clarify program regulations and requirements. The OMB Circular A-87 establishes cost principles for Federal grants to State, local, and Indian tribal governments.



- \$127,218 was for data processing equipment, computer processing, and workgroup-related travel costs not related to the operation of CWS/CMS;
- \$123,849 was for network connection costs to sites within the county that did not conduct child welfare service activities;
- \$37,158 was for acquisitions of books, staff travel, and salaries that were not related to child welfare service programs;
- \$29,000 was for payments to vendors for contractual services that supported other child welfare service system applications or activities; and
- \$44,194 was for duplicate costs claimed for data processing equipment acquisitions and county network connections.

These costs were improperly claimed because Santa Clara did not have adequate internal controls to ensure that only CWS/CMS-related operating costs were claimed for Federal reimbursement under Title IV-E.

### **Costs Not Submitted for State Approval**

In Action Transmittal 93-3, dated January 3, 1993, ACF clarified States' responsibilities for monitoring and approving project costs for data processing acquisitions: "All acquisitions of [data processing] equipment or services . . . undertaken in support of Federally funded public assistance and social services programs . . . must be approved within the State agency." Additionally, State Division 28 Regulations, chapter 28-105, require "prior review and written approval from [the State] . . ." for these acquisitions. [Emphasis added.]

Santa Clara did not always follow State regulations to submit all requests for CWS/CMS-related acquisitions of data processing equipment and services to the State for approval. As a result, Santa Clara claimed \$171,274 of costs that were not submitted for approval and were therefore unallowable.

These costs were improperly claimed because Santa Clara officials believed that the State regulations did not apply to the costs claimed and that prior approval was unnecessary.

### **Costs Not Adequately Supported**

The OMB Circular A-87, Attachment A, section C, "Basic Guidelines," states that costs must be adequately documented to be allowable for reimbursement under Federal awards.

Santa Clara could not provide documentation to support that \$40,234 claimed was related to the operation of CWS/CMS. Based on accounting records, the \$40,234 represented costs related to county network connections, data processing equipment acquisitions, computer processing services, and miscellaneous travel. However, we were not able to trace the costs back to the supporting documentation to determine whether the costs were related to the operation of CWS/CMS. According to Santa Clara officials, the documentation could not be found.

## **COSTS NOT ALLOCATED TO ALL CHILD WELFARE SERVICE SYSTEM APPLICATIONS OR ACTIVITIES**

### **Federal Regulations**

Pursuant to 45 CFR § 1355.52(c), “Expenditures for the operation of the automated information system . . . are eligible for [Federal reimbursement] at the 50 percent matching rate.” Also, 45 CFR § 95.605 clarifies that “Operation includes the use of supplies, software, hardware and personnel directly associated with the functioning of the [automated] system.”

Additionally, OMB Circular A-87, Attachment A, section C, “Basic Guidelines,” states that “A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.”

### **Unallocated Costs**

Santa Clara claimed \$6,148,440 (\$3,074,220 Federal share) as costs related to the operation of CWS/CMS for reimbursement under Title IV-E. However, we found that these costs related not only to the operation of CWS/CMS but also to other system applications and activities within Santa Clara. Based on supporting documentation reviewed, Santa Clara did not allocate these costs to the other system applications that benefited as required by Federal regulations. Until Santa Clara performs an allocation, we are unable to determine how much of the \$3,074,220 Federal share was properly claimed.

Of the \$6,148,440 claimed, \$5,939,023 was for salaries and related expenses for information technology staff that provided support for both CWS/CMS and other county system applications. The balance was for network connection costs (\$175,355) and data processing equipment acquisitions (\$34,062) that were used by both CWS/CMS and other system applications that were not related to the operation of CWS/CMS.

#### *Salaries and Related Expenses*

The \$5,939,023 in salaries and related expenses represented the cost of all information technology staff assigned to the child welfare services program. Santa Clara allocated the staff costs based on job assignment. According to Santa Clara officials, because the staff were assigned to the child welfare services program, they conducted activities that were related to the operation of CWS/CMS. However, some of these staff also conducted activities that were not related to the operation of CWS/CMS. For example, a program manager was assigned to the child welfare services program, and her salary was claimed entirely as a CWS/CMS-related operating cost. Based on our review of travel costs claimed, we found that she had information technology responsibilities that supported other system applications or activities. Therefore, her salary should have been allocated accordingly.

#### *Network Connections*

The \$175,355 represented the costs of network connection costs to remote sites conducting child welfare service activities. According to Santa Clara officials, these costs should be eligible for

reimbursement under Title IV-E. However, all child welfare service system applications and activities shared the county network. Therefore, these operating costs should have been allocated to these benefiting system applications or activities.

#### *Data Processing Equipment Acquisitions*

The \$34,062 represented the costs of data processing equipment acquisitions for the county network; these costs received State approval. According to the approval letter, the equipment will be used to access CWS/CMS. However, based on Santa Clara's request, the equipment was also to be used to access other system applications on the county network; therefore, these costs should have been allocated to the benefiting system applications or activities.

#### **Lack of Adequate Procedures**

These costs were improperly claimed because Santa Clara did not have adequate procedures to properly allocate operating costs to all system applications or activities shared on the county network. Because of Santa Clara's inadequate internal controls, the allowability of the \$6,148,440 could not be determined.

#### **RECOMMENDATIONS**

We recommend that the State:

- refund the \$286,464 Federal share of the \$572,927 of unallowable costs claimed;
- work with ACF to determine what portion of the \$6,148,440 (\$3,074,220 Federal share) is allowable for reimbursement under Title IV-E and refund the Federal share of any unallowable costs identified;
- review costs that Santa Clara claimed for reimbursement under Title IV-E subsequent to the audit period for issues similar to those identified and refund the Federal share of any unallowable costs identified; and
- instruct Santa Clara to strengthen internal controls to ensure that costs claimed are (1) related to the operation of CWS/CMS and allowable under Title IV-E, (2) submitted to the State for prior approval, (3) adequately supported, and (4) properly allocated to all child welfare service system applications or activities shared on the county network.

#### **STATE'S COMMENTS**

In written comments on the draft report, the State responded as follows:

- Regarding unallowable costs, the State agreed that \$558,083 was unallowable and agreed to refund \$279,042 (Federal share). However, it disagreed that the remaining \$14,844 was unallowable, asserting that this amount did not require

prior State approval because the individual costs making up this amount were below the \$10,000 threshold.

- Although the State did not concur with the recommendation regarding the \$6,148,440 of costs not allocated to all child welfare service system applications or activities, the State said that it was working with Santa Clara to establish an appropriate methodology. The State and Santa Clara believed it was unreasonable to disallow all the costs associated with information technology staff assigned to the Child Welfare Services program. Once the State and Santa Clara establish an allocation methodology, the State will share the information with ACF and resolve this finding accordingly.
- The State agreed with the remaining recommendations to review costs claimed subsequent to the audit period and to strengthen internal controls.

The full text of the State's comments is included as an appendix to this report.

#### **OFFICE OF INSPECTOR GENERAL'S RESPONSE**

After considering the State's comments, we modified the final report as appropriate. Regarding the \$14,844 of unallowable costs, State Division 28 Regulations require prior State approval for any project that exceeds the \$10,000 threshold. Neither the State nor Santa Clara could demonstrate that the costs making up this amount related to individual projects that were below the \$10,000 threshold.

Regarding the \$6,148,440 of costs not allocated to all child welfare service system applications or activities, we did not recommend disallowance of these costs. However, because we could not determine the amount allowable for reimbursement under Title IV-E, we recommended that the State work with ACF to determine the allowable amount and refund the Federal share of any unallowable costs identified.

# **APPENDIX**

STATE OF CALIFORNIA—HEALTH AND HUMAN SERVICES AGENCY

ARNOLD SCHWARZENEGGER, Governor

**DEPARTMENT OF SOCIAL SERVICES**

744 P Street, Sacramento, CA 95814



December 1, 2005

Ms. Lori Ahlstrand  
Regional Inspector General for Audit Services  
U.S. Department of Health & Human Services  
Region IX  
50 United Nations Plaza, Room 171  
San Francisco, California 94102

Dear Ms. Ahlstrand:

SUBJECT: Audit of Costs Claimed for the Statewide Automated Child Welfare  
Information System in California (CIN A-09-04-00068)

This letter is in response to your September 26, 2005 letter which provided us with the draft report entitled "Audit of Costs Claimed for the Statewide Automated Child Welfare Information System in California" (CIN A-09-04-00068) for Santa Clara County. Enclosed are the California Department of Social Services responses to the findings.

If you have any questions, please contact me at (916) 657-2598 or Gloria Merk, Deputy Director of the Administration Division, at (916) 657-3266.

Sincerely,

A handwritten signature in cursive script that reads "Robert Sertich".

ROBERT SERTICH  
Acting Director

Enclosure(s)

**SANTA CLARA COUNTY  
FINDINGS, RECOMMENDATIONS AND RESPONSES  
FOR AUDIT PERIOD JANUARY 1, 1999 THROUGH JUNE 30, 2003**

During the period January 1, 1999 through June 30, 2003, Santa Clara claimed \$6,721,367 as CWS/CMS-related costs for reimbursement under Title IV-E. We found that \$572,927 was not allowable under Federal and State regulations, and we could not determine the allowability of the remaining \$6,148,440.

- Santa Clara claimed \$572,927 (\$286,464 Federal share) of allowable costs that were not (1) related to the operation of CWS/CMS as required by 45 CFR § 1355.52, (2) submitted for State approval as required by ACF Action Transmittal 93-3 and State Division 28 Regulations, or (3) adequately supported as required by Office of Management and Budget (OMB) Circular A-87.
- For the balance of \$6,148,440 (\$3,074,220 Federal share), Santa Clara claimed operating costs that were not allocated to all child welfare services system applications shared on the county's network as required by Federal regulations (45 CFR § 1355.52) and OMB Circular A-87. These costs did not relate to only the operation of CWS/CMS but also other system applications and activities within Santa Clara. Until Santa Clara performs an allocation, we are unable to determine how much of the \$3,074,220 Federal share was properly claimed.

These costs were improperly claimed because Santa Clara did not have adequate internal controls to ensure that (1) only CWS/CMS-related operating costs were claimed for Federal reimbursement under Title IV-E, (2) all requests for CWS/CMS-related acquisitions of data processing equipment and services were submitted to the State for prior approval, (3) all costs claimed were adequately supported, and (4) operating costs were properly allocated to all child welfare service system applications or activities shared on the county network.

**COST NOT ALLOWABLE**

Santa Clara claimed \$572,927 (\$286,464 Federal share) of costs for reimbursement under Title IV-E that were not allowable pursuant to Federal and State regulations. These unallowable costs consisted of (1) \$361,419 that was not related to the operation of CWS/CMS, (2) \$171,274 that did not receive the required prior State approval and (3) \$40,234 that was not adequately supported.

**Cost Not Related to the Operation of CWS/CMS**

Pursuant to 45 CFR § 1355.52(c), "Expenditures for the operation of the automated information system...are eligible for [Federal reimbursement] at the 50 percent matching rate." Also, 45 CFR § 95.605 clarified that "Operation includes the use of supplies, software, hardware and personnel directly associated with the functioning of the [automated] system."

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Santa Clara claimed \$361,419 of direct costs that did not meet the eligibility requirement for reimbursement under Title IV-E because these costs were not related to the operation of CWS/CMS. Of the \$361,419 claimed:

- \$127,218 was for data processing equipment, computer processing, and workgroup-related travel costs not related to the operation of CWS/CMS;
- \$123,849 was for network connection cost to sites within the county that did not conduct child welfare service activities;
- \$37,158 was for acquisitions of books, staff travel, and salaries that were not related to child welfare service program;
- \$29,000 was for payments to vendors for contractual services that supported other child welfare service system applications or activities; and
- \$44,194 was for duplicate costs claimed for data processing equipment acquisitions and county network connections.

These costs were improperly claimed because Santa Clara did not have adequate internal controls to ensure that only CWS/CMS-related operating costs were claimed for Federal reimbursement under Title IV-E.

**RECOMMENDATION:**

We recommend that the State refund the \$361,419 (\$180,710 Federal share) of unallowable cost claimed.

**CALIFORNIA DEPARTMENT OF SOCIAL SERVICE (CDSS) RESPONSE:**

CDSS concurs with the finding and recommendation as indicated above for the refund of \$361,419 (\$180,710 Federal share).

**Cost Not Submitted for State Approval**

In Action Transmittal 93-3, dated January 3, 1993, ACF clarified States' responsibilities for monitoring and approving project costs for data processing acquisitions: "All acquisition of [data processing] equipment or services...undertaken in support of federally funded public assistance and social services programs...must be approved with the State agency." Additionally, State Division 28 Regulations, chapter 28-105 require "prior review and written approval from [the State]..." for these acquisitions. [Emphases added.]



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Santa Clara did not always follow State regulations to submit all requests for CWS/CMS-related acquisitions of data processing equipment and services to the State for approval. As a result, Santa Clara claimed \$171,274 of costs that were not submitted for approval and were therefore unallowable.

These costs were improperly claimed because Santa Clara officials believed that the State regulations did not apply to the costs claimed and that prior approval was unnecessary.

**RECOMMENDATION:**

We recommend that the State refund the \$171,274 (\$85,637 Federal share) of unallowable cost claimed.

**CDSS RESPONSE:**

In accordance with State regulation, Division 28, Section 23-105(d)(3) "The maximum amount the county or joint maintenance group may claim without prior approval from SDSS for any non-mandated project to enhance or modify existing automated system shall be \$10,000 per project." The working papers provided by HHS-OIG auditors (Summary of Costs – No State Prior Approval) include disallowed amounts under \$10,000 which amounts to \$14,844.30. Accordingly, the unallowable cost claim should be adjusted to \$156,429.38 (\$78,215 Federal share) for the audit period.

**Cost Not Adequately Supported**

The OMB Circular A-87, Attachment A, section C, "Basic Guidelines," states that cost must be adequately documented to be allowable for reimbursement under Federal awards.

Santa Clara could not provide documentation to support that \$40,234 claimed was related to the operation of CWS/CMS. Based on accounting records, the \$40,234 represented costs related to county network connections, data processing equipment acquisitions, computer processing services, and miscellaneous travel. However, we were not able to trace the costs back to the supporting documentation to determine whether the costs were related to the operation of CWS/CMS. According to Santa Clara officials, the documentation could not be found.

**RECOMMENDATION:**

We recommend that the State refund the \$40,234 (\$20,117 Federal share) of unallowable cost claimed.

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**CDSS RESPONSE:**

CDSS concurs with the finding and recommendation as indicated above for the refund of \$40,234 (\$20,117 Federal share).

**COSTS NOT ALLOCATED TO ALL CHILD WELFARE SERVICE SYSTEM APPLICATIONS OR ACTIVITIES**

**Federal Regulations**

Pursuant to 45 CFR § 1355.52(c), "Expenditures for the operation of the automated information system...are eligible for [Federal reimbursement] at the 50 percent matching rate." Also, 45 CFR § 95.605 clarifies that "Operation includes the use of supplies, software, hardware and personnel directly associated with the functioning of the [automated] system."

Additionally, OMB Circular A-87, Attachment A, section C, "Basic Guidelines," states that "A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received."

**Unallocated Costs**

Santa Clara claimed \$6,148,440 (\$3,074,220 Federal share) as costs related to the operation of CWS/CMS for reimbursement under Title IV-E. However, we found that these costs did not relate to only the operation of CWS/CMS but also other system applications and activities within Santa Clara. Based on supporting documentation reviewed, Santa Clara did not allocate these costs to the other system applications that benefited as required by Federal regulations. Until Santa Clara performs an allocation, we are unable to determine how much of the \$3,074,220 Federal share was properly claimed.

Of the \$6,148,440 claimed, \$5,939,023 was for salaries and related expenses for information technology staff that provided support for both CWS/CMS and other county system applications. The balance was for network connection cost (\$175,355) and data processing equipment acquisitions (\$34,062) that were used by both CWS/CMS and other system applications that were not related to the operation of CWS/CMS.

**Salaries and Related Expenses**

The \$5,939,023 in salaries and related expenses represented the cost of all information technology staff assigned to the child welfare services program. Santa Clara allocated the staff cost based on job assignment. According to Santa Clara officials, because the staff were assigned to the child welfare services program, they conducted activities that were related to the operation of CWS/CMS. However, some of these staff also

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conducted activities that were not related to the operation of CWS/CMS. For example, a program manager was assigned to the child welfare services program, and her salary was claimed entirely as a CWS/CMS-related operating cost. Based on our review of travel cost claimed, we found that she had information technology responsibilities that supported other system applications and activities. Therefore, her salary should have been allocated accordingly.

**RECOMMENDATION:**

We recommend that the State work with ACF to determine what portion of the \$5,939,023 (\$2,969,511 Federal share) is allowable for reimbursement under Title IV-E and refund the Federal share of any unallowable costs identified.

**CDSS RESPONSE:**

CDSS does not concur with this finding. CDSS and Santa Clara County believe it to be unreasonable to completely disallow all of the cost associated with information technology staff assigned to the Child Welfare Services program. CDSS and Santa Clara County are working together to establish an allocation methodology based on actual time cards. The time cards are certified by supervisors' and contain a breakdown of cost codes associated with CWS/CMS. Once an allocation methodology has been established, the State will share the information with ACF (Administration for Children and Families) and resolve this finding appropriately.

**Network Connections**

The \$175,355 represented the costs of network connection costs to remote sites conducting child welfare service activities. According to Santa Clara officials, these costs should be eligible for reimbursement under Title IV-E. However, all child welfare service system applications and activities shared the county network. Therefore, these operating costs should have been allocated to these benefiting system applications or activities.

**RECOMMENDATION:**

We recommend that the State work with ACF to determine what portion of the \$175,355 (\$87,678 Federal share) is allowable for reimbursement under Title IV-E and refund the Federal share of any unallowable costs identified.

**CDSS RESPONSE:**

CDSS does not concur with this finding. CDSS and Santa Clara County are working on establishing an allocation methodology based on the staff usage of systems related to the Child Welfare Services program.

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**Data Processing Equipment Acquisitions**

The \$34,062 represented the cost of data processing equipment acquisitions for the county network; these cost received State approval. According to the approval letter, the equipment will be used to access CWS/CMS. However, based on Santa Clara's request, the equipment was also to be used to access other system applications on the county network; therefore, these costs should have been allocated to the benefiting system applications or activities.

**RECOMMENDATION:**

We recommend that the State work with ACF to determine what portion of the \$34,062 (\$17,031 Federal share) is allowable for reimbursement under Title IV-E and refund the Federal share of any unallowable costs identified.

**CDSS RESPONSE:**

CDSS does not concur with this finding. CDSS and Santa Clara County are working on establishing an allocation methodology based on staff usage related to the Child Welfare Services program.

**Lack of Adequate Procedures**

These costs were improperly claimed because Santa Clara did not have adequate procedures to properly allocate operating costs to all system applications or activities shared on the county network. Because of Santa Clara's inadequate internal controls, the allowability of \$6,148,440 could not be determined.

**RECOMMENDATION:**

We recommend that the State review costs that Santa Clara claimed for reimbursement under Title IV-E subsequent to the audit period for issues similar to those identified and refund the Federal share of any unallowable cost identified and instruct Santa Clara to strengthen internal controls to ensure that costs claimed are (1) related to the operation of CWS/CMS and allowable under Title IV-E, (2) submitted to the State for prior approval, (3) adequately supported, and (4) properly allocated to all children welfare service system applications or activities shared on the county network.

**CDSS RESPONSE:**

CDSS concurs with this finding.