



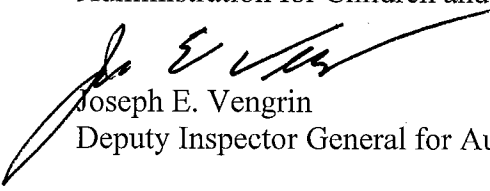
DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

NOV - 7 2007

TO: Joan Ohl
Commissioner
Administration on Children, Youth, and Families
Administration for Children and Families

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

SUBJECT: Title IV-E Foster Care Administrative Costs Claimed by Virginia on Behalf of Fairfax County From April 2002 Through March 2004 (A-03-04-00585)

Attached is an advance copy of our final report on Title IV-E foster care administrative costs claimed by Virginia on behalf of Fairfax County from April 2002 through March 2004. We will issue this report to the Virginia Department of Social Services (the State Agency) within 5 business days. The Administration for Children and Families (ACF) requested that we conduct this review.

The Federal Government, through ACF, provides funding at a 50-percent rate for State administrative costs, including administrative costs for determining whether a child is a candidate for foster care. A foster care candidate is a child who is at risk of removal from his or her home, as evidenced by the State agency's pursuing the child's removal or making reasonable efforts to prevent removal.

Our objective was to determine whether the State agency claimed Title IV-E administrative costs for foster care candidates on behalf of Fairfax County partners in accordance with Federal requirements.

The State agency did not comply with Federal requirements when it claimed Title IV-E administrative costs totaling \$5,577,929 (Federal share) for foster care candidates on behalf of Fairfax County partners. These administrative costs were unallowable because:

- The State agency's cost allocation plan did not describe the methodology used to identify, measure, and allocate these costs, contrary to Federal regulations.
- The State agency did not equitably allocate costs between Title IV-E and non-Title IV-E programs, contrary to Federal policy.

We recommend that the State agency refund \$2,368,902 (\$5,577,929 less \$3,209,027 previously disallowed by ACF) in unallowable Title IV-E administrative costs for foster care candidates claimed by the State agency for Fairfax County partners for the period April 2002 through March 2004.

In its comments on our draft report, the State agency concurred with our findings but requested that we consider the recommended refund as part of a June 2006 settlement agreement with ACF, with no further repayment required.

The \$2,368,902 that we are questioning was not included in the ACF disallowance covered in the settlement agreement. Moreover, the settlement agreement specifically states that our audit of Fairfax County is outside the scope of the agreement and that once we have completed this audit, ACF may seek a disallowance of our recommended refund amount. Therefore, we continue to support our recommendation.

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 through e-mail at Joe.Green@oig.hhs.gov or Stephen Virbitsky, Regional Inspector General for Audit Services, Region III, at (215) 861-4470 or through e-mail at Stephen.Virbitsky@oig.hhs.gov. Please refer to report number A-03-04-00585.

Attachment



DEPARTMENT OF HEALTH & HUMAN SERVICES
OFFICE OF INSPECTOR GENERAL
OFFICE OF AUDIT SERVICES
150 S. INDEPENDENCE MALL WEST
SUITE 316
PHILADELPHIA, PENNSYLVANIA 19106-3499

NOV 8 2007

Report Number: A-03-04-00585

Mr. Anthony Conyers, Jr.
Commissioner
Virginia Department of Social Services
7 North Eighth Street
Richmond, Virginia 23219-3301

Dear Mr. Conyers:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Title IV-E Foster Care Administrative Costs Claimed by Virginia on Behalf of Fairfax County From April 2002 Through March 2004." 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, within 10 business days after the final report is issued, it 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 Robert Baiocco, Audit Manager, at (215) 861-4486 or through e-mail at Robert.Baiocco@oig.hhs.gov. Please refer to report number A-03-04-00585 in all correspondence.

Sincerely,



Stephen Virbitsky
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Mr. David Lett, Regional Administrator
Administration for Children and Families
U.S. Department of Health and Human Services
Public Ledger Building, Suite 864
150 South Independence Mall West
Philadelphia, Pennsylvania 19106

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**TITLE IV-E FOSTER CARE
ADMINISTRATIVE COSTS
CLAIMED BY VIRGINIA ON
BEHALF OF FAIRFAX COUNTY
FROM APRIL 2002 THROUGH
MARCH 2004**



Daniel R. Levinson
Inspector General

November 2007
A-03-04-00585

Office of Inspector General

<http://oig.hhs.gov>

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 Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. Specifically, these evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness in departmental programs. To promote impact, the reports also present practical recommendations for improving program operations.

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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 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

Title IV-E of the Social Security Act authorizes Federal funds for States to provide foster care and adoption assistance for children under an approved State plan. In Virginia, the Department of Social Services (the State agency) supervises the Title IV-E program. Each county, in turn, administers its own program. The Federal Government, through the Administration for Children and Families (ACF), provides funding at a 50-percent rate for State administrative costs, including administrative costs for foster care candidates. States are required to calculate their administrative costs through procedures described in a cost allocation plan approved by the Department of Health and Human Services, Division of Cost Allocation.

A foster care candidate is a child who is at risk of removal from his or her home, as evidenced by the State agency's pursuing the child's removal or making reasonable efforts to prevent removal.

During our audit period, April 2002 through March 2004, the State agency claimed \$5,577,929 (Federal share) in Title IV-E administrative costs for foster care candidates reported by four Fairfax County partners: the Fairfax County Juvenile and Domestic Relations District Court; Fairfax County Public Schools; the Fairfax-Falls Church Community Services Board; and five units within the Fairfax County Department of Family Services. In a June 2006 settlement with ACF, the State agency agreed to repay \$3,209,027 of this amount based on an ACF review.

We conducted this review at ACF's request.

OBJECTIVE

Our objective was to determine whether the State agency claimed Title IV-E administrative costs for foster care candidates on behalf of Fairfax County partners in accordance with Federal requirements.

SUMMARY OF FINDINGS

The State agency did not comply with Federal requirements when it claimed Title IV-E administrative costs totaling \$5,577,929 (Federal share) for foster care candidates on behalf of Fairfax County partners. These administrative costs were unallowable because:

- The State agency's cost allocation plan did not describe the methodology used to identify, measure, and allocate these costs, contrary to Federal regulations.
- The State agency did not equitably allocate costs between Title IV-E and non-Title IV-E programs, contrary to Federal policy.

RECOMMENDATION

We recommend that the State agency refund \$2,368,902 (\$5,577,929 less \$3,209,027 previously disallowed by ACF) in unallowable Title IV-E administrative costs for foster care candidates claimed by the State agency for Fairfax County partners for the period April 2002 through March 2004.

We are not making procedural recommendations because the State agency has stopped claiming Title IV-E administrative costs incurred by Fairfax County partners.

STATE AGENCY'S COMMENTS

In its comments on our draft report, the State agency concurred with our findings but requested that we consider the recommended refund as part of the settlement agreement with ACF, with no further repayment required. The Appendix presents the State agency's comments, except for two enclosures related to the settlement with ACF.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

The \$2,368,902 that we are questioning was not included in the ACF disallowance covered in the settlement agreement. Moreover, the settlement agreement specifically states that our audit of Fairfax County is outside the scope of the agreement and that once we have completed this audit, ACF may seek a disallowance of our recommended refund amount. Therefore, we continue to support our recommendation.

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INTRODUCTION

BACKGROUND

Federal Foster Care and Adoption Assistance Program

Title IV-E of the Social Security Act (the Act) 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 program. For children who meet Title IV-E program requirements, Federal funds are available to States for maintenance, administrative, and training costs under section 474(a) of the Act:

- Maintenance costs include room and board payments to licensed foster parents, group homes, and residential childcare facilities. The Federal share of maintenance costs is based on each State's Federal rate for Title XIX Medicaid expenditures.
- Administrative costs cover staff activities such as case management and supervision of children placed in foster care and children considered to be Title IV-E candidates, preparation for and participation in court hearings, placement of children, recruitment and licensing for foster homes and institutions, and rate setting. Also reimbursable under this category is a proportionate share of overhead costs. The Federal share of administrative costs allocable to the Title IV-E program is 50 percent.
- Training costs are associated with training State or local staff to perform administrative activities and training 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.

Administrative costs are to be allocated 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. Federal regulations (45 CFR § 95.507) require that cost allocation plans 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." OMB Circular A-87, Appendix A, section C, states that costs are allocable to particular cost objectives (programs) only to the extent of the benefits received by such objectives, only allocable costs are allowable, and costs must be necessary and reasonable for proper administration of the program.

Virginia's Foster Care and Adoption Assistance Program

The Virginia Department of Social Services (the State agency) supervises the foster care and adoption assistance program through the Division of Family Services. During our audit period, April 2002 through March 2004, the State agency claimed \$121 million in Title IV-E administrative costs. The State agency's cost allocation plan was effective July 1, 1995.

Virginia administers the foster care and adoption assistance program through its counties. The State agency consolidates the claims from the counties and submits Quarterly Reports of Expenditures and Estimates (Form ACF-IV-E-1) to ACF for Federal funding. In Fairfax County, the Department of Family Services (DFS), Division of Children and Youth, administers the foster care program and makes many candidacy determinations for foster care.

Foster Care Candidates Claimed for Fairfax County Partners

A foster care candidate is a child who is at risk of removal from his or her home. A candidate remains in the home but may require foster care if preventive measures fail. The State agency must allocate the administrative costs for candidates to Title IV-E and non-Title IV-E programs in accordance with the procedures in its approved cost allocation plan.

As part of its revenue maximization efforts, in April 2002, Fairfax County began claiming administrative costs for candidacy determinations made by entities known as “partners.” The Fairfax County partners included the Fairfax County Juvenile and Domestic Relations District Court; Fairfax County Public Schools; the Fairfax-Falls Church Community Services Board; and five units within DFS, not including the Division of Children and Youth. The county and its partners defined their relationship through a memorandum of agreement, which provided the methodology for reporting to the county costs associated with “pre-placement preventative services.”

Claims Integrity Unit

In 2002, the State agency established the Revenue Maximization Unit, which it renamed the Claims Integrity Unit, to administer its revenue maximization efforts. The State agency issued guidelines that encouraged counties to submit plans for revenue maximization projects, which it defined as “[T]hose projects with identified opportunities for **additional federal reimbursement** for allowable social service costs that are otherwise not reimbursed through an existing state reimbursement process.”¹ The guidelines stated that counties could partner with outside groups that provided social services and specifically suggested projects that focused on administrative costs, including “Title IV-E foster care pre-placement prevention. This project requires case file documentation and review of client qualification to confirm the client as a ‘reasonable candidate’ for removal from the home”

Counties submitted claims for partners to the Claims Integrity Unit for processing. The Claims Integrity Unit charged the counties a 2.5-percent fee to cover operating costs. The State agency consolidated claims submitted through the Claims Integrity Unit with other Title IV-E claims from the counties on Form ACF-IV-E-1.

¹“Guidelines for State or Local Revenue Maximization Plans for Local Public Assistance Cost Allocation Plans (LPACAPS) or Certified Pass Through Plans (CPT).” Virginia Department of Social Services, December 8, 2002 (rev.). Bold print reflects the State agency’s emphasis.

Audits of the State Agency's Claims for Administrative Costs for Title IV-E Candidates

At ACF's request, we performed two audits of Title IV-E administrative costs for candidates claimed by the State agency on behalf of partners and documentation for the partners' candidacy determinations. The other audit focused on Title IV-E administrative costs claimed by the State agency on behalf of Arlington County partners from April 2002 through March 2004.

Actions Taken by Administration for Children and Families

After we completed fieldwork on our audits, on April 12, 2005, ACF identified and disallowed \$28 million in administrative costs that the State agency claimed through its Claims Integrity Unit for "pre-placement prevention service for reasonable candidates" from October 1, 2003, through December 31, 2004. ACF disallowed the claims because the State agency claimed costs without using a methodology contained in its approved cost allocation plan, claimed costs for unallowable activities, did not establish candidacy for foster care, did not document claims for Federal reimbursement, and demonstrated other claiming deficiencies. ACF's disallowance included \$3,209,027 of the \$5,577,929 reviewed in this report.

In a June 2006 settlement between the State and ACF, the parties agreed that the State would "discontinue its pre-placement prevention program and revise its policies and procedures consistent with Title IV-E requirements." The parties also agreed that the State would resolve any additional findings that resulted from our audits. Fairfax County did not claim Title IV-E administrative costs for its partners after March 2004.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the State agency claimed Title IV-E administrative costs for foster care candidates on behalf of Fairfax County partners in accordance with Federal requirements.

Scope

Our review covered the \$5,577,929 (Federal share) in administrative costs claimed for Title IV-E candidates from April 2002 through March 2004 on behalf of Fairfax County partners. This amount included \$2,368,902 that ACF did not review as part of the disallowance covered in the settlement agreement.

Our objective did not require a review of the overall internal control structure of the State agency or Fairfax County. We limited our review of internal controls to obtaining an understanding of controls relative to candidacy determinations and the State agency's reporting of administrative costs for foster care candidates on behalf of Fairfax County partners.

We performed fieldwork at the State agency's Claims Integrity Unit in Richmond, Virginia, and at DFS in Fairfax, Virginia.

Methodology

To accomplish our objective, we:

- reviewed the State agency's cost allocation plan and amendments;
- interviewed DCA and ACF officials regarding the accuracy of the State's cost allocation plans and amendments;
- reviewed Title IV-E claims and supporting cost allocation schedules;
- reconciled Title IV-E administrative costs to accounting records and supporting documentation;
- reviewed and evaluated costs claimed for compliance with State and Federal regulations, policies, and procedures;
- reviewed memorandums of agreement between the State agency and Fairfax County and between Fairfax County and its partners;
- reviewed listings of candidates provided by Fairfax County partners; and
- reviewed the June 2006 settlement agreement between the State agency and ACF.

We conducted our audit in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATION

The State agency did not comply with Federal requirements when it claimed Title IV-E administrative costs totaling \$5,577,929 (Federal share) for foster care candidates on behalf of Fairfax County partners. These administrative costs were unallowable because:

- The State agency's cost allocation plan did not describe the methodology used to identify, measure, and allocate these costs, contrary to Federal regulations.
- The State agency did not equitably allocate costs between Title IV-E and non-Title IV-E programs, contrary to Federal policy.

NONCOMPLIANCE WITH FEDERAL REQUIREMENTS

Cost Allocation Plan

Federal Requirements

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” Federal regulations require that the cost allocation plan contain sufficient detailed information for Federal officials to reach an informed judgment about the correctness and fairness of the methods employed by the State (45 CFR § 95.507). The Federal Government will disallow costs not claimed in accordance with the cost allocation plan (45 CFR § 95.519).

The Departmental Appeals Board (DAB) addressed the issue of costs not identified in the cost allocation plan in Montana Department of Family Services, DAB No. 1266 (1991). DAB upheld ACF’s decision to disallow certain administrative costs allocated by the State to its Title IV-E program on the basis that such costs were not identified in the cost allocation plan. In reaching its decision, DAB stated:

This [the requirement that costs be claimed in accordance with the cost allocation plan] is more than merely a technical requirement. The plan ensures consistent treatment of costs, avoids duplicate claiming, and ensures that the methods used are reasonable for the time period they cover. Here the State must follow the approved CAP [cost allocation plan] which failed to specifically allocate the costs in question to the Title IV-E program.

Partners’ Costs Not Identified in Cost Allocation Plan

The State agency’s cost allocation plan did not identify preplacement service costs incurred by Fairfax County partners or describe the methodology for identifying, measuring, and allocating these costs. Therefore, Federal funding for these costs was not allowable.

Allocation Method

In addition to the fact that the State agency’s cost allocation plan did not identify Fairfax County partners’ preplacement service costs, the method that the State agency used to claim these costs was not consistent with Federal policy.

Federal Requirements

Section 8.1C3 of ACF’s “Child Welfare Policy Manual” (the ACF manual) addresses acceptable methods for a State to claim administrative costs for children whom the State reasonably views as Title IV-E candidates. If the State does not make a case-by-case determination to establish each child’s eligibility under Title IV-E, it must allocate administrative costs for candidates based on a ratio of Title IV-E foster care cases to non-Title IV-E foster care cases or another equitable allocation methodology.

Administrative Costs for Candidates Inequitably Allocated

Because the State agency did not determine each candidate's Title IV-E eligibility on a case-by-case basis, it was required to allocate costs for allowable administrative activities for candidates using a ratio or another equitable method. However, the State agency did not allocate costs between Title IV-E and non-Title IV-E programs in an equitable manner. Rather, the State agency claimed to Title IV-E the costs for administrative activities on behalf of all children considered to be foster care candidates, both through Title IV-E and non-Title IV-E programs.

RECOMMENDATION

We recommend that the State agency refund \$2,368,902 (\$5,577,929 less \$3,209,027 previously disallowed by ACF) in unallowable Title IV-E administrative costs for foster care candidates claimed by the State agency for Fairfax County partners for the period April 2002 through March 2004.

We are not making procedural recommendations because the State agency has stopped claiming Title IV-E administrative costs incurred by Fairfax County partners.

STATE AGENCY'S COMMENTS

In its comments on our draft report, the State agency concurred with our findings but requested that we consider the recommended refund as part of the June 2006 settlement agreement with ACF, with no further repayment required. The State agency said that records dating back more than 5 years would be difficult to reconstruct and evaluate. The State agency added that it had eliminated the program that resulted in the disallowed costs and that it had made significant progress on the action plan included in the settlement agreement.

The Appendix presents the State agency's comments, except for two enclosures related to the settlement with ACF.

OFFICE OF INSPECTOR GENERAL'S RESPONSE

As noted on page 3 of this report, the ACF disallowance covered in the settlement agreement did not include the \$2,368,902 that we are questioning. The settlement agreement specifically states that our audits of Fairfax and Arlington Counties are outside the scope of the agreement and that once we have completed the audits, ACF may seek a disallowance of our recommended refund amounts. Further, Federal regulations require the State agency to retain records "until all litigation, claims or audit findings involving the records have been resolved and final action has been taken" (45 CFR § 74.53(b)(1)).² Therefore, we continue to support our recommendation. We will provide the State agency with the documentation for our findings if requested.

²Effective September 2003, which was during our audit period, the applicable regulation became 45 CFR § 92.42(b)(2), which provides a substantially similar requirement that ". . . the records must be retained until completion of the action and resolution of all issues which arise from it, or until the end of the regular 3-year period, whichever is later."

OTHER MATTER: DOCUMENTATION OF CANDIDACY DETERMINATIONS

Section 8.1D2 of the ACF manual defines a candidate for foster care as a child who is at risk of removal from home, as evidenced by the State agency's pursuing the child's removal or making reasonable efforts to prevent such removal. Federal guidance in ACF Policy Announcement 87-05 requires that, to claim administrative costs associated with Title IV-E candidates, the State must document candidacy for foster care benefits using:

(1) a defined case plan which clearly indicates that, absent effective preventive services, foster care is the planned arrangement for the child,³ (2) an eligibility determination form which has been completed to establish the child's eligibility under Title IV-E, or (3) evidence of court proceedings in relation to the removal of the child from the home, in the form of a petition to the court, a court order or a transcript of the court's proceedings.⁴

The Fairfax County Juvenile and Domestic Relations District Court (the court), which accounted for almost half of the total administrative costs claimed by Fairfax County partners during our review period, did not provide adequate documentation to support its candidacy determinations.

During the audit period, the court submitted 9,494 quarterly claims. We reviewed case files and related documentation for a random sample of 100 quarterly claims. The court did not provide proper documentation, as required by ACF Policy Announcement 87-05, to support its candidacy determinations. Specifically, for each child in our sample, the court did not provide:

- a defined case plan that clearly indicated that, absent effective preventive services, foster care was the planned arrangement for the child;
- a completed eligibility determination form establishing the child's eligibility under Title IV-E; or
- evidence of court proceedings in relation to the removal of the child from the home in the form of a petition to the court, a court order, or a transcript of the court's proceedings.

The court provided case plan addendums or juvenile detention probation documentation to fulfill the candidacy determination documentation requirements. Neither was acceptable.

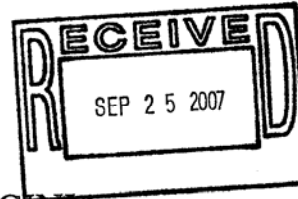
A case plan addendum is a one-page form developed by Fairfax County to summarize material contained in the child's case file by identifying the criteria used to determine foster care candidate eligibility and the risk factors that necessitated preplacement preventative services. The county used the addendums as defined case plans. The addendums did not document that,

³Federal regulations (45 CFR § 1356.21(g)(1)) require that case plans be developed jointly with the parent or guardian.

⁴Section 8.1D1 of the ACF manual incorporated the requirements of ACF Policy Announcement 87-05 as of July 2006.

absent preventative measures, foster care was the planned arrangement for any of the children, nor did the addendums document that a parent or guardian was involved in the proceedings as required by Federal regulations. The juvenile probation documentation also did not state that, absent preventative measures, foster care was the planned arrangement for any of the children.

APPENDIX



COMMONWEALTH of VIRGINIA
DEPARTMENT OF SOCIAL SERVICES

Office of the Commissioner

Anthony Conyers, Jr.
COMMISSIONER

September 21, 2007

Mr. Stephen Virbitsky
Regional Inspector General for Audit Services
Department of Health and Human Services
150 S. Independence Mall West, Suite 316
Philadelphia, PA 19106-3499

Dear Mr. Virbitsky:

This is in response to your letters of July 30 and 31, 2007 containing draft reports entitled "Review of Title IV-E Foster Care Administrative Costs Claimed by Virginia on Behalf of Fairfax and Arlington County Partners from April 1, 2002 to March 31, 2004."

The Virginia Department of Social Services (VDSS) experienced a series of disallowances of funds during calendar year 2005 related to our Pre-Placement Prevention Program (PPP). In June 2006, a settlement was reached on those disallowances which included our agreement to complete a series of actions including eliminating our PPP. Copies of the Settlement Agreement and Action Plan are enclosed for your information.

Since reaching that settlement, VDSS has worked closely with the Administration for Children and Families (ACF) and the Division of Cost Allocation to meet the conditions outlined in the Settlement Agreement. Significant progress has been and continues to be made. In fact, each of the fourteen items included in the Action Plan have been accomplished or are being addressed within the parameters set forth in the Agreement. Most significantly, we have eliminated the PPP which resulted in the previously discussed disallowed costs. This directly ties to the recommendations contained in your letters related to funds claimed in the amount of \$2,368,902 for Fairfax and \$1,327,149 for Arlington during the April 1, 2002 through March 31, 2004 timeframe.

Because your recommendations are based on the same factors that resulted in significant disallowances for which we negotiated a settlement with ACF, VDSS concurs with your findings. At this date, it is likely that few of the key players involved in this

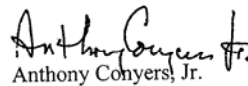
Mr. Stephen Virbitsky
September 21, 2007
Page Two

process remain in their current positions and, as a practical matter, records dating back more than five years would be difficult to reconstruct and properly evaluate.

Effective with a meeting with ACF on December 21, 2005, VDSS has been focusing on the future instead of the past and working to strengthen our social services delivery system in the Commonwealth. Based on the significant progress we have made and the timeliness of this notification, VDSS requests that the repayments recommended in your draft report be considered a part of the previous Settlement Agreement with no further repayment required.

I am available to discuss this situation with you at greater length or you may contact the VDSS Chief Financial Officer, J. R. Simpson, at j.r.simpson@dss.virginia.gov or 804-726-7204.

Sincerely,


Anthony Conyers, Jr.

AC/jrs

Enclosures (2)

cc: Joan E. Ohl, Commissioner of the Administration for Children, Youth & Families
David J. Lett, Regional Administrator, Region III
Michael Rolish, Grants Officer, Region III