

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**STATE USE OF SPECIAL NEEDS
ADOPTION FUNDS FOR
NONRECURRING COSTS**



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EXECUTIVE SUMMARY

PURPOSE

This inspection describes states' experiences in utilizing funds available for Special Needs Adoption (SNA) nonrecurring costs.

BACKGROUND

The Foster Care and Adoption Assistance programs, authorized under Title IV-E of the Social Security Act, provide care for children who need placement outside their homes. Assistance is available for children with special needs who cannot be returned to their homes and who have had difficulties being adopted. Adopting parents of special needs children may receive monthly assistance payments which vary among states.

Adopting parents may also receive reimbursement for one-time nonrecurring costs of special needs adoptions. These nonrecurring costs include adoption fees, court costs, attorney fees and other expenses which are directly related to the legal adoption of special needs children. States must report their use of SNA nonrecurring funds on Federal Form IV-E-12, but are not required to separate these expenses from normal administrative costs. This study was requested by the Administration for Children and Families (ACF) out of a concern that state adoption agencies may not be fully utilizing the nonrecurring costs provision of the Social Security Act.

This examination of the use of nonrecurring costs in facilitating special needs adoptions was based on mail surveys completed by state officials knowledgeable about their State's adoption practices. To supplement our surveys and to clarify key issues, we conducted telephone interviews with a number of the state respondents. However, we did not talk to adoption agency staff, case workers, or adopting parents. Forty-two state respondents returned surveys, although not all responded to every question. We also reviewed relevant policy documents and met with officials in the ACF.

FINDINGS

Most States Utilize Special Needs Adoption Nonrecurring Funds, however this is Not Always Reflected on their Federal Reporting Forms.

Nonrecurring SNA cost reimbursements were not always captured on Form IV-E-12. Most discrepancies in the amount of reimbursements recorded and the amount actually spent were due to state payment systems not separating SNA nonrecurring costs from normal administrative costs.

At least 17 percent more funds were spent than were reported as SNA nonrecurring costs. An additional \$924,185 was spent in FY1994 that was not originally reported on the Form IV-E-12 reports as SNA nonrecurring costs.

Four states reported not using Federal matching funds for special needs adoption nonrecurring costs.

Due to changes in the new reporting system, there will no longer be any Federal accounting of SNA nonrecurring costs beginning in FY1996.

Most States Authorize Reimbursements for Nonrecurring Costs up to the Federal Maximum of \$2,000 per Adoption.

When states set reimbursement levels below the \$2000 limit this was most often due to state budget constraints or because the actual costs per adoptive family were typically much lower. In many states, expenses such as court costs and attorney fees were covered through other state programs.

Most States Were Not Proactive in Informing Parents that their Nonrecurring SNA Costs Could be Reimbursed.

Outreach strategies were primarily informal, with few states evaluating the effectiveness of their outreach efforts.

State Respondents Judged Reimbursement of Nonrecurring Costs Helpful in Facilitating Special Needs Adoptions.

Respondents believed that reimbursement eliminated some financial barriers which may have delayed or prohibited adoptions, thereby expanding the pool of adoptive parents to include more lower and middle income families.

Respondents Suggested Allowing a Tax Credit for Adoptive Families or Paying Service Providers Directly to Improve the Efficiency of Nonrecurring Costs Disbursement.

INTRODUCTION

PURPOSE

This inspection describes states' experiences in utilizing funds available for Special Needs Adoption (SNA) nonrecurring costs.

BACKGROUND

The Foster Care and Adoption Assistance programs, authorized under Title IV-E of the Social Security Act, provide care for children who need placement outside their homes. The purpose of this legislation was to enhance the foster care program, strengthen child welfare services and encourage the adoption of children with special needs. A child is declared special needs when the state determines that the child cannot be returned to the parents' home and that he/she also possesses a factor or condition (such as his/her ethnic background, age, physical or mental disability, or membership in a sibling group) that may cause the child to have difficulty being adopted.

Special needs adoption assistance comes in three forms: adopting parents of special needs children may receive medical benefits, monthly maintenance payments which vary among states, and they may also receive reimbursement for one-time adoption costs. These nonrecurring costs include adoption fees, court costs, attorney fees and other expenses which are directly related to the legal adoption of special needs children. Examples of other approved costs are health and psychological examinations, placement supervision services, and the costs of the child's or family's transportation, food and lodging necessary to complete the adoption process.

Adoptive families were formerly allowed an itemized tax deduction of up to \$1,500 to aid in the payment of nonrecurring costs. This practice was criticized because it was viewed as discriminating against families who did not itemize their tax deductions. The Tax Reform Act of 1986 repealed the tax deduction by amending Title IV-E of the Social Security Act. The new ruling requires states to reimburse adoptive parents for nonrecurring SNA costs and provides 50 percent Federal matching funds for a total outlay of no more than \$2,000 per adoptive placement. Implementation of this new policy began in 1988 with the publication of a Notice of Proposed Rulemaking (NPRM). An important component of this ruling is the requirement that a reasonable, but unsuccessful, effort first be made to place the child without providing any adoption assistance.

Under the new policy of reimbursement, adoptive families are required to submit receipts for costs incurred upon finalization of the adoption and are then compensated by the state or local agency. Although most use this reimbursement method, a few states pay providers such as attorneys and social workers directly when possible. States are then required to report their use of special needs adoption nonrecurring funds on Federal Form IV-E-12 which tracks money spent on Foster Care and Adoption Assistance programs. Although there is a line on the Form IV-E-12 specifically for recording the amount spent

on SNA nonrecurring costs, states are not required to declare this amount separately and may group these expenditures with other administrative adoption costs. This study was requested by the Administration for Children and Families (ACF) out of a concern that state adoption agencies may not be fully utilizing the nonrecurring costs provisions of the Social Security Act.

METHODOLOGY

This examination of the use of nonrecurring costs in facilitating special needs adoptions consisted of mail surveys completed by state officials knowledgeable about their state's adoption practices (see Appendix A). To supplement our surveys and to clarify key issues, we conducted telephone interviews with a number of the state respondents. However, we did not talk to adoption agency staff, case workers, or adopting parents. Forty-two states returned surveys, although not all responded to every question. Prior to the survey analysis, we reviewed relevant policy documents and met with officials in the ACF. We conducted our study in accordance with the Quality Standards for Inspections issued by the President's Council on Integrity and Efficiency.

FINDINGS

MOST STATES UTILIZE SPECIAL NEEDS ADOPTION NONRECURRING FUNDS, HOWEVER THIS IS NOT ALWAYS REFLECTED ON THEIR FEDERAL REPORTING FORMS.

Nonrecurring SNA costs reimbursements were not always captured on Form IV-E-12.

Of the 14 states with no recorded nonrecurring SNA expenditures in FY1994 on the Form IV-E-12, five states actually did use funds (see Appendix B).¹ Discrepancies in the reported and actual expenditures were due to state payment systems not separating SNA nonrecurring costs from normal administrative adoption expenditures.

At least 17 percent more funds were spent than were reported as SNA nonrecurring costs.

An additional \$924,185 was spent in FY1994 that was not originally reported on the Form IV-E-12 reports as SNA nonrecurring costs. Based on our survey report, at least \$6.4 million was spent on nonrecurring costs in FY1994 (see Appendix B).

Four states reported not using Federal matching funds for SNA nonrecurring costs.

Reasons for not using nonrecurring SNA funds in Fiscal year 1994 (FY1994) centered on a lack of need. These states covered all or most adoption costs such as legal fees and home study expenses through the use of state services, requiring little to no out-of-pocket expenditure by adoptive families. In the case of one state, the amount requested by families was so small that the state adoption officials decided that receiving Federal matching funds was not worth completing the necessary paperwork.

Due to changes in the new reporting system, there will no longer be any Federal accounting of SNA nonrecurring costs beginning in FY1996.

Form IV-E-12, the current tool for tracking adoption costs, will be replaced in FY1996 with a new reporting form entitled 431. The new form does not even ask states to distinguish nonrecurring adoption reimbursements from normal administrative costs. According to officials in the ACF, this change was made in order to reduce the administrative burden on states.

The Adoption and Foster Care and Analysis Reporting System (AFCARS) collects data on adoptions, but does not request that states list nonrecurring costs separately. States are required to report through AFCARS the number of adoptions where the state agency had any involvement. This involvement could be the reimbursement of nonrecurring costs, but could also be foster care, monthly maintenance payments or other adoption assistance services. Therefore, there will be no Federal method for capturing state use of funds for nonrecurring adoption costs beginning in FY1996.

MOST STATES AUTHORIZE REIMBURSEMENTS FOR NONRECURRING COSTS UP TO THE FEDERAL MAXIMUM OF \$2,000 PER ADOPTION.

Twenty-six states reimbursed parents at the maximally allowed \$2000 reimbursement limit, while 15 states reimbursed at levels ranging from \$400 to \$1,500 (see Appendix C).² States reimbursed at levels below the \$2000 limit for the following reasons: 1) costs were already covered in other ways, e.g., use of state-appointed attorneys; 2) states had mandated lower maximums due to budget constraints; and 3) adoptive families often requested less than the limit.

MOST STATES WERE NOT PROACTIVE IN INFORMING PARENTS THAT THEIR NONRECURRING SNA COSTS COULD BE REIMBURSED.

Outreach strategies were primarily informal.

Although states used a variety of methods to make parents aware of SNA funds, informal word-of-mouth by caseworkers was the most common. As stated earlier, Federal regulation dictates that an effort first be made by adoption agencies to place special needs children without providing any financial assistance. Therefore most states do not actively solicit use of the nonrecurring funds. Outreach methods seem to be mostly ad hoc and unstructured.

Most agencies informed adoptive parents about costs reimbursement during the interview or home study, either verbally or with brochures (see Appendix C). Some states provided training for private adoption agencies and for individual adoptive families, while others relied on the court system, parent support groups or adoption exchange organizations to publicize available funds. These supplementary groups were most often used as reinforcements rather than as primary sources of information. Although nearly all states sought to inform parents of nonrecurring funds, only one used the existence of funds as a tool for recruiting parents.

Few states evaluated the effectiveness of their outreach efforts.

Only thirteen states sought to determine the effectiveness of their procedures for informing parents of nonrecurring SNA costs reimbursement. These evaluations appeared to be mostly non-systematic. Examples included: 1) occasional follow-up interviews with adoptive parents; 2) discussions with caseworkers; and 3) surveys sent to private adoption agencies.

STATE RESPONDENTS JUDGED REIMBURSEMENT OF NONRECURRING COSTS HELPFUL IN FACILITATING SPECIAL NEEDS ADOPTIONS.

A large majority of state respondents considered reimbursement of nonrecurring SNA costs to be helpful in facilitating special needs adoptions. Financial barriers were thought to delay and even prohibit adoptions, particularly when families were required to pay legal fees and court costs. Many state respondents argued that the families most likely to adopt

were often middle to lower income households whose limited resources were needed to meet other expenses directly related to the needs of the child, such as home modifications.³

STATE ADOPTION STAFF RECOMMENDED POLICY CHANGES TO IMPROVE THE EFFICIENCY OF NONRECURRING SNA COSTS DISBURSEMENT.

The most common suggestion given by state respondents for improving the disbursement of nonrecurring SNA funds was to create a system which grants tax credits to adoptive families. Unlike the previous itemized tax deduction, a tax credit could be easily used by all adoptive families. They cited decreased administrative costs and reduced paperwork as incentives to implement a tax credit and claimed the current reimbursement method created an administrative burden on their agencies and on families.

Respondents claimed that in many cases adoptive families had difficulty paying for costs in advance and then waiting to be reimbursed. Others recommended encouraging states to pay providers directly to avoid families' initial financial outlays. In addition to the issue of payment methods, some respondents felt that the Federal definition of acceptable nonrecurring expenses should be broadened to include home modifications made by adoptive parents to accommodate the special needs child.

ENDNOTES

1. Of the nine remaining states not separating nonrecurring SNA expenditures for FY1994 on their IV-E-12 form, four states were non-respondents, four states did not utilize funds, and one state respondent did not have fiscal information available.
2. The one remaining state described its reimbursements as "usual and customary."
3. Under existing NPRM regulation, the one-time costs for alteration of adoptive parents' homes or properties are not expenses reimbursable as a nonrecurring costs expenditure.

APPENDIX A

STATE SURVEY QUESTIONS FROM QUESTIONNAIRE

STATE: _____
 PERSON COMPLETING FORM: _____
 TELEPHONE NUMBER: (_____) _____ - _____

1. How much State and Federal funds did you spend on nonrecurring costs for special needs adoptions (SNA) in fiscal year 1994?

1st Qtr		2nd Qtr		3rd Qtr		4th Qtr	
State	Federal	State	Federal	State	Federal	State	Federal
\$	\$	\$	\$	\$	\$	\$	\$

2. If the money amounts you gave in question 1 above are different from the combined Federal and State amounts we gave you in our cover memo, please explain the discrepancy. (For example, if we show zero amounts in our cover memo, but you did spend monies for nonrecurring SNA costs, explain why the amounts spent are not reflected in the Form IV-E-12 reports.)

3. If zero amounts are accurately shown either in the figures we gave you in our cover page, or in the figures you gave us in question 1 above, please explain why no funds are being used for nonrecurring SNA costs.

4. What is the maximum amount you will pay for SNA nonrecurring costs per child? \$ _____
 If it is not \$2,000 (\$1,000 State and \$1,000 Federal maximum), why is it set at this rate?

5. What process (mechanism) do you use to claim nonrecurring SNA costs? (For example, do you claim them as SNA costs or normal administrative costs?)

6. What process do you use to reimburse parents and how do you account for these amounts? (For example, are the parents paid by the State or local agencies and what documentation is required?)

7. Is the use of nonrecurring costs reimbursement helpful in getting SNA children adopted? Yes _____ No _____
 Please explain your answer.

8. Are there barriers to the use of nonrecurring costs reimbursement? Yes _____ No _____ If yes, what are they?

9. How are SNA adoptive parents made aware of nonrecurring costs reimbursement?

Do you evaluate the effectiveness of your procedures? Yes _____ No _____ If yes, how? What have the results been?

10. Other than additional funding, what would you recommend to make reimbursement of nonrecurring costs of SNA adoptions more effective at either the national or State level?

APPENDIX B

FEDERAL AND STATE FISCAL YEAR 1994 EXPENDITURES FOR NONRECURRING COSTS FOR SPECIAL NEEDS ADOPTIONS

	Total State & Federal Expenditure for FY1994 Reported on IV-E-12 Form	Total State & Federal Expenditure for FY1994 Reported on Survey	Explanation of Differences Between the Reported Information on the IV-E-12 Form and Survey Information.
AL	\$22,751	\$22,751	
AK	\$81,198	\$107,081	An additional \$25,883 paid as State-only SNA for children outside the Federal definition of Special Needs.
AZ	\$58,893	\$58,893	
AR	\$5,772	\$5,773	
CA	0	\$284,824	Expenditures were made, but claimed as administrative costs on the IV-E-12 form.
CO	0	Unknown	Expenditures were made, but claimed as administrative costs on the IV-E-12 form. However, the exact amount spent on nonrecurring costs is unknown.
CT	\$4,023	NR	Non-respondent
DE	0	0	All special needs adoptions are done directly by the state so there are no costs to the adoptive family.
DC	0	NR	Non-respondent
FL	\$55,864	\$55,864	
GA	\$163,459	\$163,454	
HI	0	0	Some expenditures were made out of state funds, but not claimed for Federal reimbursement.
ID	\$37,786	\$37,806	
IL	0	NR	Survey completed, however fiscal information not submitted
IN	\$171,828	NR	Non-respondent
IA	\$87,179	\$87,179	

	Total State & Federal Expenditure for FY1994 Reported on IV-E-12 Form	Total State & Federal Expenditure for FY1994 Reported on Survey	Explanation of Differences Between the Reported Information on the IV-E-12 Form and Survey Information.
KS	\$161,458	\$161,458	The information on the IV-E-12 form originally was \$297,654. However, this amount included all adoption assistance administration expenditures instead of only nonrecurring expenditures.
KY	\$30,644	\$30,646	
LA	\$131,720	\$131,720	
ME	0	0	System for reimbursing parents not in place yet.
MD	\$32,252	NR	Non-respondent
MA	0	\$5,000	Expenditures were made, but claimed as administrative costs on the IV-E-form
MI	0	NR	Non-respondent
MN	\$195,870	\$195,870	
MS	\$974	\$18,964	Nonrecurring costs not claimed to Federal government due to reporting problem with computer system. The problem has since been resolved.
MO	\$327,871	\$327,921	
MT	\$7,742	NR	Non-respondent
NB	\$37,797	\$37,797	
NV	\$18,196	\$18,196	
NH	0	\$30,017	Expenditures were made, but claimed as administrative costs on the IV-E-12 form.
NJ	0	\$553,122	Delay in the completion of the Cost Allocation Plan for FY1994.
NM	\$44,723	\$44,723	The information on the IV-E-12 form originally was \$22,360. However, this number was later corrected.
NY	\$1,666,634	\$1,666,634	
NC	\$38,866	NR	Non-respondent

	Total State & Federal Expenditure for FY1994 Reported on IV-E-12 Form	Total State & Federal Expenditure for FY1994 Reported on Survey	Explanation of Differences Between the Reported Information on the IV-E-12 Form and Survey Information.
ND	0	\$7,760	Payment and claims system has no method of separating amount paid for nonrecurring costs. Calculation made on survey required manual case reviews.
OH	\$547,035	\$547,036	
OK	\$103,753	\$103,753	
OR	\$100,290	\$100,830	Transposed numbers during 4th quarter, so \$540 was inadvertently not reported.
PA	\$117,687	\$117,687	
RI	0	0	All special needs adoptions are done directly by the agency so there are no costs to the adoptive family.
SC	\$179,212	\$179,212	
SD	\$50,856	\$50,856	
TN	\$82,144	\$82,144	
TX	\$519,564	\$518,564	
UT	\$54,536	\$54,536	
VT	\$24,557	\$24,556	
VA	\$27,091	NR	Survey completed, however fiscal information not submitted
WA	\$258,748	\$258,748	
WV	\$1,255	NR	Non-respondent
WI	\$70,394	\$70,394	
WY	0	NR	Non-respondent
Total	\$5,520,622	\$6,161,760 + 283,057¹ \$6,444,817	\$924,195 = Amount of additional expenditure that was not captured on Form IV-E-12 as SNA nonrecurring costs.

NR State did not submit information

¹ Represents the total amount claimed by states on the IV-E-12 form not responding to our survey.

APPENDIX C

COMPARISON OF STATE POLICIES & PRACTICES REGARDING USE OF SPECIAL NEEDS ADOPTION FUNDS FOR NONRECURRING COSTS

	Maximum Amount Reimbursed Per Child	State Reimbursed Parents for Nonrecurring Costs in FY1994	Type of Reimbursement Process (State/Local)	Outreach Conducted by State Regarding Availability of Nonrecurring Costs Reimbursement
AL	\$1,000	✓	State	workers inform parents
AK	\$2,000	✓	State	workers inform parents
AZ	\$2,000	✓	State	training, in policy material
AR	\$1,500	✓	State	workers inform parents
CA	\$ 400	✓	Local	workers inform parents
CO	\$ 800	No	Local	workers inform parents, in brochure
CT	NR	NR	NR	NR
DE	\$2,000	No	*	*
DC	NR	NR	NR	NR
FL	\$2,000	✓	State	workers inform parents during training
GA	\$2,000	✓	Local	workers inform parents during training
HI	\$2,000	No	State	workers inform parents, on application
ID	\$2,000	✓	State	workers & court attorneys inform parents
IL	\$1,500	NR	State	workers inform parents
IN	NR	NR	NR	NR
IA	Usual Customary	✓	State	workers inform parents
KS	\$2,000	✓	Local	workers & private adoption agencies inform parents

	Maximum Amount Reimbursed Per Child	State Reimbursed Parents for Nonrecurring Costs in FY1994	Type of Reimbursement Process (State/Local)	Outreach Conducted by State Regarding Availability of Nonrecurring Costs Reimbursement
KY	\$1,000	✓	State	in handbook, county court clerks
LA	\$1,000	✓	State	workers inform parents
ME	\$2,000	No	*	workers inform parents
MD	NR	NR	NR	NR
MA	\$ 400	✓	State	workers inform parents, in adoptive parent newsletter
MI	NR	NR	NR	NR
MN	\$2,000	✓	State	workers inform parents, in brochure
MS	\$1,000	✓ (State only)	State	workers inform parents
MO	\$2,000	✓	State	workers inform parents, in flyer
MT	NR	NR	NR	NR
NB	\$1,500	✓	State	adoption agencies & attorneys made aware
NV	\$2,000	✓	State	workers inform parents, in booklets & part of training
NH	\$2,000	✓	State	State agency informs parents in writing
NJ	\$2,000	✓	State	written notification to parents
NM	\$2,000	✓	State	workers inform parents
NY	\$2,000	✓	Local	local agency training, workers inform parents
NC	NR	NR	NR	NR
ND	\$2,000	✓	Local	workers inform parents
OH	\$2,000	✓	Local	booklet given to parents
OK	\$2,000	✓	State	training & information given to courts