



AUG 8 2000

Memorandum

Date *Michael Mangano*
From *For* June Gibbs Brown
Inspector General

Subject Review of Mississippi's Retroactive Claim for Foster Care Administrative and Training Costs and Maintenance Payments (A-04-98-00126)

To Olivia A. Golden
Assistant Secretary for
Children and Families

This is to alert you to the issuance of our final report on Thursday, August 10, 2000. A copy is attached.

The objectives of our review were to determine if retroactively claimed Title IV-E: (1) administrative costs were claimed using the appropriate time study; (2) administrative and training costs were eligible for Federal financial participation (FFP); and (3) maintenance payments were eligible for FFP. Also, we determined if the consultant fees claimed under Title IV-E were based on a contingency arrangement.

Although the State used the appropriate time study in compiling its administrative claim, certain aspects of the study were flawed. In addition, we identified other problems with the claim. The State claimed about \$15 million (FFP) in unallowable costs for: **administration and training; maintenance payments; and consultant fees.**

ADMINISTRATIVE AND TRAINING COSTS

The State claimed retroactive administrative and training costs that were not eligible for FFP. Specifically, the State overclaimed: (1) \$8,739,634 for administrative costs that included unallowable services; (2) \$476,476 for administrative and training costs that were not documented; and (3) \$219,000 relating to a refund credited to Title IV-E at an incorrect FFP rate. Administrative and training costs were overclaimed because the State did not have adequate controls in place and did not adequately monitor the activities of its consultants to assure that administrative and training costs claimed met the Administration for Children and Families (ACF) reimbursement requirements.

We are recommending that the State: (1) repay the Title IV-E program \$8,739,634 (FFP) for administrative costs that did not meet ACF's definition of allowable costs; (2) repay the Title IV-E program \$476,476 (FFP) for administrative and training costs not documented; and (3) monitor more closely the activities of its contractor to assure that costs claimed are documented.

We are not recommending a financial adjustment applicable to the computer equipment refund because, in April 1999, the State reported an adjustment on its Federal IV-E-12 report to reduce its claim for the \$219,000. In written comments to the draft report, the State agreed with our recommendations regarding the \$219,000 claimed at an incorrect FFP rate and the need to better monitor the activities of its contractors.

State officials said that the recommended disallowance should be reduced from \$8,739,634 to \$6,648,804 because the ACF had not reimbursed the State for two quarters of costs claimed. Furthermore, State officials were of the opinion that the services claimed were allowable under Title IV-E. We confirmed with the ACF that on June 5, 2000, the State was paid for the claims in question. Accordingly, we do not believe it appropriate to reduce our recommended disallowance of these claims.

In regard to the \$476,476 not documented, State officials said they needed additional information in order to respond to the finding and recommendation. The administrative and training costs we classified as undocumented represent the difference between the total dollars the State claimed for administrative and training costs and the amount the State could support through documentation provided for our review. Accordingly, we are unable to provide the State with case-specific information for the undocumented administrative and training costs.

MAINTENANCE PAYMENTS

The State claimed foster care maintenance payments that were not allowable for FFP. Specifically, the State claimed: (1) \$2,771,012 for unallowable institutional maintenance payments; (2) \$294,626 in maintenance payments that were not documented; and (3) \$241,732 in eligibility and payment errors which overlap the unallowable institutional payments. Title IV-E maintenance payments were overclaimed because the State did not maintain adequate administrative and internal controls, including properly supervising and monitoring the preparation of the retroactive claim by its consultants.

We are recommending the State: (1) repay the Title IV-E program \$2,515,577¹ (\$2,771,012 - \$255,435, FFP) for unallowable institutional costs; (2) verify the institutions have cost allocation systems that: (a) exclude unallowable cost items, and (b) ensure foster care rates are computed based on the proportion of Title IV-E children to non-Title IV-E children; and (3) supervise and monitor more closely the work of its consultants. We are not recommending a financial adjustment for the \$294,626 overpayment because, in March 1999, the State reported a negative adjustment on its Federal IV-E-12 report. In addition, we are also not recommending the State refund the \$241,732 because those dollars are included in the institutional care questioned costs.

State officials agreed with our recommendation to supervise and monitor more closely the work of its consultants. However, the State did not agree with the remaining foster care maintenance payments findings and recommendations.

CONSULTANT FEES

The State claimed \$2,534,699 (FFP) for unallowable consultant fee costs under the Title IV-E program. The costs were unallowable because they were based on a contingency fee arrangement that does not meet the Office of Management and Budget Circular A-87 reimbursement requirements. In addition, the Department of Health and Human Services Departmental Appeals Board ruled in a similar case that consultant contract costs were not allowable because they were not "reasonable" costs within the meaning of the applicable cost principles. State officials were not aware that contingency fee costs could not be charged to Federal programs. In May 1999, the State adjusted its accounting records and implemented procedures to charge contingency fees to State-only funds. However, as of September 30, 1999, the State had not adjusted its Federal IV-E-12 report for these unallowable costs.

We are recommending the State: (1) refund \$2,534,699 (FFP) to the Federal Government and (2) continue to ensure future claims for contingency fees are charged to State-only funds.

The State agreed with our finding and recommendations regarding the unallowable contingency fees.

¹The \$255,435 represents maintenance payments that we questioned in both categories (1) and (2) above. Thus, we reduced our recommended disallowance by \$255,435 because these costs are included as part of the \$294,626.

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF MISSISSIPPI'S
RETROACTIVE CLAIM FOR FOSTER
CARE ADMINISTRATIVE AND
TRAINING COSTS AND MAINTENANCE
PAYMENTS**



**JUNE GIBBS BROWN
Inspector General**

**AUGUST 2000
A-04-98-00126**

REGION IV
Room 3T41
61 Forsyth Street, S.W.
Atlanta, Georgia 30303-8909

CIN: A-04-98-00126

Dr. Bettye Ward Fletcher, Executive Director
Mississippi Department of Human Services
750 North State Street
Jackson, Mississippi 39202

Dear Dr. Fletcher:

Enclosed are two copies of a U. S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' (OAS) report entitled ***Review of Mississippi's Retroactive Claim for Foster Care Administrative and Training Costs and Maintenance Payments***. A copy of this report will be forwarded to the action official noted below for his/her review and any action deemed necessary.

Final determinations as to actions taken on all matters reported will be made by the HHS action official named below. 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 (Public Law 90-23), OIG, OAS reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise (see 45 Code of Federal Regulations Part 5).

To facilitate identification, please refer to Common Identification Number (CIN) A-04-98-00126 in all correspondence relating to this report.

Sincerely yours,



Charles J. Curtis
Regional Inspector General
for Audit Services, Region IV

Enclosures - as stated

Executive Summary

Background

Foster Care

The 1967 amendments to the Social Security Act established foster care as a mandatory program under Title IV-A, Aid to Families with Dependent Children. In 1980, the Adoption Assistance and Child Welfare Act, Public Law 96-272, established the Title IV-E program. Title IV-E authorized Federal funds for States to enable them to provide foster care and adoption assistance for children under an approved State plan.

Congress identified three separate categories of expenditures under Title IV-E for which States can claim Federal financial participation (FFP): foster care maintenance payments for children in foster care homes or child care institutions; adoption assistance payments; and payments found necessary by the Secretary for the proper and efficient administration of the State plan.

Within the State of Mississippi, the Mississippi Department of Human Services (State) is responsible for administering the Title IV-E Foster Care program.

The State's Retroactive Claim for Foster Care Maintenance Payments and Administrative Costs

In 1995, the State entered into an agreement with The Institutes for Health and Human Services, Inc. (IHHS) for the purpose of enhancing Mississippi's claims for Federal reimbursement for Title IV-E expenditures. The agreement initially provided for a contingency fee of 20 percent to IHHS based on the incremental increase in eligible Title IV-E foster care claims submitted to the Administration for Children and Families (ACF) for reimbursement. The fee was later reduced to 15 percent.

Through 45 Code of Federal Regulations (CFR) 95.7, States are allowed to file claims within 2 years of the quarter after services were provided. During the quarters ended December 31, 1993 through March 31, 1999 the State filed retroactive claims with ACF for costs of the Title IV-E Foster Care program. These claims totaled \$28,632,596 (\$16,323,512 FFP) and covered the period October 1, 1993 through June 30, 1997. The retroactive claims represented foster care administrative costs and maintenance payments for children the State originally identified as eligible for and charged to the State's Social Services Block Grant (SSBG). The State later determined these children were eligible for Title IV-E Foster Care.

OBJECTIVES

The objectives of our review were to determine if retroactively claimed Title IV-E:

- administrative costs were claimed using the appropriate time study;
- administrative and training costs were eligible for FFP; and
- maintenance payments were eligible for FFP.

In addition, it came to our attention that the State claimed consultant fees under Title IV-E. Accordingly, we reviewed the fees to determine if they were based on a contingency arrangement.

SUMMARY OF FINDINGS

The State used the appropriate ACF approved time study to claim retroactive administrative and training costs. The State's retroactive claim for administrative and training costs was based on the results of a Social Services Time Study (SSTS) that was designed to capture the effort State employees expended on Title IV-E administration and training as well as other State and Federal programs. In compiling its claim, the State appropriately used the SSTS rather than its newly developed random moment time study.

Although the State used the appropriate time study in compiling its claim, certain aspects of the study were flawed. In addition, we identified other problems with the claim. The State claimed about \$15 million (FFP) in unallowable costs for: **administration and training; maintenance payments; and consultant fees.**

ADMINISTRATIVE AND TRAINING COSTS

The State claimed retroactive administrative and training costs that were not eligible for FFP. As a result, the State overclaimed: (1) \$8.7 million for administrative costs that included unallowable services; (2) \$476,476 for administrative and training costs that was not documented; and (3) \$219,000 relating to a refund credited to Title IV-E at an incorrect FFP rate.

Administrative and training costs were overclaimed because the State did not have adequate controls in place and did not adequately monitor the activities of its consultants to assure that administrative and training costs claimed met ACF reimbursement requirements.

Recommendations

The State should:

- ▶ repay the Title IV-E program \$8,739,634 (FFP) for administrative costs that did not meet ACF's definition of allowable costs;
- ▶ repay the Title IV-E program \$476,476 (FFP) for administrative and training costs not documented; and
- ▶ monitor more closely the activities of its contractor to assure that costs claimed are documented.

We are not recommending a financial adjustment applicable to the computer equipment refund because, in April 1999, the State reported an adjustment on its Federal IV-E-12 report to reduce its claim for the \$219,000.

In written comments to the draft report, the State agreed with our recommendations regarding the \$219,000 claimed at an incorrect FFP rate and the need to better monitor the activities of its contractors. State officials did not agree with either the amount we recommended for disallowance or the findings and recommendations relating to administrative costs that did not meet ACF's definition of allowable costs. The State's written comments and OIG's response to the State's comments are summarized below and in more detail in the body of the report. The complete text of the State's comments is included in **Appendix B**.

State Agency Comments

Unallowable Services

State officials said that the recommended disallowance should be reduced from \$8,739,634 to \$6,648,804 because the ACF had not reimbursed the State for two quarters of costs claimed.

OIG Comments

We confirmed with the ACF that on June 5, 2000, the State was paid for claims in question. Accordingly, we do not believe it appropriate to reduce our recommended disallowance of these claims.

State Agency Comments

Arbitrarily Determined Percentages, Primary Client Not Title IV-E Candidate and Time Study Flawed

State officials said that they did not arbitrarily determine the Title IV-E percentages. According to State officials, they developed a matrix that identified all the activities related to Title IV-E, determined the number of minutes the social workers spent on each activity, and discounted the total minutes to eliminate unallowable costs. State officials also said that an analysis of the

activities included in the codes recommended for disallowance showed that the activities were eligible for IV-E reimbursement. State officials further maintained that the social workers recorded their time based on the activities performed.

State officials did not provide further comment regarding our finding that:

- (1) activities within the seven administration and training activity codes the State retroactively claimed included unallowable services;
- (2) activities performed by social workers are allocable to Title IV-E only if they are performed on behalf of children who are candidates for Title IV-E, and
- (3) administrative costs the State claimed included costs that are specifically excluded by Federal regulations.

State officials said they have implemented a Random Moment Time Study that is more activity specific of social worker's time and activities and the State has made adjustments to its Cost Allocation Plan.

OIG Comments

As discussed in the report, we believe the State arbitrarily determined the Title IV-E percentages. The State did not provide any documentation supporting the time social workers spent on any of the activities listed within the codes reallocated to Title IV-E. The matrix developed by the State's consultants did not indicate the number of minutes related to each activity within the codes. The matrix only showed total minutes the social workers charged to each code. As also discussed in the report, some activities within the codes were not allowable for Title IV-E reimbursement.

The State did not provide any documentation of their analysis of the activity codes they determined were eligible for reimbursement. Our analysis showed that the activities performed by the social workers were, in some cases, not related to individuals the State could reasonably view as candidates for Title IV-E foster care, and in other cases, were activities the regulations specifically exclude as allowable Title IV-E administrative costs.

Although the State maintains that the social workers recorded their time based on the activities performed, our discussion with the former Deputy Director - Administration disclosed social worker time was charged based on funding availability.

State Agency Comments

Undocumented Administrative and Training Costs

State officials said they needed additional information in order to adequately respond to our finding and recommendation relating to undocumented administrative and training costs.

OIG Comments

We do not have case-specific information for the undocumented administrative and training costs. The administrative and training costs we classified as undocumented represent the difference between the total dollars the State claimed for administrative and training costs and the amount the State could support through documentation provided for our review.

FOSTER CARE MAINTENANCE PAYMENTS

The State claimed foster care maintenance payments that were not allowable for FFP. As a result, the State claimed: (1) \$2.8 million for unallowable institutional maintenance payments; (2) \$294,626 in maintenance payments that were not documented; and (3) \$241,732 in eligibility and payment errors which overlap the unallowable institutional payments. Title IV-E maintenance payments were overclaimed because the State did not maintain adequate administrative and internal controls, including properly supervising and monitoring the preparation of the retroactive claim by its consultants.

Recommendations

We recommend the State:

- ▶ repay the Title IV-E program \$2,515,577 (FFP) for unallowable institutional costs;
- ▶ verify the institutions have cost allocation systems that: (1) exclude unallowable cost items, and (2) ensure foster care rates are computed based on the proportion of Title IV-E children to non-Title IV-E children. This verification should be a precursor to the State's claim for institutional foster care costs; and
- ▶ supervise and monitor more closely the work of its consultants.

We are not recommending a financial adjustment for the \$294,626 overpayment because, in March 1999, the State reported a negative adjustment on its Federal IV-E-12 report. In addition, we are also not recommending the State refund the \$241,732 because those dollars are included in the institutional care questioned costs.

State officials agreed with our recommendation to supervise and monitor more closely the work of its consultants. However, the State did not agree with the remaining foster care maintenance payments findings and recommendations.

State Agency Comments

Institutional Cost Allocation Systems and Establishment of Title IV-E Rates

State officials did not concur with our finding and recommendation regarding unallowable institutional cost. State officials acknowledged that the institutions did not have cost allocation systems that were approved by the State, but attempted to comply with Federal guidelines by

soliciting rate breakdown information from the facilities and making retroactive adjustments to their original claims. State officials also said that to utilize an eligibility ratio/penetration rate in this claiming process would have unnecessarily eliminated costs that were legitimate claims under the Title IV-E program. According to State officials, the FY 1994-1996 rates obtained from the facilities were used to make retroactive adjustments to the State's original claims.

OIG Comments

The State did not provide any documentation to show the facility rate breakdown information was received and approved before they submitted their Title IV-E claims. Furthermore, there was no evidence the State reviewed the accuracy of the information it obtained from the facilities.

Even though the State solicited FY 1994-1996 rates from the facilities to make retroactive adjustments to the State's original claims, no adjustments were filed with AFC. Moreover, the State could only file adjustments with ACF for amounts that decreased their original claim because the State's time limit for filing increasing retroactive claims had expired.

State Agency Comments

Unallowable Services and Undocumented Maintenance Payments

In regard to the finding that unallowable services were included in some of the facilities' rates, State officials said that they could not comment on the OIG's recommended disallowance because they did not know which specific institutions were included in the audit.

In regard to the findings on undocumented maintenance payments and eligibility and payment errors, State officials said that they needed the OIG to provide case-specific information to respond to the finding on eligibility and payment errors) and determine if any further adjustments are warranted on the undocumented maintenance payments.

OIG Comments

On June 16, 2000, we provided the State with a listing of specific institutions that were included in the audit. We also provided the State with case specific information relating to the eligibility and payment errors.

However, we do not have case-specific information for the undocumented maintenance payments. The maintenance payments we identified as undocumented represent the difference between what the State claimed for maintenance payments and the amount the State could support through a roster of children and related dollars paid on behalf of those children.

CONSULTANT FEES

The State claimed \$2.5 million (FFP) for unallowable consultant fee costs under the Title IV-E program. The costs were unallowable because they were based on a contingency fee arrangement that does not meet the Office of Management and Budget (OMB) Circular A-87

reimbursement requirements. In addition, the Department of Health and Human Services (HHS) Departmental Appeals Board (DAB) ruled in a similar case that consultant contract costs were not allowable because they were not “reasonable” costs within the meaning of the applicable cost principles.

State officials were not aware that contingency fee costs could not be charged to Federal programs. In May 1999, the State adjusted its accounting records and implemented procedures to charge contingency fees to State-only funds. However, as of September 30, 1999, the State had not adjusted its Federal IV-E-12 report for these unallowable costs.

Recommendations

We recommend the State: (1) refund \$2,534,699 (FFP) to the Federal Government and (2) continue to ensure future claims for contingency fees are charged to State-only funds.

State Agency Comments

The State agreed with our finding and recommendations regarding the unallowable contingency fees.

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INTRODUCTION

Background

Foster Care

The 1967 amendments to the Social Security Act established foster care as a mandatory program under Title IV-A, Aid to Families with Dependent Children. In 1980, the Adoption Assistance and Child Welfare Act, Public Law 96-272, established the Title IV-E program. Title IV-E authorized Federal funds for States to enable them to provide foster care and adoption assistance for children under an approved State plan.

Congress identified three separate categories of expenditures under Title IV-E for which States can claim FFP: (1) foster care maintenance payments for children in foster care homes or child care institutions; (2) adoption assistance payments; and (3) payments found necessary by the Secretary for the proper and efficient administration of the State plan. Administration is subdivided to cover the cost of training State personnel to administer the Title IV-E program and all other administrative expenditures. Regulations implementing Title IV-E are codified at 45 CFR Part 1356.

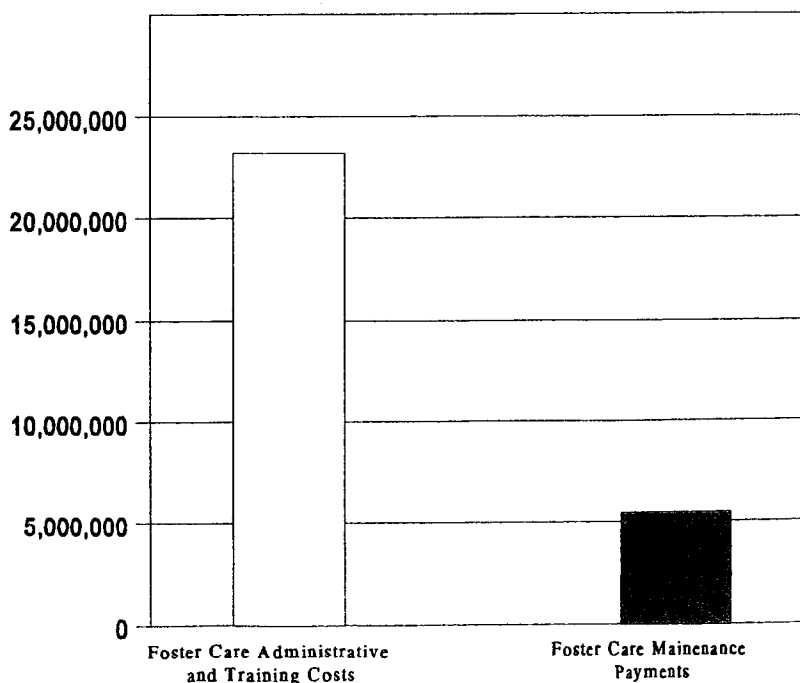
The ACF provides funding to the States to administer the Federal Foster Care and Adoption Assistance Programs. Within the State of Mississippi, the Mississippi Department of Human Services (State) is responsible for administering the Title IV-E Foster Care program.

The State's Retroactive Claim for Foster Care Maintenance Payments and Administrative Costs

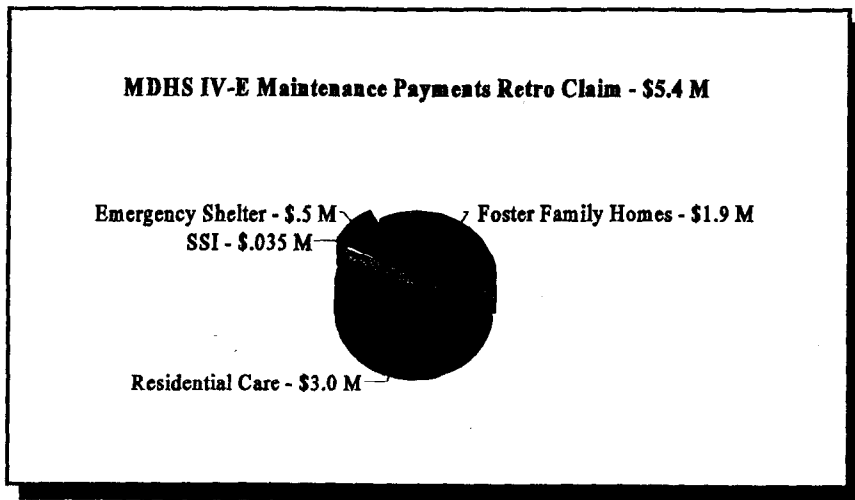
In 1995, the State entered into an agreement with IHHS for the purpose of enhancing its claims for Federal reimbursement for Title IV-E expenditures. The agreement initially provided for a contingency fee of 20 percent to IHHS based on the incremental increase in eligible Title IV-E foster care claims submitted to ACF for reimbursement. The fee was later reduced to 15 percent.

Through 45 CFR 95.7, States are allowed to file claims within 2 years of the quarter after services were provided. During the quarters ended December 31, 1993 through March 31, 1999 the State filed retroactive claims with ACF for costs of the Title IV-E Foster Care program. These claims totaled \$28,632,596 (\$16,323,512 FFP) and

Administrative, Training Costs and Maintenance Payments Claimed



covered the period October 1, 1993 through June 30, 1997. The retroactive claims represented foster care administrative and training costs of \$23.2 million (\$12 million FFP) and maintenance payments of \$5.4 million (\$4.3 million FFP) for children the State originally identified as eligible for SSBG funding and later the State determined them eligible for Title IV-E Foster Care.



The State paid foster care maintenance payments to three entities: Residential Care Institutions, Foster Family Homes and Emergency Shelters. The State also paid maintenance payments to these entities on behalf of children eligible for Supplemental Security Income (SSI).

Applicable Laws

Foster Care Maintenance Payments

Section 475 (4) of the Social Security Act defines foster care maintenance payments as:

...payments to cover the cost of food, clothing, shelter, daily supervision, school supplies, a child's personal incidentals, liability insurance with respect to a child and reasonable travel to the child's home for visitation. In the case of institutional care, foster care maintenance payments include the reasonable cost of administration and operation of the institution as necessary to provide the items described in the preceding sentence.

Foster Care Administrative Costs

The regulations at 45 CFR 1356.60(c) (2), list 10 examples of allowable administrative costs. Unless an activity is specifically listed or is closely related to a listed cost, States cannot reasonably consider an activity to be one which has been found necessary by the Secretary of the HHS for the proper and efficient administration of Title IV-E.

OBJECTIVES, SCOPE AND METHODOLOGY

Objectives

The objectives of our review were to determine if retroactively claimed Title IV-E:

- administrative costs were claimed using the appropriate time study;
- administrative and training costs were eligible for FFP; and
- maintenance payments were eligible for FFP.

In addition, it came to our attention that the State claimed consultant fees under Title IV-E. Accordingly, we reviewed the fees to determine if they were based on a contingency arrangement.

Scope

Administrative and Training Costs

During the period September 1996 to March 1999, the State submitted claims to ACF for Title IV-E administrative and training costs totaling about \$23.2 million (\$12.1 million FFP). These costs were claimed for the period July 1994 to June 1997. We did not statistically sample the costs claimed.

Maintenance Payments

During the period December 1995 to June 1998, the State submitted claims to ACF for 9,976 Title IV-E maintenance payments totaling approximately \$5.4 million. These payments were claimed retroactively for the period October 1, 1993 to September 30, 1996. We reviewed a statistical sample of 200 maintenance payments.

We used applicable laws, regulations, and ACF guidelines to determine whether the payments were eligible for FFP. We also reviewed two HHS DAB Decisions - No.1428 and No.1630 regarding claims for administrative costs.

We did not review the overall internal control structure of the State. Our internal control review was limited to obtaining an understanding of the State's process for documenting its retroactive claim. We did not test the State's internal controls because the objective of our review was accomplished through substantive testing.

Methodology

Administrative and Training Costs

The administrative claims resulted from work performed by two consulting groups, IHHS and Klynveld, Peat, Marwick, Goerdeler (KPMG). We discussed with State, IHHS and KPMG representatives the methodology used to reallocate the administrative and training costs. We reviewed the methodology used by both groups to prepare their segments of the retroactive claim. We verified the accuracy of the IHHS and KPMG computation of the Title IV-E penetration rate (ratio of Title IV-E eligible children to non-Title IV-E children) used to reallocate costs.

For IHHS' work, we verified the mathematical accuracy of the computation of the reallocated costs and traced costs claimed to supporting documents.

For KPMG's work, we verified the mathematical accuracy of the costs claimed for selected activity codes reallocated and traced costs claimed to supporting documents. In addition, we analyzed the services provided under each activity code and reviewed the Social Services Time Study instructions.

Maintenance Payments

Our statistical sample of 200 maintenance payments was selected using a stratified sampling design that included 3 strata. All payments sampled, except payments in Stratum 3, were randomly selected. The payments in Stratum 3 were reviewed 100 percent. Details on our sampling methodology and projection are presented in **Appendix A**.

Generally, for each of the 200 payments, we determined if the child was Title IV-E eligible. In this regard, we determined if the: (1) child was removed from the home of a specified relative; (2) court order documented continued residence in the home was contrary to the welfare of the child and the State made reasonable efforts to prevent the child's removal; (3) child met Title IV-E income and resource requirements; and (4) State established deprivation of parental support.

We determined if every provider sampled was licensed. On a test basis, we also reviewed back-up documentation that supported the State's decision to issue the license. In addition, we traced the payment claimed to source documents to assure the payments were made correctly.

Field work was performed at the State's offices in Jackson, Mississippi. Field work was conducted from October 1998 to November 1999. On April 19, 2000, we held an exit conference with State officials to discuss the findings and recommendations contained in the draft audit report. On May 23, 2000, we received the State's written comments to the draft report.

Our review was made in accordance with generally accepted government auditing standards.

FINDINGS IN DETAIL

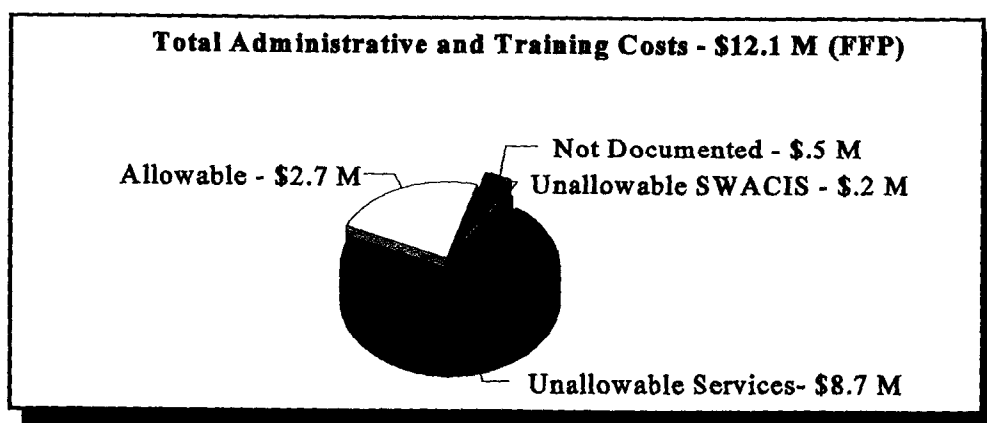
The State used the appropriate time study to claim retroactive administrative and training costs. The State's retroactive claim for administrative and training costs was based on the results of a SSTS that was designed to capture the effort State employees expended on Title IV-E administration and training as well as other State and Federal programs. In compiling its claim, the State appropriately used the SSTS rather than its newly developed random moment time study. Although the State used the appropriate time study in compiling its claim, we identified other problems with the claim.

The State claimed about \$15 million (FFP) in unallowable costs for: Administration and Training - \$9.4 million; Maintenance Payments - \$2.8 million; and Consultant Fees - \$2.5 million.

ADMINISTRATIVE AND TRAINING COSTS

Of the \$12.1 million the State claimed for administrative and training costs, \$9.4 million was unallowable. The State claimed:

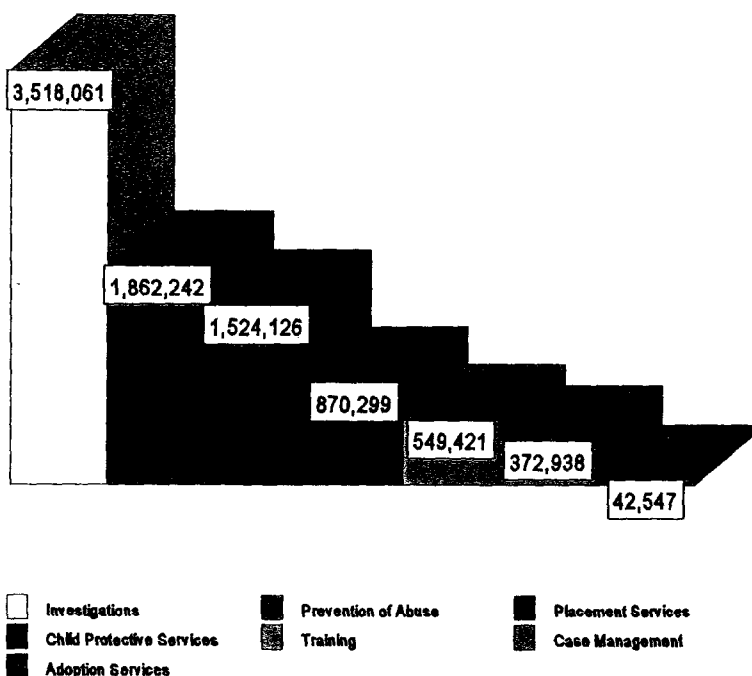
- ▶ \$8.7 million that included **unallowable services**;
- ▶ \$476,476 that was **not supported**; and
- ▶ \$219,000 for a Statewide Automated Child Welfare Information System (SACWIS) **computer equipment refund** claimed at the incorrect FFP rate.



Unallowable Services

Unallowable Admin. and Training Costs - \$8.7 M (FFP)

The State claimed \$8.7 million (FFP) for administrative and training costs that included unallowable services accumulated in seven activity codes.



This portion of the State's retroactive claim for Title IV-E administrative and training costs resulted from work performed under contract with KPMG. The State did not have controls in place and did not adequately monitor the activities of its consultant to ensure the claim met Title IV-E reimbursement requirements. As a result, the entire \$8.7 million (FFP) claimed was unallowable.

Criteria

The criteria for determining the allowability of administrative costs is contained in the CFRs and an ACF program announcement.

45 CFR 1356 and ACF Program Announcement - ACYF-PA-87-05

Allowable administrative and training activities claimed under Title IV-E are listed at 45 CFR, Part 1356. According to the regulations, in order to be claimed under Title IV-E, administrative cost must be for one of the activities listed at 45 CFR 1356.60(c)(2) or closely related.

Through regulations at 45 CFR 1356.60 (c) (2) and (3) and through program announcement ACYF-PA-87-05, ACF provided guidance to States regarding unallowable administrative costs. The ACYF-PA-87-05, *Unallowable Costs*, states:

Costs that are not reimbursable under Title IV-E...include those costs incurred for social services which provide treatment to the child, the child's family or foster family to remedy personal problems, behavior or home conditions. Examples of non-reimbursable services include physical or mental examinations, counseling, homemaker or housing services and services to assist in preventing placement and reuniting families.

The ACYF-PA-87-05, **Other Allowable Costs**, also limits FFP for administrative costs for individuals the State reasonably views as candidates for Title IV-E maintenance payments and defines a candidate as a child for whom the State has a: case plan, eligibility determination form, or evidence of court proceedings.

The ACYF-PA-87-05 also states:

The administrative costs of referral to service providers (45 CFR 1356.60 (c)(2)(i)) are only for those referrals specifically designed to further the statutory goal of section 471(a)(15) of the Act and are limited to the activities of agency staff in the referral process only. Reimbursement is not available for the costs of services, investigations, or physical/mental examinations or evaluations.

HHS DAB Decisions

In addition, the DAB held in two cases (Decision No. 1428, dated July 21, 1993 and Decision No. 1630, dated September 18, 1997) that activities similar to those performed by the State's social workers were allocable to Title IV-E only if they were performed on behalf of children who were candidates for Title IV-E.

Unallowable Administrative and Training Costs

The administrative and training costs the State claimed were unallowable because the:

- ▶ State used **arbitrarily determined percentages** to calculate a Title IV-E allowable portion of administrative and training costs;
- ▶ **activities performed by the social workers** were, in some cases, not related to individuals the State could reasonably view as **candidates for Title IV-E** foster care, and in other cases, related to **activities the regulations specifically exclude** as allowable administrative costs; and
- ▶ **time study** used to account for social worker effort was **flawed**.

Arbitrarily Determined Title IV-E Percentages

The State claimed \$8.7 million (FFP) for administrative costs that included unallowable services. The State originally claimed these costs under its SSBG and accumulated these costs under seven activity codes (six administrative and one training) as follows.

Description	Title IV-E Percentage
Code 101 - Investigations	80
Code 170 - Case Management	80
Code 180 - Adoption Services	90
Code 280 - Prevention of Abuse	90
Code 340 - Protective Services Child	90
Code 600 - Placement Services	90
Code 704 - Training	90

In preparing its retroactive Title IV-E claim, the State was aware that certain activities within the codes were not allowable for reimbursement under Title IV-E. Therefore, prior to submitting their claim, the State attempted to exclude unallowable services by “discounting” the costs originally charged to each of the 7 activities by 10 to 20 percent.

Examples of the unallowable activities included in the above codes (excluding training) are:

- crisis counseling to victim or family;
- discussions with the parent, child or other knowledgeable persons, as appropriate, to determine the factors which may contribute to the neglect of or abuse of the child;
- sharing knowledge gained with the caretaker and/or child as appropriate, as a way of identifying the problems and gaining trust and cooperation in their solution;
- casework with the caretaker and/or child, or other significant persons, as appropriate, to give advice and guidance in such relevant areas as child rearing, age and sex appropriate developmental skills, employment counseling, family or independent living, health maintenance, nutrition, preparation of foods, income management, and general household management to include Homemaker Service if applicable and necessary for the accomplishment of this activity;
- support of the caretaker in efforts to make improvements in parenting patterns; support of a child, when appropriate, in efforts toward self-sufficiency, self maintenance, and independent living, to include arranging for and follow-up on Maternity Home Care Service if needed; and
- to provide directly or by contract for medical examination, social and psychological evaluation for diagnostic purposes in order to formulate case treatment.

Furthermore:

- ▶ three of the seven codes were for services to adults identified as the primary client; and
- ▶ three of the seven codes' goals were either employment, management of personal affairs, living arrangements or management of parental responsibilities.

In addition, one of the 7 codes (704) is described as training for *[i]nstitutes, seminars, workshops, and conferences related to the job and sponsored by professional organizations regardless of when training is received*. The PA-87-05 requires training which is not directly related to IV-E be allocated to all programs in a manner to assure each program is charged its proportionate share. The State did not provide any information to show this training was related to Title IV-E foster care.

A State official told us that they used their "professional judgement" to determine the "discounted" percentages used.

In our opinion, using arbitrarily determined percentages is not a reasonable methodology for excluding the costs of unallowable services. Not only was the State's methodology unreasonable, but the **activities performed by the social workers** were in some cases, not related to individuals the State could reasonably view as **candidates for Title IV-E** foster care, and in other cases, related to costs of **activities the regulations specifically exclude as allowable** administrative costs.

Activities Performed by the Social Workers

The social workers' time spent on various activities was accumulated through a SSTS. Under the SSTS, social worker time was recorded 1 week out of each month and that week was extrapolated for the entire month. The State's policy and procedures contain a description of the various activities associated with the seven activity codes. These policies and procedures are incorporated as an Appendix to the State's Cost Allocation Plan, effective July 1, 1994. The policies and procedures contain both general and detailed instructions for social workers to follow in completing the SSTS.

Primary Client Not Title IV-E Candidate

The *Detailed Instructions* are divided into three sections.

- ▶ Section I instructs social workers to use these codes: *IF [the] ACTIVITY DOES NOT RELATE TO A SPECIFIC PRIMARY CLIENT, it should be reported under one of the following codes...* One of the six administrative SSBG codes, Investigations, that was reallocated to Title IV-E is listed in this section.

If the investigative activity the social worker was performing did not relate to a specific primary client, the State could not have viewed the client as a reasonable candidate for foster care maintenance payments as evidenced by a case plan; eligibility determination form; or evidence

of court proceedings. Therefore, any costs related to this activity would not be allowable Title IV-E administrative costs.

The DAB Decisions #1428 and #1630 upheld the premise that activities performed by social workers are allocable to Title IV-E only if they are performed on behalf of children who are candidates for Title IV-E. The SSTS did not identify specific children to which these activities were related. Therefore, to evaluate the activities, we had to rely on the SSTS instructions which tell the social workers to use Section I codes in cases where a primary client had not been identified.

- ▶ Section II instructs social workers to use this code: *IF [the] ACTIVITY DOES RELATE TO A SPECIFIC PRIMARY CLIENT, the worker should first determine whether the Activity performed is one of the Title IV-E reimbursable activities listed below...and enter the appropriate service/activity code....* This section contains codes relative to the social worker's activities on Title IV-E and non-Title IV-E Foster Care cases.

Costs the Regulations Specifically Exclude

The State's claim included administrative costs that are specifically excluded by the regulations. The activities described in the State's instructions to the social workers show that certain activities, when compared to the allowable activities outlined in the regulations, are unallowable. For example:

- ▶ Section III instructs social workers to: *Use the following service/activity codes when the activity is the provision of Social Services which provide counseling or treatment to ameliorate or remedy personal problems, behaviors or home conditions....* The remaining five SSBG codes reallocated to Title IV-E were listed in this Section III.

Section 1356.60 (c) (3) specifically excludes administrative costs related to the provision of social services which provide counseling or treatment to ameliorate or remedy personal problems, behaviors or home conditions.

In addition, ACYF-PA-87-05 excludes the costs of investigations as an administrative cost. The State defined Code 101 - Investigations as: *Activities related to the investigation of a report of abuse/neglect of a child from the time the report is received until the completion of the investigation assessment.* In contrast to these activities, Section 1356.60 (c) lists activities that the State must engage in after its investigation. The purpose of the activities listed at 1356.60 (c) is to assist children who have been placed in foster care or who have been identified as candidates for foster care. Accordingly, Title IV-E reimbursement is not available for the cost of investigations.

Time Study Flawed

The time study the State used to identify how social workers expended their time was not an accurate reflection of the activities on which the social workers actually worked. A State official

told us the SSTS was flawed in that the social workers' time was recorded based on available funding rather than the activity on which the social workers' actually expended time. The officials explained that in the past, SSBG monies had been plentiful and State officials had been lax in providing guidance and training to social workers in accurately recording their time on the SSTS. It was only when SSBG and other capped funding sources were reduced did State administrators take note of the importance of accurately recording administrative time.

Controls and Monitoring

Administrative costs were overclaimed because the State did not have the needed controls in place and did not adequately monitor the activities of its consultants to assure that administrative and training costs claimed met ACF reimbursement requirements.

Effect

As a result of weak controls and inadequate monitoring, the State overclaimed administrative and training costs totaling \$8.7 million (FFP).

**Administrative and Training Costs
Not Documented**

The State did not have documentation to support \$476,476 (FFP) of its retroactive claim for administrative (\$466,370) and training (\$10,106) costs as required by Federal regulations. The claim was not adequately documented because the State did not properly monitor the activities of its consultants.

Criteria

Title 45 CFR Section 74.21 (b)(7) requires recipient financial management systems include: *[a]ccounting records, including cost accounting records, that are supported by source documentation.* The **OMB Circular A-87 Attachment A, Section C. 1. j.** states *[t]o be allowable under Federal awards, costs must ...be adequately documented.*

Undocumented Costs

The State claimed \$476,476 (FFP) in administrative and training costs that were unsupported. This portion of the State's retroactive claim for Title IV-E costs resulted from work performed under contract with IHHS. The State claimed \$3,107,399 (FFP) in retroactive administrative and training costs which were originally charged to non-Title IV-E foster care. The IHHS reallocated these costs based on the increase in IV-E eligible children which was determined retroactively.

Monitoring

The administrative and training costs were overclaimed because the State did not properly monitor the activities of its contractor to assure that costs claimed were documented. For

example, the State did not ensure its consultants had support for the \$3.1 million in administrative and training costs. Therefore, during our audit the consultants had to reconstruct support for the claim. As a result of this reconstruction, the State could not support \$476,476 (FFP) of its claim.

Effect

As a result of inadequate monitoring, the State overclaimed \$476,476 of administrative and training costs.

Computer Equipment Refund

The State made an adjustment to the Form IV-E-12 to credit the Federal share of a SACWIS computer equipment refund. However, the Federal share was credited using an incorrect FFP rate. As a result, the State was overpaid \$219,000 for SACWIS computer equipment.

Criteria

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996, in part, extended the enhanced SACWIS FFP rate at 75 percent until September 30, 1997. The FFP rate was reduced to 50 percent for all SACWIS expenditures made on or after October 1, 1997.

Incorrect FFP Rate Used

In December 1997, the State received an \$876,000 refund for SACWIS computer equipment purchased and claimed for FFP before September 30, 1997 (claimed at the 75 percent FFP rate). In June 1998, the State reported on its Federal IV-E-12 report the Federal share of the refund at the 50 percent FFP rate. However, the State should have used the 75 percent rate in effect at the time the computer equipment was purchased.

Inadvertent Oversight

State officials mistakenly used the 50 percent FFP rate which was in effect at the time the refund was received instead of the 75 percent rate in effect at the time the computer equipment was purchased.

Effect

As a result, the State was overpaid \$219,000 for SACWIS computer equipment.

Recommendations

The State should:

- repay the Title IV-E program \$8,739,634 (FFP) for administrative costs that did not meet ACF's definition of allowable costs;
- repay the Title IV-E program \$476,476 (FFP) for administrative and training costs not documented; and
- monitor more closely the activities of its contractor to assure that costs claimed are documented.

We are not recommending a financial adjustment applicable to the computer equipment refund because in April 1999 the State reported a negative adjustment on its Title IV-E-12 report for the \$219,000.

In written comments to the draft report, the State agreed with our recommendations regarding the \$219,000 claimed at an incorrect FFP rate and the need to better monitor the activities of its contractors. State officials said the recommended disallowance for the incorrect FFP rate had been satisfied through an adjustment the State made on its Federal report for the quarter ended March 1999. In regard to monitoring its consultants, State officials said they will monitor more closely the activities of its contractor to assure that costs claimed are documented. State officials said that a Program Administrator Senior has been assigned to conduct quality assurance reviews of cases. The Division of Internal Audit will also conduct reviews to insure consultants are in compliance with all applicable State and Federal regulations.

State officials did not agree with the remaining administration and training cost findings and recommendations.

State Agency Comments

\$8,739,634 for Unallowable Services

State officials disagreed with the finding and recommendation related to administrative costs that did not meet ACF's definition of allowable costs. In written comments to the draft report, State officials said that the recommended disallowance should be reduced from \$8,739,634 to \$6,648,804 because the ACF had not reimbursed the State for two quarters of costs claimed.

OIG Comments

We confirmed with the ACF that on June 5, 2000, the State was paid for claims in question. Accordingly, we do not believe it appropriate to reduce our recommended disallowance of these claims.

Arbitrarily Determined Title IV-E Percentages

State officials said that they did not arbitrarily determine the Title IV-E percentages, but used the collective experience of the State's program staff and performed an analysis of the activities listed on the Social Services Time Study to determine which activities were related to the Title

IV-E program. State officials said that after they developed a matrix which delineated all the activities related to Title IV-E, the actual value (total minutes) for each activity was identified and then discounted to eliminate unallowable costs.

OIG Comments

As discussed in the report, we believe the State arbitrarily determined the Title IV-E percentages. The State did not provide any documentation supporting the time social workers spent on any of the activities listed within the codes reallocated to Title IV-E. The matrix developed by the State's consultants did not indicate the number of minutes related to each activity within the codes. The matrix only showed total minutes the social workers charged to each code. As discussed in the report, some activities within the codes were not allowable for Title IV-E reimbursement.

Primary Client Not Title IV-E Candidate

State officials said that an analysis of the activities included in the codes recommended for disallowance showed that the activities were eligible for IV-E reimbursement.

OIG Comments

The State did not provide any documentation of their analysis of the activity codes the State determined were eligible for reimbursement. Our analysis showed that the activities performed by the social workers were in some cases, not related to individuals the State could reasonably view as candidates for Title IV-E foster care, and in other cases, were activities the regulations specifically exclude as allowable Title IV-E administrative costs.

State officials did not provide any further comments to our finding that activities performed by social workers are allocable to Title IV-E only if they are performed on behalf of children who are candidates for Title IV-E. State officials also did not comment on our finding that the State's claim included administrative costs that are specifically excluded by Federal regulations.

Time Study Flawed

State officials maintained that the codes recommended for disallowance were eligible for Title IV-E reimbursement and social workers recorded their time based on the activities performed. State officials also said they have implemented a Random Moment Time Study that is more activity-specific of social worker's time and activities and the State has made adjustments to its Cost Allocation Plan.

OIG Comments

Although the State maintains that the social workers recorded their time based on the activities performed, our discussion with the former Deputy Director for Administration disclosed social worker time was charged based on funding availability. If the children served by the social workers were foster care candidates, the State could have charged the social workers time to similar activity codes available at that time for either Title IV-E or other State-funded foster care.

The State-only codes could have been used while the State determined a foster care candidate's eligibility for Title IV-E. Instead, the State chose to charge the social workers' time to the SSBG program. Moreover, had social workers recorded their time based on activities performed as the State maintains, there would have been no need to reallocate these SSBG costs to Title IV-E.

\$476,476 for Undocumented Administrative and Training Costs

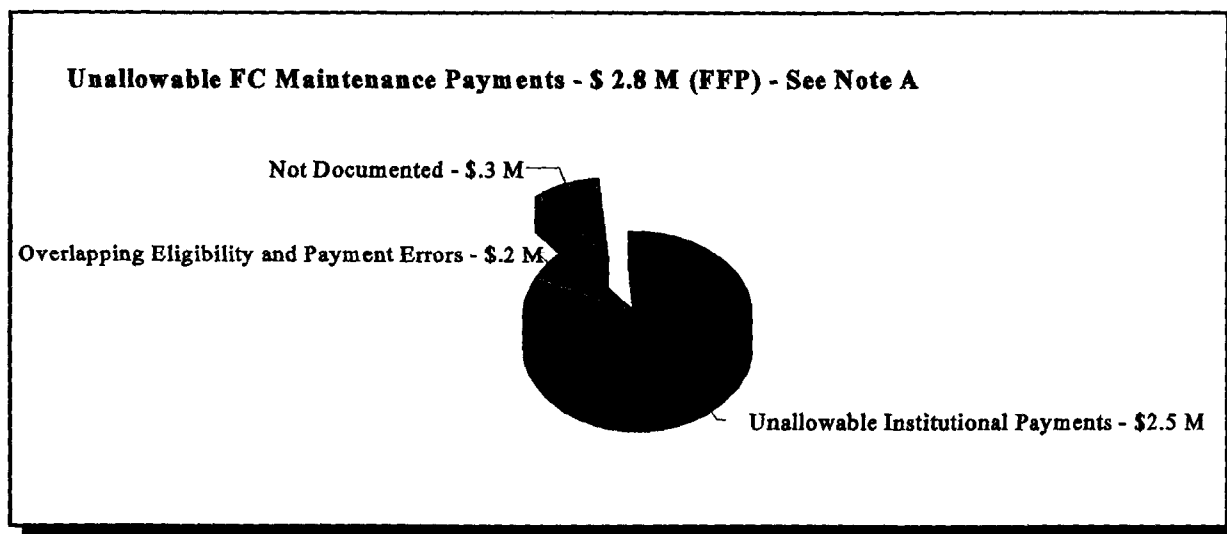
State officials said they needed additional information in order to adequately respond to our finding and recommendation relating to undocumented administrative and training costs.

OIG Comments

In regard to the State's request, we do not have case-specific information for the undocumented administrative and training costs. The administrative and training costs we classified as undocumented represent the difference between the total dollars the State claimed for administrative and training costs and the amount the State could support through documentation provided for our review.

FOSTER CARE MAINTENANCE PAYMENTS

Of the \$4.3 (FFP) million the State claimed in retroactive payments for foster care maintenance, \$2.8 million was unallowable.



Note A: The \$.2 million of overlapping eligibility and payment errors is also included in the \$2.5 million of unallowable institutional maintenance payments.

The State claimed:

- ▶ \$2.8 million for unallowable **institutional maintenance payments**;
- ▶ \$294,626 in maintenance payments that were **not documented**; and

- ▶ \$241,732 in **eligibility and payment errors**.

Institutional Foster Care

The State claimed \$2.8 million (FFP) for residential care and emergency shelter (institutions) costs. These institutions' costs were unallowable because the State:

- ▶ used institutions' Title IV-E reimbursement rates that were not based on a **cost allocation system** approved by the State. Rather the State relied on the institutions to identify the allowable Title IV-E portion of their rates.

In addition, the State:

- ▶ used, in some instances, **current year rates** to compute its retroactive claim for reimbursement; and
- ▶ charged, in other instances, rates that included **unallowable services**.

These conditions occurred because the State did not maintain adequate administrative and internal controls that enabled them to accurately claim Title IV-E costs and did not adequately supervise and monitor the consultant's preparation of the State's retroactive claim.

Institutional Cost Allocation Systems

The State used institutions' Title IV-E reimbursement rates that were not based on a cost allocation system approved by the State as required by ACF guidelines. Rather the State relied on the institutions to establish the allowable Title IV-E portion of the institutions' rates.

Criteria

The **ACYF-PA-82-01** was issued to all State administrators of State Public Welfare Programs. This policy announcement discusses steps States must take in order to claim foster care maintenance payments for institutional foster care under Title IV-E. According to PA-82-01:

...the cost of foster care in institutions will have to be allocated along two lines: (1) the allocation of costs, for FFP purposes, based on allowable cost items and activities; and (2) the allocation of costs based on the proportion of children in the institution receiving foster care under Title IV-E for those allowable elements compared to children whose care is paid under other programs.

The establishment of a cost allocation system for institutions, as well as for the State itself, is a State responsibility and is a necessary precursor to the State's ability to claim FFP for allowable institutional foster care costs.

Various cost allocation methods, e.g., random moment studies or actual counts, may be used by institutions in developing their cost allocation plans. The State agency must approve the plan as a part of its approval of rates.

Establishment of Title IV-E Rates

The State paid for institutional foster care based on per diem rates established by the institutions. The rates paid by the State were either the institutions' full board rate or a lesser negotiated rate.

When the State compiled the rosters to support their claim for retroactive Title IV-E Foster Care maintenance payments, they used institutional rates developed in early 1998. We informed the State they could not apply the 1998 rates retroactively. Subsequently, the State asked the institutional providers to determine the portion of their Federal Fiscal Year (FY) 1994, 1995 and 1996 rates that was applicable to Title IV-E.

For those institutions paid the full board rate, the State requested a facility rate breakdown, including charges for: (1) room, board and supervision; (2) social services and treatment; and (3) administration. To arrive at the Title IV-E portion of the rate, the State computed a percentage by dividing room and board by the total rate, less administration. For those residential care institutions paid a negotiated rate, the State only requested the institutions verify the rate charged. For those emergency shelter institutions paid a negotiated rate, the State requested a facility rate breakdown. These negotiated rates were charged to Title IV-E at 100 percent. Contrary to PA-82-01, the State did not verify that any of the institutions' rates had been:

- ▶ adjusted for all unallowable cost items; and
- ▶ computed based on the proportion of Title IV-E children to non-Title IV-E children.

In addition, some of the institutional costs were also unallowable because the State used current year rates to compute its retroactive claim and/or charged rates that included unallowable services.

Current Year Rates Used to Compute State's Retroactive Claim

The State used, in some instances, current year rates to compute its retroactive claim for reimbursement contrary to OMB guidance.

The **OMB Circular A-87** prohibits States from using current statistics to compute prior year claims. The ASMB C-10, which is the implementation guide for OMB Circular A-87 provides States clarification and procedural guidance to implement the Circular. The ASMB C-10, Part 3, 3-23, states that the results of an acceptable time or effort reporting covering one period of time **cannot** be applied to a different period. While this example relates to time and effort reporting, we believe the same principle applies to the institutions' per diem rates.

For 11 of 15 residential care institutions, the State used the institutions' current year rates to compute its retroactive claim for reimbursement.

- ▶ For five institutions the FY 1998 percentages the State used to compute the institutions' Title IV-E costs were different than the rates the institutions confirmed - two were higher, three were lower.
- ▶ For two institutions the State used FY 1996 rate information because:

- ▶ one institution did not respond to the State's request; and
- ▶ one institution did not provide a breakdown, but stated their rate was all-inclusive.
- ▶ For four institutions, the State used FY 1998 data and determined the negotiated rate was less than the institutions' daily Title IV-E allowable rate. Therefore, the State claimed the entire negotiated rate.

Thus, the FY 1994 -1996 rates the State obtained from the institutions and charged to Title IV-E were, in most instances, inaccurate.

Unallowable Services

The State, in other instances, charged rates that included unallowable services contrary to ACF guidance.

The ACYF-PA-87-05 states: costs that are not reimbursable under Title IV-E...include those costs incurred for social services which provide treatment to the child, the child's family or foster family to remedy personal problems, behavior or home conditions. Examples of non-reimbursable services include physical or mental examinations, counseling, homemaker or housing services and services to assist in preventing placement and reuniting families.

For four residential care institutions and five emergency shelters, the State charged the full negotiated rates without assuring that unallowable costs were excluded. For one of the nine, the negotiated rate was more than the institution's normal Title IV-E allowable rate. For eight of the nine, the State negotiated a daily rate that was less than the institutions' normal Title IV-E allowable rates. For example, one institution's negotiated rate was \$72 per day. The institution's normal Title IV-E allowable rate was \$76.14. Even though the State claimed under Title IV-E the lesser rates, both rates for all institutions included unallowable costs.

According to the State's contracts with the institutions, the daily rates included unallowable social services such as therapeutic counseling, child/parent counseling and psycho-social assessments.

Controls, Supervision and Monitoring

Institutional foster care was overclaimed because the State did not maintain adequate administrative and internal controls. Additionally, the State failed to properly supervise and monitor the preparation of the retroactive claim by its consultants.

Administrative and Internal Controls

The State could not assure that the institutions' rates had been adjusted for all unallowable cost items, and computed based on the proportion of Title IV-E children to non-Title IV-E children. This assurance could not be provided because the State did not have administrative and internal controls in place to capture the rate information needed. A State official told us that prior to hiring the consultants, the State had not claimed institutional foster care costs. Therefore, the State had to use 1998 data for its 1994 through 1996 claim.

There were also indicators that prior to January 1998, the State was not aware of what specific elements of costs were included in the institutions' rates. For example:

- ▶ the institutional contracts contained no rate breakdown information that the State could use to determine if unallowable costs had been excluded;
- ▶ a State official who negotiates the institutional care rates told us the rates were based on the State's budget, other grants the institutions received, and the specialized services the institutions provided. This official did not review the rates to assure they contained only allowable Title IV-E costs;
- ▶ another State official responsible for the on-site evaluations of the institutions told us his unit also does not evaluate the institutions' rates. The State only conducts annual monitoring visits to each in-State institution and biennial visits to out-of-State institutions. The primary purpose of these monitoring visits is to make sure the institutions meet the terms and conditions of their contracts and maintained accurate records of the children in their care; and
- ▶ we asked the State's consultant what procedures or guidelines the residential care institutions followed to properly identify the three¹ cost components of the daily rate. The consultant replied that he had no idea, but assumed the shelters had their own way of allocating costs to the three elements.

Supervision and Monitoring

Additionally, the State did not adequately supervise and monitor the preparation of the retroactive claim by its consultants. First, the State relied on the contractor to prepare the retroactive claim. Children in emergency shelters were part of that claim. The consultants used 100 percent of the emergency shelters' per diem rates because the consultants were unaware emergency shelters provided services other than room and board. However, the State was aware the emergency shelters provided child/parent counseling and psycho-social assessments, but may not have communicated this information to the consultants.

Second, it was almost 2 years after the State submitted its first claim for institutional care that the State realized the consultants compiled the claim without obtaining any rate breakdown information. The first claim was submitted in September 1996 for the quarter ending March 1994. However, the State did not request facility rate breakdown information until January 1998. The information requested was based on FY 1998 rates.

Effect

As a result of not maintaining adequate controls and not properly supervising and monitoring its consultants, the State claimed \$2.8 million (FFP) in unallowable costs.

¹Room, board and supervision; social services/treatment; and administration.

Maintenance Payments Not Documented

The State claimed retroactive Title IV-E Foster Care payments of \$294,626 (FFP) without assuring amounts claimed were documented as required by Federal regulations. The State did not properly monitor the activities of its consultants.

Criteria

Title 45 CFR Section 74.21 (b)(7) requires recipient financial management systems include: *[a]ccounting records, including cost accounting records, that are supported by source documentation. The OMB Circular A-87 Attachment A, Section C. 1. j. states [t]o be allowable under Federal awards, costs must ...be adequately documented.*

Payments Not Documented

The State claimed retroactive Title IV-E Foster Care payments that were not documented. The State compiled a roster of children for whom foster care payments were made. The amounts shown on the roster were less than the amounts the State reported on its Federal IV-E-12 report for 7 of the 12 quarters claimed retroactively.

Supervision and Monitoring

The State contracted with consultants to compile its retroactive claim; however, the State did not properly supervise and monitor the activities of its consultants to assure that maintenance payments claimed were documented. For example, at the beginning of our audit neither the State nor its consultants had a roster of children that supported its claim. Therefore, the consultants had to reconstruct the roster.

Effect

As a result, the State was overpaid \$294,626 (FFP).

Eligibility and Payment Errors

Our statistical sample of 200 Title IV-E maintenance payments showed:

- ▶ 15 payments where the child's **eligibility was not documented**; and
- ▶ 30 payments where the **amount claimed was greater than the Title IV-E allowable amount.**

Eligibility Not Documented

The State claimed 15 maintenance payments for 11 children who's eligibility was not documented as required by Federal regulations and ACF guidelines.

- ▶ 6 payments had no supporting documentation for the nunc pro tunc court order;
- ▶ 5 payments lacked prescribed court orders;
- ▶ 3 payments had no provider license; and
- ▶ 1 payment was for a child whose placement was not documented.

Criteria

Title 45 CFR Section 74.21 (b)(7) requires recipient financial management systems include: *[a]ccounting records, including cost accounting records, that are supported by source documentation.* The **OMB Circular A-87 Attachment A, Section C. 1. j.** states *[t]o be allowable under Federal awards, costs must ...be adequately documented.*

ACYF-IM-87-28 states *courts have the authority to enter an order nunc pro tunc to supply, for the record, something that has actually occurred, but was omitted from the record through inadvertence or mistake.* States that submit nunc pro tunc orders to meet Title IV-E eligibility requirements *must provide documentation to verify that the original information was omitted by inadvertence or mistake.* Documentation supplied can be a *court transcript, the agency's report to the court or any other documentation that would show that the information had already been presented to the court...*

The **ACYF-IM-89-08** states *[t]he frugal use of nunc pro tunc orders in title IV-E is necessary to assure the integrity of the foster care system and, specifically, to assure that all title IV-E eligible children are afforded the protections to which they are entitled...*

Section 472 (a)(1) of the Social Security Act and ACYF-IM-89-08 require two judicial determinations for a child to be Title IV-E eligible. The ACYF-IM-89-08 states a court order must include a determination that: 1) *the continuation in the home would be contrary to the welfare of the child,* and 2) *reasonable efforts had been made prior to placement to prevent or eliminate the need for removal of a child from his home.*

Title 43, Chapter 021 of the Mississippi Code of 1972, as amended lists five steps that must be taken to remove children from their homes and place them in foster care. Those steps are: a custody order is issued for a period not longer than 48 hours; a detention or shelter hearing is held; a petition is filed within 5 days from the date of the shelter hearing; an adjudicatory hearing is held within 90 days after filing the petition - if the child is in shelter, the hearing must be within 30 days of the child being taken into custody; if the child is in custody, a dispositional hearing is held within 14 days after the adjudicatory hearing.

Section 472 (c) of the Social Security Act requires either licensing or approval for foster family homes and child-care institutions in order to be Title IV-E eligible. Section 472 (c)(2) defines child-care institutions as *...private child-care institutions, or a public child-care institution...which is licensed by the State...or has been approved...by the...State...*

Types of Documentation Lacking

Nunc Pro Tunc Court Orders

Six payments had no supporting documentation for the nunc pro tunc court order. The State did not have court transcripts, the agency's reports to the court or any other documentation that would show the court inadvertently omitted "contrary to the welfare" and/or "reasonable effort" determinations.

Prescribed Court Orders

Five payments lacked prescribed court orders. For three of the five payments, the court orders did not contain "reasonable efforts" language. The remaining two payments were supported with temporary orders. One order said the order expired 30 days after the State gained custody. The State did not have any additional orders showing continuation of custody. The remaining order is titled "Temporary Emergency Order." State officials told us another court order had not been issued to take the child from the State's custody. Therefore, a more permanent order was not needed. In our opinion, the order was temporary and according to State law, temporary orders expire in 48 hours.

Provider Licenses

Three payments to one provider did not have documentation to show the provider was either licensed or approved by the State to provide foster care.

Child's Placement Not Documented

One payment was for a child whose placement was not documented. The State did not have an eligibility file for the child and could not document where the child was placed at the time of our sample payment.

Amount Claimed Greater Than Allowable

The State claimed 30² maintenance payments for 15 children where the amount claimed was greater than the Title IV-E allowable payment.

- ▶ 19 payments were claimed incorrectly because the State claimed payments to institutions in which the children were not placed;
- ▶ 5 payments were claimed in instances where the child was not at the institution;
- ▶ 2 payments were claimed based on institution board rates that were greater than the institutions' Title IV-E allowable board rates;

²In the draft issued to the State on March 24, 2000, we reported "*32 payments where the amount claimed was greater than the Title IV-E allowable amount*". The final report has been revised to show that there were only 30 such payments. Also, our sample projections and all other applicable parts of this final report have been modified to reflect this change.

- ▶ 2 payments claimed were greater than the amount the State actually paid the institution;
- ▶ 1 payment was claimed based on a Title IV-E allowable percentage that was greater than the institutions' Title IV-E allowable percentage;
- ▶ 1 payment was claimed incorrectly based on the child's age.

Types of Payment Errors

Rate Claimed for an Institution the Child Was Not Placed

Nineteen payments were claimed for four children at residential care facilities they were not placed. However, State records showed the children were in facilities that charged a lesser Title IV-E allowable rate. For example, one was claimed to be at Southern Christian which has a Title IV-E allowable rate of 100 percent. The child was actually placed at Peace River Center which has a Title IV-E allowable rate of 50 percent.

Child Not At the Institution For the Time Period Claimed

Five payments were claimed for five children that were not at the institution during the time period the State claimed. For example, 1 child resided at an institution for the first 8 days of the month. On day nine, the child left the institution and returned on the last day of the month. Therefore, the child was in the institution for a total of 9 days. The State claimed a payment for the entire month for this child.

Title IV-E Rate Claimed Greater Than the Institutions' Title IV-E Allowable Rate

Two payments were claimed for two children at institutions that had lesser Title IV-E allowable rates than the State claimed. For example, the rate at one institution was \$205 per day. The State claimed \$240 per day.

Amounts Claimed Greater Than Amounts Actually Paid

Two payments were claimed for two children where the amount claimed was greater than the amount the State actually paid. For example, the State claimed \$277 per day for one child, but actually paid \$235.

Title IV-E Percentage Claimed Greater Than the Institution's Title IV-E Allowable Percentage

One payment was claimed for one child at 68 percent. The Title IV-E allowable percentage for that institution was 67 percent.

Claimed Incorrectly Based on Child's Age

One payment was claimed for a child at an incorrect rate based on the child's age. The State claimed \$255 for a 6 to 9 year old child. Based on the child's age, the State should have claimed \$225 per month which is the rate for a child between the ages of 0 and 3 years old.

Monitoring

The State did not properly monitor the activities of its consultants to assure that maintenance payments were accurately claimed.

In an April 1999 discussion, State officials told us the consultants had kept very poor records, including eligibility files and support for prior quarter adjustments for administrative costs and maintenance payments. Also, the consultants had not been complete and accurate in their initial review process of files. Many files were left with incomplete documentation, and no one followed up to obtain the required records. Based on those conditions, starting in November 1998, the consultants conducted an "overhaul" of their records and eligibility files.

Prior to this "overhaul", the extent of the State's monitoring of the consultant's activities seemed to consist mostly of a one-time review of 50 test cases the consultants identified as eligible. This review was conducted in mid-1996. State officials said they only had problems with 2 of the 50 cases and they were subsequently resolved. However, the State did not retain any documentation of this review.

Another example of the lack of monitoring and supervision involved the consultants liberal use of nunc pro tunc court orders. Our sample of 200 payments included 135 families. Nunc pro tunc orders were obtained for 30 of the 135 families. Of the 30, 25 were obtained after we informed the State of our audit. Therefore, the State nor its consultants had the needed documentation to support eligibility before filling the retroactive claim.

Effect

As a result of the lack of monitoring, maintenance payments did not always meet Title IV-E reimbursement requirements. Projecting the sample results to the universe, we estimate the State was overpaid \$241,732³ FFP. However, we are not recommending the State refund the \$241,732 because those dollars are included in the institutional care questioned costs.

Recommendations

We recommend the State:

³The \$241,732 represents the lower limit of the sample results at the 90 percent confidence level. The point estimate of the sample was \$367,313. The precision of the sample was +/- \$125,581 at the 90 percent confidence level.

- ▶ repay \$2,515,577 (\$2,771,012 - \$255,435⁴) (FFP) for unallowable institutional costs;
- ▶ verify the institutions have cost allocation systems that: (1) exclude unallowable cost items, and (2) ensure foster care rates are computed based on the proportion of Title IV-E children to non-Title IV-E children. This verification should be a precursor to the State's claim for institutional foster care costs; and
- ▶ supervise and monitor more closely the work of its consultants.

We are not recommending a financial adjustment for the \$294,626 overpayment because in March 1999, the State reported a negative adjustment on its Federal IV-E-12 report.

State officials agreed with our recommendation to supervise and monitor more closely the work of its consultants. However, the State did not agree with the remaining foster care maintenance payment findings and recommendations.

State Agency Comments

Institutional Cost Allocation Systems and Establishment of IV-E Rates

State officials did not concur with our finding and recommendation regarding unallowable institutional cost. State officials acknowledged that the institutions did not have cost allocation systems that were approved by the State, but attempted to comply with Federal guidelines by soliciting rate breakdown information from the facilities and making retroactive adjustments to their original claims. State officials also said that to utilize an eligibility ratio/penetration rate in this claiming process would have unnecessarily eliminated costs that were legitimate claims under the Title IV-E program. State officials further said that after being notified by the OIG that facilities' rates could not be applied retroactively, the State solicited FY 1994-1996 rates from the facilities to make retroactive adjustments to the State's original claims. Also, the State currently requires all contractors to provide a facility rate breakdown prior to the contract being finalized.

OIG Comments

The State did not provide any documentation to show the facility rate breakdown information was received and approved before they submitted their Title IV-E claims. On the contrary, the information provided to us by the State showed the facility rate breakdown information was received by the State in January 1998, approximately two years after the first retroactive claim was filed. Furthermore, there was no evidence the State reviewed the accuracy of the information it obtained from the facilities.

Even though the State solicited FY 1994-1996 rates from the facilities to make retroactive adjustments to the State's original claims, no adjustments were filed with AFC. Moreover, the

⁴The \$255,435 represents \$294,626 for maintenance payments the State could not document less \$39,191 for the quarter ending December 1993 which does not include institutional costs. The \$255,435 is also included in the institutional care questioned costs.

State could only file adjustments with ACF for amounts that decreased their original claim because the State's time limit for filing increasing retroactive claims had expired.

In regard to the State's comment that using an eligibility/penetration rate in their claiming process would have unnecessarily eliminated costs that were legitimate claims under the Title IV-E program, we assume the State is referring to the requirement in PA-82-01. As discussed in the report, PA-82-01 requires States to allocate "*...costs based on the proportion of children in the institution receiving foster care under Title IV-E for those allowable elements compared to children whose care is paid under other programs*". We agree in some instances there would be no need to apply a penetration rate, such as, cases where rates do not include unallowable costs and the costs are all applicable to Title IV-E. However, there was no evidence the State reviewed the rates to ensure only allowable costs were included in the rates and that the institutions' penetration rates did not need to be applied.

Unallowable Services

In regard to our finding that unallowable services were included in some of the facilities' rates, State officials said that they could not comment on the OIG's recommended disallowance because they did not know which specific institutions were included in the audit.

OIG Comments

Throughout the course of the audit, we kept the State and its consultants abreast of our findings, including information regarding the institutions being reviewed. On June 16, 2000, we again provided the State with a list of the institutions included in our audit.

Undocumented Maintenance Payments and Eligibility and Payment Errors

State officials did not concur with our findings on undocumented maintenance payments and eligibility and payment errors. State officials said that they needed the OIG to provide case-specific information to determine if any further adjustments were warranted in the amount the State had already repaid for undocumented maintenance payments. State officials also requested case-specific information in order to adequately respond to the eligibility and payment error findings.

OIG Comments

We do not have case-specific information for the undocumented maintenance payments. The maintenance payments we identified as undocumented represent the difference between what the State claimed for maintenance payments and the amount the State could support through a roster of children that contained the related dollars paid on behalf of those children.

CONSULTANT FEES

The State claimed \$2.5 million (FFP) for unallowable consultant fee costs under the Title IV-E program. The costs were unallowable because they were based on a contingency fee arrangement that does not meet OMB Circular A-87 reimbursement requirements. In addition, the HHS DAB ruled in a similar case that consultant contract costs were not allowable because

they were not “reasonable” costs within the meaning of the applicable cost principles. The State officials were not aware that contingency fee costs could not be charged to Federal programs.

Criteria

OMB Circular A-87

The OMB Circular A-87 provides States basic guidance on the allowability of costs. In regard, OMB Circular A-87, Attachment A., C., 1., a. states, in part, ***“...To be allowable under a grant program, costs must...Be necessary and reasonable for proper and efficient administration of the grant programs, be allocable thereto under these principles....”***

The OMB Circular A-87, Attachment B., 33., a. states, ***“Cost of professional and consultant services...are allowable...when reasonable in relation to the services rendered and when not contingent upon recovery of the costs from the Federal Government.”***

HHS DAB Decision

In addition, the DAB ruled in a similar case that consultant contract costs were not allowable because they were not “reasonable” costs within the meaning of the applicable cost principles. The DAB ruled (Decision No. 1660, dated May 26, 1998) that the consultant fee Nebraska claimed was not reasonable because the contingency fee arrangement failed to guarantee that the fee bore an appropriate relationship to the amount of time and effort required to perform the professional service. Likewise, the State could not show that the fee they claimed bore an appropriate relationship to the consultant’s time and effort.

Contingency Fee

The State entered into a contingency fee contract with the IHHS (consultants) to maximize Federal Foster Care Program revenues. The contract term initially ran from August 1, 1995 to June 30, 1997. The consultant’s revenue maximization efforts were to cover the:

- ▶ ***retroactive*** period from July 1, 1993 through June 30, 1995; and
- ▶ ***prospective*** period from July 1, 1995 through June 30, 1997.

The contract was later extended through June 30, 1999. From August 1, 1995 to June 30, 1997, the contract terms required the State to pay the consultants 20 percent of the additional Federal funds (over a specified base amount) the State received as a result of the consultant’s revenue maximization efforts. For the period July 1, 1997 to June 30, 1999, the consultant’s fee was reduced from 20 percent to 15 percent.

State Unaware of Regulations

State officials told us that they were not aware such contingency fee costs could not be charged to Federal programs. In May 1999, the State adjusted its accounting records and implemented

procedures to charge contingency fees to State-only funds. However, as of September 30, 1999, the State had not adjusted its Federal IV-E-12 report for these unallowable costs.

Effect

During the period January 1995 to April 1999, the State claimed \$2,534,699 (FFP) of contingency fee costs on reports filed with the Administration for Children and Families.

Recommendations

We recommend the State:

- ▶ refund \$2,534,699 (FFP) to the Federal Government; and
- ▶ continue to ensure future claims for contingency fees are charged to State-only funds.

State Agency Comments

The State concurred with our finding and recommendations. State officials said that the questioned consultant fees had been adjusted on Federal reports for the quarter ended September 30, 1999.

SAMPLING METHODOLOGY

OBJECTIVE

The objective of this assignment was to determine if the State's retroactive payments for Title IV-E Foster Care were eligible for FFP.

To achieve our objective, we selected a statistical sample of retroactive maintenance payments claimed in the quarters ending December 1995 through June 1998. Through reviewing information in the Title IV-E eligibility case files, we determined if the recipient was Title IV-E eligible. We also determined if the correct payment was claimed and the foster care family was approved or the facility was licensed.

POPULATION

We stratified the maintenance payment population into three strata: (1) ranging from \$.01 to \$500.00; (2) ranging from \$500.01 to \$5,000.00; and (3) over \$5,000.00.

STRATUM	NUMBER OF ITEMS	AMOUNT
1	7870	\$1,814,195.27
2	2073	\$3,379,118.42
3	33	\$ 237,927.36
Total	9976	\$5,431,241.05

SAMPLING FRAME

The State provided several files that identified, by child, maintenance payments claimed retroactively. Using the files provided by the State, the HHS Office of Inspector General (OIG) Office of Audit Services (OAS) Advanced Techniques Staff created three database files, one for each stratum. Each line in the database files showed the county, name of child, type of care, quarter claimed, quarter affected, and amount claimed.

SAMPLING UNIT

The sampling unit was a line item on the database. The line item represents a payment claimed retroactively.

SAMPLE DESIGN

A stratified random sample was used.

SAMPLING METHODOLOGY

SAMPLE SIZE

We sampled 80 line items from the first stratum and 87 from the second stratum. We reviewed all 33 line items in the third stratum, for a total of 200 sample items.

ESTIMATION METHODOLOGY

Using the HHS OIG OAS Variable Appraisal Program, we estimated the amount of maintenance payments claimed retroactively which were ineligible for FFP.

RESULTS AND PROJECTION OF SAMPLE

RESULTS

STRATUM	NUMBER OF ERRORS	AMOUNT OF ERRORS
1	8	\$966.90
2	14	7,988.66
3	23	81,844.02
Total	45	\$90,799.58

PROJECTION

Point Estimate \$367,313
90% Confidence Interval
 Lower Limit \$241,732
 Upper Limit \$492,894
 Precision Amount +/- \$125,581



STATE OF MISSISSIPPI
DAVID RONALD MUSGROVE, GOVERNOR
DEPARTMENT OF HUMAN SERVICES
BETTYE WARD FLETCHER
EXECUTIVE DIRECTOR

May 22, 2000

RECEIVED

MAY 23 2000

Office of Audit Svc

Charles J. Curtis
Regional Inspector General
Office of Audit Services, Region IV
61 Forsyth Street, SW-Room 3T41
Atlanta, GA 30303-8909

RE: Response to Draft Report CIN: A-04-98-00126
Covering the Period of October 1993 through June 30, 1997

Dear Mr. Curtis:

Enclosed is the Mississippi Department of Human Services (MDHS) response to the draft report entitled "Review of Mississippi's Retroactive Claim for Foster Care Administrative and Training Costs and Maintenance Payments." The report was dated March 24, 2000 covering the audit period of October 1, 1993 through June 30, 1997. Thank you for granting a 30-day extension through May 23, 2000 to provide a written response to the draft report.

I would like to commend Gene Roth and John Drake for the spirit of cooperation that was exhibited during the Exit Conference held on April 19, 2000. I assure you that MDHS has made every effort to address all of the findings that were included in the draft report; however, additional information is required on the following findings for MDHS to adequately respond to the draft report: Undocumented Administrative and Training Costs, Unallowable Services and Undocumented Maintenance Payments. The contractor, The Institute for Health and Human Services (IHHS), for the Mississippi Federal Revenue Maximization and Prior State Expenditure Recovery Project provided information and was otherwise consulted in preparing our response.

We look forward to resolving the Office of Inspector General (OIG) cited findings in a manner that is mutually acceptable to the Department of Health and Human Services, Administration for Children and Families, the Mississippi Department of Human Services and, most of all, the best interest of Mississippi's children and families.

Please let me know if additional information is needed regarding this matter. I look forward to hearing from you.

Sincerely,

Bettye Ward Fletcher
Executive Director

**MISSISSIPPI DEPARTMENT OF HUMAN SERVICES
DIVISION OF FAMILY AND CHILDREN'S SERVICES**

**RESPONSE TO THE
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF THE INSPECTOR GENERAL
OFFICE OF AUDIT SERVICES
DRAFT REPORT ENTITLED "REVIEW OF MISSISSIPPI'S
RETROACTIVE CLAIM FOR FOSTER CARE ADMINISTRATIVE AND
TRAINING COSTS AND MAINTENANCE PAYMENTS"**

**BETTYE WARD FLETCHER, D.S.W.
EXECUTIVE DIRECTOR**

**Mississippi Department of Human Services
Division of Family and Children's Services
Response to Draft Report CIN: A-04-98-00126**

I. ADMINISTRATIVE AND TRAINING COSTS

As set forth in the above-referenced Audit Report, the Office of Inspector General (OIG) has concluded that the State submitted \$9,435,110 in unallowable claims for Title IV-E reimbursement for administrative and training costs during the audit period of October 1, 1993 through June 30, 1997. The State's response to this finding is as follows:

A. \$8,739,634 for Unallowable Services

The recommended disallowance of \$8,739,634 stated in the draft report include two (2) quarters of SSTS claims that were not reimbursed to the State; therefore, the recommended disallowance should be reduced from \$8,739,634 to \$6,648,804.25.

1. Arbitrarily Determined Title IV-E Percentages

The State does not concur with this finding.

This element of the recommended disallowance is related to the retroactive claims that were developed and submitted as the result of the State's utilization of the approved Social Services Time Study (SSTS) to calculate its administrative and training costs. The State utilized the approved SSTS through a mutual agreement with the Department of Health and Human Services, Administration for Children and Families (ACF) to make retroactive claims.

The State did not arbitrarily determine Title IV-E percentages. Based upon the collective experience of the State's program staff, an analysis of the various activities which were listed on the SSTS was performed in order to determine which activities were related to the Title IV-E program. Following the development of a matrix which delineated all of the activities related to Title IV-E, the actual value (i.e., the total minutes for the applicable time study period) for each activity was identified and then discounted to eliminate any possible unallowable costs that may be associated with those activities. The actual results of the SSTS process as generated by the actual responses of social workers were utilized in the final adjustment.

2. Primary Client Not Title IV-E Candidate

The State does not concur with this finding.

The analysis of the activities included in the codes recommended for disallowance determined that the activities were eligible for Title IV-E reimbursement.

**Mississippi Department of Human Services
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Furthermore, the State has implemented a Random Moment Time Study (RMTS) that has been approved by ACF which is more activity specific of social workers' time and activities.

3. Time Study Flawed

The State does not concur with this finding.

The State maintains that the codes recommended for disallowance were eligible for Title IV-E reimbursement. The social workers recorded their time based on the activities performed.

The State has implemented a Random Moment Time Study approved by ACF that is more activity specific of the social worker's time and activities. The State has also made adjustments to its Cost Allocation Plan.

4. Controls and Monitoring

The State concurs with this finding.

Corrective Action:

The State, through a collaborative effort between program and administrative staff, has put into place adequate controls to monitor the activities of its consultants to insure that administrative and training costs claimed meet ACF reimbursement requirements. A Program Administrator Senior has been assigned to conduct quality assurance reviews of cases. The Division of Internal Audit will conduct reviews to insure consultants are in compliance with all applicable state and federal regulations.

B. \$476,476 for Undocumented Administrative and Training Costs

After review of the audit finding stated in the draft report, the State determined that additional information is needed to adequately respond to this finding.

**Mississippi Department of Human Services
Division of Family and Children's Services
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1. Monitoring

The State concurs with this finding.

Corrective Action:

The State, through a collaborative effort between program and administrative staff, has put into place adequate controls to monitor the activities of its consultants to insure that administrative and training costs claimed meet ACF reimbursement requirements. A Program Administrator Senior has been assigned to conduct quality assurance reviews of cases. The Division of Internal Audit will conduct reviews to insure consultants are in compliance with all applicable state and federal regulations.

C. \$219,000 for Incorrect FFP Rate

The State concurs with this finding.

Action Taken:

The State voluntarily reported a \$219,000 negative adjustment on its Title IV-E-12 Quarterly Report for the January through March 1999 quarter. As a result, this disallowance has already been satisfied by the State.

II. FOSTER CARE MAINTENANCE PAYMENTS

As set forth in the above-referenced draft report, OIG has concluded that the State submitted unallowable claims for Title IV-E reimbursement with respect to its foster care maintenance payments. The State's response to this finding is as follows:

A. \$2,800,000 for Unallowable Institutional Foster Care

1. Institutional Cost Allocation Systems

The State does not concur with this finding.

The institutional facilities did not have a cost allocation system approved by the State; therefore, the State attempted to comply with federal guidelines to determine institutional

**Mississippi Department of Human Services
Division of Family and Children's Services
Response to Draft Report CIN: A-04-98-00126**

board rates with respect to the development of its Title IV-E claim for maintenance payments. The State solicited the facility rate breakdown from institutional facilities which was reviewed and approved before establishing its Title IV-E claims.

The State utilized the rates in question with respect to children who had already been deemed to be eligible for Title IV-E reimbursement. To utilize an eligibility ratio/penetration rate in this claiming process would have unnecessarily eliminated costs that were legitimate claims under the Title IV-E program.

2. Establishment of Title IV-E Rates

The State does not concur with this finding.

After notification by OIG that the 1998 rates for facilities could not be applied to prior years, the State utilized data solicited from the institutions for the FY 1994, 1995 and 1996 to make retroactive adjustments to the original claims.

The State currently requires all contractors to provide a facility rate breakdown prior to the contract being finalized.

3. Unallowable Services

The State does not concur with this finding.

Without specifying institutions that were included in the audit process, the State cannot respond to the recommended disallowance.

4. Controls, Supervision and Monitoring

The State concurs with this finding.

Corrective Action:

The State, through a collaborative effort between program and administrative staff, has put into place adequate controls to monitor the activities of its consultants to insure that administrative and training costs claimed meet ACF reimbursement requirements. A Program Administrator Senior has been assigned to conduct quality assurance reviews of cases. The Division of Internal Audit will conduct reviews to insure consultants are in compliance with all applicable state and federal regulations.

Mississippi Department of Human Services
Division of Family and Children's Services
Response to Draft Report CIN: A-04-98-00126

B. \$294,626 for Undocumented Maintenance Payments

Although the State made a negative adjustment to the Title IV-E-12 Quarterly Report for the April - June 1999 Quarter to correct this disallowance; however, additional case information is needed on this finding. Once case specific information has been received and reviewed, the State will decide if any further adjustments, positive or negative, are warranted.

1. Eligibility and Payment Errors

The State does not concur with this finding.

The State cannot respond to this finding without OIG providing case specific information. Therefore, the State requests that OIG provide the necessary data to adequately respond to this finding.

2. Documentation Lacking

The State cannot respond to this finding without OIG providing case specific information. Therefore, the State requests that OIG provide the necessary data to adequately respond to this finding.

3. Provider Licenses

The State cannot respond to this finding without OIG providing case specific information. Therefore, the State requests that OIG provide the necessary data to adequately respond to this finding.

4. Child's Placement Not Documented

The State cannot respond to this finding without OIG providing case specific information. Therefore, the State requests that OIG provide the necessary data to adequately respond to this finding.

5. Amount Claimed Greater Than Allowable

MDHS cannot respond to these findings without OIG providing case specific information.

**Mississippi Department of Human Services
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Response to Draft Report CIN: A-04-98-00126**

Therefore, the State requests that OIG provide the necessary data to adequately respond to this finding.

6. Payment Errors

The State cannot respond to these findings without OIG providing case specific information. Therefore, the State requests that OIG provide the necessary data to adequately respond to this finding:

7. Monitoring

The State concurs with this finding.

Corrective Action:

The State, through a collaborative effort between program and administrative staff, has put into place adequate controls to monitor the activities of its consultants to insure that administrative and training costs claimed meet ACF reimbursement requirements. A Program Administrator Senior has been assigned to conduct quality assurance reviews of cases. The Division of Internal Audit will conduct reviews to insure consultants are in compliance with all applicable state and federal regulations.

III. CONSULTANT FEES

The State concurs with this finding.

Action Taken:

The State previously acknowledged that these claims were an inadvertent oversight and the \$2,534,699 in question was corrected through a negative adjustment to the July - September 1999 Title IV-E-12 Quarterly Report.