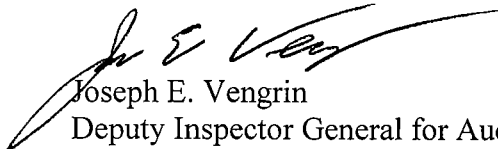




FEB - 6 2007

TO: Joan E. Ohl
Commissioner, Children's Bureau
Administration for Children and Families

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

SUBJECT: Review of Title IV-E Training Costs Claimed by Maryland for Calendar Years 1999 Through 2001 (A-03-06-00563)

Attached is an advance copy of our final report on Title IV-E training costs claimed by Maryland for calendar years 1999 through 2001. We will issue this report to the Maryland Department of Human Resources (Maryland) within 5 business days.

Our objective was to determine whether Maryland's claims for Title IV-E training costs complied with applicable Federal requirements.

Maryland's claims for Title IV-E training costs did not always comply with Federal requirements. Maryland claimed \$11,540,643 (Federal share) for allowable Title IV-E training costs. However, Maryland improperly overstated its Federal share of Title IV-E training costs by \$3,247,975, including:

- \$2,869,228 in administrative and indirect costs allocated from cost centers that contained costs not allowable for an enhanced training rate under 45 CFR § 235.64 and
- \$378,747 in training costs for field service training of Department of Juvenile Justice juvenile counselors and youth supervisors not allowable under Title IV-E.

Maryland did not have adequate internal controls to ensure that it claimed only allowable training costs as Title IV-E training costs.

We recommend that Maryland:

- refund to the Federal Government \$3,247,975 in overstated Title IV-E claims,
- review Title IV-E training costs claimed subsequent to our audit period for the issues identified and make the appropriate adjustments, and

- strengthen internal controls to ensure that future training costs are claimed in accordance with Federal requirements.

In its comments on our draft report, Maryland agreed to refund \$856,750 in questioned costs and make the appropriate adjustment to costs claimed subsequent to our audit period. Maryland also stated that it had addressed its controls to ensure that future claims meet Federal requirements. Maryland asked for further clarification of our finding concerning \$2,391,225 identified as “direct costs” that we believed were incorrectly claimed at the enhanced 75-percent rate.

In response to Maryland’s request for clarification, we added two appendixes to our final report. These appendixes list the questioned costs by cost code and include the allocation methodologies used to claim them. We also changed the term “direct costs” as used in the draft report to “administrative costs” to more accurately reflect the nature of these costs.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Joseph J. Green, Assistant Inspector General for Grants, Internal Activities, and Information Technology Audits, at (202) 619-1175 or through e-mail at Joe.Green@oig.hhs.gov. Please refer to report number A-03-06-00563.

Attachment



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

FEB - 8 2007

Report Number: A-03-06-00563

Brenda Donald, Acting Secretary
Department of Human Resources
State of Maryland
311 West Saratoga Street
Baltimore, Maryland 21201-3500

Dear Ms. Donald:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Review of Title IV-E Training Costs Claimed by Maryland for Calendar Years 1999 Through 2001." A copy of this report will be forwarded to the HHS action official noted below for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

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

Please refer to report number A-03-06-00563 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen Virbitsky".

Stephen Virbitsky
Regional Inspector General
for Audit Services

Enclosures

Page 2 – Brenda Donald

Direct Reply to HHS Action Official:

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

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF TITLE IV-E
TRAINING COSTS CLAIMED BY
MARYLAND FOR CALENDAR
YEARS 1999 THROUGH 2001**



Daniel R. Levinson
Inspector General

February 2007
A-03-06-00563

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

Office of Audit Services

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

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

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

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov>

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

OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed, as well as other conclusions and recommendations in this report, represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.



EXECUTIVE SUMMARY

BACKGROUND

Title IV-E of the Social Security Act, as amended, authorizes Federal funds for States to provide foster care and adoption assistance for children under an approved State plan. In Maryland, the Department of Human Resources (Maryland) administers the Title IV-E program. The Federal Government, through the Administration for Children and Families (ACF), provides funding at a 50-percent rate for State administrative expenditures and at an enhanced 75-percent rate for certain State training expenditures.

OBJECTIVE

Our objective was to determine whether Maryland's claims for Title IV-E training costs complied with applicable Federal requirements.

SUMMARY OF FINDINGS

Maryland's claims for Title IV-E training costs did not always comply with Federal requirements. Maryland claimed \$11,540,643 (Federal share) for allowable Title IV-E training costs. However, Maryland improperly overstated its Federal share of Title IV-E training costs by \$3,247,975, including:

- \$2,869,228 in administrative and indirect costs allocated from cost centers that contained costs not allowable for an enhanced training rate under 45 CFR § 235.64 and
- \$378,747 in training costs for field service training of Department of Juvenile Justice juvenile counselors and youth supervisors not allowable under Title IV-E.

Maryland did not have adequate internal controls to ensure that it claimed only allowable training costs as Title IV-E training costs.

RECOMMENDATIONS

We recommend that Maryland:

- refund to the Federal Government \$3,247,975 in overstated Title IV-E claims,
- review Title IV-E training costs claimed subsequent to our audit period for the issues identified and make the appropriate adjustments, and
- strengthen internal controls to ensure that future training costs are claimed in accordance with Federal requirements.

MARYLAND COMMENTS

In its comments on our draft report, Maryland agreed to refund \$856,750 in questioned costs and make the appropriate adjustment to costs claimed subsequent to our audit period. Maryland also stated that it had addressed its controls to ensure that future claims meet Federal requirements. Maryland asked for further clarification of our finding concerning \$2,391,225 identified as “direct costs” that we believed were incorrectly claimed at the enhanced 75-percent rate. Maryland’s comments are included in their entirety as Appendix C.

OFFICE OF INSPECTOR GENERAL RESPONSE

In response to Maryland’s request for clarification, we added Appendixes A and B to our final report. These appendixes list the questioned costs by cost code and include the allocation methodologies used to claim them. We also changed the term “direct costs” as used in the draft report to “administrative costs” to more accurately reflect the nature of these costs. Maryland accumulated these costs in cost centers, known as project cost accounts, and then allocated them to Title IV-E through various methodologies. However, Maryland accumulated both training and nontraining costs in the same project cost accounts. Therefore, the costs are allowable at the 50-percent administrative rate, but not at the enhanced rate.

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INTRODUCTION

BACKGROUND

Federal Foster Care and Adoption Assistance Program

Title IV-E of the Social Security Act (the Act), as amended, authorizes Federal funds for States to provide foster care and adoption assistance for children under an approved State plan. At the Federal level, the Administration for Children and Families (ACF) administers the program. In Maryland, the Department of Human Resources (Maryland) administers the Title IV-E program.

For children who meet Title IV-E program requirements, Federal funds are available to States for maintenance, administrative, and training costs.

- Maintenance costs include room and board payments to licensed foster parents, group homes, and residential childcare facilities. The Federal share of maintenance costs is based on each State's Federal rate for Title XIX Medicaid expenditures.
- Administrative costs cover staff activities such as case management and supervision of children placed in foster care and children considered to be Title IV-E candidates, preparation for and participation in court hearings, placements of children, recruitment and licensing for foster homes and institutions, and rate setting. Also reimbursable under this category is a proportionate share of overhead costs. The Federal share of administrative costs allocable to the Title IV-E program is 50 percent.
- Training costs are associated with training State or local staff to perform administrative activities and training current or prospective foster care or adoptive parents, as well as personnel of childcare institutions. Certain State training costs qualify for an enhanced 75-percent Federal funding rate.

Administrative costs are to be allocated to the Title IV-E program in accordance with a public assistance cost allocation plan approved by the Department of Health and Human Services's Division of Cost Allocation after ACF reviews and comments on the fairness of the cost allocation methodologies. Federal regulations require that cost allocation plans conform to the accounting principles and standards in Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." The circular states that costs are allocable to particular cost objectives (programs) only to the extent of the benefits received by such objectives, only allocable costs are allowable, and costs must be reasonable and necessary for proper administration of the program.

Federal Reimbursement Requirements

Title IV-E, section 474(a)(3)(A), of the Act authorizes Federal reimbursement to States at a 75-percent matching rate for training of personnel employed or preparing for employment by the State or local agency administering the Title IV-E program. Title IV-E regulations (45 CFR

§ 1356.60(b)) state that Federal reimbursement is available at 75 percent for the costs of short- and long-term training at educational institutions as well as for inservice training. The regulations require that inservice training or training at educational institutions be provided pursuant to the provisions of 45 CFR §§ 235.63–235.66(a), which specify who may be trained, the types of expenses that are allowable, and the sources of funds for the State’s share of expenditures. Section 474(a)(3)(E) of the Act and 45 CFR § 1356.60(c) provide for a 50-percent Federal reimbursement rate for administrative expenditures.

All training activities and costs charged to the Title IV-E program must be included in the State’s training plan pursuant to 45 CFR § 1356.60(b)(2). The State training plan describes the training activities and costs that the State agency plans to charge to Title IV-E training at the enhanced 75-percent Federal funding rate.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether Maryland’s claims for Title IV-E training costs complied with applicable Federal requirements.

Scope

Our review covered \$14,788,618 in Federal funding claimed by Maryland for Title IV-E training costs during calendar years 1999 through 2001.¹ Our review considered 186 cost centers in which Maryland accumulated costs and also adjustments submitted for youth supervisor (probation officer) training that it allocated to the Title IV-E training claim. We reviewed only those internal controls considered necessary to achieve our objective.

We performed our fieldwork at the Maryland Department of Human Resources in Baltimore, Maryland.

Methodology

To accomplish our objective we:

- reviewed applicable Federal requirements;
- reviewed the State plan, the State’s cost allocation plan, and relevant policies and procedures;
- interviewed Division of Cost Allocation, ACF, and Maryland officials;
- reconciled the amounts claimed for Federal reimbursement to Maryland’s accounting record;

¹This amount does not include \$53,192 in training costs for three cost centers questioned in Office of Inspector General report A-03-04-00580.

- reviewed Maryland’s agency budget report by program, organization, and fund to determine the type of costs incurred for each cost center in the review;
- reviewed cost centers that accumulated costs that were allocated to Title IV-E training claims;
- reviewed selected internal controls;
- reviewed the methods of allocation to determine how costs were distributed;
- interviewed personnel at the Department of Juvenile Justice to determine the type of training offered to juvenile counselors and probation officers; and
- reviewed probation officer training course descriptions for courses claimed under Title IV-E.

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

FINDINGS AND RECOMMENDATIONS

Maryland’s claims for Title IV-E training costs did not always comply with Federal requirements. Maryland claimed \$11,540,643 (Federal share) for allowable Title IV-E training costs. However, Maryland improperly overstated its Federal share of Title IV-E training costs by \$3,247,975, including:

- \$2,869,228 in administrative and indirect costs allocated from cost centers that contained costs not allowable for an enhanced training rate under 45 CFR § 235.64 and
- \$378,747 in training costs for field service training of Department of Juvenile Justice probation officers not allowable under Title IV-E.

Maryland did not have adequate internal controls to ensure that it claimed only allowable training costs as Title IV-E training costs.

ADMINISTRATIVE COSTS CLAIMED AT ENHANCED TRAINING RATE

Federal Requirements

Section 474(a)(3)(E) of the Act and 45 CFR § 1356.60(c) provide for a 50-percent Federal reimbursement rate for administrative expenditures, including “a proportionate share of related agency overhead.” However, section 474(a)(3) of the Act provides for a 75-percent enhanced Federal reimbursement rate for the cost of training employees and potential employees and for the short-term training of foster parents, adoptive parents, and other potential caregivers. For the purpose of applying the enhanced rate, the Departmental Appeals Board (DAB) has required that States include only those costs identified as allowable training costs in 45 CFR § 235.64:

- salaries, fringe benefits, travel, and per diem for staff development personnel assigned full-time or part-time to training functions;
- salaries, fringe benefits, travel, per diem, tuition, books, and educational supplies for employees in full-time, long-term, short-term, or part-time training programs;
- stipends, travel, tuition, books, and educational supplies for persons preparing for employment with the State or local agency;
- salaries, fringe benefits, travel, and per diem for experts outside the agency engaged to develop or conduct special programs; and
- costs of space, postage, teaching supplies, purchase or development of teaching material and equipment, and costs of maintaining and operating the agency library as an essential resource to the agency's training program.

In Illinois Department of Children and Family Services, DAB No. 1530 at 35 (1995),² the DAB held that indirect training costs may be claimed at the enhanced rate rather than the standard 50-percent rate for administrative costs, but only if the State can “show that its indirect costs consisted entirely of allowable costs” found in 45 CFR § 235.64. Further, “indirect costs associated with allowable direct costs of IV-E training may not be charged at the 75% rate . . . if the indirect costs are based on rates developed using cost pools containing unallowable training costs.”

Moreover, in Illinois Department of Children and Family Services, DAB No. 1645 at 9 (1998),³ the DAB further held that “. . . section 235.64 necessarily limits both direct and indirect costs that may be charged as training costs reimbursable at 75% FFP [Federal share]. Thus, a cost that is not listed in that regulation is not such a training cost regardless of whether it is charged as a direct or an indirect cost.”

Administrative and Indirect Costs Claimed at Improper Rate

Maryland did not differentiate between administrative costs and allowable training costs identified in 45 CFR § 235.64. Because it did not adhere to Federal criteria, Maryland improperly claimed \$8,607,684 in administrative and indirect costs at the enhanced training rate. These costs were allowable in the amount of \$5,738,456 at the 50-percent rate for administrative costs. By claiming these costs at the training rate, Maryland overstated the Federal share of Title IV-E administrative and indirect costs by \$2,869,228.

Administrative Costs Improperly Claimed at the Enhanced Rate

Maryland incorrectly claimed Federal reimbursements totaling \$7,173,674 for administrative costs at the 75-percent rate for training instead of the 50-percent rate for administration.

²Available online at <http://www.hhs.gov/dab/decisions/dab1530.html>. Accessed July 21, 2006.

³Available online at <http://www.hhs.gov/dab/decisions/dab1645.html>. Accessed July 21, 2006.

Maryland's claim for Title IV-E training costs included costs not identified by 45 CFR § 235.64. For example, social services cost centers that were allocated to the Title IV-E training claim included administrative costs for travel, such as mileage, rooms, meals, and other caseworker travel expenses that were related to normal business travel and not to travel for training purposes. The questioned costs were allowable in the amount of \$4,782,449 at the administrative rate. By claiming these costs at the training rate, Maryland overstated the Federal share of Title IV-E costs by \$2,391,225. Appendix A presents these overstated costs by cost center.

Indirect Costs Improperly Claimed at the Enhanced Rate

Maryland incorrectly claimed Federal reimbursements totaling \$1,434,010 for indirect costs at the 75-percent rate for training instead of the 50-percent rate for administration. Maryland generally allocated indirect costs to cost centers based on the number of full-time employees in the associated programs charged to Title IV-E training. However, contrary to Illinois Department of Children and Family Services, DAB No. 1645 at 9 (discussed above), Maryland developed its indirect costs using cost centers that included costs that were unallowable because they were not listed in 45 CFR § 235.64. For example, indirect costs applied to the Title IV-E training claim included maintenance and use charges for buildings and equipment. Use charges are a means of allocating the costs of fixed assets to periods benefiting from asset use. These costs do not qualify as allowable Title IV-E training costs. The questioned indirect costs were allowable in the amount of \$956,007 at the administrative rate. By claiming these costs at the training rate, Maryland overstated the Federal share of Title IV-E costs by \$478,003. Appendix B presents these overstated costs by cost center.

Insufficient Internal Controls

Maryland overstated the Federal share of Title IV-E administrative and indirect costs by \$2,869,228 because it did not always follow Federal requirements regarding allowability of costs at the enhanced rate. Maryland did not have adequate internal controls to ensure that it claimed only allowable training costs at the enhanced 75-percent rate.

PROBATION OFFICER TRAINING COSTS

Federal Requirements

Allowable administrative activities are described in 45 CFR § 1356.60(c)(1): "The determination and redetermination of eligibility, fair hearings and appeals, rate setting and other costs directly related only to the administration of the foster care program under this part are deemed allowable administrative costs under this paragraph."

Federal regulations (45 CFR § 1356.60(c)(2)) list examples of allowable administrative activities for the Federal Foster Care Program, including:

- referral to services,
- preparation for and participation in judicial determinations,
- placement of the child,

- development of the case plan,
- case reviews,
- case management and supervision,
- recruitment and licensing of foster homes and institutions,
- rate setting,
- costs related to data collection and reporting, and
- agency overhead (a proportionate share).

Regulations (45 CFR § 1356.60(c)(3)) further state that allowable Title IV-E activities do not include the costs of social services provided to the child or the child’s family or foster family, such as counseling or treatment to remedy personal problem behaviors or home conditions.

Unallowable Costs Claimed

Maryland claimed salaries and benefits of probation officers who participated in field service training, which was unrelated and thus unallocable to Title IV-E. Such training related to activities that were not allowable under Title IV-E and therefore did not meet the definition of allowable administrative costs found in 45 CFR § 1356.60(c)(2). The training included the following courses:

- “Cultural Awareness Training,”
- “Understanding Violent Teens,”
- “Juvenile and Criminal Justice Substance Abuse Offenders,” and
- “Moral Reconciliation Therapy Facilitator Training.”

Maryland did not have policies and procedures in place to review claims made through the Department of Juvenile Justice. By claiming unallowable salaries and benefits for field service training for the Department of Juvenile Justice probation officers, Maryland overstated the Federal share of Title IV-E training costs by \$378,747.

RECOMMENDATIONS

We recommend that Maryland:

- refund to the Federal Government \$3,247,975 in overstated Title IV-E claims,
- review Title IV-E training costs claimed subsequent to our audit period for the issues identified and make the appropriate adjustments, and
- strengthen internal controls to ensure that future training costs are claimed in accordance with Federal requirements.

MARYLAND COMMENTS

In its comments on our draft report, Maryland agreed to refund \$856,750 in questioned costs and make the appropriate adjustment to costs claimed subsequent to our audit period. Maryland also stated that it had addressed its controls to ensure that future claims meet Federal requirements.

Maryland stated that it required additional information to determine whether it concurred with our finding that it had incorrectly overstated its claims by \$2,391,225 for costs that we identified as “direct costs” in the draft report. Maryland requested clarification of the nature of the costs and the reasons that they were not allowable at the enhanced 75-percent rate.

Maryland’s comments are included in their entirety as Appendix C.

OFFICE OF INSPECTOR GENERAL RESPONSE

In response to Maryland’s request for clarification, we added Appendixes A and B to our final report. These appendixes list the questioned costs by cost code and include the allocation methodologies used to claim them. We also changed the term “direct costs” as used in the draft report to “administrative costs.” The draft report identified as “direct costs” those costs that appear as examples in section E of OMB Circular A-87. However, Maryland first accumulated these costs in cost centers, known as project cost accounts, and then allocated them to Title IV-E through various methodologies, including the Social Service Time Study. Accordingly, these costs are more properly referred to as “administrative costs.”

In our finding, we demonstrate that cost pools that include costs that are unallowable for the enhanced training rate may not be claimed at the 75-percent rate. Maryland accumulated both training and nontraining costs in the same project cost accounts. Accordingly, the costs are allowable at the 50-percent administrative rate, but not at the enhanced rate. The allocation methodology was not the basis of our finding.

APPENDIXES

**QUESTIONED ADMINISTRATIVE COSTS
BY COST CENTER**

Project Cost Account		Allocation Methodology	Total Cost	Federal Share		Questioned Costs
Code	Description			75 Percent	50 Percent	
B2310	Casey Family-to-Family Grant	Social Services Time Study	\$3,423	\$2,567	\$1,712	\$855
B3810	Facility Licensing	Social Services Time Study	15,143	11,357	7,571	3,786
B5020	Office of Automation–Non Cares	Social Services Time Study	7,878	5,909	3,939	1,970
B7110	Office of Special Projects	Social Services Time Study	17,903	13,427	8,951	4,476
B7120	Evaluation and Quality Assurance	Social Services Time Study	11,379	8,534	5,689	2,845
B7210	Research	Social Services Time Study	19,880	14,910	9,940	4,970
B8010	Family Services Program Management	Social Services Time Study	10,383	7,787	5,192	2,595
G3010	Chief of Local Department Operations	Social Services Time Study	475,993	356,995	237,996	118,999
G3030	IFS ¹ Staff–Family Preservation	Family Preservation IV-B Part II	140,220	105,165	70,110	35,055
G3040	SFC ² Staff–Family Preservation	Family Preservation IV-B Part II	90,782	68,087	45,391	22,696
G3050	Child Protective Services–Family Preservation	Family Preservation IV-B Part II	114,739	86,055	57,370	28,685
G3060	Reunification Staff–Family Preservation	Family Preservation IV-B Part II	109,230	81,923	54,615	27,308
G3150	Foster Care Services	Social Services Time Study	2,480,610	1,860,457	1,240,305	620,152
G3260	College Student/Worker Project	IV-E Improvement Plan	29,046	21,784	14,523	7,261
G3420	Adoption Services	Social Services Time Study	407,106	305,329	203,553	101,776

APPENDIX A

Project Account		Allocation Methodology	Total Cost	Federal Share		Questioned Cost
Code	Description			75 Percent	50 Percent	
G3490	Protective Services to Children	Social Services Time Study	2,837,406	2,128,055	1,418,703	709,352
G3500	24-Hour Emergency Services Staff Support	Social Services Time Study	68,052	51,039	34,026	17,013
G3610	Services to Families With Children	Social Services Time Study	720,030	540,022	360,015	180,007
G3630	Foster Care-EFC ³ -Salaries	Social Services Time Study	332,402	249,302	166,201	83,101
G3730	Intensive Family Services-Social Services	Social Services Time Study	153,523	115,143	76,762	38,381
G3740	Intensive Family Services-Aide Services	Social Services Time Study	74,256	55,692	37,128	18,564
G3790	Parent Aide/In-Home Aide Project	Social Services Time Study	90,439	67,829	45,219	22,610
G4100	Protective Services to Adults	Social Services Time Study	350,827	263,120	175,413	87,707
G4140	Social Services to Adults	Social Services Time Study	774,143	580,608	387,072	193,536
G4230	Social Services to Adults-Restructuring	Social Services Time Study	72,760	54,570	36,380	18,190
G5020	General Administration-LGA ⁴ -SSA	Social Services Time Study	41,198	30,898	20,599	10,299
G5730	G & A ⁵ - UB ⁶ -Family Service Restructuring-City - UB-Technical Assistance and Management Consulting-City	Social Services Time Study	4,516	3,387	2,258	1,129

Project Account		Allocation Methodology	Total Cost	Federal Share		Questioned Cost
Code	Description			75 Percent	50 Percent	
GC170	House Bill 1133 Family Caseload Pilot Project	Social Services Time Study	88,141	66,106	44,071	22,035
GC310	Local Certification Reimbursement Continuing Education	75 Percent	23,491	17,618	11,746	5,872
Total			\$9,564,899	\$7,173,675	\$4,782,450	\$2,391,225

¹IFS = Intensive Family Services.

²SFC = Services to Families with Children.

³EFC = Emergency Foster Care.

⁴LGA-SSA = Local Departments General Administration—Social Services Administration.

⁵G & A = General and Administrative.

⁶UB = University of Baltimore.

**QUESTIONED INDIRECT COSTS
BY COST CENTER**

Project Account		Allocation Methodology	Total Cost	Federal Share		Questioned Cost
Code	Description			75 Percent	50 Percent	
00000	Unknown	Unknown	\$3,733	\$2,800	\$1,867	\$933
B2030	Family Preservation	Social Services Time Study	29	22	15	7
B2310	Casey Family-to-Family Grant–Social Services Administration	Social Services Time Study	181	135	90	45
B3810	Facility Licensing	Social Services Time Study	1,151	863	575	288
B4010	Social Services Administration–Training Unit	Social Services Time Study	6,319	4,739	3,159	1,580
B5020	Office of Automation Costs–Non Cares	Social Services Time Study	360	270	180	90
B7110	Office of Special Projects	Social Services Time Study	1,385	1,039	693	346
B7120	Evaluation and Quality Assurance	Social Services Time Study	1,017	763	509	254
B7210	Research	Social Services Time Study	1,869	1,402	935	467
B8010	Family Services Program Management	Social Services Time Study	1,033	774	516	258
C7340	Social Services to Adults	Social Services Time Study	679	509	339	170
C7360	Care-Project Home	Social Services Time Study	2,108	1,581	1,054	527
C7390	Adult Protective Services–Program Management	Social Services Time Study	687	515	343	172
F1250	Salary	66 Percent	297	223	148	75
F7060	Office Systems	OIM ¹ Overhead	32,868	24,651	16,434	8,217
F7100	Management Information Systems–Administrative Systems	OIM Overhead	34,859	26,144	17,430	8,714

APPENDIX B

Project Account		Allocation Methodology	Total Cost	Federal Share		Questioned Cost
Code	Description			75 Percent	50 Percent	
G1460	Families Now Program and Intensive Family Services	Social Services Time Study	283	212	141	71
G3010	Chief of Local Department Operations	Social Services Time Study	4,912	3,684	2,456	1,228
G3030	IFS Staff–Family Preservation	Family Preservation IV-B Part II	34,578	25,934	17,289	8,645
G3040	SFC Staff–Family Preservation	Family Preservation IV-B Part II	20,394	15,296	10,197	5,099
G3050	Child Protective Services–Family Preservation	Family Preservation IV-B Part II	28,150	21,113	14,075	7,038
G3060	Reunification Staff-Family Preservation	Family Preservation IV-B Part II	27,152	20,364	13,576	6,788
G3150	Foster Care Services	Social Services Time Study	469,756	352,317	234,878	117,439
G3200	Child Welfare Services– ‘LJ’ Consent Decree ² Staff	Social Services Time Study	99,067	74,300	49,533	24,767
G3260	College Student/Worker Project	IV-E Improvement Plan	13,488	10,116	6,744	3,372
G3340	Casey Family- to-Family Grant–Local Social Services Administration	Social Services Time Study	363	272	182	90
G3420	Adoption Services	Social Services Time Study	73,339	55,004	36,670	18,334
G3490	Protective Services to Children	Social Services Time Study	540,918	405,689	270,459	135,230
G3500	24-Hour Emergency Services–Staff Support	Social Services Time Study	7,811	5,859	3,906	1,953

APPENDIX B

Project Account		Allocation Methodology	Total Cost	Federal Share		Questioned Cost
Code	Description			75 Percent	50 Percent	
G3610	Services to Families With Children	Social Services Time Study	123,138	92,353	61,569	30,784
G3630	Foster Care-EFC–Salaries	Social Services Time Study	78,612	58,959	39,306	19,653
G3730	Intensive Family Services–Social Services	Social Services Time Study	28,372	21,279	14,186	7,093
G3740	Intensive Family Services–Aide Services	Social Services Time Study	21,582	16,187	10,791	5,396
G3790	Parent Aide/In-Home Aide Project	Social Services Time Study	23,094	17,321	11,547	5,774
G4100	Protective Services to Adults	Social Services Time Study	52,975	39,731	26,488	13,243
G4140	Local Services to Adults	Social Services Time Study	132,153	99,115	66,077	33,038
G4230	Social Services to Adults–Restructuring	Social Services Time Study	19,302	14,476	9,651	4,825
GC170	House Bill 1133–Family Caseload Pilot Project	Social Services Time Study	23,860	17,895	11,930	5,965
GC340	Prince George’s County Team Decision Making	Social Services Time Study	139	104	69	35
Total			\$1,912,013	1,434,010	\$956,007	\$478,003

¹OIM = Office of Information Management.

²‘LJ’ Consent Decree = L.J. v. Massinga Consent Decree, August 1988.

State of Maryland
Department of Human Resources



Maryland's Human Services Agency

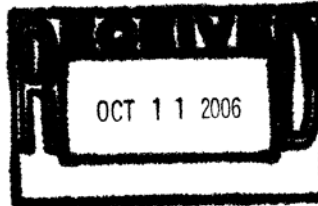
October 5, 2006

Robert L. Ehrlich, Jr.
Governor

Michael S. Steele
Lt. Governor

Christopher J. McCabe
Secretary

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



Re: Report Number: A-03-06-00563

Dear Mr. Virbitsky:

Thank you for the opportunity to review and comment on the contents of the draft report entitled "Review of Title IV-E Training Costs Claimed by Maryland for Calendar Years 1999 through 2001." I am pleased to receive the last audit report related to the 2002 review and look forward to the opportunity to resolve the concerns and ensure the Department complies with Federal rules and regulations. The Department is committed to working with our Federal partners to ensure our claims for Federal reimbursement are of the highest quality.

The report recommends refunding the Federal government \$3,247,975 (Federal share) for Title IV-E training claims overstated for the review period and additional adjustments subsequent to the audit period for the issues identified. The review contains findings that we concur with and others that have raised questions about how the audit concluded DHR was improperly claiming at the enhanced rate.

First, I would like to address the direct and indirect costs claimed at the improper rate that amounted to \$2,869,228. That amount includes \$478,003 for indirect costs. The Department agrees with the finding for the indirect portion and will make the appropriate adjustments to claims for both the audit period and any subsequent period. The Department already amended its Cost Allocation Plan to claim indirect costs at the 50 percent rate, effective October 1, 2005.

At this time, however, the Department is unable to include a statement of concurrence or non-concurrence with the finding related to the \$2,391,225 in direct costs improperly claimed at the enhanced rate. The Department was unable to fully understand the finding and would appreciate clarification and greater guidance from your office.

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The audit report does not identify those direct cost centers being questioned. It appears the audit report is referring to those Title IV-E training costs allocated using the result of the State's Social Services Time Study (SSTS). The Department uses its SSTS to determine the cost of staff engaged in training as specified in 45 CFR 1356.60(b). This includes salaries and fringe benefits as well as non-personnel (travel, per diem, ect.) costs. These costs are listed as allowable training costs identified by 45 CFR 235.64. Moreover, it is the Department's understanding that this allocation principle has been recognized as a valid methodology to identify benefiting programs. The Division of Cost Allocation (DCA) has not indicated otherwise. The Department submits all training methodologies to DCA for approval through its quarterly cost allocation plan amendments.

The audit contends social services cost centers that were allocated to Title IV-E training included "normal" expenses not training related; therefore, not allowable at the enhanced rate of Federal reimbursement. How was this conclusion reached? Is there any Federal regulation that the Department is unaware of that specifically prohibits the use of a time study to identify training costs? What cost centers are being questioned and what cost categories are unallowable? While all of these cost categories are charged to one cost center, the Department has the ability to provide a breakdown of the costs. Is the Department correct in its understanding that salaries, fringe benefits, travel, and per diem are allowable if appropriately delineated?

The answers to these questions would bring greater clarity to the finding and allow the Department to determine if it is in compliance and, if not, make the appropriate adjustments.

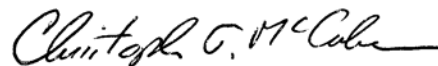
The audit report also includes a finding that Maryland did not have adequate internal controls to ensure that it claimed only allowable training costs at the enhanced 75% rate. The Department concurs that, at the time of the audit, some internal controls were inadequate. Since the audit period, the Department has worked with the U.S. Department of Health and Human Services to ensure its Cost Allocation Plan and Title IV-E claims meet Federal requirements. The Department also is working on a comprehensive review of claims submitted to the Department by other State agencies and local governments. The Department is committed to reviewing these claims on an on-going basis.

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The last finding in the report is related to \$378,747 in unallowable training costs incurred by the Department of Juvenile Service (DJS). DJS concurs with this finding and will make the appropriate adjustments. DJS also will review claims subsequent to the audit period and make appropriate adjustments.

If you have any questions or need additional information, please contact Mr. Henry L. Nichols, Chief Financial Officer, at 410-767-7504. Thank you in advance for your help in resolving the questions raised by the audit report.

Sincerely,



Christopher J. McCabe
Secretary

CJM:ts

cc: Floyd Blair
Gregory James
Henry L. Nichols
Rebecca Bridgett
Neil Bergsman