



Office of Audit Services  
Region I  
John F. Kennedy Federal Building  
Boston, MA 02203  
(617) 565-2684

DEC 23 2003

Report Number: A-01-04-02500

Mr. James Morse  
Commissioner  
Department of Social and Rehabilitative Services  
103 South Main Street  
Waterbury, VT 05671

Dear Mr. Morse:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' (OAS) report entitled "Review of Adoption Assistance Costs Claimed by Vermont for the Three Fiscal Years Ended June 30, 2003." A copy of this report will be forwarded to the action official noted below for his/her review and any action deemed necessary.

Final determination 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, (5 U.S.C. 552, as amended by Public Law 104-231), OIG, OAS reports issued to the department's grantees and contractors are made available 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 CFR Part 5.)

To facilitate identification, please refer to Report Number A-01-04-02500 in all correspondence relating to this report.

Sincerely,

Michael J. Armstrong  
Regional Inspector General  
for Audit Services

Page 2 – Mr. James Morse

Enclosures - as stated

**Direct Reply to HHS Action Official:**

Mr. Hugh Galligan  
Regional Administrator  
Administration for Children & Families  
JFK Federal Building, Room 2000  
Boston, Massachusetts 02203

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF ADOPTION ASSISTANCE  
COSTS CLAIMED BY VERMONT FOR  
THE THREE FISCAL YEARS ENDED  
JUNE 30, 2003**



**December 2003  
A-01-04-02500**

# *Office of Inspector General*

<http://oig.hhs.gov/>

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

## *Office of Audit Services*

The OIG's 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 in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the Department.

## *Office of Evaluation and Inspections*

The OIG's Office of Evaluation and Inspections (OEI) conducts short-term management and program evaluations (called inspections) that focus on issues of concern to the Department, the Congress, and the public. The findings and recommendations contained in the inspections reports generate rapid, accurate, and up-to-date information on the efficiency, vulnerability, and effectiveness of departmental programs.

## *Office of Investigations*

The OIG's Office of Investigations (OI) conducts criminal, civil, and administrative investigations of allegations of wrongdoing in HHS programs or to HHS beneficiaries and of unjust enrichment by providers. The investigative efforts of OI lead to criminal convictions, administrative sanctions, or civil monetary penalties. The OI also oversees State Medicaid fraud control units, which investigate and prosecute fraud and patient abuse in the Medicaid program.

## *Office of Counsel to the Inspector General*

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

# *Notices*

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**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.





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Report Number: A-01-04-02500

Mr. James Morse  
Commissioner  
Department of Social and Rehabilitative Services  
103 South Main Street  
Waterbury, VT 05671

Dear Mr. Morse:

The purpose of this letter is to report the results of our review of adoption assistance costs claimed for Federal reimbursement. The objective of our review was to determine whether adoption assistance costs claimed for Federal reimbursement were adequately supported and reported in accordance with Federal requirements.

For the three Fiscal Years (FYs) ended June 30, 2003, the State claimed \$143,162 (\$89,797 Federal share) in adoption assistance costs that were the result of unsupported variances, clerical errors, and incorrectly allocated costs. While the errors identified appear to be isolated, we believe strengthening existing procedures will help prevent future errors. In this respect, the State has procedures in place, such as a formal reconciliation that is reviewed and approved by a supervisor, to ensure costs claimed for Federal reimbursement are accurate and supported by source documents.

We recommend that the State:

- Make a financial adjustment of \$143,162 (\$89,797 Federal share) on its next Federal quarterly report of expenditures; and
- Strengthen existing procedures to ensure accurate reporting of costs claimed for Federal reimbursement, including reconciliations of amounts claimed to source documents, tracing sample line items to source documents, and supervisory reviews.

### BACKGROUND

The U.S. Department of Health and Human Services (HHS), Administration for Children & Families, funds the Foster Care and Adoption Assistance Programs that focus on finding permanent placements for children who cannot safely return to their homes. Authorized under Title IV-E of the Social Security Act, both programs match between 50-80 percent of State costs, depending on the States per capita income.

Under adoption assistance, funds are available for one-time payments for the costs of adopting a child as well as for monthly subsidies to adoptive families for care of the child (who is eligible for welfare under the former AFDC program or for Supplemental Security Income). A key factor in calculating the amount of Federal reimbursement is the allocation rate that is the ratio of eligible children to the total children in the adoption assistance program.

### **Laws And Regulations**

Payments to States for adoption assistance are based on the eligibility of the child. In this regard, the child must:

- be a IV-E foster child (removed pursuant to a voluntary placement agreement with the State agency or removed as a result of a judicial determination that continuation in the home would be contrary to the welfare of the child);
- have received AFDC in month of removal or would have received aid or is SSI eligible; and
- be determined by the State to be a child with special needs.

Before the State can seek reimbursement for incurred costs, the State agency submits a cost allocation plan to the Division of Cost Allocation in the appropriate HHS Regional office for approval. The allocation plan describes the procedures used to identify, measure, and allocate all costs to each of the programs operated by the State agency. Once the plan is approved, the State agency seeks reimbursement for Federally eligible claims reported on the cost allocation plan by submitting a quarterly Title IV-E Foster Care and Adoption Assistance Financial Report (Form ACF-IV-E-1).

Title 45 Code of Federal Regulation, section 95.507(b)(8), requires that an adequate accounting system exist to support claims made under the cost allocation plan and the information provided in support of the proposed cost allocation plan is accurate.

### **Objective, Scope And Methodology**

We conducted our review in accordance with generally accepted government auditing standards. The objective of our review was to determine whether adoption assistance costs claimed for Federal reimbursement were adequately supported and reported in accordance with Federal requirements. The review covered the period July 1, 2000 through June 30, 2003. For the three FYs ended June 30, 2003, total funding for adoption assistance was \$31 million (\$18.3 million Federal share).

To accomplish our objective we:

- Reviewed applicable Federal laws and regulations;
- Reconciled total adoption assistance costs claimed on the quarterly Federal IV-E financial reports and to the quarterly cost allocation plans;

- Reconciled adoption assistance costs allocated on the quarterly cost allocation plans to supporting records; and
- Reviewed 30 randomly selected adoption assistance case files and supporting documentation to determine whether each case met Federal eligibility requirements.

We considered the State's internal control policies and procedures relevant to our audit objective by reviewing written policies and procedures and conducting discussions with State officials. We conducted our review at the Department of Social and Rehabilitative Services, Agency of Human Services, in Waterbury, Vermont, and at our regional Office of Audit Services in Boston, Massachusetts, from March 2003 through October 2003. On November 13, we issued a draft report to the State. We received the State's comments and have included them as an exhibit in this report (Exhibit).

### **FINDINGS AND RECOMMENDATIONS**

Title 45 Code of Federal Regulation, section 95.507(b)(8), requires that an adequate accounting system exist to support claims made under the cost allocation plan and the information provided in support of the proposed cost allocation plan is accurate

We reconciled total adoption assistance costs claimed on the Federal IV-E reports to the State's accounting records and supporting documents. The overstatements we identified include the following:

- \$8,405 overstatement in an unsupported variance between the total amount claimed and supporting accounting records for FY 2001.
- \$72,839 in net overstatements as follows for FY 2002:
  - \$8,407 overstatement in an unsupported variance between the total amount claimed and supporting accounting records,
  - \$87,329 overstatement in a clerical error resulting from an unallowable account being claimed,
  - \$3,013 understatement in eligible adoption assistance maintenance payments that should have been claimed for reimbursement, and
  - \$19,884 understatement in purchased service costs that should have been allocated to adoption assistance.
- \$61,918 overstatement in an unsupported variance between the total amount claimed and supporting accounting records for FY 2003.

As a result, the State agency claimed \$143,162 (\$89,797 Federal share) in adoption assistance costs that were the result of unsupported variances, clerical errors and incorrectly allocated costs. While the

errors identified appear to be isolated, we believe strengthening existing procedures will help prevent future errors.

In this respect, the State has procedures in place, such as a formal reconciliation that is reviewed and approved by a supervisor, to ensure costs claimed for Federal reimbursement are accurate and supported by source documents.

### **Recommendations**

We recommend that the State:

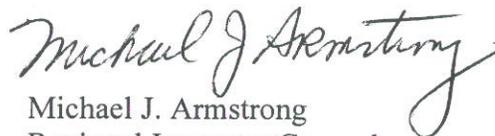
- Make a financial adjustment of \$143,162 (\$89,797 Federal share) on its next Federal quarterly report of expenditures; and
- Strengthen existing procedures to ensure accurate reporting of costs claimed for Federal reimbursement, including reconciliations of amounts claimed to source documents, tracing sample line items to source documents, and supervisory reviews.

### **Auditee Response**

The State concurred with our findings and recommendations (Exhibit). As a result, the State agreed to:

- Make an adjustment of \$143,162 (\$89,797 Federal share) on the next quarterly report to be filed for the period ending December 31, 2003; and
- Implement additional procedures to ensure accurate reporting of costs claimed for Federal reimbursement, including tracing sample line items to source documents and reconciling those items to amounts claimed on the cost allocation plan.

Sincerely,



Michael J. Armstrong  
Regional Inspector General  
for Audit Services

cc: Mr. Hugh Galligan  
Regional Administrator, Region I  
Administration for Children & Families  
JFK Federal Building  
Boston, Massachusetts 02203

# **Exhibit**



State of Vermont

DEPARTMENT OF SOCIAL AND REHABILITATION SERVICES  
AGENCY OF HUMAN SERVICES

Osgood Building  
103 South Main Street  
Waterbury, Vermont  
05671-2401

December 10, 2003

Michael J. Armstrong, Regional Inspector General for Audit Services  
Region 1  
John F. Kennedy Federal Building  
Boston, MA 02203

Re: Response to OIG Report: A-01-04-02500

Dear Mr. Armstrong:

We have received the draft report of the review of Adoption Assistance Costs claimed by Vermont for the three fiscal years ended June 30, 2003, and we agree with the findings and concur with the recommendations presented therein. Your staff was very thorough, competent and capable, and went to great lengths to review the findings and the numbers with my staff to insure their accuracy while on-site. They subsequently provided an additional opportunity for review prior to the report being issued, so we have no hesitancy in concurring with the recommendations.

In accordance with the recommendation that we make an adjustment of \$143,162 (\$89,797 Federal Share), we will do so on the quarterly report to be filed for the period ending 12/31/03.

Although we do perform two levels of review of the cost allocation reports after it is initially prepared, we agree that an additional step which will trace sample line items back to source documentation, and reconcile those items to the amounts claimed on the cost allocation plan will provide an added measure of control and improved accuracy overall. The additional testing will be implemented immediately.

We appreciate the opportunity afforded by the review to strengthen our control procedures. We would like to commend your staff for their competence, thoroughness and professionalism, and for their effort in helping us make these improvements.

Sincerely,

A handwritten signature in cursive script that reads "James Morse".

James Morse  
Commissioner

cc: Marcel Rocheleau, Business Manager