

**Memorandum**

AUG 30 2000

Date

Michael Mangano

From

for June Gibbs Brown
Inspector General

Subject

Review of Juvenile Justice Costs and Youth Incentive Program Costs Which the New Jersey Department of Human Services, Division of Family Development Retroactively Claimed to the Emergency Assistance Program (A-02-99-02006)

To

Olivia A. Golden
Assistant Secretary
for Children and Families

This is to alert you to the issuance of our final report on August 31, 2000.

A copy is attached. The objective of our review was to determine whether juvenile justice and youth incentive program (YIP) costs totaling \$5,174,532 (\$2,587,266 Federal share), which the State of New Jersey, Department of Human Services (DHS), Division of Family Development (NJDFD) retroactively claimed to the Emergency Assistance (EA) program, were allowable for Federal reimbursement. The Administration for Children and Families (ACF) paid the State of New Jersey \$3,919,474 (\$1,959,737 Federal share) and deferred the remaining \$1,255,058 (\$627,529 Federal share).

Our review of the State of New Jersey's Federal maximization project, which was conducted by the State's contractor, Deloitte & Touche Consulting Group (D&T), revealed serious deficiencies in the compliance with Federal requirements regarding the eligibility and allowability of the retroactive claims. The audit covered juvenile justice costs incurred during Calendar Year 1995 and YIP costs incurred during the period April 1, 1995 to September 30, 1996. The State of New Jersey retroactively claimed these costs to the EA program during the quarters ending September 30, 1996 through March 31, 1997.

Our review showed that the retroactive claims submitted for 100 juvenile justice and 158 YIP cases reviewed were unallowable for Federal reimbursement because the claims did not meet EA eligibility criteria related to the application and authorization of services. We determined that NJDFD and D&T failed to establish that any of the claims for the 258 cases reviewed were allowable for Federal reimbursement under the EA program. Moreover, we found that the claims were unallowable for more than one reason. It is evident that the work of the contractor was not adequate and NJDFD officials did not adequately review and test the work of the contractor before submitting claims to the Federal Government.

During our review, we provided periodic briefings to NJDFD officials. Subsequent to the completion of our fieldwork, NJDFD officials withdrew the juvenile justice and YIP claims

Page 2 - Olivia A. Golden

which were retroactively submitted for Federal reimbursement under the EA program. According to NJDFD officials, the decision to withdraw the claims was based on concerns raised by our review regarding the validity of these claims. Consequently, on April 26, 2000, New Jersey returned the Federal share of funds received (\$1,959,737). The State also agreed that it would not seek any reimbursement for the retroactive claims which ACF had previously deferred.

In light of the above actions by the State of New Jersey, we are not recommending a financial adjustment. From a programmatic standpoint, we are recommending that NJDFD take steps to ensure that appropriate internal controls are applied to all retroactive claims submitted for Federal reimbursement and that the State strengthen its efforts to properly review and monitor the work of outside contractors which result in claims to the Federal Government.

Any questions or comments on any aspect of this memorandum are welcome. Please call me or have your staff contact Joseph J. Green, Acting Assistant Inspector General for the Administrations of Children, Family, and Aging Audits, at (301) 443-3582.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF JUVENILE JUSTICE COSTS AND
YOUTH INCENTIVE PROGRAM COSTS WHICH THE
NEW JERSEY DEPARTMENT OF HUMAN SERVICES,
DIVISION OF FAMILY DEVELOPMENT
RETROACTIVELY CLAIMED TO THE
EMERGENCY ASSISTANCE PROGRAM**



**JUNE GIBBS BROWN
Inspector General**

**AUGUST 2000
A-02-99-02006**



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office Of Inspector General
Office Of Audit Services

Region II
Jacob K. Javits Federal Building
26 Federal Plaza
New York, NY 10278

Our Reference: Common Identification No. A-02-99-02006

Mr. David C. Heins
Director
State of New Jersey, Dept. Of Human Services
Division of Family Development
PO Box 716
Trenton New Jersey 08625-0716

Dear Mr. Heins:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General, Office of Audit Services' (OAS) final report entitled "Review of Juvenile Justice and Youth Incentive Program Costs Which the New Jersey Department of Human Services, Division of Family Development Retroactively Claimed to the Emergency Assistance Program." A copy of this report will be forwarded to the action official noted below for 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 (Public Law 90-23), 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.)

Page 2- Mr. David C. Heins

To facilitate identification, please refer to Common Identification Number A-02-99-02006 in all correspondence relating to this report.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Timothy J. Horgan", with a long horizontal line extending to the right.

Timothy J. Horgan
Regional Inspector General
for Audit Services

Enclosures- as stated

Direct Reply to HHS Action Official:

Mary Ann Higgins
Northeast Hub Director
Department of Health and Human Services
Administration for Children & Families
26 Federal Plaza, Room 4114
New York, New York 10278

EXECUTIVE SUMMARY

Background

In December 1996, the New Jersey Department of the Treasury, Office of Management and Budget (NJOMB) awarded a contract to Deloitte & Touche Consulting Group (D&T) to administer a Federal Revenue Enhancement Project designed to generate increased Federal funding. According to the terms of the contract, NJOMB was to pay D&T a fee contingent on actual funds recovered under the project. The D&T was to obtain documentation to support that claims were eligible for Federal reimbursement. According to officials from the New Jersey Department of Human Services (NJ DHS), Division of Family Development (NJDFD), which is the State agency that administers the Emergency Assistance (EA) program, NJDFD was responsible for reviewing the documentation provided by D&T, authorizing services and submitting the claims to the Administration for Children and Families (ACF).

As part of its Federal revenue enhancement effort, D&T identified juvenile justice costs incurred by the State during the period January 1, 1995 to December 31, 1995. These expenditures represented administrative costs of the State's Juvenile Justice Commission and room and board provided to children at the New Jersey Training School for Boys (NJSB) located in Jamesburg, New Jersey. In addition, D&T identified Youth Incentive Program (YIP) costs incurred by the State during the period April 1, 1995 to September 30, 1996. These expenditures represented services provided to children with special emotional needs.

The juvenile justice and YIP expenditures, which were never previously submitted for Federal reimbursement, totaled \$5,174,532 (\$2,587,266 Federal share). Based on the work performed by D&T, NJDFD retroactively claimed these costs to the EA program on the ACF-231 quarterly expenditure reports filed for the quarters ending September 30, 1996 through March 31, 1997. The ACF paid \$3,919,474 (\$1,959,737 Federal share) and deferred the remaining \$1,255,058 (\$627,529 Federal share).

Objective

The objective of our review was to determine whether juvenile justice and YIP costs, which NJDFD retroactively claimed to the EA program, were allowable for Federal reimbursement. For juvenile justice cases, we used simple random sampling techniques to select a sample of 100 cases totaling \$1,008,872 (\$504,436 Federal share). We also reviewed the entire universe of 158 YIP cases totaling \$418,430 (\$209,215 Federal share).

Summary Of Findings

Our review showed that the retroactive claims submitted for all 258 cases reviewed were unallowable for Federal reimbursement because the claims did not meet EA eligibility criteria. The Code of Federal Regulations (CFR) at 45 CFR 206.10 and 45 CFR 233.120 require a written

application and authorization for services. Part IV-5214 of the Handbook of Public Assistance Administration further requires that disbursements of assistance payments must be supported by a prior or simultaneous authorization of award. Finally, 45 CFR 233.120 provides for assistance to a child that lived with an eligible relative within 6 months of the request for assistance.

We determined that NJDFD and D&T failed to establish that any of the cases reviewed contained claims that were allowable for Federal reimbursement under the EA program. All 258 cases we reviewed were unallowable for more than one reason as follows:

- All cases contained claims which were unallowable because of deficiencies related to the application for services. Specifically; files for 226 cases in our sample did not contain an approved EA application form as prescribed in the New Jersey State Plan -- D&T used an unapproved alternate form as the application. Also, there were no applications in 32 of the juvenile justice cases reviewed.
- All cases contained claims which were unallowable because of deficiencies related to the authorization of services. We found that 251 cases contained claims which were unallowable because they included services provided outside the 12-month statutory limit for reimbursement under the EA program. The remaining 7 cases contained claims which were unallowable because they included services which were not supported by an EA authorization form.
- Claims for 39 juvenile justice cases were also unallowable because there was no evidence that the child lived with an eligible relative within 6 months of the request for assistance.

Our review demonstrates the NJDFD and D&T failed to insure that the claims submitted were allowable for Federal reimbursement under the EA program. The State relied solely on D&T to develop the retroactive EA claims. However, claims were not supported by application and authorization forms designated under the approved State Plan. In our opinion, the work of D&T was not adequate and NJDFD abrogated its responsibilities by not reviewing and testing the work of the contractor before claims were submitted to the Federal Government for reimbursement.

We provided periodic briefings to NJDFD officials during our review. Subsequent to the completion of our fieldwork, NJDFD officials decided to withdraw the juvenile justice and YIP claims which were retroactively submitted for Federal reimbursement under the EA program. According to NJDFD officials, the decision to withdraw the claims was based on concerns raised by our review regarding the validity of these claims (See Appendix A). Consequently, on April 26, 2000, New Jersey returned the Federal share of funds received (\$1,959,737). The State also agreed that it would not seek reimbursement for the retroactive claims which ACF had previously deferred.

Recommendation

In light of the above actions taken by the State of New Jersey, we are not recommending a financial adjustment. We are pleased that based upon our audit findings the State took immediate action to withdraw its retroactive claims. From a programmatic standpoint we are recommending that NJDFD:

1. Take steps to ensure that appropriate internal controls are applied to all retroactive claims submitted for Federal reimbursement.
2. Strengthen its efforts to review and monitor the work performed by outside contractors.

TABLE OF CONTENTS

EXECUTIVE SUMMARY	i
INTRODUCTION	1
Background	1
Objectives, Scope and Methodology	2
FINDINGS AND RECOMMENDATIONS	3
Application for Services	3
Authorization of Services	4
Child Must Be Living With An Eligible Relative	5
Conclusion	5
Recommendation	6
APPENDIX	

A- The State of New Jersey's April 11, 2000 letter confirming withdrawal of its claim for Federal reimbursement.

INTRODUCTION

Background

The Emergency Assistance (EA) program was established by the 1967 amendments to the Social Security Act (Public Law 90-248) as an optional supplement to the Aid to Families with Dependent Children (AFDC) program. The purpose of the EA program was to provide temporary financial assistance and supportive services to eligible families experiencing an emergency. The Personal Responsibility and Work Opportunities Reconciliation Act of 1996 eliminated AFDC, EA, and the Job Opportunity and Basic Skills program as of Fiscal Year 1997 and created the Temporary Assistance for Needy Families block grant.

Section 233.120 of 45 CFR states that EA services can only be provided to or on behalf of a needy child under the age of 21 and any other member of the household in which: (1) such child is living (or has been living in the prior 6 months) with a specified relative, (2) the child is without available resources to meet the emergency, (3) the assistance is necessary to avoid destitution of such child or to provide living arrangements in a home for such child, and (4) the destitution or need for living arrangements did not arise because such child or relative refused without good cause to accept employment or training for employment.

Section 406(e) of the Social Security Act and the implementing regulations at 45 CFR 233.120 provided States with considerable flexibility in defining the scope of their EA programs. Over time, States began to shift costs that were previously funded entirely by the States to the EA program.

In December 1996, the NJOMB awarded a contract to Deloitte and Touche (D&T) to administer a Federal Fund Revenue Enhancement Project designed to generate increased Federal funding. In its proposal, which was incorporated into the D&T contract by reference, the State identified the EA program as an area in which Federal reimbursement could be maximized. According to the terms of the contract, NJOMB was to pay D&T a fee contingent on actual funds recovered under the project. The D&T was to obtain documentation to support that claims were eligible for Federal reimbursement. According to New Jersey State officials, the NJDFD, which is the State agency within NJDHS that administers the EA program, was responsible for reviewing the documentation provided by D&T, authorizing services, and submitting the claims to ACF.

As part of its Federal revenue enhancement effort, D&T identified juvenile justice costs incurred by the State during the period January 1, 1995 to December 31, 1995. These expenditures represented administrative costs of the State's Juvenile Justice Commission and room and board provided to children at the NJSB located in Jamesburg, New Jersey. In addition, D&T identified youth incentive program (YIP) costs incurred by the State during the period April 1, 1995 to September 30, 1996. These expenditures represented services provided to children with special emotional needs.

The juvenile justice and YIP expenditures, which were never previously submitted for Federal reimbursement, totaled \$5,174,532 (\$2,587,266 Federal share). Based on the work performed by D&T, NJDFD retroactively claimed these costs to the EA program on the ACF-231 quarterly expenditure reports filed for the quarters ending September 30, 1996 through March 31, 1997. The ACF paid \$3,919,474 (\$1,959,737 Federal share) and deferred the remaining \$1,255,058 (\$627,529 Federal share).

Objectives, Scope and Methodology

The objective of our review was to determine whether juvenile justice and YIP costs, which NJDFD retroactively claimed to the EA program, were allowable for Federal reimbursement.

To accomplish our objective, we:

- Met with representatives of the State and D&T to obtain an understanding of the Revenue Enhancement Project contract and the State's controls, policies and procedures related to the submission of EA claims.
- Examined applicable EA regulations, ACF action transmittals and information memorandums, and the New Jersey State Plan.
- Obtained detailed case file rosters for juvenile justice costs retroactively claimed to the EA program for the quarters ended September 30, 1996 and December 31, 1996.
- Obtained detailed case file rosters for YIP costs retroactively claimed to the EA program for the quarters ended December 31, 1996 and March 31, 1997.
- Reconciled the detailed case file rosters to the costs claimed on the ACF-231s.
- Of the 467 juvenile justice cases totaling \$4,756,102 (Federal share 2,378,051), we reviewed a simple random sample of 100 juvenile justice cases totaling \$1,008,872 (Federal share \$504,436). We reviewed the entire universe of 158 YIP cases totaling \$418,430 (\$209,215 Federal share). For each of the 258 sample case files selected, we reviewed documentation provided by NJDFD and D&T to determine if claimed costs were allowable for Federal reimbursement under the EA program.
- We did not project an estimated overpayment because the State of New Jersey withdrew its claim and returned the money to the Federal Government.
- Provided periodic briefings to NJDFD officials during the audit.

Our review was performed in accordance with generally accepted government auditing standards. However, we did not rely on the existing system of internal controls over the submission of retroactive EA claims. Rather, we relied upon substantive audit testing. Our field work for review of juvenile justice claims was performed during the period December 1998 to October 1999. Our field work for review of YIP claims was performed during the period November 1999 to March 2000. The field work for both reviews was performed at NJDFD's office located in Mercerville, New Jersey. In light of actions by the State of New Jersey to refund the retroactive claim, we are only issuing a final report.

FINDINGS AND RECOMMENDATIONS

Based upon our review of 100 juvenile justice cases totaling \$1,008,872 (\$504,436 Federal share) and 158 YIP cases totaling \$418,430 (\$209,215 Federal share), we determined that NJDFD and D&T failed to establish that any of these claims were allowable for Federal reimbursement under the EA program. Our review also disclosed that NJDFD submitted claims for Federal reimbursement without reviewing work performed by D&T. Consequently, claims were submitted for cases which did not meet multiple eligibility criteria related to the application and authorization of services.

Application For Services

All 258 cases we reviewed contained claims which were unallowable because of deficiencies related to the application for services. Specifically:

- Files for 68 juvenile justice and 158 YIP cases in our sample did not contain an approved EA application form as prescribed in the New Jersey State Plan. The D&T used an unapproved alternate form as the application.
- There were no applications in 32 of the juvenile justice cases reviewed.

The 45 CFR 206.10(a)(1)(ii) states that the agency shall require a written application, signed under penalty of perjury, on a form prescribed by the State agency, from the applicant himself, or his authorized representative, or, where the applicant is incompetent or incapacitated, someone acting responsibly for him. According to ACF, States have considerable flexibility in developing or identifying documents that can be used as the EA application form. However, whatever form is designated must be approved and communicated to all relevant parties who are expected to utilize it.

In accordance with their approved State Plan, NJDFD uses a specific application form called "Application for Emergency Assistance" to certify eligibility and authorize the EA services. This form is to be signed by the parent or guardian and contains various family identifying information including whether the child has lived with a parent or guardian in the last 6 months.

For each NJSB resident having services deemed eligible for retroactive claiming under the EA program, D&T used a "Unified Intake Assessment Form" as the application for EA services. This form was never approved for use as an alternate EA application. This NJSB form is completed as part of the reception committee process when a resident is incarcerated. These forms are not signed by parents or guardians and they do not contain a section where EA eligibility is certified or services authorized.

For each child that received YIP services deemed eligible for retroactive claiming under the EA program, D&T used the Case Assessment Resource Team (CART) Request and Authorization for Wraparound Services form as the application for EA services. The CART form is used to assess and plan for the individual needs of children eligible to receive YIP services. This form was never approved for use as an alternate application for EA services.

Authorization Of Services

All 258 cases contained claims which were unallowable because of deficiencies related to the authorization of services. Specifically:

- 93 juvenile justice and 158 YIP cases were unallowable because they included services provided outside the 12-month statutory limit for reimbursement under the EA program.
- 7 juvenile justice cases were unallowable because they included services which were not supported by an EA authorization form.

According to 45 CFR 233.120(b)(3):

"Federal matching is available only for emergency assistance which the State authorizes during one period of 30 consecutive days in any 12 consecutive months, including payments which are to meet needs which arose before such 30-day period or are for such needs as rent which extend beyond the 30-day period."

Further, Part IV-5214 of the Handbook of Public Assistance Administration states that all disbursements of assistance payments must be supported by a prior (or simultaneous) authorization of award. And, House Committee Report Number 544, 90th Congress, 1st Session 109 (1967) states that "the payment of services must be necessary in order to meet an immediate need that would otherwise not be met."

According to ACF, an EA authorization could be used to provide services for a period not to exceed 12 consecutive months. A new authorization was required to continue EA services beyond the original 12-month period. Claims made for services provided outside this 12-month service period, without a new authorization, are unallowable.

As part of its Federal revenue enhancement effort, D&T identified juvenile justice costs incurred at NJSB during the period January 1, 1995 through December 31, 1995. For each NJSB resident having services deemed eligible for retroactive claiming under the EA program, D&T created an authorization form. The authorizations were then sent to NJDFD to be signed. We found that the forms were signed approximately 2 to 3 years after the services were provided. The employee who signed the forms advised us that he did not determine the veracity of the claims and that his superiors directed him to sign the authorization forms.

Child Must Be Living With An Eligible Relative

Based on our review, we determined that 39 of the 100 sample cases contained claims which were unallowable for Federal reimbursement because the child did not live with an eligible relative. In accordance with 45 CFR 233.120(b)(1)(i) Federal reimbursement is not available for children who have not lived with an eligible relative within six months of the request for assistance.

Conclusion

Our review demonstrates that NJDFD and D&T failed to insure that the claims submitted were allowable for Federal reimbursement under the EA program.

In addition, our review raised concerns about the process used to generate these retroactive claims. We found that the State relied solely on D&T to develop the retroactive EA claims. We observed that the claims were not supported by application and authorization forms designated under the approved State Plan. In our opinion the work of D&T was not adequate and NJDFD abrogated its responsibilities by not reviewing and testing the work of the contractor before claims were submitted to the Federal Government for reimbursement.

Based on our audit work, we had planned to recommend a financial adjustment. However, subsequent to the completion of our fieldwork, we were informed by NJDFD officials that they had decided to withdraw the juvenile justice and YIP claims which were retroactively submitted for Federal reimbursement under the EA program. According to NJDFD officials, the decision to withdraw the claims was based on concerns raised by our review regarding the validity of these claims (See Appendix A). Consequently, at the request of NJDFD officials, a check was prepared by the State of New Jersey Department of Treasury in the amount of \$1,959,737, and made payable to the U. S. Department of Health and Human Services to return the Federal share of funds received. On April 26, 2000, the State forwarded the check to DHHS, Division of Payment Management Governmental and Tribal Payment Branch in Rockville, Maryland who subsequently confirmed that the refund had been received on May 3, 2000. The State also agreed

that it would not seek reimbursement for the retroactive claims which ACF had previously deferred.

Recommendation

In light of the above actions taken by the State of New Jersey, we are not recommending a financial adjustment. We are pleased that based upon our audit findings the State took immediate action to withdraw its retroactive claims. From a programmatic standpoint we are recommending that NJDFD:

1. Take steps to ensure that appropriate internal controls are applied to all retroactive claims submitted for Federal reimbursement.
2. Strengthen its efforts to review and monitor the work performed by outside contractors.



State of New Jersey
 DEPARTMENT OF HUMAN SERVICES
 DIVISION OF FAMILY DEVELOPMENT
 PO Box 716
 TRENTON NJ 08625-0716

CHRISTINE TODD WHITMAN
 Governor

MICHELE K. GUHL
 Commissioner
 DAVID C. HEINS
 Director
 TEL (609) 588-2000

April 11, 2000

Anthony L. Manno, Supervising Auditor
 U.S. Department of Health and Human Services
 Office of the Inspector General, Office of Audit Services
 Capital Center, Room 215
 50 East State Street
 Trenton, New Jersey 08608

Dear Mr. Manno:

This is to confirm your telephone conversation with Ross Robbins of this Division regarding New Jersey's decision to withdraw the claim for federal financial participation (FFP) under Title IV-A Emergency Assistance. Specifically, we have decided to return the FFP relative to costs for Jamesburg and the Youth Incentive Program (YIP) that are currently being audited by your Agency. Our decision is based on concerns that you have expressed regarding the validity of these claims.

According to our records, FFP in the amount of \$2,587,266 has been and agrees with the total amount of \$5,174,532 that is stated in your Agency's October 15, 1998 Audit Engagement letter. Our records also indicate that, of this FFP amount, a deferral of \$627,529 has never been paid. Attached is a copy of the March 4, 1998 AFDC Grant Award that includes a negative adjustment for this amount.

Consequently, New Jersey will be preparing a check in the amount of \$1,959,737 (\$2,587,266 - \$627,529) which is the amount of FFP New Jersey received relative to this matter.

Since we are returning the FFP, please advise if you believe that the Audit Exit Conference that is scheduled for May 1, 2000 will be necessary.

If you have any further questions regarding this matter, please contact Ross Robbins at (609) 588-2409.

Sincerely,

David C. Heins
 Director

DCH:GR
 Attachment

C: Charlene Holzbaur
 Ginger Schnorbus