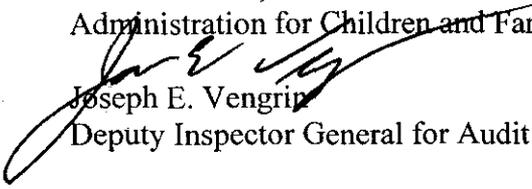




JUL - 6 2005

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

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

SUBJECT: Review of Title IV-E Administrative and Training Costs Claimed by the Delaware Department of Services for Children, Youth and Their Families (A-03-03-00562)

Attached is an advance copy of our final report on Title IV-E administrative and training claims in Delaware. We will issue this report to the Delaware Department of Services for Children, Youth and Their Families (Department of Services) within 5 business days.

Our objective was to determine whether the Title IV-E administrative and training costs claimed by the Department of Services were allowable, allocable, and reasonable in accordance with applicable Federal regulations and guidelines.

We have concerns about the allowability, allocability, and reasonableness of \$6,200,430 in Federal funding that the Department of Services claimed for administrative and training costs.

For the quarters ended December 1999 through June 2003, the Department of Services allocated to the Title IV-E program a disproportionate share of costs for case management of Title IV-E candidates. During this period, the Department of Services used a revised cost allocation method that was inherently unreasonable because it allocated all case management costs for candidates to Title IV-E without considering the percentage of candidates actually placed in Title IV-E foster care. Although Federal officials approved the revised method, it was not consistent with basic cost allocation principles or ACF policy and was not equitable. Under the revised method, the Department of Services' claims for Federal reimbursement of candidates' case management costs were \$5,859,542 higher than they would have been under the method used prior to December 1999.

In addition, for the quarters ended December 1999 through December 2002, the Department of Services used incorrect salaries in flawed cost allocation schedules to allocate the Client Payments Unit, the Training Unit, and Foster Home Coordinators to the Title IV-E claim. Rather than using current salaries, the department used salaries for the quarter ended

September 1999. As a result, the Department of Services overstated the administrative claims by at least \$287,697 (Federal share).

Also, contrary to Federal regulations, the Department of Services claimed indirect costs at the enhanced 75-percent Federal funding rate rather than the allowable 50-percent rate because it was not aware that indirect costs were limited to 50-percent Federal funding for the Title IV-E training claim. As a result, the Department of Services overstated the training claims by \$53,191 (Federal share).

The Department of Services took the following actions during our audit to correct the conditions that we identified:

- The Department of Services returned to the earlier method that properly allocated candidate costs to benefiting programs. However, the Department of Services did not amend its cost allocation plan.
- The Department of Services corrected its cost allocation schedules and began to identify and use current-quarter salaries to calculate claims. The Department of Services also made an adjustment of \$287,697 (Federal share) to correct overstated administrative costs claimed during the quarters ended September 2001 through December 2002.
- Department of Services officials informed us that they would claim indirect costs at the allowable 50-percent Federal funding rate.

We recommend that the Department of Services:

- work with ACF officials to resolve the increase of \$5,859,542 (Federal share) in Title IV-E administrative claims that resulted from using an inequitable methodology to allocate candidates' case management costs;
- amend its cost allocation plan to reflect the appropriate methodology for allocating administrative costs for foster care candidates;
- continue to include only current-quarter salaries for the Client Payments Unit, the Training Unit, and Foster Home Coordinators in calculating administrative claims;
- use actual salaries to recalculate the administrative claims for the quarters ended December 1999 through June 2001 and make the appropriate adjustments; and
- refund to the Federal Government \$53,191 in improperly claimed indirect costs and discontinue the practice of claiming indirect costs at the enhanced 75-percent Federal funding rate.

Page 3 – Joan Ohl

In its written response dated May 25, 2005, the Department of Services concurred with our recommendations.

If you have any questions or comments about this report, please do not hesitate to contact me, or your staff may contact Joseph J. Green, Acting Assistant Inspector General for Grants and Internal Activities, at (202) 619-1175, or through e-mail at Joe.Green@oig.hhs.gov. Please refer to report number A-03-03-00562 in all correspondence.

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

JUL - 8 2005

Report Number: A-03-03-00562

Cari DeSantis, Secretary
Department of Services for Children, Youth and Their Families
1825 Faulkland Road
Wilmington, Delaware 19805

Dear Ms. DeSantis:

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 Administrative and Training Costs Claimed by the Delaware Department of Services for Children, Youth and Their Families." A copy of this report will be forwarded to the action official noted on page 2 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 members of the press and general 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).

If you have any questions or comments about this report, please do not hesitate to contact me at (215) 861-4470 or through e-mail at stephen.virbitsky@oig.hhs.gov or James Maiorano, Audit Manager, at (215) 861-4476 or through e-mail at james.maiorano@oig.hhs.gov. Please refer to report number A-03-03-00562 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen Virbitsky", with a long horizontal flourish extending to the right.

Stephen Virbitsky
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

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

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF TITLE IV-E
ADMINISTRATIVE AND TRAINING
COSTS CLAIMED BY THE DELAWARE
DEPARTMENT OF SERVICES FOR
CHILDREN, YOUTH AND THEIR
FAMILIES**



**Daniel R. Levinson
Inspector General**

**JULY 2005
A-03-03-00562**

Office of Inspector General

<http://oig.hhs.gov>

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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 Delaware, the Department of Services for Children, Youth and Their Families (Department of Services) 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.

During our 5-year audit period from October 1, 1998, to September 30, 2003, the Department of Services claimed \$43,783,735 in Federal funding for Title IV-E administrative and training costs. Our review, which ACF requested, covered \$36,208,651 of the \$43,783,735.¹

OBJECTIVE

Our objective was to determine whether the Title IV-E administrative and training costs claimed by the Department of Services were allowable, allocable, and reasonable in accordance with applicable Federal regulations and guidelines.

SUMMARY OF FINDINGS

We have the following concerns about the allowability, allocability, and reasonableness of \$6,200,430 of the \$36,208,651 in Federal funding claimed for administrative and training costs.

- **Administrative Costs**—For the quarters ended December 1999 through June 2003, the Department of Services allocated to the Title IV-E program a disproportionate share of costs for case management of Title IV-E candidates. During this period, the Department of Services used a revised cost allocation method that was inherently unreasonable because it allocated all case management costs for candidates to Title IV-E without considering the percentage of candidates actually placed in Title IV-E foster care. Although Federal officials approved the revised method, it was not consistent with basic cost allocation principles or ACF policy and was not equitable. Under the revised method, the Department of Services' claims for Federal reimbursement of candidates' case management costs were \$5,859,542 higher than they would have been under the method used prior to December 1999.

In addition, for the quarters ended December 1999 through December 2002, the Department of Services used incorrect salaries in flawed cost allocation schedules for the Client Payments Unit, the Training Unit, and Foster Home Coordinators.

¹We did not review \$7,575,084 claimed for the Statewide Automated Child Welfare Information System.

Rather than using current salaries, the department used salaries for the quarter ended September 1999. As a result, the Department of Services overstated the administrative claims by at least \$287,697 (Federal share).

- **Training Costs**—Contrary to Federal regulations, the Department of Services claimed indirect costs at the enhanced 75-percent Federal funding rate rather than the allowable 50-percent rate. As a result, the Department of Services overstated the training claims by \$53,191 (Federal share).

STATE-INITIATED CORRECTIVE ACTIONS DURING THE AUDIT

The Department of Services has taken the following actions to correct the conditions that we identified:

- Beginning with the quarter ended September 2003, the Department of Services returned to the earlier method that properly allocated candidate costs to benefiting programs. However, the Department of Services did not amend its cost allocation plan.
- Beginning with the quarter ended March 2003, the Department of Services corrected its cost allocation schedules and began to identify and use current-quarter salaries to calculate claims. The Department of Services also made an adjustment of \$287,697 (Federal share) to correct overstated administrative costs claimed during the quarters ended September 2001 through December 2002.
- Department of Services officials informed us that they would begin to claim indirect costs at the allowable 50-percent Federal funding rate beginning with the quarter ended December 2003.

RECOMMENDATIONS

We recommend that the Department of Services:

- work with ACF officials to resolve the increase of \$5,859,542 (Federal share) in Title IV-E administrative claims that resulted from using an inequitable methodology to allocate candidates' case management costs;
- amend its cost allocation plan to reflect the appropriate methodology for allocating administrative costs for foster care candidates;
- continue to include only current-quarter salaries for the Client Payments Unit, the Training Unit, and Foster Home Coordinators in calculating administrative claims;

- use actual salaries to recalculate the administrative claims for the quarters ended December 1999 through June 2001 and make the appropriate adjustments; and
- refund to the Federal Government \$53,191 in improperly claimed indirect costs and discontinue the practice of claiming indirect costs at the enhanced 75-percent Federal funding rate.

AUDITEE COMMENTS

In a response dated May 25, 2005, the Department of Services concurred with our recommendations. The response is summarized in our report and is included as Appendix B. Portions of the response that identify individuals have been redacted.

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INTRODUCTION

BACKGROUND

Federal Foster Care and Adoption Assistance Program

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. At the Federal level, the Administration for Children and Families (ACF) administers the 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, Division of Cost Allocation (DCA) 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 OMB Circular A-87 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.

Delaware's Foster Care and Adoption Assistance Program

The Delaware Department of Services for Children, Youth and Their Families (Department of Services) administers the foster care and adoption assistance program through two divisions:

- The Division of Family Services (DFS) investigates complaints about child abuse and neglect; assists at-risk children and their families through various programs, including foster care; seeks permanent adoptive homes for children when problems cannot be resolved; and works to prepare adolescents for independent living when adoption is not a solution. DFS serves approximately 2,600 children per year.
- The Division of Youth Rehabilitative Services (DYRS) provides services to youth who have been adjudicated delinquent and ordered by the court system to receive State services. To ensure public safety and facilitate positive change of the youth in its care, DYRS's services range from probation to secure care incarceration. DYRS serves approximately 3,000 youth per year.

Delaware's cost allocation plan describes the procedures used to identify, measure, and allocate administrative and training costs among benefiting Federal and State programs. DCA approved Delaware's cost allocation plan 95-1 in March 1999. The plan was effective from October 1998 through September 1999. In December 1999, DCA approved cost allocation plan 95-2, effective October 1999.

After approval of plan 95-2, ACF regional officials noted unanticipated increases in Title IV-E administrative costs. ACF initiated deferral of certain costs claimed for Title IV-E candidates and requested that the Office of Inspector General audit Delaware's claims for Title IV-E administrative and training costs developed under plan 95-2. Delaware withdrew or repaid \$1,573,268 in candidate claims as a result of ACF's monitoring efforts.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the Title IV-E administrative and training costs claimed by the Department of Services were allowable, allocable, and reasonable in accordance with applicable Federal regulations and guidelines.

Scope

Our review covered \$36,208,651 of the \$43,783,735 in Federal funding that the Department of Services claimed for Title IV-E administrative and training costs during Federal fiscal years 1999 through 2003 (October 1998 through September 2003). We did

not review \$7,575,084 in Federal funding claimed for the Statewide Automated Child Welfare Information System.

We performed our fieldwork at the Delaware Department of Services in Wilmington, DE, and the ACF Regional Office in Philadelphia, PA.

Methodology

To review the propriety of costs allocated to Title IV-E administrative and training claims, we reviewed and compared cost allocation plans 95-1 and 95-2. We also:

- interviewed DCA and ACF officials regarding the accuracy of the cost allocation plans and the propriety of Delaware's Title IV-E claims,
- interviewed Department of Services personnel responsible for developing the Title IV-E claims through the cost allocation schedules,
- reviewed the Title IV-E claims and supporting cost allocation schedules,
- obtained files containing all Department of Services incurred costs and compared them with the reports that the Department of Services prepared to develop the cost allocation schedules,
- reviewed the cost allocation schedules to determine whether the direct and shared costs were distributed in accordance with the approved cost allocation plans, and
- reviewed case count statistics for children placed in foster care and for children receiving preplacement services.

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

FINDINGS AND RECOMMENDATIONS

We have concerns about the allowability, allocability, and reasonableness of \$6,200,430 of the \$36,208,651 in Federal funding that the Department of Services claimed for administrative and training costs. Specifically, the Department of Services (1) allocated to the Title IV-E program a disproportionate share of administrative costs for case management of Title IV-E candidates and used incorrect salaries to develop administrative cost claims and (2) incorrectly applied indirect costs to training costs claimed at the enhanced 75-percent rate.

ADMINISTRATIVE COSTS

As discussed below, the Department of Services did not follow Federal regulations, guidelines, and cost principles in allocating costs to the Title IV-E program for case management of candidates and salaries of certain State employees.

Case Management of Title IV-E Candidates

The Department of Services allocated to the Title IV-E program a disproportionate share of administrative costs for case management of Title IV-E candidates. Using a revised cost allocation method for the quarters ended December 1999 through June 2003, the Department of Services did not (1) individually determine each candidate's eligibility for Title IV-E or (2) allocate allowable Title IV-E administrative activities using a ratio of Title IV-E foster care cases to total foster care cases or another reasonable allocation method. Although Federal officials approved the revised methodology, it was inherently unreasonable and did not comply with Federal guidelines or cost principles. Under the revised method, the Department of Services' claims for Federal reimbursement of candidates' case management costs were \$5,859,542 higher than they would have been under the method used prior to December 1999.

Federal Guidelines

The "ACF Child Welfare Policy Manual" (manual) is a comprehensive publication of all relevant ACF policy issuances involving child welfare. Section 8.1D2 of the manual defines a candidate for Title IV-E foster care as a child who is at risk of removal from home, as evidenced by the State agency's either pursuing the child's removal or making reasonable efforts to prevent such removal.

Section 8.1C3 of the manual addresses acceptable methods for a State to claim child-specific administrative costs for children whom the State reasonably views as Title IV-E candidates. These costs must be allocated in such a manner as to ensure that each participating program is charged its proportionate share of costs. Therefore, to claim child-specific administrative costs for candidates, ACF policy provides that a State may individually determine each candidate's Title IV-E eligibility. Children determined to be eligible are considered candidates for Title IV-E foster care, and 100 percent of the administrative activities on their behalf are chargeable to Title IV-E. Alternatively, a State may forgo individual eligibility determinations and allocate allowable administrative activities for candidates using a ratio of Title IV-E foster care cases to total foster care cases or another equitable method. ACYF-Policy Interpretation Question (PIQ)-96-01, dated October 8, 1996, and ACYF-Children's Bureau-Policy Announcement-01-02, dated July 3, 2001, specify similar requirements.

Section C.3.a of OMB Circular A-87 provides that "A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received."

Cost Allocation Method Not in Compliance With Federal Guidelines

During our audit period, the Department of Services changed its method for allocating case management costs for Title IV-E candidates. Under cost allocation plan 95-1, effective through September 30, 1999, the Department of Services allocated costs of candidates' case management based on the ratio of Title IV-E-eligible children placed in foster care. Under cost allocation plan 95-2, effective October 1999, the Department of Services considered all preplacement children in DFS and DYRS to be Title IV-E candidates and considered all of the case management costs incurred on their behalf to be chargeable to Title IV-E. The revised methodology did not comply with ACF policy or OMB cost principles. The Department of Services used the revised methodology to allocate candidates' case management costs of DFS and DYRS during the quarters ended December 1999 through June 2003.

Under the prior cost allocation plan, the Department of Services allocated the DFS and DYRS costs of candidates' case management to the Title IV-E program using the Title IV-E percentage. The Title IV-E percentage is the ratio of Title IV-E-eligible children placed in foster care to the total number of children placed in foster care. By using this allocation method, which complied with ACF policy, the Department of Services equitably allocated candidates' case management costs. Candidates' costs allocated to Title IV-E averaged 35.3 percent for DFS and 19.3 percent for DYRS.

Under the revised cost allocation plan, effective October 1999, the Title IV-E percentage was no longer applied. Instead, candidates' case management costs were allocated to Title IV-E for all children considered Title IV-E candidates. Pursuant to ACF guidance, this methodology would be appropriate only if the Department of Services determined the Title IV-E eligibility of each candidate. Alternatively, a State may forgo individual eligibility determinations and allocate allowable administrative activities for candidates using a ratio of Title IV-E foster care cases to total foster care cases or another equitable method. The ACF guidance provides that children determined to be eligible are considered candidates for Title IV-E foster care, and 100 percent of the administrative activities on their behalf are chargeable to Title IV-E. Instead, the Department of Services considered all preplacement clients in DFS and DYRS to be Title IV-E candidates. With this change, all case management costs of candidates were claimed as Title IV-E administrative costs.

The revised allocation method did not comply with ACF policy or OMB cost principles because the Department of Services did not use the Title IV-E percentage or another equitable allocation method. As a result of the revision, the percentage of candidates' case management costs allocated to Title IV-E for DFS increased from an average of 28.9 percent under cost allocation plan 95-1 to 45.7 percent under plan 95-2. For DYRS, the percentage increased from an average of 13.6 percent to 93.5 percent.

Misinterpretation of ACF Policy on Candidates

The Department of Services relied on ACYF-PIQ-96-01, dated October 8, 1996, as its basis for concluding that all preplacement children in DFS and DYRS were considered candidates, with all their costs allocable to Title IV-E.

The Department of Services misinterpreted ACF policy. For a State to claim 100 percent of candidates' child-specific allowable administrative costs, ACYF-PIQ-96-01 requires the State (1) to individually determine Title IV-E eligibility or (2) if individual Title IV-E eligibility determinations are not made, to allocate the costs. The allocation must be based on a determination both of candidacy for foster care and of potential Title IV-E eligibility. Using a ratio of Title IV-E to non-Title IV-E cases is one acceptable means of allocation.

Disproportionate Share of Administrative Costs Allocated to Title IV-E

We recomputed candidates' case management costs using the Title IV-E percentage as specified in cost allocation plan 95-1. Had the Department of Services used the Title IV-E percentage, the Title IV-E administrative claims for the quarters ended December 1999 through June 2003 would have been reduced by \$5,859,542 (Federal share). (See Appendix A.)

When we informed the Department of Services that the allocation methodology under plan 95-2 was improper, the department returned to the plan 95-1 methodology for the quarterly claim filed for September 2003. The use of the 95-1 methodology reduced the claim by \$425,921 (Federal share). However, the Department of Services did not amend its cost allocation plan.

Salary Costs

The Department of Services developed Title IV-E administrative claims that contained overcharges because it used incorrect salaries for the Client Payments Unit, the Training Unit, and the Foster Home Coordinators. As a result, the Department of Services overstated administrative costs claimed by more than \$287,697 (Federal share).

Federal Regulations

Federal regulations (45 CFR § 95.507(a)(2)) require that cost allocation plans conform to the accounting principles and standards in OMB Circular A-87. Attachment A of Circular A-87, General Principles for Determining Allowable Costs, provides the basic guidelines. To be allowable under Federal awards, costs must be determined in accordance with generally accepted accounting principles and be adequately documented.

Incorrect Computation of Salaries

The Department of Services used incorrect salaries for the Client Payments Unit, the Training Unit, and the Foster Home Coordinators. Developing the Title IV-E administrative cost claim for these offices involved complicated procedures that were not always followed.

Cost allocation plans 95-1 and 95-2 both contained a provision to apply the Title IV-E percentage from the previous year to selected offices. The plans also provided that, for each quarter, actual expenditures would be compared with the actual Title IV-E percentage, and any variance would be used to increase or decrease the administrative cost recoveries for that period. The Department of Services developed cost allocation schedules¹ to automatically compute the variance and distribute appropriate costs to benefiting programs. The Department of Services needed to enter the current salaries of the three offices on three separate cost allocation schedules.

The Department of Services made the appropriate entries on the cost allocation schedules through the September 1999 claim. However, for the quarters ended December 1999 through December 2002 (13 quarters):

- The Department of Services carried over the actual salaries from cost allocation schedules developed for the quarter ended September 1999.
- The salary adjustment formulas in three of the cost allocation schedules contained on a shared disk became corrupted and nonfunctional. The schedules no longer performed the intended function of identifying variances and distributing the variances to benefiting programs.

As the salaries for the three offices grew from \$225,375 for the quarter ended September 1999 to \$419,000 for the quarter ended December 2002, the unrecognized variance also grew. As a result, overcharges exceeded \$287,697. When informed that its Title IV-E claims contained overcharges, the Department of Services fixed its cost allocation schedules and began to enter the appropriate salaries on the schedules beginning with the quarter ended March 2003. It also recomputed the claim by adjusting the cost allocation schedules to reflect the correct salaries for the quarters ended September 2001 through December 2002 (six quarters). For those six quarters, it made a decreasing adjustment of \$287,697 (Federal share). However, the Department of Services did not recalculate the Title IV-E administrative claim for the seven quarters ended December 1999 through June 2001.

¹Cost allocation schedules were computer spreadsheets that the Department of Services used to distribute costs to benefiting programs. When the Department of Services entered the appropriate data on the spreadsheets, the spreadsheets automatically calculated a portion of the claim.

TRAINING COSTS

Contrary to Federal regulations, the Department of Services claimed indirect costs at the enhanced 75-percent Federal funding rate rather than the allowable 50-percent rate. As a result, the Department of Services overstated the training claims by \$53,191 (Federal share).

Federal Regulations and Departmental Appeals Board Decisions

Regulations (45 CFR § 1356.60(b)) state that Federal matching funds for State and local personnel training for foster care and adoption assistance are available under Title IV-E at an enhanced 75-percent rate. Short- and long-term training at educational institutions and inservice training may be provided in accordance with the provisions of 45 CFR §§ 235.63–235.66(a) of this title. Section 235.64 identifies the costs that are allowable at the enhanced rate. Such costs are limited to costs incurred for training purposes and include:

- salaries, fringe benefits, dependency allowance, travel, tuition, books, and educational supplies for employees developing, conducting, or attending training and outside experts engaged to develop or conduct training;
- space, postage, teaching supplies, purchase or development of teaching material, and equipment for agency training;
- maintaining and operating the agency library as an essential resource to the agency's training program;
- stipends, travel, tuition, books, and educational supplies for persons preparing for employment with the State or local agency; and
- payments to educational institutions for salaries, fringe benefits, and travel of instructors, clerical assistance, teaching materials, and equipment.

Departmental Appeals Board decisions Nos. 1422, 1463, 1530, and 1666 addressed the propriety of claiming indirect costs at the enhanced rate under Title IV-E. Those decisions provide that if the indirect costs were based on rates determined from cost pools containing other than allowable training costs (as identified in 45 CFR § 235.64), indirect costs may not be charged as training at the 75-percent rate. Instead, the indirect costs should be claimed at the 50-percent Federal funding rate for administrative costs.

Indirect Costs Claimed at Enhanced Rate

The Department of Services improperly included indirect costs in the training claim at the enhanced 75-percent rate because the cost pools used to develop the indirect costs

contained unallowable costs. 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 Department of Services was not aware that such indirect costs were limited to 50-percent Federal funding for the Title IV-E training claim. During the quarters ended December 1999 through September 2003, the Department of Services claimed indirect costs of \$159,573 Federal share (75 percent of \$212,764 in overhead costs), but should have used the standard 50-percent rate. As a result, the Department of Services overstated the claim by \$53,191.

The Department of Services informed us that, beginning with the quarter ended December 2003, it would claim indirect costs at the standard rate of 50 percent rather than the enhanced rate of 75 percent.

RECOMMENDATIONS

We recommend that the Department of Services:

- work with ACF officials to resolve the increase of \$5,859,542 (Federal share) in Title IV-E administrative claims that resulted from using an inequitable methodology to allocate candidates' case management costs;
- amend its cost allocation plan to reflect the appropriate methodology for allocating administrative costs for foster care candidates;
- continue to include only current-quarter salaries for the Client Payments Unit, the Training Unit, and Foster Home Coordinators in calculating administrative claims;
- use actual salaries to recalculate the administrative claims for the quarters ended December 1999 through June 2001 and make the appropriate adjustments; and
- refund to the Federal Government \$53,191 in improperly claimed indirect costs and discontinue the practice of claiming indirect costs at the enhanced 75-percent Federal funding rate.

AUDITEE COMMENTS

In a response dated May 25, 2005, the Department of Services concurred with our recommendations. The complete text of Delaware's comments is included as Appendix B. We have redacted the portions of the response that identify individuals.

APPENDIXES

**TITLE IV-E CANDIDATES: RATIO CLAIMED AND RECALCULATED
AND ASSOCIATED DIFFERENCES**

Quarter Ended		DFS	DYRS	Difference
12/31/1999	Ratio Claimed	51.2%	91.8%	\$353,504
	Recalculated	32.2%	23.0%	
	Overpayment		\$178,980	
3/31/2000	Ratio Claimed	51.8%	93.0%	329,114
	Recalculated	32.6%	26.5%	
	Overpayment		176,219	
6/30/2000	Ratio Claimed	48.5%	93.2%	324,161
	Recalculated	30.4%	23.0%	
	Overpayment		161,644	
9/30/2000	Ratio Claimed	45.5%	93.2%	309,196
	Recalculated	28.3%	17.3%	
	Overpayment		149,216	
12/30/2000	Ratio Claimed	45.6%	93.1%	283,479
	Recalculated	30.2%	17.3%	
	Overpayment		126,020	
3/31/2001	Ratio Claimed	45.5%	92.9%	313,895
	Recalculated	29.8%	13.6%	
	Overpayment		135,252	
6/30/2001	Ratio Claimed	44.9%	93.1%	315,158
	Recalculated	29.3%	12.1%	
	Overpayment		133,652	
9/30/2001	Ratio Claimed	45.0%	93.3%	338,493
	Recalculated	29.5%	9.5%	
	Overpayment		137,343	
12/31/2001	Ratio Claimed	44.6%	93.9%	466,716
	Recalculated	29.3%	10.2%	
	Overpayment		188,966	
3/31/2002	Ratio Claimed	44.5%	93.9%	454,414
	Recalculated	29.3%	12.1%	
	Overpayment		180,393	
6/30/2002	Ratio Claimed	44.4%	94.1%	469,175
	Recalculated	27.8%	8.5%	
	Overpayment		185,804	
9/30/2002	Ratio Claimed	44.4%	93.5%	434,253
	Recalculated	28.5%	9.2%	
	Overpayment		171,542	
12/31/2002	Ratio Claimed	43.6%	93.6%	517,376
	Recalculated	26.9%	9.5%	
	Overpayment		189,625	
3/31/2003	Ratio Claimed	43.3%	94.9%	438,485
	Recalculated	25.1%	7.1%	
	Overpayment		168,542	
6/30/2003	Ratio Claimed	43.2%	94.9%	512,123
	Recalculated	24.8%	5.6%	
	Overpayment		180,385	
Total	Average Ratio Claimed	45.7%	93.5%	\$5,859,542
	Average Recalculated	28.9%	13.6%	
	Total		\$2,463,583	

State of Delaware



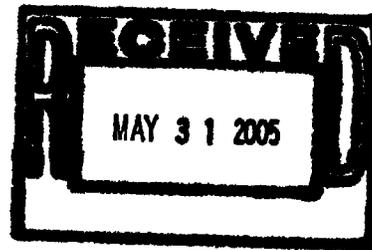
**The Department of Services
for Children, Youth and
Their Families**

Office of the Secretary

633 - 2500

May 25, 2005

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



Dear Mr. Virbitsky:

I am writing to you in response to your 5/2/05 memo and draft report (#A-03-03-00562) entitled "Title IV-E Administrative and Training Costs Claimed by the Delaware Department of Services for Children, Youth and Their Families." We have reviewed the draft report and offer the following information and comments related to the recommendations contained on page 9 of the report.

Recommendation: Work with ACF officials to resolve the increase of \$5,859,542 (Federal share) in Title IV-E administrative claims that resulted from using an inequitable methodology to allocate candidates' case management costs.

Response: *As recommended we will work with ACF officials in resolving the increase of the cited costs.*

Recommendation: Amend its cost allocation plan to reflect the appropriate methodology for allocating administrative costs for foster care candidates.

Response: *We concur with the recommendation and provide the following information regarding corrective action taken and plans for additional action.*

- *On 1/12/04 we sent a Foster Care Candidacy action plan to _____ of your staff. In a follow up phone call he indicated to Harry Roberts of my staff that he had provided a copy of the work plan to staff in the ACF Regional Office. Based on the positive verbal feedback from _____ and the positive feedback he received from the Regional staff, the Department has proceeded to carry out the steps in the plan.*
- *On 6/18/04 we sent a letter to _____ of Region III ACF to provide him an update on our progress with our Foster Care Candidacy Plan along with a detailed proposal for documenting foster care candidacy and the general approach on how the costs would be allocated through the cost allocation plan. On 3/17/05 _____ and other staff from the regional office came to our offices to*

Audit Response

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discuss the proposal and questions that they had posed during their internal review. At that meeting we provided answers to their initial questions and received several additional questions to which we provided answers and an implementation schedule in a memo dated 5/13/05. Also, in our 3/17/05 meeting the concept of running a pilot process was suggested by the regional staff, which we have incorporated into our implementation schedule. After the results of the pilot are compiled we will share the results with regional staff. After regional staff review the results, provide feedback and provide approval to go forward, we anticipate submitting an amendment to our cost allocation plan in the December 2005-January 2006 timeframe.

Recommendation: Continue to include only current-quarter salaries for the Client Payments Unit, the Training Unit, and Foster Home Coordinators in calculating administrative claims.

Response: *We concur with the recommendation and will continue to use only current quarter salaries for the units cited in the recommendation in calculating administrative claims. As noted in the report, for the quarter ending March 2003 the cost allocation schedules with the nonfunctional spreadsheet formulas were corrected and we have continued to use current quarter salaries to calculate claims.*

Recommendation: Use actual salaries to recalculate the administrative claims for the quarters ended December 1999 through June 2001 and make the appropriate adjustments.

Response: *We concur with the recommendation and will recalculate the administrative claims for the quarters ended December 1999 through June 2001 and make the appropriate adjustments.*

Recommendation: Refund to the Federal Government \$53,191 in improperly claimed indirect costs and discontinue the practice of claiming indirect costs at the enhanced 75-percent Federal funding rate.

Response: *We concur with the recommendation and will recalculate the administrative claims for the quarters ended December 1999 through December 2002 and make the appropriate adjustments. We would also like to offer an additional comment related to page 7 of the report. On page 7 in the second bullet the first statement reads, "The cost allocation schedules became corrupt." We believe that the reader of the report would get a fuller sense of the problem described in this section if that first sentence read as follows: "The salary adjustment formulae in three of the cost allocation schedules contained on a shared disk became corrupted and non-functional."*

If you need additional information or wish to discuss with us the content of our responses, please contact Harry Roberts of my staff at 302-892-4534.

Sincerely,



Cari DeSantis
Cabinet Secretary

cc: Henry Smith, III
Harry Roberts
Chris Kraft