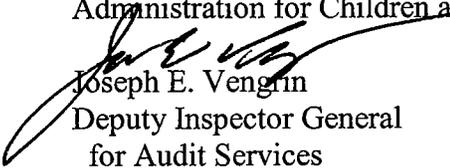




FEB - 8 2006

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

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

SUBJECT: Review of Selected Cost Centers Applied to Title IV-E Administrative and Training Costs Claimed by the Maryland Department of Human Resources (A-03-04-00580)

Attached is an advance copy of our final report on selected cost centers applied to Title IV-E administrative and training costs in Maryland. 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 administrative and training costs complied with its cost allocation plan.

Maryland did not comply with its cost allocation plan for training and administrative costs totaling \$4,289,659 (Federal share) claimed for Title IV-E reimbursement during 1999-2001. These costs included:

- \$3,047,337 claimed for two cost centers not identified in the cost allocation plan and
- \$1,242,322 claimed for one cost center identified in the cost allocation plan as dedicated 100 percent to State-only activities and therefore not allocable to Title IV-E.

During our audit, we advised Maryland and the Administration for Children and Families (ACF) about the three improper cost centers used to compute Title IV-E claims. Maryland amended its cost allocation plan to include one of the cost centers, cost center B3600. ACF required reimbursement for claims paid prior to the amendment, and in 2004, Maryland made adjustments to refund about \$3.2 million in Title IV-E payments for cost center B3600. The adjustment included a Federal share of about \$2.4 million improperly claimed during our audit period and a Federal share of about \$800,000 improperly claimed during 2002, i.e., subsequent to our audit period.

We recommend that Maryland:

- refund \$1,851,481 (Federal share) in Title IV-E training and administrative costs improperly claimed through unallowable cost centers:
 - \$609,159 (\$3,047,337 less adjustments of \$2,438,178) for costs claimed through two cost centers not identified in the cost allocation plan and
 - \$1,242,322 for costs claimed through one cost center identified in the cost allocation plan as dedicated 100 percent to State-only activities and
- review claims made subsequent to our audit period to identify any additional claims made for these cost centers and make the appropriate refunds.

In its comments on our draft report, Maryland concurred with our recommendations.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Donald L. Dille, Assistant Inspector General for Grants and Internal Activities, at (202) 619-1176, or Stephen Virbitsky, Regional Inspector General for Audit Services, Region III, at (215) 861-4470. Please refer to report number A-03-04-00580 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

FEB 10 2006

Report Number: A-03-04-00580

Christopher J. McCabe, Secretary
Maryland Department of Human Resources
311 West Saratoga Street
Baltimore, Maryland 21201

Dear Mr. McCabe:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Review of Selected Cost Centers Applied to Title IV-E Administrative and Training Costs Claimed by the Maryland Department of Human Resources." A copy of this report will be forwarded to the action official noted below for 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 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.)

If you have any questions or comments about this report, please contact me at 215-861-4470 or through e-mail at stephen.virbitsky@oig.hhs.gov or your staff may contact James Maiorano,

Audit Manager, at 215-861-4476 or through e-mail at james.maiorano@oig.hhs.gov. Please refer to report number A-03-04-00580 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen Virbitsky". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Stephen Virbitsky
Regional Inspector General
for Audit Services

Enclosures - as stated

Direct Reply to HHS Action Official:

David Lett
Regional Administrator
Administration for Children and Families, Region III
U.S. Department of Health and Human Services
Suite 864, The Public Ledger Building
150 S. Independence Mall West
Philadelphia, PA 19106-3499

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF SELECTED COST
CENTERS APPLIED TO TITLE IV-E
ADMINISTRATIVE AND TRAINING
COSTS CLAIMED BY THE MARYLAND
DEPARTMENT OF HUMAN
RESOURCES**



**Daniel R. Levinson
Inspector General**

**FEBRUARY 2006
A-03-04-00580**

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 in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout HHS.

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The Office of Evaluation and Inspections (OEI) conducts management and program evaluations (called inspections) that focus on issues of concern to HHS, Congress, and the public. The findings and recommendations contained in the inspections generate rapid, accurate, and up-to-date information on the efficiency, vulnerability, and effectiveness of departmental programs. OEI also oversees State Medicaid Fraud Control Units which investigate and prosecute fraud and patient abuse in the Medicaid program.

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The 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.

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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.¹

During our 3-year audit period (January 1, 1999, to December 31, 2001), Maryland claimed \$174,827,222 in Federal funding for Title IV-E administrative and training costs. Our review covered \$159,553,179 of the \$174,827,222.²

OBJECTIVE

The objective of our review was to determine whether Maryland's claims for Title IV-E administrative and training costs complied with its cost allocation plan.

SUMMARY OF FINDINGS

Maryland did not comply with its cost allocation plan for training and administrative costs totaling \$4,289,659 (Federal share) claimed for Title IV-E reimbursement during the review period. These costs included:

- \$3,047,337 claimed for two cost centers not identified in the cost allocation plan and
- \$1,242,322 claimed for one cost center identified in the cost allocation plan as dedicated 100 percent to State-only activities and therefore not allocable to Title IV-E.

During our audit, we advised Maryland and ACF about the three improper cost centers used to compute Title IV-E claims. Maryland amended its cost allocation plan to include one of the cost centers, cost center B3600. ACF required reimbursement for claims paid prior to the amendment, and in 2004, Maryland made adjustments to refund about \$3.2 million in Title IV-E payments for cost center B3600. The adjustment included a Federal share of about \$2.4 million improperly claimed during our audit period and a Federal share of about \$800,000 improperly claimed during 2002, i.e., subsequent to our audit period.

¹See 45 CFR § 1356.60(b).

²We did not review \$15,274,043 claimed for Montgomery County claims or other adjustments.

RECOMMENDATIONS

We recommend that Maryland:

- refund \$1,851,481 (Federal share) in Title IV-E training and administrative costs improperly claimed through unallowable cost centers:
 - \$609,159 (\$3,047,337 less adjustments of \$2,438,178) for costs claimed through two cost centers not identified in the cost allocation plan and
 - \$1,242,322 for costs claimed through one cost center identified in the cost allocation plan as dedicated 100 percent to State-only activities and
- review claims made subsequent to our audit period to identify any additional claims made for these cost centers and make the appropriate refunds.

MARYLAND'S COMMENTS

In its comments on our draft report, Maryland concurred with our recommendations. Maryland's comments are included in their entirety as an appendix.

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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. The Maryland Department of Human Resources (Maryland) administers the Title IV-E program at the State level.

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.¹

Administrative and training 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.

Cost Allocation Plan Requirements

Federal regulations (45 CFR § 95.507) 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." 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

¹See 45 CFR § 1356.60(b).

allowable, and costs must be reasonable and necessary for proper administration of the program. Pursuant to 45 CFR § 95.517, a State must adhere to its cost allocation plan in computing claims for a Federal share or update its plan by submitting an amendment. A State may claim costs based on a proposed plan or plan amendment provided that the State makes retroactive adjustments to its claims, if necessary, in accordance with the subsequently approved plan.

Title IV-E regulations (45 CFR § 1356.60) require that the State's cost allocation plan identify which costs are allocated and claimed under the Title IV-E program. Claims for costs that do not adhere to the approved or proposed cost allocation plan will be disallowed (45 CFR § 95.519). A Departmental Appeals Board (DAB) opinion, Montana Department of Family Services, DAB No. 1266 (1991), upheld an ACF decision to disallow certain administrative costs allocated by the State to its Title IV-E program on the basis that such costs were not identified in the cost allocation plan.

Maryland's Cost Allocation Plan

Maryland's cost allocation plan describes the procedures used to identify, measure, and allocate administrative and training costs among benefiting Federal and State programs. Maryland claimed costs based on proposed cost allocation plans submitted to DCA. As permitted under Federal regulations (45 CFR § 95.517), Maryland implemented its proposed cost allocation plans while approval was pending.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our review was to determine whether Maryland's claims for Title IV-E administrative and training costs complied with its cost allocation plan.

Scope

Our review covered \$159,553,179 of the \$174,827,222 in Federal funding that Maryland claimed for Title IV-E administrative and training costs for the period January 1, 1999, through December 31, 2001. We did not review \$15,274,043 in Federal funding for Montgomery County claims or other adjustments.

We reviewed only those internal controls considered necessary to achieve our objective.

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

Methodology

To determine whether Maryland complied with its cost allocation plan when claiming Title IV-E administrative and training costs, we reconciled 235 cost centers used to allocate costs to Title IV-E claims to cost centers included in the cost allocation plan. Specifically, we:

- reviewed applicable Federal criteria,
- identified the cost centers included in the Title IV-E claims,
- compared the identified cost centers with those in the cost allocation plan, and
- identified cost centers used that were not in the cost allocation plan and determined the amount of claims accumulated under them.

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

FINDINGS AND RECOMMENDATIONS

Maryland did not comply with its cost allocation plan for training and administrative costs totaling \$4,289,659 (Federal share) claimed for Title IV-E reimbursement during the review period. These costs included:

- \$3,047,337 claimed for two cost centers not identified in the cost allocation plan and
- \$1,242,322 claimed for one cost center identified in the cost allocation plan as dedicated 100 percent to State-only activities and therefore not allocable to Title IV-E.

COST CENTERS NOT IDENTIFIED IN THE COST ALLOCATION PLAN

Two cost centers not identified in the cost allocation plan but included on the Title IV-E claim accounted for \$3,047,337 (Federal share) in improper claims. These cost centers are shown in the following table:

Cost Centers Not Identified in the Cost Allocation Plan

Cost Center Code	Cost Center Title	Amount Claimed
G3700	Baltimore City Community Services Program	\$609,159
B3600	Office of Administrative Hearings	2,438,178
Total		\$3,047,337

Contrary to Federal regulations, Maryland claimed \$609,159 (Federal share) for Title IV-E administrative and training costs allocated from a cost center not identified in its cost allocation plan. Cost center G3700, which accumulated costs for the Baltimore City Community Services Program, was not included in the State's cost allocation plan.

Federal regulations (45 CFR § 95.517) require that a State claim Federal funding in accordance with its cost allocation plan. Title IV-E regulations (45 CFR § 1356.60) require the State's cost allocation plan to identify which costs are allocated and claimed. Federal regulations (45 CFR § 95.507) state that the cost allocation plan must conform to the accounting principles and standards prescribed in OMB Circular A-87. OMB Circular A-87 in turn requires that the plan establish groupings of related costs, called cost centers, and describe the methods used to allocate the cost centers to social services programs. Finally, pursuant to 45 CFR § 95.519, if costs are not claimed in accordance with the cost allocation plan, the costs improperly claimed will be disallowed.

DAB also addressed the issue of costs not identified in the cost allocation plan in Montana Department of Family Services, DAB No. 1266 (1991). DAB upheld the ACF decision to disallow certain administrative costs allocated by the State to its Title IV-E program on the basis that such costs were not identified in the cost allocation plan. In reaching its decision, DAB stated:

This [the requirement that costs be claimed in accordance with the cost allocation plan] is more than merely a technical requirement. The plan ensures consistent treatment of costs, avoids duplicate claiming, and ensures that the methods used are reasonable for the time period they cover. Here the State must follow the approved CAP [cost allocation plan] which failed to specifically allocate the costs in question to the Title IV-E program.

Maryland did not comply with its cost allocation plan in claiming \$609,159 (Federal share) for Title IV-E administrative and training costs. Therefore, these costs are not allowable.

During our audit, we advised Maryland and ACF about our findings regarding the improper cost centers used to compute Title IV-E claims. Maryland amended its cost allocation plan to include one of the cost centers, cost center B3600. ACF required reimbursement for claims paid prior to the amendment, and in 2004, Maryland made adjustments to refund about \$3.2 million in Title IV-E payments for cost center B3600. The adjustment included a Federal share of about \$2.4 million improperly claimed during our audit period and a Federal share of about \$800,000 improperly claimed during 2002, i.e., subsequent to our audit period.

COST CENTER NOT COVERED UNDER TITLE IV-E

Contrary to Federal regulations, Maryland claimed \$1,242,322 (Federal share) for Title IV-E administrative and training costs allocated for a cost center identified in its cost allocation plan as dedicated 100 percent to State-only activities. The State developed the cost center, G3300, Specialized Foster Homes, to provide foster home resources for children with special needs that are not covered under Title IV-E.

Federal regulations (45 CFR § 95.517) require that a State adhere to its cost allocation plan in computing claims for Federal funding. Title IV-E regulations (45 CFR

§ 1356.60) require the State's cost allocation plan to identify which costs are allocated and claimed.

The cost allocation plan stated that cost center G3300 was dedicated 100 percent to State-only activities and therefore was ineligible for a Federal share. Since Maryland did not adhere to its cost allocation plan in claiming \$1,242,322 (Federal share) for Title IV-E administrative and training costs, these costs are not allowable.

RECOMMENDATIONS

We recommend that Maryland:

- refund \$1,851,481 (Federal share) in Title IV-E training and administrative costs improperly claimed through unallowable cost centers:
 - \$609,159 (\$3,047,337 less adjustments of \$2,438,178) for costs claimed through two cost centers not identified in the cost allocation plan and
 - \$1,242,322 for costs claimed through one cost center identified in the cost allocation plan as dedicated 100 percent to State-only activities and
- review claims made subsequent to our audit period to identify any additional claims made for these cost centers and make the appropriate refunds.

MARYLAND'S COMMENTS

Maryland concurred with our recommendations and agreed to make the appropriate refunds. In addition, Maryland stated that it had revised the cost allocation plan and was conducting quarterly reviews to ensure that costs were allocated in accordance with the cost allocation plan.

Maryland's comments are included in their entirety as an appendix.

APPENDIX

State of Maryland
Department of Human Resources



Robert L. Ehrlich, Jr.
Governor

Michael S. Steele
Lt. Governor

Christopher J. McCabe
Secretary

January 23, 2006

Mr. Stephen Virbitsky
Department of Health & 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-03-04-00580

Dear Mr. Virbitsky:

I am writing in response to your memo dated December 23, 2005 regarding the Office of Inspector General (OIG) draft report entitled, "Review of Select Cost Centers Applied to Title IV-E Administrative and Training Costs Claimed by the Maryland Department of Human Resources." We have reviewed the draft report that covered the period from January 1, 1999 to December 31, 2001 and offer the following comments on the recommendation included on page 5.

Recommendation:

- Refund \$1,851,481 (Federal share) in Title IV-E training and administrative costs improperly claimed through unallowable cost centers:
 - \$609,159 (Federal share) (\$3,047,337 less adjustments of \$2,438,178) for costs claimed through two cost centers not identified in the cost allocation plan and
 - \$1,242,322 (Federal share) for costs claimed through one cost center identified in the cost allocation plan as dedicated 100 percent to State-only activities; and
- Review claims made subsequent to our audit period to identify any additional claims made for these cost centers and make the appropriate refunds.

Response:

We concur with the recommendation and will make the appropriate refunds. The Department already has added the two cost centers to the Department's Cost Allocation Plan. In addition, it is claiming all costs in accordance with its Cost Allocation Plan. The Department now conducts a quarterly review of its Cost Allocation Plan to ensure all costs centers are included in the Cost Allocation Plan and that all costs are being allocated in accordance with the plan.

Rpt No. A-03-04-00580
Page 2

If you have any questions or need additional information, please contact Mr. Henry Nichols, Chief Financial Officer, at 410-767-7504.

Sincerely,

A handwritten signature in black ink that reads "Christopher J. McCabe". The signature is written in a cursive style with a large initial "C".

Christopher J. McCabe
Secretary

cc: Peggy DeCarlis, Deputy Secretary
Floyd Blair, Deputy Secretary
Henry Nichols
Rebecca Bridgette