



OCT 31 1997

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CIN: A-04-97-00111

Martha S. Nachman
Commissioner, State of Alabama
Department of Human Resources
S. Gordon Persons Building
50 Ripley Street
Montgomery, Alabama 36130-4000

Dear Ms. Nachman:

This final report provides the results of our review of foster care claims reclassified by the State of Alabama. The objective of our audit was to determine the appropriateness of the reclassifications designed to upgrade payments for Aid to Children in Foster Care (State subsidized foster care) to Title IV-E Foster Care (federally subsidized foster care).

In the Statewide audit covering Fiscal Years (FY) 1993 and 1994, the State auditors reported that Alabama inappropriately upgraded State foster care clients to Federal foster care status. Alabama had reclassified 1,981 State subsidized foster care claims to federally subsidized foster care. Retroactive payments related to the reclassified claims totaled \$4.4 million for the two FYs ended September 30, 1994. The claims were upgraded by the State based on work conducted by a consulting firm.

Based on the State Auditors' report, Alabama instructed the consulting firm to recalculate the number of clients eligible for federally funded foster care using a revised methodology. As a result of the recalculations, the State made a retroactive adjustment of \$2 million to Title IV-E foster care to correct the inappropriate upgrades. During the FY 1995 audit, the State auditors concluded that the State had corrected the prior years' audit finding related to upgraded claims.

However, we reviewed 30 case files for clients with reclassified claims and determined that in 11 instances the reclassifications were not appropriate based on documentation contained in the case files. As a result of the retroactive adjustments, the State was not reimbursed the correct amount of Federal Financial Participation (FFP).

We recommend that the State review the work performed by the consultants to ensure that expenditures for retroactive upgrades charged to the IV-E Foster Care program were made to eligible clients.

In written comments to the draft report, the Department of Human Resources (DHR) officials disagreed with our recommendation. According to DHR officials, it would not be a prudent use of scarce State resources to perform a 100 percent review of the retroactive

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upgrades. The DHR's comments are summarized in the body of the report and are included in their entirety as Appendix II.

INTRODUCTION

BACKGROUND

Title IV-E of the Social Security Act (as amended) establishes the Federal Foster Care Program. Section 472 of the Act states that foster care clients must meet certain eligibility requirements to receive federally reimbursed foster care maintenance payments. A child may be eligible for State subsidized foster care if it is determined that the child needs placement outside of the home and is not eligible for federally subsidized foster care.

The Administration for Children and Families (ACF) provides funding to the States to administer the Federal Foster Care and Adoption Assistance Programs. Within the State of Alabama, DHR is responsible for administering the Title IV-E Foster Care program.

SCOPE

The objective of our audit was to determine the appropriateness of the reclassifications designed to upgrade payments for State subsidized foster care to federally subsidized foster care.

We used applicable laws, regulations and State guidelines to determine the eligibility requirements for the Title IV-E Foster Care program. We reviewed the single audit reports and the auditors' working papers to identify the findings applicable to the program and DHR's corrective action plans.

We obtained and reviewed ACF records to determine actions taken to resolve the findings reported in the single audit reports. We held discussions with DHR staff to obtain an understanding of the methodology used by the consultants to upgrade and downgrade foster care clients and the procedures used to prepare the revised retroclaims. We also reviewed the IV-E-12 claim reports to identify adjusted costs associated with the upgrades and subsequent downgrades.

In planning and performing our audit, we considered the financial and administrative controls of the Title IV-E Foster Care program.

We selected a nonstatistical sample of 30 case files to review in order to: (1) gain an understanding of the methodology used by the consultants to upgrade and downgrade foster care clients, and (2) determine if the DHR was reimbursed the accurate amount of FFP based on the retroactive adjustments.

Our field work was performed at the ACF Region IV office in Atlanta, Georgia and the DHR offices in Montgomery, Alabama. Discussions were conducted at the ACF Region IV office and DHR's Adult, Child and Family Services and Finance Divisions. Our field work was started in February 1997 and completed in June 1997. Our review was performed in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

Alabama inappropriately upgraded claims for State subsidized foster care to federally subsidized foster care. For FY 1993 and FY 1994, the State reclassified 1,981 claims totaling \$4.4 million from State subsidized foster care to federally subsidized foster care. Subsequently, the State made a retroactive adjustment of \$2 million to Title IV-E foster care to correct the inappropriate upgrades.

We reviewed 30 case files for clients with reclassified claims and determined that, in spite of the State's efforts to correct the problem, in 11 instances the reclassifications were not appropriate based on documentation contained in the case files. As a result, the State was not reimbursed the correct amount of FFP based on the retroactive adjustments. Without a case by case review, we cannot quantify the correct FFP.

The inappropriate reclassifications occurred because DHR relied upon the work of consultants to upgrade previous State foster care clients to Title IV-E foster care status and the consultants relied on inaccurate eligibility data provided by DHR to select previously unclaimed payments for upgrades.

We recommend that DHR use the case files and review the work performed by the consultants to ensure that expenditures for retroactive upgrades charged to the IV-E Foster Care program were made to eligible clients.

MAXIMIZATION OF FEDERAL FUNDING

Effective July 1993, the DHR contracted with the Institute for Human Services Management, Inc. (IHSM) in an effort to maximize Federal funding for major programs administered by the DHR. The IHSM was paid \$663,203 for the work performed at DHR. The IHSM then subcontracted with the Nemadji Research Corporation to perform a review to identify State foster care claims which could be upgraded to Federal foster care status.

The DHR provided the consultants with three sources of data to use in their maximization efforts. The consultants relied on the Eligibility Log (E-log), the Alabama Child Welfare Information System database and 969 warrants to select previously unclaimed payments for upgrades. As a result of the consultants' work, the State submitted retroactive foster care claims, including administration and training costs, totaling \$4.4 million for FYs 1993 and 1994.

In the Statewide audit covering FYs 1993 and 1994, the State Auditors questioned the appropriateness of the upgrades. Based on the State Auditors' report, Alabama instructed the consulting firm to recalculate the number of clients eligible for federally funded foster care using a revised methodology. Under the revised methodology, the consultants were to use only the data contained in the E-log to support the claim. If the E-log did not show a positive IV-E determination the claim was downgraded to State subsidized foster care.

As a result of the recalculations, the State made a retroactive adjustment of \$2 million to correct the inappropriate upgrades. This reduced the total \$4.4 million in costs associated with upgrades to \$2.4 million. During the FY 1995 audit, the State Auditors reviewed five case files for upgraded claims and concluded that the State had corrected the prior years' audit finding related to upgraded claims.

REVIEW OF CASE FILES

To determine the appropriateness of the reclassifications upgrading payments from State subsidized foster care to federally subsidized foster care we selected a judgmental sample of 30 case files. We reviewed the 30 case files for clients with reclassified claims and determined that in spite of the State's efforts to correct the problem, in 11 instances the reclassifications were not appropriate based on documentation contained in the case files. Appendix I to this report contains the detailed results of our case file review.

Of the 11 cases, we determined that in four instances the claims were inappropriately upgraded. For these cases the State was overpaid a total of \$2,913. In the remaining seven instances the claims were inappropriately downgraded during the consultants second review. For these cases, the State was underpaid a total of \$6,205.

Based on the results of our review, the State was not reimbursed the correct amount of FFP based on the retroactive adjustments. However, without a case by case review, we cannot quantify the correct FFP.

RECOMMENDATIONS

We recommend that DHR use the case files and review the work performed by the consultants to ensure that expenditures for retroactive upgrades charged to the IV-E Foster Care program were made to eligible clients.

DHR Comments

In written comments to the draft report, DHR officials disagreed with our recommendation. According to DHR officials, the Office of Inspector General's (OIG)'s audit results showed more FFP underclaims than overclaims. Therefore, it would not be a prudent use of scarce State resources to perform a 100 percent review of the retroactive upgrades.

OIG's Response

Based on the results of our judgmental sample of upgrades, we believe the DHR should review the work performed by the consultants. Rather than perform a 100 percent review of the retroactive upgrades, the DHR could review a random sample of upgrades and obtain a statistically valid estimate of the over or underpayment. The DHR should seek ACF's guidance and approval for selecting such a random sample.

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In accordance with the principles of the Freedom of Information Act (Public Law 90-23), the OIG, Office of Audit Services reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to the exemptions in the Act which the Department chooses to exercise.

We request that you respond within 30 days from the date of this letter to the Department of Health and Human Services' action official shown below. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

To facilitate identification, please refer to the above Common Identification Number (CIN) A-04-97-00111 in any correspondence related to this report.

Sincerely yours,



Charles J. Curtis
Regional Inspector General
for Audit Services, Region IV

Direct Reply To:

Regional Administrator/HUB Director
Administration for Children and Families
101 Marietta Tower, Suite 821
Atlanta, Georgia 30301

Case(s)	County	Quarter	Findings
1	Calhoun (#08)	12/92	<p>Case 1 was a State foster care client upgraded to Federal status.</p> <p>Based on the case file, the case worker determined that the child was not eligible for Federal foster care because the court order removing the child from the home did not specify that removal was in the best interest of the child.</p> <p>Since the client was not eligible for Federal foster care, we determined that an overpayment of \$716 was reported for the quarter.</p>
2 & 3	Escambia (#27)	12/92	<p>Cases 2 & 3 were State foster care clients upgraded to Federal status, and subsequently downgraded back to State status.</p> <p>Based on the case files, the case worker determined that the children were eligible for Federal foster care during the time period evaluated by the consultants. Since best interest was specified in the original court order, the children were eligible for Federal foster care on the date they were placed in custody (02/25/91).</p> <p>The case worker conducted eligibility redeterminations from 10/92 through 04/94 and determined that the children remained eligible for Federal foster care.</p> <p>Since these two clients were eligible for Federal foster care, we determined that underpayments of \$1,360 (\$680 + \$680) were reported for the quarter.</p>

Case(s)	County	Quarter	Findings
4	Tuscaloosa (#63)	09/93	<p>Case 4 was a State foster care client upgraded to Federal status.</p> <p>Based on the case file, the case worker determined that the child was not eligible for Federal foster care because deprivation did not exist at the time the child was placed in care.</p> <p>Since the client was not eligible for Federal foster care, we determined that an overpayment of \$820 was reported for the quarter. The overpayment of \$820 also included a duplicate payment of \$205.</p>
5	Madison (#45)	09/93	<p>Case 5 was a State foster care client upgraded to Federal status, and subsequently downgraded back to State status.</p> <p>Based on the case file, the case worker determined that the child was eligible for Federal foster care during the time period evaluated by the consultants. Since best interest was specified in the original court order, the child was eligible for Federal foster care on the date placed in custody (11/13/92).</p> <p>The case worker conducted eligibility redeterminations from 06/93 through 10/94 and determined that the child remained eligible for Federal foster care.</p> <p>Since this client was eligible for Federal foster care, we determined that underpayments of \$2,171 were reported for the quarter.</p>

Case(s)	County	Quarter	Findings
6	Marengo (#46)	12/93	<p>Case 6 was a State foster care client upgraded to Federal status, and subsequently downgraded back to State status.</p> <p>Based on the case file, the case worker determined that the child was not eligible for Federal foster care because the court order removing the child from the home did not specify that removal was in the best interest of the child.</p> <p>The case worker conducted eligibility redeterminations from 12/94 through 12/96 and determined that the child remained ineligible for Federal foster care.</p> <p>Since the client was not eligible for Federal foster care, we determined that an overpayment of \$723 was reported for the quarter.</p>
7	Chambers (#09)	12/93	<p>Case 7 was a State foster care client upgraded to Federal status, and subsequently downgraded back to State status.</p> <p>Based on the case file, the case worker determined that the child was eligible for Federal foster care during the time period evaluated by the consultants. Since best interest was specified in the original court order, the child was eligible for Federal foster care on the date placed in custody (01/19/90).</p>

Case(s)	County	Quarter	Findings
7	Chambers (#09)	12/93	<p>The Case worker conducted eligibility redeterminations from 12/91 through 02/93 and determined that the child remained eligible for Federal foster care.</p> <p>Since the client was eligible for Federal foster care, we determined that underpayments of \$1,069 were reported for the quarter.</p>
8 & 9	Hale (#33)	03/94	<p>Cases 8 & 9 were State foster care clients upgraded to Federal status, and subsequently downgraded back to State status.</p> <p>Based on the case files, the case worker determined that the clients were eligible for Federal foster care during the time period evaluated by the consultants. Since best interest was specified in the original court orders, the children were eligible for Federal foster care on the date they were placed in custody (06/25/90 and 11/14/90).</p> <p>The case worker conducted eligibility redeterminations from 05/92 through 07/94 and determined that the clients remained eligible for Federal foster care.</p> <p>Since these clients were eligible for Federal foster care, we determined that underpayments of \$1,338 (\$723 + \$615) were reported for the quarter.</p>

Case(s)	County	Quarter	Findings
10	Mobile (#49)	06/94	<p>Case 10 was a State foster care client upgraded to Federal status.</p> <p>Based on the case file, the case worker originally determined that the child was not eligible for Federal foster care because the court order removing the child from the home did not specify that removal was in the best interest of the child.</p> <p>During 02/95, the case worker determined that the child was eligible for Federal foster care retroactive to 02/93 (2 year limitation) based on the best interest interpretation definitions provided by the consultants.</p> <p>Since the court order stated that the whereabouts of the child's mother were unknown, the case worker applied the interpretation that it would be in the best interest of the child to remove the child from the home. We were told that this correspondence was provided to the consultants to upgrade the client.</p> <p>We later learned that the case worker decided not to rely on the best interest interpretations since the court order did not reference a specific State law pertaining to best interest. As a result, the case worker downgraded the child back to State status.</p> <p>It appeared that the consultants relied on the 02/95 correspondence to upgrade the client to Federal status and did not receive subsequent information to downgrade the client back to State status.</p> <p>Since the client was not eligible for Federal foster care, we determined that an overpayment of \$654 was reported for the quarter.</p>

Case(s)	County	Quarter	Findings
11	Conecuh (#18)	09/94	<p>Case 11 was a State foster care client upgraded to Federal status, and subsequently downgraded back to State status.</p> <p>Based on the case file, the case worker determined that the child was eligible for Federal foster care during 05/94 since best interest was specified in the original court order.</p> <p>The case worker conducted eligibility redeterminations from 10/94 through 11/96 and the client remained eligible for Federal foster care.</p> <p>Since the client was eligible for Federal foster care, we determined that an underpayment of \$267 was reported for the quarter.</p>



FOB JAMES, JR.
Governor

State of Alabama Department of Human Resources

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Martha S. Nachman
Commissioner
Greg Hoyt
Assistant Commissioner

October 24, 1997

Mr. Charles J. Curtis
Regional Inspector General for
Audit Services, Region IV
Department of Health and Human Services
P O Box 2047
Atlanta, Georgia 30301

RE: CIN A-04-97-00111

We have reviewed the draft audit report related to the Foster Care Claims reclassified by the State of Alabama and do not concur with the recommendation that the state perform a 100% review of which were included in the retro-claim. This would not be a prudent use of scarce state resources.

As your review indicates, there are far more errors made in not claiming federal participation than in were made in claiming federal participation in cases which were not eligible. Therefore, based on your findings of a net under claiming of federal participation in the cases reviewed, we recommend that the audit be closed.

If you have question regarding our response, please contact this office.

Sincerely,

P. L. Corley, Deputy Commissioner
Fiscal and Administrative Services

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