



DEPARTMENT OF HEALTH AND HUMAN SERVICES  
OFFICE OF AUDIT SERVICES  
233 NORTH MICHIGAN AVENUE  
CHICAGO, ILLINOIS 60601

REGION V  
OFFICE OF  
INSPECTOR GENERAL

February 7, 2003

Report Number. A-05-02-00037

Ms. Angela Sears Spittal, Interim Director  
Indiana Family and Social Services Agency  
Division of Family and Children's Service  
Room 402, MS03  
402 West Washington Street  
Indianapolis, IN 46204

Dear Ms. Sears Spittal:

Enclosed are two copies of a U.S. Department of Health and Human Services (HHS), Office of Inspector General, Office of Audit Services' report, entitled "Review of Administrative Costs Claimed Under Title IV-E of the Social Security Act by Debra Corn, Inc. for calendar year 2000".

Final determination as to actions taken on all matters reported will be made by the ACF Action Official. We request that you respond to this 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), Office of Inspector General, Office of Audit Services reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise (See 45 CFR Part 5).

To facilitate identification, please refer to Report Number A-05-02-00037 in all correspondence relating to this report.

Sincerely yours,

A handwritten signature in cursive script that reads "Paul Swanson".

Paul Swanson  
Regional Inspector General  
for Audit Services

Enclosures

**Direct Reply to ACF Action Official:**  
Midwest Regional Hub Director  
Administration for Children and Families (ACF)  
U.S. Department of Health and Human Services  
233 N. Michigan Avenue, 4<sup>th</sup> Floor  
Chicago, Illinois 60601

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF ADMINISTRATIVE COSTS  
CLAIMED UNDER TITLE IV-E OF THE  
SOCIAL SECURITY ACT BY  
DEBRA CORN, INC.  
FOR THE CALENDAR YEAR 2000**

**INDIANA FAMILY AND SOCIAL  
SERVICES AGENCY  
INDIANAPOLIS, INDIANA**



**JANET REHNQUIST  
Inspector General**

**FEBRUARY 2003  
A-05-02-00037**

# *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 information contained therein 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. Final determination on these matters will be made by authorized officials of the HHS divisions.



## **EXECUTIVE SUMMARY**

### **OBJECTIVE**

The audit objective was to determine whether administrative costs claimed by the Debra Corn, Inc. child placement agency on its CY2000 cost reports were reasonable and allowable for reimbursement under Indiana's Foster Care Program (Title IV-E of the Social Security Act).

### **FINDINGS**

The CY 2000 cost report contained unallowable costs which caused the Indiana Foster Care Program to pay Debra Corn, Inc. \$24,533 more than reasonable and necessary for administrative costs (Federal Share is \$10,609).

### **RECOMMENDATIONS**

We are recommending that the Indiana Foster Care Program recoup the \$24,533 in overpayments made to Debra Corn, Inc. and credit the \$10,609 Federal Share to the Federal government on its next IV-E Financial Report.

### **STATE COMMENTS**

The State concurred with our audit findings. The State's full written comments are included as Appendix A to the report.

## TABLE OF CONTENTS

	<b>Page</b>
INTRODUCTION	1
BACKGROUND	1
OBJECTIVE, SCOPE, AND METHODOLOGY	1
Methodology	1
FINDINGS AND RECOMMENDATION	2
COST PRINCIPLES	2
UNALLOWABLE RELATED PARTY TRANSACTIONS AND DUPLICATE CHARGES	3
REDUCED ADMINISTRATIVE COST RATE	3
RECOMMENDATION	4
STATE AGENCY COMMENTS	4
OAS RESPONSE	4
APPENDIX A – FULL TEXT OF STATE AGENCY COMMENTS	

## **Glossary of Abbreviations and Acronyms**

ACF	Administration for Children and Families
CY	Calendar Year
GOV	Government
HHS	Health and Human Services, Department of
OIG	Office of Inspector General
OMB	Office of Management and Budget

## INTRODUCTION

### BACKGROUND

Debra Corn, Inc. (the agency) is a tax-exempt organization under Internal Revenue Code, Section 501 (c) (3), whose primary purpose is to assist in preventing unneeded institutionalization of Indiana's children and to provide stable therapeutic foster care placement. The agency's main office is located in Winslow, Indiana; with other Indiana offices in Lafayette, Marion, Scottsburg, and Spencer.

Title IV-E of the Social Security Act authorizes the payment of Federal funds to states to provide foster care to children, who have been removed from their homes through a voluntary placement agreement or judicial determination. The program is administered at the federal level by the Department of Health and Human Services, Administration for Children and Families (ACF). Federal financial participation is available at the rate of 50 percent for allowable administrative expenses, including those administrative costs incurred by contracted private organizations that place and maintain the children in foster care homes.

The Indiana Family and Social Services Agency, Division of Family and Children's Service (state agency), is the single state agency responsible for administering the program in Indiana. At the local level, each of Indiana's 92 counties has a children's services agency that administers the foster care program. County agencies enter into contracts with private organizations to place and maintain the children in foster care homes for a negotiated daily administrative per diem rate. The county agencies can receive partial reimbursement of the administrative costs for those children who are eligible under the Title IV-E program. The state agency establishes its county reimbursement rates based, in part, on the cost reports submitted by the private contractors.

### OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit was conducted in accordance with generally accepted government auditing standards. The objective of our audit was to determine whether the administrative costs reported on the agency's CY 2000 cost report were reasonable and allowable for reimbursement under Title IV-E of the Social Security Act. In that regard, our internal control review was limited to assessing that (i) costs were actually incurred, (ii) costs were allowable in accordance with Federal regulations, (iii) duties were properly segregated, (iv) cost allocation methodologies were equitable and logical, and (v) inappropriate related party transactions were excluded. We did not review management's overall internal controls because the objectives of this audit did not require an understanding or assessment of management's controls taken as a whole. We reviewed \$1,505,788 in administrative costs claimed on the CY 2000 cost report.

**Methodology.** We reviewed the agency's cost report on file at Maximus, a state agency contractor who established the administrative cost rates for the foster care program. Concerning the methodologies used in assembling the cost report, we interviewed the agency's financial personnel, corporate attorney, certified public accountant, and board of director members. We also reviewed selected supporting data and toured two of the foster homes utilized by the agency.

In April 2002, the State agency contracted with Maximus to also perform an independent cost report review of the agency's CY 2000 cost report. We worked closely with the Contractor personnel to insure that our audit efforts and results were coordinated. The audit results presented in our **Findings And Recommendation** section encompass the audit results discovered by both Maximus and us.

Our fieldwork was performed at Maximus offices in Indianapolis, Indiana, and at Debra Corn offices in Winslow, Indiana, between January and June 2002.

## **FINDINGS AND RECOMMENDATION**

The Title IV-E Foster Care program was overcharged \$24,533 for unreasonable and unallowable costs contained in the agency's CY 2000 cost report. The Federal share is \$10,609. We are recommending that the State Agency recoup the \$24,533 overpayment and credit its next financial report with the Federal share of \$10,609.

## **COST PRINCIPLES**

We evaluated the allowability of costs claimed by applying cost guidelines contained in the Indiana Administrative Code, Office of Management and Budget (OMB) Circulars, and Title 26 United States Code, related to Federal tax-exempt agencies. According to OMB Circular A-122, "Cost Principles for Non-Profit Organizations," General Principles, section (A) (3), the reasonableness of a given cost should be given to:

...the restraints or requirements imposed by such factors as generally accepted sound business practices, and arms length bargaining", and "whether the individuals concerned acted with prudence in the circumstances, considering their responsibilities to the organization, its members, employees, and clients, the public at large, and the Federal Government....

OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," defines questioned costs, as follows:

...Where the costs, at the time of the audit, are not supported by adequate documentation.

Where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances....

According to 26 United States Code, Section 501(c)(3), the agency's Federal tax-exempt status directly precludes it from assigning any part of its net earnings or surplus to the benefit of any private shareholder or individual.

## **UNALLOWABLE RELATED PARTY TRANSACTIONS AND DUPLICATE CHARGES**

The costs included the agency's administrative cost rate contained unsupported related party transactions and a duplicate insurance charge, which were considered to be unreasonable and unallowable. These costs were ultimately allocated through various methodologies and included in the agencies cost report. The unreasonable and unallowable costs pertained to:

- charges by a profit making firm controlled by the agency (related party) for:
  - unsupported consultant costs of \$100,314,
  - unsupported office rental of \$57,184, and
  - unsupported office equipment rental of \$51,835,
- dividend payments of \$80,000 for the agency owners, and
- duplicate medical insurance costs of \$55,364.

These unreasonable and unallowable costs were considered in the rate reduction calculation discussed below.

## **REDUCED ADMINISTRATIVE COST RATE**

Based on the \$1,505,788 in administrative costs on the agency's CY 2000 cost report and a total of 42,707 service days, the State's contractor established a corresponding administrative cost per day of \$35.26. This audit disclosed that allowable administrative costs and service days were \$1,181,395 and 39,111, respectively. Therefore, the allowable administrative cost per day was reduced to \$30.21. To recalculate the agency's allowable Title IV-E claim, the state's contractor applied the revised rate to Title IV-E service days in order to determine the net overpayment of \$24,533 (Federal share \$10,609).

The contractor recalculated each of the foster care claims (totaling 5,990 service days). The results were summarized in a 64 page report disclosing that the agency's Title IV- E claim for administrative and maintenance costs were overstated and understated by \$38,298 and \$13,765, respectively. We reviewed the basis for the contractor's revisions and concur with their results.

To develop allowable administrative costs, we could not simply reduce the rate by \$5.05. In some cases, applying the reduced administrative cost rate resulted in an increase in the allowable maintenance cost. For those counties with "capped" foster care rates, the total paid did not change, but the mix of administrative and maintenance costs changed when the administrative portion of the rate was reduced. Additionally, when the agency recorded the wrong number of service days on their cost report, the mix between administrative and maintenance cost changed. The daily maintenance cost figure is calculated using the number of service days. Since we were working with the State's contractor, we accept the contractors recomputation of the allowable administrative and maintenance costs due the agency.

## **RECOMMENDATION**

We are recommending that the State Agency recoup \$24,533 for unreasonable and unallowable costs and credit the Federal government with its \$10,609 share on the next IV-E Financial Report.

## **STATE AGENCY COMMENTS**

The State Agency concurred with our recommendation and adjusted the Title IV-E Federal Financial Report for the Quarter Ending September 2002 to reflect the credit of \$10,699 to the Federal share of expenditures.

## **OAS RESPONSE**

We agree with the actions taken to resolve the audit findings.

## **APPENDIX**



"People  
helping people  
help  
themselves"

Frank O'Bannon, Governor  
State of Indiana

**Financial Management Section**  
MS34, 402 W. WASHINGTON STREET, P.O. BOX 7128  
INDIANAPOLIS, IN 46207-7128

John Hamilton, Secretary

January 23, 2003

Mr. Paul Swanson  
Regional Inspector General  
Department of Health and Human Services  
Office of Audit Services  
233 North Michigan Avenue  
Chicago, IL 60601

Dear Mr. Swanson:

This is in response to your letter of December 10, 2002 concerning the audit of Debra Corn's Administrative costs claimed Under Title IV-E for CY 2000, Audit CIN: A-05-02-0037.

We have reviewed your findings and concur with the recommendations. The IV-E 1, Federal Financial Report for QE September 2002 reflects the credit of \$10,699 to the Federal share of expenditures.

Please feel free to contact me at 317-232-4334, if you have any questions.

Sincerely ,

  
James E. Mooney, Jr., Director  
Financial Management

Cc: Debra Faut  
Ric Pound, Local OIG  
David De Stefano, MAXIMUS Local Office

Equal Opportunity / Affirmative Action Employer



30% POST-CONSUMER FIBER



PRINTED WITH  
SOY INK



# ACKNOWLEDGMENTS

This report was prepared under the direction of Paul Swanson (RIGA). Other principal Office of Audit Services staff who contributed include:

Ross Anderson, *Audit Manager*

Richard Pound, *Senior Auditor*

Thomas Grissmer, *Auditor*

Larry Barker, *Auditor*

For information or copies of this report, please contact the Office of Inspector General's Public Affairs office at (202) 619-1343.