



January 20, 2011

TO: David Hansell
Acting Assistant Secretary
Administration for Children and Families

FROM: /Daniel R. Levinson/
Inspector General

SUBJECT: Review of Ohio Department of Job and Family Services Claims for Costs
Reported by the Hamilton County Department of Job and Family Services
(A-05-08-00098)

Attached, for your information, is an advance copy of our final report on Ohio Department of Job and Family Services Claims for Costs Reported by the Hamilton County Department of Job and Family Services. We will issue this report to the Ohio Department of Job and Family Services within 5 business days. The Administration for Children and Families requested that we conduct this audit.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Lori S. Pilcher, Assistant Inspector General for Grants, Internal Activities, and Information Technology Audits, at (202) 619-1175 or through email at Lori.Pilcher@oig.hhs.gov or James C. Cox, Regional Inspector General for Audit Services, Region V, at (312) 353-2621 or through email at James.Cox@oig.hhs.gov. Please refer to report number A-05-08-00098.

Attachment



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Office of Audit Services, Region V
233 North Michigan Avenue
Suite 1360
Chicago, IL 60601

January 24, 2011

Report Number: A-05-08-00098

Mr. Michael B. Colbert
Interim Director
Ohio Department of Job and Family Services
30 East Broad Street, 32nd Floor
Columbus, OH 43215-3414

Dear Mr. Colbert:

Enclosed is the U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of Ohio Department of Job and Family Services Claims for Costs Reported by the Hamilton County Department of Job and Family Services*. We will forward a copy of this report to the HHS action official noted on the following page 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 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.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Mike Barton, Audit Manager, at (614) 469-2543 or through email at Mike.Barton@oig.hhs.gov. Please refer to report number A-05-08-00098 in all correspondence.

Sincerely,

/James C. Cox/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Mr. Kent Wilcox
Regional Administrator
Administration for Children and Families
U.S. Department of Health & Human Services
233 North Michigan Avenue, Suite 400
Chicago, IL 60601-5519

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF OHIO DEPARTMENT OF JOB
AND FAMILY SERVICES
CLAIMS FOR COSTS REPORTED BY THE
HAMILTON COUNTY DEPARTMENT OF
JOB AND FAMILY SERVICES**



Daniel R. Levinson
Inspector General

January 2011
A-05-08-00098

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 & 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 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. These assessments help reduce waste, abuse, and mismanagement and promote economy and efficiency throughout HHS.

Office of Evaluation and Inspections

The Office of Evaluation and Inspections (OEI) conducts national evaluations to provide HHS, Congress, and the public with timely, useful, and reliable information on significant issues. These evaluations focus on preventing fraud, waste, or abuse and promoting economy, efficiency, and effectiveness of departmental programs. To promote impact, OEI reports also present practical recommendations for improving program operations.

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The Office of Investigations (OI) conducts criminal, civil, and administrative investigations of fraud and misconduct related to HHS programs, operations, and beneficiaries. With investigators working in all 50 States and the District of Columbia, OI utilizes its resources by actively coordinating with the Department of Justice and other Federal, State, and local law enforcement authorities. The investigative efforts of OI often lead to criminal convictions, administrative sanctions, and/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 for OIG's internal operations. OCIG represents OIG in all civil and administrative fraud and abuse cases involving HHS programs, including False Claims Act, program exclusion, and civil monetary penalty cases. In connection with these cases, OCIG also negotiates and monitors corporate integrity agreements. OCIG renders advisory opinions, issues compliance program guidance, publishes fraud alerts, and provides other guidance to the health care industry concerning the anti-kickback statute and other OIG enforcement authorities.

Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
at <http://oig.hhs.gov>

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that
OIG post its publicly available reports on the OIG Web site.

OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable,
a recommendation for the disallowance of costs incurred or claimed,
and any other conclusions and recommendations in this report represent
the findings and opinions of OAS. Authorized officials of the HHS
operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

Within the U.S. Department of Health & Human Services, the Administration for Children and Families (ACF) provides funding to State, territorial, local, and tribal organizations for programs relating to children and families.

In Ohio, the Department of Job and Family Services (State agency) administers ACF programs and other Federal and State programs related to health care, cash assistance, food assistance, childcare, child support enforcement and administration, foster care, and employment and training assistance. County agencies coordinate and provide these services to eligible children and families and report costs to the State agency. The State agency then claims these costs for Federal reimbursement.

On May 1, 2008, the State agency issued a report entitled *Hamilton County Limited Review* (State agency's report) related to costs reported by the Hamilton County Department of Job and Family Services (County agency). The State agency's report found that the County agency did not properly account for Federal, State, and local funds and recommended that the State recover \$216 million. However, the State agency's report did not clearly identify what portion of the costs recommended for recovery pertained to ACF programs. Therefore, ACF requested that we conduct this audit. We limited our audit to \$203 million claimed for services provided by certain child welfare organizations under agreements with the County agency primarily from July 1, 2001, through June 30, 2004.

OBJECTIVE

Our objective was to determine the ACF portion of unallowable costs identified in the State agency's report.

SUMMARY OF FINDING

The ACF portion of the \$203 million in unallowable costs identified in the State agency's report for services provided by the child welfare organizations during our audit period totaled \$58,987,755 (Federal share). The County agency inappropriately allocated the child welfare organizations' costs through indirect cost pools. The State agency inappropriately claimed the costs because it relied on the County agency's reported program costs and did not ensure that the County agency allocated the costs in accordance with the cost allocation plan and other Federal requirements.

RECOMMENDATIONS

We recommend that the State agency:

- refund \$58,987,755 to the Federal Government for County agency costs inappropriately claimed through the cost pools and
- ensure that the County agency appropriately allocates and reports allowable costs in accordance with the cost allocation plan and other Federal requirements.

AUDITEE COMMENTS

In written comments on our draft report, the State agency generally concurred with the findings and recommendations. However, the State agency requested the right to negotiate the actual amount due to the Federal Government through the resolution process with ACF and other parties as needed. The State agency comments are included in their entirety in the Appendix to the report.

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INTRODUCTION

BACKGROUND

Within the U.S. Department of Health & Human Services (HHS), the Administration for Children and Families (ACF) provides funding to State, territorial, local, and tribal organizations for programs relating to children and families. State, county, city, and tribal governments and private local agencies provide services to eligible children and families.

Ohio's Administration of Programs for Children and Families

In Ohio, the Department of Job and Family Services (State agency) administers ACF programs and other Federal and State programs related to health care, cash assistance, food assistance, childcare, child support enforcement and administration, foster care, and employment and training assistance. County agencies coordinate and provide these services to eligible children and families and report costs to the State agency. The State agency then claims these costs for Federal reimbursement.

On May 1, 2008, the State agency issued a report entitled *Hamilton County Limited Review* (State agency's report) related to costs reported by the Hamilton County Department of Job and Family Services (County agency). The State agency's report found that the County agency did not properly account for Federal, State, and local funds and recommended that the State recover \$216 million. However, the State agency's report did not clearly identify what portion of the costs recommended for recovery pertained to ACF programs. Therefore, ACF requested that we conduct this audit.

County Agency Child Welfare Service Costs

During our audit period, the County agency charged costs to the State agency for services provided by certain child welfare organizations:

- Under the auspices of the Multi-County System Agency, a consortium of county governmental entities, the County agency contracted for consecutive periods with Beech Acres and then with Hamilton Choices, LLC (collectively, BA/HC), to provide treatment and care for high-risk foster care children.
- The County agency contracted with Magellan Behavioral Health (Magellan) to coordinate and administer the delivery of child welfare and mental health services to children and families.
- Hillcrest Training School and Youth Center (Hillcrest), a county-operated, accredited community correctional/treatment center and training school for youth offenders, provided rehabilitative services to adjudicated youths (non-foster-care children) who were placed there by the Hamilton County Juvenile Court.¹

¹ No written agreement between Hillcrest and the County agency appears to exist.

The County agency charged the child welfare organizations' costs to indirect cost pools and allocated the costs, in part, to ACF programs. The County agency also allocated costs from the cost pools to the Medicaid program and to non-HHS and State programs.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine the ACF portion of unallowable costs identified in the State agency's report.

Scope

We reviewed \$203 million of the \$216 million that the State agency's report had recommended for recovery. The \$203 million related to services provided by the child welfare organizations primarily from July 1, 2001, through June 30, 2004.² After removing duplicated costs and identifying adjustments, we relied on the State agency's Office of Fiscal Services to calculate the Federal share of nonduplicated, adjusted costs claimed to all Federal programs.

We did not assess the overall internal controls for claiming costs for Federal reimbursement. We limited our review of internal controls to gaining an understanding of the County agency's procedures for reporting ACF-related costs to the State agency and the State agency's procedures for claiming Federal reimbursement. We conducted our fieldwork at the State agency in Columbus, Ohio.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws and regulations and the State agency's approved cost allocation plan;
- interviewed State agency officials and the County agency's contracted auditors to obtain an understanding of the audit work performed and findings identified in the State agency's report;
- reviewed the State agency's report and related working papers and supporting documentation;
- identified the duplicated costs recommended for recovery and the State agency's adjustments to the costs recommended for recovery;

² Although the State agency's report covered Hillcrest costs for the period beginning January 11, 2000, we reviewed Hillcrest costs only for the period July 1, 2000, through June 30, 2004.

- determined the ACF portion of nonduplicated, adjusted costs recommended for recovery; and
- interviewed State agency and County agency officials about the processing and reporting of County agency expenditures.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusions based on our audit objective.

FINDING AND RECOMMENDATIONS

The ACF portion of the \$203 million in unallowable costs identified in the State agency's report for services provided by the child welfare organizations during our audit period totaled \$58,987,755 (Federal share). The County agency inappropriately allocated the child welfare organizations' costs through indirect cost pools. The State agency inappropriately claimed the costs because it relied on the County agency's reported program costs and did not ensure that the County agency allocated the costs in accordance with the cost allocation plan and other Federal requirements.

UNALLOWABLE COSTS CLAIMED

The ACF portion of unallowable costs identified in the State agency's report and related to services provided by the child welfare organizations was \$58,987,755 (Federal share). The table on the following page shows, by organization, the Federal share of costs that the State agency inappropriately claimed to ACF programs.

Federal Share of Costs Inappropriately Claimed to ACF Programs

ACF Program	BA/HC	Magellan	Hillcrest	Total
Block Grants to States for Temporary Assistance for Needy Families (Title IV-A)	\$5,024,570	\$12,390,434	\$7,516,153	\$24,931,157
Child and Family Services (Title IV-B)	142,864	145,981	447,114	735,959
Adoption and Foster Care Analysis and Reporting System (Title IV-B/IV-E)	0	0	0	0
Child Support and Establishment of Paternity (Title IV-D)	523	0	2,885,961	2,886,484
Foster Care and Adoption Assistance (Title IV-E)	6,624,840	11,946,815	6,230,819	24,802,474
Block Grants to States for Social Services (Title XX)	1,184,991	2,007,562	268,500	3,461,053
Child Care and Development Block Grant	631,835	1,151,752	387,041	2,170,628
Total	\$13,609,623	\$27,642,544	\$17,735,588	\$58,987,755

IMPROPER ALLOCATION OF COSTS

Federal Requirements

Pursuant to Federal regulations (45 CFR part 95, subpart E), States must allocate costs to public assistance programs in accordance with cost allocation plans approved by HHS’s Division of Cost Allocation. Office of Management and Budget Circular A-87 specifies that all direct and indirect administrative costs should normally be charged to Federal awards through procedures described in a State’s cost allocation plan (2 CFR part 225, Appendix D, section A).

Ohio’s approved cost allocation plan (the plan) for State fiscal years 2001 through 2004 (July 1, 2000, through June 30, 2004) addresses both State and local costs. Section V-B-1 of the plan states that county expenditures reported as direct costs are chargeable solely to the applicable State or Federal program and may not be included in any cost pool. For example, the plan defines “direct child welfare costs” as contract costs, purchased services, and maintenance costs that can be identified with a specific child welfare program.

The plan provides guidance for charging costs that benefit more than one federally funded program. Sections V-B-2 through V-B-4 of the plan describe separate cost pools, each of which represents a different program area that benefits multiple HHS programs. Indirect costs located within the specific program area should be reported to the specific cost pool and allocated to the benefiting local, State, and/or Federal programs based on the results of a random moment timestudy.³ Section V-B-5 of the plan states that shared costs are indirect costs that are incurred for a common purpose, that benefit more than one major function, and that are not readily assignable to any specific cost center.

³ A random moment timestudy is a statistically valid method used to determine the percent of effort expended by employees performing functions on behalf of any variety of specific programs and activities.

County Agency's Improper Allocation of Costs

Contrary to the State agency's approved cost allocation plan, the County agency allocated the child welfare organizations' costs through indirect cost pools. The child welfare organizations incurred and claimed to the County agency a variety of types of costs, including costs for the provision of direct services. However, the County agency made no effort to determine which costs should be charged directly to ACF programs and which costs should be allocated through the indirect cost pools because they benefited multiple programs.

State Agency's Reliance on County Agency's Reported Costs

The State agency claimed unallowable child welfare service costs because it relied on the County agency's reported program costs and did not ensure that the County agency allocated the costs in accordance with the cost allocation plan and other Federal requirements. Pursuant to the grant award, the State agency is the grantee and is accountable to the Federal Government for the use of funds provided. Furthermore, the State agency is responsible for monitoring its grantees to ensure compliance with applicable Federal requirements (45 CFR § 92.40(a)).

RECOMMENDATIONS

We recommend that the State agency:

- refund \$58,987,755 to the Federal Government for County agency costs inappropriately claimed through the cost pools and
- ensure that the County agency appropriately allocates and reports allowable costs in accordance with the cost allocation plan and other Federal requirements.

AUDITEE COMMENTS

In written comments on our draft report, the State agency generally concurred with the findings and recommendations. However, the State agency requested the right to negotiate the actual amount due to the Federal Government through the resolution process with ACF and other parties as needed. The State agency's comments are included in their entirety in the Appendix to the report.

APPENDIX

APPENDIX: AUDITEE COMMENTS



Ted Strickland, Governor
Douglas E. Lumpkin, Director

November 19, 2010

Mr. James Cox, Regional Inspector General for Audit Services
Office of Audit Services Region V
233 North Michigan Ave
Suite 1360
Chicago, IL 60601

Report Number: A-05-08-00098

Dear Mr. Cox:

Attached please find Ohio's official response to your draft report, "Review of Ohio Department of Job and Family Services Claims for Cost Reported by the Hamilton County Department of Job and Family Services", issued September 28, 2010. Our agency also appreciates the extended response time afforded given the significance of the issues.

As the draft report focuses on Hamilton County, we have provided a copy of the draft report and our response to them. In addition, the Ohio Auditor of State requested, and we provided, a copy of the draft report with our response in support of its performance of the OMB Circular A-133 Single Audit of Hamilton County.

If you or your staff have any additional questions regarding our response please feel free to contact Michael Colbert, Chief Fiscal Officer at 614-466-9195 or to e-mail him at Michael.Colbert@JFS.ohio.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "Doug Lumpkin". To the right of the signature is a small, handwritten "me".

Douglas Lumpkin, Director
Ohio Department of Job and Family Services

Cc: Joseph T. Deters, Hamilton County Prosecuting Attorney
Mora Weir, Director, Hamilton County Department of Job and Family Services
Robert R. Hinkle, Chief Deputy Auditor, Ohio Auditor of State
Michael Colbert, Chief Fiscal Officer, ODJFS
Lewis George, Chief Legal Counsel, ODJFS
Michael Barton, Audit Manager, OIG/OAS
Al Hammond, Section Chief, Fiscal and Monitoring Services, ODJFS

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OIG Summary of Findings and Recommendations:

Summary of Findings:

The Administration for Children and Families (ACF) portion of the \$203 million in unallowable costs identified in the State agency's report for services provided by the child welfare organizations during our audit period totaled \$58,987,755 (Federal share). The County agency inappropriately allocated the child welfare organizations' costs through the indirect cost pools. The State agency inappropriately claimed the costs because it relied on the County agencies reported program costs and did not ensure the County agency allocated the costs in accordance with the cost allocation plan and other Federal requirements.

OIG Recommendations:

- (a) Refund \$58,987,755 to the Federal Government for County agency costs inappropriately claimed through the cost pools.*

ODJFS Response:

While the state of Ohio concurs with the summary of findings regarding the methodology of the cost pool finding, it reserves the right to negotiate the actual amount due to the Federal government through the resolution process with ACF and other parties as needed.

OIG Recommendations:

- (b) Ensure that the County agency appropriately allocates and reports allowable costs in accordance with the cost allocation plan and other Federal requirements.*

ODJFS Response:

We substantively concur with the recommendation in regards to ODJFS' oversight of the County agency. We would note that the cited reference, 45 CFR 92.40 (a), requires that as a pass-through entity we must assure compliance by our subrecipients with applicable federal requirements. Accordingly, we will continue to develop and implement monitoring and internal control procedures to provide reasonable assurance of compliance by our sub- recipients as specified by OMB circular A-133, Section. 400(d)(3).