



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

September 10, 2009

Region VII
601 East 12th Street
Room 0429
Kansas City, Missouri 64106

Report Number: A-07-09-03121

Mr. Ronald J. Levy
Director
Missouri Department of Social Services
P.O. Box 1527
Jefferson City, Missouri 65102-1527

Dear Mr. Levy:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Review of the Missouri Department of Social Services Claim for Title IV-E Training Costs for Residential Treatment Centers and Foster Care Parent Training for July 1, 2002, Through June 30, 2006." 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 may believe may have a bearing on the final determination.

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If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, or contact Greg Tambke, Audit Manager, at (573) 893-8338, extension 30, or through email at Greg.Tambke@oig.hhs.gov. Please refer to report number A-07-09-03121 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Patrick J. Cogley", is written over a large, faint circular watermark or stamp.

Patrick J. Cogley
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Nancy Long
Acting Regional Administrator, Region VII
Administration for Children and Families
601 East 12th Street, Room 276
Kansas City, Missouri 64106-2808

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF THE MISSOURI
DEPARTMENT OF SOCIAL SERVICES
CLAIM FOR TITLE IV-E TRAINING
COSTS FOR RESIDENTIAL
TREATMENT CENTERS AND
FOSTER CARE PARENT TRAINING
FOR JULY 1, 2002, THROUGH
JUNE 30, 2006**



Daniel R. Levinson
Inspector General

September 2009
A-07-09-03121

Office of Inspector General

<http://oig.hhs.gov>

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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

Title IV-E of the Social Security Act, as amended, authorizes Federal funds for States to provide foster care and adoption assistance to children under an approved State plan. At the Federal level, the Administration for Children and Families (ACF) administers the program; in Missouri, the Department of Social Services (the State agency) administers the program. Title IV-E provides Federal financial participation (FFP) at a 50-percent rate for administrative expenditures and at an enhanced 75-percent rate for certain training expenditures.

Federal regulations specify that training expenditures must be included in the approved State training plan to be claimed at the enhanced 75-percent FFP rate. By contrast, expenditures claimed at the administrative 50-percent FFP rate do not need to be included in the approved State training plan.

This report, one of a series conveying the results of reviews that we have conducted of the Title IV-E training program in the State of Missouri, focuses on two aspects of the State agency's Title IV-E training costs claimed: costs associated with residential treatment centers (RTC) and costs associated with foster care parent training.

RTCs provide specialized treatment services designed to improve children's psychological or emotional functioning and bring about positive behavioral changes. These services include evaluation and diagnosis, counseling, educational services, and recreational services.

New foster care parents, as part of the licensing process, must undergo a minimum of 27 hours of competency-based pre-service training and assessment to help them prepare for the various aspects and challenges of foster parenting and to help them understand and engage the problems that foster children may experience. Inservice training for licensed foster care parents is ongoing, with a minimum of 30 hours required every 2 years.

The State agency claimed \$6,579,765 (\$4,934,824 Federal share) in Title IV-E training costs for RTCs and foster care parent training at the enhanced 75-percent FFP rate from July 1, 2002, through June 30, 2006. Our audit covered \$3,941,685 (Federal share) in RTC and foster care parent training costs claimed by the State agency.

OBJECTIVE

Our objective was to determine whether selected Title IV-E costs that the State agency claimed for RTCs and foster care parent training at the enhanced 75-percent FFP rate from July 1, 2002, through June 30, 2006, were allowable under Federal and State regulations and contractual provisions.

SUMMARY OF FINDINGS

Of the \$3,941,685 (Federal share) in Title IV-E training costs that the State agency claimed (and that we reviewed) for RTCs and foster care parent training from July 1, 2002, through June 30, 2006, \$569,663 (Federal share) was unallowable. The State agency overstated Title IV-E training costs by the \$569,663 (Federal share) because it did not follow Federal regulations. Specifically, the State agency claimed:

- \$557,195 (Federal share) in RTC costs that were unallowable because the State agency claimed Federal reimbursement based on an incorrect calculation of the amounts it paid to RTCs rather than on the actual amounts as mandated by Federal requirements.
- \$12,468 (Federal share) in costs claimed by one RTC that were unallowable because they were either (a) not permitted for Federal reimbursement or (b) not supported by adequate documentation pursuant to Federal and State regulations.

Because of the high error rate in our review of claims at one RTC and because of the lack of policies and procedures on the part of the State agency, we are setting aside, for adjudication by ACF, the remaining claims at that facility: claims that we did not review and that totaled \$149,693 (Federal share) in potentially unallowable costs.

Further, because we did not review costs incurred by 37 other RTCs in Missouri that participated in these RTC programs, we cannot express an opinion on \$993,139 (Federal share) in RTC costs claimed by the State agency for costs incurred at these other RTCs. However, the prevalence of unallowable costs claimed at the one RTC that we reviewed, and the lack of policies and procedures, suggest that similar issues may exist with the costs claimed by the State agency for these other RTCs.

We accepted the remaining \$3,222,329 (Federal share) in Title IV-E training costs claimed for RTCs and foster care parent training.

A table summarizing these findings is attached as Appendix A.

The State agency claimed these unallowable and potentially unallowable costs because it did not have adequate policies and procedures to ensure that it claimed only allowable Title IV-E training costs pursuant to Federal regulations.

RECOMMENDATIONS

We recommend that the State agency:

- adjust its next “Title IV-E Foster Care and Adoption Assistance Financial Report” to reduce Federal reimbursement claimed for Title IV-E training by \$569,663; and
- perform the following regarding RTC claims:

- work with ACF to evaluate the remaining claims that we did not review at Leatherwoods Home for Children Residential Facility and determine what portion (if any) of the \$149,693 (Federal share) was unallowable, and then make appropriate financial adjustments if necessary;
- work with ACF to evaluate the RTC costs claimed by the State agency for the remaining 37 RTCs that we did not review and determine what portion (if any) of the \$993,139 (Federal share) was unallowable, and then make appropriate financial adjustments if necessary; and
- strengthen policies and procedures to ensure that it claims Federal reimbursement for Title IV-E training pursuant to Federal regulations and contractual provisions.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency disagreed with our findings and recommendations. Although the State agency agreed that it had incorrectly calculated the Title IV-E training portion, the State agency disagreed with our calculation of this overpayment. Specifically, the State agency stated that we should not have applied the penetration rate, which would have resulted in an unallowable overpayment of \$42,847 rather than the \$557,195 stated in our draft report. In addition, the State agency generally disagreed with our disallowance of the costs reviewed at the RTC. Finally, the State agency indicated that it has no objection to working with ACF regarding a review of its policies and procedures; however, it disagrees that ACF should reevaluate its claim for RTC costs.

The State agency's comments are included in their entirety as Appendix B.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing the State agency's comments, we maintain that our findings and recommendations are valid. We do not agree with the State agency's revised methodology whereby—contrary to Office of Management and Budget Circular A-87 and ACF's Information Memorandum—it no longer used the penetration rate to properly allocate training costs even though the costs benefited both Title IV-E and non-Title IV-E. In addition, although the State agency generally disagreed with our disallowance of costs reviewed at one RTC, the State agency did not provide any information—as to either different criteria than the regulations we cited, or new and adequate documentation—that would cause us to revise our findings or recommendations.

Finally, with respect to the State agency's disagreement that ACF should reevaluate the State agency's claim for RTC costs, we maintain that this procedural recommendation remains valid. In light of the fact that the State agency was not able to demonstrate that it had policies and procedures in place to prevent unallowable claims from being claimed as Title IV-E training costs, and in light of the high error rate in our review of claims at one RTC, we maintain that both of our findings and our recommendations to include our procedural recommendations, are valid.

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INTRODUCTION

BACKGROUND

Title IV-E Program

Title IV-E of the Social Security Act (the Act), as amended, authorizes Federal funds for States to provide foster care and adoption assistance to children under an approved State plan. At the Federal level, the Administration for Children and Families (ACF) administers the program; in Missouri, the Department of Social Services (the State agency) administers the program.

Federal funds are available to States for the following Title IV-E administrative and training costs:

- Administrative costs include staff activities such as case management and supervision of children placed in foster care or considered to be Title IV-E candidates, preparation for and participation in court hearings, placements of children, recruitment of foster parents, and licensing of foster homes and institutions. The Federal financial participation (FFP) rate for administrative costs allocable to the Title IV-E program is 50 percent.
- Training costs include the training of personnel employed or preparing for employment by the State or local agency administering the State training plan and the training of 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 FFP rate.

Pursuant to Federal regulations (45 CFR part 95, subpart E), States must allocate costs 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 (45 CFR §§ 74.27 and 92.22) also require that costs be allocated according 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 circular requires at section C that costs be allocated to programs based on the relative benefits received and be adequately documented. ACF’s “Child Welfare Policy Manual” states that training costs must be allocated to benefiting programs and describes allowable administrative costs.

States submit the “Title IV-E Foster Care and Adoption Assistance Financial Report” (ACF-IV-E-1 report) on a quarterly basis to claim Federal reimbursement for Title IV-E costs.

Federal Reimbursement Requirements

Section 474(a)(3) of the Act authorizes Federal reimbursement to a State at an enhanced 75-percent rate for amounts expended “for the proper and efficient administration of the State plan” if the expenditures are for certain types of training, such as the training of personnel

employed or preparing for employment by the State or local agency administering the Title IV-E program.

Federal regulations (45 CFR § 1356.60(b)) restate the training costs for which States receive the enhanced 75-percent FFP rate and further provide that inservice training and short-term and long-term training at educational institutions be provided pursuant to 45 CFR §§ 235.63–235.66(a). These regulations list with greater specificity certain activities and costs that are eligible for the enhanced FFP rate. Section 474(a)(3)(E) of the Act and 45 CFR § 1356.60(c) authorize reimbursement to States at a 50-percent FFP rate for all other allowable administrative expenditures.

All training activities and costs charged to the Title IV-E program must be included in the State's training plan pursuant to 45 CFR § 1356.60(b)(2).¹ The State's training plan must describe the training activities and costs that will be charged to the Title IV-E program at the enhanced 75-percent FFP rate. By contrast, expenditures claimed at the administrative 50-percent FFP rate do not need to be included in the approved State training plan.

This report, one of a series conveying the results of reviews that we have conducted of the Title IV-E training program in the State of Missouri, focuses on two aspects of the State agency's Title IV-E training costs claimed: costs associated with residential treatment centers (RTC) and costs associated with foster care parent training.

Residential Treatment Centers

RTCs provide specialized treatment services designed to improve children's psychological or emotional functioning and bring about positive behavioral changes. These services include evaluation and diagnosis, counseling, educational services, and recreational services. Only children with the most severe problems requiring structured and institutional settings are placed in residential care, and then only temporarily. RTCs aim to provide a greater level of supervision than a foster home can provide.

Foster Care Parent Training

New foster care parents, as part of the licensing process, must undergo a minimum of 27 hours of competency-based pre-service training and assessment to help them prepare them for the various aspects and challenges of foster parenting and to help them understand and engage the problems that foster children may experience. Inservice training for foster care parents is ongoing with a minimum of 30 hours required every 2 years. The foster care parent training is provided at the county level by State agency personnel or by professionals who are contracted for this purpose.

The Foster Specialized Training Assessment Resources and Support/Skills is a comprehensive recruitment/training/assessment program. Individuals interested in becoming licensed foster parents for non-related children for the agency are required to participate in the 27 hours of pre-service training. The curriculum consists of nine weeks of training in three-hour blocks of time.

¹The State agency submitted a training plan to ACF for approval for each Federal fiscal year included in this review (2002 through 2006).

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether selected Title IV-E costs that the State agency claimed for RTCs and foster care parent training at the enhanced 75-percent FFP rate from July 1, 2002, through June 30, 2006, were allowable under Federal and State regulations and contractual provisions.

Scope

From July 1, 2002, through June 30, 2006, the State agency claimed a total of \$30,556,399 (\$22,917,299 Federal share) in Title IV-E training costs. Of this amount, the State agency claimed \$6,579,765 (\$4,934,824 Federal share) in Title IV-E training costs at the enhanced 75-percent FFP rate for RTCs and foster care parent training for this period.

Although we conducted a limited review of Title IV-E training costs at one RTC, we did not review the remaining 37 RTCs that participated in these programs. As a result, we cannot express an opinion on \$993,129 (Federal share) in RTC costs claimed for costs incurred by these other RTCs.

Therefore, our audit covered \$3,941,685 (Federal share) in RTC and Foster Care Parent training costs claimed by the State agency.

We are separately reviewing the remaining Title IV-E training costs (cost pool, long-term training, and salaries and benefits) that the State agency claimed for Title IV-E training during the same time period. We are addressing those costs in three separate reports.

We reviewed internal controls to the extent necessary to accomplish the audit objective.

We performed fieldwork at the State agency in Jefferson City, Missouri, from November 2006 to May 2008. We also performed fieldwork at Leatherwoods Home for Children Residential Facility (Leatherwoods), an RTC, in Kansas City, Missouri, from July to August 2007.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, policy directives, State training plans, U.S. Department of Health and Human Services Departmental Appeals Board decisions, and the approved cost allocation plan;
- interviewed officials of ACF, the State agency, and Leatherwoods to gain an understanding of the State agency's Title IV-E training program and its policies and procedures;

- reviewed the State agency’s methods for recording and allocating training costs;
- reviewed the ACF-IV-E-1 reports and supporting quarterly cost allocation reports and compared the amounts claimed with the State agency’s accounting records;
- visited one RTC that claimed payments (Leatherwoods), and reviewed its Title IV-E training costs claimed to the State agency;
- judgmentally selected line items within invoices to review at Leatherwoods²; and
- verified judgmentally selected amounts claimed for foster or adoptive parent training, and reviewed the invoices that supported these selected amounts.³

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 findings and conclusions based on our audit objective.

FINDINGS AND RECOMMENDATIONS

Of the \$3,941,685 (Federal share) in Title IV-E training costs that the State agency claimed (and that we reviewed) for RTCs and foster care parent training from July 1, 2002, through June 30, 2006, \$569,663 (Federal share) was unallowable. The State agency overstated Title IV-E training costs by \$569,663 (Federal share) because it did not follow Federal regulations. Specifically, the State agency claimed:

- \$557,195 (Federal share) in RTC costs that were unallowable because the State agency claimed Federal reimbursement based on an incorrect calculation of the amounts it paid to RTCs rather than on the actual amounts as mandated by Federal requirements.
- \$12,468 (Federal share) in costs claimed by Leatherwoods that were unallowable because they were either (a) not permitted for Federal reimbursement or (b) not supported by adequate documentation pursuant to Federal and State regulations.

Because of the high error rate in our review of claims at Leatherwoods and because of the lack of policies and procedures on the part of the State agency, we are setting aside, for adjudication by ACF, the remaining claims at that facility: claims that we did not review and that totaled \$149,693 (Federal share) in potentially unallowable costs.

²The invoices represented at least one quarter of claimed costs within each State fiscal year within our review period.

³We reviewed claims submitted by providers who trained foster care parents during the fourth quarter of State fiscal year 2005. We judgmentally selected the five highest paid providers during that quarter.

Further, because we did not review costs incurred by 37 other RTCs in Missouri that participated in these RTC programs, we cannot express an opinion on \$993,139 (Federal share) in RTC costs claimed by the State agency for costs incurred at these other RTCs. However, the prevalence of unallowable claimed costs that we reviewed at Leatherwoods, and the lack of policies and procedures, suggest that similar issues may exist with the costs claimed by the State agency for these other RTCs.

We accepted the remaining \$3,222,329 (Federal share) in Title IV-E training costs claimed for RTCs and foster care parent training.

A table summarizing these findings is attached as Appendix A.

The State agency claimed these unallowable and potentially unallowable costs because it did not have adequate policies and procedures to ensure that it claimed only allowable Title IV-E training costs pursuant to Federal regulations.

FEDERAL REQUIREMENTS

Section 474(a)(3)(E) of the Act and 45 CFR § 1356.60(c)(ix) provide for a 50-percent FFP rate for reimbursement of administrative expenses. Furthermore, 45 CFR § 1356.60(c)(3) states: “Allowable administrative costs do not include the costs of social services provided to the child, the child’s family or foster family which provide counseling or treatment to ameliorate or remedy personal problems, behaviors or home conditions.”

Section 474(a)(3) of the Act states:

[E]ach State which has a plan approved under this part shall be entitled to a payment equal to the sum of . . . the following proportions of the total amounts expended during such quarter as found necessary by the Secretary for the provision of child placement services and for the proper and efficient administration of the State plan. . . . [Emphasis added.]

Federal regulations (45 CFR § 95.13) state:

- (a) We consider a State agency’s expenditure for assistance payments under title I, IV-A, IV-E, X, XIV, or XVI (AABD) to have been made in the quarter in which a payment was made to the assistance recipient, his or her protective payee, or a vendor payee, even if the payment was for a month in a previous quarter.
- (b) We consider a State agency’s expenditure for services under title I, IV-A, IV-B, IV-D, IV-E, X, XIV, XVI (AABD), XIX, or XXI to have been made in the quarter in which any State agency made a payment to the service provider. . . .
- (d) We consider a State agency’s expenditure for administration or training under titles I, IV-A, IV-B, IV-D, IV-E, X, XIV, XVI (AABD), XIX, or XXI to have

been made in the quarter payment was made by a State agency to a private agency or individual; or in the quarter to which the costs were allocated in accordance with the regulations for each program.

Federal regulations (45 CFR § 235.64(c)(3)) also state:

- (c) For training and education outside of the agency, FFP is available for:
 - (3) Travel, per diem, tuition, books and educational supplies for employees in short-term training programs of less than four consecutive work weeks, or part-time training programs. . . .

ACF's instructions for completing form ACF-IV-E-1 require the State agency to follow the provisions of 45 CFR § 95.13 as follows: "Columns (a) & (b): CURRENT QUARTER EXPENDITURES. Include on Part 1 all amounts paid by the State or local government during the quarter indicated, even if the payment is applicable to a previous quarter, per the Federal regulations at 45 CFR 95.4 and 95.13(a), (b) and (d)."

OMB Circular A-87, Attachment A, Section C states: "To be allowable under Federal awards, costs must meet the following general criteria: (j) Be adequately documented."

STATE REQUIREMENTS AND CONTRACTUAL PROVISIONS

State regulations (1 Code of State Regulations (CSR) 10-11.010(3)) state:

Officials and employees will be allowed travel expenses when required to travel away from their official domicile on state business. To qualify for reimbursement for meal(s), officials and employees must be in continuous travel status for twelve (12) hours or more. Officials and employees shall indicate on their expense report the twelve (12)-hour status, if no overnight lodging is listed.

Contractual provisions between the State agency and Leatherwoods require Leatherwoods to follow the provisions of the State of Missouri Travel regulations for travel and per diem.

UNALLOWABLE AND POTENTIALLY UNALLOWABLE COSTS CLAIMED FOR RESIDENTIAL TREATMENT CENTERS

Costs Not Paid by the State Agency

The State agency claimed \$557,195 in RTC costs that were unallowable because the State agency claimed Federal reimbursement based on an incorrect calculation of the amounts it paid to RTCs, rather than on the actual amounts as mandated by Federal requirements.

The State agency claimed RTC costs totaling \$2,285,929 (\$1,714,447 Federal share) that were unallowable because the State agency's procedures for claiming Federal reimbursement did not follow the provisions of Federal requirements. Specifically, rather than claiming, for Federal

reimbursement, the “total amounts expended” pursuant to Section 474(a)(3) of the Act, the State agency claimed costs for RTCs by taking the amounts it had paid to RTCs and incorrectly increasing those amounts by performing two calculations:

- First, the State agency divided the amounts it had paid to RTCs by 75 percent to account for the Federal share that the State agency withheld from RTCs.
- The State agency then took that new and higher figure and divided it again, by 90 percent, to account for an administrative fee that the State agency also withheld from RTCs.

The State agency then applied the appropriate penetration rates to these amounts to claim expenditures.⁴

For example, if the State agency paid the RTCs a total of \$100 for a particular quarter, the State agency would divide the \$100 by 75 percent and then divide that result by 90 percent to reach a total of \$148. The amount would exceed the amount the State agency had paid to the RTCs by 48 percent. The State agency would then apply the penetration rate to the \$148 (i.e. rather than to the \$100 amount actually paid to the RTCs) to derive the amount that it would claim for Federal reimbursement under Title IV-E.

The State agency claimed \$2,285,929 (\$1,714,447 Federal share) in costs related to Title IV-E training based on inflated amounts. However, if the State agency had claimed Federal reimbursement based on the amounts that it actually paid to the RTCs,⁵ the State agency would have received \$1,543,002 (\$1,157,252 Federal share). Therefore, we are questioning the difference of \$557,195 (Federal share).

Unallowable and Potentially Unallowable Costs at One Residential Treatment Center

Of the \$19,226 (\$14,420 Federal share) in claims reviewed at Leatherwoods, \$16,623 (\$12,468 Federal share) was unallowable because they either (a) were not permitted for Federal reimbursement or (b) were not supported by adequate documentation pursuant to Federal and State regulations. The remaining \$2,603 (\$1,952 Federal share) was allowable.⁶

⁴The Title IV-E penetration rate represented the percentage of foster care children that were Title IV-E compared to all children within the foster care system.

⁵As in the example, we took the amount paid to the RTCs and applied the penetration rate for the quarter. Thus, we agreed with the State agency’s procedures for applying the penetration rate.

⁶Of the \$2,603 (\$1,952 Federal share) that we considered allowable, \$2,085 (\$1,564 Federal share) had inadequate documentation that was older than 3 years old. Because of the ages of these claims, Leatherwoods was, per contractual provisions, no longer required to keep the supporting documentation for those claims and consequently we did not question the \$1,564 (Federal share) associated with these older claims. We had no issues with the remaining \$518 (\$388 Federal share) of claimed costs that we reviewed at Leatherwoods.

Of the \$12,468 (Federal share) in unallowable claims at Leatherwoods, \$8,301 involved costs that were not permitted for Federal reimbursement and \$4,167 involved costs that were not adequately documented. The remaining \$1,952 was allowable.

The \$8,301 (Federal share) in unallowable claimed costs for Leatherwoods included the following:

- costs for unallowable courses such as “Conflict resolution, how to calm a child down” that did not qualify for Federal reimbursement under the provisions of 45 CFR § 1356.60(c)(3);
- salaries and fringe benefits for employees taking short-term training, costs that were not permitted for Federal reimbursement under the provisions of 45 CFR § 235.64(c)(3);
- entertainment expenses such as IMAX movie tickets and a riverboat dinner cruise that was not permitted for Federal reimbursement under the provisions of per 45 CFR § 235.64(c)(3); and
- per diem for local travel that was not permitted under the provisions of the State of Missouri travel regulations (1 CSR 10-11.010) and the contract between the State agency and Leatherwoods.

In addition, Leatherwoods had \$4,167 in claimed costs that were unallowable because those costs did not have adequate documentation. Specifically, Leatherwoods did not have invoices and a certificate of completion as required by OMB Circular A-87.

Based on our findings at Leatherwoods, we asked the State agency to identify its policies and procedures that would prevent claims from being incorrectly claimed as Title IV-E training costs. However, the State agency was not able to demonstrate that it had policies and procedures in place to prevent unallowable claims from being claimed as Title IV-E training costs.

Based on the \$19,226⁷ (\$14,420 Federal share) in claims reviewed at Leatherwoods, we concluded that \$16,623 (\$12,468 Federal share) was unallowable because the claimed costs did not comply with Federal and State regulations or because Leatherwood had inadequate documentation to support the amounts claimed.

We accepted \$2,603 (\$1,952 Federal share) in costs that Leatherwoods claimed and that we reviewed.

⁷Because we had already questioned the difference between the invoiced amount and the amounts paid in our review of “Costs Not Paid by the State Agency,” we converted the amounts reviewed and questioned into amounts that would have been paid by the State agency to Leatherwoods. In this manner, we avoided questioning the same reimbursements twice. This methodology included applying the penetration rates used by the State agency.

Because of the high error rate in our review of claims at Leatherwoods and because of the lack of policies and procedures on the part of the State agency, we are setting aside, for adjudication by ACF, the remaining claims at that facility: claims that we did not review and that totaled \$199,591 (\$149,693 Federal share) in potentially unallowable costs.

Because the State agency did not have policies and procedures in place to prevent unallowable costs from being claimed, and because we did not perform detailed reviews of the remaining 37 RTCs, we cannot express an opinion on \$1,324,185 (\$993,139 Federal share) in costs claimed for those RTCs. However, the prevalence of unallowable claimed costs that we reviewed at Leatherwoods, and the lack of policies and procedures, suggest that similar issues may exist with the costs claimed by the State agency for these other RTCs.

RECOMMENDATIONS

We recommend that the State agency:

- adjust its next ACF-IV-E-1 report to reduce Federal reimbursement claimed for Title IV-E training by \$569,663; and
- perform the following regarding RTC claims:
 - work with ACF to evaluate the remaining claims that we did not review at Leatherwoods and determine what portion (if any) of the \$149,693 (Federal share) was unallowable, and then make appropriate financial adjustments if necessary;
 - work with ACF to evaluate the RTC costs claimed by the State agency for the remaining 37 RTCs that we did not review and determine what portion (if any) of the \$993,139 (Federal share) was unallowable, and then make appropriate financial adjustments if necessary; and
 - strengthen policies and procedures to ensure that it claims Federal reimbursement for Title IV-E training pursuant to Federal regulations and contractual provisions.

STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the State agency disagreed with our findings and recommendations. A summary of the State agency's pertinent comments and our response follows. The State agency's comments are included in their entirety as Appendix B.

Costs Not Paid by the State Agency

State Agency Comments

The State agency agreed with our calculations that it had claimed \$2,285,925 for RTC costs and that it had received \$1,714,447 in Federal reimbursement for these costs. However, the State

agency disagreed with our calculations of the allowable Federal reimbursement. The State agency said: “In accordance with the contract” with the RTCs, the State agency “. . . determined the anticipated Title IV-E federal reimbursement by applying a ‘penetration rate’ of 70%, the FMAP rate (federal match rate) of 75%, and the 10% administrative fee.” The State agency added that “[t]he actual penetration rate had already been applied in determination of the Title IV-E claim. The state is entitled to 75% of the \$2,228,800 payment made in accordance with its contract (\$1,671,600).” Thus, according to the State agency, the amount of the unallowable overpayment was \$42,847, not \$557,195 as stated in our report.

Office of Inspector General Response

We calculated the State agency’s claimed RTC costs by using the same methodology that the State agency had employed during the time period covered by our review, except that we did not inflate the amount paid by the RTCs.⁸ Specifically, we took the \$2,228,800 paid to the RTCs and applied the penetration rate just as the State agency had done when performing the calculation that produced its initial claim for RTC costs. As a result, we obtained a corrected amount that the State agency could claim of \$1,543,002 (\$1,157,252 Federal share) and concluded that the State agency overclaimed \$742,927 (\$557,195 Federal share)—which is the amount reflected in our finding.

After reviewing our draft report, the State agency said, in its written comments, that it no longer wishes to apply the penetration rate to allocate the costs paid to the programs that benefited. Specifically, the State agency said that it should receive the Federal share of the \$2,228,800 paid to the RTCs, which was \$1,671,600. As a result, according to the State agency, it did not overclaim the \$557,195 mentioned in our finding, but rather \$42,847.

The State agency indicated that its revised methodology was “[i]n accordance with the contract” with RTCs. However, the relevant language in the contract between Leatherwoods and the State agency did not require the State agency to withhold funds because of the penetration rate:

CD [Children’s Division at the State agency] agrees, subject to the availability of funds and less any disallowed costs, to reimburse the PROVIDER [Leatherwoods] for the cost of training described herein, in an amount equal to the anticipated Title IV-E federal financial participation in such costs and less an administrative fee, which are invoiced by the PROVIDER [Leatherwoods]. The PROVIDER [Leatherwoods] agrees that the amount of all reimbursement due for the costs of training shall be reduced by an administrative fee equal to ten percent (10%) of the anticipated Title IV-E federal financial participation in said costs of training.

In fact, the contract between Leatherwoods and the State agency is silent on the subject of the penetration rate. Above and beyond that fact, though, remains the fact that the provisions of the

⁸As shown by the State agency in its appendix to its written comments on our draft report, the State agency took the \$2,228,800 paid to the RTCs and grossed this amount up by dividing it by 75 percent and again by 90 percent to obtain \$3,301,926. The State agency then applied the penetration rate to obtain the \$2,285,929 (\$1,714,447 Federal share) that it then claimed as Title IV-E training costs.

contract do not supersede the provisions of applicable Federal requirements, which do not permit the State agency to calculate its claimed RTC costs using this revised methodology. OMB Circular A-87, Appendix A, section C.3.a., states: “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.” Consistent with the provisions of the circular, ACF’s Information Memorandum ACF-IM-91-15, issued July 24, 1991, states: “Training costs for all training, including long-term educational training (degree programs), must be allocated among all benefiting programs and may not be direct-charged to title IV-E, unless title IV-E is the only benefiting program.”

Based on the review of the expenditures made by RTCs, we concluded that the only expenditures qualifying for Federal reimbursement were those that the State agency paid pursuant to Federal law (Section 474(a)(3) of the Act). From what the State agency determined were allowable and payable from the amounts billed, we concluded that these expenditures benefited both Title IV-E and non-Title IV-E alike pursuant to Federal regulations (OMB Circular A-87, Appendix A, section C.3.a and ACF-IM-91-15). As a result, we applied the penetration rate just as the State agency had done in the calculations that produced its initial claim for RTC costs, and calculated the amount (\$1,543,002 (\$1,157,252 Federal share)) to which the State agency was entitled.

Unallowable and Potentially Unallowable Costs at One Residential Treatment Center

State Agency Comments

The State agency disagreed “. . . that the Training activities allowed at 75% reimbursement under Section 474(a)(3) of the Act exclude the costs identified in the audit, with one exception. We do agree that the entertainment expenses appear to have been properly disallowed but we are unable to confirm the effect of the disallowance in the training claim.”

Office of Inspector General Response

Although the State agency disagreed with our recommended disallowances of various costs totaling \$16,623 (\$12,468 Federal share) that were claimed at Leatherwoods, the State agency did not provide any information—as to either different criteria than the regulations we cited, or new and adequate documentation—that would cause us to revise our findings or recommendations. Therefore, we maintain that these claimed costs were unallowable because they either (a) were not permitted for Federal reimbursement or (b) were not supported by adequate documentation pursuant to Federal and State regulations.

Procedural Recommendations

State Agency Comments

The State agency said that it “. . . is always willing to work with ACF to ensure compliance in all respects with the program.” However, the State agency “. . . respectfully disagrees that ACF should reevaluate the RTC costs to the extent that they fall beyond the scope of this audit.”

More generally, the State agency added that it “. . . disagrees with any suggestion that its policies and procedures are inconsistent with federal requirements.”

Office of Inspector General Response

In light of the fact that the State agency was not able to demonstrate that it had policies and procedures in place to prevent unallowable claims from being claimed as Title IV-E training costs, and in light of the high error rate in our review of claims at Leatherwoods, we maintain that both of our findings and our recommendations to include our procedural recommendations, are valid.

APPENDIXES

SUMMARY OF AUDIT RESULTS

**Title IV-E Training Costs Claimed for
Residential Treatment Centers and
Foster Care Parent Training
During July 1, 2002, through June 30, 2006**

Federal Share

	TOTAL CLAIMED	AMOUNT QUESTIONED	AMOUNT SET ASIDE	NO OPINION	ALLOWABLE
Residential Treatment Centers	\$1,714,447	\$569,663	\$149,693	\$993,139	\$1,952
Foster Care Parent Training	\$3,220,377				\$3,220,377
GRAND TOTAL	\$4,934,824	\$569,663	\$149,693	\$993,139	\$3,222,329

July 23, 2009

Patrick J. Cogley
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Inspector General, Offices of Audit Services, Region VII
601 East 12th Street, Room 429
Kansas City, MO 64106

Re: *Review of the Missouri Department of Social Services Claim for Title IV-E Training Costs for Residential Treatment Centers and Foster Care Parent Training for July 1, 2002 Through June 30, 2006, Report No. A-07-09-03121*

Dear Mr. Cogley:

The Missouri Department of Social Services (“Missouri” or “the State”) hereby responds to the draft report of the above-referenced audit (“Draft Report”), which you forwarded to the State on May 18, 2009. The time for reply was extended to July 24, 2009.

The Draft Report evaluates Missouri’s claim for federal financial participation (“FFP”) in Residential Treatment Centers and foster care parent training costs reimbursable under Title IV-E of the Social Security Act (“Act”). The audit covered the period July 1, 2002 through June 30, 2006. For the reasons explained below, we believe that the determinations set forth in the Draft Report are erroneous.

Background

Training Contract for Residential Child Caring Agencies

During the audit period Missouri contracted with Residential Child Caring Agencies to train personnel administering the State’s Title IV-E plan. The contract specifies on page 4, paragraph 12 the Title IV-E training activities that will be reimbursed as follows:

“CD agrees, subject to the availability of funds and less any disallowed costs, to reimburse the PROVIDER for the costs of training described herein, in an amount equal to the anticipated Title IV-E federal financial participation in such costs and less an administrative fee, which are invoiced by the PROVIDER. The PROVIDER agrees that the amount of all reimbursements due for the costs of training shall be reduced by an administrative fee equal to ten percent (10%) of the anticipated Title IV-E federal financial participation in said costs of training.”

Residential Child Caring Agencies invoiced the Children's Division for the full cost of providing Title IV-E training. In accordance with the contract, the Children's Division determined the anticipated Title IV-E federal reimbursement by applying a "penetration rate" of 70%, the FMAP rate (federal match rate) of 75%, and the 10% administrative fee. The audit disclosed that when the Title IV-E claim was made using actual penetration rates necessary to properly allocate costs to the Title IV-E program, the state did not remove the "estimated penetration rate" which resulted in a 30% understatement of costs actually provided by the RTC's. Attachment A includes an actual example reviewed during the audit period and a corrected audit workpaper showing the actual training cost was \$ 4,717,037 and the amount allocable as a Title IV-E program claim was \$3,265,614.

I. Costs Not Paid by the State Agency

Title IV-E Training Reimbursement was over-stated by \$42,847.

The Draft Report asserts that Missouri claimed \$557,195 (federal share) in RTC costs that were unallowable because the State agency claimed Federal reimbursement based on an incorrect calculation of the amounts it paid to RTCs rather than on actual amounts as mandated by Federal requirements.

The actual amount paid by the State agency under its contract with the RTCs is not in dispute. The audit documented \$2,228,800 was paid to RTCs for the audit period. The audit also documented the State claimed \$2,285,925 as Title IV-E training and was reimbursed \$1,714,447 (75%). We agree with those conclusions and accept that as a "vendor", the allowable Title IV-E claim is limited to the actual payment made by the state, unlike a "subrecipient" relationship in which allowable costs incurred by the subrecipient can be claimed and federal grant funds passed thru to the subrecipient.

The draft audit erred when it applied a penetration rate and a 75% training reimbursement rate to the \$2,228,800 payment made to the RTC's. The actual penetration rate had already been applied in determination of the Title IV-E claim. The state is entitled to 75% of the \$2,228,800 payment made in accordance with its contract (\$1,671,600). The necessary correction is only \$42,847 (\$1,671,600-\$1,714,447).

Unallowable and Potentially Unallowable Costs at Leatherwoods

The Draft Report indicates it reviewed \$19,226 in claims from the Leatherwoods facility and determined \$16,623 was unallowable because (a) \$8,301 was not permitted for Federal reimbursement and (b) \$4,167 was not supported by adequate documentation pursuant to Federal regulations or the state contract.

We disagree that the Training activities allowed at 75% reimbursement under Section 474(a)(3) of the Act exclude the costs identified in the audit, with one exception. We do agree that the entertainment expenses appear to have been properly disallowed but we are unable to confirm the effect of the disallowance in the training claim. The audit footnote 7 reveals the claim amounts referenced in the audit are not the actual amounts claimed but are amounts converted by OIG based on the prior audit finding. As previously noted, the state claim did not include the full \$3,265,614 of RTC expenditures allocable to Title IV-E, therefore, any un-reimbursable costs would have to be considered in context of the actual amount claimed.

II. Responses to the Report's Recommendations

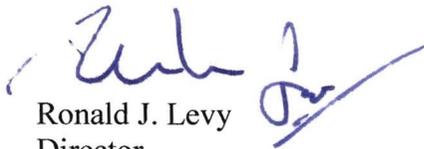
The Draft Report recommends that Missouri “adjust its next ACF-IV-E-1 report to reduce Federal reimbursement claimed for Title IV-E training by \$569,693 (Federal share).” The State disagrees with this recommendation. The correct overpayment is \$42,847.

The Draft Report also recommends that Missouri “work with ACF to review the remaining claims at Leatherwoods...” and “work with ACF to evaluate the RTC costs claimed by the State Agency for the remaining 37 RTCs that we did not review...” The State has no objection to work with ACF regarding its review of policies in place, however, the State respectfully disagrees that ACF should reevaluate the RTC costs to the extent that they fall beyond the scope of the audit.

Finally, the Draft Report recommends that Missouri “strengthen policies and procedures to ensure that it claims Federal reimbursement for Title IV-E training pursuant to Federal regulations and contractual provisions.” Missouri disagrees with any suggestion that its policies and procedures are inconsistent with federal requirements. The requirement that Missouri strengthen its policies and procedures is also vague. It is unclear from the report which specific policies and procedures the Draft Report feels are insufficient and what specific changes are recommended to strengthen them. However, DSS is always willing to work with ACF to ensure compliance in all respects with the program.

We look forward to working with your office to correct the errors reflected in the Draft Report. Please do not hesitate to contact Jennifer R. Tidball, (573) 751-7533, if you have any questions about the foregoing responses.

Sincerely,


Ronald J. Levy
Director

Attachment A

SUMMARY OF AMOUNT CLAIMED

QUARTER ENDED	1ST QTR 2003	2ND QTR 2003	3RD QTR 2003	4TH QTR 2003	1ST QTR 2004	2ND QTR 2004	3RD QTR 2004	4TH QTR 2004	1ST QTR 2005	2ND QTR 2005	3RD QTR 2005
F083 - AFTER GROSS UP FOR COST SHARE & ADMIN FEE	234,647.32	139,949.42	271,627.33	185,219.70	216,648.70	157,576.49	285,632.59	167,829.17	208,199.94	184,047.32	251,798.44
PENETRATION RATE	67.2520%	68.3760%	69.5200%	70.1580%	70.3160%	70.3050%	70.1610%	68.7480%	68.2170%	68.2900%	68.2840%
AFTER PENETRATION RATE	157,805.01	95,691.82	188,835.32	129,946.44	152,338.70	110,784.15	200,402.68	115,379.20	142,027.75	125,685.91	171,938.05
FFP	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
FEDERAL AMOUNT	118,353.76	71,768.86	141,626.49	97,459.83	114,254.02	83,088.11	150,302.01	86,534.40	106,520.82	94,264.44	128,953.54

SUMMARY OF AMOUNT PAID BY DSS

AMOUNT PAID BY DSS TO RTCs	158,386.94	94,465.86	183,348.45	125,023.30	146,237.87	106,364.13	192,802.00	113,284.69	140,534.96	124,231.94	169,963.95
PENETRATION RATE	67.2520%	68.3760%	69.5200%	70.1580%	70.3160%	70.3050%	70.1610%	68.7480%	68.2170%	68.2900%	68.2840%
AFTER PENETRATION RATE	106,518.38	64,591.98	127,463.84	87,713.85	102,828.62	74,779.30	135,271.81	77,880.96	95,868.73	84,837.99	116,058.18
FFP	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
FEDERAL AMOUNT	79,888.79	48,443.98	95,597.88	65,785.39	77,121.47	56,084.48	101,453.86	58,410.72	71,901.55	63,628.49	87,043.64
	335,210.46	199,927.75	388,039.05	264,599.58	309,498.14	225,109.27	408,046.56	239,755.96	297,428.49	262,924.74	359,712.06

QUESTIONED COSTS

DIFFERENCE BETWEEN PAID & F083 DATA AFTER GROSS UP FOR COST SHARE & ADMIN FEE	76,260.38	45,483.56	88,278.88	60,196.40	70,410.83	51,212.36	92,830.59	54,544.48	67,664.98	59,815.38	81,834.49
PENETRATION RATE	67.2520%	68.3760%	69.5200%	70.1580%	70.3160%	70.3050%	70.1610%	68.7480%	68.2170%	68.2900%	68.2840%
AFTER PENETRATION RATE	51,286.63	31,099.84	61,371.48	42,232.59	49,510.08	36,004.85	65,130.87	37,498.24	46,159.02	40,847.92	55,879.87
FFP	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
FEDERAL AMOUNT	38,464.97	23,324.88	46,028.61	31,674.44	37,132.56	27,003.64	48,848.15	28,123.68	34,619.26	30,635.94	41,909.90

SUMMARY OF AMOUNT CORRECTED CLAIM

QUARTER ENDED	1ST QTR 2003	2ND QTR 2003	3RD QTR 2003	4TH QTR 2003	1ST QTR 2004	2ND QTR 2004	3RD QTR 2004	4TH QTR 2004	1ST QTR 2005	2ND QTR 2005	3RD QTR 2005
Actual amounts invoiced *	335,210.46	199,927.75	388,039.05	264,599.58	309,498.14	225,109.27	408,046.56	239,755.96	297,428.49	262,924.74	359,712.06
PENETRATION RATE	67.2520%	68.3760%	69.5200%	70.1580%	70.3160%	70.3050%	70.1610%	68.7480%	68.2170%	68.2900%	68.2840%
AFTER PENETRATION RATE	245,435.74	136,702.60	269,764.75	185,637.77	217,626.71	158,263.07	286,298.55	164,827.43	202,896.79	178,661.31	245,625.79
FFP	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%	75%
FEDERAL AMOUNT	169,076.80	102,626.95	202,323.56	139,228.33	163,226.03	118,687.30	214,747.16	123,620.67	162,172.69	134,663.48	184,219.34

* Audit failed to adjust payment by estimated 70% penetration rate applied in determination of

Attachment A

SUMMARY OF AMOUNT CLAIMED

QUARTER ENDED	4TH QTR 2005	1ST QTR 2006	2ND QTR 2006	3RD QTR 2006	4TH QTR 2006	GRAND TOTAL	Corrected Claim
F083 - AFTER GROSS UP FOR COST SHARE & ADMIN FEE	153,392.13	95,606.70	228,436.28	264,521.81	256,792.76	3,301,926.10	4,717,037.29
PENETRATION RATE	68.8590%	69.5160%	69.6170%	69.8000%	69.8390%		69.23%
AFTER PENETRATION RATE	105,624.29	66,461.95	159,030.49	184,636.22	179,341.49	2,285,929.48	3,265,613.54
FFP	75%	75%	75%	75%	75%		75%
FEDERAL AMOUNT	79,218.22	49,846.46	119,272.86	138,477.17	134,506.12	1,714,447.11	2,448,210.18

SUMMARY OF AMOUNT PAID BY DSS

AMOUNT PAID BY DSS TO RTCs	103,539.69	64,534.52	154,194.49	178,552.22	173,335.11	2,228,800.12	2,228,800.12
PENETRATION RATE	68.8590%	69.5160%	69.6170%	69.8000%	69.8390%		
AFTER PENETRATION RATE	71,296.40	44,861.82	107,345.58	124,629.45	121,055.51	1,543,002.40	
FFP	75%	75%	75%	75%	75%		
FEDERAL AMOUNT	53,472.30	33,646.36	80,509.18	93,472.09	90,791.63	1,157,251.80	
	219,131.62	136,580.99	326,337.54	377,888.30	366,846.79	4,717,037.29	

QUESTIONED COSTS

DIFFERENCE BETWEEN PAID & F083 DATA AFTER GROSS UP FOR							
COST SHARE & ADMIN FEE	49,852.44	31,072.18	74,241.79	85,969.59	83,457.65	1,073,125.98	
PENETRATION RATE	68.8590%	69.5160%	69.6170%	69.8000%	69.8390%		
AFTER PENETRATION RATE	34,327.89	21,600.13	51,684.91	60,006.77	58,285.99	742,927.08	
FFP	75%	75%	75%	75%	75%		
FEDERAL AMOUNT	25,745.92	16,200.10	38,763.68	45,005.08	43,714.49	557,195.31	

SUMMARY OF AMOUNT CORRECTED CLAIM

QUARTER ENDED	4TH QTR 2005	1ST QTR 2006	2ND QTR 2006	3RD QTR 2006	4TH QTR 2006	GRAND TOTAL
Actual amounts invoiced *	219,131.62	136,580.99	326,337.54	377,888.30	366,846.79	4,717,037.29
PENETRATION RATE	68.8590%	69.5160%	69.6170%	69.8000%	69.8390%	
AFTER PENETRATION RATE	150,891.84	94,946.54	227,186.41	263,756.03	256,202.13	3,265,613.54
FFP	75%	75%	75%	75%	75%	
FEDERAL AMOUNT	113,168.88	71,209.23	170,389.81	197,824.52	192,151.60	2,448,210.18

* Audit failed to adjust payment by estimated 70% penetration rate applied in dc