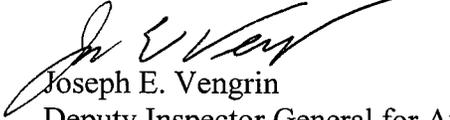




DEC - 8 2008

TO: Joan Ohl
Commissioner, Administration for Children, Youth and Families
Administration for Children and Families

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

SUBJECT: Audit of New Mexico's Title IV-E Administrative and Training Costs for the 2-Year Period Ended September 30, 2002 (A-06-06-00105)

Attached is an advance copy of our final report on New Mexico's Title IV-E administrative and training costs for the 2-year period ended September 30, 2002. We will issue this report to the New Mexico Children, Youth and Families Department (the State agency) within 5 business days.

Title IV-E of the Social Security Act, as amended, authorizes Federal funds for States to provide foster care and adoption assistance for children under an approved State plan. The State agency, which administers the Title IV-E program, is required by Federal regulations to allocate certain administrative and training costs to the Title IV-E program in accordance with a cost allocation plan approved by the Department of Health and Human Services, Division of Cost Allocation (DCA). The State agency's plan specified several allocation methods, including random moment timestudies, the number of individuals receiving training, and ratios of Title IV-E to non-Title IV-E case counts.

Our objective was to determine whether the Title IV-E administrative and training costs that the State agency claimed were allowable, supported, and allocated in accordance with Federal requirements.

The State agency claimed Title IV-E administrative and training costs that were not allowable, supported, or allocated in accordance with Federal requirements. For the 2 years ended September 30, 2002, the State agency claimed \$1,651,871 (\$1,138,499 Federal share) in unallowable costs because it did not claim training costs in accordance with its approved cost allocation plan, claimed administrative and training costs that were not reimbursable under Title IV-E, and used inaccurate data to allocate training costs. We could not determine what portion of the remaining \$33,457,704 (\$17,649,202 Federal share) in Title IV-E costs was allowable because the State agency did not use the timestudy methodology included in its approved cost allocation plan to allocate costs, could not produce sufficient documentation to support claimed

costs, and did not sufficiently describe training course content in the State plan for us to determine whether the content was closely related to allowable Title IV-E activities.

The State agency did not always follow Federal regulations or its approved cost allocation plan. Inadequate internal controls over timestudy and other allocation data and over record retention also contributed to the State agency's improper and unsupported claims.

We recommend that the State agency:

- refund the \$1,138,499 Federal share of unallowable costs;
- work with DCA and the Administration for Children and Families (ACF) to determine the allowable portion of the \$17,649,202 Federal share of potentially unallowable costs and refund any unallowable costs;
- work with DCA and ACF to revise its cost allocation plan to describe Title IV-E training and a method for allocating the costs of part-time and full-time training programs in accordance with Federal requirements; and
- implement procedures to ensure that it follows the allocation methods in the approved cost allocation plan, documents and verifies the allocation methods used, claims only reimbursable costs, and maintains records and data used to allocate costs in accordance with Federal regulations.

In written comments on our draft report, the State agency did not specifically address our recommendations. The State agency agreed with our findings on costs that were not claimed in accordance with the approved cost allocation plan and on training costs that were not reimbursable at the enhanced rate. The State agency disagreed with, or did not express an opinion on, the remaining findings. The State agency did not provide any additional information that would lead us to change our findings or recommendations.

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 e-mail at Lori.Pilcher@oig.hhs.gov or Gordon L. Sato, Regional Inspector General for Audit Services, Region VI, at (214) 767-8414 or through e-mail at Gordon.Sato@oig.hhs.gov. Please refer to report number A-06-06-00105.

Attachment



DEC 11 2008

Report Number: A-06-06-00105

Ms. Angela Adams
Director of Protective Services
Children, Youth and Families Department
1120 Paseo De Peralta, Room 254
Santa Fe, New Mexico 87501

Dear Ms. Adams:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled "Audit of New Mexico's Title IV-E Administrative and Training Costs for the 2-Year Period Ended September 30, 2002." 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.

Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, OIG reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5). Accordingly, this report will be posted on the Internet at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me, or contact Sylvie Witten, Audit Manager, at (512) 339-3071 or through e-mail at Sylvie.Witten@oig.hhs.gov. Please refer to report number A-06-06-00105 in all correspondence.

Sincerely,

Gordon L. Sato
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Christine Calpin
Associate Commissioner
Children's Bureau
DHHS/ACF/ACYF
Portals Building, Eighth Floor
1250 Maryland Avenue, SW.
Washington, DC 20447

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF NEW MEXICO'S
TITLE IV-E ADMINISTRATIVE AND
TRAINING COSTS FOR THE
2-YEAR PERIOD ENDED
SEPTEMBER 30, 2002**



Daniel R. Levinson
Inspector General

December 2008
A-06-06-00105

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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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.

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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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Notices

THIS REPORT IS AVAILABLE TO THE PUBLIC
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Pursuant to the principles of the Freedom of Information Act, 5 U.S.C. § 552, as amended by Public Law 104-231, Office of Inspector General reports generally are made available to the public to the extent the information is not subject to exemptions in the Act (45 CFR part 5).

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 for children under an approved State plan. At the Federal level, the Administration for Children and Families (ACF) administers the program; in New Mexico, the Children, Youth and Families Department (the State agency) administers the program.

States may be reimbursed for certain Title IV-E administrative and training costs. Federal regulations require that such costs be allocated to the Title IV-E program in accordance with a cost allocation plan approved by the Department of Health and Human Services, Division of Cost Allocation (DCA). The State agency's cost allocation plan specified several allocation methods, including random moment timestudies, the number of individuals receiving training, and ratios of Title IV-E to non-Title-IV-E case counts. These ratios applied to both children in foster care (foster care ratios) and children in adoption (adoption ratios).

For the 2-year period ended September 30, 2002, the State agency claimed \$52,632,892 in Title IV-E State and local administrative and training costs. We examined \$35,109,575 of these costs, which consisted of foster care administrative costs, adoption assistance administrative costs, and foster care training costs.

OBJECTIVE

Our objective was to determine whether the Title IV-E administrative and training costs that the State agency claimed were allowable, supported, and allocated in accordance with Federal requirements.

SUMMARY OF FINDINGS

The State agency claimed Title IV-E administrative and training costs that were not allowable, supported, or allocated in accordance with Federal requirements. For the 2 years ended September 30, 2002, the State agency claimed \$1,651,871 (\$1,138,499 Federal share) in unallowable costs because it did not claim training costs in accordance with its approved cost allocation plan, claimed administrative and training costs that were not reimbursable under Title IV-E, and used inaccurate data to allocate training costs. We could not determine what portion of the remaining \$33,457,704 (\$17,649,202 Federal share) in Title IV-E costs was allowable because the State agency did not use the timestudy methodology included in its approved cost allocation plan to allocate costs, could not produce sufficient documentation to support claimed costs, and did not sufficiently describe training course content in the State plan for us to determine whether the content was closely related to allowable Title IV-E activities.

The State agency did not always follow Federal regulations or its approved cost allocation plan. Inadequate internal controls over timestudy and other allocation data and over record retention also contributed to the State agency's improper and unsupported claims.

RECOMMENDATIONS

We recommend that the State agency:

- refund the \$1,138,499 Federal share of unallowable costs;
- work with DCA and ACF to determine the allowable portion of the \$17,649,202 Federal share of potentially unallowable costs and refund any unallowable costs;
- work with DCA and ACF to revise its cost allocation plan to describe Title IV-E training and a method for allocating the costs of part-time and full-time training programs in accordance with Federal requirements; and
- implement procedures to ensure that it follows the allocation methods in the approved cost allocation plan, documents and verifies the allocation methods used, claims only reimbursable costs, and maintains records and data used to allocate costs in accordance with Federal regulations.

STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the State agency did not specifically address our recommendations. The State agency agreed with our findings on costs that were not claimed in accordance with the approved cost allocation plan and on training costs that were not reimbursable at the enhanced rate. The State agency disagreed with, or did not express an opinion on, the remaining findings. The State agency did not provide any additional information that would lead us to change our findings or recommendations. The State agency's comments appear in their entirety as Appendix B.

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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 for children under an approved State plan. At the Federal level, the Administration for Children and Families (ACF) administers the program; in New Mexico, the Children, Youth and Families Department (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 funding 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 Title IV-E State 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 Federal funding 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. Cost allocation plans must conform to the accounting principles and standards in Office of Management and Budget (OMB) Circular A-87, “Cost Principles for State, Local, and Indian Tribal Governments.” The circular requires 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.

Federal Reimbursement Requirements

Section 474(a)(3) of the Act authorizes Federal reimbursement to a State with an approved Title IV-E plan at a 75-percent rate for amounts expended “for the proper and efficient administration of the State’s 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. In accordance with Federal regulations (45 CFR § 1356.60(b)), States receive the enhanced 75-percent rate for short-term and long-term training at educational

institutions and for inservice training. The regulations require that all such training be provided pursuant to Federal regulations (45 CFR §§ 235.63–235.66(a)), which specify the activities and costs that are eligible for the enhanced rate, among other requirements. Section 474(a)(3)(E) of the Act and 45 CFR § 1356.60(c) authorize reimbursement to States at a rate of 50 percent 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). 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 rate.

New Mexico’s Approved Cost Allocation Plan

In 1997, DCA approved the State agency’s cost allocation plan in effect during our audit period.¹ The plan specified the following allocation methods for the administrative and training costs that we reviewed:

- Protective Services Division district operation (Child Protective Services) costs were to be allocated using random moment sampling (timestudies) and further allocated using ratios of Title IV-E to non-Title-IV-E case counts. These ratios applied to both children in foster care (foster care ratios) and children in adoption (adoption ratios). In applying this methodology, the State agency used timestudies to allocate Child Protective Services costs to activities and funding sources. For activities identified as Title IV-E-eligible, the State agency usually allocated the costs further by applying either the foster care or adoption ratio.²
- Central Adoptions Unit costs were to be allocated to the appropriate Federal program based on adoption case counts. In applying this methodology, the State agency used adoption ratios.
- Professional Development Bureau costs were to be allocated using the number of individuals receiving each type of training, including Title IV-E, or by direct identification of third-party costs.³

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether the Title IV-E administrative and training costs that the State agency claimed were allowable, supported, and allocated in accordance with Federal requirements.

¹DCA approved amendments in 1999 and 2002.

²See exception on page 5 of this report.

³Third-party costs include contracted State university training costs.

Scope

We reviewed \$35,109,575 (\$18,787,701 Federal share) of the \$52,632,892 in Title IV-E State and local foster care administrative, adoption assistance administrative, and foster care training costs that the State agency claimed for the period October 1, 2000, to September 30, 2002.⁴ The \$35,109,575 consisted of \$33,501,290 in Child Protective Services costs, \$1,474,991 in Central Adoptions Unit costs, and \$133,294 in Professional Development Bureau costs.

We limited our review of internal controls to obtaining an understanding of the process used to claim Title IV-E administrative and training costs and the procedures used to collect, summarize, and allocate costs to the program.

We conducted our fieldwork at the State agency in Santa Fe, New Mexico.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal requirements, ACF policies, and the State agency's approved Title IV-E State plan and cost allocation plan;
- interviewed State agency officials and their contracted consultants and ACF and DCA officials;
- reconciled the amounts claimed for Federal reimbursement to the State agency's records;
- determined whether in-house training courses that corresponded to program charges were allowable under Title IV-E;
- reviewed the methods used to allocate and claim Child Protective Services, Central Adoptions Unit, and Professional Development Bureau costs;
- determined whether the State agency complied with its approved cost allocation plan;
- determined, on a test basis, whether foster care ratios were accurate and supported and whether the State agency correctly applied the ratios when allocating Child Protective Services costs to foster care administration and training for the audit period;
- determined whether adoption ratios were supported and whether the State agency correctly applied the ratios when allocating Child Protective Services and Central Adoptions Unit costs for the audit period;

⁴The \$17,523,317 excluded from our review consisted of \$8,654,811 for waiver development, citizens' review board, Title IV-E transportation, children's court attorneys, the protective services director, and related indirect costs; \$7,815,318 for State and local training costs incurred under contracts with universities, which we audited previously (report number A-06-06-00045, issued in February 2007); and \$1,053,188 for Title IV-E Medicaid eligibility determinations.

- determined whether the State agency used timestudy results to allocate Child Protective Services costs and reviewed the statistical validity and allowability of the timestudy methodology used;
- examined the accuracy of the timestudies used to allocate Child Protective Services costs for the quarter ended September 30, 2002, by determining whether timestudy training observations were supported by attendance and other records and whether the employees selected for timestudies were Child Protective Services employees, reviewing the procedures and documents used to conduct the studies, and observing a timestudy being conducted; and
- determined whether timestudy observation documentation supported the allocations to Title IV-E throughout the audit period.

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

The State agency claimed Title IV-E administrative and training costs that were not allowable, supported, or allocated in accordance with Federal requirements. For the 2 years ended September 30, 2002, the State agency claimed \$1,651,871 (\$1,138,499 Federal share) in unallowable costs, including:

- \$1,364,160 in training costs that were not claimed in accordance with the State's approved cost allocation plan,
- \$187,359 in administrative and training costs that were not eligible for Title IV-E reimbursement, and
- \$100,352 in training costs that were claimed using inaccurate data.

We could not determine what portion of the remaining \$33,457,704 (\$17,649,202 Federal share) in Title IV-E costs was allowable because the State agency did not use the timestudy methodology included in its approved cost allocation plan to allocate costs, could not produce sufficient documentation to support claimed costs, and did not sufficiently describe training course content in the State plan for us to determine whether such content was closely related to allowable Title IV-E activities. (See Appendix A.)

The State agency did not always follow Federal regulations or its approved cost allocation plan. Inadequate internal controls over timestudy and other allocation data and over record retention also contributed to the State agency's improper and unsupported claims.

UNALLOWABLE COSTS

The State agency claimed \$1,651,871 in unallowable Title IV-E costs. The State agency did not use foster care ratios to allocate costs to programs in accordance with its cost allocation plan (\$1,364,160), claimed costs that were not eligible for reimbursement under Title IV-E (\$187,359), and used inaccurate information to allocate training costs (\$100,352).

Costs Not Claimed in Accordance With Approved Cost Allocation Plan

Federal regulations (45 CFR § 1356.60(c)) require the State to submit a cost allocation plan that identifies the costs that will be allocated and claimed under the Title IV-E program. In accordance with Federal regulations governing public assistance cost allocation plans (45 CFR § 95.507), the State must “[d]escribe the procedures used to identify, measure, and allocate all costs to each of the programs operated by the State agency” in its cost allocation plan. Pursuant to 45 CFR § 95.517, any costs claimed to the Title IV-E program must be claimed “only in accordance with [the State’s] approved cost allocation plan.” Any costs claimed based on a methodology not included in the State’s approved cost allocation plan are improper and will be disallowed (45 CFR § 95.519).

The State agency claimed unallowable Child Protective Services training costs because it did not use the methodology in its cost allocation plan. The State agency’s approved cost allocation plan specified that Child Protective Services costs were to be allocated using timestudies and then further allocated based on the ratio of Title IV-E to non-Title-IV-E case counts. Although the State agency used timestudy data to allocate costs and identify costs associated with training, it did not execute the additional step of further allocating the costs based on ratios; instead, the State agency charged 100 percent of these costs to the Title IV-E program.

This error occurred because the State agency did not follow its approved cost allocation plan and because State agency officials believed that they were not required to further allocate costs by applying foster care ratios to training costs. By applying the foster care ratios, we determined that the State agency overcharged Title IV-E \$1,364,160 for training costs that were not allocable to the program.

Costs Not Reimbursable

Investigation Costs Not Reimbursable

For administrative costs to qualify for Title IV-E reimbursement, they must be listed as, or closely relate to, one of the activities set forth in 45 CFR § 1356.60(c)(1) and (2). Federal regulations do not list investigation costs as an allowable administrative activity. The Departmental Appeals Board (DAB) considered this issue and made clear in Missouri Department of Social Services, DAB No. 1899 (2003), that Title IV-E funding for administrative costs is limited to the activities specifically listed in regulation (45 CFR § 1356.60(c)(2)) or to closely related activities. Moreover, ACF’s “Child Welfare Policy Manual,” section 8.1B1, states that investigation costs are not considered Title IV-E-eligible administrative costs.

The State agency claimed \$130,533 in unallowable Child Protective Services administrative costs for caseworker investigations. The State agency had allocated these costs to Title IV-E based on a proportionate share of timestudy results indicating that caseworkers had investigated the abuse and neglect of children in foster care. This error occurred because the State agency believed that the costs of such investigations were reimbursable under Title IV-E. Because investigative costs are not reimbursable as administrative costs under Title IV-E, the entire \$130,533 was not allocable to Title IV-E.

Training Costs Not Reimbursable at Enhanced Rate

Federal regulations (45 CFR § 1356.60(b)) state that the enhanced 75-percent Federal matching rate applies only to training activities and associated costs specified in 45 CFR §§ 235.63–235.66(a); otherwise, 45 CFR § 1356.60(c) provides for reimbursement of administrative costs at the 50-percent rate. Pursuant to 45 CFR § 235.64(c), Federal reimbursement is available for the costs of training and education outside the agency, including salary and fringe benefit costs for employees in “full-time, long-term training programs (with no assigned agency duties)” or in “full-time, short-term training programs.”

For part-time training or full-time, short-term training sessions lasting less than 4 consecutive weeks, the regulation provides for reimbursement of travel, per diem, tuition, books, and educational supplies. Salary and fringe benefit costs are reimbursable only for employees in full-time training programs. Federal regulations (45 CFR § 235.61) define full-time training as “training that requires employees to be relieved of all responsibility for performance of current work to participate in a training program.” Part-time training is defined as “training that allows employees to continue full-time in their jobs or requires only partial reduction of work activities to participate in a training program outside of the State or local agency.”

For the quarter ended September 30, 2002, the State agency improperly claimed a portion of its Title IV-E Child Protective Services training costs at the enhanced 75-percent rate. For 32 of 120 timestudy observations, employees indicated that they were attending university training. For these individuals, the State agency allocated all the Child Protective Services department costs, which included salaries, fringe benefits, travel, and other department administrative costs, for training of employees who were not in full-time training programs and who maintained work duties at the State agency. In long-term education training requests, these employees stated that they would continue their work duties and maintain all or a portion of their caseloads while attending training. The State agency approved these requests, including requests for paid leave of less than 40 hours per week, because staff worked part of the 40 hours. Thus, the State agency improperly claimed reimbursement at the 75-percent rate for the salaries and fringe benefit costs of staff not attending full-time training programs and did not limit its claims to only those types of costs that were allowable for staff participating in part-time training programs.

These errors occurred because the State agency did not follow Federal regulations in allocating costs and because the timestudy observation forms were not designed to distinguish between part-time and full-time training as defined by 45 CFR § 235.61. Also, the approved cost allocation plan was silent on how the costs of part-time and full-time training would be differentiated within the random moment sampling and how the State agency would limit its

allocation of Child Protective Services costs to claim at the 75-percent rate only the types of costs allowed to be claimed at that rate based on the type of training received. The State agency claimed \$56,826 in unallowable Child Protective Services training costs. This amount represents the enhanced portion (25 percent) of the training costs claimed for 32 timestudy respondents.

Inaccurate Data Used To Claim Costs

Inaccurate Timestudy Observations

OMB Circular A-87, Attachment B, section 11.h, states that when employees work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by monthly personnel activity reports or equivalent documentation unless a statistical sampling system or other substitute system is approved. Such substitute systems may include timestudies. Further, 45 CFR § 95.507(b)(8) requires that the State certify that the methodologies and standards used in the State's cost allocation plan comply with OMB Circular A-87 and applicable Federal regulations and instructions and that there are adequate accounting and statistical systems in place to support claimed costs.

The State agency's cost allocation plan identified and described the methodology it would use to conduct timestudies for allocating training costs. The plan specified that "nonstrike" observations from timestudies should not be counted in allocating costs. A nonstrike occurs when a selected employee cannot be contacted within 15 minutes of the selected moment, the employee no longer works at the office, or the employee is not on duty at the time of the observation.

Based on our review of documentation for the quarter ended September 30, 2002, the State agency did not follow the timestudy methodology included in its cost allocation plan when it allocated and claimed a portion of its Child Protective Services training costs to Title IV-E at the enhanced 75-percent rate. Of the 120 timestudy observations, 38 indicated that the caseworkers were attending Title IV-E-eligible training. These timestudy observations were inaccurate, and costs were not eligible for the 75-percent reimbursement rate for one or more of the following reasons: The caseworkers or their supervisors acknowledged that the caseworkers had not attended training, training records showed that caseworkers had not attended training, or there was no record of attendance at training.

These errors occurred because the State agency did not adhere to the timestudy methodology approved in its cost allocation plan when it accepted responses from personnel other than the selected caseworkers themselves and from caseworkers who did not respond within 15 minutes of the sampled moment. Furthermore, the State agency did not have adequate internal controls to ensure that accurate timestudy data were used in calculating costs to be allocated to Title IV-E.

As a result, the State agency claimed \$82,261 in unallowable Child Protective Services training costs. This amount represents the enhanced portion (25 percent) of the training costs claimed for the 38 timestudy respondents, a portion of the costs claimed for 2 respondents who were on annual leave or not employed, and all costs claimed for 2 respondents who were performing non-Title IV-E-reimbursable activities during the moment sampled.

Inaccurate Attendance Counts

Federal regulations (45 CFR § 74.21(b)) require States to follow “written procedures for determining the reasonableness, allocability and allowability of costs” as set forth in OMB Circular A-87 and Federal grant rules and to maintain “accounting records, including cost accounting records, that are supported by source documentation.”

The State agency allocated \$133,294 of its Professional Development Bureau training costs to Title IV-E at the enhanced 75-percent rate based on an inaccurate accounting of caseworkers attending Title IV-E-eligible training. The State’s cost allocation plan requires that Professional Development Bureau training costs be determined based on the number of individuals attending each type of training. The State agency followed the allocation method included in its approved cost allocation plan; however, when calculating the costs to allocate and claim for enhanced reimbursement, the State agency included caseworkers who had not attended Title IV-E training.

This error occurred because the State agency did not have adequate accounting systems and procedures for verifying the accuracy of its attendance counts. We recalculated the costs based on the actual number of caseworkers who attended training and determined that the State agency had claimed \$18,091 in Professional Development Bureau training costs that were not allocable to Title IV-E.

POTENTIALLY UNALLOWABLE COSTS

We could not determine what portion of the remaining \$33,457,704 (\$17,649,202 Federal share) in claimed Title IV-E administrative and training costs was allowable because the State agency did not:

- use the timestudy methodology in its approved cost allocation plan to allocate costs,
- maintain sufficient documentation and/or adequate accounting systems to support claimed costs, or
- sufficiently describe training course content in the State plan for us to determine whether such content was closely related to allowable Title IV-E activities.

Invalid Timestudies Used To Allocate Costs

OMB Circular A-87, Attachment B, section 11.h, states that for employees who work on multiple grant activities, the State agency must distribute salaries and/or wages accordingly and must support the distribution by monthly personnel activity reports or equivalent documentation. However, a statistical sampling system, such as random moment sampling or other quantifiable measures of employee effort, may be used subject to the approval of the cognizant Federal agency. OMB Circular A-87, Attachment B, section 11.h, further states that substitute sampling systems must meet acceptable statistical standards, including the following:

- The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results.
- The entire period involved must be covered by the sample.
- The results must be statistically valid and applied to the period being sampled.

Pursuant to Federal regulations (45 CFR § 95.507), the State agency must include in its cost allocation plan the timestudy methodologies that it will use to identify, measure, and allocate costs to all programs that it administers or supervises. The State agency's approved cost allocation plan specifies that for Child Protective Services, the random moments sampled would occur during the standard workday, defined by the State agency as 7:00 a.m. to 6:00 p.m.

The State agency allocated Child Protective Services administrative and training costs to Title IV-E using timestudies that did not follow the sampling methodology in its approved cost allocation plan. Contrary to the plan's requirements, the State agency sampled minutes of caseworkers and their activities for only part of the standard workday. Because not all times worked were sampled, each minute worked did not have an equal chance of selection. This bias may have skewed the timestudies and understated or overstated the time spent on Title IV-E activities.

This error occurred because the State agency did not follow the sampling methodology in its approved cost allocation plan. As a result, we have concerns regarding the validity and equitable distribution of all the amounts that the State agency claimed for Child Protective Services administrative and training costs.

Insufficient or Lack of Documentation To Support Claims

Financial records, supporting documents, statistical records, and all other records pertinent to an award must be retained for 3 years from the date of submission of the applicable quarterly financial report or until all litigation, claims, or audit findings involving the records have been resolved and final action taken (45 CFR § 74.53).

Unsupported Timestudies

The State agency allocated some Child Protective Services administrative and training costs to Title IV-E based on unsupported timestudies. On January 31, 2001, the State agency submitted its quarterly financial report for the quarter ending December 31, 2000, which was the first quarter included in our audit. The State agency was required to maintain supporting records for the quarterly financial report for 3 years from the date of submission, or, in this case, January 31, 2004. However, the State agency either destroyed or could not locate timestudy documentation for seven of the eight quarters in our audit period, and the documentation for the remaining quarter was insufficient to support the agency's allocations.

Although the State agency had implemented record retention procedures, these errors occurred, in part, because the State agency did not have specific procedures for retaining timestudy records

in accordance with Federal regulations. Therefore, we were unable to determine what portion of the costs was allocated and claimed in accordance with Federal requirements.

Unsupported Adoption Ratios

The State agency allocated some Child Protective Services and Central Adoptions Unit administrative costs to Title IV-E adoption administration based on unsupported adoption ratios. The State agency calculated adoption ratios by reviewing records of adopted children in the State agency's computer system. However, the State agency did not record and maintain copies of the information used from the records in the system. Because the information changes over time, the State agency could not identify the records supporting the adoption ratios used to allocate costs to Title IV-E.

This error occurred because the State agency did not have procedures to save computer system information to support the case counts used to calculate adoption ratios for the audit period. Therefore, we were unable to determine what portion of the costs was allocated and claimed in accordance with Federal requirements.

Costs Claimed for Training Courses Not Related to Allowable Title IV-E Activities

Federal regulations (45 CFR § 1356.60(b)) state that the enhanced 75-percent Federal matching rate applies only to training activities and associated costs specified in 45 CFR §§ 235.63–235.66(a); otherwise, 45 CFR § 1356.60(c) provides for reimbursement of administrative costs at the 50-percent rate. However, to receive Title IV-E reimbursement for either training or administrative costs, the costs must be listed in 45 CFR § 13560(c)(1) and (2) or be closely related. The DAB ruled in Illinois Department of Children and Family Services, DAB No. 1530 (1995), that there is “. . . no basis for permitting states to charge to Title IV-E the cost of training related to activities which are not themselves allowable Title IV-E activities” as described in 45 CFR § 1356.60(c)(1) and (2).

The State agency allocated some Professional Development Bureau training costs based on employee attendance at core training courses containing subject matter that may not qualify as allowable Title IV-E activities as set forth in 45 CFR § 1356.60(c)(1) and (2). For example, some training documents indicated that courses covered material on investigations and family preservation. However, the course information was not sufficient for us to determine the prevalence of unallowable training subjects.

This error occurred because the State agency did not adequately identify in its training plan for Title IV-B the courses or course content that it classified as Title IV-E training, as required by 45 CFR § 1356.60(b)(2). Therefore, we were unable to determine whether training costs were allocated and claimed in accordance with Federal requirements.

RECOMMENDATIONS

We recommend that the State agency:

- refund the \$1,138,499 Federal share of unallowable costs;
- work with DCA and ACF to determine the allowable portion of the \$17,649,202 Federal share of potentially unallowable costs and refund any unallowable costs;
- work with DCA and ACF to revise its cost allocation plan to describe Title IV-E training and a method for allocating the costs of part-time and full-time training programs in accordance with Federal requirements; and
- implement procedures to ensure that it follows the allocation methods in the approved cost allocation plan, documents and verifies the allocation methods used, claims only reimbursable costs, and maintains records and data used to allocate costs in accordance with Federal regulations.

STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In written comments on our draft report, the State agency did not specifically address our recommendations. The State agency agreed with our findings on costs that were not claimed in accordance with the approved cost allocation plan and on training costs that were not reimbursable at the enhanced rate. The State agency disagreed with, or did not express an opinion on, the remaining findings. The State agency did not provide any additional information that would lead us to change our findings or recommendations. The State agency's comments, which we summarize below, appear in their entirety as Appendix B.

Investigation Costs Not Reimbursable

State Agency Comments

The State agency did not concur with this finding because the timestudy funding matrix in its cost allocation plan had been approved by DCA and ACF. However, the State agency said that it began allocating the costs associated with investigations of abuse and neglect of children in foster care to the Temporary Assistance for Needy Families Maintenance of Effort funds and the State General Fund after we brought this issue to its attention.

Office of Inspector General Response

The timestudy funding matrix, which was an appendix to the State agency's approved cost allocation plan, includes the term "investigation" but does not describe the costs to be allocated. We relied on DCA's March 15, 1999, approval letter, which prohibits claiming costs that are not allowed under program regulations. As noted on page 5, Federal regulations (45 CFR § 1356.60(c)(1) and (2)) and ACF policy state that investigations are not allowable Title IV-E

costs. Thus, we continue to recommend that the State agency refund the Federal share of the Child Protective Services administrative costs for caseworker investigations.

Inaccurate Timestudy Observations

State Agency Comments

The State agency did not concur with this finding because the sampling methodology accounted for potential errors during sampling, allowing for a plus or minus 5-percent confidence level. The State agency said that because we selected only timestudy responses for training-related activities, assessing the overall accuracy of the random moment sampling was impossible. In addition, the State agency said that it had implemented additional internal controls and procedures for administering the timestudy.

Office of Inspector General Response

The statistical formula used to compute a confidence interval accounts for sampling error, which is the difference between the estimate from the sample and the true population value. Nonsampling errors include mistakes made in the process of selecting the sample, such as errors in data collection, clerical errors, and computational or computer programming errors; mistakes made when reviewing the sampled data; and missing data. The errors in this finding were nonsampling errors and were not accounted for in the computation of the timestudy confidence interval. We did not address errors in the overall timestudy methodology or the overall accuracy of the timestudy system. We addressed only timestudy inaccuracies in training observations for the quarter ended September 30, 2002.

Inaccurate Attendance Counts

State Agency Comments

The State agency said that our method for calculating the disallowance for this finding was unclear and requested that we provide the documentation used in our calculation. The State agency also said that the finding did not make clear whether the caseworkers attended non-Title-IV-E training but were counted as attending Title IV-E training or whether the caseworkers did not participate in any training. The State agency said that if the caseworkers did not participate in training but were included on rosters, the rosters should be adjusted and the impact of the adjustment on Title IV-E training costs would be \$0.

Office of Inspector General Response

We previously provided the State agency with the requested documentation. The State agency incorrectly added the number of caseworkers attending Title IV-E-eligible training when calculating Professional Development Bureau training costs. The State agency overstated the number of training attendees on attendance lists, resulting in overstated costs. We recalculated the costs that the State agency should have claimed based on the actual number of caseworkers who attended training and determined that the effect was not \$0. Rather, the adjustments

lowered the Title IV-E training cost allocations to less than the amount that the State agency claimed.

Insufficient or Lack of Documentation To Support Claims

State Agency Comments

The State agency concurred that timestudy data forms for our audit period were either misplaced or destroyed. However, the State agency said that it had made sufficient supporting data available to us electronically as an alternative.

Office of Inspector General Response

Because the State agency could not provide us with the timestudy observation forms that we needed, it provided us with a sampling list containing caseworkers' names, Social Security numbers, and telephone numbers, as well as dates and times of selected random moments. The State agency also provided us with a separate response count form that listed the responses by service type and totals by activity code but did not include the names of the responding caseworkers. We could not use these documents as substitutes for the observation forms because we could not connect the responses on the response count form to the individuals on the sampling list. Thus, we continue to recommend that the State agency work with DCA and ACF to determine the allowable portion of the potentially unallowable costs.

APPENDIXES

**COSTS REVIEWED AND AUDIT DETERMINATIONS MADE
FOR THE 2-YEAR PERIOD ENDED SEPTEMBER 30, 2002**

	Reviewed	Questioned	Set Aside
Child Protective Services	\$33,501,290	\$1,633,780	\$31,867,510
Central Adoptions Unit	1,474,991	0	1,474,991
Professional Development Bureau	133,294	18,091	115,203
Total	\$35,109,575	\$1,651,871	\$33,457,704

State of New Mexico
CHILDREN, YOUTH AND FAMILIES DEPARTMENT

BILL RICHARDSON
GOVERNOR

DIANE DENISH
LIEUTENANT GOVERNOR



DORIAN DODSON
CABINET SECRETARY

BILL DUNBAR
DEPUTY CABINET SECRETARY

MARISOL ATKINS
DEPUTY CABINET SECRETARY

August 11, 2008

Mr. Gordon L. Sato
Regional Inspector General
Office of Audit Services
1100 Commerce, Room 632
Dallas, TX 75242

RE: Report Number A-06-06-00105

Dear Mr. Sato:

The Children, Youth and Families Department (CYFD) has reviewed the Training Costs claimed Under Title IV-E of the Social Security Act audit report dated June 20, 2008. CYFD takes exception with several of the audit report recommendations detailed in report number A-06-06-00105. We would like to make a number of general comments about the audit report and its findings.

As noted, CYFD disagrees with one of the major audit recommendations. The audit recommendations appear to be inconsistent with the intent behind P.L. 96-272 to enhance the services that are made available to children and families through improved training opportunities. Congress made the linkage at the time of passage of this legislation that training has a direct impact on the quality of services provided to children, thus enhanced federal financial participation (FFP) was authorized for the program.

In the paragraphs that follow, we provide a response to each audit finding raised by the Office of Inspector General (OIG) audit team.

Costs Not Claimed in Accordance With Approved Cost Allocation Plan

The draft OIG audit report states, "The State agency claimed **\$1,364,160** (Federal Share) unallowable Child Protective Services training costs because it did not use the methodology in its cost allocation plan. The State agency's approved cost allocation

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Plan specified that the Child Protective Services cost were to be allocated using timestudies and then further allocated based on the ratio of Title IV-E to non-Title IV-E case counts. Although the State agency used timestudy data to allocate costs and identify costs associated with training, it did not execute the additional step of further allocating the costs based on ratios; instead the State agency charged 100 percent of these costs to the Title IV-E program."

CYFD concurs with the OIG audit finding and has taken the following actions in order to comply with the approved allocation methodology described in Public Assistance Cost Allocation Plan (PACAP):

- During the audit period, the OIG notified CYFD of the audit finding, CYFD revised the cost allocation plan to rectify this issue.
- CYFD has amended the PACAP to specifically identify individual timestudy codes for which the case count allocation ratio will be applied.

Costs Not Reimbursable: Investigation Costs Not Reimbursable

The OIG audit finding states, "The State agency claimed **\$130,533** in unallowable Child Protective Services administrative costs for caseworker investigations. The State agency has allocated these cost to Title IV-E based on a proportionate share of time study results indicating that the caseworker had investigated the abuse and neglect of children in foster care. This error occurred because the State agency believed that the costs of such investigations were reimbursable under Title IV-E, the entire \$130,533 was not allocable to Title IV-E."

Under the approved cost allocation plan and random moment timestudy CYFD captures timestudy results for child protective services investigations related to abuse and neglect of children. The RMS form and associated funding matrix has two response codes for investigations. Investigations of abuse and neglect pre-placement and investigations of abuse and neglect while the child is in foster care. For costs associated with pre-placement investigations, CYFD allocates those costs to TANF MOE and State General Fund. Costs associated with investigations while the child is under the custody of the agency and are residing in a foster home, CYFD allocates those costs to Title IV-E and State General fund based upon Title IV-E and Non IV-E case counts. However, CYFD began allocating the costs associated with investigations of abuse and neglect while the child is in foster care to TANF MOE and State General Fund when the OIG brought the finding our attention.

CYFD takes exception to the audit finding since the RMS Funding Matrix had been approved by the Division of Cost Allocation (DCA) and the Administration for Children and Families (ACF).

Costs Not Reimbursable: Training Costs Not Reimbursable at the Enhanced Rate

The report states, "For the quarter ended September 30, 2002, the State agency improperly claimed a portion of its Title IV-E Child Protective Services (CPS) training costs at the enhanced 75-percent rate. For 32 of the 120 timestudy observations, employees indicated that they were attending university training. For these individuals, the State agency allocated all the CPS department costs, which included salaries, fringe benefits, travel, and other department administrative costs, for training of employees who were not in full-time training programs and who maintained work duties at the State agency. In long-term education training requests, these employees stated that they would continue their work duties and maintain all or a portion of their caseloads while attending training. The state agency approved these requests, including requests for paid leave of less than 40 hours per week, because staff worked part of the 40 hours. Thus, the State agency improperly claimed reimbursement at the 75-percent rate for the salaries and fringe benefit costs of staff not attending full-time training programs and did not limit its claims to only those types of costs that were allowable for staff participating in part-time training programs." This finding was not brought to the attention of CYFD during the audit period, nor was it documented in the initial draft audit report provided to CYFD during the OIG audit exit meeting.

CYFD will comply with federal regulations and will submit an amended PACAP for the review and approval of DCA. The change will be addressed in the Department's random moment timestudy (RMS). CYFD will revise its data entry form and funding matrix accordingly. Specifically, CYFD will incorporate two university training codes, 1.University Training Full-Time and 2.University training Part-Time. Full-time training will be claimed at the Title IV-E training 75% enhanced rate and Part-Time training will be claimed under Title IV-E administrative costs. Finally the RMS phone staff will be trained on the revisions to the RMS.

Inaccurate Data Used To Claim Costs: Inaccurate Timestudy Observations

"The State agency's cost allocation plan identified and described the methodology it would use to conduct timestudies for allocating training costs. The plan specified that "nonstrike" observations from timestudies should not be counted in allocating costs. A nonstrike occurs when a selected employee cannot be contacted within 15 minutes of the selected moment, the employee no longer works at the office, or the employee is not on duty at the time of the observation.

Based on the review of documentation for the quarter ended September 30, 2002, the State agency did not follow the timestudy methodology included in its cost allocation plan when it allocated and claimed a portion of its CPS training costs to Title IV-E at the enhanced 75% rate. Of the 120 timestudy observations, 38 indicated that the caseworkers were attending Title IV-E eligible training. These timestudy observations were inaccurate, and costs were not eligible for the 75% reimbursement rate for one or

more of the following reasons: The caseworkers or their supervisors acknowledged that the caseworkers had not attended training, training records showed that caseworkers had not attended training, or there was no record of attendance at training.

These errors occurred because the State agency did not adhere to the timestudy methodology approved in its cost allocation plan when it accepted responses from personnel other than the selected caseworkers themselves and from caseworkers who did not respond within 15 minutes of the sampled moment. Furthermore, the State agency did not have adequate internal controls to ensure accurate timestudy data were used in calculating costs to be allocated to Title IV-E.

As a result, the State agency claimed \$82,261 in unallowable CPS training costs."

CYFD takes exception to this finding for the following reasons:

- The sampling methodology used for the Random Moment Sampling (RMS) system account for potential errors during sampling. The statistical formula used to administer the RMS allows for a plus or minus 5% confidence level. Since the OIG only selected RMS responses for training related activities it is impossible to assess the overall accuracy of the RMS;
- CYFD has since modified the follow up response procedures to 48 hours from the sample moment, thus allowing more time to obtain a valid RMS response;
- CYFD has implemented additional internal controls and procedures for administering the RMS. Specifically CYFD will only accept RMS responses from a supervisor if the employee is on approved leave.

The report also states, "The State Agency allocated \$133,294 of its Professional Development Bureaus training costs to Title IV-E at the enhanced rate of 75% based on an inaccurate accounting of caseworkers attending Title IV-E eligible training. The States cost allocation plan requires that Professional Development Bureau training costs be determined based on the number of individuals attending each type of training. The State agency followed the allocation method included in its approved cost allocation plan; however, when calculating the costs to allocate and claim for enhanced reimbursement, the State agency included caseworkers who had not attended Title IV-E training.

This error occurred because the State Agency did not have adequate accounting procedures for verifying the accuracy of its attendance counts. We recalculated the costs based on the actual number of caseworkers who attended training and determined that the State agency has claimed \$18,091 in Professional Development Bureau Training costs that were not allocable to Title IV-E."

CYFD is unclear as to how the disallowance amount was calculated and requests to review the documentation used by the auditors. According to the audit finding it is

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unclear as to whether the caseworkers attended training and were inaccurately included as a IV-E training course, or if the caseworkers did not participate in any training activities.

If the caseworkers did not participate in a training activity and were included in the training rosters accidentally then the rosters should be adjusted to remove those counts from both the numerator and denominator. The impact to the IV-E training costs would be \$0.00. However, if the caseworker did attend training and the roster did not document the training activity accurately then we would agree with the finding.

Potentially Unallowable Costs: Insufficient or Lack of Documentation To Support Claims

The OIG Audit States, "The State agency allocated some CPS administrative training costs to Title IV-E based on unsupported time studies. On January 31, 2001, the State agency submitted its quarterly financial report for the quarter ending December 31, 2000, which was the first quarter included in our audit. The State agency was required to maintain supporting records for the quarterly financial report for 3 years from the date of submission, or, in this case, January 31, 2004. However the State agency either destroyed or could not locate timestudy documentation for seven of the eight quarters in our audit period, and the documentation for the remaining quarter was insufficient to support the agency's allocations.

Although the State agency had implemented record retention procedures, these errors occurred in part, because the State agency did not have specific procedures for retaining timestudy records in accordance with Federal regulations. Therefore, we were unable to determine what portion of the costs was allocated and claimed in accordance with federal requirements."

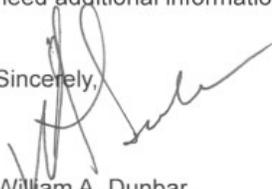
CYFD concurs that timestudy data entry forms had either been misplaced or destroyed for the periods in question. However, as an alternative to the data entry forms, CYFD made available to the OIG all supporting documentation kept electronically. The Random Moment Time Study (RMS) system, documents each sample based upon caseworker name and phone number, sample date, sample time and sample response information. The approved sampling methodology utilized by CYFD is based upon phone sampling system. CYFD finance employees contact caseworkers via telephone at the schedule moment for observation. The phone worker surveys the caseworker to determine the program and activity being worked on at that moment. The phone worker then records the response to the data entry observation form. On a daily basis the CYFD finance employee then enters each response into the RMS system. CYFD believes that sufficient documentation exists electronically to support all allocated costs, and if necessary support further review and or audit by the OIG.

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August 11, 2008

CYFD appreciates all the assistance and collaborative effort put forth by your staff in order to resolve the audit findings reflected in the draft report. If you have questions or need additional information, please do not hesitate to contact me at (505) 827-7602.

Sincerely,

A handwritten signature in black ink, appearing to read 'William A. Dunbar', written over the word 'Sincerely,'.

William A. Dunbar,
Deputy Cabinet Secretary