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ACF Administration for Children and Families	U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES Administration for Children, Youth and Families	
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INFORMATION MEMORANDUM

TO: STATE AGENCIES ADMINISTERING OR SUPERVISING ADMINISTRATION OF TITLE IV-E OF THE SOCIAL SECURITY ACT

SUBJECT: Title IV-E Foster Care - Financial Reviews

LEGAL AND RELATED REFERENCES: Sections 406(a), 407, 471(a)(6) and 472 of the Social Security Act; 45 CFR Parts 1355 and 1356; and ACYF-PA-84-2.

BACKGROUND: As part of its implementation and oversight of the title IV-E Foster Care (FC) Program, the Office of Human Development Services is conducting regular reviews of foster care claims for expenditures. These reviews are in addition to reviews that will be conducted from time to time based on such criteria as claims whose allowability is questioned and audits.

NATURE OF THE REVIEWS:

The reviews will focus on three fundamental concerns:

- Whether payments are being made on behalf of children eligible for title IV-E foster care;
- Whether payments are being made to foster homes and institutions which meet licensing standards in order to qualify as eligible providers; and
- Whether foster care payment levels are appropriate and reasonable.

The purpose of the reviews is to validate the eligibility of State claims as submitted on quarterly expenditure reports through a test of the quality of the State system to assure that payments are made in accordance with Federal requirements. The primary focus will be on the State's system for internal controls, particularly in areas of billing, payment and edit check procedures.

State systems will be reviewed at least every three years, and more frequently in States with larger amounts of foster care payments. The time and place for the reviews will be scheduled with the State. Appropriate files and records must be made readily available for the review team. The review is a two stage process based on a statistically valid minimum random sample of at least 200 payment units. The first stage consists of a review of the first 50 payment units. If the State system appears to be operating properly and the limits for a stage two review (see "Criteria For Stage Two Review of Title IV-E Payments" below) are not reached, the review will stop, a report will be developed and disallowances will be taken only on the individual payments reviewed. If it is necessary to complete a stage two review, an additional 150 or more payment units will be reviewed. Following the stage two review, disallowances will be made based on an extrapolation from the sample to the universe of payments made during the period reviewed. For further information on extrapolation, see ACYF-PA-84-2, issued March 7, 1984.

CRITERIA FOR STAGE TWO REVIEW OF TITLE IV-E PAYMENTS: The results of the stage one review of at least 50 payments will be utilized to determine whether a stage two review of at least 150 additional payments will be conducted. The actual sample size of the stage two review will depend on the variation in the payments reviewed during the stage one review, which is derived from the standard deviation of these payments, the confidence coefficient, and the precision of the estimate.

Error rates will be calculated as follows:

The dollar error rate is determined by dividing the dollars in error (overpaid plus ineligible) by the total dollar value of the payments reviewed. If the dollar error rate from the stage one review is ten percent (10%) or less, then no stage two review may be necessary. However, if the dollar error rate is more than ten percent (10%), then a second criterion will be applied to determine whether a stage two review will be conducted. This additional criterion is the payment error rate, which is the number of payments in error divided by the number of payments reviewed.

If the payment error rate is ten percent (10%) or less, then no stage two review will be conducted, even if the dollar error rate exceeds ten percent (10%). However, if both the dollar error rate and the payment error rate exceed ten percent (10%), then a stage two review will be necessary.

Foster care data related to payment error rates are not available for analysis. However, the ten percent (10%) dollar error rate has been set well above the latest published AFDC dollar error rate of 7.3% (October 1981 through March 1982). These payment and dollar error rates are interim rates. They may be revised after OHDS obtains the requisite data during its reviews of foster care payments.

The Commissioner of the Administration for Children, Youth and Families may also decide, for reasons other than the established error rates, that a stage two review is required in a given State to adequately validate its systems and procedures, such as a system-wide error or the recurrence of errors found in the same State in a prior year.

When a stage two review of regular claims has been initiated on a basis other than the described error rates, extrapolation from the sample to the universe to determine the amount of the disallowance will be done only if the dollars and payments discovered to be in error during the stage two review exceed the 10% limit previously described. If the errors do not exceed the 10% limit, disallowances will be taken only on payments actually reviewed.

The Commissioner may also decide that a review shall be conducted on claims other than regular, current quarter claims, for example, claims for one or more prior quarters. Such a review may be conducted using valid and reliable sampling. If sampling is used under these circumstances, the results will be extrapolated from the sample to the universe without any 10% or other minimum limit.

FINAL REPORT, DISALLOWANCES AND APPEALS:

After the review is completed, whether stage one or stage two, a draft report will be developed and sent to the State for comment. The State will have thirty (30) days from receipt of the draft to submit its comments to OHDS.

Final decisions on disallowances will be made by the Commissioner, Administration for Children, Youth and Families in accordance with the procedures specified in 45 CFR 74.304.

If the State decides to dispute the amount or bases for the disallowance, it may appeal to the Departmental Grant Appeals Board in accordance with 45 CFR Part 16.

EFFECTIVE DATE: Effective upon issuance.

INQUIRIES: Regional Administrator, OHDS

/s/

Dodie Livingston
Commissioner
Administration for Children, Youth and Families

Norman Goldstein
Director, Office of Management Services