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INFORMATION MEMORANDUM

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

SUBJECT: Federal Financial Review of Title IV-E Foster Care Program

LEGAL AND RELATED REFERENCES: Section 406(a), 407, 471(a)(6) and 472 of the Social Security Act; 45 CFR Parts 1355 and 1356 and Part 74; ACYF-PA-84-2 and ACYF-IM-85-4.

INFORMATION: The attached "[Financial Review Guide for On-Site Reviews of the Title IV-E Foster Care Program](#)" has been developed for the use of Federal Review teams in their conduct of financial reviews of the Title IV-E foster care program.

It is forwarded for your information and to assist you in preparing for reviews at such time as they are scheduled for your State. Further information on the reviews is contained in the Guide and in [ACYF-IM-85-4](#).

INQUIRIES: Regional Administrators, OHDS

Signed: Dodie Livingston
Commissioner, Administration for Children, Youth and Families
Norman Goldstein
Director, Office of Management Services

Attachments:

[Table of Contents](#)- Financial Review Guide for On-Site Reviews of the title IV-E Foster Care Program

- [Attachment A](#)- Eligibility Checklist
[Attachment B](#)- Sampling Guidance
[Attachment C](#)- Fraud Questionnaire Guide
[Foster Care Fraud Review Interview Guide](#)

Financial Review Guide for On-site Reviews of the Title IV-E Foster Care Program

**U.S. Department of Health and Human Services
Office of Human Development Services**

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• INTRODUCTION

A. Background

The Adoption Assistance and Child Welfare Act of 1980 was enacted on June 17, 1980. Title IV of the Social Security Act (the Act) was amended and a new Part E, Federal payments for Foster Care and Adoption Assistance, was created. Title IV-E provided for a phased repeal of Section 408 of the Act, which had provided authority for Federal matching in State foster care (FC) payments under the title IV-A Aid to Families With Dependent Children Foster Care program (AFDC-FC). States could continue to receive Federal matching for AFDC-FC payments under Title IV-A of the Act until September 30, 1982 or the quarter in which the State implemented an approved State plan under title IV-E. The earliest implementation date for title IV-E was October 1, 1980.

B. Purpose

This guide provides a consistent and uniform approach for HDS staff to conduct on-site reviews to:

1. validate financial reports and State systems, and
2. detect, prevent and eliminate potential fraudulent and wasteful use of Federal, State and local funds.

Through regular State review, HDS is seeking to assure that State claims for foster care receive consistent Federal review and attention. These reviews will also make the State aware of the need to submit more accurate and reliable estimates and expenditure reports which can be documented. The financial review will focus on three fundamental areas in the title IV-E foster care;

3. Whether payments are being made on behalf of children eligible for title IV-E foster care;
4. Whether payments are being made to foster homes and institutions which meet licensing standards in order to qualify as eligible providers; and
5. Whether foster care payment levels are allowable in accordance with the provisions of OMB circular A-87, Attachment A, Part C(1)(a) and continue to be appropriate in accordance with the provisions of section 471(a)(11).

C. Responsibility

The Regional Administrator has lead responsibility for each review in the Region. It is important that the review be a coordinated effort utilizing both OFO and ACYF/CB staff to appropriately and adequately cover the fiscal and programmatic aspects.

The Office of Management Services (OMS) through the Financial Operations Review Branch (FORB) is responsible for coordinating the title IV-E fiscal reviews nationwide. FORB is responsible for policy and procedures, training, guidance, and central office participation in all reviews.

- **PREPARATION FOR REVIEW AND GENERAL GUIDELINES**

- A. General

The preliminary visit will be conducted by a team from the Regional Office and the FORB participant. The review team for the eligibility review will include at least one central office (OMS) participant and other reviewers from the Regional OFO and ACYF/CB staff. To the extent possible, a representative from headquarters ACYF should also be a member of the team. A summary of important title IV-E Foster Care statutory requirements is available in a State's Title IV-E State Plan. The review team should have access to all relevant laws, regulations, and policy issuances in addition to a State's Title IV-E and Title IV-B State plans. In addition, the review team should familiarize itself with the following materials as background prior to conducting the on-site reviews:

- All relevant Federal Program Instructions and Policy Issuances;
- Pertinent audit and trip reports (Federal and State), monitoring and evaluation reports on title IV-E Foster care;
- Names and titles of key State staff; State agency organizational charts (charts should depict county operations and indicate units responsible for recipient eligibility, provider eligibility, and rate setting);
- The current approved State plan for Title IV-E;
- The current cost allocation plan for the title IV-E agency (45 CFR Part 95, Subpart E), (also see [page 9](#) of this Guide). County cost allocation plans should be reviewed as applicable;
- The current jointly developed title IV-B State plan;
- Section 427 (Title IV-B incentives) reports;
- Relevant State audit policies, standards and manuals;
- Audit data and annual reports of State audits;
- State rate setting procedures;
- Estimate and expenditure reports for the quarter(s) being reviewed and other relevant financial reports. (NOTE: The review should be conducted for a full Federal fiscal year).

Other relevant materials and information available in and to headquarters and the Regional Offices should also be consulted. To the extent possible, those materials available in Regional Offices should be used to avoid unnecessary requests to the States. State written procedures should be reviewed for compliance with Federal requirements. If

available, relevant State manuals and procedures should be reviewed before the on-site review. Finally, if special problems have been identified, they should be given special attention during the on-site review.

This guide refers only to "State" as an entity being reviewed. Since each State uses a different system which can be either State or County administered, the review team should understand the term "State" to include "County" as appropriate. If a State supervises a County administered system where counties are responsible for making payments to providers, the review team will review the selected counties' systems and operation in addition to the State's overall operation.

The Review Team Leader will serve as the official spokesperson for HDS while on-site and will be responsible for assuring completion on all tasks, including the final report.

B. Review Team Composition

1. The preliminary visit for purposes described in section E below, will be made by a team composed of Regional and FORB staff.
2. The second visit, for eligibility review and edit check procedures, will have one participant from OMS, possibly one from Headquarters ACYF, and the remainder of the team from Regional OFO and ACYF staff.
3. Stage two reviews will use the same review team as the second visit, if possible.

C. State Notification

Appropriate State Agency officials should be given early written notification of HDS' intent to conduct the review. The letter should explain the purpose of the review, the time frame within which the review is to be conducted, indicate an HDS contact person, and request that the State assign a person to act as State liaison while the Team is on site and negotiate the details of the following:

- a mutually agreeable time for the review,
- the procedure for drawing a proper sample,
- the sites to be visited (both State and County), which should be as limited as possible,
- the staff (State, County and provider) to be interviewed, and
- the materials to be sent to HDS and where they are to be sent.

The letter should also clearly indicate that selected State, local and provider files and records must be made available and that state staff will have to participate in identifying and providing payment information, case records and other relevant materials. Authority to review information related to specific recipient records is based on 45 CFR 1355.30(1) and 45 CFR 205.50 (a)(1)(i)(E).

D. Sampling Guidance and Conduct of Review

We are using a two stage review process based on a statistically valid sample of 200-300 payment units per State (see attachment B). However, the sample should be larger (e.g.,

330) to allow for cases that should not be in the sample. In stage one, only 50 payment units of the total samples will be reviewed.

If a stage two review is necessary, an additional 150-250 more payment units will be reviewed (depending upon the variation in error dollars estimated from the sample).

For each payment in the sample, the State should provide the following information:

- invoice number or other identifier,
- period covered by invoice,
- amount paid,
- date of payment,
- client name and case number, and
- provider name and number.

When a case record for a sampled payment is missing, the child for whom the payment was made will be considered ineligible and the payment disallowed. In such instance, no substitute payment may be selected from the oversample.

6. Stage One Reviews

The overall purpose of the review is to validate the eligibility of State claims through a test of the quality of the State's systems to assure that proper payments are being made:

- on behalf of eligible children;
- to eligible homes/institutions; and
- at allowable rates.

Therefore, we are interested in the State's systems for internal controls, particularly in the areas of billing, payment, and edit check procedures. Therefore, if a State operates a payment system with internal checks resulting in verified accurate payments, the review team may only need to examine a small sample (minimum of 50) of the payments to reasonably conclude that proper payments are being made and that the State's systems are operating accurately.

In reviews that are limited to 50 payment units, we will take disallowances based only on the individual payments reviewed. We will not extrapolate to the universe of claims from which the samples was drawn. If a stage one review indicates that a child or provider is ineligible, his/her eligibility for the entire year should be reviewed and disallowances taken for whatever portion of the year he/she is ineligible. In determining whether a stage two review is required, however, only the actual payment pulled in the sample will be considered.

7. Stage Two Reviews

If the State systems do not appear to be operating properly (i.e., there is insufficient documentation available to support decisions on the use of title IV-E funds) or if the stage one review indicated errors in excess of established error rates, a stage two review must be conducted.

Most States should have the necessary systems in place and documentation available so that stage two reviews will be the exception rather than the rule.

If the Region believes that a stage two review is necessary, it will not develop a draft report. The Region will prepare a memorandum to the Commissioner, ACYF, and the Director, OMS, recommending the stage two review and detailing the rationale for the recommendation. FORB will give a telephone response to this recommendation within five (5) working days of receipt in FORB and a written reply as soon as possible thereafter. Once the decision has been made for a stage two review, the State will be notified and arrangements made to proceed with the review as soon as possible. A minimum of 150 additional payment units must be reviewed in any stage two review in addition to the 50 units reviewed in stage one. Thus a total of at least 200 units are reviewed. The actual number to be reviewed depends upon the variation in error dollars estimated from the stage one sample. (If there are fewer than 200 payments in the State, all payments must be reviewed.)

Upon completion of a stage two review, disallowances will be made based on extrapolation from the sample to the universe of claims submitted for payment during the period reviewed.

E. Sequence of Events

0. Contact the State as early as possible to arrange logistics and collect the required review materials.
1. Arrange and hold a preliminary visit to the State by the Regional OFO and program specialists and the FORB participant to do the following:
 - a. In conjunction with the State, using the sampling guidance in Attachment B, select a sample from payments made. Any variation in the methodology or anomalies in the sample must be approved by OMS and ACYF.
 - b. Assure that the sum of claims in the listing from which the sample is drawn reconciles with the amounts claimed in the State's foster care expenditure reports.
 - c. With appropriate State staff, review State adherence to its cost allocation plans (see page 9), administrative costs, rate setting, provider licensing and approval procedures, fraud and abuse control ([Attachment C](#)), preparation of estimate and expenditure reports, etc.
 - d. Arrange for time and place of eligibility review.
 - e. Learn State procedures and collect and review forms used for eligibility determinations and redeterminations, judicial determinations, and other activities associated with client and provider eligibility.

F. Conduct eligibility review which includes:

- . entrance conference,
- a. orientation of reviewers to State policies and procedures,
- b. review of client and provider eligibility records,
- c. completion of unfinished activities from preliminary visit,
- d. preparation of report to State on missing and required documentation, and
- e. exit conference.

Receive additional documentation (information) from State.

Make recommendation to FORB on whether to go to a stage two review.

- If no stage two review, prepare and transmit draft reports to FORB for review and for approval by ACYF and OMS.

Upon receipt of Headquarter's approval, send draft report to the State under the Regional Administrator's signature. The State may make adjustments in expenditure reports or provide additional documentation where necessary.

Based upon State's response to draft report, prepare final report for signature of Commissioner, ACYF, and "mailway" to FORB/OMS and the Formula Grants Branch/ACYF with recommendation for any necessary disallowance action.

- **REVIEW AREAS**

- A. State Systems for Administering Title IV-E Foster Care
 - 1. State Agency Operations

The following topics should be discussed with appropriate State officials to gain a better understanding of the State's operations and to ascertain if the State's written manuals and procedures are being adequately implemented:

- a. The organizational structure of the State Agency Administering the title IV-E foster care programs with particular emphasis on the financial management support office;
- b. Which charges are included in the foster care administrative costs claims (see 45 CFR 1356.60(c); how these administrative costs are allocated; (e.g., among IV-A, IV-B, IV-E, XX and other State and Federal programs);
- c. State policies and procedures regarding the non-Federal share for foster care (including the assurance of adequate State match);
- d. A description of the State's accounting system and how estimate and expenditure reports are prepared; the flow of fiscal information from the local level to the State and from the State to ACYF;
- e. State procedures for assuring proper eligibility determination for foster care; and

- f. How the State assures that foster care payments are limited to the costs of the items specified in Section 475 (4).
2. Cost Allocation (45 CFR Part 95, Subpart E)

While cost allocation topics should be discussed with appropriate State officials, more actual review of State controls, practices, and systems will be necessary for this part of the review. As indicated on Page 3, the Cost Allocation Plan (CAP) should be reviewed and potential areas of questionable costs should be noted before the review team goes on site. Coordinate with the Regional Administrative Support Center (RASC), Division of Cost Allocation (DCA) prior to the review.

Conformance with the CAP should be part of the normal review process. Although DCA has the authority to approve CAPs, administrative costs should be analyzed for consistency with and adherence to the cost allocation plan. Consult the policy materials and the regulations at 45 CFR 1356.60(c)(1) and (2) for allowable administrative costs under title IV-E foster care.

State controls and assurances should be reviewed to determine how the State prevents duplicate charges for the same administrative activities to multiple programs. The State should have a system to ensure that administrative costs of payments applicable to children not eligible under title IV-E foster care are not charged to title IV-E foster care. The State should also have a system to ensure that the costs of treatment services provided to title IV-E foster care eligible children and families are not charged as IV-E foster care administrative and maintenance costs.

3. Fraud and Abuse Prevention and Control

In accordance with section 471(a)(7) and (13) the State should have arrangements in place to monitor, evaluate and properly audit program and fiscal activities under title IV-E to assure that efforts are made to prevent fraud and abuse and to discover and eliminate them as necessary. After reviewing appropriate audit materials, the review team should interview the chief fiscal program officer concerning the State Agency's system for the prevention and control of fraud, abuse and waste.

The discussion should focus on the following areas:

- a. frequency of fiscal audits
- b. whether they are in accordance with GAO standards,
- c. whether manuals are available as guidance to the auditors,
- d. whether audits test providers' internal financial management systems and State agencies' internal controls,
- e. facilities and homes which were audited by the State agency and by external audit firms
- f. problems surfaced in annual audit reports, and

g. corrective action taken by State.

4. Rate Setting

Before a judgment can be made whether whether individual payments to foster family homes and institutions are allowable, a review of State manuals and procedures and interviews with appropriate State officials and staff are necessary.

The following factors regarding rates should be checked:

Is there a Statewide rate? Do rates vary by geographical area? What is the basis for variation? Is a rate negotiated with each institution or agency?

Who is responsible for rate setting?

How often are the rates revised?

Are the rates based on actual usage or capacity?

What other factors are included in establishing rates (e.g., cost of living, services provided, actual past cost of care in that institution)?

What items of foster care maintenance costs as specified in section 475(4) are covered in the provider rates?

Are any items not specified in section 475 (4) included in the established rates?

How does the State determine rates for out of State placements?

Is there an annual licensing study and a statewide register of licensed facilities?

Are there controls to limit reimbursement to institutions and group homes in lease back arrangements?

B. Testing State Payments Audit Systems

1. Internal Controls

Regardless of the systems used by the State, internal controls are required. The State must be able to demonstrate that adequate financial standards are maintained in providing necessary source documentation and guarding against payments for unallowable costs. These requirements are not unique to the title IV-E FC program, but are conditions the State must meet to be eligible for Federal Financial Participation (45 CFR 74.60-61).

2. Edit Check Procedures

State are required to develop control or audit procedures to be used in their foster care payment processing systems The audit should check for:

- a. recipient eligibility;
- b. provider eligibility; and
- c. allowable rates of payment.

The tests should be conducted in the central payments unit of the title IV-E agency. Any relevant records documenting adjustments to previous payments should also be obtained. A review should be made to determine whether each payment was correctly processed through each of the audit categories (recipient eligibility, provider eligibility and allowable rates of payment). Payments should be compared with the case records of recipients, lists of authorized providers, and allowable fee schedules.

3. Rates of Payment and Rate Determination

For each payment, the State's payment rate documentation (i.e., master listings) for allowable rates should be referenced. The rate for each separate category of provider and for the subcategories of children(e.g., age,handicap, etc.) should be compared with the State's maximum allowable rate to verify that the amount paid is no more than what is allowed.

C. Testing State Eligibility Controls

The procedures described in Section III. B. 2 apply to the tests for recipient and provider eligibility. The Review Checklist (Attachment A) must be used when testing recipient and provider eligibility so that documentation will be readily available to support the findings.

1. Recipient

The eligibility of the child to have payments made in his or her behalf should be verified by reviewing the case folder. The eligibility checklist ([Attachment A](#)) indicating the key elements of foster care eligibility is to be used in the review. If the case folders do not contain adequate documentation concerning the areas of eligibility and the State is unable to supply supplementary information and satisfactory explanations, the checklist should be marked accordingly.

2. Provider (Section 472(c) of the Act)

The eligibility of the provider on the date services were provided should be verified by referencing master listings (or other similar devices) used in processing invoices. The separate categories of providers for foster care are:

- a. public institutions with less than 25 children;

- b. private non-profit institutions;
- c. group homes; and
- d. licensed and/or approved foster family homes.

The following information should be available, either on the master listing or in some other State records concerning each provider:

- e. date of most recent certification or approval prior to the period of care for which the payment under review was made; and
- f. the standards (e.g. national organization's standards) on which certification or approval is based.

• **EXIT CONFERENCE & REPORT DEVELOPMENT**

When the on-site review has been completed, the team leader will hold an exit conference with appropriate State officials. He/she will present a list identifying any errors and missing documents. The State will have 15 working days from the date of the exit conference to forward copies of the required documents. When the draft report has been developed, it will be sent to FORB for review and comment. FORB will recommend approval or changes as necessary to the Director, OMS, and the Commissioner, ACYF. When approval has been given or changes made as necessary, the Regional Administrator will send the report to the State. The State will be given 30 days in which to comment and to make adjustments in its claims--if it wishes.

Based on the State's comments, the Region will revise the report, prepare a cover letter to the State for the Commissioner's (ACYF) signature and "mailway" them to FORB/OMS and the Formula Grants Branch/ACYF:

- A. The purpose of the review.
- B. A brief overview of the State system for assuring that foster care payments are made on behalf of eligible children, to eligible providers, and at allowable rates.
- C. A description of the scope of the review, including the time period covered, sites visited, and procedures performed.
- D. A brief summary of the findings from the interviews on fraud and waste prevention.
- E. A discussion of the results of the review including the causes and extent of any deficiencies noted (especially any systems problems). Any unallowable expenditures should be identified in this section.
- F. As necessary, recommendations for changes in State procedures for assuring proper foster care payments.

If the State chooses to make the required adjustment based on the draft report, the final report and letter will reflect such adjustments or proposed adjustments.

If funds are to be disallowed, the disallowance letter, with appropriate disallowance/appeal language (45 CFR Part 16) will accompany the report. When funds are disallowed, early alert clearance must be obtained and procedures followed as specified in 45 CFR 201.14 and OHDS

procedures dated May 14,1984. Disallowance activity will be handled by the Formula Grants Branch in ACYF.

Attachment A

TITLE IV-E FOSTER CARE ELIGIBILITY CHECKLIST

Each question must be answered; if the question is not applicable, write NA in the appropriate space. Study the [CHECKLIST GUIDE](#) for an explanation of each question and how to answer it. This form may be annotated with additional information regarding eligibility, as necessary.

1. Child's Name
2. County
3. State
4. Date of review
5. Date of Claim
6. Date of Care
7. Case I.D.
8. Sample No.
9. St. FC Need Std.
10. Amt'of Payment
11. Amt of claim
12. Date of Birth
13. Date of discharge

Yes

No

14. a. Date of removal from home of specified relative
 - b. Was removal as a result of judicial determination
15. a. Date court order removing child from home was initiated
 - b. Did 15a precede 14a or occur within 6 months of 14a'
 - c. Date of court order removing child from home
16. Court order content:
 - a. contrary to welfare of child
 - b. Reasonable efforts made to prevent separation'

17. a. If 16b is NO, was there subsequent judicial determination re: reasonable efforts'

b. Date of subsequent judicial determination

18. Was removal pursuant to voluntary placement agreement'

Date

19. If removal was pursuant to voluntary placement agreement, was there a judicial determination within 180 days'

Date

20. Is IV-E agency (or Public Agency with IV-E agreement) responsible for child'

Name of Agency

21. a. Was the child an actual or potential AFDC recipient'

b. Was financial need established'

c. Was the child removed from home of a specified relative'

d. Was deprivation of parental support or care established'

22. Child's SSN or date of application

23. Redetermination of eligibility

a. Date

b. Need Established Child's Income

c. Deprivation established'

Child's age at time of period under review'

If the child is 16 or older, is he a full time student or registered for the WIN program'

(At State option) If the child was 18 during the period under review, was he a full time student in secondary school or its equivalent'

Type of foster home (check one):

a. FFH

b. GH

c. Inst (pub)

d. Inst.(PNP)

Licensed or approved provider

Date of license/approval

Enter name and address of provider

Recipient Eligibility established?

Provider Eligibility established?

Amount of Overpayment

Amount of ineligible payment

Reviewed by

TITLE IV-E FOSTER CARE ELIGIBILITY REVIEW CHECKLIST GUIDE

Every question on the checklist **MUST BE ANSWERED**. If no answer is possible because the question is not applicable, place **NA** in the space provided.

CHILD'S NAME - Enter the first and last name of the child whose claim is being reviewed.

COUNTY - Enter the name of the county whose records on the claim are being reviewed.

STATE - Enter the name of the State in which the review is being conducted.

DATE OF REVIEW - Enter the date this claim is being reviewed.

DATE OF CLAIM - Enter the month in which the claim under review was submitted for reimbursement.

DATE OF CARE - Enter the month in which the care, for which the claim was made, was provided.

CASE I.D. - Enter the I.D. number of the case (the number which appeared on the listing used to pull the sample).

SAMPLE NUMBER - Enter the sequential number used in pulling this claim for the sample.

STATE FOSTER CARE NEED STANDARD - This is the amount of money established by the State for the foster care of this child. It is a set amount, but may vary depending on the age and circumstances of the child and the type of home or institution in which he is placed.

AMOUNT OF PAYMENT - This is the amount paid by the State to the provider. If this is higher than the amount in #9, it should be investigated.

AMOUNT OF CLAIM - This is the amount claimed by the State for FFP. If this is higher than the amount in either #9 or #10, it should be investigated.

DATE OF BIRTH - Enter the month, day and year of the birth of the child whose claim is being reviewed.

DATE OF DISCHARGE - This should be filled in if the child left care anytime during the year under review. If the child was discharged from foster care on or prior to the date of care indicated in #6, the payment is not allowable.

a. **REMOVAL FROM HOME** - This is the date the child was actually removed from the home of a specified relative. Removal can be by judicial determination (14b) or by voluntary placement agreement (18). See #21c.

b. **JUDICIAL DETERMINATION** - Removal of the child from home must be either by a judicial determination or by a voluntary placement agreement (#18). The judicial determination must be a court order signed by a judge or a court official.

•

a. **DATE COURT ORDER INITIATED** - The court order removing the child must have been initiated, that is, the petition filed, no longer than six (6) months after the child was removed from the home of a specified relative.

If any child was voluntarily removed from the home of a relative prior to 10/1/79 and had a judicial determination prior to 10/1/78 to the effect that continuation in the home would have been contrary to his/her welfare, the date of the voluntary removal will be considered the date on which the court proceedings leading to the removal were initiated (see section 102(d) of P.L. 96-272).

b. **WITHIN 6 MONTHS** - If the date of the petition is more than six (6) months after the child's removal, the child is not eligible for FFP

c. **DATE OF COURT ORDER** - The date of the court order is required, since FFP cannot begin until the month in which there has been a judicial determination that remaining at home would be contrary to the welfare of the child, or, for children who entered care on or after 10/1/83, that reasonable efforts have been made.

COURT ORDER CONTENT:

The Court order must contain a statement to the effect that continuation of residence at home is contrary to the welfare of the child or that placement is in the best interests of the child. This is NA only if the child entered care pursuant to a voluntary placement agreement.

If the child entered care prior to 10/1/83, place NA in b. If the child entered care on or after 10/1/83, continue with b. as follows:

The court order must state either that

reasonable efforts were made to prevent removal from the home or

it was not appropriate or in the best interest of the child to prevent removal from the home.

If the court order indicates nothing to this effect, or that reasonable efforts were not made, the child is ineligible for FFP and NO should be checked.

a. **SUBSEQUENT JUDICIAL DETERMINATION** - If the answer to 16b. above is Yes, put NA in 17a. If 16b is NO, subsequent court orders (but no later than the month being reviewed) should be investigated to determine whether there has been a judicial determination to the effect that reasonable efforts had been made to reunite the child with his family. If there is such a determination, the child becomes eligible for FFP from the beginning of the month in which that determination is made.

b. **DATE OF SUBSEQUENT JUDICIAL DETERMINATION** - Indicate date of judicial determination referred to in 17a.

VOLUNTARY PLACEMENT AGREEMENT - This may NOT be answered NA. If the response to 14b is YES, this must be NO. If 14b is NO, there must be a voluntary placement agreement signed by the parent/guardian and a representative of the State Agency for the child to be eligible. It must be signed and dated no later than the month under review. [SEE ALSO THE EXPLANATION UNDER #15a.](#)

180 DAY JUDICIAL DETERMINATION (Voluntary Placement) - If 18 is NO, this is NA. If 18 is YES, there must be a judicial determination within 180 days of removal date (#14) to the effect that such placement is in the best interests of the child. If there has been no such determination within 180 days, check NO; the child's eligibility for FFP ceased at the end of the 180 days. If the child has been in voluntary placement less than 180 days at the time under review, put NA.

IF there has been **NO JUDICIAL DETERMINATION** as required within 180 days, (or **NO PETITION TO INITIATE COURT PROCEEDINGS** within 6 months of the child's removal from the home of the specified relative,) then no future judicial determination can make the child eligible for FFP during that period of foster care. To become eligible for title IV-E foster care, that child must have returned home and once again been removed from the home of a specified relative.

AGENCY - Is the agency responsible for placement and care of the child the Title IV-E Agency or another public agency, including an Indian Tribe, with which the Title IV-E Agency has a written agreement in effect? The court order or voluntary placement agreement must indicate the agency responsible for the child. If it is another public agency, including Indian Tribe, indicate the name of the agency. The review team must then verify that the title IV-E agency had an agreement in effect with that agency for the time period being reviewed.

a. **AFDC RECIPIENT** - Did the child receive AFDC in or for the month of initiation (filing) of court proceedings or month voluntary placement agreement was entered into? Or would the child have received AFDC in any month within six (6) months prior to initiation of court proceedings or month of agreement, if he had applied? The answer to this is always "YES" if the case files document that the specified relative from whose home the child was removed received AFDC for that child during that six month period. **21a CANNOT BE CHECKED YES UNLESS 21b, 21c, and 21d ARE CHECKED YES.**

b. **FINANCIAL NEED** - Is there documentation that the financial eligibility was received and a finding of financial need was made?

c. **SPECIFIED RELATIVE** - A specified relative is defined in section 406(a) to include father, mother, grandfather, grandmother, brother, sister, stepfather, stepmother, stepbrother, stepsister, uncle, aunt, first cousin, nephew or niece.

d. **DERIVATION OF PARENTAL SUPPORT** - There must be a specification of how the child is deprived of parental support or care. This can be by reason of death, absence, or the physical or mental incapacity of one parent, or, at State option, by the unemployment of the principal wage earner.

SOCIAL SECURITY NUMBER - AFDC eligibility requires that a child have a social security number or that application have been made prior to the period under review. If both of these are missing, a disallowance must be taken.

a. **DATE** - According to AFDC regulations, AFDC eligibility must be redetermined prior to the period under review. If it was six (6) months or less, check YES, if more than six (6) months, check NO.

b. **NEED** - Is there evidence that the child's continuing need was verified? If the child has income from any source, indicate amount and source. If the income exceeds 185% (150% prior to 10/1/84) of the State foster care need standards (#9), the child is ineligible for the months covered by the income.

c. **DEPRIVATION** - Is there documentation that the child is still deprived of parental support by death, absence, physical or mental incapacity of one of the parents or by the termination of parent rights or (at State option) by the unemployment of the principal wage earner? The fact that the child is in foster care does not deprive him/her of parental support!

WIN PROGRAM - If the child is 16 years old or older and not specifically exempt, he/she must be registered in the WIN program to maintain AFDC eligibility. Being a full time student is one of the exemptions. For the others, see 45 CFR 224.20(b).

18 YEARS OLD - If the State does not have this option, write NA. When a child reaches his 18th birthday, AFDC eligibility ceases unless, at State option, he is still a full time student in a secondary school or its equivalent and is expected to complete the program before age 19. In this case, eligibility ceases with his leaving school or on his 19th birthday, whichever comes first.

CHECK THE TYPE OF FOSTER CARE THE CHILD IS RECEIVING :

- a. Foster family home (FFH)
- b. Group Home (GH)
- c. Public Institution of less than 25 children (Inst Pub)
- d. Private non-profit Institution (Inst PNP) Any placements other than those indicated are not eligible for federal matching funds. Independent living is not allowable.
- e. PROVIDER - Indicate name and address of provider to whom the payment was made. Each provider must be licensed or approved, for the time period being reviewed, in accordance with State/Council regulations. If the date of the last approval/licensure is more than one year prior to the period being reviewed, State licensing procedures must be examined to determine whether the home's or institution's approval expired.

RECIPIENT ELIGIBILITY - Respond with a YES or NO.

PROVIDER ELIGIBILITY - Respond with a YES or NO.

OVERPAYMENT - If there is an overpayment, indicate how much, otherwise put a ZERO.

INELIGIBLE PAYMENT - If the child or the provider is ineligible, indicate the amount paid to the provider; otherwise, put a ZERO.

REVIEWER - BE SURE TO PUT YOUR OWN NAME!

Attachment B

Sampling Procedures Applicable to Title IV-E Review of Foster Care Maintenance Payments

A definition of the population is basic to the description of a sampling and estimation procedure since it is the point of reference for evaluating estimates provided by a specified sampling plan. Thus a sampling plan can be considered relatively good or poor depending on how well sample estimates produced by the plan can be relied on to agree with the actual characteristics of the defined population.

The definition of the population should specify the kind of statistical unit that constitutes the population. The preferred statistical unit for a title IV-E review is a monthly title IV-E foster care maintenance payment for an individual recipient during the Federal fiscal year under review with a one-to-one correspondence between each recipient and each payment. Thus, the population should consist of the totality of all such individual monthly payments made during the year under review.

For a title IV-E review, the State should provide a list of all the monthly payments for the year(s) under review in a consecutively numbered sequence. Any deviation from this preferred listing must be approved in advance by the Director, Office of Management Services.

The sampling frame is the list or listings which contain all payment units that contribute sample units to the survey. Under ideal conditions, the sampling frame would correspond exactly with the defined population. Each statistical unit of the population would appear in the sampling frame and each listing in the sampling frame would belong to the population. However, in practice, such an ideal sampling frame is often unavailable. Thus it is essential to know in what respects and to what extent the sampling frame differs from the population. Reconciliation of the total expenditures enumerated in the sampling frame to the title IV-E Quarterly Expenditure Reports can detect any such differences. Also, an examination of codes on the printout that are used to identify the program to which the payments are charged can detect differences between the sampling frame and the population.

If the sampling frame includes units extraneous to the population, then as long as these excess units are readily identifiable after selection and constitute no more than 5% of the sampling frame, they can be dropped from the sample. Any omissions from the sampling frame of payments in the defined population tend to produce bias and thus distort the findings. However, as long as this percentage of omissions can be kept relatively small (1% or less), the bias is unlikely to be serious.

The preferred sampling methodology is unrestricted simple random sampling. Since each payment in the sampling frame is numbered consecutively, a table of random numbers or random numbers generated by a computer should be used to select the sample. The random numbers used to select the sample should have as many digits as the number representing the total number of individual monthly payments in the sampling frame. For example, if a State listed 30,520 payments in its sampling frame, then 5-digit random numbers should be utilized for sampling selection. If the numbering schema adopted by the State when it consecutively numbered the payments in its sampling frame does not contain the appropriate number of digits then the left-justified zeroes of the random number should be deleted before matching it. For example, random number "00350" corresponds to the payment number "350".

To avoid possible additional work at a later date, the full sample of approximately 330 payments, which allows for an oversample of 10 percent, should be selected prior to the stage one review. It is important to maintain the order of selection so that the stage one sample can be distinguished from the stage two. The stage one sample will consist of the first 50 payments selected for the full sample plus the next 5 payments which constitute the oversample for stage one. The oversample should be utilized only when there is a valid reason for not reviewing a case associated with a payment selected for the review.

Sampling units should not be replaced because of difficulties in performing the review or because of problems in obtaining the necessary information about the case identified by the sampled payment. If the missing case record or information documenting the child's or provider's eligibility cannot be located, that child or provider will be considered ineligible and the payment will not be allowed. Full explanation should be provided for any case that is not reviewed and such deletions must be approved by the Director, Office of Management Services.

Frequently, two or more payments on behalf of the same child will be selected in the sample drawn for the title IV-E review. In a stage two review each of these is to be considered separately and independently. During a stage one review, however, the review team leader should disregard any payments other than the first for any child. The next payments in order from the oversample should be selected in their places.

Where unrestricted simple random sampling is not feasible because the case records to be reviewed cannot be centralized, such as in some county administered systems, restricted random sampling is the preferred sampling method. The restricted population would be the appropriate monthly title IV-E foster care maintenance payments of the largest counties in the State that comprise at least 70 percent of the total title IV-E foster care maintenance expenditures for the review period. Any extrapolation made after a stage two review would only apply to this restricted population of payments. The same sampling procedures would be applied to this restricted population as were utilized in the unrestricted case discussed above.

An alternate sampling procedure that can be utilized is stratified random sampling. In general, stratified random samples generate more efficient samples than unrestricted simple random samples provided that a judicious selection of a variable for stratification is made. For the title IV-E foster care review, the payments could be grouped by facility type (family foster homes, group homes, and institutions) or by dollar value. This will necessitate a separate listing of

payments for each stratum. For example, if facility type is selected as the variable, the State will be expected to provide three listings of payments, one each for family foster home, group homes, and institutions. If there is great difficulty in enumerating the payments by the variable for stratification, then stratified random sampling is not a viable alternative. All requests for adopting stratified random sampling should be submitted to the Director, Office of Management Services, for final determination.

The result of the stage one review will be compared with the established criteria to determine whether a stage two review will be conducted. If a stage two review is necessary, the data collected during the stage one will be utilized to estimate the variation of error dollars in the population of payments. This measure of variation (standard deviation) will be used in conjunction with the confidence coefficient and the sampling error to calculate the number of additional payments needed for the stage two review. We will use a confidence coefficient of 0.95 to assure a 95% confidence interval) and a sampling error which is preferably within 10% of the total title IV-E foster care expenditures for the review period. In this case the point estimate for the total dollars in error will be used for recommending disallowances. However, if the computed sample size should exceed 300 and thus exceed the resources available to complete the review, then a larger sampling error (up to 30 percent of the total title IV-E expenditures for the review period) will be utilized to estimate the sample size. The lower limit of a two sided 90 percent confidence interval will then be used for recommending disallowances.

Attachment C

Instructions for Foster Care Fraud Review

Quality child welfare programs are not only concerned with the well being of families and children, but through appropriate administrative policies and procedures, can develop and implement methods to prevent, detect and eliminate potential fraudulent and wasteful use of Federal, State and local funds.

HDS is conducting periodic reviews of State administrative procedures and policies designed to detect and minimize occurrences of fraud and waste in Federally supported foster care programs using private group homes and institutions through purchase of service agreements. These reviews have been integrated into the title IV-E foster care financial reviews. The review will focus on three important administrative processes: auditing, rate setting and licensing. The Interview Guide being used for this purpose was developed in cooperation with the DHHS Audit Agency. The following describes the process and procedures to be used to conduct fraud reviews.

Preparing for the Review

The Regional Office should request copies of pertinent State audit policies, audit standards and manuals, audit data, annual reports of State audits, and rate setting procedures at least 6-8 weeks in advance of the review. Prior analysis of this information will facilitate the interview, permit more pertinent questions to be asked during the interview and assist in preparing the Federal review team. A request should be made to interview the State agency's chief fiscal officer. Avoid having a large group of State staff assembled for the review. The interview guide should be shared with the agency's chief fiscal program officer prior to the field visit.

Interview

We suggest the interview be conducted by a two person team using the Interview Guide. The guide deals with subjects such as:

- Are public and private foster care group homes and institutions audited on a regular basis?
- Are the audits conducted in accordance with GAO standards?
- Are there audit manuals to provide guidance to auditors?
- Do the audits test the provider's internal financial management system and the State agency's existing internal controls over administrative and accounting functions?
- Who is responsible for the rate setting process?
- Does the rate setting process establish a uniform basis for charging costs?
- Are costs analyzed to establish a measure of "reasonable and necessary"?
- How are rates established?
- Is there adequate documentation to support the determination of rates?
- How are rates for out-of-state placements determined?

Report to the State

As the fraud review is integrated with the title IV-E foster care review, a section of the complete review should address the issues relating to the prevention and detection of fraud. This section should include pertinent information acquired through the interview of State officials and review of State materials. It should describe the review team's understanding of State practices, describe shortcomings or problems in State practices to control fraud and waste and make recommendations to improve performance.

When the State is given 30 days to review the entire title IV-E foster care review draft report, it should also have the opportunity to review the section dealing with fraud and respond or comment within 30 days. A copy of the State's comments should be appended to the final report. Copies of the final report should be sent to the following:

Regional Director, HHS
Regional Administrator, HDS,
Director, Office of Management Services, HDS
Director, Office of Regional Operations, HDS
Commissioner, ACYF

Conclusion

HDS and the Department are prepared to work with the States to strengthen and improve practices to control and minimize occurrences of fraud and wasteful expenditure of funds for foster care group homes and institutions. By developing a body of information about State practices, HDS can serve as a conduit to the States to provide information on successful approaches in dealing with this problem.

FOSTER CARE FRAUD REVIEW INTEVIEW GUIDE

STATE

Date

State Foster Care System is :State Administered State Supervised, County Administered

Federal Reviewers (Name, Position, and telephone number)

State Staff (Name, Position and telephone number) Chief Fiscal Officer Supplementary Documentation

On-Site Review

Title

Title

Title

Pre or Post-Review Documents Submitted

Title

Title

Title

GROUP HOMES AND INSTITUTIONS

1. During the past year, did the agency purchase service for children under its supervision in public or private group homes? How many group homes?

During the past year, did the agency purchase service for children under its supervision in public or private institutions? How many institutions?

AUDITS

2. Are fiscal audits conducted of private group homes and institutions at least once every 3 years?

YES

NO

If "No", what is the frequency of the schedule? Please discuss.

3. Are all audits required to be conducted in accordance with the GAO standard for audit of governmental organizations, programs, activities and functions (commonly know as the Yellow Book)?

YES

NO

If "No" discuss the standards used.

4. Is there a current manual which specifies procedures, review processes, and standards for audit and review of foster care group homes and institutions? Please discuss and identify pertinent materials and procedures for amending the manual.

YES

NO

5. Do the audits include a test of the service provider's internal financial management system to assess its accuracy and reliability? Please discuss.

YES

NO

6. Do the audits of foster care group homes and institutions include a review of the State agency's existing internal controls over administrative and accounting functions? This would include the following which are important in discouraging fraud and abuse:

- | | | |
|--|-----|----|
| a. Segregation of duties among employees | Yes | No |
| b. Execution of transactions | Yes | No |
| c. Access to assets, | Yes | No |
| d. Other | Yes | No |

7. During the past year how many group homes and institutions were audited by the State agencies'

Number group homes

Number institutions.

8. During the past year, how many group homes and institutions were audited by their own external audit firm' Describe the sampling methodology used in the external audits.

Number group homes

Number institutions.

Number multiple sites including group homes and institutions owned by the same private agency.

9. Is there an annual State report of audits issued on the findings of the audits'

YES

NO

If "Yes" does the report describe common problems found, recommendations, and timeframe for corrective actions to be taken'

YES

NO

What was the date of the latest report' Date

Is the report available to all service providers and the public'

YES

NO

(Obtain copy of latest report) Please discuss.

10. Based on the audits to date, what are the major auditing issues and what corrective actions has the State taken' Please discuss. If corrective action has not been taken, please explain.

RATE SETTING

11a. Who is responsible for rate setting'

Responsible State Unit

Responsible Local Unit, if applicable

Other Responsible Unit

11b. Is the responsibility centralized or decentralized in the State'

Centralized Decentralized

Please discuss.

12. Are there uniform rates, or sets of rates throughout the State? Please discuss.

13. Does the rate setting process establish a uniform basis with respect to the type of costs to be included and cost allocation basis to be used if several Federal programs are involved? Please include the following areas in the discussion:

(a) Are there salary limitations imposed on operators of group homes and institutions in individual and multiple ownership situations?

YES

NO

(b) Are costs analyzed for groups homes and institutions to establish a measure of "reasonable and necessary" costs?

YES

NO

If "Yes" please discuss the basis for the rates.

(c) How does the State establish rates?

Negotiated fixed price

Reimbursable costs

Please discuss.

(d) Does the State maintain an updated central registry of rates for all private group homes and institutions that is readily available to all local jurisdictions?

YES

NO

(e) Does the State maintain adequate documentation to support the determination of rates?

YES

NO

(f) With what frequency are rates reviewed?

(g) What is the basis for the frequency with which the rates are reviewed? Please discuss.

14. How does the State determine the rate to be paid for out-of-state placements? Is it limited to the same rate paid by the State in which the facility is licensed?

Please discuss.

15. Is there an annual licensing study?

YES

NO

Are the study findings available to the placement staff for specific group homes or institutions?

YES

NO

Is there a statewide registry of licensed facilities?

YES

NO

Do licensing requirements and reviews mandate that agencies have the following:

- a. Advance budget prepared for initial licensing,
- b. Audit trail of agency expenditures, and
- c. periodic external independent audit?

16. Are there any controls to limit the amount of reimbursement to operators of group homes and institutions which use public funds in a lease back arrangements? (Lease back arrangements occur when the operator of a group home or institution owns the building under a separate corporate title and leases [back] the facility to his or her other corporation which operates the group home or institution).

YES

NO

Please discuss.

17. Based on the State's experience, what are the major problems in determining necessary and reasonable costs as a basis for establishing the rates of reimbursement? Describe any actions taken to resolve specific problems.