FEB 1, 2002

Ms. Kristine D. Ragaglia  
Commissioner  
Connecticut Department of Children and Families  
505 Hudson Street  
Hartford, Connecticut 06106

Dear Ms. Ragaglia:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General, Office of Audit Services' (OAS) report entitled “Review of Connecticut Claims For Title IV-E Retroactive Adjustments,” for the quarters ended December 1996 through September 1999. A copy of this report will be forwarded to the action official noted below for his/her review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action 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.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)

To facilitate identification, please refer to Common Identification Number A-01-01-02501 in all correspondence relating to this report.

Sincerely,

[Signature]
Michael J. Armstrong  
Regional Inspector General  
For Audit Services

Enclosures - as stated
Direct Reply to HHS Action Official:

Mr. Hugh F. Galligan
Regional Administrator
US Department of Health and Human Services
John F. Kennedy Federal Building, Room 2000
Boston, Massachusetts 02203
REVIEW OF CONNECTICUT CLAIMS FOR TITLE IV-E RETROACTIVE ADJUSTMENTS
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 OIG's Office of Audit Services (OAS) provides all 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 in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the Department.

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The OIG's Office of Evaluation and Inspections (OEI) conducts short-term management and program evaluations (called inspections) that focus on issues of concern to the Department, the Congress, and the public. The findings and recommendations contained in the inspections reports generate rapid, accurate, and up-to-date information on the efficiency, vulnerability, and effectiveness of departmental programs.

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The Office of Counsel to the Inspector General (OCIG) provides general legal services to OIG, rendering advice and opinions on HHS programs and operations and providing all legal support in OIG's internal operations. The OCIG imposes program exclusions and civil monetary penalties on health care providers and litigates those actions within the Department. The OCIG also represents OIG in the global settlement of cases arising under the Civil False Claims Act, develops and monitors corporate integrity agreements, develops model compliance plans, renders advisory opinions on OIG sanctions to the health care community, and issues fraud alerts and other industry guidance.
EXECUTIVE SUMMARY

BACKGROUND

The Foster Care Program was authorized in 1980 under Title IV-E of the Social Security Act, Section 470 et seq. (42 U.S.C. 670 et seq.). Its purpose is to help States provide proper care for children who need placement outside their homes, in a foster family home or an institution. The program provides funds to States to assist them with the costs of foster care maintenance for eligible children, administrative costs to manage the program, and training for staff, foster parents, and staff of child care institutions providing foster care services. Eligible children are placed in foster care either on a voluntary or non-voluntary basis. Voluntary foster care cases involved removal from the home pursuant to a voluntary placement agreement entered into by the child’s parent or legal guardian and with a subsequent judicial determination by a court within 180 days that the continued placement is in the best interest of the child. Non-voluntary cases involved removal from the home as a result of a judicial determination that continuation in the home would be contrary to the welfare of the child and that reasonable efforts to prevent the removal of the child have been made.

The Administration for Children and Families (ACF) instructions for submitting IV-E costs for Federal reimbursement requires States to complete the State Quarterly Report of Expenditures and Estimates (Form IV-E-12). Both current expenditures and prior adjustments are claimed on Form IV-E-12. According to 45 CFR, Section 95.7, the Federal government will pay a State for prior quarter adjustments only if the State files a claim within two years after the calendar quarter in which the State agency made the expenditure.

OBJECTIVE

The objective of our review was to determine if non-voluntary retroactive adjustments claimed for the quarters ended December 1996 through September 1999 by the Connecticut Department of Children and Families (DCF) are supported as required by Federal regulations.

SUMMARY OF FINDINGS

The DCF claimed a total of $45.2 million ($22.6 million Federal share) in retroactive foster care adjustments for the quarters December 1996 to September 1999. Federal regulations require costs be adequately supported. However, DCF was not able to provide detailed support for $3.92 million ($1.96 million Federal share) claimed under its prior computer system for quarters December 1996 through December 1997 (See Appendix A). Because the prior system accounted for retroactive adjustments on a cumulative basis instead of detailed line items, we could not trace individual retroactive adjustments claimed by DCF to attendance records and rate agreements from foster care providers. Accordingly, we believe that the Federal share of $1.96 million claimed under the prior system should be returned to ACF.

As the result of working with DCF, it revised its process for claiming retroactive costs. Instead of claiming the difference in cumulative balances between two quarters, the State now generates line-item reports that detail actual retroactive adjustments identified during a quarter. We used a probe sample to test the line-item reports for two quarters. Based on our results, we believe that the $18.74 million ($9.37 million Federal share) claimed for the quarters June 1998 through September 1999 can be adequately supported. However, during the transitional March 1998
quarter between the prior and current systems, DCF was unable to provide individual retroactive adjustments for the first quarter of the current system. Hence, we could not test the remaining $22.54 million ($11.27 million Federal share) claimed for the quarter March 1998, and are setting aside this amount until DCF and ACF reach a workable solution.

**RECOMMENDATIONS:**

We recommend that DCF:

- Continue to ensure that retroactive adjustments claimed for reimbursement can be supported by detailed reports, and the process of generating supporting records is included in their written procedures for claiming foster care costs.

- Make a financial adjustment of $3.92 million ($1.96 million Federal share) for retroactive adjustments that cannot be readily substantiated by the DCF.

- Work with ACF to reach a workable solution for the $22.54 million ($11.27 million Federal share) we have set aside.

**State Agency Comments**

The DCF has revised its current computer system to produce detailed information for actual positive and negative adjustments reported quarterly on form IV-E-12 and has added this step to its standard procedures for claiming IV-E costs. However, it believes the full $26.46 million ($22.54 million plus $3.92 million) should be referred to ACF for final resolution because:

- the Federal government does not dictate the format in which States present the retroactive adjustments, nor the documentation to substantiate the amounts;

- detailed information for cumulative balances under the prior system can be provided;

- the Federal government dictated that the States develop a new computer system for processing IV-E information; and

- the positive results from OIG’s judgmental sample should be indicative of all claims made under both computer systems.

**OIG Response**

We continue to believe that Connecticut should make a financial adjustment of $3.92 million ($1.96 million Federal share). Our position is detailed in the body of the report.
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INTRODUCTION

BACKGROUND

The Foster Care Program was authorized in 1980 under Title IV-E of the Social Security Act, Section 470 et seq. (42 U.S.C. 670 et seq.). Its purpose is to help States provide proper care for children who need placement outside their homes, in a foster family home or an institution. The program provides funds to States to assist them with the costs of foster care maintenance for eligible children, administrative costs to manage the program, and training for staff, foster parents, and staff of child care institutions providing foster care services. Eligible children are placed in foster care either on a voluntary or non-voluntary basis. Voluntary foster care cases involved removal from the home pursuant to a voluntary placement agreement entered into by the child’s parent or legal guardian and with a subsequent judicial determination by a court within 180 days that the continued placement is in the best interest of the child. Non-voluntary cases involved removal from the home as a result of a judicial determination that continuation in the home would be contrary to the welfare of the child and that reasonable efforts to prevent the removal of the child have been made.

In Connecticut, the Department of Children and Families (DCF) administers the Title IV-E foster care program. Within DCF, the Revenue Enhancement Unit (REU) is responsible for revenue maximization services such as IV-E eligibility determinations and redeterminations and the preparation of quarterly claims for Federal reimbursement. The DCF has a contingency fee type revenue maximization contract with the firm of Maximus, Inc. As part of this contract, Maximus provides assistance in the completion of case reviews for IV-E eligibility determinations and redeterminations, maintains eligibility data for IV-E claims, generates quarterly reports DCF uses to prepare quarterly claims for FFP reimbursements, and performs systems enhancements.

The Administration for Children and Families (ACF) instructions for submitting IV-E costs for Federal reimbursement requires states to complete the State Quarterly Report of Expenditures and Estimates (Form IV-E-12). Both current expenditures and prior adjustments are claimed on Form IV-E-12. Current expenditures represent foster care costs paid and claimed in the same quarter. Retroactive adjustments represents foster care paid in one quarter but not claimed until subsequent quarters. According to 45 CFR, Section 95.7, the Federal Government will pay a State for prior quarter adjustments only if the State files a claim within two years after the calendar quarter in which the State agency made the expenditure.

Total IV-E costs claimed by the State from October 1, 1996 through September 30, 1999 totaled $212.5 million (Federal share $106.25 million). The Federal financial participation (FFP) rate for maintenance payments and most administrative costs for Connecticut is 50 percent. Some training and computer costs are reimbursed at higher FFP rates. Of this total, $55 million (Federal share $27.5 million) represents total retroactive adjustments (voluntary, non-voluntary, and adoption) submitted by DCF for Federal reimbursement. Our review was limited to non-voluntary adjustments claimed for foster care maintenance payments, which totaled about $45.2 million (Federal share $22.6 million) from Federal fiscal year (FFY) 1996 through FFY 1999. (See Appendix A)
OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of our review was to determine if non-voluntary retroactive adjustments claimed for the quarters ended December 1996 through September 1999 by Connecticut are supported as required by Federal regulations.

Scope

Our review was conducted in accordance with generally accepted government auditing standards. Our review of the internal control structure was limited to the process for claiming IV-E costs for Federal reimbursement.

We performed our fieldwork at DCF in Hartford, Connecticut between October 1999 and June 2001. We discussed the results of our review with DCF officials on October 12, 2001. We also received written comments on our draft report from DCF on November 29, 2001 (See Appendix B)

Methodology

To accomplish our audit objective, we:

- reviewed applicable laws and regulations for Title IV-E eligibility and Federal reimbursement of IV-E costs relating to court ordered foster care;
- reviewed DCF reconciliations of quarterly foster care maintenance costs claimed to supporting State records for the quarters ended December 1996 through September 1999;
- reviewed DCF eligibility determination requirements outlined in its contract with a private consulting firm;
- reviewed DCF policies and procedures relating to IV-E eligibility determinations and redeterminations;
- traced retroactive adjustments from four judgmentally selected quarters to source documents; and
- validated 30 retroactive adjustments from automated detailed records for two of the four quarters we judgmentally selected. Specifically, we traced retroactive adjustments to supporting provider attendance records and DCF foster care rate schedules.
FINDINGS AND RECOMMENDATIONS

The DCF claimed a total of $45.2 million ($22.6 million Federal share) in non-voluntary retroactive foster care adjustments for the quarters December 1996 to September 1999. Federal regulations require costs be adequately supported. Based on the quarters we tested, DCF was not able to provide detailed support for $3.92 million ($1.96 million Federal share) claimed under its prior computer system for quarters December 1996 through December 1997 (See Appendix A). Because the prior system accounted for retroactive adjustments on a cumulative basis instead of detailed line items, we could not trace individual retroactive adjustments claimed by DCF to attendance records and rate agreements from foster care providers. Accordingly, we believe that the Federal share of $1.96 million claimed under the prior system should be returned to ACF.

As the result of working with DCF, it revised its process for claiming retroactive costs. Instead of claiming the difference in cumulative balances between two quarters, the State now generates line-item reports that detail actual retroactive adjustments identified during a quarter. We used a probe sample to test the line-item reports for two quarters. Based on our results, we believe that the $18.74 million ($9.37 million Federal share) claimed for the quarters June 1998 through September 1999 can be adequately supported. However, during the transitional March 1998 quarter between the prior and current systems, DCF was unable to provide individual retroactive adjustments for the first quarter of the current system. Hence, we could not test the remaining $22.54 million ($11.27 million Federal share) claimed for the quarter March 1998, and are setting aside this amount until DCF and ACF reach a workable solution.

**Foster Care Costs Not Adequately Supported**

OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, Attachment A, Section C, Basic Guidelines, part 1.a. Factors affecting allowability of costs, states that:

- To be allowable under Federal awards, costs must meet the following general criteria:....
- Be adequately documented.

In addition, Title 45 CFR, Part 92, Uniform Administrative for Grants and Cooperative Agreements to State and Local Governments, Subpart C, Post Award Requirements, Financial Administration, Section 20, Standards for Financial Management Systems,

- A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, and its subgrantees and cost-type contractors, must be sufficient to—1. Permit preparation of reports required by this part and the statutes authorizing the grant, and 2. Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. (Emphasis added)

DCF claimed a total of $45.2 million ($22.6 million Federal share) in non-voluntary retroactive adjustments for the quarters December 1996 to September 1999. We tested this amount to
determine whether it could be adequately supported. Our results are summarized below for amounts claimed under DCF’s prior computer system (one of five quarters tested) and current computer system (three of seven quarters tested).

**DCF’s Prior Computer System for Claiming IV-E Costs**

DCF’s prior computer system (Case Management System) accounted for retroactive adjustments on a cumulative basis instead of detailed line items. To identify non-voluntary retroactive adjustments for quarterly claims, DCF calculated the difference between the total cumulative retroactive adjustment for the current quarter and the total cumulative retroactive adjustment for the prior quarter. DCF officials informed us that detailed information could not be provided for the quarters on the prior computer system. Without line items detailing each retroactive adjustment, we could not verify claimed adjustments to attendance records and rate agreements from foster care providers. Accordingly, we believe that $3.92 million ($1.96 million Federal share) claimed under the prior system for quarters October 1996 through October 1997 should be returned to ACF (See Appendix A).

**DCF’s Current Computer System For Claiming IV-E Costs**

DCF first used its current computer system (ACCESS) to claim IV-E costs for the quarter March 1998. Even though the current system accounts for retroactive adjustments on a cumulative basis, it can be programmed to provide individual retroactive adjustments. To test the current computer system, we:

- requested DCF to run computer reports that included detailed line items representing individual retroactive adjustments for three judgmentally selected quarters (March 1998, September 1998 and June 1999);
- reconciled total retroactive adjustments claimed by DCF to totals provided in the computer reports; and
- traced a sample of adjustments to attendance records and rate agreements from foster care providers.

Based on our results for the quarters September 1998 and June 1999, we believe that $18.74 million ($9.37 million Federal share) can be adequately supported for the quarters June 1998 through September 1999. However, because the prior system could not provide line item information, DCF could not run a report of individual retroactive adjustments for the first quarter the current system was implemented (March 1998). DCF had claimed $22.54 million ($11.27 million Federal share) in retroactive adjustments for this quarter. Accordingly, we are setting this amount aside until DCF and ACF reach a workable solution.

Since we started our review, DCF has taken corrective actions by running a quarterly report of individual retroactive adjustments to support claimed IV-E costs. Before our review, however, DCF accumulated amounts claimed for retroactive adjustments and written guidelines did not require that retroactive adjustments be readily substantiated with detailed records. In addition,
DCF’s current and prior computer systems had not been programmed to provide detailed support for quarterly retroactive adjustments.

Recommendations:

We recommend that DCF:

- Continue to ensure that retroactive adjustments claimed for reimbursement can be supported by detailed reports, and the process of generating supporting records is included in their written procedures for claiming foster care costs.
- Make a financial adjustment of $3.92 million ($1.96 million Federal share) for retroactive adjustments that cannot be readily substantiated by the DCF.
- Work with ACF to reach a workable solution for the $22.54 million ($11.27 million Federal share).

State Agency Comments (See Appendix B)

The DCF has revised its current computer system to produce detailed information for actual positive and negative adjustments reported on the quarterly IV-E-1 (formerly known as the IV-E-12) and has added this step to its standard procedures for claiming IV-E costs. However, it believes the full $26.46 million ($22.54 million plus $3.92 million) should be referred to ACF for final resolution because:

- the Federal government does not dictate the format in which states present the retroactive adjustments, nor the documentation to substantiate the amounts;
- detailed information can be provided for cumulative balances for the prior computer system;
- the Federal government dictated that the states develop a new computer system for processing IV-E information; and
- the positive results from OIG’s judgmental sample should be indicative of all claims made under both computer systems.

OIG Response

Federal requirements under OMB Circular A-87 and Title 45 CFR Part 92, subpart C, Section 20, as cited in previously in this report, specify that to be allowable, claims for expenditures must be adequately documented with detailed records. Further, the requirements for State agencies to provide adequate supporting documentation have been reinforced by the Departmental Appeals Board (DAB) in at least two decisions. In one of these decisions, the DAB upheld a disallowance because the appellant had not submitted adequate supporting documentation in readily reviewable form so that the respondent could determine the allowability of the claim. In the other decision, the DAB found that the State’s accounting system did not generate adequate
documentation to meet the State’s burden to document claims. While the DAB believed that a State is free to use any accounting system that will meet program requirements, it must bear the burden of ensuring that its accounting system provides adequate information. Therefore, we believe that positive and negative adjustments, which the Form IV-E-12 requires separate reporting of, should be supported by detailed line information that can be traced back to supporting documents as opposed to the difference in cumulative balances.

While the Federal government did require the installation of a new computer system, it did not change the premise of collecting and managing information to determine eligibility, pay for IV-E services provided, and request Federal reimbursement for allowable costs. Accordingly, positive and negative adjustments claimed under any system should be adequately documented in readily reviewable form that can be traced detailed records.

Connecticut has asserted that the positive results from our judgmental sample for the two quarters under the current system is indicative of the validity of costs claimed under the two quarters affected by the prior computer system. We tested a judgmental sample of 30 detailed retroactive adjustments (15 from each quarter) to assess the reasonableness of the State’s current system used to claim IV-E costs for reimbursement. Further, the 30 transactions represented $42,700, or less than one percent of the $13.82 million claimed in the two quarters under the current computer system. Even so, we accepted costs claimed for all six retroactive quarters under the current system since detailed positive and negative adjustments could be readily generated.

In summary, because the State could not readily provide detailed information for retroactive adjustments claimed in each quarter affected by the prior system we cannot accept:

- the $3.92 million ($1.96 million Federal share) that was claimed under the prior system, and
- have set aside for resolution with ACF the $22.54 million ($11.27 million Federal share) for the first quarter of the new system.
APPENDICES
CONNECTICUT TITLE IV-E PROGRAM
SUMMARY RESULTS
RETROACTIVE ADJUSTMENTS
10/01/96 to 09/30/99
(000s)

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**Current System** -- ACCESS, which utilizes data from various sources to prepare DCF quarterly claims for IV-E reimbursement. Implemented March 1998.

**Prior System** -- CMS, used to claim retroactive adjustments claims for Federal reimbursement prior to the quarter ended March 1998.
November 29, 2001

Mr. Michael Armstrong
Regional Inspector General for Audit Services
Office of Audit Services
Department of Health & Human Services
Region I
John F. Kennedy Federal Building
Boston, MA 02203

re: Common Identification Number A-01-01-02501
Your letter dated October 29, 2001

Dear Mr. Armstrong:

Thank you for the opportunity to respond to the draft “Review of Connecticut Claims for Title IV-E Retroactive Adjustments” report dated October 2001. The Department of Children and Families (DCF) believes that Connecticut submitted accurate substantiated federal claims for the period under review, October 1996 through September 1999. We respectfully request that the Office of Audit Services allow DCF to finalize a resolution with the Administration of Children and Families (ACF) for the $22.5 million ($11.27 million Federal share) that has been set aside by the Office of Audit Services, in addition to the financial adjustment amount of $3.9 million ($1.96 million Federal share) requested as an immediate pay back.

As permitted by 45 CFR, Section 95.7, Connecticut routinely submitted, and continues to submit, prior quarter adjustments within two years after the calendar quarter in which the payment was made. The federal government does not dictate the format in which states present the retroactive amounts, nor the documentation to substantiate the amounts. Connecticut’s process for filing retroactive adjustments entails recasting the previously stated quarter in its entirety to arrive at a summary total, which is then compared to the previous quarter claim. The positive or negative difference is then noted on the IV-E 1 (formerly known as the IV-E 12) as a prior quarter adjustment. Historically, Connecticut maintained a paper record of the detail line items supporting each federal claim as originally stated and a paper record of the detail line items for the restated quarters. DCF’s process did not include a separate report that singled out the specific transactions that accounted for the positive or negative difference on the IV-E 1.
The Office of the Inspector General (OIG) requested that DCF identify the individual transactions that comprised the positive or negative prior quarter adjustments for four judgmentally selected quarters (March 1997, March 1998, September 1998 and June 1999). DCF was able to run comparison reports for the quarters September 1998 and June 1999. The comparison reports tied out to the exact amounts claimed on the IV-E 1’s as prior quarter adjustments for all quarters. In addition, the OIG selected a judgmental sample of individual transactions from the comparison reports and traced the adjustments to the attendance records and rate agreements. The OIG validated each and every one of the transactions selected in the judgmental sample.

DCF could not comply with the OIG request for a comparison report as described above for two of the four judgmentally selected quarters, March 1997, $3.1 million ($1.5 million Federal share) and March 1998, $45.2 million ($22.6 million Federal share). As dictated by the federal government, DCF developed and installed a new SACWIS computer system to replace Connecticut’s Case Management System (CMS). The comparison reports requested by the OIG straddle the SACWIS and CMS computer systems, which are not compatible. One can reasonably conclude that had Connecticut had the ability to run comparison reports for March 1997 and March 1998, we would have demonstrated the same positive results as the other two judgmentally sampled quarters.

To eliminate any future concerns with the manner in which Connecticut documents its prior quarter adjustments, DCF has since added the comparison reports requested by the OIG to our standard prior quarter adjustment documentation procedures.

DCF further believes that it should not be penalized for the manner in which we documented our federal claim for December 1996 through October 1997. As previously described, DCF submits prior quarter adjustments for the payments made within the previous two years by continuously recasting the prior quarter adjustments. DCF has paper reports with individual detail transactions for all the final quarter claims in question. We request that the Office of Audit Services allow DCF to present our position to ACF and not mandate an immediate pay back of $3.9 million ($1.96 million Federal share).

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It is our contention that Connecticut has reasonably demonstrated the quality of our federal claim submissions and complied with the intent of 45 CFR, part 92 to "permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes." We look forward to your response and would be happy to answer any additional questions you may have. Thank you again for the courtesy extended.

Sincerely,

Kristine D. Ragaglia, J.D.

KDR/KB/mm

cc: Lovie D. Bourne, Assistant Commissioner
    Kathy M. Bannon, Director, Revenue Enhancement
    Lorraine C. Brodeur, Principal Budget Specialist,
    Office of Policy and Management
    Hector A. Rivera, Bureau Chief, Finance & Administration
    Lori Pilcher, Audit Manager, DHHS