

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**AUDIT OF THE CALIFORNIA  
DEPARTMENT OF SOCIAL SERVICES  
RATE-SETTING METHODOLOGY  
FOR FOSTER FAMILY AGENCIES**



**JUNE GIBBS BROWN  
Inspector General**

**NOVEMBER 1997  
CIN: A-09-96-00082**



Region IX  
Office of Audit Services  
50 United Nations Plaza  
Room 171  
San Francisco, CA 94102

CIN: A-09-96-00082

November 17, 1997

Eloise Anderson, Director  
California Department of Social Services  
744 P Street, Mail Station 1711  
Sacramento, CA 95814

Dear Ms. Anderson:

Enclosed are two copies of the U.S. Department of Health and Human Services, Office of Inspector General, Office of Audit Services' report entitled "Audit of the California Department of Social Services Rate-Setting Methodology for Foster Family Agencies."

Final determination as to actions taken on the 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, if requested, 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-09-96-00082 in all correspondence relating to this report.

Sincerely,

A handwritten signature in cursive script that reads "Lawrence Frelot".

Lawrence Frelot  
Regional Inspector General  
for Audit Services

Enclosures - as stated

Direct Reply to HHS Action Official:

Sharon M. Fujii, Regional Administrator  
Administration for Children and Families, Region IX  
50 United Nations Plaza, Room 351  
San Francisco, California 94102

# EXECUTIVE SUMMARY

This draft report provides the results of our audit of the methodology that the California Department of Social Services uses for establishing rates to pay foster family agencies which provide services to children under the federally-assisted foster care program. Our audit included rates in effect during the State's fiscal years ended June 30, 1995 and 1996.

## BACKGROUND

In California, county welfare departments contract with foster family agencies to serve a portion of the foster care caseload. As of June 1995, approximately 15 percent of the foster care caseload in California was served by the agencies. With few exceptions, the children placed by the agencies have emotional or behavioral problems, and the services needed to treat the problems are not available in the regular foster home setting. The children would require group home placement if not for the agencies.

**Services Provided by Foster Family Agencies.** The foster family agencies perform certain tasks in behalf of the county welfare departments, including (i) recruiting, training and certifying foster parents, (ii) certifying that the foster family homes meet State licensing standards; (iii) assisting in placing children in the foster homes, and (iv) providing social work services to meet the special needs of the children.

**Foster Family Agency Rate Methodology.** The California Department of Social Services authorizes a monthly per-child payment rate for each agency. The authorized payment rate is based on a rate-setting methodology which has been in effect since 1985. The amount paid depends on the child's age, and whether the child requires treatment services or not. As of December 1995, the rates for the FFA treatment programs generally ranged from \$1,283 to \$1,515 per child per month. The rates for each foster family agency treatment program were comprised of four components:

- ▶ A basic rate covering the children's basic needs such as food, clothing and shelter.
- ▶ A child increment, which is paid in recognition of the specialized nature of the children.
- ▶ An administrative component to cover the foster family agency's costs of administering of the program.
- ▶ A social work component to cover the costs of social work services provided to and on behalf of the children.

## **OBJECTIVE**

The objective of our audit was to evaluate the rate-setting methodology that the California Department of Social Services has established for compensating foster family agencies which provide treatment programs. Our audit was initiated to determine whether the rates established for compensating the foster family agencies resulted in payments claimed for Federal reimbursement that were necessary for the proper and efficient administration of the program, as stipulated by Federal foster care regulations. Our evaluation involved the administrative and social work components of the rates.

## **SUMMARY OF FINDING**

Our audit disclosed that the rate methodology was not adequate to ensure that the Federal foster care program was charged only for costs necessary for the proper and efficient administration of the foster care program. Documentation obtained in our audit disclosed that the rates established for the administrative component, for which costs are federally reimbursable at 50 percent, were too high. Further, the rates established for the social work services component were too low; these costs are not eligible for reimbursement under the federally assisted foster care program.

For the period covered by our audit, we estimated that the foster family agencies included in our audit were paid, under the administrative component of the payment rate, \$29.6 million in excess of administrative costs reported by them as having been incurred. About \$24.5 million of these costs were claimed by the California Department of Social Services and reimbursed at the Federal financial participation rate of 50 percent.

Conversely, the foster family agencies' reported costs of providing social work services were significantly higher than the amount paid through the social work component. We estimated that the social work costs reported by the foster family agencies for our audit period exceeded the amounts paid by an estimated \$18.0 million. The payments for the social work component would have to be covered from other fund sources because they were not eligible for reimbursement under the Federal foster care program and accordingly were not claimed as such. However, the rates allowed for the social work component need to be reevaluated in light of the significant variance between the payments and reported costs.

## **RECOMMENDATION**

We are recommending that the California Department of Social Services make a current study of the foster family agency rate methodology in effect, and make revisions as necessary to ensure that only necessary and proper costs to the program are claimed for Federal financial participation in the future. In this report, we are not making recommendations for retroactive adjustments. The amounts estimated above were derived from information reported by the foster family agencies which has not been audited or independently verified.

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# INTRODUCTION

This report provides the results of our audit of the methodology that the California Department of Social Services (CDSS) uses for establishing rates used to pay foster family agencies (FFAs) for the care of children under the federally-assisted foster care program. The FFAs are nonprofit organizations which provide services to or on behalf of foster children under contracts with county welfare departments (CWDs). The CDSS claims a significant portion of the payments to FFAs for Federal financial participation (FFP) under the provisions of the Federal foster care program, title IV-E of the Social Security Act.

The payments to the FFAs are made in accordance with rates established by the CDSS. The objective of the audit was to determine whether the rate-setting methodology used by CDSS for establishing payment rates for FFA treatment programs resulted in payments claimed for FFP that were necessary and proper for the administration of the foster care program. Our audit included rates in effect during the State's fiscal years ended June 30, 1995 and 1996.

## BACKGROUND

In California, CWDs contract with FFAs to serve a portion of the foster care caseload. The number of FFAs and the number of children served by them have increased significantly. From 1986 to 1995, the number of FFAs has increased from 84 to 194, and the number of children served by them has increased from 1.3 13 to 11.024. As of June 1995, approximately 15 percent of the foster care caseload in California was served by FFAs.

The foster care caseload served by the FFAs include federally-eligible children for whom the costs of services are reimbursable, in part, under the Federal title IV-E foster care program. The caseload also includes children who do not meet Federal criteria for eligibility under title IV-E regulations. The cost of care for the nonfederally-eligible children must be paid from funding sources other than title IV-E.

## Services Provided by FFAs

The FFAs are nonprofit organizations which recruit, train, certify, and provide professional support to foster parents; certify that the foster homes meet State licensing standards; and, assist in the placement of children in the homes of foster parents for temporary or long term care. They also provide social work services to and in behalf of the children placed with the foster parents. As of June 30, 1995, there were 194 FFAs licensed by the State, and they ranged considerably in size. The largest FFA had over 700 certified foster homes in 1995; however, most FFAs had fewer than 100 homes.

With few exceptions, the children placed in foster homes through the FFAs have special problems, such as emotional and/or behavioral problems. Almost all of the FFAs provide treatment programs to address these special problems. The services needed to treat these problems are not available in the regular foster home setting, and these children would require group home placement if not for the FFAs. The services, as assessed by the FFA social work staff, may include sexual or physical abuse counseling, alcohol or drug abuse counseling and vocational training.

## Composition and Development of FFA Rates

The CDSS took over the FFA rate-setting function from the counties in 1985. The CDSS uses a rate-setting methodology to establish payment rates for FFAs. The payment rate depends on the child's age, and whether the child requires treatment services or not. The payment rates for FFA treatment programs consist of the following four components:

Component	Costs Intended To Be Covered	Basis for Amount
Basic Rate	The basic rate is for the costs of (and cost of providing) food, clothing, shelter, daily supervision, school supplies, a child's personal incidentals, liability insurance with respect to the child, and reasonable travel to the child's home for visitation.	(A) - The amount is based on the child's age, and represents the amount authorized by the State legislature for foster family homes. The basic rate has not changed since 1990.
Child increment	Additional costs incurred by the foster family due to the emotional and/or behavioral problems of the child.	(B) - The increment is a fixed amount of \$175 per child regardless of age. The increment of \$175 has not changed since 1985 when the CDSS established the FFA rate-setting methodology.
Social Work Component	Costs of developing the needs and services plan; developing the discharge plan; assessing and identifying changing needs; and counseling services involving the employee and the child and/or others.	(C) - The amount is based on each FFA's actual average monthly cost per child for the prior year, up to \$250. Nearly all FFAs are paid the maximum of \$250.
Administrative Component	Costs of recruiting and training foster parents, and administering the items or services provided by the foster family agency.	(D) - The amount is calculated by multiplying the total of the first three components listed above by two-thirds. $(A+B+C) \times \frac{2}{3}$

The maximum rates for our audit period generally ranged from \$1,283 for age groups 0-4 to \$1,515 for age groups 15-18.

The FFAs participating in the foster care program are required to submit a rate request application each year to the CDSS. The annual FFA rate request applications must be signed by the designated FFA official as to the accuracy of the information provided. They include the following documents which provide information on the cost of providing services and the children served:

- **Total Program Cost Display:** This provides information reported by the FFA on the actual costs incurred for the reporting period for administration, recruitment, training and social work. The reporting period is typically the prior calendar year. For example, the reporting period for a rate request application received for the State fiscal year beginning July 1, 1996, would be January 1, 1995 through December 31, 1995.

- **Days of Care Schedule:** This provides occupancy information such as the number of children served and the actual number of days the children are in care on a month-by-month basis, as reported by the FFA for the reporting period. The occupancy information is for all children regardless of funding source, e.g., Federal title IV-E funds, or other funds.

The CDSS uses the cost and occupancy information reported by the FFA to redetermine the social work component of the payment rate, as described in the above table. Although the FFA payment rates are redetermined each year, we noted that the rates rarely changed because (i) nearly all FFAs received the maximum amount of \$250 allowed for the social work component, and (ii) the amounts allowed for the basic rate and the child increment have not changed since 1990 and 1985, respectively.

## Payments by CWDs

The FFAs receive monthly payments from the CWDs for each child placed in their foster homes. The payment amounts are based on the authorized rates set by the CDSS for each FFA in accordance with the established rate methodology. On a monthly basis, the CWDs summarize the FFA payments and other payments made on behalf of federally-eligible children, and calculate the Federal and State reimbursement amounts. In calculating the Federal reimbursement share, the CWDs subtract the social work component amounts paid to the FFAs from the total payments reported.

The payments for social work services are subtracted because they are not allowable for FFP under Federal foster care regulations. Although the services may be necessary for the care of the children, they are not covered under the Federal foster care program and must be financed from other sources of funds. The CWDs report the above information to CDSS on monthly reports entitled, "Summary Report of Assistance Expenditures - Federal Children in Foster Care." The CDSS includes the payment amounts reported by the CWDs on quarterly statements of expenditures submitted to the Federal government for claiming FFP.

## OBJECTIVE, SCOPE AND METHODOLOGY

The principal focus of the audit was on *the administrative* component and the *social work* component of the FFA rates.

Our audit was conducted in accordance with generally accepted government auditing standards. The objective of the audit was to determine whether the rate-setting methodology used by CDSS for establishing payment rates for FFA treatment programs resulted in payments claimed

for FFP that were necessary for the proper and efficient administration of the foster care program. The audit was specifically directed to two of the four components of the FFA payment rates:

- ▶ The administrative component.
- ▶ The social work component.

The audit was not concerned with the basic rate component or the child increment; these amounts are to be paid in their entirety to the foster parents in accordance with State regulations. Our audit period was the calendar year ended December 31, 1995, and included rates in effect during the State's fiscal years ended June 30, 1995 and 1996.

Our audit included a comparison of *total estimated payments to FFAs for the administrative and social work components to total costs reported by the FFAs for those two components.*

For the administrative and social work components of the payment rates, we compared *estimated payments made by CWDs to the FFAs to costs reported by the FFAs* for the above audit period. The CDSS records listed 195 FFAs as of June 1996. Of this number, the CDSS had information available on 143 FFAs which enabled us to make a comparison between the payments made and the

costs incurred for the administrative and social work components (See Appendix A). Our evaluation of the CDSS rate methodology included these 143 FFAs.

In our audit, we used estimates of the payments made by CWDs to the FFAs for the administrative and social work components. It was not practicable to obtain actual payment information at CDSS for the administrative component, and the payment information for the social work component, although available, did not correspond to the period of time in which the services were provided. In estimating the payments, we used information reported in the "Days of Care Schedule" included in the rate request applications submitted by the FFAs. The information reported by the FFAs was not audited or independently verified. A description of the estimation methodology is provided in Appendix B of this report.

In comparing estimated payments to costs, we used costs reported by the FFAs as having been incurred during the reporting period which were included in the "Total Program Cost Display" portion of the rate request applications. The information included in these rate request applications was also not audited or independently verified.

For the information included in the "Days of Care Schedule" and the "Total Program Cost Display," we mathematically verified the total days of care reported and the summations of costs for administration, recruitment, training and social work included in the rate application documents covering the FFAs' reporting period ended December 31, 1995.

We reviewed the CDSS methodology in determining the payment rates for FFAs, including the rate calculation policies and procedures. Our audit included discussions with CDSS officials and a review of applicable Federal and State regulations, policies and procedures. We also reviewed CDSS documentation and made tests to ensure that the CDSS was following its established procedures for determining and authorizing rates for paying the FFAs.

We reviewed those internal controls which were applicable to the setting of FFA rates and relied upon audit work performed under a related audit performed concurrently by us (CIN: A-09-96-00071). We determined that the scope of our audit did not require an overall review of the internal controls for making payments to FFAs, or controls over determining the eligibility of the children for the Federal foster care program. The audit was conducted from June 1996 through April 1997 with field work performed at the CDSS offices located in Sacramento, California.

# FINDING AND RECOMMENDATION

## FFA RATE METHODOLOGY

Our audit disclosed that the rate methodology was not adequate to ensure that the Federal foster care program was charged only for costs necessary for the proper and efficient administration of the foster care program. Documentation obtained in our audit disclosed that the rates established for the administrative component, which are federally reimbursed at 50 percent, were too high; and, the rates established for the social work services component, which are not reimbursed under the federally assisted foster care program, were too low.

Documentation obtained in our audit indicated that 83 percent of the FFAs reviewed received payments under the administrative component in excess of their reported costs. The information indicated that, for our audit period, the FFAs were paid at least \$29.6 million more than administrative costs reported by the FFAs as having been incurred. Based on the federally-eligible foster care caseload<sup>1</sup>, we estimate that approximately \$24.8 million of the \$29.6 million would have been claimed for FFP. Based on the FFP rate of 50 percent, the Federal share of the \$24.8 million was \$12.4 million.

Conversely, the documentation indicated 93 percent of the reviewed FFAs' reported costs of providing social work services were higher than the amount paid through the social work component. Our analysis showed that the social work costs reported by the FFAs for our audit period exceeded the amounts paid by an estimated \$18.0 million. The payments for the social work component would have to be covered from other fund sources because they were not eligible for reimbursement under the Federal foster care program and accordingly were not claimed as such. However, the rates allowed for the social work component need to be reevaluated in light of the significant variance between the payments and reported costs.

Because of the wide variance between the payments made for the administrative and social work components to the reported costs of these components, the CDSS needs to make a current study of the FFA rate methodology in effect, and make revisions to the rates to ensure that only costs necessary for the proper and efficient administration of the program are claimed for FFP.

## Background Information

**Description of FFA Rate Structure.** In 1984, the CDSS conducted a study to develop and implement by July 1, 1985, a rate-setting system for FFAs (formerly called home-finding agencies). Under the established system, FFAs are paid on a monthly basis for each child placed into a foster family home. The amount paid depends on the child's age and whether the child requires treatment services or not. The maximum monthly payment for FFA treatment programs as of December 31, 1995, generally ranged from \$1,283 to \$1,515 as shown in the following table.

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<sup>1</sup>For the year ended December 31, 1995, Federally-eligible foster care cases represented about 84 percent of the State's total foster care caseload.

Component	Child's Age				
	0 - 4	5 - 8	9 - 11	12 - 14	15 - 18
Basic Rate	\$345	\$375	\$400	\$444	\$484
Child Increment	175	175	175	175	175
Social Work Component	250	250	250	250	250
Administrative Component	513	533	550	579	606
Total	\$1,283	\$1,333	\$1,375	\$1,448	\$1,515

Payments to 4 of the 143 FFAs were less than the maximum because they reported prior costs incurred for social work that were less than the allowed maximum of \$250. Also, 9 of the 143 FFAs were paid at rates which were higher than the above amounts because the higher rates were in effect when the rate-setting methodology was established.

The amounts provided for the basic rate and child increment are to be paid to the foster family homes by the FFAs as required by State regulations. Payment amounts provided for the social work and administrative components are retained by the FFAs.

**Provisions of Federal Regulations.** The Code of Federal Regulations (CFR), Section 1356.60, defines the categories of costs which are available for Federal matching funds under the title IV-E program. Examples of allowable costs are the (1) foster care maintenance payments to cover the basic needs of the child in foster care, such as food, clothing, shelter, and daily supervision; and (2) administrative costs necessary for the proper and efficient administration of the program. Examples of allowable administrative costs are foster home licensing, and recruitment, training and supervision of foster parents. The allowable costs do not include the costs of social work services provided to the child, the child's family or foster family which provide counseling or treatment to improve or remedy personal problems, behaviors or home conditions.

## Analysis of the Administrative and Social Work Components

As described above under Objectives, Scope and Methodology, our audit included an analysis involving 143 FFAs. The FFAs are required to submit a rate request application each year, and the application includes reports of incurred costs for the prior calendar year ended December 31. The costs are allocated by the FFAs to the following four categories:

- ▶ Administration
- ▶ Recruitment
- ▶ Training
- ▶ Social Work

**Analysis of the Administrative Component.** The administrative component of the FFA rate consists of administration, recruiting, and training. For our audit period, the 143 FFAs included in our audit reported costs incurred for the administrative component totaling \$38.2 million.

Records available at CDSS did not identify how much had been paid to the FFAs for the administrative component of the rate. Payment information available at CDSS was based on monthly expenditure reports submitted by the CWDs and contained total amounts paid to each FFA. However, the reports did not identify how much of the total was represented by the administrative component. To determine how much of the FFA payments was represented by the administrative component would have required a review of records in each of the counties in California which utilized FFA services. This was not practicable or necessary for the purpose of our audit because we had information from which we were able to make a reasonable estimate of the payments under the administrative component.

Using the methodology described in Appendix B, we estimated that at least \$67.8 million was paid to the 143 FFAs for administration, recruiting and training for the period covered by our audit. This represents \$29.6 million more than the \$38.2 million in administrative costs reported by the FFAs for the same period. Since the payments are claimed by CDSS on statements of expenditures submitted to the Federal government for FFP, Federal reimbursement significantly in excess of the Federal matching share of reported costs has resulted.

As previously noted, the FFA rate methodology was developed in 1985, or about 12 years ago. At that time, it was determined that the authorized payment for administration would be set at two-thirds of the amounts allowed for the other components of the FFA rates. Since that time, the FFAs have been required to submit reports reflecting costs incurred for administration recruiting and training. Based on our review of the reports applicable to our audit period, those reports show that the two-thirds methodology is not currently valid. Accordingly, the CDSS should make a current study of the rate methodology and make an appropriate adjustment to the rates. We are not making a recommendation for a refund of any overpayment resulting from the outdated CDSS rate methodology because the estimates used in this report are based on unaudited cost reports submitted by the FFAs, and it was not practicable to audit the reported costs.

**Analysis of the Social Work Component.** As described in the Background, the amounts provided for the social work component are based on each FFA's average monthly costs per child for the prior year up to a maximum of \$250. For our audit period, we determined that the 143 FFAs included in our audit reported costs for the social work component totaling \$48.9 million.

The monthly expenditure reports submitted by the CWDs to CDSS contained total amounts paid to each FFA, and the amounts paid were offset by the portion of the payments that were provided for the social work component. However, the time period covered by the payments did not correspond to the time period for which FFA costs were incurred. The time period covered by the payments related to when the FFA payments are made, and not to when the FFA services were rendered. Therefore, we were unable to use the FFA payment information reported by CWDs for our audit. However, we had information such as the occupancy data

reported by the FFAs and the CDSS authorized social work rates from which we were able to make a reasonable estimate of the payments under the social work component.

Using the methodology described in Appendix B, we estimated that at least \$30.9 million was paid to the 143 FFAs for the period covered by our audit. This represents \$18.0 million less than the \$48.9 million in social work costs reported by the FFAs.

In 1987, CDSS developed proposed changes to State regulations for FFAs, one of which would have increased the social work component amount from \$250 to \$300. The requested increase was based on information on social work costs for State fiscal years 1986 and 1987 which indicated that costs were averaging about \$300. However, the rate was not increased, and we were not able to determine the reason for not increasing the rate. Based on the costs reported by the FFAs for our audit period, the average social work cost was about \$424 per month per child.

## **Conclusion and Recommendation**

The methodology for setting FFA rates in California does not ensure that the payments claimed for Federal reimbursement under the title IV-E program are necessary for the proper and efficient administration of the program. Our review showed that the administrative payments which were claimed as costs to the title IV-E program were significantly greater than the costs reported by the FFAs as having been incurred. This indicates that the Federal government was charged for payments in excess of those necessary for the proper and efficient administration of the program. Thus, there is a need for CDSS to reevaluate the basis used to compensate the FFAs for administering the program.

Further, our review showed that the payments made to the FFAs under the social work component were significantly less than costs that the FFAs reported for providing social work services. As noted previously, the payments for the social work component would have to be covered from other fund sources because they were not eligible for reimbursement under the Federal foster care program and accordingly were not claimed as such. However, the rates allowed for the social work component need to be reevaluated in light of the significant variance between the payments and reported costs.

Accordingly, we recommend that CDSS make a current study of the FFA rate methodology in effect, and make revisions as necessary to help ensure that only costs that are necessary for the proper and efficient administration of the title IV-E foster care program are claimed for FFP.

## **CDSS COMMENTS AND OFFICE OF AUDIT SERVICES RESPONSE**

**CDSS Comments.** The CDSS's comments on the draft report for this audit are summarized below. A copy of the comments is appended to this report (see Appendix C).

The CDSS concurred with the recommendation, and stated that a review of the FFA rate methodology may be necessary to help ensure that only costs associated with the proper and efficient administration of FFAs are claimed for FFP. The CDSS commented that it did not

believe that a new rate study was warranted, and stated that it will review current FFA cost data to identify changes in rate-setting and claiming procedures which may need to be made.

Although CDSS concurred with the finding and recommendation, it commented that the variance between the administrative costs paid by the State and the incurred costs, as reported by the FFAs, was considerably less than the variance included in our report. The reason cited by CDSS was that the audit report did not include \$11.4 million of social work administrative costs in the total costs reported by the FFAs for administration, recruiting and training.

**Office of Audit Services Response.** The \$11.4 million of social work administrative costs cited by CDSS response would result in a variance of \$18.2 million, rather than the \$29.6 million included in our report, between:

- (i) the estimated payments made by the State to FFAs for administrative costs, and
- (ii) the FFA administrative costs (administration, recruiting and training) incurred, as reported by the FFAs.

However, we do not consider it appropriate to include the social work administrative costs in the costs for administration, recruiting and training. The social work administrative costs are reported by the FFAs as part of the total social work costs incurred by the FFAs, and are used to establish the amount paid for the social work component of the FFA rates. Our methodology for comparing the payments to the reported costs was consistent with the instructions given by the CDSS and the procedures followed by the FFAs for reporting administrative costs related to the social work activities of the FFAs. The reporting of social work administrative costs separately from other administrative costs is needed because the costs of social work are not reimbursable under the Federal foster care program.

# **APPENDICES**

## SELECTION OF FFAs FOR ANALYSIS

The comparison of the estimated amounts paid for the social work and administrative components to the amounts reported by the FFAs as having been incurred for those components, involved all FFAs which had:

- (i) submitted a current rate request application for the State fiscal year beginning July 1, 1996, which was received by the CDSS on or before June 12, 1996, and had programs serving problem children and thus required special FFA rates, and
- (ii) actual child placements and costs for the reporting period ended December 31, 1995.

Of the 195 FFAs on the CDSS database as of June 12, 1996<sup>2</sup>, 143 FFAs met this criteria, and 52 did not. Of the 52 FFAs:

- ▶ 39 were initial providers and either did not have actual costs incurred or child placements for the reporting period, or had not submitted a current rate request application because it was not yet due.
- ▶ 6 were no longer in business.
- ▶ 4 were overdue for submitting a current rate request application since the CDSS had not received them as of June 12, 1996.
- ▶ 3 had programs in which the FFA rate methodology was not applicable; one was an FFA pilot project. and two did not have programs for serving problem children.

We mathematically verified the reported summations of costs for administration, recruitment, training and social work, as well as the total client days of care, reported by FFAs in their rate request application documents for the State fiscal year beginning July 1, 1996. We did not audit the costs or days of care reported by the FFAs.

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<sup>2</sup>This represents an increase of one FFA over the 194 FFAs in operation as of June 30, 1995, as cited in our report under Background.

## ESTIMATION METHODOLOGY

The audit included an estimate of the total administrative and social work amounts *paid* by the CWDs to the FFAs for the year ended December 31, 1995. The estimate was used in our evaluation of the reasonableness of the amounts paid by the CWDs to the FFAs for the administrative and social work components of the rates. Our evaluation involved comparing *the incurred* administrative and social work costs [as reported by the FFAs] to the *estimated* administrative and social work amounts *paid* to the FFAs by the CWDs. The FFA population consisted of all FFAs for which incurred cost information was available for the year ended December 31, 1995. There were 143 such FFAs, as presented on Appendix A.

The CDSS did not have summary records on actual payments to each FFA for the administrative and social work components of the payments for calendar year 1995. Accordingly, our audit included an estimation of the amounts paid to the FFAs for those components. Our estimation procedure for the administration component resulted in amounts which we considered conservative and would be less than the actual payments made. The estimation procedure for the social work component produced a result which should closely approximate the amounts actually paid.

Our report used administrative and social work payment totals derived by adding the estimated payments for each of the 143 FFAs. The estimated administrative and social work amounts paid to the 143 FFAs for calendar year 1995 were calculated as follows:

### Estimated Administrative Component Payments

$$\begin{array}{rcl} \text{Number of Per-child} & & \text{Lowest Authorized} \\ \text{Monthly Payments} & \times & \text{Administrative} \\ & & \text{Component Payment Rate} = \text{Estimated Total} \\ & & \text{Payments for} \\ & & \text{Administrative} \\ & & \text{Component} \end{array}$$

In most cases, the lowest administrative component payment rate used was for the age group O-4. However, this age group was different for some FFAs which had higher rates.

Number of FFAs	Age Group	Lowest Administrative Component Amount Used
131 FFAs	o-4	\$513
6 FFAs	o-4	\$532*, \$528*, \$528*, \$511, \$502 and \$477
5 FFAs	15-18	\$1070*, \$1068*, \$615*, \$615*, and \$548*
1 FFA	12-14	\$579*

\* FFAs had a higher rate because the higher rate was in effect when the rate-setting methodology was established in 1985.

## Estimated Social Work Component Payments

Number of Per-child Monthly Payments	X	Authorized Social Work Component Payment Rate	=	Estimated Total Payments for Social Work Component
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Except for a few FFAs, the social work component amount used was the cap of \$250 set by the CDSS. Of the 143 FFAs, only 4 had a social work amount authorized by CDSS which was less than \$250. The social work amounts lower than \$250 were: \$245, \$246, \$233, and \$193.

The number of per-child monthly payments was derived by using information reported by FFAs on "Days of Care Schedule" (FCR 3FFA), which shows the average child occupancy and monthly days of care in calendar year 1995. The total number of per-child payments was obtained by using the following calculation:

$$A \times B = C$$

Where:

A = average child occupancy in calendar year 1995

B = number of payment months in calendar year 1995

C = total number of per-child payments for calendar year 1995

STATE OF CALIFORNIA—HEALTH AND WELFARE AGENCY

PETE WILSON, Governor

DEPARTMENT OF SOCIAL SERVICES  
744 P Street, Sacramento, CA 95814

August 28, 1997

Mr. Lawrence Frelot  
Regional Inspector General for Audit Services  
U.S. Department of Health and Human Services,  
Region IX  
50 United Nations Plaza  
San Francisco, California 94102

Dear Mr. Frelot:

SUBJECT: DRAFT AUDIT REPORT A-69-96-00082, "AUDIT OF THE CALIFORNIA DEPARTMENT OF SOCIAL SERVICES RATE-SETTING METHODOLOGY FOR FOSTER FAMILY AGENCIES."

The California Department of Social Services (CDSS) response to the U.S. Department of Health and Human Services, Office of Inspector General, Office of Audit Services' draft report referenced above is enclosed. We appreciate the opportunity you have provided us to furnish information and comment on the findings and for granting the CDSS additional time to submit our response, as we requested.

The CDSS concurs with the auditors' finding that a review of the current FFA rate methodology may be necessary to help ensure that only costs associated with the proper and efficient administration of the program are claimed for FFA. However, the CDSS believes that this review can be based on cost data currently available to the CDSS rather than on data obtained through a new study.

If you have any questions about the CDSS comments, please call Patric Ashby, Chief, Foster Care Branch, at (916) 324-9084.

Sincerely,

A handwritten signature in cursive script that reads 'Marjorie Kelly'.

MARJORIE KELLY  
Deputy Director  
Children and Family Services Division

Enclosure

**CALIFORNIA DEPARTMENT OF SOCIAL SERVICES (CDSS)**

The following are the CDSS comments in response to audit findings and recommendations contained in the Department of Health and Human Services Office of Inspector General (OIG) draft report A-09-96-00052 entitled "Audit of the California Department of Social Services Rate-Setting Methodology Car Foster Family Agencies."

**Finding:** FFA Rate Methodology  
(Draft Report, page 9)

The methodology for setting FFA rates in California does not ensure that the payments claimed for Federal reimbursement under the title IV-E program are necessary for the proper and efficient administration of the program. The auditors' review showed that the administrative payments which were claimed as costs to the title IV-E program for calendar year (CY) 1995 were significantly greater than the costs reported by the FFAs as having been incurred. This indicates that the federal government was charged for payments in excess of those necessary for the proper and efficient administration of the program. Thus, there is a need for the CDSS to reevaluate the basis used to compensate the FFAs for administering the program.

Further, the auditors' review showed that the payments made to the FFAs under the social work component were significantly less than costs that the FFAs reported for providing social work services during CY 1995. Although the social work costs were not claimed for reimbursement, the rates allowed for the social work component need to be reevaluated in light of the significant variance between the payments and reported costs.

**Recommendation:**

We recommend that the CDSS make a current study of the FFA rate methodology in effect, and make revisions as necessary to help ensure that only costs that are necessary for the proper and efficient administration of the title IV-E foster care program are claimed for FFA. (Draft Report, page 9)

**CDSS Comments:**

The CDSS concurs that a review of the FFA rate methodology may be necessary to help ensure that only costs associated with the proper and efficient administration of FFAs are claimed for FFP. We believe that a new rate study is unwarranted at this time because the CDSS now has current cost data available from 143 FFAs to use as a basis for determining whether the existing rate-setting methodology reflects current needs. During State Fiscal Year 1997/98, the CDSS intends to review current FFA cost data to identify any changes in rate-setting and claiming procedures which may need to be made to ensure that only costs that are necessary for the proper and efficient administration of the FFA program are claimed for FFP and then pursue any necessary changes.

The CDSS requests that the OIG also consider the following discrepancies in the draft report:

- The discrepancy between administrative costs paid by the State and costs claimed by FFAs is considerably smaller than the amount identified by the auditors because the auditors did not include \$11.4 million in social work administrative costs reported by FFAs for CY 1995. The CDSS response to a related draft audit report (A-09-96-00071) identified \$51.66 million in total administrative costs reported by FFAs for CY 1995.

- The discussion of current FFA rate methodology (pp. 1 and 2) does not mention that some FFAs receive non-treatment rates.
- The child care increment of \$175 which is included in the treatment rate is incorrectly referred to on page 2 of the draft report as a specialized care increment. The term "specialized care increment" now refers to a payment made by some counties to foster family homes which receive non-treatment rates or which are not affiliated with FFAs.

[Office of Audit Services note - The shaded area represents comments applicable to the draft report that are no longer relevant due to changes made in the final report.]