REPORT OF

THE

STATE AUDITOR

Foster Care Financial Activities
Department of Human Services

Performance Audit
September 2007

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September 14, 2007

Members of the Legislative Audit Committee:

This report contains the results of a performance audit of the financial activities of the foster care program administered by the Department of Human Services. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The report presents our findings, conclusions, and recommendations, and the responses of the Department of Human Services.

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STATE OF COLORADO
OFFICE OF THE STATE AUDITOR **REPORT SUMMARY**

SALLY SYMANSKI, CPA
State Auditor

Foster Care Financial Activities
Department of Human Services
Performance Audit
September 2007

Authority, Purpose, and Scope

This performance audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct performance audits of all departments, institutions, and agencies of state government. The audit work, performed from January to July 2007, was conducted in accordance with generally accepted government auditing standards.

This is the second audit report on the foster care system completed by our Office this year. The first audit (*Foster Care Services Performance Audit*, May 2007) focused on the Department of Human Services' (Department's) supervision of foster care services provided by county departments of human/social services and child placement agencies (CPAs) in the State. CPAs are private entities that arrange for the placement of children in family foster homes or group homes. This second audit evaluates the Department's methods for ensuring that foster care funds are used effectively and reviews the costs of foster care provided through family foster homes, group homes, kinship care, and receiving homes. The audit did not review institutionalized forms of out-of-home care such as care provided by residential child care facilities (RCCFs).

We gratefully acknowledge the assistance and cooperation extended by management and staff at the Department of Human Services and county departments of human/social services.

Overview

Under statute [Sections 26-1-111 and 118, C.R.S.], the State's foster care system is supervised by the Department but is directly administered by counties. Once a child has been removed from the home, the counties authorize payments for foster care services each month based on daily rates either set by the Department or negotiated between the county and the provider. Providers include family foster homes certified by counties or CPAs, kinship care, receiving homes, and institutional providers, such as RCCFs.

In total, the Department spent about $379 million at the state and local level on child welfare services in Fiscal Year 2007. This includes about $65 million for out-of-home placements and about $46 million for Core Services, which are designed to prevent or shorten out-of-home placements. Generally, the counties are required to fund 20 percent of child welfare expenditures. The State is responsible for funding the remaining 80 percent, using a combination of state and federal sources. In Fiscal Year 2007, federal moneys represented about 29 percent of the State's child welfare expenditures.

Key Findings

State and federal funding for child welfare services, including foster care, are limited. As a result, it is important that the Department and counties have sufficient controls to ensure families and children receive quality services at a reasonable cost. We reviewed the Department's controls for containing child welfare costs in three areas, including: (1) setting foster care rates and linking rates with levels of service; (2) allocating child welfare funds to counties and claiming federal reimbursements for foster care; and (3) practices for ensuring counties and CPAs spend foster care funds in accordance with federal and state requirements. As described below, we found the Department does not compile enough information, perform sufficient analysis, or provide adequate oversight to determine whether child welfare funds, including those spent on foster care, are being used efficiently to provide the necessary services to children.

Foster Care Rates

Counties pay daily rates for foster care services. Rates include three main components: (1) child maintenance—which covers the costs of raising the child; (2) administrative maintenance—which covers CPA and group home administrative costs; and (3) administrative services—which covers the costs of providing direct therapy or other treatments to the foster child. We evaluated Department controls for overseeing county foster care rates and found the Department lacks sufficient mechanisms to ensure the State is paying optimal rates that reflect the child's needs:

- **Controls over rate-setting.** We found that the Department's base administrative maintenance and services rates, which the Department sets to guide county rate-setting and comply with federal requirements, were inaccurate for all four CPAs in our sample. We estimate that during Fiscal Year 2006 the counties could potentially have saved about $316,000 in administrative payments to the four CPAs (or about 30 percent of the more than $1 million actually paid to these CPAs), if the counties had paid the CPAs the accurate base rates.

  We also found no evidence that the Department reviews and approves the counties' rate negotiation methodologies, as required by statute. As a result, the Department cannot demonstrate that current foster care rates, which ranged across counties from $23.26 to $35.80 for child maintenance and from $3.99 to $23.09 for administrative maintenance during Fiscal Year 2007, are reasonable.

- **Level-of-care assessments.** We found that level-of-care assessments, which assess the service needs of foster children and should be considered when determining rates for foster care services, were missing from 31 of the 78 (40 percent) county files we reviewed. Further, of the 102 level-of-care assessments we reviewed, 69 assessments (68 percent) contained an identified level of care that did not support the rate paid to the provider or the CPA.

- **Provider rate increases.** We found that the Department did not include provider rate increases authorized by the General Assembly in its base rates. In addition, out of 10 counties we surveyed, none reported specifically passing along these authorized rate increases to providers. The General Assembly authorized increases totaling about 5.1 percent (when compounding is considered) from Fiscal Years 2002 through 2007. Statewide, average actual child maintenance and administrative rates paid to providers during the same time period increased by 11 percent and 18 percent respectively, or more than the 5.1 percent authorized by the General Assembly.

- **Foster care cost comparison.** The statutes require the Department to conduct a meaningful comparison of foster care expenditures at counties and CPAs. We found the Department's analyses lacked comparable, complete, and valid data; did not factor in the foster child's level-of-care needs; and were not produced timely.

Child Welfare Funding

Senate Bill 97-218 created a capped child welfare block grant, which ties a county's child welfare allocations to its caseload levels. The statutes require the Department to manage the allocation of child welfare funds to the counties and to obtain federal matching funds for foster care services. We evaluated these areas and identified the following problems:

- **Program services costs.** The Department lacks data to determine whether increases in county case management costs (i.e., for direct services to families), increases in county administrative costs, or both, are driving the relatively large increases in program services. County costs for program services grew by 21 percent from Fiscal Years 2003 through 2006, while child welfare caseloads associated with program services grew by only 9 percent. Program services costs represented 43 percent of total child welfare expenditures in Fiscal Year 2006 compared to 38 percent in Fiscal Year 2003.

- **Department oversight of the child welfare allocation model.** The Department lacks detailed knowledge about how the child welfare allocation model works, such as how the model's numerous formulas interact with and affect each other. The Department has also not performed the systematic analysis necessary to determine if the model is working as intended to allocate limited funds in a fair and cost-effective manner. For example, all of the medium and small counties experienced one or more caseload shifts of 10 percent or greater during Fiscal Years 2003 through 2006, but did not receive corresponding changes in funding levels.

- **Federal reimbursements.** The Department has not sought clarification from the federal government regarding whether certain case management expenses are eligible for federal reimbursement under Title IV-E of the Social Security Act. We estimate that the Department could have potentially claimed additional case management reimbursements

totaling approximately $4.5 million between July 2002 and December 2006, or about $1 million annually.

Controls Over Expenditures

We tested the Department's controls in three areas: CPA foster care administrative expenses and payments to foster parents; county payments for Core Services; and county payments for the federal John H. Chafee Foster Care Independence Program (Chafee), which helps older children in foster care transition to self-sufficiency. We found the following:

- **CPA expenditures and payments.** We questioned $69,600 in expenditures at eight CPAs because the expenditures were unreasonable, unallowable, or not supported by adequate documentation. Questioned costs included rebates paid to counties by CPAs and donations to religious organizations. We also found that CPAs did not pass along the correct child maintenance payment to foster parents, as required by Department regulations. Of the 255 foster parents in our sample, 73 received payments totaling about $35,000 more than CPA received from the county and 45 received payments totaling about $6,000 less than the CPA received from the county. Further, payments to 68 (27 percent) of the 255 foster parents did not match the contracted amounts between the counties and CPAs.

- **Chafee expenditures.** Of 141 Chafee transactions valued at $118,000, we questioned 71 (50 percent) transactions valued at $48,000 either because documentation was insufficient or the expenditures were unallowable. We also identified a lack of segregation of duties, expenditure coding errors, and insufficient inventories of gift cards and household items paid for with Chafee funds at the counties we visited.

- **Core Services.** Out of 64 family case files reviewed at seven counties, 19 (30 percent) did not contain county authorizations for receiving Special Economic Assistance (SEA), and 56 percent of applicable files did not document that families were at "imminent risk" of an out-of-home placement before they received SEA, as required by Department policy. Additionally, of the eight counties we visited, only one charged parental fees for Core Services, as required by statute. We estimate that nearly $600,000 in additional funding for Core Services could be available statewide if counties charged fees for Core Services.

- **Data reliability.** We identified about 499,000 records related to about 16,000 children with overlapping service dates in Trails, the Department's automated case management system. These overlapping records create a risk for overpayments to providers. In general, controls in Trails were insufficient to prevent improper payments.

Our recommendations and responses from the Department of Human Services can be found in the Recommendation Locator and in the body of the report.

RECOMMENDATION LOCATOR
Agency Addressed: Department of Human Services

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	23	Improve accountability for child welfare expenditures and foster care rates to ensure funds are used cost-effectively by (a) analyzing the foster care rates being paid to providers against provider costs and benchmark information on a periodic (e.g., annual) basis; (b) revising the formula for setting base administrative maintenance, administrative services, and child maintenance rates for child placement agencies (CPAs) and group homes and advising counties to consider these revised base rates in their rate negotiations; (c) improving supervision and oversight of the counties' rate setting and negotiating process; and (d) identifying and considering alternative rate-setting methodologies that rely on objective cost data to pay for foster care services.	a. Partially Agree b. Agree c. Agree d. Partially Agree	a. July 2008 b. July 2009 c. December 2008 d. December 2008
2	28	Ensure that county departments of human/social services pay foster care rates that reflect the foster child's level of care and service needs by (a) working with counties to develop and implement a validated, statewide level-of-care assessment tool; (b) updating the Trails system to include fields for recording the child's level of care and requiring counties to include this information in Trails; and (c) conducting periodic file reviews at counties and analysis of actual rates paid by counties to ensure they are using level-of-care tools to assist with setting foster care rates.	a. Partially Agree b. Agree c. Agree	a. January 2009 b. March 2009 c. June 2009
3	32	Ensure that county departments of human/social services incorporate procedures for considering the child welfare provider rate increases authorized by the General Assembly in county rate adjustments and negotiations by (a) adjusting Department base anchor rates accordingly when the General Assembly authorizes provider rate increases and (b) requiring counties to report changes in their foster care provider rate methodologies to the Department and indicate the factors considered in determining the changes.	Agree	December 2008
4	36	Improve the foster care cost comparison report required by statute by (a) working with county departments of human/social services to develop an effective method for comparing foster care costs at foster homes certified by counties and by child placement agencies and (b) seeking statutory change to allow the cost comparison to be based on actual payments made for foster care services rather than on reported expenditures.	Disagree	None provided.

RECOMMENDATION LOCATOR
Agency Addressed: Department of Human Services

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
5	45	Improve information for evaluating county administrative and case management costs in the child welfare allocation model by (a) working with county departments of human/social services to identify and evaluate options for using or modifying existing systems to improve cost information, and (b) using the improved cost information to analyze administrative and case management costs in the program services cost driver and considering allocating funds for administrative and case management costs in the child welfare allocation model separately.	a. Partially Agree b. Disagree	a. October 2009 b. None provided.
6	47	Seek a formal opinion from the Attorney General's Office to ensure the Department's process for redistributing surplus child welfare allocation funds complies with statute and document changes to the surplus distribution process as appropriate.	Agree	July 2008
7	50	Improve the stability of county child welfare allocations for the balance-of-State counties by (a) analyzing significant changes in caseloads and allocations for the balance-of-State counties to determine if the model is working as intended and taking appropriate steps to resolve any problems identified, (b) developing and implementing written criteria for determining when counties are eligible for mitigation funds and how much they will receive in mitigation funds, and (c) documenting the review process and decisions made to approve or deny requests for mitigation funds and the amount of mitigation funds each county receives.	Agree	October 2008
8	54	Improve oversight of the child welfare allocation model by (a) developing a comprehensive understanding of the model and conducting systematic analysis to determine whether the current model is the most effective and appropriate method for allocating the child welfare block grant, (b) maintaining documentation of all source data used to generate the annual county allocations and performing a supervisory review to ensure the accuracy of the allocations, and (c) restructuring its relationship with the model's contractor.	Agree	July 2009

RECOMMENDATION LOCATOR
Agency Addressed: Department of Human Services

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
9	58	Ensure that Title IV-E-eligible reimbursements for foster care are claimed appropriately by (a) contacting the U.S. Department of Health and Human Services (DHHS) to determine whether all case management costs qualify for federal reimbursement and should be included as part of administrative maintenance costs; (b) ensuring Department staff and county departments of human/social services record and classify case management services in accordance with the direction provided by DHHS in part "a"; (c) implementing procedures for verifying that counties are entering rate information into Trails accurately and for ensuring that payments to counties reflect adjustments for any federal funds claimed incorrectly for reimbursement under Title IV-E; and (d) reviewing the incorrect payment allocations identified during our audit, requiring the affected counties to pay back any federal funds that did not qualify for Title IV-E reimbursement, and making appropriate adjustments on reports to the federal government.	Agree	December 2008
10	65	Improve controls over administrative foster care funds expended by child placement agencies (CPAs) by (a) evaluating the substance of the relationship between counties and CPAs based on OMB *Circular A-133* criteria and concluding on whether CPAs should be considered vendors or subrecipients, (b) implementing requirements for audits of CPAs in accordance with the determination suggested in part "a" of the recommendation, (c) establishing procedures to review the CPA audits and follow up on any findings identified, (d) evaluating options for reviewing the allowability and appropriateness of CPA expenditures made with child welfare funds, and (e) including examples of unallowable costs in regulations.	a. Agree. b. Agree c. Partially Agree d. Partially Agree e. Agree	a. July 2008 b. December 2008 c. December 2009 d. December 2009 e. January 2008
11	69	Ensure that child placement agencies (CPAs) pass along the correct child maintenance payments received from county departments of human/social services to foster parents by (a) implementing routine, periodic reviews of the payments made from CPAs to foster parents to ensure that they match the payments received from counties, and (b) following up on identified over- or underpayments to foster parents to determine why the incorrect payments were made and to require that counties and CPAs rectify all incorrect payments.	Agree	October 2008

RECOMMENDATION LOCATOR
Agency Addressed: Department of Human Services

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
12	72	Improve internal controls over federal Chafee funds by (a) establishing procedures to review samples of Chafee expenditures made by county departments of human/social services for allowability and appropriateness, (b) ensuring that the county identified during this audit that maintains Chafee funds in a separate bank account adheres to proper internal controls, including segregation of duties, as set forth in Department regulations, (c) requiring that counties track inventories of goods (e.g., gift cards and household items) purchased with Chafee funds, and (d) providing training and technical assistance to counties to strengthen the controls over Chafee expenditures.	Agree	December 2008
13	76	Improve controls over Special Economic Assistance (SEA) expenditures by (a) ensuring counties limit services to families with children at risk of out-of-home placement and use SEA funds only for eligible services and (b) verifying on a sample basis that counties have properly authorized the use of SEA funds before expending them and are either paying these funds directly to vendors or documenting exceptional circumstances when making payments to families.	Agree	October 2008
14	78	Work with county departments of human/social services to determine if charging fees for Core Services is appropriate and feasible and revise its regulations or work with the General Assembly as necessary to ensure that counties are meeting legislative intent with regard to charging fees for Core Services.	Agree	December 2008
15	82	Strengthen the reliability of data in Trails by (a) compiling a list of edit checks currently implemented in Trails and implementing additional edit checks to address any identified weaknesses; (b) investigating overlapping service records involving 30-day and 7-day absence foster care payments, and clearly defining in regulations when it is appropriate for county departments of human/social services to use the 30-day and 7-day absence payment codes; (c) developing exception reports for Trails to ensure data are reliable, consistent, and reasonable; (d) creating a comprehensive data dictionary for Trails, including definitions for data used in the cost drivers in the child welfare allocation model; and (e) performing analysis to identify any data consistency problems that could affect the cost drivers for the child welfare allocation model and correcting them.	Agree	February 2009

Overview of Colorado's Foster Care Financial Activities

This is the second of two reports related to our evaluation of foster care in Colorado. The first report (*Foster Care Services Performance Audit*, May 2007) focused on how the State (1) keeps children safe in foster care; (2) ensures high-quality foster care; and (3) provides Core Services, which are designed to prevent or shorten foster care placements or keep children in less restrictive placements. The first report also provided more general background information on how the foster care system works. This second report discusses the State's efforts to ensure the cost-effective use of funds spent on foster care and related activities. The State spent about $65 million on foster care placements in Fiscal Year 2007. The State also spent about $152 million on direct services and staff salaries to administer the child welfare system, including overseeing foster care.

Colorado's child welfare system typically provides services for children under the age of 18 who need protection, are in conflict with their families or communities, or require other specialized services. Under statute [Sections 26-1-111 and 118, C.R.S.], the system is supervised by the Colorado Department of Human Services (Department) but is directly administered by county departments of human/social services. If the county believes foster care is the only way a child can be kept safe, it must petition the court for an order to take custody of the child. Once a child has been removed from the home, the counties authorize payments for foster care services each month based on rates either set by the Department or negotiated between the county and the provider. Providers include family foster homes, which care for up to four foster children at any time; kinship care, which are family foster homes operated by relatives of the foster child; receiving homes, which provide temporary foster care until a permanent placement can be found; and institutional providers, such as:

- **Child placement agencies (CPAs).** These are private entities that contract with county departments of human/social services to certify some foster homes, including group homes.

- **Group homes.** Certified by either counties or CPAs, these foster homes are approved to care for 5 to 11 foster children at a time in a family home-type setting.

- **Residential child care facilities (RCCFs).** RCCFs provide 24-hour residential group care and treatment for five or more children. These include

therapeutic RCCFs (TRCCFs), which provide Medicaid fee-for-service therapeutic 24-hour care for foster children in a structured environment.

- **Psychiatric residential treatment facilities (PRTFs).** PRTFs are residential child care facilities that serve foster children with the most severe mental health needs. These facilities are paid on a per diem basis by Medicaid.

TRCCFs and PRTFs replaced residential treatment centers in July 2006.

Federal Oversight

The federal Adoption and Safe Families Act and Titles IV-B and IV-E of the federal Social Security Act govern child welfare activities, including foster care, at the federal level. The U.S. Department of Health and Human Services (DHHS) establishes federal regulations for child welfare, including foster care. It also provides oversight of states' child welfare programs through periodic reviews that determine state compliance with federal requirements. For example, DHHS conducts audits to determine if states are correctly determining eligibility for Title IV-E. The federal government awards funds under Titles IV-B and IV-E to the state agencies designated to oversee child welfare and holds the state agencies accountable for meeting federal regulations. For State Fiscal Year 2007, the Department received about $114 million in federal funds for child welfare activities.

State Responsibilities

In addition to generally requiring that the Department supervise the State's child welfare system, several statutes define the Department's role for ensuring that child welfare funds are used cost-effectively, as follows:

- Section 26-5-104(3)(a), C.R.S., requires the Department to develop formulas for a capped child welfare allocation for each county based on caseload and any other factor determined to directly affect the population of children in need of child welfare services.

- Section 26-5-104(6), C.R.S., allows counties to negotiate child welfare rates, services, and outcomes with providers only if they have a method for negotiating rates "that is acceptable to the (Department)."

- Section 26-5-104(7), C.R.S., allows the Department to reallocate unexpended capped funds to those counties that exceeded their allocation because of increases in caseload. Statute does not allow counties to receive additional

funds if they exceeded their allocations because of increased administrative and support costs.

In addition, House Bill 07-1025 requires the Department to promulgate rules governing the methodology that counties may use to negotiate rates, services, and outcomes with providers and to review these methodologies every two years. Finally, the federal Office of Management and Budget *Circular A-133: Audits of States, Local Governments, and Non-Profit Organizations* requires the Department to monitor subrecipients of federal funds, such as those provided by Titles IV-B and IV-E, to ensure compliance with federal laws and regulations.

County Responsibilities

Under statute [Section 26-1-118, C.R.S.], counties serve as agents of the State and are charged with the administration of child welfare activities in accordance with regulations established by the Department. A county typically becomes involved with a family when the county receives a referral about possible abuse or neglect of a child. The counties perform various assessments to determine if the abuse or neglect occurred, whether the county should provide services to the family and, if so, the type and level of services to be provided. County services typically include:

- Case plan development and management to prevent future abuse or neglect and to ensure permanent living arrangements for children.
- Foster care placement for those children who cannot remain home safely.
- Therapy, skills training, or other types of services, known as Core Services, to prevent or shorten foster care placements, achieve permanency, or allow for less restrictive placements.
- Subsidized adoption, which reduces financial barriers to adoption of special-needs children in the custody of the counties by providing subsidies to adoptive families and Medicaid coverage for the adopted child.
- Independent living skills training for children who will emancipate from the foster care system without being adopted.

Counties are responsible for providing child welfare services by either contracting with outside providers or using their own staff. For example, counties may choose to provide foster care through foster homes they have certified and/or establish contracts with CPAs to use CPA-certified homes.

Funding

The General Assembly appropriates funding for all child welfare services, including foster care, through the child welfare block grant. The Child Welfare Allocation Committee, comprised of Department and county representatives, determines how funding should be distributed among the counties. The Department funds child welfare services, including foster care, with a mixture of state general funds, local funds, and federal funds. Under statute, the Department reimburses counties for 80 percent of their expenditures, up to their allocated amount, with a combination of state and federal funds. Counties can choose to spend more of their own funds once they have exhausted their allocation of state and federal funds. In Fiscal Year 2007 the federal government funded about 29 percent of the State's child welfare expenditures, the counties funded about 16 percent, and the remaining 55 percent came from state general funds.

The table on the next page shows total child welfare expenditures, including foster care, for Fiscal Years 2003 through 2007, broken down by type of expenditure.

Department of Human Services
Child Welfare Expenditures [1]
Fiscal Years 2003 Through 2007

	Fiscal Year					Percent Change
	2003	2004	2005	2006	2007	FY03-07
Administration						
Department Admin	$2,353,000	$1,661,000	$1,915,000	$2,296,000	$2,425,000	+3.1%
County 100% Admin [2]	$24,115,000	$24,683,000	$25,141,000	$25,647,000	$26,479,000	+9.8%
County 80/20% Admin [2]	$84,620,000	$89,463,000	$92,840,000	$108,674,000	$123,231,000	+45.6%
Total Administration	$111,088,000	$115,807,000	$119,896,000	$136,617,000	$152,135,000	+36.9%
Out-of-Home Allocation[3]	$81,122,000	$76,255,000	$73,038,000	$74,427,000	$64,774,000	-20.2%
Residential Mental Health[3]	$52,013,000	$54,510,000	$53,489,000	$56,889,000	$60,444,000	+16.2%
Core Services[4]	$40,717,000	$37,660,000	$42,429,000	$46,204,000	$45,901,000	+12.7%
Subsidized Adoption[5]	$36,957,000	$39,980,000	$40,827,000	$41,848,000	$43,029,000	+16.4%
CHRP Allocation[6]	$7,795,000	$7,400,000	$6,781,000	$6,296,000	$5,430,000	-30.3%
Child Welfare-Related Child Care[7]	$3,276,000	$2,885,000	$3,600,000	$2,959,000	$4,432,000	+35.3%
Case Services[8]	$3,171,000	$2,176,000	$871,000	$999,000	$1,042,000	-67.1%
Child Welfare - BHO[9]	$6,836,000	$5,987,000	$3,111,000	$210,000	$0	N/A
Title IV-E Independent Living[10]	$1,363,000	$1,488,000	$1,578,000	$1,726,000	$1,805,000	+32.4%
Total Child Welfare Services	**$344,338,000**	**$344,148,000**	**$345,620,000**	**$368,175,000**	**$378,992,000**	**+10.1%**

Source: Department of Human Services' County Financial Management System and the Colorado Financial Reporting System (COFRS).

[1] Child welfare expenditures in this table include expenditures paid through the child welfare block grant, Core Services, and the Title IV-E Independent Living Program. This table does not include other expenditures related to child welfare, such as Title IV-E eligibility determinations, Title XX caseworker training, Promoting Safe and Stable Families (Title IV-B), Family-to-Family Grant, and the Integrated Care Management Program.

[2] County 100% and County 80/20% both refer to county administration costs. The Department reimburses some administrative costs at 100 percent, instead of the normal 80 percent, due to a lawsuit against the Department in the 1990s alleging that child welfare caseloads were too high. As part of the lawsuit settlement, the Department agreed to expand the number of child welfare caseworkers and to fund these additional caseworkers at 100 percent. The County 100% and County 80/20% line items do not include any additional county-only funds spent on child welfare services.

[3] The Out-of-Home allocation covers the cost of foster care placements including those at therapeutic residential child care facilities (TRCCFs). The Residential Mental Health allocation line covers additional psychiatric services provided to children in placement.

[4] Core Services are designed to prevent out-of-home placements, facilitate reunification with the family, or allow children to move to less restrictive placement settings.

[5] Subsidized Adoption provides financial assistance to families which adopt children that are difficult to place because of age, membership in a sibling group, or medical needs.

[6] The Children's Habilitation Residential Program provides residential services to children and youth in foster care who have developmental disabilities and extraordinary needs.

[7] Foster parents automatically qualify for the Child Care Assistance Program. This category captures these expenses.

[8] These are child welfare services that counties are required to provide by statute but are not included in Core Services. These include medical exams for children involved in child welfare cases and arranging subsidized adoptions (but not the subsidy itself).

[9] Reimbursements to Behavioral Health Organizations (BHOs) for providing mental health services to foster children placed by child placement agencies. As of November 2004, the federal Centers for Medicare and Medicaid Services disallowed these reimbursements because these services are already included in the BHOs' capitation payments under the Medicaid program.

[10] The Title IV-E Independent Living Program, also known as the John H. Chafee Foster Care Independence Program, provides federal funding that states use to help foster children prepare for self-sufficiency after they emancipate from foster care.

As the table shows, overall child welfare expenditures increased about 10 percent between Fiscal Years 2003 and 2007, and expenditures for Department administration increased about 3 percent. County administrative expenditures increased about 10 percent for 100% Admin and about 46 percent for 80/20% Admin, for an overall average increase of 38 percent in county administration. Overall, total administrative expenditures represented between 32 and 40 percent of child welfare expenditures during Fiscal Years 2003 through 2007.

Audit Scope

Our audit focused on foster care provided through family foster homes, group homes, kinship care, and receiving homes. We did not examine more institutionalized forms of out-of-home care, such as TRCCFs and PRTFs. Overall, our audit evaluated the Department's methods for ensuring that foster care funds are used cost-effectively. We analyzed the process for setting rates used to pay for foster care and for distributing child welfare funds, including those used for foster care. We also reviewed foster care transactions to determine if they complied with applicable federal and state requirements. In addition, we interviewed county staff to determine how counties set rates for foster care services and reviewed data related to rate-setting and foster care transactions. Counties we visited included Alamosa, Arapahoe, Boulder, Denver, El Paso, Mesa, Pueblo, and Weld. We contracted with Clifton Gunderson LLP to review CPA foster care expenditures and to analyze the Department's oversight of foster care rates as determined through base rate methodologies and county rate negotiation practices. We also analyzed how the child welfare allocation model distributes funds to counties and reviewed expenditures for the Core Services and independent living programs to determine if they complied with applicable federal and state requirements.

Foster Care Costs

Chapter 1

Child welfare services, including foster care, are intended to help families care for their children in a safe environment. When children cannot remain home safely, county departments of human/social services pay foster homes certified by counties or child placement agencies (CPAs) to care for these children while the county provides services to the families to resolve the issues that led to the children's being removed from their homes. Because the funds available for child welfare services, including foster care, are limited, it is important that the Colorado Department of Human Services (Department) and the counties have processes in place to ensure that the counties are providing needed services to families and children cost-effectively. The General Assembly has passed legislation in the last decade to encourage the Department and counties to maximize the benefit received from child welfare funds, including:

- Senate Bill 97-218 created a capped child welfare block grant that is allocated annually to counties. The bill allowed counties to use their child welfare allocations for approved purposes without categorical restrictions. Counties must use county-only funds if they wish to spend more than their allocation. The bill also prohibited the Department from seeking supplemental appropriations unless the increase was based on an increase in caseload. Finally, it gave counties the authority to negotiate foster care rates with providers.

- Senate Bill 01-012 required the Department to annually analyze and evaluate expenditures for foster care services reported by CPAs and to compare the CPAs' expenditures with the cost of foster care services provided by counties. Such a comparison could help the Department and counties determine whether foster care services provided by counties are more cost-effective than services provided by CPAs or vice versa.

- House Bill 07-1025 mandated that the Department develop rules governing the methods by which counties negotiate rates, services, and outcomes and review the counties' negotiating methodologies every other year. Through these rules and reviews, the Department can ensure that county rate negotiation methods maximize the cost-effectiveness of child welfare services.

While the General Assembly has emphasized the importance of cost containment and efficient use of child welfare funds, Colorado's child welfare system has seen substantial increases in expenditures. We reviewed the changes in total child welfare costs in Colorado and in the specific foster care rates paid to providers and found indicators which raise questions about whether the State is paying more than it should for foster care services. For example:

- **Total spending on child welfare services has grown faster than inflation and the child population since 2000.** The appropriation to cover child welfare services, including foster care, grew about 31 percent between Fiscal Years 2000 and 2006, from about $241 million to about $316 million. During the same period, the rate of inflation nationally was about 22 percent, local inflation was about 17 percent, and the child population in the State grew about 6 percent.

- **Provider rates for foster care grew more than local inflation over the last five years.** We found that the average daily rate paid to CPAs and group homes for foster care administration (administrative maintenance) increased about 18 percent between Fiscal Year 2003 and the first half of Fiscal Year 2007. Similarly, the average daily rate paid to foster parents for providing for the child's needs (child maintenance) increased about 11 percent. Both of these rate increases are significantly higher than the 7 percent inflation rate occurring in the Denver metropolitan area for the same period. We estimate the State spent about $2.2 million more for foster care services in Fiscal Year 2007 than it would have if increases in these provider rates had been consistent with the rate of inflation since 2003.

- **The average rate paid to foster parents for covering the cost of raising a child (child maintenance) exceeds the U.S. Department of Agriculture's (USDA's) cost to raise a child.** The USDA compiles an annual report on how much families spend to raise their children, broken down by region and income level. The USDA's cost of raising a child for lower- and middle-income families in the urban West (i.e., income of $75,600 or less annually) was about 13 percent lower overall than the child maintenance rates paid in Colorado in Calendar Year 2006. We estimate the State could have saved about $3.1 million in Calendar Year 2006 if the Department had used the USDA standard cost for raising a child for lower- and middle-income families as a basis for this rate.

We recognize that our analysis does not definitively prove that the State spends more than necessary for child welfare services and, specifically, for foster care. For example, the above measures do not account for any changes in the level of services needed by children served through the child welfare system. In addition, Department

staff reported that the 1994 Child Welfare Settlement Agreement, which resolved a lawsuit filed against the Department for inadequate care of foster children, required the Department to provide increased services to children and their families. However, as we describe later in this chapter, the Department does not have a reliable method for capturing information about a child's level-of-care requirements; therefore, it is not possible to conclude whether increases in rates and spending reflect the need for more intensive child welfare services.

Further, while the Settlement Agreement may have resulted in justifiable increases in services, we found that the mechanisms used by the Department and counties are not adequate to ensure that child welfare services, including foster care, are provided at a cost that makes the most use of limited funds. Overall, we found that the Department does not compile enough information, perform sufficient analysis, or provide adequate oversight to determine whether child welfare funds, including those spent on foster care, are being used efficiently and cost-effectively by counties and CPAs to provide the necessary services to children.

This report discusses three aspects of the Department's efforts to control child welfare costs and ensure appropriate levels of service are provided to children and their families. In this chapter, we evaluate the Department's cost containment efforts as they relate to the foster care rate-setting process, including the methods used to link rates with services provided. Chapter 2 discusses the effectiveness of the Department's processes for allocating child welfare funds to counties and claiming federal reimbursements for foster care. Chapter 3 reviews the Department's procedures for ensuring that counties and CPAs spend foster care funds in accordance with federal and state requirements. All of the chapters suggest ways in which the Department can better maximize the use of child welfare funds, improve controls over spending, and ensure funds are used to serve children cost-effectively.

Foster Care Rates

Federal law requires that states receiving federal funding for foster care have a state plan that sets forth the methods used to (1) pay for foster care services and (2) periodically review those payments to ensure their continued appropriateness. In Colorado, child welfare funds are allocated to counties and the counties, in turn, contract with county-certified foster and group homes and with CPAs to provide foster care services. Counties pay these CPAs and county providers on a monthly basis for each child placement. Monthly payments are based on a daily rate that includes three main components:

- **Child Maintenance,** which covers the costs of raising a foster child, including food, clothing, shelter and, when necessary, funding for additional

time spent parenting children that are more difficult to care for. Foster parents certified by either CPAs or counties receive child maintenance payments.

- **Administrative Maintenance,** which covers CPA or group home administrative costs, such as staff, overhead, supplies, and fixed facility expenses. Only CPAs and group homes receive administrative maintenance payments.

- **Administrative Services**, which covers the cost of providing direct therapy or other treatments, as well as recreational or educational services, to the child. Only CPAs and residential child care facilities receive administrative services payments. (For the purposes of the cost comparisons in some parts of this chapter, we omit analysis of administrative services rates because the basis for calculating these rates changed significantly during the period. Specifically, in November 2004 the federal government disallowed the use of administrative services payments for mental health services to foster children placed by CPAs through Behavioral Health Organizations [BHOs] because these services were included in the BHOs' capitated Medicaid payments. Administrative services daily rates decreased about 43 percent between Fiscal Years 2003 and the first half of Fiscal Year 2007, from $12.32 to $6.98, largely due to this change in allowable use.)

In addition to the three components above, foster care payments may include funds to cover respite care, which provides foster parents with temporary relief from caring for the child; a clothing allowance; and the additional costs of serving a child with a physical or mental disability.

We evaluated the rates paid by counties for foster care services, including provider rate increases implemented by the Department and the counties. Overall, we found the Department does not have sufficient mechanisms in place to ensure that the State is paying optimal rates for these services or that foster care rates reflect the child's needs.

Controls Over Rate-Setting

Foster care rate-setting controls should ensure payments are reasonable and sufficient to cover the costs of delivering quality services in accordance with the needs of the child. To that end, we reviewed the Department's two primary rate-setting controls, which are intended to ensure the State is paying appropriate and optimal rates for foster care services:

- **Base anchor rates,** which are rates set by the Department that counties may choose to use to pay for foster care services. The base anchor rates are intended to provide either a standard rate which counties may pay or a basis on which they may negotiate rates individually.

- **Department review of county-negotiated rates,** which are rates that counties may determine through their own rate-setting practices and negotiation with providers as authorized by the statutes.

We found that these controls are not adequate to ensure that the Department and counties are maximizing child welfare dollars. Specifically, the base anchor rates and the county-negotiated rates are not based on objective data about the reasonable costs of providing foster care services in the State and have little correlation to the needs of the child. Knowing the reasonable costs for providing an appropriate level of service is critical to ensure that counties do not pay higher rates for foster care services than necessary. As supervisor of the child welfare system, the Department is primarily responsible for making sure that its rate-setting controls are working effectively. The specific control weaknesses we identified, as described below, may contribute to foster care rates rising faster than inflation and exceeding objective measures like the USDA's cost of raising a child.

Base Anchor Rates

The Department sets daily foster care base anchor rates for counties to use when purchasing foster care services from CPAs, foster parents, and group homes. Counties are not required to use these base anchor rates; however, the base rates provide guidance to counties for conducting negotiations with CPAs and other providers. According to the Department, 25 counties primarily use the Department's base anchor rates to pay for their foster care services. We recommended in the Office of the State Auditor's *Foster Care Program Performance Audit* (June 2002) audit that the Department develop base rates using the CPAs' cost experiences. The Department uses biennial self-reported CPA and group home expense report information to determine unique base administrative rates, which include the administrative maintenance and administrative services components, for each individual CPA or group home every two years. The Department established the current daily child maintenance base rates, which range from $11.47 to $13.91, depending on the age of the child, in May 1999.

We contracted with a firm to evaluate the Department's formula for setting the base administrative anchor rates for foster care services. We found that the formulas for setting the base rates for the two administrative rate components—administrative maintenance and administrative services—were flawed, causing the Department to set base rates that were significantly higher than they should have been. Specifically,

the Department included some child maintenance costs in the administrative maintenance and administrative services components, which increased the rates for those components. As a result, the base rates reflected higher administrative costs than the CPAs had actually reported. Based on our 2002 audit recommendation, the Department should have only included the CPAs' administrative cost experiences when calculating each CPA's base administrative rates.

We recalculated the total administrative base rates, including only administrative maintenance and administrative services costs for a sample of four CPAs. As the table below shows, for three of the four CPAs, the recalculated rate is about half the rate set by the Department.

Department of Human Services
Analysis of Foster Care Administrative Base Rates[1]
Fiscal Year 2006

Child Placement Agency	Department Base Rate	Recalculated Rate	Excess of Base Rate Over Recalculated Rate
#1	$27.74	$12.96	$14.78
#2	$43.57	$22.79	$20.78
#3	$57.48	$44.85	$12.63
#4	$35.51	$17.82	$17.69

Source: Office of the State Auditor contractor's analysis of four CPA expense reports and base rate calculations provided by the Department of Human Services.
[1] Administrative maintenance and administrative services rates were combined to perform this analysis.

Twenty-seven counties purchased foster care services from these four CPAs in Fiscal Year 2006, including all 10 of the largest counties. For three of the four CPAs listed in the table above, we estimate the counties could potentially have saved about $316,000 in Fiscal Year 2006 in administrative services and administrative maintenance payments to these CPAs (or about 30 percent of the $1.07 million actually paid to these CPAs), if the counties had paid the CPAs our recalculated base rates instead of their own negotiated rates, which were lower than the Department's inaccurate base rates but higher than the accurate rates we recalculated. (The fourth CPA subsidizes its foster care services through private donations.) We would expect a similar cost savings if we recalculated the base rates for the remaining 57 CPAs in the State. The Department was unaware of the problem with its base anchor rates until we brought this concern to the Department's attention.

With respect to the child maintenance base rates, we found that the current rates do not have a reasonable basis because the Department has not adjusted them since May 1999. As a result, counties are not using the base rates to pay for foster care child maintenance. We evaluated the child maintenance rates paid for foster care services during Fiscal Year 2006 and found that counties paid an average daily child

maintenance rate of $27.85, or about twice the amount of the base rates ($11.47 to $13.91) set by the Department. In addition, the USDA's cost for raising a child is about 13 percent lower than these average county-negotiated child maintenance rates, as previously noted.

County-Negotiated Rates

The statutes [Section 26-5-104(6), C.R.S.] authorize counties to negotiate rates, services, and outcomes for foster care, subject to approval by the Department. The intent of the statutes is for the Department to provide a critical check on county rate-negotiating practices and to ensure negotiated rates are reasonable and cost-effective. The Department requires counties to report whether they use the base anchor rates or negotiate their own rates. Counties that negotiate rates must submit their negotiation methodology to the Department for review. Some counties develop their own rate schedules to assist them with the negotiation process. Counties may negotiate their rates on a per-provider or per-child basis. According to the Department, 19 counties report negotiating rates regularly.

We examined documentation related to the Department's approval of county rate negotiation methodologies and found no evidence that the Department reviewed the methodologies to determine if they are acceptable. Further, the Department has no criteria or process for evaluating or approving these methodologies. Rather, the Department accepts all rate methodologies submitted by counties without review or comment. As a result, there is no check on the reasonableness of the rates counties negotiate for foster care services. We also found that the average foster care rates paid by counties varied significantly. For example, the average daily rate paid by the 10 largest counties for child maintenance ranged from $23.26 to $35.80 in Fiscal Year 2007. Similarly, the average daily rate for administrative maintenance paid by the 10 largest counties ranged from $3.99 to $23.09 during the same period. Finally, the Department does not ensure that all counties either submit their rate negotiation methodologies or notify the Department that they will use the base anchor rates. As of February 2007, 20 counties had not reported to the Department on whether or not they planned to negotiate rates for Fiscal Year 2007, as required by Department policy.

Department Oversight

The problems discussed above demonstrate that controls over foster care rates are not working as intended. The Department lacks a reasonable basis for the foster care base rates it sets and the Department does not provide oversight to ensure that county methodologies for negotiating rates are appropriate. The Department needs to take comprehensive steps to strengthen its role in ensuring that foster care payments are based on reasonable costs and that the rates provide sufficiently for the needs of the children served. Specifically, the Department should:

Conduct analysis. The Department should conduct regular analysis (e.g., annually) of foster care rates and provider costs to determine if the rates being paid by counties are optimal. This analysis could include comparing rates paid for foster children with similar service needs or comparing rates against benchmarks. The analysis could also be incorporated into the child welfare allocation process discussed in Chapter 2. For example, if the Department's analysis determines that some counties are paying higher rates than other counties for the same level of services, the Department could use the allocation process to ensure that the excessive portion of those rates are paid with county-only funds. We did not find evidence that the Department has ever conducted this type of comparative analysis. This type of analysis would provide valuable information that the Department and counties could use to ensure that counties are maximizing the services they provide to foster children while minimizing the costs of those services.

Revise base rates. The Department should revise the methods for setting base child maintenance, administrative maintenance, and administrative services base anchor rates for CPAs and county foster home providers. The Department should ensure that the rates are based on accurate information on the reasonable costs of these services. For example, the Department should base the CPAs' administrative rates only on the CPAs' administrative cost experiences. The Department should advise the counties to reevaluate the current rates they are paying for foster care services in light of the new, accurate base rates and adjust their rates accordingly.

Provide more supervision. The Department needs to provide more supervision of the counties' rate-setting processes. House Bill 07-1025 provides the Department with more specific authority to promulgate rules governing the methodology by which counties may negotiate rates, services, and outcomes with child welfare providers. The bill also requires the Department to review county methodologies every other year. At the end of our audit, the Department was in the process of developing rules related to House Bill 07-1025. Department staff should use the rule-making process to define standards for reviewing and approving county methodologies and determine appropriate consequences when counties either (1) do

not submit their methodology or (2) submit a methodology that does not meet Department standards.

Identify alternative rate-setting methodologies. Finally, the Department should consider implementing alternative rate-setting methodologies based on objective data. For example, the Department could identify benchmarks, such as the rate of inflation or the USDA's standard for the cost of raising a child, that the Department and counties can use to evaluate provider rates and guide rate negotiations. The Department could also consider adopting the USDA's standard for child maintenance rates with add-ons available for children who need more than the basic level of care. Additionally, the Department could also establish administrative maintenance and services rates for CPAs and group homes on something other than their reported expenditures. Since these expenditures are self-reported and are not verified for accuracy or reasonableness, they are not a reliable source for rate-setting. Furthermore, rate-setting methodologies that are expenditure-based may increase overall costs, since providers have an incentive to increase their expenditures so that their rates will also increase. One alternative the Department could consider would be to determine CPA and provider market rates for key administrative components, such as staff positions (e.g., executive director, case manager, and certification worker) and overhead costs (e.g., building rental expenses and utilities). The Department could survey counties, CPAs, and other independent sources for these data.

Using objective data to help set base rates would also give counties a stronger position for negotiating rates with CPAs. The Department and counties report a lack of competition among foster care providers, which has created a CPA and provider market in which providers demand high rates. Eight out of ten counties we interviewed reported that they are often forced to pay rates higher than what county staff deem reasonable for placements due to lack of competition. Counties also report that CPAs and county foster homes will often refuse to accept children below a certain level of care because the providers want to receive higher rates. We acknowledge that there are a limited number of private entities willing to provide foster care services. However, if the Department collects better information about the reasonable costs of foster care services and helps the counties base their rates on objective data, the counties would have a stronger bargaining position for negotiating rates and be better able to provide needed services cost-effectively.

Recommendation No. 1:

The Department should improve accountability for child welfare expenditures and foster care rates to ensure funds are used cost-effectively by:

a. Analyzing the foster care rates being paid to providers, including county-certified providers, against provider costs and benchmark information on a periodic (e.g., annual) basis to determine if the rates being paid by county departments of human/social services are reasonable.

b. Revising the formula for setting base administrative maintenance, administrative services, and child maintenance rates for CPAs and group homes and ensuring costs allocated to each component are accurate. The Department should then provide this information to county departments of human/social services and advise counties to consider these revised base rates in their rate negotiations with CPAs going forward.

c. Improving supervision and oversight of the counties' rate-setting and negotiating process by ensuring that counties submit documentation on their rate-setting practices, setting and implementing standards for reviewing county rate negotiation methodologies and rate levels, and following up to make sure that counties do not use their new rate negotiation methodologies until the Department determines that the new methodologies are acceptable.

d. Identifying and considering implementing alternative rate-setting methodologies that rely on objective cost data, such as benchmarks on child care and administrative costs, to pay for foster care services. Benchmarks and other comparative data should also be provided to county departments of human/social services to assist these counties with negotiating foster care rates.

Department of Human Services Response:

a. Partially Agree. Implementation Date: July 2008.

The Department agrees that analysis of rates would provide valuable information to the Department and counties. However, a comprehensive review of provider rates including analysis of costs and benchmarks would require more resources than the Department has available. It is estimated that this level of oversight would drive the need for approximately one FTE. In lieu of this, the Department agrees to periodic reviews of rates for a sample of cases to determine if the rates were set according to the county's rate-setting methodology accepted by the Department. The Department will explore potential resources such as the National Resource Centers.

b. Agree. Implementation Date: July 2009.

The methodology implemented by the Department for determining "base anchor rates" was established in response to the 2002 Foster Care Performance Audit. The methodology was established to assure equity of base rates for the child maintenance component between county and CPA foster care providers. The Department does not agree that there were over-payments. However, the Department does agree to explore alternative formulas and implement a rate methodology to improve rate-setting for base anchor rates. It is important to the Department that any change in methodology does not create unintended disincentives that might deter potential foster parents from choosing to be a county foster care provider. The base rates paid for child maintenance should be equitable for both county foster homes and CPA foster homes. Counties will be advised of any changes in the methodology used by the Department in setting base anchor rates.

c. Agree. Implementation Date: December 2008.

The Department has statutory authority under Section 26-5-104(6), C.R.S., to determine if rate-setting and negotiation methodologies reported to the State by counties are acceptable. Rules have been drafted for approval by the State Board of Human Services to implement the requirements of House Bill 07-1025 establishing minimum standards for negotiated rate methodologies. The Department will assure that methodologies used by counties to set negotiated rates meet the minimum standards as promulgated in rule. The Department will implement controls to assure that county rate negotiation methodologies are acceptable before negotiated rates are added to the Trails system.

d. Partially Agree. Implementation Date: December 2008.

The Department will consider alternate rate-setting methodologies for determining base anchor rates. However, USDA costs of raising a child cannot be adequately compared to costs of caring for a foster child. Extra expenses due to the particular needs of children in foster care given trauma they have experienced should be taken into consideration when determining appropriate rates of foster care. For example, foster children often need more services, which result in additional transportation expenses.

The Department is engaged within available resources in researching and considering benchmarks for these alternatives. Many states have

dedicated units of staff to perform rate-setting and oversight functions. However, the Department lacks adequate staffing and expertise in the area of rate-setting. Since there are no dedicated staff for these purposes, functions could be addressed through contract services if funding is available. The Department will explore potential resources, such as the National Resource Centers, for technical assistance.

Level-of-Care Assessments

One of the goals of foster care is to place children in a safe environment that addresses their needs. Level-of-care assessment tools allow counties to quantify the service needs of the children they serve and help determine appropriate rates to pay for those services. Typically, rates for children with more intense service needs are higher than rates for children with less intense service needs. The 1994 Child Welfare Settlement Agreement, which resolved a lawsuit filed against the Department for inadequate care of foster children, required the State to use level-of-care tools in determining placements and corresponding rates for foster care. Additionally, a Department agency letter from June 1998 emphasized the importance of using a level-of-care tool to determine if the needs of the child require the payment of higher foster care rates. Most counties that negotiate rates reported using a level-of-care assessment tool to evaluate the child's behaviors and to determine the level of services needed to serve each foster child appropriately.

Level-of-care assessments are an important control for ensuring that rates reflect the needs of the child. We found that neither the methodologies for determining the Department's base anchor rates nor the methodologies for determining county-negotiated rates sufficiently consider the assessed needs of the child. In addition, we found problems with the level-of-care assessment tools used by the counties. With respect to the base anchor rates, the Department does not capture information on the level-of-care needs of the children served by CPAs and group homes and therefore, does not consider these data when setting the base administrative rates. Consequently, the Department cannot compare base anchor rates among providers that serve children with similar level-of-care needs to determine if rates appear reasonable. As the State's supervisor of the child welfare system, the Department should be performing analysis like this to ensure that children are served appropriately and foster care funds are used to deliver the level of services required at a reasonable cost.

With respect to county-negotiated rates, we found that counties also do not consistently use information from level-of-care assessments as a basis for determining appropriate foster care services and optimal payments. We interviewed

staff and analyzed level-of-care tools and negotiation methodologies at 10 counties. We also reviewed a total of 78 child files at five of these counties and identified the following problems with county application of level-of-care assessments:

- **Missing level-of-care documentation.** Of the 78 files reviewed, 31 files (40 percent) did not contain any level-of-care assessments, even though the counties negotiated the rates for these children. Additionally, we did not find a level-of-care tool or other documentation for 128 of the 508 rate adjustments (25 percent) we reviewed. As a result, it is impossible to conclude whether the negotiated rates in these cases properly reflected the needs of the child.

- **Rates unsupported by level-of-care assessments.** Of the 102 level-of-care assessments we reviewed, 69 assessments (68 percent) contained an identified level of care that did not support the rate paid to the provider or the CPA. In one instance, a provider was paid at a level 4 rate (0 being the lowest level and 4 being the highest) for a child assessed at a level 1. In another instance, a foster care provider received $32.33 per day to serve a child assessed at a level 3, but one month later, when the child was moved to another home, the new provider received a daily rate of $97.97, even though the child's assessment level was the same. About 18 months later, the child's level of care decreased to 1.5, and the daily rate increased to $114.41. In the following month, the child's level of care increased to 3.5, but the provider's daily rate decreased to $14.80. It is clear from this example that rates are not always reflective of the level of care the child requires.

- **Inadequate level-of-care tools.** Of the 10 counties we contacted, none have validated their level-of-care tool in Colorado, although one county reported that its tool was validated in Michigan. Validated tools improve the consistency and accuracy of assessment results. In addition, not all counties have mechanisms for consistently converting level-of-care ratings to rate levels. For example, 3 of the 10 counties use tools that rate levels of care between 0 and 3, but categorize their rate levels from 0 to 4. These counties do not have a crosswalk that converts the level-of-care score to a corresponding rate level. Finally, 9 of the 10 counties do not use tools that weight the child behaviors or needs that are most likely to drive service intensity. For example, certain behaviors (e.g., property destruction/setting fires) require more intensive or costly services than other behaviors (e.g., bed-wetting). Since behavior or service intensity is not being captured or weighted on most of these tools, there are increased risks that the level-of-care assessment will not identify the services actually needed or the rates that should be paid to cover the cost of these services.

These problems indicate that neither the Department nor the counties are consistently using level-of-care information to determine the rates paid for foster care. As a result, there are risks that rates are not based on the needs of the child and that child welfare funds are not being used strategically to address the differing levels of need of foster children. Furthermore, providers may be over- or underfunded for foster care services, and there is no assurance that all children are receiving the services they need. Similarly, because the Department does not systematically track level-of-care information, the Department does not know if services are resulting in positive outcomes (e.g., the child's level-of-care needs decrease) in the system over time.

The Department has not conducted an analysis of county level-of-care tools or verified that counties are consistently matching assessed levels of care with appropriate rates. Currently the Department does not require counties to record a child's level of care in Trails, its automated case-management system, so the Department cannot easily conduct this type of analysis. The Department should update the Trails system to allow it to track the child's level of care and should require counties to enter level-of-care assessments in the system. The Department could then use this level-of-care data in the rate analysis we recommended in the previous section to determine if the counties' rates correlate with the assessed levels of care. If the Department finds that a county's level-of-care assessments do not support the rates paid to providers (e.g., providers regularly receive level 3 rates for children assessed at level 1 or vice versa), this would suggest that the county's rate methodology is not working as intended and should be reviewed by the Department. As noted previously, House Bill 07-1025 requires the Department to review county rate methodologies every other year.

The Department should also work with the counties to identify and implement a standard, validated level-of-care tool for statewide use. A statewide tool would promote consistent rate-setting among counties that negotiate rates and provide the Department with valid data for analyzing whether rates are adequately reflecting the level of services needed. Validating a statewide tool would also be more economical for the State than validating tools separately for each county that negotiates rates.

Recommendation No. 2:

The Department should ensure that county departments of human/social services pay foster care rates that reflect the foster child's level of care and service needs by:

a. Working with counties to develop and implement a validated, statewide level-of-care assessment tool.

b. Updating the Trails system to include fields for recording the child's level of care and requiring counties to include this information in Trails whenever they enter new provider rates.

c. Conducting periodic file reviews at counties and analysis of actual rates paid by counties to ensure they are using level-of-care tools to assist with setting and negotiating appropriate foster care rates.

Department of Human Services Response:

a. Partially Agree. Implementation Date: January 2009.

The Department agrees to work with counties to explore whether there are validated level-of-care tools nationally that could be adapted to Colorado's system to assist counties in identification of children's needs and determining appropriate rates based on those needs. If validated tools do not exist, then the Department agrees to work with counties within existing resources to use a standardized tool statewide. Resources do not exist for the Department to validate exiting tools, so the Department does not agree to implement a validated level-of-care assessment tool if it is financially unfeasible to do.

b. Agree. Implementation Date: March 2009.

The Department will make appropriate Trails modifications consistent with whatever level-of-care tool is used.

c. Agree. Implementation Date: June 2009.

The Department agrees within available resources to conduct periodic reviews through a sampling of files to determine if counties are using level-of-care instruments when using level-of-care rates.

Provider Rate Increases

The General Assembly approved rate increases for child welfare providers in four of the last six appropriations bills. Specifically, the appropriation for the child welfare block grant included funding to give providers rate increases of 1 percent in Fiscal Year 2003, 2 percent in Fiscal Year 2006, 2 percent in Fiscal Year 2007, and 1.5 percent in Fiscal Year 2008. The General Assembly specified that the rate increases were for "community providers"; however, the appropriations bills did not specifically define this term. Community providers could include CPAs and their

certified foster parents, county-certified foster parents, medical and dental service providers to foster children, and other entities. Further, the General Assembly did not specify if the rate increase applied to one or more of the foster care rate components (i.e., child maintenance, administrative maintenance, and administrative services).

It is not clear that counties are obligated to pass along the rate increases included in the child welfare block grant to providers. As noted previously, the statutes [Sections 26-5-104(4)(a) and 26-5-106, C.R.S.] allow counties to use their child welfare allocations without categorical restrictions and to negotiate rates with service providers. The footnote to the Fiscal Year 2003 appropriations bill acknowledged that the statutes do not require counties to give specific rate increases to any provider and specifically stated:

> Pursuant to Section 26-5-104, C.R.S., counties are authorized to negotiate rates, services, and outcomes with child welfare providers and, thus, are not required to provide a specific rate increase for any provider.

The Fiscal Year 2008 appropriations bill contained similar language but the appropriation bills for Fiscal Years 2006 and 2007 did not contain any language related to Section 26-5-104, C.R.S.

We conducted procedures to determine if the General Assembly's approved rate increases were passed along to providers for Fiscal Years 2003 through 2007. In performing our analysis, we assumed that the approximately 5.1 percent increase for the five-year period (when compounding is considered) was to be applied to each rate component. We interviewed staff from 10 counties, analyzed CFMS data, and reviewed the Department's base rates for CPAs to evaluate county practices for making rate adjustments and to determine whether payments have increased at rates suggested by the General Assembly. Overall, we found that, on average, provider rate increases have exceeded the 5.1 percent proposed by the General Assembly for the period. As we reported earlier in this chapter, we found that the average daily rate for child maintenance and administrative maintenance increased about 11 percent and 18 percent, respectively, from July 2002 to December 2006 for family foster homes and group homes. Both of these figures exceed the rate increases approved by the General Assembly. The third rate component, administrative services, decreased by 43 percent during this period, but, as we explained earlier, this decrease was largely due to the federal government's disallowing payment for mental health services already paid through the Medicaid program. Therefore, for the purpose of this analysis, we excluded the administrative services component. The following table shows the change in average daily rates on a statewide basis from Fiscal Years 2003 through 2007.

Department of Human Services
Statewide Average Daily Rates for Family Foster Homes
Fiscal Years 2003 Through 2007[1]

Rate Component	Fiscal Year					Percent Change, FY03-07
	2003	2004	2005	2006	2007	
Child Maintenance[2]	$26.08	$27.07	$27.77	$27.85	$28.86	+10.7%
Administrative Maintenance[2]	$14.65	$14.01	$15.25	$16.20	$17.31	+18.2%

Source: Office of the State Auditor's analysis of data from the County Financial Management System provided by the Department of Human Services.
[1] Fiscal Year 2007 data through December 2006.
[2] Child maintenance rates are paid to county- and CPA-certified foster homes. Administrative maintenance rates are paid to CPAs and group homes.

When reviewing provider rate increases at individual counties for Fiscal Years 2003 through 2007, we found that practices varied. Specifically, the average daily rates for 2 of the 10 largest counties increased more than the 5.1 percent suggested by General Assembly for both child maintenance and administrative maintenance during the period; for five counties, the average daily rates increased more than 5.1 percent for either child maintenance or administrative maintenance; and for the remaining three counties, the average daily rates for both child maintenance and administrative maintenance increased less than 5.1 percent. Appendix A shows the change in average daily foster care rates for the 10 largest counties for the same period.

For the sample of 10 counties we visited during the audit, none of the counties reported implementing the specific rate increases contained in the appropriations bills. However, five counties reported that they implemented their own rate increases for both county-certified foster parents and CPAs to account for rising expenses and to encourage the providers to continue delivering services to the counties.

We also found that the Department did not apply the increases in the Fiscal Years 2002, 2006, and 2007 appropriations bill to its own base anchor rates for child maintenance, administrative maintenance, and administrative services payments. The Department did, however, apply the increases in the 2008 appropriations bill to all these rate components effective July 2007. The Department should ensure that foster care base anchor rates include the provider rate increases authorized by the General Assembly in the future.

Finally, we attempted to evaluate rate changes for a sample of foster care cases. However, since Trails does not currently capture information on a child's level of

care, we could not conduct a valid analysis. Level-of-care ratings, which determine the service needs of the child, may affect the rates paid to the provider.

Overall, we found that the statewide average rates paid to CPAs and foster parents have increased more than the amounts identified in the appropriations bill but that individually some rates increased by less than the amounts designated in the long bill. We also found that counties have not specifically considered the General Assembly's approved increases when adjusting their rates. As noted earlier, House Bill 07-1025 requires the Department to review the methods counties use to negotiate rates with providers. In addition, the bill mandates that this review consider how counties are implementing provider rate increases authorized by the General Assembly. In developing its criteria for this review, the Department should require counties to report changes in their rate methodologies to the Department and indicate the factors considered in determining the changes. As suggested previously in Recommendation Nos. 1 and 2, the Department should review this information and follow up with counties as needed to ensure that counties have a reasonable basis for both their rate structures and their negotiation methodologies.

Recommendation No. 3:

The Department should ensure that county departments of human/social services incorporate procedures for considering the child welfare provider rate increases authorized by the General Assembly in county rate adjustments and negotiations. Specifically, the Department should:

a. Adjust its base anchor rates accordingly when the General Assembly authorizes provider rate increases.

b. Require counties to report changes in their foster care provider rate methodologies to the Department and indicate the factors considered in determining the changes.

Department of Human Services Response:

a. Agree. Implementation Date: July 2007.

The Department will continue to adjust rates as authorized by the General Assembly. Base anchor rates have been adjusted effective July 1, 2007 for applicable provider rates.

b. Agree. Implementation Date: December 2008.

The Department will implement the requirements of House Bill 07-1025 and the rules to be promulgated as required by the statute. The Department will assure that counties report changes in their foster care provider rate methodologies including the factors considered in determining the changes.

Foster Care Cost Comparison

Senate Bill 01-012 requires the Department to conduct an annual analysis comparing foster care expenditures at counties and CPAs and report the results of its analyses and comparisons to the counties. This legislation was initiated by the General Assembly's Foster Care Interim Committee which issued a report in December 2000 outlining concerns with CPA expenditures, such as higher payments being made to CPA-certified foster homes compared to county homes and "the sometimes high salaries of executive directors of CPAs." Based on our review of the bill's legislative history, the General Assembly intended this analysis to be an "apples-to-apples" comparison of county and CPA costs. Such a comparison is intended to provide valuable data to the counties that would help them to determine if they are setting their foster care rates appropriately and using their child welfare funds cost-effectively. We reviewed the Department's analyses and reports for Calendar Years 2002 through 2005 and found that, overall, the Department has been unable to conduct a meaningful comparison of these expenditures as required by the statutes.

To comply with the statutes and produce a meaningful and valid comparison of foster care costs, the Department's analysis would need to include the following:

- **Comparable, complete, and valid cost data -** to ensure that the analysis captures the same costs for identical cost components at both counties and CPAs and that the costs captured are valid and appropriate.

- **Comparable service populations -** to ensure that cost disparities are not due to serving foster children with different service-level needs.

- **Timely results -** to ensure the Department and counties have the information needed to evaluate whether child welfare funds are being used cost-effectively and ensure they are able to make adjustments in practice in a timely manner.

As described below, the Department's current methods for conducting the foster care expenditure comparison do not meet these criteria.

Comparable, complete, and valid cost data. We identified substantial problems with the comparability, validity, and completeness of the data the Department uses for conducting its cost comparison. First, we found that the Department does not collect the same cost components from both counties and CPAs. Data on CPA costs include all administrative costs, including indirect costs and overhead, such as costs for renting building space and paying utilities. In contrast, counties self-report some foster care administrative costs, such as staff salaries, but do not report any indirect costs or overhead. Data on total county foster care administrative costs are not available from CFMS because when counties enter their cost data into CFMS, they do not report their administrative costs related to foster care separately from their other child welfare administrative costs. The Department should determine a cost-effective method, such as developing a means to estimate the amount of child welfare administration attributable to foster care or adding new codes to CFMS, for tracking these cost components separately.

Second, we found that the Department's analysis does not compare the cost-per-day-per-child for CPA and county-provided foster care. Rather, the Department compares the total costs of county- and CPA-provided foster care without factoring in the number of children served or the number of days they received services. Without considering the number of children served or the number of service days in the cost calculation, the comparison is meaningless.

Third, the statutes require the Department to use the CPAs' self-reported expense reports as the basis for its cost comparison rather than the actual payments counties made to CPAs. The actual payments made to CPAs for each cost component (i.e., administrative maintenance, administrative services, and child maintenance) better represent the costs to the counties and the State of CPA-provided foster care. As a result, the Department should seek statutory change to allow the cost comparison to be conducted based on actual payments made to foster care providers.

Finally, we found that the Department does not ensure that it collects and analyzes complete data on foster care costs from all counties and CPAs. For the Calendar Year 2002 report, only 42 counties reported information on their foster care expenditures, and for the Calendar Year 2003 report, only 21 counties provided this information. Additionally, for all cost comparisons, the Department analyzes costs for a sample of CPAs. Staff could not provide us with a list of CPAs sampled for the reports.

Comparable service populations. We found that the Department does not factor the service needs of foster children into its cost comparison. A foster child's level-

of-care rating can drive both service intensity and cost. As we discussed earlier in this chapter, Trails does not capture level-of-care ratings for foster children, and therefore, the Department is not able to determine whether the cost information provided by CPAs and counties reflects services to populations with similar needs. The absence of level-of-care data for the foster care system as a whole severely limits the Department's ability to conduct meaningful analysis not only on costs but on a number of other factors, such as service quality and outcomes. We addressed this issue in Recommendation No. 2 earlier in this report.

Timely results. Although the statutes require the Department to analyze and report the results of its cost comparison annually, we found that the Department has not reported its results since January 2005. The January 2005 report covered analysis of Calendar Year 2003 costs. Analysis of Calendar 2004 and 2005 costs were not completed as of the conclusion of our audit. Without timely information on the results of cost comparisons, neither counties nor the Department can use the information to drive decision making.

By not conducting a meaningful comparison of CPA and county foster care costs, the Department is missing an opportunity to optimize the cost-effectiveness of child welfare funds. Knowing whether CPA or county foster care is more expensive for comparable services would be useful from a policy perspective because it would allow the Department to provide guidance to the counties on how to maximize the amount of foster care services they can obtain within their capped child welfare allocations. The Department recognizes that its attempts at comparing foster care costs have not been useful or effective, and as a result, performing and reporting the cost comparison is a low priority. Additionally, Department staff indicated that conducting an "apples-to-apples" comparison between CPA and county foster care costs is not feasible because, among other things, the Department has no mechanism to isolate the complete county foster care costs related to administration from other county child welfare administration expenses.

During the audit we found that 2 of the 10 largest counties have made credible attempts to carry out a meaningful comparison of county and CPA foster care costs. Although it might be necessary to refine these counties' approaches for use statewide, their results show the potential value of the cost comparison. For example, one county found that child maintenance costs at CPA homes were 87 percent higher than at county homes ($30.08 per day versus $16.10 per day). In contrast, administration and overhead costs were 23 percent lower for CPA placements compared to placements at county foster homes ($18.90 per day versus $24.59 per day). The county also found that, overall, CPA foster care costs were about 20 percent higher than county foster care costs, suggesting that the county could have saved about $900,000 in child welfare costs during Fiscal Year 2005 (out of total county foster care expenses of about $6.9 million, or 13 percent) had the

county used only county-certified foster homes. As this example shows, a meaningful cost comparison prompts questions that should lead to further investigation, such as determining whether counties are using child welfare funds appropriately or negotiating reasonable provider rates.

There may be valid reasons why CPAs or counties have higher costs for certain aspects of foster care services. For example, it is possible that either CPAs or counties are generally serving more difficult children, which would increase the child maintenance payments made to either of their certified homes. However, until the Department identifies the reasons for these cost differences, neither the Department nor the counties can determine if the differences are appropriate or whether they represent costs that should be contained.

A meaningful comparison of the costs of providing foster care through county- or CPA-certified foster homes is critical for the Department and counties to determine if they are maximizing the use of limited funds available for child welfare. We also identified this issue in our June 2002 report. In response to our recommendation in that report, the Department agreed to make adjustments to its financial reporting systems to the extent necessary to track comparable costs between CPAs and counties. However, as indicated above, the Department has not made these adjustments in the five years since that audit.

The Department should take the lead in working with the counties to develop an effective method for comparing foster care costs at CPAs and counties. At a minimum, the Department and counties should conduct a cost comparison by level-of-care rating for the child maintenance component of foster care, since once the Department captures level-of-care data in Trails, both automated expenditure and level-of-care data will be readily available. Comparing child maintenance costs and associated level-of-care ratings would allow the Department to determine if counties are paying similar rates to providers for the same level of services. If a county is not paying consistent and comparable rates, the Department could investigate whether the county's rate negotiation methodology or the application of that methodology is flawed. Additionally, the Department should investigate whether cost-effective modifications to Trails and the accounting system can be made to allow counties to isolate administrative costs for foster care, which we discuss further in Chapter 2.

Recommendation No. 4:

The Department should improve the foster care cost comparison required by statute by:

a. Working with county departments of human/social services to develop an effective method for comparing foster care costs at foster homes certified by counties and by child placement agencies. At a minimum, this should include a cost comparison by level-of-care rating for the child maintenance component of foster care. Additionally, the Department should work with the counties to develop a method for quantifying all county administrative costs attributable to foster care.

b. Seeking statutory change to allow the cost comparison to be based on actual payments made for foster care services rather than on reported expenditures.

Department of Human Services Response:

a. Disagree. Implementation Date: None provided.

The Department disagrees with this recommendation as it poses a dilemma. Colorado's Legislature has over the past several years sought to encourage county government to be innovative and creative in delivery of services to achieve positive outcomes for children and their families such as the collaborative management approaches related to HB 04-1451. This recommendation runs contrary to county flexibility.

In Recommendation No. 2 the Department agreed to work with counties to develop and implement a validated, statewide level-of care tool. It is premature to request the Department to perform this comparison function, as we do not have the tools to inform this process. When the Department completes the implementation of a validated levels-of-care instrument we will explore the feasibility of using this tool to compare costs.

b. Disagree. Implementation Date: None provided.

The Department intends to seek statutory authority to repeal Section 26-5-104(6.5), C.R.S., on the basis that the information provided in this report is currently available and known to the county departments. Thus the report has served to be of no value to county departments or to the State in its oversight role.

Auditor's Addendum:

Improving the comparison of foster care costs at foster homes certified by counties and child placement agencies would provide valuable information to the Department and counties about the cost-effectiveness of foster care services across

different providers. This comparative cost information should be one of the factors considered as the counties and the Department seek to identify and promote innovative and creative service delivery practices.

Child Welfare Funding

Chapter 2

Colorado has spent over $340 million on child welfare services each year since Fiscal Year 2003, and as noted in Chapter 1, growth in child welfare spending since Fiscal Year 2000 has exceeded the rate of inflation. Historically, child welfare expenditure growth has been of concern to both the Colorado Department of Human Services (Department) and the General Assembly. Prior to Fiscal Year 1998, the Department's allocations to counties were expenditure- or formula-based. According to the Department, many counties significantly overspent their allocations under the expenditure-based system and the Department reimbursed those overexpenditures, regardless of the counties' reasons for overspending.

In response, the General Assembly created a capped block grant for child welfare services under Senate Bill 97-218. The legislation's goal was to contain child welfare costs by tying county allocations to caseloads. The statutes [Section 26-5-104(4), C.R.S.] allow counties to spend their capped allocation for approved purposes without restriction, thereby providing the counties maximum flexibility in determining the amount and types of services that best meet the needs of the children and the communities they are serving.

Under Colorado's state-supervised, county-administered child welfare system, the Department is responsible for managing the allocation of child welfare funds to the counties. The statutes [Section 26-1-111(2)(d), C.R.S.] also require the Department to obtain federal matching funds for foster care services. Maximizing federal reimbursements is crucial to leveraging state and local funds and ensuring sufficient funds are available for serving children while in foster care, when reuniting children with their families, or when pursuing adoption or other permanent placement options for the child.

We evaluated the Department's practices for allocating child welfare funds and claiming federal reimbursements for foster care and identified problems with the Department's methods for accurately tracking and classifying child welfare expenditures. These weaknesses hinder the Department's ability to ensure that child welfare funds are spent cost-effectively, allocate funds to counties equitably, and maximize federal reimbursements. This chapter suggests ways that the Department can improve its management of allocations and reimbursements to ensure counties have the necessary funds to provide needed services to children.

Child Welfare Allocation Model

Counties use their block grant allocations for handling child abuse reporting and investigations, out-of-home placements, adoptions, and case management, as well as for the administrative costs related to providing these services. The statutes [Section 26-5-104(3), C.R.S.] require the Department to develop a caseload-based formula for allocating the block grant to the counties. The statutes also require the Department to consider each county's allocations and expenditures from the previous three fiscal years and prevent the Department from reducing a county's allocation based on a county's cost savings. These statutory safeguards are intended to provide some stability to a county's allocation by preventing unexpected sharp increases or decreases in the amount of funds allocated to the counties. The statutes [Section 26-5-103.5, C.R.S.] also created the Child Welfare Allocations Committee (Allocation Committee), which includes Department and county representatives (specifically, four commissioners and one human services director), to make recommendations to the Department regarding the methodology for the allocation formula. Historically, the Department has agreed with the Allocation Committee's recommendation. However, if the Allocation Committee and the Department should disagree about the allocation formula, then the statutes direct the Joint Budget Committee to choose between the Department's and the Allocation Committee's recommendations.

From Fiscal Years 1998 through 2001, counties received capped allocations based on expenditures from prior years and on demographic factors such as total child population and the percentage of children below the poverty level. For Fiscal Year 2002' allocation, the Department hired an outside contractor to develop a new allocation model that is still being used. According to the Department, the purpose of the current model is to create an allocation process based on tangible cost drivers that allow the counties to compare their practices and reach consensus on acceptable variations or ranges, identify those costs that are within management control, and allocate funds in a fair and cost-effective manner.

Allocations are based on each county's case rates, caseload, and cost data from the most recent fiscal year for which complete information is available. In practice, this means the data are from two years prior to the allocation year for each county (e.g., the Fiscal Year 2008 allocation was based on Fiscal Year 2006 data). Case rates measure the rate at which children enter different parts of the child welfare system, as explained below. The model works by using past case rates and costs and applying them to the projected child population of each county in the allocation year. The model currently consists of eight active drivers that capture caseload levels and the associated costs of delivering the child welfare services. Drivers that are based on county case rates include:

- **Child abuse or neglect referrals per thousand child and adolescent population.** A referral is any call received by counties alleging abuse or neglect of a child.

- **Assessments as a percentage of referred children.** Counties perform various assessments (e.g., safety, risk, and needs) when a child abuse or neglect referral is judged to be credible.

- **Total new involvements as a percentage of assessments.** Counties open "involvements" (i.e., cases) when their assessments determine that a child's safety is at risk and child welfare services are needed.

- **Out-of-home involvements as a percentage of total open involvements.** For some cases, counties determine that the child cannot remain safely at home and must arrange for an out-of-home placement.

Drivers based on county cost data include:

- **Average days per year for out-of-home involvements.** This driver calculates the average length of out-of-home placements within each fiscal year.

- **Average cost per day for out-of-home involvements.** These costs include child maintenance payments made to county- and CPA-certified foster parents and administrative maintenance and administrative services payments made to CPAs, group homes, and residential child care facilities.

- **Program services cost per open involvement.** Program services include county case management, administrative costs, and case services.

- **Average cost per day for subsidized adoption.** These costs reflect subsidies paid to families that adopt special-needs children.

For each driver, the model is intended to contain costs by establishing a maximum and minimum range of expenditures (e.g., average county cost per day for out-of-home involvements) or services (e.g., child abuse referrals) for which the Department is willing to reimburse the counties. Counties that are above the maximum of the range for a driver must pay for these extra costs or services with funds other than child welfare block grant moneys. Counties that are below the low end of the range for a driver are given additional funding under the presumption that they should be providing a minimum level of services.

We reviewed the Department's child welfare allocation model to determine if it apportions funds in a cost-effective and fair manner based on county caseloads. We found that the Department could improve the model in areas related to administrative costs, county overexpenditures, and funding for smaller counties. Additionally, we found the Department needs to improve its management of the allocation process.

County Administrative Spending

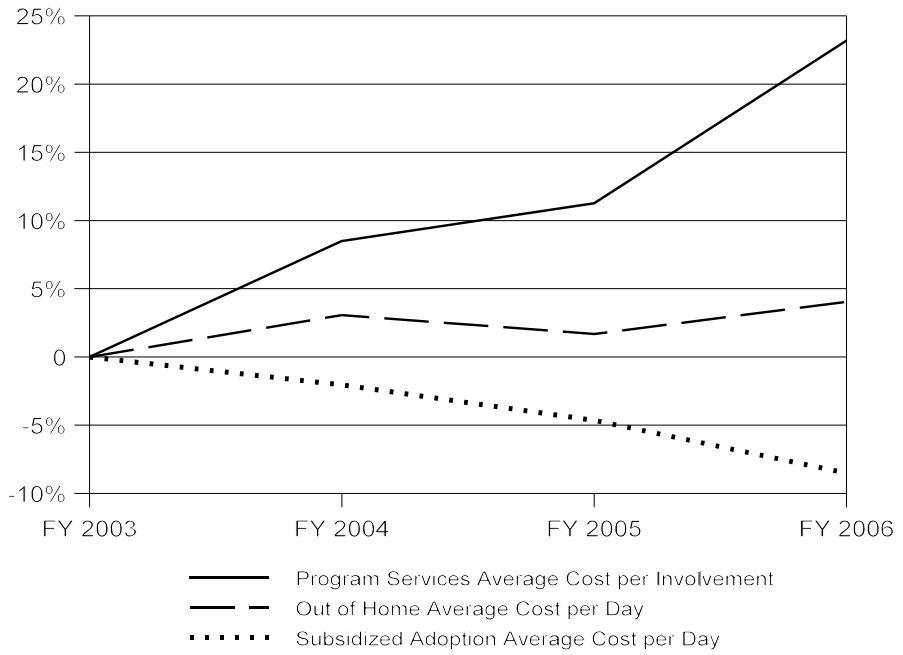
We reviewed the cost drivers in the child welfare allocation model and found that one of the eight drivers, program services cost per open involvement (program services), is increasing at a disproportionate rate and therefore does not appear to be adequately controlling costs. The program services driver includes all county child welfare administrative and case management costs but does not include payments made to CPAs and foster parents. Program services receives the largest part of the allocation under the model, or about $122 million out of the total child welfare allocation of $311 million in Fiscal Year 2006. Specific concerns that we identified include:

- **Program services costs account for an ever-increasing percentage of total child welfare expenditures.** The share of total county child welfare grant expenditures attributable to program services increased from 38 percent in Fiscal Year 2003 to 43 percent in Fiscal Year 2006.

- **Program services costs are increasing at a faster rate than corresponding caseload increases.** Total caseload (referrals, assessments, and open involvements) associated with program services increased about 9 percent from Fiscal Years 2003 through 2006. However, total expenditures for program services increased substantially faster, at about 21 percent.

- **Program services costs are increasing at a much higher rate than other cost drivers.** The average cost per involvement for program services increased about 23 percent since Fiscal Year 2003. By comparison, the average cost per day for out-of-home placements increased about 4 percent and the average cost per day for subsidized adoption decreased about 9 percent over the same period. The following graph illustrates the dramatic increase in average program services costs relative to out-of-home placement and subsidized adoption costs.

Department of Human Services
Change in Average Cost for Selected Child Welfare Allocation Model Drivers
Fiscal Years 2003 Through 2006



Source: Office of the State Auditor's analysis of trends data from Trails provided by the Department of Human Services.

It is unclear whether the relatively large increase in program services costs is due to increases in county case management costs (i.e., for direct services to families), increases in county administrative costs, or both. The Department does not currently capture cost data in a manner that allows either the Department or the counties to determine which type of expenditure is driving the increases in program services. As a result, the Allocation Committee has been reluctant to apply cost control mechanisms to the program services driver, such as shrinking the range of acceptable average costs or capping program services expenditures, because these mechanisms could impair a county's ability to provide an appropriate level of case management services. Without better information on the costs driving program services, the Department and the Allocation Committee lack information to inform the allocation process and thus the Department cannot determine whether county practices drive increases in administrative costs in some counties and case management costs in others.

The Department could improve the model by separating out administrative and case management costs in the program services cost driver. Legislation passed in 1998 [House Bill 98-1137] required the Department to define "administrative and support functions" and to develop a method for identifying these costs, which would allow the Department to track these expenditures separately from case management and create a cost driver for each. The Department defined administrative and support functions in an agency letter issued in September 1998. These functions include rent, legal services, travel, and conducting public hearings, but do not include costs for case management. However, in the nine years since this legislation passed the Department has not developed a method for identifying and tracking these costs.

The Department's inability to separate out administrative (including support) and case management costs significantly weakens accountability over the funds allocated for program services. The percentage of the State's child welfare funds allocated to the program services cost driver will likely continue to grow because the Department is considering implementing a child welfare service model statewide that expands the use of case management to keep children at home and avoids placing them in foster care. Without a method for separately capturing the administrative costs and case management costs that make up program services, the Department and the Allocation Committee cannot monitor changes in expenditures that result from implementing this new child welfare services model or determine if the new model is cost-effective.

Staff reported that the Department's current systems are not designed to track administrative and case management costs separately for each county. For example, the Department's County Financial Management System (CFMS) captures county-level expenditures but does not break out certain costs by program (e.g., CFMS does not specifically identify "foster care administration costs"). The Department should work with the counties to identify and evaluate options for using its systems to track administrative and case management costs separately for the counties. For example, the Department currently uses a federally-approved sampling method for tracking administrative, case management, and other costs for reimbursement. The sampling process creates statewide statistics on the percentage of time that county staff spend on various job duties. One option would be for the Department to use this sampling methodology to create county-specific cost allocation statistics that could be used in the model. This sampling methodology may also be useful for tracking foster care-specific administrative costs, which would help the Department conduct the foster care cost comparison analysis discussed in Chapter 1. Another option would be for the Department to identify and use proxies for tracking administrative and case management costs. Possible proxies suggested by the Department include measuring the number of children receiving in-home and out-of-home services or measuring the number of caseworkers.

Recommendation No. 5:

The Department should improve information for evaluating county administrative and case management costs in the child welfare allocation model by:

a. Working with counties to identify and evaluate options for using or modifying existing systems to improve cost information. Options could include (1) using the federally-approved sampling methodology to create county-specific cost allocation statistics to estimate county administrative and case management costs and (2) identifying and tracking proxies to explain increases in administrative and case management costs.

b. Using the improved cost information to analyze administrative and case management costs in the program services cost driver and considering allocating funds for administrative and case management costs in the child welfare allocation model separately.

Department of Human Services Response:

a. Partially Agree. Implementation Date: October 2009.

The Department does not agree that it is cost-effective to track administrative costs separately. This would require a very costly and labor-intensive change to 100 percent time reporting by workers. It is also not cost-effective to implement a county specific sampling process that would be statistically valid for individual counties. County-specific sampling is not federally compliant and therefore two sampling system would need to be implemented which is burdensome and costly. Implementing dual sampling or 100 percent time reporting would also mean that more resources would be pulled away from service provision to children. However, the Department does agree to explore other methods available, such as proxies, to evaluate increases in program services costs.

The Department's focus and efforts are on achieving positive outcomes for children and families. We are interested in identifying trends in practice changes that improve systems and services to children. The Department supports the flexibility that is provided through the child welfare blocked funding, because is allows for innovative child welfare service provision that can be tailored to the needs and values of the local communities. The Department does not support prescribing where

counties must spend the blocked funding because it limits creativity and is contrary to current efforts like the collaborative management practices authorized through House Bill 04-1451.

b. Disagree. Implementation Date: None provided.

The child welfare services appropriation provides blocked funding to county departments of social services. Counties are provided a capped allocation that can be spent without categorical restriction. Counties are allowed to spend flexibly within their block allocation. This flexibility allows counties to design services and programs to the specific needs of their community. This recommendation proposes to take away that flexibility and there is no statutory authority for imposing such restriction. The Department supports the use of flexible funding so that decisions regarding the best means of providing for child welfare service provision can be made at the local level.

The Department supports the benefits that this flexible funding provides, allowing counties to implement innovative practice changes that are aimed at achieving better outcomes for children involved in the child welfare System.

Auditor's Addendum:

This recommendation focuses on identifying meaningful cost information for use in allocating scarce funds through the child welfare allocation model. Meaningful cost information will help the Department and counties assess the cost-effectiveness of and outcomes from new service delivery models, such as in-home services, and help ensure child welfare allocations are apportioned equitably.

Surplus Distributions

As noted previously, counties receive capped allocations for child welfare services. At the end of each fiscal year, some counties will have exceeded their allocation, while others will not have spent it all. The statutes [Section 26-5-104(7), C.R.S.] allow the Department to redistribute unexpended capped funds to counties that exceed their allocation. Section 26-5-104(4)(e), C.R.S., permits counties to receive additional funds for "caseload growth . . . or changes in federal law or federal funding." Section 26-5-104(7)(b), C.R.S., allows counties to receive extra funds "for authorized expenditures attributable to caseload increases beyond the caseload estimate" and prohibits counties from receiving more funds for expenditures

"attributable to administration and support functions." Finally, Department policy requires counties to show that their caseload growth exceeds caseload estimates to be eligible for surplus distribution funds.

The Department oversees year-end redistributions of unexpended capped funds to counties that overspent their allocations through a surplus distribution process. This process reallocates funds from counties that underspent their allocations to counties that overspent their allocations because of increases in caseload. Surplus funds are distributed within the "balance-of-State" counties (i.e., not one of the 10 largest counties) and the 10 largest counties, and finally between the two groups.

We reviewed the Department's procedures for distributing surplus funds and determined that it is unable to ensure that the distribution is based on unanticipated caseload increases, as required by statute and Department policy, because the Department does not determine why counties have overspent their allocations. Specifically, the Department does not require counties to provide an explanation for their overspending before the Department distributes surplus funds. Because of this lack of documentation, we could not conclude whether the surplus distribution process complies with statute and Department policy that counties receive additional capped funds based on caseload increases. The Department distributed surplus funds to 67 of the 68 counties that overspent their allocations in Fiscal Years 2005 and 2006 (34 of 35 counties that overspent in Fiscal Year 2005 and all 33 counties that overspent in Fiscal Year 2006). The Department redistributed about $1.5 million in Fiscal Year 2005 and about $3.3 million in Fiscal Year 2006.

According to the Department, since counties receive a block grant allocation, the counties are authorized to use the funds for a variety of costs as they see fit. No specific cost category receives a separate allocation, so the Department believes it cannot determine whether a county overspent due to administrative costs. The Department has also indicated that a legal interpretation on the statutory criteria for redistributing surplus funds would be useful for determining whether changes in Department practices are needed to ensure compliance with statutes.

Recommendation No. 6:

The Department should seek a formal opinion from the Attorney General's Office to ensure the Department's process for redistributing surplus child welfare allocation funds complies with statute. On the basis of this opinion, the Department should document changes to the surplus distribution process as appropriate.

Department of Human Services Response:

Agree. Implementation Date: July 2008.

The Department agrees to seek an official opinion from the Attorney General as to the intent of the statute under Section 26-5-104(7), C.R.S., regarding surplus distribution and will implement the requirements accordingly.

Funding Stability

One of the purposes of the Department's child welfare allocation methodology is that counties' funding should reflect changes in caseload and costs while simultaneously providing the counties' some stability in funding levels. This is particularly important for smaller counties, where a significant increase in caseloads and their associated costs, without a corresponding increase in funding, could make it difficult for counties to sustain a minimum level of service.

To ensure counties have some stability in their funding levels, state statutes require the Department to consider using a county's allocations and expenditures for the previous three fiscal years, in addition to its current caseload, when making the current year allocation. Additionally, the Department has undertaken other efforts to provide stable funding streams to counties. For example, the Department stabilizes funding for "small-scale counties" (counties with one or less caseworker) by holding them outside of the allocation model and providing them with the same total allocation received in previous years. Further, during Fiscal Years 2002 through 2004, the Department provided some funding stability to the 10 largest counties by agreeing that no large county would lose more than 4 percent of its funding allocation from one year to the next.

We reviewed changes in allocations and caseload for all counties for Fiscal Years 2003 through 2006 to evaluate how well the allocation model and Department practices addressed caseload shifts and funding stability. We found that each of the 54 balance-of-State counties had significant caseload shifts that did not result in comparable changes in funding levels. Specifically, 22 counties experienced one or more shifts of 10 percent or greater in their annual caseloads between Fiscal Years 2003 and 2006, without receiving corresponding shifts in their allocations. For the other 32 counties, in some instances funding from one fiscal year to the next shifted in the opposite direction from the caseload shift.

Funding Stability Within the Allocation Model. One explanation for the fluctuations in the balance-of-State funding allocations is the inherent time lag built

into the child welfare allocation model. As noted previously, current-year allocations are based on case rates and expenditures from two years prior. If a county has a large increase in caseload one year, the allocation model will not respond with funding increases until two years later. If a county has unpredictable caseload swings, funding levels and caseload may not correspond. The Department has not analyzed the caseload and funding shifts we identified to determine the reasons for the shifts or whether the allocation model needs to be adjusted in some manner to be more responsive to changing needs.

Funding Stability Through Mitigation. Another explanation for the funding fluctuations we found is that the mitigation process, which is intended, in part, to provide funding stability to the balance-of-State counties, is not promoting that stability. The balance-of-State counties have established a mitigation process in which they set aside 4 percent of their annual child welfare allocations to be redistributed at year-end. The Department retains these funds and awards them to balance-of-State counties to help cover overexpenditures. However, we found problems with the process used to distribute mitigation funds.

First, the Department does not have documentation for the mitigation process. Specifically, the Department does not have written criteria to guide decisions about awarding mitigation funds. The Department also does not document its review of the counties' mitigation applications for accuracy or appropriateness or its decisions about amounts awarded to each county. Because of the lack of criteria and documentation, we could not conclude whether the Department is apportioning mitigation funds appropriately.

Second, we found that mitigation funds are awarded to cover other cost increases besides those caused by caseload increases. We reviewed the 69 mitigation applications submitted to the Department in Fiscal Years 2005 and 2006 (30 in 2005 and 39 in 2006) and found that about a quarter of the counties that received mitigation funds reported being overspent due to caseload increases. On the other hand, 40 percent of the counties that received funds cited administrative and support functions as one of the primary reasons for their overexpenditures and another 34 percent did not provide information to explain their overexpenditures.

Unexpected changes in caseloads can lead to significant cost overruns that cannot be controlled by a county. Therefore, it is reasonable for the Department to use mitigation funds primarily to address overexpenditures caused by caseload increases. Further, distributing mitigation funds primarily to address caseload changes would be consistent with the statutory direction provided for surplus funds, discussed in the previous section. Specifically, the General Assembly has directed the Department to distribute unexpended capped funds to counties only when a county's overexpenditure is due to caseload increases.

Finally, rather than promoting funding stability for the balance-of-State counties, the mitigation process may do the opposite. Specifically, Department staff report that the Department awards mitigation funds to a county in an amount that is inversely proportional to the amount by which that county overspent its allocation. In other words, counties that barely overspend their allocations receive a higher percentage of their mitigation request than counties that overspend by a large amount. The Department indicates that this approach encourages counties to control costs. However, this method could perpetuate funding instability for the balance-of-State counties and could penalize those counties that have large overexpenditures due to costs outside their control, such as significant increases in caseload.

The Department should further analyze the funding and caseload shifts we identified among the balance-of-State counties and consider options for improving funding stability based on this analysis. For example, the Department could consider using multiple years of data in the allocation model. Although this would increase the time lag associated with the data being used, it would help the Department smooth significant changes in spending from year to year based on swings in caseload. In addition, the Department could determine the minimum amount of funding small counties need to operate their child welfare departments, regardless of caseload, and ensure that counties are allocated this base amount each year and use the model to allocate additional funds. Finally, the Department could improve the mitigation process by requiring counties to identify the reasons for their overexpenditures and prioritizing awards to counties with overexpenditures caused by unexpected caseload increases. The Department should also document the mitigation review and award process. All of these steps, individually or in combination, could improve the funding stability for balance-of-State counties.

Recommendation No. 7:

The Department should improve the stability of county child welfare allocations for the balance-of-State counties by:

a. Analyzing significant changes in caseloads and allocations for the balance-of-State counties to determine if the model is working as intended and taking appropriate steps to resolve any problems identified.

b. Developing and implementing written criteria for determining when counties are eligible for mitigation funds and how much they will receive in mitigation funds. The Department should consider prioritizing funding for counties with caseload increases.

c. Documenting the review process and decisions made to approve or deny requests for mitigation funds and the amount of mitigation funds each county receives.

Department of Human Services Response:

a. Agree. Implementation Date: October 2008.

The Department agrees and will continue to work with the statutorily mandated Child Welfare Allocation Committee to determine if the model is working as intended. The Department and the Committee are interested in assuring stability in the model for the balance-of-State counties.

b. Agree. Implementation Date: July 2008.

The Department will work with the Mitigation Committee and the Child Welfare Allocation Committee to further develop written criteria for distribution of the mitigation pool.

c. Agree. Implementation Date: July 2008.

Decisions made by the Mitigation Committee with regard to the distribution of the mitigation pool will be documented in minutes with a summary of the final mitigation requests approved.

Department Oversight of the Allocation Model

As mentioned previously, Department and county staff both have a role in the child welfare allocation process. According to the statutes [Section 26-5-104(3), C.R.S.], the Department is primarily responsible for developing the child welfare allocation formula and supervising the allocations after receiving input and recommendations from the Allocation Committee. The Allocation Committee includes representatives from the Department and counties, and its role is advisory to the Department. According to the statutes, the allocation formula must be based on caseload and consider the three previous years' allocations and expenditures for each county.

We interviewed county and Department staff, attended Allocation Committee meetings in Fiscal Years 2006 and 2007, and reviewed Allocation Committee meeting minutes from Fiscal Years 2002 through 2007 to evaluate the Department's role in selecting the current allocation model and overseeing the allocation process.

We found that the allocation model is complex and that although the Department understands the basic operations of the model, the Department lacks detailed knowledge about the model's mechanics, such as how the model's formulas interact with and affect each other. In addition, the Department has not performed the systematic analysis necessary to determine if the model works as intended. For example, as discussed previously, we found that the caseload for all of the balance-of-State counties fluctuated more than 10 percent from year to year at least once since Fiscal Year 2003 but that these shifts have not always been matched with corresponding adjustments in allocations. In this particular example, the Department has not investigated the counties' complaints about these fluctuations to determine if disproportionate shifts were actually occurring.

Counties have not been able to gain adequate knowledge about how the model works, in part because the Department did not give the counties access to the model until April 2007. In addition, the Department did not require the contractor who developed the model to fully explain it or provide documentation on how the model works. Beginning in Fiscal Year 2001 and continuing to the present, the Allocation Committee formed several subgroups to analyze the model, which has consumed a significant amount of the counties' time. For example, we estimate that top county officials collectively spent 236 hours over the last six months in meetings about the model. If the counties had received access to details of the model earlier, they may have been able to reduce the amount of time spent discussing the model. As of the end of our audit, the counties still have not received detailed information on how the model works.

Ultimately, fundamental decisions about the costs to be included in the child welfare allocations and the ranges of county practices to be funded by the model have been made by parties (i.e., the Department and counties) without a full understanding of the model and the relationships between the various cost drivers. As a result, the Department cannot ensure that the current model is meeting the statutory goals of distributing child welfare block grant funds annually on the basis of reflecting changes in caseload and providing stable funding to counties. We constructed a simpler model based on caseload, child population, and poverty levels (which are similar to factors used by other states and are arguably cost drivers as well) and found that about $54 million, or 18 percent of the total funds available (about $294 million for Fiscal Year 2005, the latest year available for poverty statistics), would have been distributed differently under our model. The Department does not have sufficient knowledge of the current model to know if its model represents a more equitable and cost-effective allocation than the simpler model discussed above.

The Department's relationship with its contractor also hinders the Department's ability to ensure that the current model is the optimal method for allocating more than $300 million in child welfare funds annually. Specifically, the Department has

never had a written contract with the contractor detailing the services the contractor will provide or the State's recourse if there are problems with the model, which puts the State at risk. The Department has not set forth the contractor's obligations in writing or required the contractor to conduct any analysis of the model or determine the model's impact on allocations. Furthermore, it is unclear what rights, if any, the Department has to use and modify the model in the future.

Finally, we attempted to verify that the Department accurately calculated the allocations made between Fiscal Years 2003 and 2007 based on the model's formulas. However, we found that the Department does not maintain documentation of the source data used to calculate the allocation amounts. Consequently, we could not conclude whether the allocations made between Fiscal Years 2003 through 2007 were accurate. We also found no evidence that a supervisor reviewed the allocations for accuracy.

The Department needs to provide better oversight and analysis of the model. Specifically, the Department should maintain the source data used to produce the allocations and perform a supervisory review to ensure that the allocations are accurate. In addition, the Department should reconsider its relationship with the model's contractor. There are two possible options. First, the Department could formalize and strengthen its arrangement with the contractor by executing a contract or other written agreement with the contractor that clarifies the rights and responsibilities of both parties. Although annual payments of the contractor's fee, which is $225 per hour, are currently below the threshold requiring a contract according to State Fiscal Rules, it is crucial for the Department to protect the State in this sensitive area. Under this option, the Department would need to enhance its monitoring of the contract to ensure the contractor completes all responsibilities set forth in the agreement.

Alternatively, the Department could acquire expertise and take over management of the model. In the long term, the second option could better serve the State, as the Department would be directly accountable for how the model works and for determining if there are ways to improve the allocation of child welfare funds. For example, the Department is currently considering making some of the allocations outcome-based by holding out a portion of the total allocation as incentive funds for counties that meet certain performance standards. Department staff could develop such an outcome-based model and test it before inviting county and Allocation Committee input. With Department staff managing the model, the Department could provide the leadership to the allocations process that the statutes envisioned.

Recommendation No. 8:

The Department should improve its oversight of the child welfare allocation model by:

a. Developing a comprehensive understanding of the model and conducting systematic analysis to determine whether the current model is the most effective and appropriate method for allocating the child welfare block grant.

b. Maintaining documentation of all source data used to generate the annual county allocations and performing a supervisory review to ensure the accuracy of the allocations.

c. Restructuring its relationship with the model's contractor by either (1) acquiring expertise in-house to take over all aspects of managing and operating the model or (2) strengthening and formalizing its relationship with the contractor by executing a contract that sets forth the Department's and the contractor's rights and responsibilities and that includes quality assurance provisions to ensure accountability and protect the State's interests.

Department of Human Services Response:

a. Agree. Implementation Date: July 2009.

The Department continues to work with the county commissioners and directors that have been appointed to the Child Welfare Allocation Committee to determine whether the current model is effectively supporting practice that leads to positive outcomes for children and families.

b. Agree. Implementation Date: July 2009.

The Department will maintain the data sets used for producing allocations for a minimum of three years, plus the current fiscal year. Allocations data is provided to county departments for review to assure data accuracy and supervisory reviews of the allocation will occur.

c. Agree. Implementation Date: January 2008.

The Department agrees to strengthen the agreement with the consultant as outlined in the recommendation.

Federal Reimbursements

Title IV-E of the Social Security Act provides federal funding to help states pay the costs of providing foster care to eligible children from low-income families. According to the Department, two foster care rate components—child maintenance and administrative maintenance—qualify for Title IV-E reimbursement. The Department's third foster care rate component—administrative services—does not qualify. To identify qualifying expenditures, Department regulations define the costs that should be allocated to each rate component. The Department requires counties to allocate these costs and record the payments made to CPAs, foster parents, and group homes for each rate component in Trails, and these data are uploaded into CFMS. The Department extracts the expenditure data from CFMS for the child maintenance and administrative maintenance rate components for Title IV-E–eligible children and submits the expenditures to the federal government for reimbursement. The State receives a 50 percent match on qualifying expenditures. During Fiscal Year 2007, the Department received a total of $66.7 million in federal reimbursements for foster care provided to Title IV-E–eligible children.

Colorado law encourages the Department to be proactive and thorough in accessing all available Title IV-E funds. According to the statutes [Section 26-1-109(4.5), C.R.S.], the Department shall "undertake necessary measures to obtain increased federal reimbursement moneys available under the Title IV-E program." We analyzed the Department's process for claiming Title IV-E expenditures and found that in some instances, the Department is not claiming all eligible expenditures for federal reimbursement and in other instances, is submitting ineligible Title IV-E expenditures for reimbursement. We discuss these issues in the next two sections.

CPA Case Management Expenditures

According to federal regulations, case management expenditures for Title IV-E–eligible children qualify for reimbursement. Although the Department claims reimbursement for case management services provided by counties, we found that the Department is not claiming expenditures for case management services provided by CPAs or group homes. We identified problems in two areas that impair the Department's ability to collect reimbursement for CPA and group home case management:

Base rates for CPAs and group homes. As discussed previously in Chapter 1, the Department reports that 25 counties primarily use the Department's base rates to purchase foster care services from CPAs and group homes. We found that when the Department develops these base rates, it does not allocate case management costs to the administrative maintenance component, one of the two cost components that the

Department submits for federal reimbursement. Instead, the Department allocates case management to the administrative services component, the cost component that the Department does not submit for federal reimbursement. Consequently, when the Department extracts CFMS expenditures for child maintenance and administrative maintenance and submits them for reimbursement, the Department is not including any of the qualifying case management costs paid by the 25 counties that use the Department's base rates to purchase foster care services. The Department was not aware of this until we identified this issue in our audit. We were not able to quantify the effect of this error because Trails does not identify when counties are using base rates or negotiating their own rates.

County-negotiated rates. Department regulations do not specifically include CPA and group home case management expenses in either the administrative maintenance or administrative services rate components. As a result, some counties allocate CPA and group home case management expenses to administrative maintenance, which the Department submits for federal reimbursement, and other counties allocate it to administrative services, which the Department does not submit for reimbursement. We reviewed county practices for allocating case management costs for a sample of 10 counties and found that 4 counties classify case management as an administrative maintenance expense and 4 counties classify case management as an administrative services expense. The remaining two counties reported that they rarely use CPAs or group homes. We conducted further analysis on case management expenses for the four counties that allocate case management to the administrative services cost component. On the basis of expense reports provided by a sample of four CPAs that each do business with at least one of these four counties, we determined that case management expenses accounted for about 69 percent of these four CPAs' administrative services expenses. By applying this same percentage to the total administrative services expenses for Title IV-E–eligible children served by these four counties, we estimate that if these expenses had been allocated to the correct rate component, the Department could have potentially claimed additional case management reimbursements totaling approximately $4.5 million between July 2002 and December 2006, or about $1 million annually. Instead, these case management expenses were paid for by state general funds and the counties.

The Department has expressed concerns that federal guidance with respect to claiming federal reimbursements for CPA and group home case management costs is not clear. The Department should seek guidance from the U.S. Department of Health and Human Services on the appropriate methods for classifying and claiming reimbursement for CPA and group home case management expenses.

Incorrect Cost Allocations

As discussed previously, the Department requires counties to enter payments to CPAs and group homes for all three foster care rate components—child maintenance, administrative maintenance, and administrative services—into Trails. We found that counties do not always enter their payments into the correct rate component. As a result, when the Department extracts expenditures for the child maintenance and administrative maintenance rate components and submits them for reimbursement, the amount of the reimbursement request is not always accurate.

Our contractor reviewed county payments related to 106 foster parents at three CPAs totaling $173,000 and found that payments associated with 13 foster parents (12 percent) allocated expenditures to the incorrect rate component. Child maintenance costs for these three CPAs were understated by about $5,700 and administrative maintenance and services costs were overstated by about $1,000 and $4,400 respectively. We also identified one county which did not have a process for ensuring that staff allocate CPA and group home payments to the correct rate component. As a result, one of its staff members arbitrarily assigned these payments to the rate components, which created inaccurate claims for Title IV-E reimbursements.

In addition, we found that some counties incorrectly report bed reservation fees, which are daily rates used to hold beds at family foster homes or group homes for emergency or high-needs placements, as Title IV-E-reimbursable costs. Title IV-E specifies that rates are to be paid on behalf of children served, not bed reservations. However, we found two counties that increase the rate paid for a child already in placement with a provider as a way of reserving additional beds with that provider. If that child is Title IV-E–eligible, these higher payment rates are reported for reimbursement to the federal government, even though they are not being paid on behalf of actual children in placement. For example, we reviewed the file of one Title IV-E–eligible child whose provider should have received $80 per day in child maintenance payments but instead received up to $332 per day in child maintenance payments to reserve other bed space. As a result, the county overstated Title IV-E child maintenance costs for this child by almost $33,000 over seven months. The Department has established a code in Trails for entering bed reservation rates, and this code is not used to claim federal reimbursements. The Department should ensure that counties enter the bed reservation rate into Trails correctly so that the Department does not improperly claim federal reimbursements for them.

In Fiscal Year 2006, 46 percent of all foster care payments were made on behalf of low-income children that qualify for federally reimbursable services under Title IV-E. To ensure that the Department receives full reimbursement for all qualifying expenditures and that the expenses submitted for federal reimbursement are accurate,

the Department needs to implement procedures to ensure counties allocate costs properly and enter rate payments into the correct rate category. For example, the Department already monitors whether counties correctly determine that children are Title IV-E–eligible. These reviews could be expanded to evaluate whether counties are allocating foster care payments accurately. If the Department identifies reimbursements for county payments that did not qualify for reimbursement, the Department should require the county to repay the Department, and the Department should submit the correction to the federal government. Additionally, the Department should review the incorrect payment allocations identified during our audit, require the affected counties to pay back any federal funds that did not qualify for Title IV-E reimbursement, and make appropriate adjustments on reports to the federal government.

Recommendation No. 9:

The Department should ensure it is claiming Title IV-E–eligible reimbursements for foster care appropriately by:

a. Contacting the U.S. Department of Health and Human Services (DHHS) to determine whether all case management costs qualify for federal reimbursement and should be included as part of administrative maintenance costs.

b. Ensuring Department staff and county departments of human/social services record and classify case management services in accordance with the direction provided by DHHS in Part "a."

c. Implementing procedures for verifying that counties are entering rate information into Trails accurately, including bed reservation rates, and for ensuring that payments to counties reflect adjustments for any federal funds claimed incorrectly for reimbursement under Title IV-E. The Department should report adjustments to the federal government as appropriate.

d. Reviewing the incorrect payment allocations identified during our audit, requiring the affected counties to pay back any federal funds that did not qualify for Title IV-E reimbursement and making appropriate adjustments on reports to the federal government.

Department of Human Services Response:

a. Agree. Implementation Date: December 2008.

The Department agrees to explore federally acceptable alternatives for claiming Title IV-E funding for case management activities provided through child placement agencies and pursue changes that are federally compliant.

b. Agree. Implementation Date: December 2008.

Counties will be provided with instructions regarding appropriate methods for recording and classifying case management services provided through child placement agencies to assure federal compliance and maximization of federal revenue as allowed.

c. Agree. Implementation Date: December 2008.

The Department agrees to conduct a larger sample to determine if data entry errors for county negotiated rates exceed a reasonable margin of error. The Department will determine the appropriate course of action in assuring that rates are entered correctly and federal funds are claimed appropriately. The Department will provide guidance to counties regarding the procedures for entering bed reservation rates.

d. Agree. Implementation Date: December 2007.

The Department will assure that adjustments are made for errors in federal claiming of Title IV-E as determined appropriate for the records sampled in this audit.

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Controls Over Expenditures

Chapter 3

The Colorado Department of Human Services (Department) spent about $379 million on child welfare services in Fiscal Year 2007. These funds include state expenditures related to administrative costs for county departments of human/social services, foster care payments to child placement agencies (CPAs) and county-certified foster homes, and expenditures for services designed to prevent or shorten out-of-home placements and help foster children transition from foster care after turning 18. Strong controls over these expenditures are important for ensuring that taxpayer funds are being used to deliver high-quality foster care services in an economical manner.

We tested the Department's controls over expenditures in three areas: CPA foster care administrative expenses and payments to foster parents; county payments for Core Services; and county payments for the federal John H. Chafee Foster Care Independence Program (Chafee), which helps older children in foster care transition to self-sufficiency. We reviewed CPA expenditures because the Office of the State Auditor's *Foster Care Program Performance Audit* completed in June 2002 identified numerous problems with CPA expenditures, including more than $1.1 million in questioned costs. We reviewed the Core Services and Chafee programs because these programs include a high volume of small-dollar transactions, which increase the risk of fraud or abuse if sufficient internal controls are not in place. Finally, we evaluated the data integrity controls in Trails and the County Financial Management System to determine how the Department prevents duplicate or inaccurate payments to foster care providers.

Overall, we found that the Department should improve the controls over CPA foster care expenditures and county Core Services and Chafee spending. This chapter describes ways in which the Department can better ensure accountability for these funds.

CPA Expenditures

As noted in Chapter 1, CPAs receive payments from county departments of human/social services based on three main rate components: child maintenance, administrative maintenance, and administrative services. Between Fiscal Years 2002 and 2006, CPAs received between $34 million and $46 million annually to provide foster care services to about 20,000 children over the five-year period.

Counties that contract with CPAs must use a standard Department contract. The contract requires CPAs to comply with federal cost principles, such as the Office of Management and Budget's (OMB's) *Circular A-122: Cost Principles for Non-Profit Organizations* and Department regulations related to allowable expenditures. Both generally require that expenditures be reasonable, prudent, and necessary for effective program administration and that they be adequately documented. OMB *Circular A-122* provides a specific list of allowable (e.g., administrative overhead) and unallowable (e.g., alcohol) expenditures. Department regulations also list allowable expenditures but do not specifically list expenditures that are unallowable. Rather, Department regulations state that any expenditure is unallowable if it does not meet the Department criteria for allowability.

We hired a contractor to review expenditures made by a sample of eight CPAs from funds received from the counties in Fiscal Years 2005 through 2007. The purpose of the review was to determine if CPAs expended these funds in accordance with federal and state requirements. Overall, our current audit did not uncover the high volume of questioned costs identified during our 2002 audit; however, we found a substantial number of noncompliant transactions, indicating that while progress has occurred, the Department needs to further improve controls over CPA expenditures. We discuss these areas in the next two sections.

Administrative Expenditures

As noted in Chapter 1, CPAs may use administrative maintenance and administrative services payments from the counties for many purposes, including staff salaries, administrative overhead, and therapy services. We reviewed 620 administrative transactions that were funded by foster care payments from the counties to eight CPAs and totaled about $431,000. We found exceptions in about 15 percent of the transactions, totaling about $46,400 (11 percent) in questioned costs for our original sample. For some of the exceptions, we expanded our testing to determine if there were additional questioned costs. As described in detail below, we identified $23,200 in additional questioned costs; this resulted in total questioned costs of $69,600. Federal regulations define questioned costs as those that (1) appear unreasonable and do not reflect the actions a prudent person would take in the circumstances; (2) are unallowable under statutory, regulatory, contractual, or grant requirements; and (3) are not supported by adequate documentation. Examples of questioned costs identified during our review include:

- **Unreasonable expenditures.** In our sample, we identified 19 expenditures totaling about $8,900 that did not reflect the actions a prudent person would take in the circumstances. For example, one CPA paid a county rebates to encourage that county to place more foster children with the CPA. Our original sample identified about $1,500 in rebate payments. Further testing

found that the CPA paid an additional $5,700 in rebates from March to December 2006. We brought this issue to the attention of the Department, which indicated that it will seek recovery of these funds from the county.

In addition, two CPAs made loans and/or advance payments to foster parents or group homes totaling about $5,900 in our sample. We conducted further work and found that the two CPAs loaned or advanced an additional $12,500 to foster parents during our review period. For example, one CPA loaned a foster parent about $5,700 during Fiscal Year 2005. Loans or advance payments to foster parents may indicate that they do not have the necessary financial stability to qualify as foster parents. We also found that the CPAs withheld portions of the foster parents' future child maintenance payments as repayment on these loans and advances. This is a concern because (1) Department regulations require CPAs to pass along the entire child maintenance payment received from the county to the foster parents and (2) withholding a portion of the payment may jeopardize the foster parents' ability to provide adequate care to their foster children.

- **Unallowable expenditures.** In our sample, we found six expenditures totaling about $800 for items that CPAs are prohibited from purchasing with foster care funds under statutory, regulatory, contractual, or grant requirements. For example, our original sample included donations of about $600 made by a CPA to a church. We conducted further work and found that the CPA donated an additional $5,000 during Fiscal Year 2005 to the church. OMB *Circular A-122* specifically prohibits contributions and donations regardless of the recipient.

- **Unsupported expenditures.** Adequate supporting documentation includes an invoice or contract specifying the amount of the transaction and its business purpose. In our sample, we found 67 expenditures totaling about $36,700 for which CPAs could not provide sufficient documentation at the time of our audit.

Since our 2002 audit, the Department has implemented several new procedures to improve oversight of the allowability and appropriateness of CPA expenditures. For example, the Department added a contract provision requiring CPAs to comply with federal cost principles. In addition, the Department's Field Audit Section began conducting audits of the CPAs in Calendar Year 2003. These audits were discontinued in April 2004 as a result of budget cuts that reduced the number of Field Audit staff. The problems we found with CPA administrative expenses indicate a continued need for greater Department oversight, particularly since counties do not provide oversight of CPA expenditures. We believe oversight could be strengthened in several ways, as described below.

OMB *Circular A-133* Audit Requirements. The Department should ensure that CPAs comply with OMB *Circular A-133: Audits of States, Local Governments and Non-Profit Organizations'* (OMB *Circular A-133's*) audit requirement, which requires non-federal entities that expend $500,000 or more in federal funds annually to submit to an annual audit. The purpose of the audit is to determine if the entity's financial statements are stated fairly, assess the entity's internal controls over federal funds, and test compliance with federal requirements.

OMB *Circular A-133's* audit requirements apply to subrecipients of federal funds but not to vendors. We reviewed the criteria in OMB *Circular A-133* and concluded that the substance of the relationship between the Department and CPAs is that of a subrecipient. For example, the *Circular* defines subrecipients as having responsibility for programmatic decision making and having their performance measured against whether the objectives of the federal program are being met; both of these are true for CPAs providing foster care services. The Title IV-E grant agreement between the Department and the federal government requires the Department to determine if CPAs are subrecipients or vendors for purposes of complying with this *Circular*. The Department received an informal opinion from the Attorney General's office concluding that CPAs are not subrecipients. However, this opinion did not evaluate CPAs against the subrecipient and vendor criteria included in OMB *Circular A-133*. Department staff should evaluate the substance of the relationship between counties and CPAs and determine, based on the OMB *Circular A-133* criteria, whether CPAs are subrecipients. As stated above, we believe the CPAs qualify as subrecipients under the *Circular*.

The Department already requires CPAs with annual foster care expenditures over $100,000 to submit to annual independent financial audits, and the CPAs are reimbursed for the costs of these audits in their rates. As noted earlier, only the largest CPAs (i.e., those that spend more than $500,000 in federal funds annually) would be subject to the additional requirements of OMB *Circular A-133* audits. We estimate that seven CPAs, which received about 44 percent of all foster care payments, met this threshold in Fiscal Year 2006 on the basis of foster care payments provided to them. The Department would need to establish a method for identifying and notifying CPAs that they are subject to the OMB *Circular A-133* audit requirement. If the Department determines that CPAs are vendors and not subrecipients, the Department could still review audits submitted by the CPAs and follow up on any problems identified, such as a qualified opinion.

On-site reviews. The Department should evaluate options for conducting on-site reviews of CPA expenditures. One option would be for the Department to incorporate procedures for reviewing CPA expenditures into the CPA monitoring visits currently conducted by the Department's 24-Hour Monitoring Unit. The 24-Hour Monitoring Unit performs routine on-site reviews of financial and

programmatic issues to ensure CPAs comply with all applicable requirements once they have been licensed by the Department. The Department would need to provide training to monitoring staff on conducting transaction testing and applying federal and state requirements for allowable costs. Another option would be for the Department to have Field Audit staff accompany 24-Hour Monitoring Unit staff on site visits to provide financial expertise and support to the monitoring team. Finally, the Department should strengthen its regulations regarding unallowed costs (i.e., expenditures not permitted in the program). As noted previously, the Department's regulations currently do not specify the types of expenditures that are not allowed. As a result, CPAs appear to have considered the loans, advances, and rebates as allowable, since the expenditures were not specifically prohibited by the Department. The Department should include examples of unallowable expenditures in its regulations, such as the loans and advance payments to foster parents and rebates from CPAs to counties.

As our June 2002 audit and the results of this audit show, CPAs present significant risks that funds will not be spent in accordance with federal requirements. OMB *Circular A-133* audits, increased expenditure monitoring, and clearer rules regarding unallowed costs would provide the Department with additional coverage of CPA expenditures and better ensure that CPAs are accountable for the foster care funds they spend.

Recommendation No. 10:

The Department of Human Services should improve controls over administrative foster care funds expended by child placement agencies (CPAs) by:

a. Evaluating the substance of the relationship between counties and CPAs based on OMB *Circular A-133* criteria and concluding on whether CPAs should be considered vendors or subrecipients.

b. Implementing requirements for audits of CPAs in accordance with the determination suggested in part "a" of the recommendation. If the Department concludes that CPAs are subrecipients, it should develop a process to identify those CPAs with annual expenditures of federal funds of $500,000 or more and notify those CPAs that they must submit OMB *Circular A-133* audits each year.

c. Establishing procedures to review the CPA audits and follow up on any findings identified.

d. Evaluating options for reviewing the allowability and appropriateness of CPA expenditures made with child welfare funds, which could include incorporating procedures into the periodic CPA monitoring visits conducted by the 24-Hour Monitoring Unit or having Field Audit staff participate on and provide support to the monitoring team. Training on transaction testing and federal cost principles would need to be provided to monitoring staff.

e. Including examples of unallowable costs in regulations. The Department should ensure that loans and advance payments to foster parents and rebates to county departments to encourage placements are cited as examples of unallowed costs.

Department of Human Services Response:

a. Agree. Implementation Date: July 2008.

The Department will re-evaluate the substance of the relationship between counties and CPAs based on OMB *Circular A-133* criteria and produce a written conclusion about its determination of whether CPAs are vendors or subrecipients.

b. Agree. Implementation Date: December 2008, if determined necessary.

If the Department determines that CPAs are subrecipients, the Department agrees to identify those CPAs with annual expenditures of federal funds of $500,000 or more and notify those CPAs that they must submit OMB *Circular A-133* audits each year.

c. and d. Partially Agree. Implementation Date: December 2009.

In the State Fiscal Year following the last audit, the Department lost FTE, some of whom were working on provider financial monitoring. This reduction eliminated the resources responsible for these monitoring functions. Implementing the recommendations outlined in parts “c” and “d” would require taking funds that are currently directed to services to children and families, and the Department does not agree with diverting resources from services. However, the Department does conceptually agree that establishing procedures to review CPA audits and providing follow-up resulting from findings is important and would implement these if resources were made available. The Department will explore the feasibility of implementing procedures and identify necessary resources to implement. However, until such resources are made available to the Department, this recommendation cannot be implemented.

e. Agree. Implementation Date: January 2008.

The Department will offer clarification of existing regulation through agency letter.

Payments to Foster Parents

Counties sign contracts with CPAs to provide foster care services for some of the children in the county's custody. The contract specifies the services the CPA will provide and the rates the county will pay to the CPA for administrative maintenance, administrative services, and child maintenance. Foster parents also receive a standard respite care payment to hire temporary child care for their foster child. Each month counties are required to authorize and pay the CPAs the agreed-upon child maintenance payment, which is then to be paid to the CPA-certified foster parent. According to Department regulations, CPAs must pass the full amount of the child maintenance payment along to the foster parents who are providing the care for the child. This regulation ensures that foster parents have the necessary resources to provide quality care and support to foster children. In Fiscal Year 2006 counties authorized a total of about $25 million in child maintenance and respite payments to be paid to foster parents at CPA-certified foster homes.

We reviewed child maintenance and respite payments made by counties to a sample of eight CPAs and from the eight CPAs to their foster parents in Fiscal Years 2005 through 2007. The purpose of our review was to determine whether the CPAs received the correct payment from the counties and then passed the payments along to their foster parents. Overall, we identified substantial numbers of payment discrepancies indicating that the controls over child maintenance and respite payments need to be strengthened significantly. Specifically, we identified the following concerns:

- **County payments to CPAs.** Of the 522 payments reviewed, the CPAs should have received about $532,000 total in child maintenance, administrative maintenance, and administrative services payments. We identified 149 payments to CPAs (29 percent) that did not match the contracted amounts. Specifically, there were 45 payments totaling about $10,000 more than the contracted amount and 104 payments totaling about $22,000 less than the contracted amount.

- **CPA payments to foster parents.** We performed two tests of payments from the CPAs to the foster parents. First, we compared the child maintenance payments made by the CPAs with the remittance advices from

the counties to determine if foster parents received the amount paid by the counties. We performed this test for payments to 255 foster parents that totaled about $372,000. The remittance advice records the cash actually paid by the counties to the CPAs for child maintenance, and should agree with the amount set forth in the contract and the amount received by the foster parents. We found that for 118 foster parents (46 percent), the CPAs did not pass along the specific amount the CPA received for child maintenance, as required by Department regulations. In particular, there were 73 foster parents who received payments totaling about $35,000 more than the remittance advice and 45 foster parents who received payments totaling about $6,000 less than the remittance advice. One CPA made two payments to a foster parent that were substantially more than the CPA received from the county: one for $1,700 more than the remittance advice was made in October 2004 and another for $1,500 more than the remittance advice was made in March 2005.

We also compared whether the amount received by the foster parents matched the amount on the contract between the county and CPA. We performed this test for payments to 255 foster parents that should have totaled about $361,000 according to the contracts. The number of payments reviewed in this test was lower because the CPAs did not have contracts in their files for all the payments in our sample. We found 68 payment discrepancies (27 percent) that did not match the contracted amounts. There were 40 payments totaling about $10,000 more than the amount contracted and 28 payments totaling about $5,000 less than the amount contracted.

In addition, we found that one CPA consistently underpaid foster parents of children in the Children's Habilitation Residential Program (CHRP), which provides residential services to children who have developmental disabilities and extraordinary needs. We tested payments for five CHRP children in four random months in Calendar Year 2006. Payments for this period should have totaled about $12,500. We found that the CPA only paid the foster parents about $10,500 in CHRP payments, or 16 percent less than the CPA received from the Department.

According to the CPAs, when they pay foster parents more than the contracted amount or the amount on the county's remittance advice, the excess is funded through the administrative maintenance and services payments received from the counties. If the CPAs can afford to spend some of their administrative fees for foster care services, this may indicate that CPAs are receiving higher reimbursements for their administrative costs than necessary.

We discussed the payment discrepancies with the eight CPAs and were unable to resolve them. Overall, we concluded the Department has not provided sufficient oversight of CPA payments to foster parents to make sure that foster parents receive the full and correct amount of the child maintenance payment, as required by Department regulations.

The payment discrepancies we identified at CPAs during our audit are of concern. Inaccurate payments either take scarce funds away from other needs in the child welfare system or affect foster parents' ability to provide quality care to their foster children. The Department needs to ensure that CPAs are correctly passing along the child maintenance payment to foster parents. We also identified this issue in our June 2002 audit report. In responding to our 2002 recommendation, the Department agreed to randomly sample foster care providers to determine if CPAs are accurately passing along child maintenance payments to their foster parents. However, we did not find evidence that the Department has implemented this recommendation in the five years since the last audit.

The Department could include procedures to review and reconcile CPA payments to foster parents as part of its regular monitoring reviews performed by the 24-Hour Monitoring Unit or Field Audit staff, as discussed previously in this chapter. If the Department identifies problems with CPA payments to foster parents as part of this review, it will need to establish a process for ensuring that incorrect payments are resolved by counties and CPAs, overpayments to CPAs and foster parents are recovered, and underpayments to CPAs and foster parents are remedied.

Recommendation No. 11:

The Department of Human Services should ensure that child placement agencies (CPAs) pass along the correct child maintenance payments received from county departments of human/social services to foster parents by:

a. Implementing routine, periodic reviews of the payments made from CPAs to foster parents to ensure that they match the payments received from counties.

b. Following up on identified over- or underpayments to foster parents to determine why the incorrect payments were made and to require that counties and CPAs rectify all incorrect payments.

Department of Human Services Response:

a. Agree. Implementation Date: October 2008.

The Department agrees to conduct periodic reviews for a sample of payments made from CPAs to foster parents within existing resources.

b. Agree. Implementation Date: July 2008.

The Department will follow-up with counties and providers to make corrections regarding identified errors discovered through this audit in foster parent payments as appropriate.

Chafee Independent Living Program

The purpose of the federal John H. Chafee Foster Care Independence Program (Chafee) is to provide funding to states to help children who are likely to remain in foster care until age 18 transition to independent living. The Chafee program helps these children learn independent living skills; receive the education, training, and services necessary to obtain employment; and receive ongoing financial, housing, and counseling support to help them achieve self-sufficiency. A foster child is eligible to receive Chafee services beginning at age 16 if the county has determined that the child is likely to remain in foster care until age 18. The child may continue to receive services until age 21 if he or she was in foster care when turning 18. Although foster children do not have to participate in the Chafee program, counties must develop an independent living plan for each foster child at age 16 to help them transition from foster care.

In Fiscal Year 2006 the Department spent about $1.7 million to serve about 1,200 foster children in the Chafee program. The Chafee program is entirely federally funded. Counties typically spend their funds on coordinating and providing services to youth, such as group counseling sessions on independent living skills and training, or to furnish cash assistance to the youths. Counties may use cash assistance to help youth with rent payments if the youths are aged 18 to 21 or to provide "Youth Direct Services." Youth Direct Services is an incentive program that helps the youth make progress toward emancipation. Through this program, youth may receive rewards (e.g., gift cards) for completing goals or obtain other support to help them move toward independence, such as funding for household items (e.g., linens or furniture).

We reviewed 141 Chafee transactions for Fiscal Year 2006 totaling about $118,000 at the eight counties we visited to determine if they complied with applicable federal

cost principles, which state that costs must be reasonable and necessary for the proper and efficient performance and administration of the federal grant, and must be adequately documented. The cost principles also discuss the allowability of selected types of expenditures. For example, expenses for alcohol or entertainment cannot be charged to federal grants.

We found exceptions with 71 (50 percent) of the Chafee transactions tested. Each of the eight counties we reviewed had at least two exceptions. For most of the exceptions, there was inadequate documentation to support the amount of the expenditures. However, we also found nine examples of unallowable expenditures. Unallowable expenditures included payments for (1) rental assistance for youth under the age of 18, (2) advertising expenses, and (3) library fines. Questioned costs totaled about $48,000 of the $118,000 tested (41 percent).

In addition to the questioned costs, we also found significant weaknesses in the controls counties maintain over Chafee funds. Specifically:

- **Lack of segregation of duties.** Department regulations require that counties maintain sufficient segregation of duties over the funds they manage. We found that one county maintains its Chafee funds in a bank account that is not reported in the County Financial Management System (CFMS). The county's Chafee worker has complete authority, without supervisory approval of each transaction, to make and receive purchases and pay for them out of this account, which violates the Department's regulation on segregation of duties. For Fiscal Year 2006, the county was allocated about $44,000 in Chafee funds for expenditures (e.g., Youth Direct Services and room/board) that were paid for out of this account. The county reported that it reconciles bank statements for this account monthly. However, reconciliation procedures, which could detect the misuse of funds after the fact, are not as effective as preventing the misuse of funds with adequate internal controls.

- **Payments to participants.** Best practices require that counties pay vendors directly to ensure that Chafee funds are spent for their intended purpose. For 20 of the 141 (14 percent) transactions, we found that checks were written to youth participants instead of to vendors. We did not find evidence that counties followed up to ensure that the youth participants spent the funds appropriately.

- **Inventories.** Six of the eight counties did not maintain sufficient inventories of gift cards or household items purchased with Chafee funds, significantly increasing the risk of theft or misappropriation of these items.

- **Coding errors.** Federal law prohibits a state from spending more than 30 percent of its Chafee funds on rental assistance. We found that five of the eight counties coded rental assistance expenses as Youth Direct Services in the CFMS instead of as rental assistance. The coding errors indicate a lack of controls to ensure that counties are spending Chafee expenditures correctly. Therefore, we could not determine whether total funds spent on rental assistance exceeded the federal limits.

- **Receipt of goods by youths.** To ensure that Chafee funds are spent for their intended purpose, counties should document that youths receive goods purchased with Chafee funds. For 15 of the 141 (11 percent) transactions, we did not find evidence (e.g., youth's signature indicating receipt of the good) that youths received goods such as computers, printers, and gift cards bought by county staff for the youth.

The federal government requires the Department to monitor federal grant subrecipients (e.g., counties) to ensure compliance with laws and regulations. The federal Chafee law also requires the Department to establish and enforce "standards and procedures to prevent fraud and abuse" in the program. The Department began monitoring Chafee programs in Fiscal Year 2006. However, the Department's monitoring does not include reviewing Chafee transactions for compliance with federal cost principles on allowability or appropriateness or evaluating the counties' internal controls over Chafee funds. If controls are not sufficient, there are risks that Chafee funds could be misspent or misappropriated and that the Department will be required to repay any unallowable costs to the federal government.

Recommendation No. 12:

The Department of Human Services should improve internal controls over federal Chafee funds by:

a. Establishing procedures to review samples of Chafee expenditures made by county departments of human/social services for allowability and appropriateness.

b. Ensuring that the county identified during this audit adheres to proper internal controls, including segregation of duties, as set forth in Department regulations. If the county maintains a separate bank account for Chafee funds, the Department should verify that the county maintains the same internal controls over expenditures, such as supervisory review prior to disbursement, for the separate bank account as it does for its normal operating account.

c. Requiring that counties track inventories of goods (e.g., gift cards and household items) purchased with Chafee funds.

d. Providing training and technical assistance to counties to strengthen the controls over Chafee expenditures, including the proper coding of rental assistance costs and having counties document that youths receive goods purchased with Chafee funds.

Department of Human Services Response:

a. Agree. Implementation Date: December 2008.

The Department has established procedures and reviews expenditures of county departments participating in the Chafee program with a standard instrument developed January 2006. The Department will improve monitoring by reviewing a sample of transactions for allowability and appropriateness, which includes making sure there is adequate documentation to support the transaction (e.g., invoices or receipts).

b. Agree. Implementation Date: December 2008.

The Department will discuss this issue with the county in question and will verify that the county either maintains its Chafee funds in its normal operating account or applies the same internal control procedures, including segregation of duties, over the separate Chafee account as it does over its normal operating account.

c. Agree. Implementation Date: December 2008.

The Department currently requires county departments to document the use of funds in the client's case file as defined in 7.416.1 E (3) (a) and (b). The Department agrees to convene a workgroup to develop criteria to track inventories of goods purchased with Chafee funds.

d. Agree. Implementation Date: December 2008.

The Department agrees to provide training and technical assistance to counties to strengthen the controls over Chafee expenditures, including the proper coding of rental assistance costs and further agrees to provide training and technical assistance involving documentation that demonstrates that the youth received the goods purchased with Chafee funds. The training and technical assistance will be provided during county reviews and regularly scheduled accounting and program groups

Core Services

Core Services are child welfare services designed to prevent or shorten out-of-home placements or allow children to move to less restrictive placement settings. In Fiscal Year 2007 the State spent about $45.9 million on all Core Services. In the Office of the State Auditor's *Foster Care Services Performance Audit* (May 2007), we evaluated the effectiveness of the Core Services program. For this report, we examined the controls over Core Services expenditures. Core Services includes expenditures for a variety of services including substance abuse treatment, mental health treatment, and life skills training. We identified findings related to Core Services in two areas: Special Economic Assistance (SEA) and fee collection. SEA provides financial assistance to help families pay expenses to avoid or shorten foster care placements. We also reviewed the counties' efforts to collect required fees from families for the Core Services provided to them. We found the Department can improve accountability in both areas, as described below.

Special Economic Assistance

Department regulations define SEA as "emergency" assistance. Although the regulations do not specify income thresholds for SEA, it is clear that families must demonstrate financial need to receive SEA. Under SEA, families may receive up to $400 annually for expenses defined as "hard services." Department regulations define hard services to include housing, food, clothing, transportation, appliances and furniture, uncovered medical and dental expenses, and work-related costs (e.g., tools or dues). In Fiscal Year 2006 counties paid about $440,000, or about 1 percent of all Core Services funds, for SEA purposes. Department policy requires that children be at "imminent risk of out-of-home placement" for families to be eligible for Core Services, including SEA. Statute defines imminent risk as "without intercession, a child will be placed out of the home immediately." In November 2004 the Department mandated that counties document a family's eligibility prior to the start of Core Services through the Imminent Risk Checklist, which is part of the Family

Services Plan used to document the services needed to address the child's safety, permanency, and well-being. In addition, counties we visited require their staff to complete authorization forms that must be approved by supervisors before SEA funds can be disbursed. These forms typically require staff to identify the type and amount of the expense and the payee for the expense.

We reviewed files for 64 families who received SEA payments during Fiscal Years 2004 through 2006 at seven of the eight counties we visited. (One county does not use Core Services funds to provide this type of assistance.) Total SEA expenditures in our sample were about $15,400. The purpose of our review was to determine if counties properly determined eligibility for and authorized SEA funds before they were paid out. We also examined supporting documentation for the expenses and payments to verify that the families were eligible for the services and that funds were paid directly to the vendor, as opposed to the family. Best practices require that counties pay vendors directly for services to ensure that SEA funds are used for their intended purpose. Overall, we found that documentation supporting eligibility for SEA was lacking, and we identified specific instances where funds were not disbursed in accordance with Core Services rules or with proper county approvals. For our sample of files for 50 families receiving SEA after November 2004, 28 files (56 percent) did not contain completed Imminent Risk Checklists showing that the family was eligible for the assistance. In addition, 19 of the 64 files in our overall sample (30 percent) did not contain any county authorization forms approving the expense or identifying the payee. We also identified the following problems with the disbursement of SEA funds in the 64 files reviewed:

- For 38 files, the documentation did not show that the SEA funds would help resolve conditions of imminent risk. As a result, it was not clear in these cases that the SEA funds were used in accordance with the purpose of Core Services.

- For 3 files, the expenses did not qualify as "hard services" and therefore, were unallowable. Unallowable expenses included a parenting class and boarding school tuition. The total amount of unallowable expenses was about $600, or about 4 percent of our sample.

- For 4 files, the counties paid out the funds directly to the family, including one check made out to a 14-year-old child. Funds disbursed directly to the families totaled about $600, or about 4 percent of our sample. To ensure that SEA funds are used as intended, counties should pay vendors directly unless there are exceptional circumstances requiring that the funds go to the family directly.

- For 6 files with county authorization forms, the counties either approved the expenditures after funds were spent (4 cases); approved the expenditures more than one month in advance of the payment, which raises questions regarding whether imminent risk actually existed (1 case); or did not have a supervisor approve the expenditure (1 case). These exceptions totaled about $1,800, or about 12 percent of our sample.

The Department should improve its oversight of SEA funds. This should include reviewing Core Services files on a sample basis to ensure families meet imminent risk criteria and funds are spent in accordance with program requirements, and making sure that counties are paying SEA funds directly to vendors unless exceptional circumstances exist that require making payments directly to families.

Recommendation No. 13:

The Department of Human Services should improve controls over Special Economic Assistance (SEA) expenditures by:

a. Ensuring counties limit services to families with children at risk of out-of-home placement and use SEA funds only for eligible services.

b. Verifying on a sample basis that counties have properly authorized the use of SEA funds before expending them and are either paying these funds directly to vendors or documenting exceptional circumstances when making payments to families.

Department of Human Services Response:

a. Agree. Implementation Date: January 2008.

The Trails modification specified in the Office of the State Auditor's *Foster Care Services Performance Audit* (May 2007) will mandate all eligibility fields (4A Imminent Risk checklist) for any/all Core Service to be delivered. This will ensure counties make determinations regarding risk and limit services to eligible families.

b. Agree. Implementation Date: October 2008.

It is appropriate to pay the family directly in given circumstances, such as when the family needs groceries. The Department will verify on a sample basis that counties have properly authorized SEA funds and

require workers to document the circumstances that necessitated direct payment to families.

Parental Fees

Statute [Section 26-5-102(1)(a), C.R.S.] requires the Department to promulgate rules establishing fees, based on child support guidelines, for all child welfare services, including foster care and Core Services. Further, statute mandates that persons legally responsible for the child receiving services will pay for all or a portion of the child welfare services received on the basis of income. All of the eight counties we visited charge parental fees for foster care. However, only one of the eight counties charged parental fees for Core Services, as required by statute.

We reviewed Department regulations and found that the regulations require counties to charge fees for Core Services. However, Department policy requires counties to develop a method for computing the fees only if the counties intend to charge the fees. The method for charging fees must be included in the county's annual Core Services plan, which counties submit to the State Board of Human Services. This policy conflicts with statute and Department regulations, which clearly intend for all counties to charge Core Services fees and to base those fees on child support guidelines. By not ensuring that counties charge these fees, the Department is not complying with statute and is missing an opportunity either to save costs or to maximize an additional source of funding for Core Services. For example, the one county we visited that charges Core Services parental fees collected about $256,000 during Fiscal Years 2003 through 2006, which represents about 1.4 percent of the $18.2 million the county spent on Core Services during the same period. Although this is a small percentage, if all counties in the State recouped this portion of their Core Service expenses, $585,000 in funding would be available to offset the costs of the Core Services program. This county reported that average Core Services fees charged per family range from $25 to $250 per month but never exceed the actual cost of care.

According to the Department and counties we visited, charging fees for Core Services may prevent families from accessing these services. However, this same argument could apply to parental fees charged for foster care, yet the counties we visited charge parental fees for foster care. In addition, staff also acknowledged that charging Core Services fees could make participants more invested in completing the programs successfully.

The Department and counties should work together to determine whether it is appropriate to charge parental fees for Core Services or whether fees would present a barrier to services. If they determine fees should be charged, the Department

should revise its rules to ensure that counties charge these fees using the criteria specified in statute. Alternatively, if the Department and counties determine that charging the fees is not appropriate, the Department should work with the General Assembly to revise statutes to eliminate the requirement.

Recommendation No. 14:

The Department of Human Services should work with county departments of human/social services to determine if charging fees for Core Services is appropriate and feasible, and revise its regulations or work with the General Assembly as necessary to ensure that counties are meeting legislative intent with regard to charging fees for Core Services.

Department of Human Services Response:

Agree. Implementation Date: December 2008

The Department agrees to review the statute at Section 26-5-102(1)(a), C.R.S., and work with counties to determine if fees for Core Services are appropriate or present a barrier to services and make recommendations for changes as warranted.

Data Reliability

Federal law requires states to develop a Statewide Automated Child Welfare Information System (SACWIS) to collect information about children in adoption and foster care. Furthermore, federal law states that the data collection system implemented for this purpose must "assure that any data that is collected is reliable and consistent over time and among jurisdictions through the use of uniform definitions and methodologies." The federal government uses data from each state's system both to ensure states are appropriately reimbursed for their foster care and adoption costs and to develop national foster care and adoption policies. State statute [Section 26-1-111, C.R.S.] also requires the Department to collect information necessary for child welfare services.

The Department invested about $63 million in state and federal funds to develop Trails, its SACWIS database. Trails was fully functional by April 2001. Trails also contains a fiscal module that periodically creates a file containing provider payment information. The Department uploads this information into CFMS and uses the data as the basis for issuing electronic provider payments on the 15th of each month.

Trails contains several codes for authorizing foster care payments, including (1) standard foster care payments, (2) a 30-day absence payment for children who are hospitalized, and (3) a 7-day absence payment for other types of absences.

We reviewed rules, regulations, and internal controls over data entry and payments to determine whether data were reliable and consistent as required by federal law. We found the Department's internal controls over data to be weak, ultimately jeopardizing the reliability and consistency of the data. Specifically, we identified the following issues:

Overlapping service records. We identified control weaknesses that allow records with overlapping time periods ("overlapping service records") to be entered into Trails and transferred to CFMS, which creates a risk of duplicate payments. Specifically, we identified about 499,000 overlapping service records in CFMS for the period July 2002 through December 2006 related to 16,000 children. These records represented about 36 percent of the 1.4 million CFMS records we analyzed.

It was not possible to tell if the overlapping service records resulted in actual duplicate payments without visually inspecting each record. We analyzed the records for a sample of 15 children to determine if the records resulted in actual duplicate payments. We identified payments for the same time period for four children in the sample. For one child with an overlapping service record, we found that the county entered a regular child maintenance payment and a 30-day child maintenance payment for the same time period, thereby resulting in what appeared to be an overpayment of about $140. The Department said that this example was not an overpayment because one payment was for a trial placement and the other payment was to hold the prior placement until the county determined that the trial placement would be successful. We found that Department regulations related to 7-day and 30-day payments do not clearly state the criteria for applying these payment codes and do not specifically address trial placements.

For the three other children, the overlapping service records occurred because Trails only allows counties to authorize 30-day or 7-day payments for child maintenance and administrative *services*. There are no corresponding 30-day or 7-day payment codes for administrative *maintenance*. As a result, when counties wanted to make a 30-day or 7-day administrative maintenance payment for these children, counties used the regular child maintenance payment, thus creating the appearance of duplicate child maintenance payments totaling about $540. In these cases, it is unclear whether the overlapping service records caused an actual overpayment to the foster parents because we do not know if the CPA passed along the extra child maintenance payment or kept it for administrative maintenance. We referred these duplicate child maintenance payments to the Department for follow-up.

We found that the overlapping service records for the remaining 11 children did not result in actual duplicate payments because corresponding adjustments were made to correct them. In addition, we confirmed that controls exist to prevent county staff from duplicating foster care payments of the same type (standard, 30-day, and 7-day). However, the Department reported that there are no edit checks in Trails to prevent duplicate payments related to overlapping service records involving different types of records (e.g., paying a standard rate and 30-day rate for the same period). The Department should implement these controls and investigate those overlapping service records involving 30-day and 7-day absence payments.

Lack of payment controls. We also identified weak and missing controls in Trails to ensure that foster care payments made by counties to providers are accurate. First, we confirmed through testing that Trails contains a control to prevent users from entering foster care payment end dates that are prior to payment start dates. However, between July 2002 and December 2006, we identified more than 1,000 records in Trails that had payment end dates prior to payment start dates. Of these more than 1,000 records, 137 also appeared in CFMS, thus potentially affecting the payments made to providers. The Department reviewed a sample of 16 of the 137 records and determined that 11 of the inaccurate records were caused by a change in the provider's licensing record. Specifically, when the licensing record was updated, the payment end date was also automatically updated by the system, creating an error in the payment end date. The Department is working to find a solution to this problem. For the other five records, the Department could not sufficiently explain why the payment records had end dates before start dates. For example, for two of the records, the Department reported that the inaccurate records were later corrected; however, this does not explain how the inaccurate records were entered into Trails. The Department should determine the source of these remaining discrepancies and improve the controls in Trails to prevent these types of problems in the future.

Second, there are no edit checks in Trails to prevent foster care payments occurring before a foster child's date of birth, which increases the risk for fraud, errors, and irregularities. We identified seven children during our review for whom child maintenance payments totaling approximately $89,600 appeared to have been made before the child's date of birth. The Department was able to clear each of these exceptions by providing proof of earlier dates of birth than those recorded in Trails. However, having an edit check in place to prevent a payment from being made before a child's date of birth would keep improper payments from occurring.

Inconsistent data. We found that counties do not always enter data into Trails consistently, which can significantly affect the allocation of the child welfare block grant. Specifically, 1 of the 10 large counties logs each individual report about a potential case of abuse or neglect as a separate referral (even if it involves the same child and event), while the other large counties count multiple reports about a single

child and event as one referral. As a result, the first county has a significantly higher referral rate than the other nine large counties, which partially skews the allocation amounts in the child welfare allocation model that are based on referrals. We analyzed the Fiscal Year 2008 allocation and found that if this one county had reported referrals similarly to the other nine large counties, about $5.2 million, or about 2 percent of the total $265 million allocated to the 10 largest counties through the model, would have been allocated differently. In fact, one county would have received an increase of more than $1 million in its allocation, and another county would have experienced a decrease of more than $900,000. The Department has not provided clear data definitions for any of the cost drivers in the child welfare allocation model to the counties. Consequently, there could be issues with consistent recording of data for other cost drivers that ultimately could alter the amount of funds allocated to the counties.

The problems we identified reflect a lack of sufficient Department oversight of the Trails system. For example, the Department has not created a Trails data dictionary. Additionally, the Department could not provide evidence that it maintains a comprehensive list of data entry controls and edit checks to demonstrate that the Department has sufficient controls in place. Finally, Department staff could not provide evidence that the Department runs exception reports on foster care rates in Trails or actual payments in CFMS. For example, there is no test for potential overlapping payments or outliers (e.g., rates or amounts that appear suspiciously large). Instead, the Department leaves such exception reporting up to the counties. However, we found that the counties do not run these types of exception reports.

Weak controls and insufficient exception reporting and review ultimately increase the risk for fraud, errors, and irregularities and can affect how the Department spends state and federal funds. We identified similar data integrity problems in the Office of the State Auditor's *Colorado Trails System Performance Audit* (November 2002), which identified concerns with overpayments and a lack of adequate controls.

The Department should compile a list of edit checks currently active in Trails that are intended to protect the Department from fraud, errors, and inaccurate and inconsistent data with respect to payments. Staff should evaluate the list to determine if Trails contains sufficient edit checks and implement additional controls to address any identified weaknesses. At a minimum, the Department should implement edit checks to prevent the entry of inaccurate data where possible, such as not allowing staff to enter payment end dates that are earlier than payment start dates and issuing payments for service periods prior to date of birth or for identical services provided during the same period. The Department should also take steps to provide ongoing oversight of Trails. Specifically, the Department should develop exception reports to identify potential problems in Trails data and set a schedule for when these reports should be run and who should review them. As part of this, the

Department should investigate overlapping service records for 30-day and 7-day absences and identify and correct any payment errors. Finally, the Department should implement a comprehensive data dictionary defining the data fields in Trails, including the fields used to capture data related to the child welfare allocation model.

Recommendation No. 15:

The Department should strengthen the reliability of data in Trails by:

a. Compiling a list of edit checks currently implemented in Trails; determining if these checks are sufficient to protect the Department from fraud, errors, and inconsistent and inaccurate data with respect to payments; and implementing additional edit checks to address any identified weaknesses. At a minimum, the Department should create and implement edits to prevent duplicate foster care payments, including edits related to 30-day and 7-day absences, foster care payments made prior to children's birth dates, and foster care payments for services with payment end dates prior to payment start dates.

b. Investigating overlapping service records involving 30-day and 7-day absence foster care payments, resolving any problems identified, and clearly defining in regulations when it is appropriate for county departments of human/social services to use the 30-day and 7-day absence payment codes.

c. Developing exception reports for Trails to ensure data are reliable, consistent, and reasonable; reviewing these reports regularly; and following up on and resolving identified anomalies.

d. Creating a comprehensive data dictionary for Trails and definitions for data used in the cost drivers in the child welfare allocation model.

e. Performing analysis to identify any data consistency problems that could affect the cost drivers for the child welfare allocation model and fixing them.

Department of Human Services Response:

a. Agree. Implementation Date: February 2009.

The Department agrees to compile a list of edit checks currently associated with the fiscal payment processes. The Department will consider enhancing Trails as resources allow when additional edit checks are determined useful and reasonable to prevent errors, fraud or inconsistent/inaccurate data. Edits have been implemented to prevent duplicate foster care payments and sufficient controls are in place to assure that 30-day and 7-day absence payments are correct. The system allows for an absence payment and a foster care maintenance payment to be made for the same time period for allowable circumstances, which requires supervisory approval. There are edits that assure absence payments are time-limited. Also, the provider must provide a placement roster showing the children actually placed in the home and the dates of service applicable.

The Department will initiate a change request to modify the Trails system to prevent a worker from entering an out-of-home service payment prior to the date of birth of the child that is entered into Trails system. The Department will also add edits or create exception reports to correct the dates for payments with end dates starting before start dates, so that the correction is made before processing the payment through to CFMS.

b. Agree. Implementation Date: July 2008.

The Department will review all Fiscal Year 2007 absence payments to determine if there is evidence that these controls are not sufficient. The Department will evaluate the need for further review or need for exception reports based on the results of this review. The Department will provide further clarification through rule or agency letter regarding circumstances for which an absence payment can be made.

c. Agree. Implementation Date: Ongoing.

The Department will continue to review the need for specific exception reports that will help identify and correct data errors, prevent inappropriate payments, and detect potential fraud. Exception reports will be developed as needed when it is determined that data errors in a given area exceed a reasonable margin of error.

d. Agree. Implementation Date: December 2008.

The Department will create a data dictionary for Trails.

e. Agree. Implementation Date: December 2008.

The Department will review the driver data to determine if inconsistencies can be identified and determine the appropriate action needed to improve consistency in data for assuring equitable allocations of the child welfare block.

Appendix A

Department of Human Services Average Daily Rates in Foster Care for the 10 Largest Counties[1] Change From Fiscal Years 2003 to 2007[2]			
	Fiscal Year		Percent Change
County	2003	2007	FY03-07
County 1			
Child Maintenance	$28.79	$29.93	+4.0%
Administrative Maintenance	$18.41	$19.03	+3.4%
County 2			
Child Maintenance	$22.91	$23.26	+1.5%
Administrative Maintenance	$6.60	$5.38	-18.5%
County 3			
Child Maintenance	$19.81	$31.11	+57.0%
Administrative Maintenance	$18.85	$17.41	-7.6%
County 4			
Child Maintenance	$21.00	$30.77	+46.5%
Administrative Maintenance	$5.83	$17.32	+197.1%
County 5			
Child Maintenance	$32.72	$31.82	-2.8%
Administrative Maintenance	$21.37	$23.09	+8.0%
County 6			
Child Maintenance	$25.99	$28.32	+9.0%
Administrative Maintenance	$18.18	$18.75	+3.1%
County 7			
Child Maintenance	$27.18	$29.88	+9.9%
Administrative Maintenance	$17.74	$18.23	+2.8%
County 8			
Child Maintenance	$24.15	$28.44	+17.8%
Administrative Maintenance	$4.15	$7.56	+82.2%

Department of Human Services
Average Daily Rates in Foster Care for the 10 Largest Counties[1]
Change From Fiscal Years 2003 to 2007[2]

County	Fiscal Year 2003	Fiscal Year 2007	Percent Change FY03-07
County 9			
Child Maintenance	$23.90	$35.80	+49.8%
Administrative Maintenance	$7.39	$3.99	-46.0%
County 10			
Child Maintenance	$27.72	$28.68	+3.5%
Administrative Maintenance	$18.79	$19.31	+2.8%
Statewide			
Child Maintenance	$26.08	$28.86	+10.7%
Administrative Maintenance	$14.65	$17.31	+18.2%

Source: Office of the State Auditor's analysis of data from the County Financial Management System provided by the Department of Human Services.

[1] Administrative Services are not included in the table because the average daily rate for this component decreased during the period largely because the federal government disallowed certain expenditures that counties had previously funded through this component.

[2] Fiscal Year 2007 data through December 2006.

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