



DEPARTMENT OF HEALTH & HUMAN SERVICES

---

ADMINISTRATION FOR CHILDREN AND FAMILIES  
**Administration on Children, Youth and Families**  
1250 Maryland Avenue, S.W.  
Washington, D.C. 20024

ARR - 8 2011

Lanier M. Cansler  
Secretary  
North Carolina Department of Health and Human Services  
Division of Social Services  
2001 Mail Service Center  
Raleigh, North Carolina 27699-2001

Dear Mr. Cansler:

We would like to express our appreciation to you and your staff for volunteering to participate in a pilot of the title IV-E Foster Care Administrative Cost Review (ACR) for the State of North Carolina. The pilot reviews are intended to serve as laboratories for testing our proposed ACR Guide and protocol. The ACR methodology was developed by the Administration for Children and Families' (ACF) Children's Bureau (CB) to measure and reduce improper administrative costs in the Federal foster care program in accordance with the Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010 and related guidance. This letter confirms an agreement reached between our respective staff for the on-site component of the North Carolina ACR Pilot to be conducted **September 12 through September 16, 2011** and identifies requested material necessary for the preparation and conduct of the review.

The purpose of the ACR is to determine whether, for a specified period under review (PUR), the State's title IV-E claimed costs for administration of the foster care program are allowable and allocable under title IV-E of the Social Security Act. This will be assessed through the examination of three financial processes:

1. Cost Pools and Worker Effort Reporting Systems - The extent to which States file title IV-E Foster Care administrative cost claims that are calculated in accordance with their approved Public Assistance Cost Allocation Plans (PACAP's) including all of its component parts (e.g. cost identification, measurement and allocation methodologies) and any applicable agreements or contracts. This process focuses on use of cost centers and cost pools that allocate costs to the foster care program and all effort certification and reporting (time studies) that are used for distributing costs related to directly assigned and multi-functional staff. An assessment also will be conducted of the continued appropriateness of the approved allocation bases and time studies.
2. Title IV-E Eligibility Rate - The computational methodology(ies) used by States to develop the foster care "eligibility rate" to distribute general foster care administrative costs among title IV-E Foster Care funding, other Federal funding and State funding sources. This process will include a review and assessment of all categories of children included in the numerator and denominator of the computational equation, an analysis of the statistical data used and their sources of origin, and a tracing through the States'

accounting and cost allocation systems to verify that the derived percentage rates are appropriately applied to all cost centers and cost pools whose costs rely on the "eligibility rate" in accordance with the provisions of the approved PACAP.

3. Determination of Foster Care Candidate Status - The procedures and methodologies used by States to identify and record administrative costs related to "pre-placement" activities performed on behalf of children determined to be "candidates" for foster care. This process will include a case file validation of the documentation that supports the determination of "candidacy" status of children for whom administrative costs have been claimed as title IV-E Foster Care.

A final report of the findings and recommendations from the ACR Pilot will be provided to the State following the completion of the ACR process. The final report will summarize program strengths and areas needing corrective action that may, if applicable, be addressed prospectively through a mutually agreed upon claiming improvement plan. Disallowance action will not be taken as part of the ACR Pilot final report. However, should any costs be determined as unallowable through this ACR Pilot and continue to be claimed for periods subsequent to the selected PUR, such claims may be subject to disallowance outside of the ACR Pilot process. We also intend to identify any costs which are allocable to title IV-E Foster Care as administrative costs, but were not claimed. These amounts will be identified as underpayments in the ACR Pilot final report.

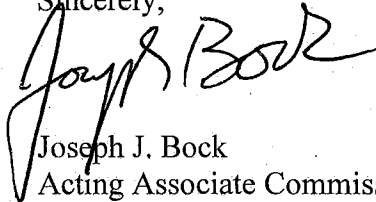
During the week of the on-site review (September 12 through September 16, 2011), the review team will visit the State Central Office and, possibly, one or more local or county offices to interview staff and to examine processes and supporting documentation for the State's administrative cost claiming system(s). The Review Team will consist of ACF child welfare program and financial management staff from the ACF Region IV Atlanta Office and the Central Office. There is also an opportunity for your staff to join the review team for the foster care candidate case file verification component of the ACR. We are very pleased that the State has indicated that it intends to offer three individuals to work with us as part of the review team.

In order to prepare for the on-site review, the team will perform a pre-site review to become familiar with the detailed procedures and methodologies that North Carolina currently uses in its implementation of the above three processes. Accordingly, we are requesting your staff to provide to our review team leader (identified below) copies of the documents, procedures, instructions, policies and data that are specified on the enclosed *ACR Pre-Site Review Information Request*. The PUR for this ACR Pilot will encompass the two reporting quarters of: April 1, 2010 through September 30, 2010. All materials provided should be relevant to this period. Information labeled as "Phase I – Pre-site" should be sent within 30 days of your receipt of this correspondence. The materials labeled as "Phase II – Pre-site" should be submitted upon availability, but no later than 45 days before the scheduled start of the on-site review. The requested material should be submitted electronically, preferably through attachments to e-mail messages addressed to the review team leader.

Bill Meltzer, Senior Child Welfare Program Specialist, will serve as our review team leader. He may be reached by telephone at (212) 264-2890, ext. 143, and by e-mail at [william.meltzer@acf.hhs.gov](mailto:william.meltzer@acf.hhs.gov). We request that you identify a primary contact person who will work with him to coordinate pre-site, on-site and post-site review activities. The State liaison should contact Mr. Meltzer as soon as possible so that they can begin steps for planning and initiating the review.

Again, we thank you and your staff for volunteering to work and learn with us in this important endeavor. We know this pilot review will be a valuable experience for the Federal team and our State partners. We expect that the review outcomes will further our mutual objective to ensure the proper and efficient management of the title IV-E Foster Care Program.

Sincerely,



Joseph J. Bock  
Acting Associate Commissioner  
Children's Bureau

Enclosure

cc: Dan Stewart, Assistant Secretary for Finance and Business Operations, NC DHHS DSS  
Laketha M. Miller, DHHS Controller, NC DHHS  
Sherry S. Bradsher, Director, NC DHHS DSS  
Kevin Kelley, Assistant Section Chief, Child Welfare Services, NC DHHS DSS  
Curtis Crouch, Section Chief of Cost Accounting/Financial Reporting, NC DHHS  
Controller's Office  
James Colvin, Grants Management Officer; ACF, OGM, RO IV  
Ruth Walker, Child Welfare Regional Program Manager; CB, Region IV; Atlanta, GA  
Gail Collins, Director, CB, Division of Program Implementation, Washington, DC  
Bill Meltzer, CB; Division of Program Implementation, New York, NY  
Tony Hardy, Director; Office of Grants Management, Washington, DC

## ***Enclosure***

### ***North Carolina Title IV-E Foster Care Administrative Cost Review (ACR) Pilot***

#### ***Pre-Site Review Information Request***

The following State information and documents should be transmitted in an electronic format (preferably Word, Excel or PDF) if at all possible to the ACF Children's Bureau, Attention: Bill Meltzer, Senior Child Welfare Program Specialist at [william.meltzer@acf.hhs.gov](mailto:william.meltzer@acf.hhs.gov). Any questions concerning the information being requested should be addressed to this individual at [william.meltzer@acf.hhs.gov](mailto:william.meltzer@acf.hhs.gov) or by phone at (212) 264-2890 Ext. 143.







The first group of materials listed below (State Claiming Structure Related Materials) is requested for submission within 30 days of receipt of this notification. The latter group (State Cost Allocation and Claiming Results for the PUR) may be submitted on a later date that is at least 45 days prior to the week of the on-site review which starts on September 12, 2011.

At the State's option, the requested documents may be sent either all at once or in parts, as it is accumulated. For convenience sake, the list separately identifies those materials that may not be available until shortly before the on-site stage of the review. Please identify the requested item(s) that are being transmitted by the category number listed below. If more than one category number is applicable, list the primary number first and any other applicable number in parenthesis. The same materials need not be submitted more than once under different categories. If all materials sought through a particular category have been submitted under another category, the submission should note "materials submitted under #-". Check-off boxes are listed on the form below for convenience in assembling the requested materials.

#### ***Phase I - State Claiming Structure Related Materials***

*(Submission requested within 30 days of receipt of this notification)*

1. **Cost Allocation Plan** - A complete copy of the State's currently approved Public Assistance Cost Allocation Plan (PACAP), with all attachments and amendments. If possible, an electronic copy of the document should be provided. Amendments which have been submitted, but not yet approved, and which have been implemented by the State should also be provided. If the State agency operates as part of an umbrella agency, a complete copy of the umbrella State agency PACAP is also requested. Finally, if costs are allocated to the State agency through a statewide or localwide central services cost allocation plan (CSCAP), a narrative summary of the provisions in those CSCAPs that impact title IV-E claims should also be provided.

-  **2. Title IV-E Claims Preparation** - Flow chart of title IV-E Foster Care, Adoption Assistance and Guardianship Assistance (if applicable) claiming practices in development of the Title IV-E Programs Quarterly Financial Report (e.g., flow of costs from State accounting system, through cost allocation and ultimate summarization for transfer to the form CB-496 (formerly form ACF-IV-E-1) report). Examples of reports/spreadsheets of each step in the process, numbered sequentially, should be provided.
-  **3. Title IV-E Cost Pools** - Listing of all cost pools/cost centers (including those derived from agreements or contracts) whose costs are either directly charged or allocated in part to the general foster care program or the title IV-E Foster Care program. For each cost pool/cost center, indicate the approximate total dollar amount subject to allocation in a typical quarter.
-  **4. Title IV-E Time Studies** - A complete copy of each time study plan the State uses to either direct charge or to allocate time and effort of staff who perform functions directly for or in support of the general foster care program and/or the title IV-E Foster Care program. This would include any 100% semi-annual effort certification process; personnel activity reports (PARs), random moment samplings (RMS's), etc. "Funding matrices" that direct or map time study results to the appropriate funding source should also be provided. Normally, this information should be included in the PACAP (item 1., above), but if there are supplemental State manuals, implementation instructions or policy memoranda relating to these time studies, copies of such material should be provided as well.
-  **5. Title IV-E Eligibility Rate(s)** - A description of the methodology the State uses to compute its title IV-E/non-IV-E foster care eligibility rate (a.k.a. penetration or saturation rate) or rates. The explanation should include a brief description of each "grouping category" (e.g., type of placement, funding source, etc.) of children who are included in the numerator of the equation and each that is included in the denominator. Copies of the data sources (e.g., computer report) for each grouping category that were used for the computation of the rate for the most current period that is available should be provided. If any grouping category is time limited (i.e., child may only be counted for a defined period), this should be explained. If more than one eligibility rate is used, information should be provided on the utilization of each rate in the cost allocation process.
-  **6. Title IV-E Pre-Placement Candidate Procedures** - A description of procedures used by the State to isolate pre-placement activities and costs (i.e., "candidate for foster care" costs), including requirements for validating that a child currently meets a "candidacy" criterion. If there are specific documentation policy and procedural requirements for recording in the case file and case plan certain information that would validate candidacy, these requirements should be described. Additionally, any State laws, regulations or policies that impact on the determination of foster care candidate status for title IV-E claiming purposes should be provided along with a summary explanation.
-  **7. Title IV-E Agreements/Contracts** - Copies of all written agreements with any other State agencies or contracts with other agencies responsible for any portion of title IV-E foster care administration. If multiple duplicative agreements or contracts exist, only one copy need be submitted along with a list of the agencies who are party to such documents.

**Phase II - State Cost Allocation and Claiming Results**  
**For the Period Under Review (PUR)**

[April 1, 2010 – September 30, 2010]

*(Submission requested at least 45 days prior to the on-site review)*

8. **PACAP Operations** - Detailed spreadsheet information on the operation of the PACAP and any other processes used to identify title IV-E Foster Care administrative costs for the two quarters in the PUR. Such information will include a listing of all costs incurred by cost objective, identification of the dollar amount that was allocated (or directly charged) during the PUR to the general foster care program (subject to later application of the IV-E/non-IV-E Foster Care “eligibility rate”) or to the title IV-E Foster Care program, information with respect to measurements used in allocating costs and the calculations used to allocate and claim costs to title IV-E foster care and other benefiting programs
9. **Title IV-E Eligibility Rate(s) PUR Calculations** -If the State utilizes an eligibility rate(s) as part of its allocation of administrative costs to title IV-E foster care, the specific calculations and results of this process (for all calculations if there is more than one eligibility rate used in the State) for each period within the PUR and for the two immediately prior periods should be provided along with the source(s) of the statistics utilized. If several child grouping categories (e.g. kinship homes, SSI eligible, juvenile justice, eligibility pending, etc.) are used in computing either the numerator or the denominator of each eligibility rate, the statistics provided should include a breakout and an explanation for each such category. If some children served by the State in placements meeting the definition of foster care (see 45 CFR 1355.20) are not counted in either the numerator or the denominator, an explanation and statistics should be provided for each such category. A brief summary narrative should also be provided on how each eligibility rate is used in the allocation of costs to title IV-E Foster Care administration.
10. **Title IV-E PUR Direct Staffing** - If during the PUR the State directly assigns employees or directly charges costs to either title IV-E or to general foster care (allocated to IV-E based on an eligibility rate), provide a listing that specifically identifies (by employee name or position identifier, title and/or cost type) the composition of this group along with information on the count of other staff assigned to cost objectives that are subject to direct allocation to title IV-E Foster Care administration. If the State uses a worker effort certification form for purposes of assigning workers to a particular program or cost objective, the specific results of this process for each period within the PUR is requested along with the number of employees statewide subject to participation in the process. A detailed roster of employees subject to the certification process will be requested by ACF upon preliminary review of this submission.
11. **Title IV-E PUR Time Study Results** - If the State uses one or more time studies (personal activity reports (PARs) or random moment studies (RMSs)) as part of its allocation of administrative costs to title IV-E Foster Care, the specific results of each of the time studies applied to claims for the PUR should be provided for all periods within the PUR along with the number of employees (including contractors) statewide subject to participation in each process. If there are additional employees (e.g. supervisors or support staff) who do not participate in a time study, but their salary or non-salary costs are allocated based on time study results please include a count of these non-participating persons for each applicable time study. The

submission should include the accumulated statistics, by individual program/activity code, as well as a copy of the actual funding matrix that directs the recorded observations to each funding source. A detailed roster of employees subject to certain time studies chosen for on-site review will be requested by ACF upon preliminary review of this submission.

12. **Title IV-E PUR Time Study Candidate Related Results** - A separate listing (with an identifying case number) of all foster care candidate related time study (random moment or other type) observations used in the allocation of costs as title IV-E Foster Care Candidate Administration – Pre-placement Activities applicable to the PUR (those time study results applied to costs for the PUR). This list will be utilized by ACF to generate a statistically valid sample of cases (60-165 depending on time study characteristics) for purposes of the ACR Pilot) to be reviewed on-site. We will notify the State as soon as possible after receipt of the listing of the cases selected for review and ask that the appropriate component(s) of such case records be made available at the central site for review by the ACR Pilot review team.

13. **Title IV-E PUR Claiming Work Papers** - Summary State work papers identifying the source and amounts of current quarter and prior quarter adjustment entries on the form CB-496's (formerly form ACF-IV-E-1) submitted for the two PUR quarters. This information should separately identify administrative cost claims associated with operations performed by the State agency and by the established components within the State (e.g. counties, cities, regions, districts, etc.) sourced through operation of the State's PACAP, incurred by another State agency through a written agreement or by another agency under contract with the title IV-E State or local agency. Upon selection (in consultation with the State agency) of one or more local office(s) for visitation during the on-site component of the review, additional summary claiming information for such office(s) will be requested from the State.