



STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

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January 25, 2007

Members of the Arizona Legislature

The Honorable Janet Napolitano, Governor

Ms. Tracy Wareing, Director
Arizona Department of Economic Security

Transmitted herewith is a report of the Auditor General, an Information Brief on the Department of Economic Security, Division of Children, Youth and Families—Child Protective Services—Federal Deficit Reduction Act of 2005. This information brief was prepared pursuant to and under the authority vested in the Auditor General by Arizona Revised Statutes §41-1966.

Our information briefs focus on various topics relating to Child Protective Services. They were created at the request of key stakeholders who indicated a need for information on specific issues, but did not want a full audit. We hope that these information briefs will fill a need and provide you with timely and useful information on topics of particular interest.

My staff and I will be pleased to discuss or clarify items in the information brief.

This information brief will be released to the public on January 26, 2007.

Sincerely,

Debbie Davenport
Auditor General

Attachment

INFORMATION BRIEF

Summary

The federal Deficit Reduction Act of 2005 (Act) modifies laws that impact three division programs. For the Title IV-E Foster Care program, the Division may experience a \$17-million-per-year increase in state costs and will be required to return approximately \$10 million in prior reimbursements. In addition, Title XIX revenue for the Division's Comprehensive Medical and Dental Care Program (CMDP) was temporarily delayed. Finally, the Division expects to receive about \$940,000 in additional funding for the Promoting Safe and Stable Families program.



2007

Federal Deficit Reduction Act of 2005

Division needs to significantly reduce Foster Care administrative costs claimed and return some prior reimbursements—

The Act has a multi-million dollar impact on the Division's Title IV-E Foster Care program. Under this program, the federal government reimburses the State for varying portions of its costs for children who must be placed in out-of-home care. For example, the federal government reimburses the State for about 66 percent of foster care costs, such as room and board, clothing, and school supplies. These reimbursements are known as foster care maintenance payments, and to receive federal reimbursements for these maintenance payments, the child has to be placed with a licensed caregiver.

In addition, the federal government covers between 50 and 75 percent of the costs associated with administering or operating the Foster Care program. Administrative costs include, among other things, expenses for determining eligibility, training staff, and providing case management services such as preparing case plans, visiting children in out-of-home care, and preparing for and attending court hearings. The Act did not change the Division's administrative responsibilities for the Title IV-E program, but it did change federal eligibility requirements. Specifically, the Act modified federal laws that now require children to be placed with a licensed caregiver in order for the Division to receive federal reimbursements for administrative expenses. The only exceptions are if the Division is in the

process of moving the child to a licensed caregiver or the relative caregiver is in the process of becoming licensed.

Based on the Division's records for federal fiscal years 2005 and 2006 (prior to reflecting changes made by the Act), the Division received annual reimbursements for its Title IV-E administrative costs of approximately \$35 and \$44 million respectively. However, according to the Division, based on the Act's changes to eligibility requirements, the population of Title IV-E eligible children will be significantly reduced from about 70 percent to about 40 percent of the children in out-of-home care. For example, in December 2006, there were about 9,100 children in out-of-home care. Prior to the eligibility changes, about 6,300 of these children would be considered Title IV-E eligible for determining administrative reimbursements. However, after the eligibility changes, about 3,500 children would be considered Title IV-E eligible, a reduction of 2,800 children because these children are placed with nonlicensed caregivers such as relatives.

Title IV-E Eligibility Requirements

- Child is removed from his or her home pursuant to a voluntary placement agreement or court order;
- Household child is removed from meets financial eligibility requirements;
- Child is a U.S. citizen or qualified noncitizen; and
- Child is placed with a licensed caregiver.

- **State costs may increase up to \$17 million annually**—The State will experience increased costs for this program because the Division can no longer claim administrative costs for otherwise Title IV-E eligible children placed with nonlicensed caregivers, or it will need to cover a portion of the daily maintenance payment if these children are placed with licensed caregivers. For example, if the same number of otherwise Title IV-E eligible children (approximately 2,800) continue to be placed with nonlicensed caregivers, the Division will no longer be able to seek federal reimbursement for about \$17 million annually in administrative costs. According to division management, most nonlicensed relative caregivers do not wish to become licensed because they view themselves as relative caregivers and not foster parents. In July 2006, Division management began determining if nonlicensed caregivers were interested in becoming licensed. Division management stated that as of December 31, 2006, only 472 relative caregivers caring for 879 children responded, and of those, only 326 caring for 546 children indicated they were interested in becoming licensed.
- **Division needs to return about \$10 million in prior reimbursements**—Although the President signed the Act on February 8, 2006, according to the Division it was waiting for direction from the federal government on how to implement the Title IV-E changes before it made changes. The Division received program instructions from the U.S. Department of Health and Human Services on August 23, 2006. For example, the instructions indicated that the changes regarding the Title IV-E administrative costs may be considered effective March 1, 2006, and states could calculate their required adjustments from that date rather than the statutory date. Auditors estimated that through September 30, 2006, the Division will be required to return approximately \$10 million in prior administrative reimbursements due to the changes in Title IV-E eligibility requirements.

Division's CMDP revenue temporarily delayed due to the Act's requirements—

CMDP is a state program established under A.R.S. §8-512 to provide comprehensive medical and dental care for children in the State's care and custody.² According to the Division, CMDP coverage is provided to about 10,600 children each month. To cover the program's costs, the Division receives a monthly capitation amount from the Arizona Health Care Cost Containment System (AHC-CCS) of about \$258 per month for each child who meets federal Title XIX eligibility requirements. Division management estimated that in total it receives approximately \$30 million annually from AHC-CCS. The Division also receives a state appropriation of approximately \$2 million annually to cover medical and dental costs of children who do not meet the Title XIX eligibility requirements. Per division records, about 10 percent of the children do not meet these requirements.

On the other hand, if the 2,800 otherwise Title IV-E eligible children move to licensed placements, the Division can continue to claim federal reimbursement for its administrative costs, but the State's costs will increase between \$9 and \$16 million annually because the Division will need to cover a portion of the daily maintenance payments made to licensed caregivers.¹ Specifically, licensed caregivers receive a \$25-\$47 daily foster care maintenance payment, depending on the child's age and special needs, for each child placed in their care; as previously stated, the federal government reimburses the State for about 66 percent of these payments for children meeting Title IV-E eligibility requirements. These maintenance payments cover the cost of caring for the child, such as room and board, clothing, and school supplies. Maintenance payments are not made to nonlicensed caregivers.

¹ The Division can also claim administrative costs for children placed with nonlicensed relative caregivers who are in the process of becoming licensed.

² Per Arizona Revised Statute (A.R.S.) §8-512, CMDP provides comprehensive medical and dental care for each child who is in the Department's custody, such as those placed in foster care or with a relative, and each child in the custody of a probation department and placed in foster care.

CMDP Federal Eligibility Requirements

Children meet the federal Title XIX eligibility guidelines if:

1. They are Title IV-E eligible, or
2. They meet the following federal poverty level requirements for children, which means the child:
 - Is under age 19,
 - Has income less than 100 percent of the federal poverty level,
 - Is an Arizona resident,
 - Is a U.S. citizen or qualified noncitizen, and
 - Has a social security number or can apply for one.

The Act made changes regarding eligibility determination. Specifically, effective July 1, 2006, the Division was required to confirm citizenship for all CMDP children prior to seeking the monthly capitation amount from AHCCCS. The Division reported that obtaining proof of citizenship, such as a birth certificate, takes between 60 and 90 days. According to division management, its monthly program revenue from AHCCCS dropped approximately \$200,000 per month due to the new documentation requirements, which the Division had to cover until it verified citizenship.

However, on December 20, 2006, a new law was signed exempting foster care children from the documentation requirements.¹ Prior to the December 2006 law change, the Division received approval to hire two additional employees to help meet the new documentation requirements. One of these positions has been filled, and the Division is evaluating the need for the second position.

Division expects to receive additional funds for Promoting Safe and Stable Families program due to the Act—Since federal fiscal year 2003, the Division has received between \$6.7 and \$8.7 million annually in federal funding for this program. The Promoting Safe and Stable Families program has four components, and according to division management, it provides the following services:

- Family Support, which provides families requesting support with parenting skills education, and counseling.
- Family Preservation, which provides high-risk parents of newborns and children with parenting classes, life skills classes, and counseling.
- Adoption Promotion, which provides support and counseling to families who have recently adopted or are in the process of adopting children.
- Time-Limited Family Reunification, which provides support and counseling to help return children who have been removed from their home.

In addition to the \$8.7 million the Division is scheduled to receive for federal fiscal year 2007, it also expects to receive about another \$940,000 for this program. The Act increased federal funding available to all states for this program by a combined total of \$40 million annually through federal fiscal year 2011 for two specific purposes: (1) supporting monthly caseworker visits with children in foster care; and (2) programs addressing methamphetamine or other substance abuse. Of the additional \$40 million in funds available for federal fiscal year 2006, the Division expects to receive about \$940,000 for caseworker visits to be used through federal fiscal year 2009. It may apply for additional competitive grant funding through 2011.

¹ The Act required the Division to obtain citizenship documentation prior to claiming federal payments; however, on December 20, 2006, the President signed the "Tax Relief and Health Care Act of 2006," which relaxed the citizenship documentation requirements for children in foster care.



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January 2007 • No. IB-0701