

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**OVERSIGHT OF STATES'
SUBGRANTEE MONITORING IN
THE FOSTER CARE PROGRAM**



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A B S T R A C T

As part of a broad Office of Inspector General effort to review the management of grant programs under the Department of Health and Human Services (HHS), this inspection assesses States' monitoring of subgrantees in the Title IV-E foster care program, as well as Federal oversight of States' monitoring. This study is part of a series. The companion report, "States' Monitoring of Subgrantees in the Foster Care Program: A Description of Six States' Systems" (OEI-05-03-00061), seeks to provide descriptive information to assist stakeholders in addressing the problems identified in this report.

In this inspection, we reviewed monitoring files and interviewed staff in six States that administer over 45 percent of the \$5 billion that the Administration for Children and Families (ACF) awards annually for the foster care program. We found that the monitoring systems used by three States are inadequate according to criteria we developed based on Federal grants management requirements. In addition, three States do not communicate required information to subgrantees.

The ACF is responsible for Federal oversight of the foster care program. Based on interviews with ACF staff and a review of ACF oversight mechanisms, we found that oversight of States' systems for monitoring subgrantees receives minimal attention by ACF. The ACF's only direct tool for overseeing States' monitoring of subgrantees is the Single Audit, and this inspection found major concerns with its scope, quality, and functioning as a tool for assessing States' subgrantee monitoring. We recommend that ACF hold States accountable for adhering to grants management requirements relating to the oversight of subgrantees. Further, ACF should work with HHS to make the Single Audit a more effective tool for overseeing States' monitoring of subgrantees.



OBJECTIVES

- To assess the extent to which selected States adequately monitor subgrantees in the foster care program.
- To review the extent to which the Administration for Children and Families ensures that States adequately monitor subgrantees in the foster care program.

BACKGROUND

Each fiscal year the Administration for Children and Families (ACF) awards approximately \$5 billion to States, which serve about 800,000 children under the Federal Title IV-E foster care program. Most States award some portion of the Federal foster care grant to subgrantees to provide core program services, such as child placement and residential care.

States are required, according to Federal grants management requirements that are incorporated into 45 CFR Part 74, to: (1) monitor subgrantees “as necessary” to ensure they comply with Federal fiscal and program regulations, use funds for authorized purposes, and achieve performance goals, and (2) communicate specific information about the Federal award and accompanying Federal requirements to subgrantees. To assess whether States were monitoring their subgrantees “as necessary,” it was necessary to define measurable criteria. We developed specific evaluation criteria which we presented to staff in the Office of the Assistant Secretary for Administration and Management (ASAM). The ASAM staff stated that they found these criteria both reasonable and consistent with Federal requirements. Refer to the Methodology Section for a summary of our evaluation criteria.

The ACF must ensure that States administer their foster care programs in compliance with Federal requirements. These requirements include the Federal grants management requirements described above.

We conducted site visits to six States representing over 45 percent of Title IV-E spending. We reviewed documentation of States’ monitoring for 15 to 19 subgrantee files in each State and interviewed monitoring staff. We conducted phone interviews with ACF staff in all 10 regions and central office, and reviewed relevant Federal requirements, as well as policies and procedures for ACF oversight mechanisms. We reviewed

relevant findings from States' Single Audits for fiscal years 2001 and 2002.

This study is part of a broad Office of Inspector General effort to review the management of grant programs and awards under the Department of Health and Human Services (HHS). We will provide the results of this study to ACF, ASAM, the Assistant Secretary for Budget, Technology, and Finance, and to the Office of Management and Budget's interdepartmental task force on subgrantee monitoring. This study is also part of a series. The companion report, "States' Monitoring of Subgrantees in the Foster Care Program: A Description of Six States' Systems" (OEI-05-03-00061), seeks to provide descriptive information on our study of States' monitoring practices to assist stakeholders in addressing the problems identified in this report.

FINDINGS

Monitoring systems in three States are inadequate according to our evaluation criteria. In addition, three States do not communicate required information. Three of the six selected States' fiscal or program monitoring mechanisms are inadequate according to our evaluation criteria. Two of these three States both lack an adequate monitoring system and do not communicate required grants management information to subgrantees. A fourth State has an adequate monitoring system, but does not communicate required grants management information to subgrantees.

Oversight of States' systems for monitoring subgrantees receives minimal attention by ACF. We found that ACF's focus and priorities, in relation to State oversight, do not encompass subgrantee monitoring. The ACF does not routinely communicate grants management requirements to States. All ACF respondents report that their oversight of States emphasizes program administration in general, rather than specifically focusing on reviewing States' subgrantee monitoring. The ACF staff in half of all regions are not aware of how States monitor their subgrantees.

The only direct tool ACF uses for overseeing States' monitoring of subgrantees is the States' Single Audit, which has limited utility. The Single Audit does not assess States' monitoring of subgrantees that States classify as "vendors." Four States in our study classified most or all of their foster care subgrantees as "vendors" rather than

“subrecipients,” even though both provide core services, such as child placement and residential care. In addition, this inspection found major concerns with the State Single Audit’s scope, quality, and functioning as a tool for assessing States’ subgrantee monitoring.

RECOMMENDATIONS

Without quality monitoring, States and ACF may have little assurance that subgrantees are providing appropriate, quality services to children in a fiscally responsible manner. The States and counties we reviewed fund more than 1,500 foster care subgrantees. Given the extent that States appear to be using subgrantees to carry out fundamental foster care services, lax monitoring can have a significant adverse impact.

The ACF should hold States accountable for adherence to grants management requirements relating to the oversight of subgrantees.

The ACF should take the following actions to ensure that States are held accountable for adhering to major Federal grants management requirements in their administration and monitoring of foster care subawards.

- The ACF should develop a system for routinely communicating grants management responsibilities to States.
- The ACF should develop specific requirements that clarify States’ responsibilities for monitoring of subgrantees. These requirements should provide clear standards for States’ monitoring systems. The ACF could adopt the criteria used for this study or work with ASAM to develop their own standards.
- The ACF should utilize its existing oversight mechanisms to ensure States have systems in place to adhere to grants management requirements related to their monitoring of subgrantees.

The ACF should work with HHS to make the Single Audit a more effective tool for overseeing States’ monitoring of subgrantees.

In order to help improve the Single Audit as a monitoring tool, ACF should support and promote intergovernmental initiatives to improve the Single Audit. In addition, ACF should provide clarification to States specifying which foster care subgrantees provide core program services and should thus be considered “subrecipients” for the Single Audit.

AGENCY COMMENTS

In its comments on our draft reports ACF concurs with the objectives of our recommendations and describes its intended corrective actions, which are generally consistent with our suggestions. The ASAM supports our recommendations to ACF.

The ACF stated it is considering taking a number of actions in response to our recommendations, including (1) referring to grants management requirements and highlighting the importance of subrecipient monitoring in award letters, (2) adopting a qualitative version of the monitoring criteria we used in this inspection as part of its field reviews, (3) including specific reference to subrecipient monitoring responsibilities in the Title IV-E Compliance Supplement to OMB Circular A-133, (4) potentially issuing a program instruction to State grantees clarifying the distinction between “subrecipients” and “vendors,” (5) exploring further ways to strengthen the Single Audit, and (6) providing technical assistance to States around their monitoring systems. We recognize ACF’s responsiveness in taking these actions, but reiterate the need for developing clear standards for States’ monitoring systems and holding States accountable to these standards using ACF’s current oversight mechanisms.

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OBJECTIVES

- To assess the extent to which selected States adequately monitor subgrantees in the foster care program.
- To review the extent to which the Administration for Children and Families ensures that States adequately monitor subgrantees in the foster care program.

BACKGROUND

The Administration for Children and Families (ACF) administers the foster care program which is authorized under Title IV-E of the Social Security Act and which awards nearly \$5 billion, each fiscal year, in entitlement grants to States who serve about 800,000 children under Title IV-E annually.¹ Most States subaward some portion of their Title IV-E funds to subgrantees to carry out core program activities such as child placement and residential care. For the purposes of this report, we use “subgrantee” as a generic term to mean an entity that receives Federal funds to provide core foster care services through an agreement with a State.²

Recent Federal Interest in Subgrantee Monitoring

In 2001, the Secretary of the Department of Health and Human Services (HHS) created an initiative to improve the management of HHS grant programs. The Assistant Secretary for Administration and Management (ASAM) is taking a lead role in this effort. The Office of Inspector General (OIG) has also undertaken a broad effort to review the control, effectiveness, and value of HHS grant programs.

Federal stakeholders, including the Office of Management and Budget (OMB) and Congress, have expressed concern that States are not adequately monitoring their subgrantees, and that this may reflect a lack of Federal agency oversight. Based on this concern, OMB created an interdepartmental Task Force on Subrecipient Monitoring in 2002.³ This task force is reviewing regulations and policies to identify whether Federal guidance and oversight of subgrantee monitoring is adequate. Congress has also shown its concern by requesting reviews of subgrantee monitoring in other HHS programs.⁴

This inspection provides an assessment of States’ monitoring systems. A companion report, “States’ Monitoring of Subgrantees in the Foster Care Program: A Description of Six States’ Systems”

(OEI-05-03-00061), seeks to provide descriptive information to ACF and States on how selected States monitor their subgrantees. We hope this descriptive information will assist stakeholders in addressing the problems identified in this report.

Increased Use of Subgrantees in the Foster Care Program

According to a 2001 study, nearly all States use subgrantees to provide core foster care services to at least some of their foster children.⁵

Foster care services provided by subgrantees include child placement services, such as recruiting and training foster families, placing children with specific families, and arranging services for these children while in their placements. Subgrantees may also provide services related to residential care, using professional staff to care for foster children in group homes, residential institutions or schools, mental health, or other specialty treatment facilities, and emergency shelters.

The increasing privatization of foster care services has led to concerns about the accountability of subgrantees within the foster care program. Recent State audits in one State have substantiated the need for concern, and demonstrated the significant consequences of poor monitoring. In 2000, Ohio's State Auditor found that more than \$9 million in foster care funds had been misspent by private agencies on housing and automobile leases, private jet fuel, and other unallowable purchases. These audits uncovered "lax control over Federal foster care money, a lack of financial and program monitoring, abuse of public funds, and the compromised care of some children."⁶

Without adequate oversight of foster care subgrantees, the safety and welfare of thousands of children a year are potentially jeopardized and millions of dollars in annual Federal funds are vulnerable to abuse.

Grants Management Overview

During our review period, responsibilities for States' grant administration of Federal foster care funds were delineated by two sets of Federal requirements:

- the Uniform Administrative Requirements for Awards and Subawards (45 CFR Part 74),⁷ and
- the Single Audit Act (implemented by OMB Circular A-133).

Specifically, 45 CFR Part 74 contains grants management regulations and incorporates OMB Circular A-133 by reference. Together, both documents set forth the major HHS grants management requirements, including a subset of requirements that are specifically related to the

administration of subawards. This subset provides both general directives for States' monitoring of subgrantees' fiscal and program performance, as well as some specific requirements. Recently, HHS redesignated Title IV-E State grants to be subject to 45 CFR Part 92, which also incorporates OMB Circular A-133 by reference and is otherwise similar to 45 CFR Part 74.

States' Monitoring of Subgrantees

According to OMB Circular A-133, States must monitor subgrantees' program and fiscal performance and communicate specific information to subgrantees as part of administering the subaward.

Monitoring Subgrantees' Program and Fiscal Performance. Federal grants management requirements⁸ generally require States to:

- Ensure that subgrantees are complying with program requirements and achieving performance goals.
- Ensure subgrantees are complying with fiscal requirements, such as having appropriate fiscal controls in place, and are using awards for authorized purposes.

These requirements do not further specify how States should monitor subgrantees. States can ensure that subgrantees are meeting these requirements through a variety of mechanisms, including progress reports, site visits, financial reports, independent (third party) financial audits, and/or internal (State-conducted) financial audits.

Under OMB Circular A-133, certain subgrantees must have a specific type of independent audit, called a Single Audit. Single Audits include a traditional financial audit of subgrantees' basic financial statements, as well as an auditor's report on subgrantees' internal controls and an opinion on subgrantees' compliance with requirements of major Federal programs.

Subgrantees exempt from the Single Audit include: all for-profit subgrantees, non-profit subgrantees expending less than \$500,000 in total Federal awards, and "vendors." States use Federal requirements delineated in OMB Circular A-133, §__.210 to determine whether subgrantees are "subrecipients" and thus subject to a Single Audit, or "vendors" and not subject to a Single Audit.

These requirements characterize "subrecipients" as subgrantees who carry out the program: they may determine eligibility, make programmatic decisions, have their performance judged against the

program objectives, and must comply with program requirements. “Vendors” are characterized as subgrantees who provide goods and services that are ancillary to the operation of the program: they provide goods and services within normal business hours to many different purchasers, operate in a competitive environment, and are not subject to program compliance requirements. The requirements direct States to use their judgment in making this determination. Some States have defined foster care subgrantees as “subrecipients,” and other States defined subgrantees providing the same core services as “vendors.” As mentioned earlier, this report will use “subgrantee” as a generic term that does not indicate whether the State actually considers the entity to be a “subrecipient” or “vendor.”

Administering the Subaward. Federal grants management requirements also direct States to take other actions to manage their subawards. For instance, States are required to:

- Inform subgrantees that the subaward includes Federal funds.
- Communicate relevant Federal requirements to subgrantees.⁹

Subgrantees must receive this information at the time of the award so they are aware of Federal requirements as they carry out program activities. States may use award documents, such as contracts, to communicate this required information to subgrantees.

ACF’s Oversight of States’ Monitoring of Subgrantees

Just as States must ensure that subgrantees comply with regulations, ACF must ensure that States administer their foster care programs in compliance with Federal requirements. These requirements include the grants management requirements described above.

The ACF is responsible for overseeing States’ compliance with Federal requirements set out in their Title IV-E State plan. As part of their State plan, States submit materials demonstrating that State policies reflect compliance with specific Federal requirements. These requirements include HHS grants management regulations, contained in 45 CFR Part 74, which sets forth the requirements for States’ monitoring of subgrantees mentioned above. As a condition of receiving Federal Title IV-E funds, States must agree to administer their program “. . . in accordance with the provisions of this State plan, Title IV-E of the Act, and all applicable Federal regulations”¹⁰ The ACF determines whether to approve submitted State plan materials, and retains the authority to determine “. . . that a previously approved plan

no longer meets the requirements for approval”¹¹ Finally, ACF is responsible for ensuring States’ compliance with the State plan. The Social Security Act authorizes ACF to establish a review to determine whether State programs are in substantial conformity with these provisions.¹²

In addition to ensuring that States are in compliance with their State plan, ACF is required to review State Single Audit findings it receives that relate to the Title IV-E program.¹³ As part of States’ Single Audit, auditors employ various procedures to assess whether States comply with Federal grants management requirements in their oversight of subgrantees. The OMB Circular A-133 provides auditors with guidance and suggested audit procedures for making this assessment; however, auditors have discretion about the specific methods to employ. Auditors must report any findings of non-compliance, and Federal agencies must ensure that States take corrective action on these findings.¹⁴

The ACF’s Administration of the Foster Care Program

In addition to understanding grants management and subgrantee monitoring, it is important to have an understanding of ACF’s broader oversight of the foster care program.

As part of ACF’s overall administration of the foster care program, ACF has several mechanisms to ensure that States are in compliance with applicable laws and regulations. Since 2001, ACF has used the Child and Family Services Review (CFSR) as the primary review to ensure compliance with States’ Title IV-E State plan. The CFSR is designed to assess certain aspects of States’ systemic functioning and to assess States’ programmatic outcomes in relation to child safety, permanency, and well-being.

To oversee the financial aspects of States’ foster care administration, ACF employs the Title IV-E Eligibility Review and reviews States’ quarterly financial reports to ensure that States’ requests for Federal funds are appropriate. Finally, as previously mentioned, ACF is required to review all findings from State-level Single Audits related to States’ administration of the foster care program. In addition to assessing States’ subgrantee monitoring, Single Audit findings may relate to several other areas, including such things as States’ financial controls, allowable activities and costs, and eligibility.

Related Work by the Office of Inspector General

The OIG has reviewed subgrantee monitoring in several HHS programs as part of an OIG effort to examine grants management in HHS

programs. In response to a request by the Senate Finance Committee, OIG has recently issued a series of reports examining the Health Resources and Services Administration's oversight of Ryan White CARE Act funds. In addition, OIG issued 15 audit reports in 2003 on State and city monitoring of subgrantees receiving Public Health Preparedness and Response to Bioterrorism funds, citing that some States and major cities lacked appropriate monitoring mechanisms.¹⁵

SCOPE

This inspection focused solely on how States monitor subgrantees providing residential care or child placement services to Title IV-E eligible children. It did not examine States' monitoring of subgrantees that provide only training, adoption, or independent living services under the Title IV-E program.

States' monitoring of subgrantees was evaluated based on the design and functioning of their monitoring systems. We assessed only whether or not States' monitoring systems met our criteria, and not the extent to which they deviate from the criteria. Further, States were not evaluated on the quality of their monitoring mechanisms, nor were they evaluated on their subgrantees' fiscal and programmatic performance.

METHODOLOGY

Assessment of States' Monitoring

We examined six States' subgrantee monitoring through a review of States' subgrantee files and onsite interviews with staff. We compared States' monitoring systems to criteria we developed, based on Federal grants management requirements.

Our States included Texas, Michigan, Massachusetts, North Carolina, Pennsylvania, and California. Overall, the 6 States comprise over 45 percent of the Federal fiscal year (FY) 2002 Title IV-E funds and are located in 6 of the 10 ACF regions. In four of the States, the foster care program was directly administered by the State. In two of the States, the program was jointly administered by the State and the counties. In these States, we selected the two counties serving the largest number of Title IV-E children for our review. In each State, subgrantees provide a portion of foster care services, and are used extensively in some cases: one selected county provides 85 percent of foster care services through subgrantees. The States and counties we reviewed fund more than 1,500 foster care subgrantees.

Staff Interviews. To understand the complexities of State and county monitoring systems, we conducted onsite interviews with staff members responsible for monitoring subgrantees. Typically, this included interviews with fiscal, program, and licensing staff. In county-administered States, we interviewed State and county staff responsible for monitoring county subgrantees. We also requested documentation of any policies, protocols, and guidance related to subgrantee monitoring.

Subgrantee File Review. After gaining an understanding of how States and counties intended to monitor their subgrantees, we reviewed selected subgrantee files to verify whether monitoring systems were functioning as described. To verify that State and county monitoring systems were functioning as reported, we selected and reviewed files for 15 to 19 subgrantees in each State from State FY 2003. In county-run States, we selected eight subgrantees from each county. To represent the various types of subgrantees, we selected both low and high volume child placement subgrantees, as well as both low and high volume residential care subgrantees in each State. Overall, we reviewed files for 98 subgrantees. For a full discussion of the methodology, please see Appendix A.

Evaluation Criteria. Federal grants management requirements provide that States must “Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.”¹⁶ The HHS has issued no further guidance or delineation on what kind or level of monitoring is considered “necessary.” Thus, to assess whether States were monitoring their subgrantees “as necessary,” it was essential that we define measurable evaluation criteria. In order to accomplish this, we consulted grants management guidance from other agencies, industry guidance, and grants management reports from various Federal agencies.

We developed these evaluation criteria as a set of minimum standards, which would be specific enough to be measurable, yet general enough to allow for variation in how States execute their monitoring of subgrantees.

Our criteria set forth the following framework: States must have at least one fiscal monitoring mechanism and one program monitoring mechanism in place. Each of these monitoring mechanisms must incorporate three components. First, they must collect information.

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Second, there must be a means to review the information collected. Finally, there must be a system to follow up on identified problems.¹⁷

In addition to assessing States’ monitoring systems, we also examined their adherence to other grants management requirements. These requirements provide that States must communicate basic information to their subgrantees—States must at least identify that the funds are Federal and must inform subgrantees of applicable grants management requirements. Appendix B details the specific grants management requirements we examined related to communicating grants management information. See the box below for a summary of our evaluation criteria.

FEDERAL REQUIREMENT	EVALUATION CRITERIA
Program and Fiscal Monitoring	
<p>States must: --“monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.” [OMB Circular A-133, §__.400(d)(3)]</p> <p>--“manage and monitor each project, program, subaward, function or activity supported by the award.” [45 CFR § 74.51(a)]</p>	<p>States must have at least:</p> <p>--one fiscal monitoring mechanism, and</p> <p>--one program monitoring mechanism</p> <p>Each mechanism must be used to collect and review information on subgrantees, and must include follow up on identified problems.</p>
Communication of Required Information	
<p>States must provide subgrantees with the “best information available to describe the Federal award.” [OMB Circular A-133, §__.400(d)(1)]</p>	<p>States must at least inform subgrantees that the grant includes Federal funds.</p>
<p>States must advise subgrantees of requirements imposed on them by Federal laws and regulations. [OMB Circular A-133, §__.400(d)(2)]</p>	<p>States must inform subgrantees of Federal grants management requirements.</p>

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Each program and fiscal monitoring mechanism was held to the following standards:

- Mechanism design is appropriate: The mechanism must be designed to monitor all subgrantees.
- Mechanism is functioning: Use of the mechanism must be documented for 75 percent of the files reviewed. While we would expect the monitoring to be documented in all files, we wanted to allow for a small amount of error in States' documentation of their monitoring.

In States where subgrantees are considered to be “subrecipients” and thus required to have a Single Audit, we reviewed States' systems in relation to specific OMB Circular A-133 requirements. Namely, we assessed whether States followed up on all Single Audit findings within the required 6-month period.

We presented our draft criteria to ASAM staff who found these criteria to be reasonable and consistent with Federal requirements.¹⁸ Appendix C contains a further discussion of the development of our evaluation criteria.

In a third report, “Protocol for Assessing States' Monitoring of Subgrantees,” (OEI-05-03-00062) we provide more detailed information about how we applied our criteria, including the methodology and data collection protocols we used.

Assessing States' Monitoring Overall

Overall, States must meet each element of our evaluation criteria in order to be considered as having adequate monitoring mechanisms and communication strategies. In States where the foster care system is administered by counties, both selected counties must meet each element of our criteria for the State to be considered in accordance with our criteria overall. We evaluated States in this manner because, as primary recipients of Federal foster care funds, States are the entities ultimately responsible to ensure that counties have appropriate systems for monitoring their subgrantees.

Review of ACF Oversight

To understand how ACF ensures that States monitor their foster care subgrantees, we collected and reviewed information from a variety of sources. We conducted phone and in-person interviews with ACF fiscal and program staff in the central office and in all 10 ACF regions. We reviewed ACF's major oversight mechanisms, including protocols for the

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CFSR, Title IV-E Eligibility Review, Title IV-E State plan, and the quarterly financial reports. Finally, we analyzed all Single Audit findings from any of the 50 States related to subgrantee monitoring under the Title IV-E program for FYs 2001 and 2002.

This inspection was conducted in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.

► FINDINGS

Monitoring systems in three States are inadequate according to our evaluation criteria. In addition, three States do not communicate required information.

Monitoring systems in three of the six selected States are inadequate according to criteria we developed based on grants management requirements. Specifically, these States lack adequate

fiscal or program monitoring mechanisms. Two of these three States lack adequate monitoring systems and do not communicate required grants management information.

A fourth State does not communicate required grants management information to subgrantees. (See Table A.)

TABLE A

States' Adherence with Criteria Based on Federal Grants Management Requirements						
Requirement	State A	State B	State C	State D	State E	State F
Fiscal Monitoring	–	–	Yes	Yes	Yes	Yes
Program Monitoring	Yes	Yes	–	Yes	Yes	Yes
Communicating Required Information	–	Yes	–	–	Yes	Yes
In Adherence with Criteria	–	–	–	–	Yes	Yes

Source: OEI State Site Visit Data

Three States' program or fiscal monitoring systems are inadequate according to our evaluation criteria.

As mentioned above, three States lack an adequate monitoring system, either because they do not have an adequate program monitoring mechanism or because they lack an adequate fiscal monitoring mechanism.

One State does not have an adequate program monitoring mechanism according to our evaluation criteria. Five of the six selected States have at least one program monitoring mechanism that meets our criteria. All five of these States use comprehensive licensing site visits to monitor their subgrantees. In addition, two of these five States conduct at least one additional program site visit to assess subgrantees' program performance. The one State, State C, that does not have an adequate

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program monitoring mechanism, has designed an appropriate mechanism, but the mechanism is not functioning, as designed, for at least 75 percent of selected subgrantees. (See Table B.)

TABLE B

Adherence with Program Monitoring Criteria						
	State A	State B	State C	State D	State E	State F
Mechanism design is appropriate	Yes	Yes	Yes	Yes	Yes	Yes
Mechanism is functioning	Yes	Yes	–	Yes	Yes	Yes
At Least One Program Monitoring Mechanism in Adherence with Criteria	Yes	Yes	–	Yes	Yes	Yes

Source: OEI State Site Visit Data

Like the five other States, State C conducts licensing site visits in order to monitor the program performance of subgrantees. State C intends to conduct annual licensing site visits for all subgrantees, but only 7 of the 16 selected subgrantees in the State had a licensing site visit documented in their files. Essentially, State C did not ensure that more than half the selected subgrantees were relicensed before their licenses expired, resulting in foster children being cared for by unlicensed providers.

Monitoring staff in State C report that they are severely understaffed and their first priority is to respond to complaints. They report that this leaves inadequate resources available for the annual licensing visits. As a result, this State plans to reduce its monitoring to include licensing visits for only 10 percent of all foster care subgrantees each year. The State will relicense the remaining subgrantees using a desk review of materials submitted by subgrantees.

Two States do not have an adequate fiscal monitoring mechanism according to our evaluation criteria. Four of the six selected States have at least one fiscal monitoring mechanism that meets our criteria. For three of these States, this mechanism is an audit, and the fourth State uses a State review of financial information. While the other two States also employ audits as their fiscal monitoring tool, their systems do not meet our

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criteria. State A’s use of an audit to monitor subgrantees is inadequate because of flaws in the mechanism’s design, as well as because the audit does not function as designed. State B’s audit mechanism is appropriately designed, but is not used as designed. (See Table C.)

TABLE C

Adherence with Fiscal Monitoring Criteria						
	State A	State B	State C	State D	State E	State F
Mechanism design is appropriate	–	Yes	Yes	Yes	Yes	Yes
Mechanism is functioning	–	–	Yes	Yes	Yes	Yes
At Least One Fiscal Monitoring Mechanism in Adherence with Criteria	–	–	Yes	Yes	Yes	Yes

Source: OEI State Site Visit Data

The fiscal monitoring mechanism used in State A is not designed to monitor all subgrantees, and thus does not meet our criteria. The State requires only a subset of subgrantees to submit audits, based on the type of services they provide. For example, only 10 of our 16 selected subgrantees are required to submit audits.

The reason all subgrantees are not required to submit audits is that State A uses two separate departments to monitor different subsets of foster care subgrantees. One department requires all subgrantees it monitors to submit an audit. The other department does not require an audit, nor does this department use any other fiscal monitoring mechanism to monitor subgrantees’ management of Title IV-E funds.

State A’s fiscal monitoring system is also not used as designed. While all of the required audits were submitted, there was no evidence that staff reviewed audits for our selected subgrantees. Further, even if the review took place, but was undocumented, State staff reported that the staff responsible for reviewing the audits have no financial training. These staff only review an audit to verify that it “makes sense.”

State B’s use of audits is appropriately designed, but not functioning for at least 75 percent of the selected subgrantees, as specified by our criteria. Our review of States’ subgrantee files found that only 11 of

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19 subgrantee files included documentation of audits. Since only 58 percent of selected subgrantees had documented audits, State B’s fiscal monitoring does not meet our criteria.

Like State A, the division of monitoring responsibilities in State B offers a plausible explanation as to how this monitoring lapse occurs. In this State, the audit is reviewed by the rate-setting office and not by the office that monitors subgrantees. Thus, the office that could use the audit to monitor subgrantees does not receive or review the audit. The rate-setting staff that review the audit reported that they do not see much relevance in the task and described their review as general.¹⁹ Only in cases where the audit reveals basic solvency issues that may warrant contract termination does the rate-setting office provide information to the monitoring office.

Three States do not communicate required grants management information to subgrantees.

Informing subgrantees that they are subject to Federal grants management requirements is the first step toward ensuring that subgrantees are appropriately carrying out Federal program activities and spending Federal monies. Subgrantees who are not aware of these responsibilities may inadvertently use Federal money for purposes not intended by the State or ACF. They also may not understand or adhere to program regulations detailing the provision of services to children.

TABLE D

Adherence with Requirements to Communicate Grants Management Information to Subgrantees						
	State A	State B	State C	State D	State E	State F
Inform subgrantees that the grant includes Federal funds	–	Yes	–	–	Yes	Yes
Communicate Federal requirements related to monitoring	–	Yes	–	Yes	Yes	Yes
In Adherence	–	Yes	–	–	Yes	Yes

Source: OEI State Site Visit Data

Three of the six selected States do not notify subgrantees that the funds they receive are Federal foster care funds. (See Table D.) In fact, one of these States misidentifies the funds as Social Services Block Grant funds. Identifying the funds this way means that auditors conducting Single Audits review subgrantee compliance with Social Services Block

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Grant regulations and not with Federal foster care regulations, limiting the potential usefulness of the Single Audit.

Two States do not communicate Federal requirements to subgrantees. Specifically, State A does not inform subgrantees that they are subject to Federal grants management requirements under 45 CFR Part 74, nor does this State specifically inform subgrantees that they must allow State and Federal entities access to records and must pass down all Federal requirements to any of their subgrantees. State C informs subgrantees of some Federal requirements, but does not inform subgrantees that they must pass on all Federal requirements to their subgrantees. See Appendix B for further analysis on State practices related to communicating grants management information to subgrantees.

Oversight of States' systems for monitoring subgrantees receives minimal attention by ACF.

In reviewing ACF's oversight of States, we found that ACF's focus and priorities do not encompass subgrantee

monitoring. In fact, oversight of State's subgrantee monitoring receives very minimal attention by ACF.

The ACF's formal communications with States reflect a lack of focus on States' subgrantee monitoring. We found no notification of grants management requirements in the grants award letter or in ACF policy manuals. The only means of communicating Federal grants management requirements seem to be the Title IV-E State plan.

The Title IV-E State plan is designed to convey pertinent statutory and regulatory requirements to States and to ensure that States have policies in place that reflect compliance with these requirements. However, the State plan is not routinely updated, so it does not function as a routine mechanism for communicating requirements to States. Since States report high rates of turnover and loss of experienced staff, it is plausible that staff are not familiar with the grants management requirements referenced in the State plan.

Interviews with State staff also suggest that ACF does not focus on States' subgrantee monitoring. Monitoring staff in three of the six selected States report that they have no communication with ACF around monitoring subgrantees. Monitoring staff in two additional States describe very limited communication with ACF on this topic. Further, States report that they only speak with ACF about monitoring

of subgrantees at the State’s request, and even then, the conversation is limited to ACF answering specific questions raised by the State.

In half of all ACF regions, the staff we interviewed were not aware of how States monitor their foster care subgrantees. Further, staff in 7 of 10 regions indicate that they only look into States’ monitoring of subgrantees if they know something is wrong. Staff in one region noted, “only if we get individual complaints are we aware of any [monitoring] processes.”

Staff in three ACF regions report that they do not focus on subgrantee monitoring because they believe that they lack the authority to do so. These respondents believe they are not allowed to oversee States’ monitoring of subgrantees. For example, staff in one region indicated that they “. . . have no business going beyond just whether the State has a process [for subgrantee monitoring] . . .” and “. . . cannot assess whether they are carrying out that process.” Staff in another ACF region report that it is difficult to delve into States’ subgrantee monitoring without a “way in” by means of an identified problem.

Staff in half of ACF regions indicate that they do not focus on subgrantee monitoring because it is not a priority. Staff in one region report that, although they make an effort to focus on monitoring, it is not a priority from ACF’s central office. They believe ACF central office priorities are reflected in the way they fund the regions. Staff in this region assert that they do not receive the resources necessary to perform the site visits they feel are crucial to oversee States’ subgrantee monitoring. Staff in another region noted that States’ monitoring of subgrantees is “not a burning issue for us . . . we are more concerned about expenditure reports.”

The only direct tool ACF uses for overseeing States’ subgrantee monitoring is the State Single Audit, which has limited utility.

According to ACF staff, the State Single Audit is the only tool used to directly assess States monitoring of subgrantees. Staff in three regions note that a decline in resources has made the State Single Audit more important as they are less equipped to oversee States’ subgrantee monitoring themselves. Staff in one region noted that “in the past we did a lot more monitoring and now we just rely on the A-133 [Single Audit].” In addition, staff in three regions report that they rely solely on the auditor conducting the next year’s Single Audit to follow up on findings related to States’ monitoring of subgrantees.

The Single Audit has limited utility as a tool to oversee States' monitoring.

Based on interviews with ACF central office and regional staff and our analysis of the Single Audit and State Single Audit findings, we identified the following concerns about the Single Audit process as a tool to monitor States' subgrantee monitoring:

1. The State Single Audit may not assess State monitoring of all types of subgrantees.
2. The State Single Audit may miss problems with States' monitoring of subgrantees.
3. Single Audit findings regarding subgrantee monitoring may not be helpful in identifying and resolving problems.
4. Single Audit findings regarding subgrantee monitoring are limited in scope.
5. Auditors' skills and knowledge of the foster care program vary.

The State Single Audit may not assess States' monitoring of all foster care subgrantees, depending on whether subgrantees themselves are considered "subrecipients" by the State, and thus subject to a Single Audit. States use Federal Office of Management and Budget guidelines to determine whether subgrantees should be classified as "subrecipients" and thus subject to a Single Audit, or "vendors" and not subject to a Single Audit. Auditors are expected to review States' monitoring of subrecipients, but are not expected to review States' monitoring of vendors, even though some vendors perform the same functions as subrecipients. Auditors may choose to review a State's vendor monitoring;²⁰ however, ACF would have no way of knowing whether a lack of findings indicates that vendors were assessed and found to have no compliance problems, or just not assessed. This is especially worrisome because four of our six selected States consider most or all of their subgrantees to be vendors.

During our interviews, ACF staff raised concerns that States' Single Audits may be missing problems with States' monitoring of subgrantees. Staff in at least four ACF regions either know of a specific monitoring problem that the audit had missed, or believe that it would miss problems with States' monitoring of subgrantees. As staff in one region stated, ". . . when [the auditors] write up the findings, all they have to say is 'we found no compliance problems' . . . I can't feel confident that this is a good Federal fiscal oversight tool." In these instances, ACF

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staff does not know whether the audit report truly reflects a lack of findings, or whether it actually missed a problem.

In fact, at least one State that was not selected for our study exemplifies this vulnerability: this State had major problems related to subgrantee monitoring that the State Single Audit process missed. The State Single Audit for Ohio did not identify subgrantee monitoring problems, although serious problems were identified through other mechanisms. In 2000, special audits conducted by Ohio's Auditor of State discovered that more than \$9 million in foster care funds had been misspent by subgrantees that counties treated as "vendors." It is possible that these problems were not caught because the Single Audit does not typically review how States monitor their vendors.²¹

Even when the State Single Audit report does contain subgrantee monitoring findings, they are often limited in scope. Nearly half of the subgrantee monitoring findings we reviewed do not provide any systemic information about the quality of States' monitoring systems. Out of all 50 States' Single Audits over a 2-year period, we found 11 audits with a subgrantee monitoring finding related to the Title IV-E program. Only 4 of these 11 audits included findings containing substantive information. Of the remaining seven audits, five contained findings that related solely to the timeliness of the audit process. In these cases, the State was cited for not ensuring that either the subgrantee audit reports or the State's own management decisions were completed within the required timeframe. While practical, this type of information would not tell ACF much about how well States monitor subgrantees.

According to ACF staff, State Single Audit findings may not be helpful. Findings may provide some indication as to what a problem is, but without more detail, such as the auditor's workpapers, ACF staff do not know where to begin an investigation. Staff in at least one region expressed an interest in talking with the auditor to clarify information in the audit but had been unsuccessful in locating the auditor.

Staff in eight regions raise a final concern about the utility of the State Single Audit related to the auditor's skills or knowledge of the foster care program. Regional staff note that the auditor may lack experience with and understanding of Federal programs, and therefore, have difficulty assessing them. In particular, staff in some regions note that, although some States in their region consistently have State Single Audit findings every year, other States have few or none. Regional staff

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believe this variety may be due to differences in the abilities of the auditors, not due to differences in States' actual grant administration.

Staff in most ACF regions believe they have tools, like the Child and Family Services Review and Title IV-E Eligibility Review, that could indirectly reveal issues with States' monitoring of subgrantees.

Staff in ACF central office and regional offices indicate that their oversight of States focuses on States' administration of the foster care program, not on States' monitoring of subgrantees. However, ACF staff believe that the CFSR, the Title IV-E Review, or the quarterly financial report review could indirectly uncover problems with States' subgrantee monitoring. Staff in at least five ACF regions believe that problems with States' monitoring of subgrantees have or would come up as a result of these reviews. These respondents claim that, in looking at programmatic and fiscal outcomes during the CFSR and Title IV-E Review, they are indirectly assessing subgrantee performance. They believe poor performance on these reviews could expose a problem with States' monitoring of subgrantees.

However, when we questioned regional staff, they were unable to provide specific examples of how systemic problems with States' subgrantee monitoring were uncovered through these mechanisms. Instead, staff in some regions offered examples of ACF identifying problems with individual subgrantees as the result of one of these reviews. However, uncovering issues with a particular subgrantee is not the same as uncovering a systemic problem regarding the controls that States have in place to assure subgrantee performance. If there is a systemic problem, discovering and solving the problem for one subgrantee would not impact the children served by other subgrantees throughout the State who may also be performing poorly under the State's lax oversight.

Given that, as ACF staff point out, getting information about how States monitor foster care subgrantees is not the purpose of the CFSR or the Title IV-E Review, it seems unlikely that problems of this nature would be discovered. While a State's poor performance on child-specific outcomes could lead a reviewer to question the State's overall oversight of foster care subgrantees, it would be up to the discretion of the reviewer to pursue such an angle. Further, an indirect system of monitoring, by definition, does not provide a systemic means of assessment. The best ACF could expect would be to come across such information in the course of conducting these reviews.

RECOMMENDATIONS

The ACF's oversight of States' subgrantee monitoring does not appear to be sufficient to ensure States are meeting even the minimal criteria by which we assessed them. In fact, we found that monitoring systems in three of the six States selected for review are inadequate according to criteria we developed based on grants management requirements, and three States do not communicate required grants management information to subgrantees. We also found that oversight of States' systems for monitoring subgrantees receives minimal attention by ACF.

We recommend that ACF bolster its oversight of States' subgrantee monitoring, relying on more than the Single Audit to ensure that States adhere to grants management requirements. Without quality monitoring, States and ACF may have little assurance that subgrantees are providing appropriate, quality services to children in a fiscally responsible manner. Given the extent that States appear to be using subgrantees to carry out crucial foster care services, lax monitoring can have a significant impact.

The ACF should hold States accountable for adherence to grants management requirements relating to the oversight of subgrantees.

We outline three steps ACF should take to hold States accountable with these grants management requirements.

1. The ACF should develop a system for routinely communicating grants management responsibilities to States. We found that ACF does not routinely communicate grants management requirements to States. We suggest that ACF utilize its existing communication mechanisms with States to routinely communicate grants management requirements. The ACF could issue periodic reminders through program instructions or other communications with States, such as the grant award letter. Routinely communicating subgrantee monitoring requirements would emphasize to States the importance of monitoring, as well as remind States to consider these requirements as they write contracts and grant agreements with subgrantees each year.

2. The ACF should develop specific requirements that clarify States' responsibilities for monitoring of subgrantees. Since the Federal grants management requirements relating to subgrantee monitoring are general, we suggest that ACF clarify States' responsibilities by developing specific requirements for State monitoring systems. These

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specific requirements should provide clear standards for States' monitoring systems. The ACF could adopt the criteria used for this study, or work with ASAM to develop their own standards. Providing States with specific, measurable standards that reflect ACF's expectations for States' subgrantee monitoring would emphasize the importance of quality monitoring systems and would allow ACF to better assess States' accountability in relation to grants management requirements.

3. The ACF should utilize its existing oversight mechanisms to ensure States adhere to grants management requirements. Currently, ACF appears to lack an adequate oversight mechanism to ensure that States adhere to grants management requirements. The ACF should refine existing oversight processes to ensure that States are held accountable with Federal requirements in their administration of subawards and monitoring of subgrantees.

To ensure that States have adequate systems for monitoring subgrantees, ACF could use the CFSR or provide independent auditors with specific instructions when completing States' Single Audits. The ACF could use either of these mechanisms to assess both the design of States' monitoring systems, as well as test whether States' systems are functioning appropriately. Specifically, ACF could require States to submit a description of their fiscal and programmatic monitoring mechanisms as part of their CFSR, including a description of the frequency, methods, content, and purpose of the monitoring mechanisms and whether mechanisms apply to all subgrantees or only a subset of subgrantees. Staff could then include a review of a sample of State subgrantee monitoring files while onsite for the CFSR to test whether monitoring is functioning appropriately.

The ACF could also recommend revisions to OMB's Title IV-E compliance supplement to the Single Audit, as well as provide specific instructions for auditors to use as part of the Single Audit review of States' subrecipient monitoring. The ACF could provide OMB with proposed revisions to the Title IV-E compliance supplement that include special tests and provisions for auditors to follow when assessing States' subgrantee monitoring. Additionally, ACF could develop additional information for auditors to use when reviewing States' Title IV-E programs, including any specific standards ACF develops outlining States' responsibilities for monitoring foster care subgrantees, information about ACF's programmatic concerns, and suggestions for

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auditing procedures. The ACF could propose including a reference to this additional information in the Title IV-E compliance supplement. Providing auditors with these additional directions would help ensure that auditors review States' monitoring according to ACF expectations.

To ensure that States are communicating required grants management information to subgrantees, ACF could revise the current Title IV-E State plan template. By revising the State plan template, ACF could require that each State submit documentation, such as standard contracts or subaward agreements, to explicitly demonstrate adherence to grants management requirements. Once ACF has approved States' revised Title IV-E State plan, States would only need to resubmit documentation if they significantly change their contract or subaward agreement provisions. In county-run States, ACF could request States' standard contract or award agreement with their counties, which should include the requirement that counties communicate Federal grants management information to their foster care subgrantees.

The ACF should work with HHS to make the State Single Audit a more effective tool for overseeing States' monitoring of subgrantees.

As part of ACF's overall efforts to oversee States' monitoring of foster care subgrantees, ACF should strive to enhance the effectiveness of the State Single Audit. Currently, the State Single Audit is the only direct tool ACF uses to assess States' subgrantee monitoring systems.

However, this inspection found major concerns with the scope, quality, and functioning of the Single Audit's assessment of States' monitoring of subgrantees. While we do not recommend that ACF continue to rely solely on the Single Audit for its subgrantee monitoring, we do recognize that ACF will continue to utilize the Single Audit as a monitoring tool.

In order to help improve the Single Audit as a monitoring tool, ACF should support and promote ongoing intergovernmental initiatives to improve the Single Audit. The OMB has established a task force on subgrantee monitoring. As part of its overall review of subgrantee monitoring, it plans to assess the regulations related to subgrantee monitoring for clarity and specificity. There is also an intergovernmental Quality Control Review Initiative. This initiative is intended to evaluate the quality of Single Audit work. Given that the outcomes of these efforts will be of great benefit to ACF, the agency should strive to support and highlight these efforts in order to ensure that it has the resources necessary to accomplish its missions and are viewed as priority initiatives.

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Further, ACF should clarify the specific types of subgrantees receiving Title IV-E funds that should be considered subrecipients and be subject to Federal Single Audit requirements under OMB Circular A-133. The ACF's clarification to States should not rely on restating the Single Audit characteristics of subrecipients and vendors, but rather should specifically delineate the types of services that would render a foster care subgrantee a subrecipient for the purposes of the Single Audit. For instance, ACF could specify that subgrantees using Federal funds to provide professional residential care and child placement services are carrying out the public purposes of the foster care program, and, therefore, qualify as subrecipients. However, entities that provide goods or services ancillary to the operation of the foster care program, such as temporary staffing companies or administrative supply companies, would not be considered subrecipients.

AGENCY COMMENTS

In its comments on our draft reports ACF concurs with the objectives of our recommendations and describes its intended corrective actions, which are generally consistent with our suggestions. The ASAM supports our recommendations to ACF. The complete text of both agencies' comments can be found in Appendix D.

In response to our recommendation that ACF should hold States accountable for adherence to grants management requirements relating to the oversight of subgrantees, ACF outlined its actions in relation to the three steps we suggested to implement this recommendation. In response to the first step we suggested, ACF committed to routinely communicating grants management responsibilities to States. The ACF intends to do this by attaching a list of terms and conditions that will include applicable administrative rules and program regulations to initial Foster Care awards. Further, ACF will refer to these terms and conditions and include a statement highlighting the importance of subrecipient monitoring in award letters. We agree with this course of action, and support ACF in its efforts to emphasize the importance of quality subgrantee monitoring systems to States.

In response to the second step we suggested, that ACF clarify States' responsibilities for subgrantee monitoring, ACF supported the goal of promoting quality monitoring and ensuring better accountability for program performance. However, ACF questioned whether establishing a monitoring standard for States was the best course of action, given the current Federal preference for supporting States' flexibility in structuring their management systems. Instead, ACF is considering several steps, including affirming subgrantee monitoring as an agency priority and providing technical assistance to States around their monitoring systems. We agree that States need flexibility to design monitoring systems that are appropriate to their use of subgrantees. However, we believe that establishing standards for States' monitoring systems is necessary to effectively hold States accountable, and can function as a structure within which States can have flexibility to design monitoring systems appropriate to their situations.

Our study criteria set up such a structure, which ACF could adapt. For example, ACF could require that States conduct at least one type of programmatic monitoring and one type of fiscal monitoring for all

subgrantees that are receiving more than a base amount of funding and are providing core programmatic services. By providing States with criteria that set minimum expectations for States' subgrantee monitoring, ACF could preserve States' flexibility in designing the type and extent of their monitoring mechanisms, yet maintain ACF's ability to assess whether States' subgrantee monitoring systems are acceptable.

In fact, ACF indicates that it is considering adopting a qualitative version of the monitoring criteria used in this inspection as part of its field reviews. In addition, ACF indicates that it would provide some version of its qualitative subgrantee monitoring standards to States. We strongly support this course of action, which would meet the intent of our recommendation. We also support ACF in taking additional steps, such as providing technical assistance as States develop and bolster their subgrantee monitoring systems, thus facilitating quality subgrantee monitoring above and beyond a minimum standard.

In response to our final suggestion that ACF utilize its existing oversight mechanisms to ensure States adhere to grants management requirements, ACF is considering including specific reference to subrecipient monitoring responsibilities in the Title IV-E Compliance Supplement to the OMB Circular A-133 Single Audit. The ACF also indicates earlier in its comments that it is considering assessing State subgrantee monitoring as part of its field reviews, depending on resources. We strongly encourage ACF to take both of these actions.

In addition, ACF indicates that it will consider whether to issue a program instruction to State grantees clarifying the distinction between "subrecipients" and "vendors," similar to the May 9, 2002 memorandum ACF sent to ACF grants officers. We support this action, but strongly encourage ACF to be explicit in its instructions to States around designating foster care subgrantees as "subrecipients," and not merely restate the OMB Circular A-133 definitions as the May 9, 2002 memorandum does. We also refer ACF to ASAM's comments to this report. The ASAM provides some clarification on this issue, instructing ACF to direct States to treat subgrantees providing basic services that are clearly core to the success of the program as subrecipients. Further, ASAM finds that in cases where there is "clear doubt as to the subrecipient/vendor treatment, the State should be directed to treat as a subrecipient."

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Finally, in responding to our recommendation that ACF work with HHS to make the State Single Audit a more effective tool for overseeing States' monitoring of subgrantees, ACF indicates that it had proposed several modifications to OMB regarding the auditor's process. Specifically, ACF proposed that auditors should describe and comment on States' systems for making subrecipient/vendor determinations, as well as on States' systems for monitoring subrecipients. In addition, ACF indicated its intention to explore future possibilities for strengthening the Single Audit. We enthusiastically support these proposals for improving the Single Audit, and will look to ACF to continue to exhibit such grants management leadership in conjunction with the department.

METHODOLOGY

To assess States' monitoring of subgrantees we conducted site visits in six States. To assess ACF's oversight of States' monitoring, we interviewed staff in all 10 ACF regional offices and central office.

State Selection

We selected the six study States based on the following factors: (1) maximizing coverage of Title IV-E funds; (2) representing both State-administered and county-administered States; (3) maximizing coverage of ACF regions; and (4) avoiding States participating in Child and Family Services Reviews or in the OIG region VII's case study of eight States' foster care programs.

In our final selection of States, we reviewed four State-administered systems and two county-administered systems. Overall, the six States comprise over 45 percent of the Federal FY 2002 Title IV-E funds and are located in 6 of the 10 ACF regions. The States and counties we reviewed have more than 1,500 foster care subgrantees during States' FY 2003.

Subgrantee Selection

Due to the intensity of our case file review, we limited the number of subgrantee files selected. We estimated that we could complete between 15 to 20 case file reviews in each State. We used the following procedure to ensure that our selection of subgrantees included representation of both child placement agencies and residential facilities, and included subgrantees that served a high volume of Title IV-E children, as well as those that served a low volume of Title IV-E children. Our pre-inspection research indicated that States' monitoring practices might vary between these different types of subgrantees.

From each State and county selected, we requested a list of all foster care subgrantees providing child placement or residential care to Title IV-E children in State FY 2003. To select subgrantees, we stratified each subgrantee list, first by type of subgrantee (i.e., child placement agencies and residential facilities) and then by the number of Title IV-E children served. To stratify by number of children served, we calculated the average number of children served, and then designated subgrantees as low or high volume, according to where they fell in relation to the average. We then randomly selected subgrantees from each of the four groups: low-volume child placement agencies, high-

volume child placement agencies, low-volume residential facilities, and high-volume residential facilities.

In each State we randomly selected 16 foster care subgrantees. In county-run States, we randomly selected eight subgrantee files in each of the two selected counties. In State D, one subgrantee did not fit our sampling criteria and was discarded in our analysis. In State B, a few selected subgrantees had more than 1 contract with the State, bringing the total number of files reviewed up to 19. (See Table E.)

TABLE E

Sample and Universe of Subgrantees Serving Title IV-E Eligible Children During States' Fiscal Year 2003		
State/County	Sample	Universe
State A	16	472
State B	19	132
State C, County 1	8	224
State C, County 2	8	68
State D	15	172
State E, County 1	8	132
State E, County 2	8	49
State F	16	263
Total Subgrantees	98	1,512

Although State D is primarily State-administered, a portion of the foster care program is privately administered. For the purposes of this study, we focused only on the portion of State D’s program that is State-administered. State D contracts with subgrantees through a central office and through local offices and regional offices. Our file review included subgrantees hired by all three types of entities. The majority of subgrantees were selected from the State’s central office, as this entity has significantly more subgrantees than any of the regional or area offices.

Subgrantee File Review

After collecting data on the State’s design of its subgrantee monitoring system through document review and staff interviews, we reviewed States’ subgrantee files, comparing monitoring documentation to our criteria to verify that the system was functioning according to its design. For our file review, we used a structured data collection instrument to examine State and county contracts with subgrantees, as well as to examine other evidence of monitoring, such as site visit reports, audit reports, financial reports, and licensing reports.

If States were unable to provide us with the necessary documentation of their monitoring activities onsite, we allowed them additional time to locate and send us the documentation. In cases where documents were unavailable, States were not given credit for carrying out monitoring for these particular subgrantees.

It was not our intention to identify the exact proportion of subgrantees actually receiving monitoring in each State. Rather, we sought to identify whether States' monitoring systems were functioning by verifying that selected subgrantees were monitored as the State described.

Review of ACF Oversight

Our interviews with ACF focused on ACF's processes for overseeing States' subgrantee monitoring systems. We asked specifically about ACF's review of State Single Audit findings related to States' subgrantee monitoring, and about other major review mechanisms that might be used to obtain information about States' subgrantee monitoring. We conducted one regional interview in person and all other ACF interviews via telephone.

STATE PRACTICES FOR COMMUNICATING GRANTS MANAGEMENT INFORMATION

The OMB Circular A-133 and 45 CFR Part 74 outline the Federal requirements pertaining to the grants management information that States must communicate to subgrantees. States were considered to meet the expectations set out in these requirements if they had communicated required grants management information to at least 75 percent of the subgrantees we reviewed. This appendix includes the complete results of our review, and information about State practices above and beyond our minimal criteria.

Identifying that grants include Federal foster care funds

The OMB Circular A-133, § 400(d)(1) requires that States identify Federal awards by providing the “best information available to describe the Federal award,” including such award characteristics as the “CFDA title and number, award name and number, award year, . . . and name of Federal agency.” To meet our criteria, States only had to imply that a subgrantee’s award included Federal funds. As described in our findings, only three States met these criteria.

We also examined whether States identified ACF as the Federal agency, and whether States identified the Catalog for Federal Domestic Assistance (CFDA) number of the award. The CFDA provides information about grants, including a listing of applicable Federal regulations. We found that only one county provides its subgrantees with the CFDA number. None of the selected States or counties referred to ACF in their communication with subgrantees.

Communicating Federal grants management requirements

To meet our criteria for communicating grants management requirements, each State had to meet each of the four sub-criteria as detailed in this section. As described in our findings, four States met all four sub-criteria. (See Table F.)

States must communicate applicable Federal requirements to subgrantees, including the following major grants management requirements:

- the Uniform Administrative Requirements for Awards and Subawards (45 CFR Part 74), and
- the Single Audit Act (implemented by OMB Circular A-133).

To meet our criteria, States only had to imply that these major Federal requirements applied. In some States, subgrantees are considered to be “vendors,” and are not subject to OMB Circular A-133. Five States met these minimum criteria.

TABLE F

Adherence with Requirements to Communicate Federal Grants Management Requirements						
	State A	State B	State C	State D	State E	State F
At least imply that 45 CFR Part 74 applies	–	Yes	Yes	Yes	Yes	Yes
At least imply that OMB Circular A-133 applies	N/A	Yes	N/A	Yes	Yes	N/A
Specify that State & Federal officials have access to records	–	Yes	Yes	Yes	Yes	Yes
Specify that subgrantees must pass down requirements to sub-grantees	–	Yes	–	Yes	Yes	Yes
In Adherence	–	Yes	–	Yes	Yes	Yes

Source: OEI State Site Visit Data

We also examined whether States cited or explained Federal grants management requirements 45 CFR Part 74 and OMB Circular A-133. We found that two States and two counties cite 45 CFR Part 74 but do not explain it. We also found that of the three States that require Single Audits for some or all subgrantees, all three at least cited the OMB Circular A-133. Two of these States explained Single Audit requirements more extensively in a manual for auditors and subgrantees.

Further, we assessed whether States informed subgrantees of Federal requirements pertaining to ACF’s and States’ ability to monitor, including:

- the requirement to permit government officials access to subgrantees’ records, and
- the requirement that subgrantees pass through these requirements to any entity that they fund.

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To meet our criteria, States had to specifically communicate these requirements to their subgrantees. Two States did not meet these criteria because they did not communicate one or both of these requirements to selected subgrantees.

EVALUATION CRITERIA DEVELOPMENT

To develop our evaluation criteria, we reviewed the following requirements and guidance:

- Federal requirements, including 45 CFR Part 74, 45 CFR Part 92, and OMB Circular A-133;
- OMB Circular A-133 compliance supplements;
- applicable HHS grants management guidance;
- subgrantee monitoring guidance produced for other HHS programs;
- guidance for other Federal departments;
- industry guidance from Management Concepts and Thompson Publishing Group;
- grants management reports from the Government Accountability Office, OIG, ASAM, and Assistant Secretary for Planning and Evaluation; and
- Single Audit reports containing subrecipient monitoring findings for States' foster care programs.

From these sources, we developed criteria for: (1) assessing States' adherence to the intent of the broad monitoring requirements set forth in 45 CFR Part 74 and OMB Circular A-133; and (2) assessing whether States were following specific requirements for communicating grants management information to subgrantees set forth in 45 CFR Part 74 and OMB Circular A-133.

Evaluation Criteria Presented to ASAM

We presented our evaluation criteria to ASAM staff in its draft form (see chart on the next page for a description of the criteria). The ASAM staff found our criteria to be both reasonable and consistent with Federal requirements. Below are the draft criteria that we presented to ASAM. In finalizing these criteria, we primarily changed the presentation format for readability and clarity. The criteria in their final format are presented in the body of the report. We did not present ASAM with the methodology we used to assess adherence to the criteria.

Federal Regulatory and Policy Monitoring Requirements

Broad Monitoring Requirements

“Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.” [OMB Circular A-133, §__.400(d)(3)]

We anticipate measuring the broad monitoring requirements using the following, more specific, criteria:

- contract or award allows for monitoring
- communication to subgrantee describes monitoring
- fiscal information
 - collect (possible mechanisms: fiscal reports, site visits, audit)
 - review
 - follow up
- performance information
 - collect (possible mechanisms: progress reports, site visits, audit)
 - review
 - follow up

Specific Monitoring Requirements

- Ensure specific OMB Circular A-133 audit requirements are met.
- Federal requirements for monitoring are communicated.
- Federal awards are identified to subgrantees.
- Require sufficient access to records to perform monitoring functions.

AGENCY COMMENTS



DEPARTMENT OF HEALTH AND HUMAN SERVICES

ADMINISTRATION FOR CHILDREN AND FAMILIES
Office of the Assistant Secretary, Suite 600
370 L'Enfant Promenade, S.W.
Washington, D.C. 20447

DATE: SEP 30 2004

TO: Dara Corrigan
Acting Principal Deputy
Inspector General

FROM: Wade F. Horn, Ph.D. *Wade F. Horn*
Assistant Secretary
for Children and Families

IG	_____
EAIG	_____
PDIG	_____
DIG-AS	_____
DIG-EI	_____
DIG-OI	_____
DIG-MP	_____
OCIG	_____
ExecSec	_____
Date Sent	10-13

SUBJECT: Office of Inspector General's (OIG) Draft Reports entitled: "Oversight of States' Subgrantee Monitoring in the Foster Care Program" OEI-05-03-00060; "States' Monitoring of Subgrantees in the Foster Care Program: A Description of Six States' Systems" OEI-05-03-00061; and "Protocol for Assessing States' Monitoring of Subgrantees" OEI-05-03-00062

The Administration for Children and Families has reviewed the above-referenced OIG draft reports and enthusiastically supports the goal of ensuring effective program oversight at all levels of program operation.

Given the overlapping nature of the reports, we focused our comments on the recommendations included in the most comprehensive of the three, i.e., OEI-05-03-00060. In our comments, we remarked on the potential for an enhanced technical assistance role as suggested in OEI-05-03-00061 and the proposed monitoring criteria that appear in both OEI-05-03-00060 and OEI-05-03-00062.

Should you have questions regarding our comments, please contact Nash Simonet, Director, Division of Financial Integrity, Office of Financial Services, Office of Administration, at (202) 401-5534.

Attachment

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OFFICE OF INSPECTOR
GENERAL

COMMENTS OF THE ADMINISTRATION FOR CHILDREN AND FAMILIES ON THE OFFICE OF INSPECTOR GENERAL'S DRAFT REPORT ENTITLED, "OVERSIGHT OF STATES' SUBGRANTEE MONITORING IN THE FOSTER CARE PROGRAM" OEI-05-03-00060

The Administration for Children and Families (ACF) appreciates the opportunity to comment on the Office of Inspector General's (OIG) draft report.

OIG Recommendations:

ACF should hold States accountable for adherence to grants management requirements relating to the oversight of subrecipients. We outline three steps ACF should take to hold States accountable with these grants management requirements.

1. ACF should develop a system for routinely communicating grants management responsibilities to States.

ACF Comments:

In recommending that ACF develop a system for routinely communicating grants management responsibilities to States, OIG found that the Foster Care State Plan is inadequate. Page 15 includes the passage: "...the State Plan is not routinely updated, so it does not function as a routine mechanism for communicating requirements to States. Since States report high rates of turnover and loss of experienced staff, it is plausible that staff are not familiar with the grants management requirements in the State Plan."

ACF believes that the agency can play a constructive technical assistance role in helping States to improve subgrantee monitoring and management. However, it is not clear that continually reminding the State to consider the fundamental conditions of program participation and funding would be the best way to accomplish that goal. State Plan requirements (45 CFR 1355.21 (b)) mandate that "...State Plans for titles IV-E and IV-B must provide for compliance with the Department's regulations listed in 45 CFR 1355.30." The listed regulations include grants management rules.

Once a title IV-E State Plan has been approved, it remains in effect until amendments are required. Regional approval of State Plans is in part contingent on State affirmation of compliance with grants management standards. A State's failure to comply with the provisions of its approved State Plan is grounds for withholding Foster Care funds (45 CFR 1336.50).

While there would be no harm in reiterating the list of regulations applicable under Foster Care grants in periodic award letters, that act would not in itself necessarily inform (new and inexperienced) State or subgrantee staff of Federal grants management requirements. A State's failure to adequately manage subgrantees—and making basic and ongoing management requirements known is part of an adequate management scheme—might best be addressed in the context of audit or other review findings, as is also suggested in the OIG draft report.

Beginning in FY 2005, ACF's Division of Mandatory Grants will attach a list of standard terms and conditions to initial Foster Care awards. The list will include administrative rules and program regulations that are applicable under title IV-E. In the initial award letter and all subsequent amendments, we will refer to the terms and conditions and include a statement highlighting the importance of subrecipient monitoring. Similarly, ACF will explore other options for assisting States to better understand how to appropriately designate entities as either a subrecipient or a vendor, depending on the particular functions and activities conducted by an entity as explained in Part 6, Section M, Subrecipient Monitoring, of the FY 2004 Compliance Supplement manual and outlined for ACF grants officers in a May 9, 2002 memorandum entitled, "Subrecipient vs. Vendor Determination for Audit Purposes."

In addition, both ACF's central and regional offices would welcome the opportunity to work with OIG to identify options for expanding technical assistance to States in the areas of qualitative outcomes monitoring, performance-based contracting and rate setting.

2. ACF should develop specific requirements that clarify States' responsibilities for monitoring of subgrantees.

ACF Comments:

Under this recommendation on page 21, OIG suggests that "ACF clarify States' responsibilities by developing specific requirements for State monitoring systems." The goals of this recommendation—to promote quality State monitoring of subgrantees and ensure better accountability for program performance—are certainly worthwhile. However, ACF questions whether dictating a monitoring standard to States is the best path to the goal.

In recent years, to avoid undue restriction of State management prerogatives, the Federal Government has shown a reluctance to dictate standards in a variety of areas. For example, States are left to follow their own practices in the establishment of financial management systems, management and disposal of equipment, procurement, and the award and administration of subgrants to local and Tribal governments. Until proven otherwise, the presumption is that States have sound systems to handle day-to-day business management functions and that it makes sense for states to use those systems in the management of both State and Federal funds.

That being the case, perhaps instead of establishing a single universal standard for State subgrantee monitoring, ACF would be well advised to continue supporting State flexibility in the structuring of their individual monitoring systems. However, ACF could and should affirm that subgrantee monitoring is an agency priority and offer to provide technical assistance where it is desired to help States strengthen or create monitoring systems.

Given existing Federal and State budget deficits, staffing shortages and changes in organizational structures, it may be difficult for ACF and some States to mount the kind of monitoring reviews envisioned in the OIG draft reports. However, to the degree that resources are available for on-site monitoring, ACF staff might adopt a qualitative version of OIG's suggested monitoring standards for their own field reviews. And, of course, some version of the instrument could be made available to States to use as a guide in developing their own monitoring protocols.

As previously indicated, ACF will gladly work with OIG to identify options for expanding technical assistance to States in the areas of qualitative outcomes monitoring, performance-based contracting and rate setting.

3. ACF should utilize its existing oversight mechanisms to ensure States adhere to grants management requirements.

ACF Comments:

On page 22, OIG notes that "...ACF appears to lack an adequate oversight mechanism to ensure that States adhere to grants management requirements." To remedy the problem, OIG suggests that ACF make fuller use of existing oversight processes to ensure that States are held accountable in the administration of their subawards. ACF finds the suggestion to be an excellent one and, as discussed above, is in the process of preparing terms and conditions for inclusion in future initial Foster Care awards. Subsequently, ACF will be in a better position to consider including specific reference to subrecipient monitoring responsibilities in the Foster Care section of future Compliance Supplements.

OIG also recommends that ACF consider revising the current title IV-E State Plan template to require States to submit documentation supporting the contention that they communicate required grants management information to subgrantees. ACF finds such action to be unnecessary. OMB Circular A-133 requires that grantees communicate relevant Federal requirements to their subgrantees. The provisions of the circular are made binding on State grant recipients under 45 CFR Part 92. Consequently, the requirement is already part of the approved Foster Care State Plan.

Further, under 45 CFR Part 92.37 (a) (1) and (2), States are required to ensure that subgrantees include clauses required by statute and executive orders and their implementing regulations, and that subgrantees are aware of requirements imposed upon them by Federal statute and regulation.

For these reasons, ACF believes it would be best to flag this requirement in supplemental A-133 audit guidance as addressed above rather than to require nationwide submission of State Plan amendments.

Finally, OIG recommends that ACF "...clarify the specific types of subgrantees receiving title IV-E funds that should be considered subrecipients and be subject to Federal Single Audit requirements under OMB Circular A-133." ACF thinks the suggestion is a good one.

Confusion over the distinctions between procurement and assistance activities at the award and subaward levels has confounded Congress, Federal agencies and award recipients for years. The lack of clarity in the States about the differences between "subrecipients" and "vendors" is at least partly the result of ongoing inconsistency in the use of grant and contract terms at the Federal level. ACF will consider whether to issue a program instruction to State grantees providing clarifying information similar to that included in the May 9, 2002 memorandum sent to ACF grants officers.

OIG Recommendation:

ACF should work with the HHS to make the State Single Audit a more effective tool for overseeing States' monitoring of subgrantees.

ACF Comments:

We agree that the State Single Audit could be a more effective tool for overseeing States' monitoring of subgrantees, notwithstanding the existing guidance provided in Part 6, Section M, Subrecipient Monitoring of the FY 2004 Compliance Supplement manual. ACF is restricted to including in specific program sections of the Compliance Supplement requirements that exist in law and regulations.

In FY 2002, when ACF first began addressing the utility of A-133 audits to help identify issues related to erroneous payments, we proposed several modifications to the single audit process including some that are relevant to findings in the subgrantee report:

- 1) Auditors should describe the system used by the grantee to determine subrecipients vs. vendors. The auditors should comment on the effectiveness of such system; and
- 2) Auditors should describe the system used by the grantee to monitor subrecipients. Auditors should comment on the effectiveness of the monitoring system.

OMB's informal response to these suggestions was that ACF and/or the Department should provide specific recommendations as to what should be added to the supplement, including any changes that should be made to the administrative requirements, as the audit cannot create compliance requirements; it can only audit what exists. We will explore with the Department future possibilities for strengthening the A-133 mechanism.

A G E N C Y C O M M E N T S



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Secretary

Washington, D.C. 20201

OCT 1 2004

To: George Grob
Assistant Inspector General
for Evaluation and Inspections

From: Ed Sontag 
Assistant Secretary
for Administration and Management

Subject: Report Number OEI -05-03-00060 - Oversight of States' Subgrantee Monitoring

Thank you for providing my office the opportunity to review and comment on your three draft reports on the monitoring of subgrantees. Comments are outlined below.

- 1.) Organizations that receive Federal funding need to be monitored. There seems to be an evident disconnect between ACF and its program oversight responsibilities. It is important that the intent and use of the Single Audit are understood in order for it to be used effectively. While used as a monitoring tool, potential problems identified in the audit must be further researched by ACF and resolved.
- 2.) The determination of whether an organization is a vendor or subrecipient is unclear. It seems that ACF should play a more active role in reviewing whether a state's determination is accurate. The states' determination should not necessarily be the final call. If basic services provided are clearly core to the success of the program, the subgrantee should be treated as a subrecipient, and the State should be directed to do so. If there is clear doubt as to subrecipient/vendor treatment, the State should be directed to treat as a subrecipient. It appears that ACF is clearly ignoring this issue.



A C K N O W L E D G M E N T S

This report was prepared under the direction of William C. Moran, Regional Inspector General for Evaluation and Inspections in the Chicago regional office. Other principal Office of Evaluation and Inspections staff who contributed include:

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▶ E N D N O T E S

- ¹ According to Administration for Children and Families (ACF) estimates, 810,000 children spent some time in Title IV-E foster care during Federal FY 2002. There were an estimated 534,000 children in Title IV-E foster care on September 30, 2002. Retrieved March 11, 2004 from:
www.acf.hhs.gov/programs/cb/dis/afcars/publications/afcars.htm.
- ² We use the term “subgrantee,” as opposed to terms that are commonly used by States but have specific technical definitions in Federal grants management requirements, such as “contractor” or “subrecipient.”
- ³ Task Force members include staff from: the Office of Management and Budget (OMB); the Departments of Health and Human Services (HHS), Transportation, Agriculture, Education, Justice, Labor, and Navy; the Federal Emergency Management Agency; the National Science Foundation; and the States of Louisiana and Texas.
- ⁴ A 2002 Government Accountability Office (GAO) study, “Welfare Reform: Federal Oversight of State and Local Contracting can be Strengthened,” GAO-02-661, 2002, examined State and local agency monitoring of subgrantees receiving Temporary Assistance for Needy Families funds, and found that ACF staff were not aware of monitoring problems identified in States’ Single Audit reports. These audit reports cited weaknesses in States’ monitoring, including inadequate fiscal and program monitoring of local contracting entities.

Congress has also expressed concern that the Health Resources and Services Administration (HRSA) does not adequately monitor grantees’ oversight of their subgrantees. Consequently, in 2001, the Senate Finance Committee requested that the Office of Inspector General (OIG) review HRSA’s oversight of Ryan White CARE Act Title I and Title II grantees and grantees’ oversight of their subgrantees.

- ⁵ The National Survey of Child and Adolescent Well-Being (NSCAW) found that at least 90 percent of States used subgrantees to provide child placement and residential care that specifically includes treatment. This study did not include other commonly used private residential facilities, such as group homes, residential schools, or

emergency shelters in their survey. Further, there has been little research into the extent to which States use subgrantees: whether States use subgrantees to serve a small subgroup of the State's foster children or for the majority of foster children in the State. The NSCAW reports that 70 percent of States use subgrantees statewide to provide residential treatment services, and an additional 26 percent use subgrantees "in some counties." The NSCAW local agency survey also found that using subgrantees to provide foster care services is more common in urban areas, larger counties, larger agencies, and State-administered foster care systems. Department of Health and Human Services, Administration for Children, Youth, and Families, "National Survey of Child and Adolescent Well-Being: State Child Welfare Agency Survey: Report" and "National Survey of Child and Adolescent Well-Being: Local Child Welfare Agency Survey: Report," Washington, 2001.

- ⁶ "Petro Issues Montgomery County Foster Care Audit," Ohio Auditor of State News Release. February 10, 2000.
- ⁷ There are two sets of HHS regulations that provide Uniform Administrative Requirements: 45 CFR Part 74, which typically applies to awards to non-governmental entities, and 45 CFR Part 92, which typically applies to awards to governmental entities. Until very recently, States receiving Title IV-E funds were subject to the requirements under 45 CFR Part 74, which are very similar to those under 45 CFR Part 92. Recently, HHS redesignated Title IV-E State grants to be subject to 45 CFR Part 92.
- ⁸ OMB Circular A-133, §__.400(d) states that "... a pass-through entity shall perform the following for the Federal awards it makes: ... (3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved."
- ⁹ OMB Circular A-133, §__.400(d)(1) and §__.400(d)(2).
- ¹⁰ From the template ACF provides to States for their Title IV-E State plan, requiring States to sign that they agree with these provisions.

¹¹ 45 CFR §1356.20(e)(4).

¹² Title XI of the Social Security Act: 42 USC §1320a-1a.

¹³ The HHS is responsible for resolving Single Audit findings related to HHS programs. These findings are received by HHS and assigned for formal resolution. Findings relating to the Title IV-E program would likely be assigned to ACF, however, some findings may be assigned to other HHS entities, such as cross cutting findings.

¹⁴ OMB Circular A-133, §__.400(c)(5).

¹⁵ These studies were produced as a series of reports, all of which can be found on the OIG Web site: www.oig.hhs.gov. For example, one audit included in this series was: Office of Inspector General, “Review of New York State’s Efforts to Account For and Monitor Sub-Recipients’ Use of Public Health Preparedness and Response to Bioterrorism Program Funds,” (A-02-03-02009), 2003.

¹⁶ OMB Circular A-133, §__.400 (d)(3).

¹⁷ This framework originates from: “Office of Evaluation and Inspections Grants Oversight Framework,” March 2003. This document was developed by the Office of Evaluation and Inspections Grants Management Workgroup in response to the Secretary’s initiative.

¹⁸ Staff from the Office of the Assistant Secretary for Administration and Management were presented with and approved our draft criteria. We did not present them with the methodology we used to operationalize the criteria.

¹⁹ Historically, the annual audit was an integral part of setting the rates the State paid for foster care services. However, ever since the State legislature decided to set State foster care rates, the rate-setting office has had little use for the audits. It continues, due to historical precedence, to receive and track the submission of the audits. It has also maintained the responsibility of reviewing the audits.

²⁰ The extent to which auditors choose to review States’ monitoring of vendors is unknown. OMB Circular A-133, §__.210(f) includes a

provision that allows the auditor to review States' interactions with vendors: ". . . the auditee is responsible for ensuring compliance for vendor transactions which are structured such that the vendor is responsible for program compliance or the vendor's records must be reviewed to determine program compliance. Also, when these vendor transactions relate to a major program, the scope of the audit shall include determining whether these transactions are in compliance with laws, regulations, and the provisions of contracts or grant agreements"

However, the auditor needs to make several decisions in order to perform such a review. The auditor must first decide if the vendor is responsible for program compliance. If so, then the auditor must decide whether the vendor's transactions are in compliance with laws, regulations, and the provision of contracts or agreements. The auditor uses judgment about how to assess whether these transactions comply with laws, and whether to review the State's monitoring of the vendor to do so.

²¹ Ohio State staff stated that fiscal oversight of foster care subgrantees has been bolstered at the county and State levels since these audits were conducted.