Department of Human Services
Division of Youth and Family Services
Grants-In-Aid Programs

July 1, 1995 to June 30, 1997
Enclosed is our report on the audit of the Department of Human Services, Division of Youth and Family Services, Grants-In-Aid Programs for the period July 1, 1995 to June 30, 1997.

If you would like a personal briefing, please call me at (609) 292-3700.
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Department of Human Services
Division of Youth and Family Services
Grants-In-Aid-Programs

Scope

We have completed an audit of the Department of Human Services, Division of Youth and Family Services, Grants-In-Aid Programs for the period July 1, 1995 to June 30, 1997. Our audit included financial activities accounted for in the state’s General Fund and the Casino Revenue Fund.

Total Grants-In-Aid Program expenditures of the division during the 24 month audit period were $592 million. The prime responsibility of the Division of Youth and Family Services is to provide services to maintain the health, safety and welfare of the children of New Jersey. The division also supervises the social services sections of the county welfare agencies and contracts with approximately 1,200 public and private nonprofit community provider agencies and individuals to provide community based social services to children and families.

Objectives

The objectives of our audit were to determine whether financial transactions were related to the division’s programs, were reasonable and were recorded properly in the accounting systems. We also tested for resolution of significant conditions noted in our prior report.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section 1, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with Government Auditing Standards, issued by the Comptroller General of the United States.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the State Comptroller, and policies of the division. Provisions that we considered significant were documented and
compliance with those requirements was verified by interview and observation and through our samples of financial transactions. We also read the budget message, reviewed financial trends, and interviewed agency personnel to obtain an understanding of the programs and the internal control structure.

A nonstatistical sampling approach was used. Our samples of financial transactions were designed to provide conclusions about the validity of transactions as well as internal control and compliance attributes. We also tested third party contract expenditures and levels of service at public and private nonprofit community provider agencies.

To ascertain the status of findings included in our prior report, we identified corrective action, if any, taken by the division and walked through the system to determine if the corrective action was effective.

We found that the financial transactions included in our testing were related to the division’s programs, were reasonable and were recorded properly in the accounting systems. In making this determination, we noted certain internal control weaknesses and matters of compliance with laws and regulations meriting management’s attention.

I am pleased that, as noted on page 3 of your report, you found the financial transactions to be reasonable and properly recorded.
The division has not allocated contract funding to the CHSAC consistent with the department's County Fair Funding Formula.

County Human Services Advisory Councils

According to N.J.A.C.10:2-1, each county in New Jersey is required to have a County Human Services Advisory Council (CHSAC) appointed by the Department of Human Services. Members of the councils are selected through consultations between the department and the county governments. The councils select providers of social services based on the local needs of their communities and the Division of Youth and Family Services (DYFS) awards contracts to those providers.

The Department of Human Services is responsible for certification for each of the County Human Services Advisory Councils on an annual basis. In fiscal year 1997, DYFS distributed over $70 million from various funding sources such as Social Services Block Grants and Grants-in-Aid.

The Department of Human Services has a County Fair Funding Formula that is supposed to be the basis for allocation of the CHSAC funds to the councils. In our review of the distribution of these funds during fiscal year 1997, we noted that DYFS is not allocating the CHSAC funds in accordance with the County Fair Funding Formula. Differences in the funding level between the formula and the actual allocation to the councils ranged from $6,000 to nearly $3 million. Some counties received more funding and other counties received less funding than would have been the case if the County Fair Funding Formula had been adhered to. To further illustrate the magnitude of these variations, one county received $2.9 million in additional funding while another county received $1.8 million dollars less than the amount called for by the County Fair Funding Formula.

In addition, according to language in the appropriations acts for fiscal years 1996 and 1997 (Grants-in-Aid section), the Department of Human Services is required to provide a list of the County Human Services Advisory Councils’ contracts to the Director of the Division of Budget and Accounting (Department of the Treasury) each fiscal year on or before September 30. The language also requires that this listing segregate the administrative costs of such contracts. We noted that the Department of Human
Services has not provided the Department of the Treasury with a list of the contracts awarded since fiscal year 1993.

We recommend that the division distribute the CHSAC funding in accordance with the County Fair Funding Formula established by the Department of Human Services.

We also recommend that the Department of Human Services provide the Department of the Treasury with the list of contracts required by the language contained in the Grants-in-Aid section of the appropriation acts.

Concerning the application of the County Fair Funding Formula to social service contracts, it should be noted that although the Division has been awarding social service contracts since the early 1970’s, the County Fair Funding Formula was not developed until 1985. It was always the Department’s intention to allocate only new funding since 1985, (as well as any funding reductions), using the Fair Funding Formula. It was never the intent of the Department to redistribute all contract dollars each year using the Fair Funding Formula because to do so would be terribly disruptive to client services. The existing variations which you indicate in your report are the result of early decisions to gradually redistribute funds rather than reallocate all funds, each year, using the formula. Consequently, the Department must take the position that your recommendation to distribute all funding in accordance with the Fair

Recommendation

Auditee’s Response

Funding Formula would not be practical.
We do, however, agree with your recommendation regarding the submission of contract listings to the Department of Treasury in accordance with the language in the annual appropriation act. We have already begun to compile such a listing to be forwarded to Treasury.

Contract Monitoring

Provider audit and contract close-out reports are not being received in a timely manner.

The Division of Youth and Family Services awards approximately $200 million annually in contracts to provider agency’s for social and/or training services to clients. Under the Department of Human Services Circular P7.06 and S7.01, each provider agency receiving a total of $25,000 or more in state and/or federal financial assistance is required to submit an independent auditor’s report each year. The report must be received no later than 150 days (120 days as of February 1, 1997) after the close of a provider agency’s fiscal year, to allow the contracting unit sufficient time to review the report to determine corrective actions needed by the provider, as well as the identification of any questioned costs and underspending, and to negotiate a final contract close-out.

During our audit period, we noted that 160 audit reports and 155 final close-out reports were not received by the due date. The delinquency of these reports not submitted, result in questioned costs and underspending not being reviewed against final expenditure reports and delays a final negotiated settlement with the provider. In addition, recoveries on these contracts and interest lost for the delayed close-out period are not available for general state use. Based on an analysis of fiscal year 1996 recoveries, we estimate that the state lost approximately $174,000 in unearned interest due to the untimely collection of these overpayments.
**Recommendation**

We recommend that the division ensure that all reports are received and reviewed in a timely manner.

**Auditee’s Response**

The Division acknowledges that it has had some difficulty performing contract close-outs in accordance with prescribed time frames. In fact, this problem has been disclosed by the Division in their annual Internal Control Certification which is completed and submitted in accordance with Treasury's Office of Management and Budget Circular Letter 94-04 as well as Department of Human Services Administrative Order 6:12.

The effectiveness of the contract monitoring and closeout process has been adversely affected in recent years by an inability to expand the number of contract administration staff to accommodate the heavy volume of ongoing contract activity, including contract renewals, modifications, audit reviews, site visits, etc. Notwithstanding the problems associated with contract closeouts, the Division has made and will continue to make every effort to close out contracts in a timely manner. In fact, the Division managed to identify and collect approximately $2.5 million in contract recoveries during the fiscal year ended June 30, 1997. Additionally, over the past five years the Division has experienced a better than 99% collection rate on audit disallowances and contract overpayments. Considering the Division awarded more than $400 million in contracts during the period covered by your audit, contract disallowances and overpayments make up a very small percentage of the Division's total contracting dollars.

Your report indicates that the state lost approximately $174,000 in unearned interest due to untimely collection of overpayments. It is important to understand that, in most cases, when an overpayment or audit disallowance is identified, the Division must be willing to accept installment payments from contract providers. A large number of the Division's contract providers receive all or most of their funding from the Division and consequently are not in a position to repay the entire balance in one lump sum without jeopardizing current contract service delivery. If the Division was adamant about requiring providers to repay in one lump sum, many of these providers would be forced out of
business and the Division would probably be unsuccessful in collecting the unpaid balances which would result in a much more significant loss to the State.

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**Special Home Services Providers**

The AIDS Resource Foundation operates three group homes in New Jersey for children up to age 12 who are afflicted with AIDS or who are otherwise medically fragile. The contract between the division and the provider stipulates that the foundation will reserve an average of 10 slots for DYFS referred children at their three homes on a combined basis for a maximum service of 3650 bed days during fiscal year 1997, at a per diem rate of $291. Correspondence dated November 25, 1996 in the provider’s file at the DYFS Metro Regional Office indicated that the division had agreed to pay the provider $383,000 for empty beds at the group homes during the prior contract periods of July 1, 1992 to June 30, 1996. We reviewed DYFS expenditure transactions and were able to determine that the division had, in fact, made two retroactive payments to the AIDS Resource Foundation during fiscal year 1997 totaling $383,000 in apparent settlement of this claim. In reviewing the contract language, we were unable to find any terms that constituted an agreement by the division to pay for empty beds at the group homes when the division does not make sufficient referrals to fill all the slots called for by the contract. The correspondence appears to suggest that the decision to pay for these empty beds was made as an accommodation to the provider for not receiving enough referrals from the division to fill all the contracted slots, thereby resulting in fiscal problems for the provider that might have rendered them unable to continue operating all three homes.

The division compensated a third party contract provider $383,000 for empty beds reserved for DYFS clients.
**Recommendation**

We recommend the division refrain from making payments to contract vendors when no service has been received.

**Auditee’s Response**

Your report suggests that the $383,000 in retroactive payments to the Aids Resource Foundation were made to reimburse the provider for empty beds during the four year period from July 1, 1992 to June 30, 1996. In fact, these payments were made as the result of negotiated retroactive rate adjustments. All payments were properly authorized and made in good faith as final settlement of a negotiated compromise with this provider.

The nature of the contract with this provider is unique as well as complex and some of the terms and conditions of the early contracts were subject to varying interpretations which led to apparent misunderstandings. Specific terms and conditions of subsequent contracts have been more carefully and clearly worded in order to avoid future misunderstandings.
Department of Human Services  
Division of Youth and Family Services  
Grants-In-Aid Programs

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