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OFFICE OF THE
AUDITOR GENERAL

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December 1, 2005

Members of the Arizona Legislature

The Honorable Janet Napolitano, Governor

Mr. David Berns, Director
Arizona Department of Economic Security

Transmitted herewith is a report of the Auditor General, an information brief on the Department of Economic Security's Revenue Maximization project. This brief was prepared pursuant to and under the authority vested in the Auditor General by A.R.S. §41-1966.

This information brief is the third in a series we plan to issue on various topics relating to Child Protective Services. We have created the information brief at the request of key stakeholders who indicated a need for information on various topics but did not want a full audit. We hope that these information briefs will fill a need and provide you with timely and useful information on topics of particular interest.

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

This information brief will be released to the public on December 2, 2005.

Sincerely,

Debbie Davenport
Auditor General

Enclosure

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Office of the Auditor General

Department of Economic Security

Division of Children, Youth and Families

Child Protective Services

INFORMATION BRIEF

Revenue Maximization

Summary

The Department is working to increase federal revenues and has engaged a consultant to implement three projects involving federal grants used to fund Child Protective Services operations. These projects are designed to replace state funds with increased federal revenues and are expected to bring in approximately $3 million in one-time revenues and $1.3 million annually in ongoing new revenues. As of October 2005, $2.1 million of these funds had been received.

2005

December • Report No. IB-0502

State Has Revenue Maximization Initiative

In the fall of 2003, the State began developing an initiative that is designed to help state agencies identify and recover currently untapped sources of revenue for which they may be eligible. This initiative, known as Revenue Maximization (or RevMax), is a state-wide initiative and has a governance board that reviews and monitors the progress of agencies' projects. As of September 2005, 23 projects are under operation or have been completed among eight state agencies, including three projects at the Department of Economic Security.

To implement this initiative, in June 2004 the State contracted with six vendors who have specialized "revenue maximization" skills and experience with other states. These contractors are paid a fixed fee or a contingency fee of up to 10 percent of new revenues earned or costs avoided over a set period of time based on a preestablished baseline. While federal matching funds may be used to pay fixed fee contracts, contingency fees cannot be paid with federal funds, but may be paid with state funds replaced by the newly generated revenues.

RevMax Process

A RevMax project may be proposed by a contractor, the governance board, or internal agency staff. Agency management will review the proposal and decide whether or not to pursue the project. If the governance board provides favorable review, management may solicit offers from any of the six approved contractors or may elect to work on the project internally without contractor assistance.

If the project results in new revenues or cost savings, the agency's program budget may be reduced to return some newly generated revenues to the General Fund. The agency can then use the remaining funds to update information technology, to enhance prevention and early intervention strategies, to offset agency supplemental requests or unfunded mandated costs, or to compensate personnel who were principally responsible for generating the savings.

Allowable RevMax projects include:

- Obtaining new revenues, such as replacing state funding with federal funding for past or prospective program expenditures;
- Providing funding flexibility, such as expanding the allowed use of federal revenues; and
- Avoiding costs, such as reducing expenditures in current programs.

RevMax projects do not include:

- New or expanded programs that may require additional state matching funds,
- Already identified revenues collected on an accelerated schedule, and
- Statutory or policy changes that are not the direct result of a contractor's work.

Department initiated three CPS RevMax projects

The Department received proposals for a number of projects and began working on three projects that involve, to some extent, the Child Protective Services (CPS) program. Specifically:

Obtaining Title IV-E funding for former foster children—This project, first proposed in September 2004, involves conducting an intensive review of foster care placements to identify children whose costs for care were eligible for partial federal reimbursement, but had not been identified and claimed. The selected contractor, Public Consulting Group (PCG), estimated that the project would generate $1.2 to $2.1 million in one-time increased revenues.

The Title IV-E program allows 2 years for costs to be claimed; therefore, PCG received data on approximately 20,000 foster care placements from April 2003 through June 2005 and identified approximately 1,000 children with a potential for recovery of Title IV-E funds. PCG then reviewed Child Protective Services records for these 1,000 children to determine if they were eligible for federal funding and to assemble the required paperwork to document the child's eligibility. These children's cases had not been previously reviewed because the Department's eligibility unit was unable to process all the applications received from an increasing number of children entering out-of-home care.

After reviewing the case files from the quarter ending June 2003, PCG identified 15 children who were Title IV-E eligible. In June 2005, the Department submitted a reimbursement claim to the federal government requesting the federal portion of these children's foster care payments, totaling $44,764. This claim was accepted and the Department has received the funds.

The Department reports that, as of July 2005, PCG had identified an additional 139 children from the review period who were eligible for $2,010,900 in Title IV-E payments. The Department has submitted this claim to the federal government and it was approved and paid in October 2005.

The Department indicates that it submitted another claim totaling $711,439 for 99 children found to be eligible under the Title IV-E program. This claim was submitted to the federal government on September 30, 2005. The Department expects to receive notice of acceptance or denial by December 31, 2005; however, the federal government has the option to defer this decision until February 28, 2006.

Further, the Department reports that on October 31, 2005, it submitted a claim requesting $73,523 for allowable administrative costs associated with the children identified through this case file review project.

The Department anticipates that the project will be completed by January 2006. PCG estimates that it will identify additional children who were Title IV-E eligible, and the associated claims will total at least $150,000.

Department management indicates that after paying the contractor its 5.5 percent fee, the remaining new revenues generated by this project will be used to offset continuing budget shortfalls and a fiscal year 2006 state budget reduction of $500,000 that the Legislature made in anticipation of increased federal revenues from this project.

Federal Title IV-E Program—This program provides funds to help states provide safe, appropriate, 24-hour, substitute care for children who are under the State's jurisdiction and need temporary placement and care outside their homes.

These funds cover a portion of the foster care maintenance for children

- whose removal from their home was supported by proper judicial action,
- whose care is provided by a licensed provider, and
- who have limited family resources and income.

Department management indicates that, historically, between 50 and 65 percent of foster children are eligible under this program.

Other allowable expenditures include training for staff, foster parents, and certain approved child care institute staff; and a portion of program administrative costs.

The Department reports that its eligibility unit now performs a Title IV-E review for most of the cases; however, some cases still are not reviewed. These cases are generally very short-term removals and are not likely to be Title IV-E eligible, but some of these cases may be, as is evidenced by PCG's work. Rather than department staff reviewing all case files for Title IV-E eligibility, department management indicates that it might be more cost-effective to have a consultant perform a case file review similar to this one every few years.

Increasing amount of reimbursable Title IV-E administrative costs—This project was originally proposed in August 2004 and seeks to increase Title IV-E revenues by increasing reimbursable Title IV-E administrative costs. It proposed taking an extensive look at the specific contracted social services that are charged to Title IV-E and the methodology and process used to charge personnel and training costs to Title IV-E.

PCG was also selected for the project, and in February 2005, PCG began reviewing the Department's process to charge administrative costs to Title IV-E. In March 2005, PCG recommended a number of improvements with an estimated $1.8 to $4.5 million in new net revenues. However, after PCG reviewed the proposed improvements with department management, some improvements were determined not to be feasible or were already being implemented. Further, PCG lowered its estimate of new revenues and determined that the Department has been effective in claiming Title IV-E Administrative funds in some areas, which limited the opportunity to retroactively claim additional administrative costs.

The Department ultimately approved two improvements for implementation. Specifically, the Department is working to:

- Increase the Title IV-E eligibility rate—The percentage of foster children who are Title IV-E eligible determines the amount of case planning and management costs, such as the percentage of case manager salary, that is eligible for federal reimbursement. PCG identified a group of children who meet most, but not all, Title IV-E eligibility requirements. The Department estimates that this group includes approximately 70 children. PCG indicates that the federal government currently allows these children to be included in the rate calculation, but the Department had not included them because it was not aware of this opportunity.

  The Department is modifying its methodology for determing the eligibility rate to include these children in the eligibility rate calculation and plans on implementing the revised methodology by the end of January 2006. Department management estimates that the project will result in approximately $300,000 annually in ongoing new revenues.

- Claim certain CPS activities as Title IV-E-eligible administrative costs—PCG indicates that CPS activities provided to children not removed from their home, such as eligibility determination, case management and planning and certain in-home services, may be eligible for Title IV-E administrative reimbursement if CPS determines that, absent effective preventive services, the children in question would be placed into foster care. The Department had not previously claimed these costs because it lacked the resources to implement the needed changes to capture the required information.

  PCG is working with the Department to modify current policies and practices to support the documentation requirements and to develop a reliable method for identifying these administrative costs. Also, the Department indicates that it will need to make programming modifications to its computerized case management system to allow caseworkers to identify these children and will need to provide caseworkers training on how to identify these children. Department management estimates that these changes will be made in time to fully implement this improvement by January 2006 and that the project will result in approximately $1 million annually in ongoing new revenues.

Department management indicates that, after paying the contractor its 5.5 percent fee, the remaining new revenues generated by this project will be used to offset continuing budget shortfalls and a fiscal year 2006 state budget reduction of $900,000 that the Legislature made in anticipation of increased federal revenues generated by this project.

Obtaining Medicaid funding for certain CPS caseworker activities—The Department and PCG identified a project that attempts to obtain Medicaid funding for CPS case manager activities involving children who remained in their home and were not candidates for foster care. PCG had estimated that this project, if approved by the federal Centers for Medicare and Medicaid Services, might generate approximately $3 million of increased federal funding per year. However, the Department reports that because of the increasingly uncertain status of the scope of Medicaid reform being discussed at the federal level, this project is not being pursued at this time. Department management indicates that they do not have high expectations that this project will be feasible.

Medicaid Federal Program—Arizona receives federal funds to pay for medical assistance for certain individuals and families with low incomes and resources through its version of Medicaid, the Arizona Health Care Cost Containment System (AHCCCS).

As part of Arizona's Medicaid program, children who are eligible for foster care through Title IV-E or for adoption subsidy are covered under Medicaid.

Summary

As shown in Table 1, the three projects the Department is working on are expected to result in approximately $3 million in one-time new revenues and $1.3 million annually in ongoing new revenues. These projects are still underway and, as of October 2005, a total of $2.8 million in federal reimbursement had been requested and $2.1 million had been received. The Department does not expect to receive all of these revenues until 2006, if at all.

Table 1: Revenues Expected and Realized from Department RevMax Projects

	Net Revenue Estimates			
	Original	Current	Revenue Time frame	Net Revenues Realized as of October 2005
Title IV-E for CPS placements	$1.2 to 2.1 million	$3.0 million	One-time	$2.1 million
Title IV-E administrative costs	$1.8 to 4.5 million	$1.3 million	Annual	$0
Medicaid funding for CPS	$3.0 million	N/A	Annual	$0