



# COMMONWEALTH of VIRGINIA

Scott Reiner, M.S.  
Executive Director

OFFICE OF CHILDREN'S SERVICES  
*Administering the Children's Services Act*

## MEMORANDUM

**TO:** State Executive Council for Children's Services

**FROM:** Scott Reiner, Executive Director  
Office of Children's Services

**RE:** SEC Policy 4.7 (Response to Audit Findings) – Fiscal Impact Analysis

**DATE:** September 21, 2017

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State Executive Council for Children's Services (SEC) Policy 2.4 (Public Participation in Policy-making Actions) requires (Section 2.4.7.E.1.) that the SEC shall consider the potential fiscal impact of any proposed policy. The Office of Children's Services (OCS), in conjunction with local government representatives, is responsible for providing an analysis of the fiscal impact of the proposed policy based on the best available information. This memorandum provides the fiscal impact analysis of Proposed SEC Policy 4.7, *Response to Audit Findings*, which will be considered for adoption at the SEC meeting on September 21, 2017.

### Process:

1. OCS compiled a summary of all funding denied as a result of the OCS audit process during the first full audit cycle during the past five year period.<sup>1</sup>
2. OCS solicited input from the Virginia Association of Counties (VACo) and the Virginia Municipal League (VML) as designated representatives of local government. The information compiled by OCS was shared with VACo and VML.
3. VACo and VML provided written input regarding the potential fiscal impact of the proposed policy.
4. OCS has integrated that input with its own analysis that is presented in this memorandum.

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<sup>1</sup> The audit cycle is intended to be three years but was extended due to staffing limitations. Additional audit personnel will allow the three-year cycle to be completed in the projected time frame, beginning with the FY2017-2019 period.

### **Summary of Prior Denial of Funds Resulting from OCS Audits:**

- The period summarized was from FY2012 to FY2016.
- All findings from routine audits during this period were considered.
- Excluded findings/denials of funds included those resulting from:
  - late reimbursement filings outside of the annual September 30 deadline (not resulting from audit findings); and
  - “non-routine” findings subsequent to self-reported non-compliance or reports of non-compliance received from other participating agencies.
- There were 124 completed audits.
  - several localities had a combined CPMT/combined audit.
- 59 of the 124 programs (48%) had potential recoveries totaling \$2.4 million.
- Denial of funds occurred in 21 programs (36% of the 59 programs with potential denials and 17% of all programs audited) totaling \$730,000 (30% of potential denials)
- The median denial was under \$3,624. Five programs accounted for 89% of the denied funds (maximum \$177,000).
  - Only one of the five largest denials resulted in an appeal to the OCS and the amount (\$169,000) denied was the result of a negotiated, agreeable settlement.
  - No appeals to the SEC under Policy 3.4 (*Dispute Resolution*) have been requested.
- The total state share reimbursement to localities over the three-year audit cycle was \$667 million
  - Denied funds accounted for less than 1% (.00109) of the state share reimbursed to localities.

### **Input from VACo and VML:**

In a letter submitted on September 5, 2017, VACo and VML provided the following:

“We are not able to quantify the proposed effect of this proposed policy on localities, as errors could vary substantially among localities or even within local programs due to the differences in costs for individual cases. In addition, as you know the actual state reimbursement for cases varies depending upon the base local match rate, whether services are provided in the community or in a residential setting, and whether the child is eligible for Medicaid.”

The following additional observations were offered:

- “The audit results from FY2012-2016 suggest that large amounts of state funding could be at risk for localities... (reiterates data from analysis of audits provided above) ... it is impossible to know whether the same pattern will hold in future years.”
- “Of concern is ... nearly half of the programs audited had identified errors. It would appear that the majority of the programs identified as making errors (39) were cited for lesser offenses, such as those that would be Level Two or Level One offenses under the proposed policy.”
- Suggestions mirroring those provided in the public comments submitted by VACo and VML (and responded to by OCS) are also offered, not specific to the fiscal impact analysis.

**Analysis by OCS:**

1. OCS concurs with VACo and VML that it is impossible to accurately quantify the potential impact of the proposed policy as the number and nature of issues of noncompliance are unknown at this time. With that in mind, OCS offers the following considerations:
  - The proposed policy reflects existing practice.
  - The baseline audit cycle for Level Two and Level One findings of noncompliance will be the current (FY2017-2019) one, meaning that second or subsequent findings under the proposed policy would not be applicable until the FY2020-2022 cycle, providing localities the full benefit of additional opportunities to implement corrective action before any adverse action might be taken.
  - As localities enter the second “round” of audits, they have had the benefit of the first audit which has provided a comprehensive review of all applicable areas of compliance and pointed out areas for improvement (if applicable). Where necessary, corrective action plans have been submitted.
  - Localities have the opportunity to review all audit findings through the CSA website to educate themselves as to the nature of noncompliance findings identified for all CSA programs.
  - OCS has developed and disseminated a comprehensive *Self-Assessment Workbook* which serves as a detailed guide to all areas reviewed in the audit process.
  - OCS provides training through multiple forums (e.g., Annual CSA Conference, Annual New CSA Coordinator Academy, the CSA User Guide, learning course in the Commonwealth of Virginia Knowledge Center; locality specific training on request) as well as continuous technical assistance in response to inquiries about any aspect of the local operation of the CSA.
  - It is hoped and anticipated that the number of findings of noncompliance will decrease as local CSA programs avail themselves of the resources described.

**Conclusion:**

OCS concurs with VACo and VML that it is not possible to quantify the fiscal impact of the proposed policy. While there is potential for larger denials in the future, it is hoped that ongoing quality improvement efforts at local CSA programs, supported by the activities of the OCS, will result in stable or decreased numbers/amounts of denials of funds. The dispute resolution process (SEC Policy 3.4) remains available to localities to address these matters.