

REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA

THE DEPARTMENT OF SOCIAL SERVICES DOES NOT
USE INFORMATION FROM ITS AUDITS TO ADJUST
RATES FOR GROUP HOMES THAT RECEIVE
FUNDS FROM THE AID TO FAMILIES WITH
DEPENDENT CHILDREN-FOSTER CARE PROGRAM

REPORT BY THE
OFFICE OF THE AUDITOR GENERAL

P-540

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INFORMATION FROM ITS AUDITS TO ADJUST RATES FOR
GROUP HOMES THAT RECEIVE FUNDS FROM THE AID TO
FAMILIES WITH DEPENDENT CHILDREN-FOSTER CARE PROGRAM

AUGUST 1986



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STATE OF CALIFORNIA
Office of the Auditor General

Thomas W. Hayes
Auditor General

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August 20, 1986

P-540

Honorable Art Agnos, Chairman
Members, Joint Legislative
Audit Committee
State Capitol, Room 3151
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the Department of Social Services' (department) system for adjusting rates for group homes that receive Aid to Families With Dependent Children-Foster Care (AFDC-FC) funds. The report recommends that the department audit all AFDC-FC group homes. These audits should determine the actual allowable costs necessary to provide the care and supervision for children placed in these group homes. Further, the department should use these audited costs to set AFDC-FC group home rates.

Respectfully submitted,

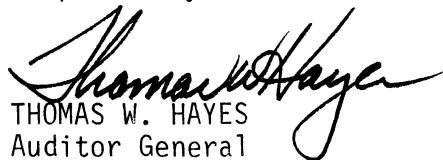

THOMAS W. HAYES
Auditor General

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SUMMARY

RESULTS IN BRIEF

The Department of Social Services (department) has not audited all group homes that receive funds from Aid to Families with Dependent Children-Foster Care (AFDC-FC). Furthermore, the department has not used its audits to verify group homes' allowable costs or to adjust group home rates; as a result, some group homes receive payments that exceed their allowable costs.

BACKGROUND

Before July 1, 1983, each county set rates for the AFDC-FC group homes within its jurisdiction. After July 1, 1983, Sections 11460 and 11462 of the Welfare and Institutions Code required the department to establish a statewide system for setting group home rates and to base the group home rates on the allowable costs of caring for and supervising the children placed in the AFDC-FC group homes. Initially, the department adopted group home rates that had been established by the counties. However, these rates varied from one county to another for similar foster care programs. Currently, the department computes two rates for each group home. The department uses the cost data from the operators of the group homes to compute one rate. The department computes the second rate by adjusting the previous year's rate with a cost-of-living allowance. The department then pays group homes the lesser of the two rates.

PRINCIPAL FINDINGS

The Department Is Not Auditing
All AFDC-FC Group Homes and Is
Not Using Its Audits To Verify
the Allowable Costs of Group Homes

Section 11462 of the Welfare and Institutions Code requires the department to audit all AFDC-FC group homes at least once every three years beginning October 1, 1982. However, the department has not completed audits of all group homes as required. As of June 20, 1986, the department had audited only 170 (57 percent) of the 300 group homes that should have been audited.

Our analysis of the department's audit reports for 158 group homes showed that 85 group homes may have been overpaid approximately \$6.9 million in AFDC-FC funds. We calculated that the overpayments may be as high as \$14.7 million. Although the department's audits have identified group homes that overstated their allowable costs, the department has not reduced the group home rates to the appropriate level.

RECOMMENDATIONS

The Department of Social Services should take the following actions:

- Ensure that all AFDC-FC group homes are audited as required by law;
- Base the rates of AFDC-FC group homes on allowable costs determined by the department's auditors; and
- Seek restitution from group homes that received AFDC-FC overpayments.

AGENCY COMMENTS

The Department of Social Services concurs with our recommendations and has taken action to ensure that all group homes are audited. Furthermore, the department has stated that it will use the audits to adjust the rates paid to group homes and to seek restitution for overpayments.

The department did, however, disagree with our methodology of applying adjustments from the audited year to subsequent years to calculate the additional \$7.8 million in cumulative overpayments. As we point out in our rebuttal to the agency's response, we believe this is an appropriate methodology. In addition, while we agree with the department's contention that the audit resolution process will reduce the estimated \$14.7 million in overpayments, we also point out that since 43 percent of the required audits of group homes were not done, total overpayments to group homes, may, in fact, be higher than our estimate.

INTRODUCTION

The Aid to Families With Dependent Children-Foster Care (AFDC-FC) program provides cash assistance to children who need someone other than their parents to supervise and care for them and who require 24-hour, out-of-home, nonmedical care in a foster home or group home. The Welfare and Institutions Code, Sections 11460(b) and 11462(a), requires that the Department of Social Services (department) be solely responsible for administering a statewide system for setting AFDC-FC group home rates that are based on allowable costs (the costs that the State allows for the care and supervision of a foster child each month, including the costs for administration and for other reasonable activities). The Welfare and Institutions Code, Section 11462(c), requires that the department control payments for AFDC-FC group homes, and Section 11462(e) requires that the department audit these group homes at least once every three years beginning October 1, 1982.

AFDC-FC Rate-Setting Administration

The department's deputy director for welfare operations supervises the Foster Care Rates Bureau, which sets rates for AFDC-FC group homes and reviews audits of these group homes, and the Fraud and Audits Bureau, which audits AFDC-FC group homes. In addition, the department's deputy director for administration supervises the Fiscal Policy and Procedures Bureau, which resolves protests of audits and establishes procedures for collecting overpayments identified by the department's audits.

Overview of the Department's Rate-Setting Process

Before July 1, 1983, each county set the AFDC-FC group home rates for the group homes within its jurisdiction. As of July 1, 1983, the Welfare and Institutions Code, Section 11460(b), has required that the department set AFDC-FC group home rates. For fiscal year 1983-84, the department adopted the counties' group home rates, which varied from county to county for similar foster care programs. Further, the Welfare and Institutions Code, Section 11462(d), required that the fiscal year 1983-84 payments to AFDC-FC group homes not exceed the fiscal year 1982-83 payments adjusted for a cost-of-living increase based on the California Necessities Index, which reflects the average changes in costs for food, clothing, fuel, utilities, rent, and transportation for low-income consumers. Section 11462(d) further stipulates that payments are subject to the availability of funds.

For fiscal year 1984-85, the Legislature approved a variable cost-of-living increase for AFDC-FC group homes. Group homes in existence in fiscal year 1982-83 were eligible to receive up to a 9.97 percent rate increase while those homes in existence since fiscal year 1983-84 were eligible to receive up to a 1.7 percent rate increase. In addition, the Budget Act of 1984 authorized a 3 percent cost-of-living adjustment for group homes.

In fiscal year 1985-86, the department implemented a rate-control system to regulate payments to AFDC-FC group homes. The

department based a group home's rate on costs the group home's operators reported to the department. The department also classified group homes' programs by the type of foster care service the programs provide. There are four types of programs: psychiatric programs treat children who have psychiatric problems; psychological programs treat children who have underlying emotional and behavioral problems; social programs treat children who have behavioral problems but who do not have marked emotional problems; and family programs provide socialization for children who do not display the appropriate social and relationship skills for their age. Group homes may provide one or more of these four programs.

Currently, the department pays the group homes one of two rates. Each year the department computes a monthly rate for each child in a group home by using the cost data submitted to the department by the group home operators. The department computes a second rate by adjusting the previous year's rate with a cost-of-living allowance. The department pays the group home the lesser of the two rates.

Funding for AFDC-FC Group Homes

AFDC-FC group home costs are shared by federal, state, and county governments. For children who meet federal eligibility requirements, the federal government pays 50 percent of the costs for basic care and supervision, administration, and other reasonable activities, the State pays 47.5 percent, and the county pays the

remaining 2.5 percent. However, when children do not meet federal eligibility requirements, the federal government pays none of the costs. In these cases, the State pays 95 percent of the costs, and the county pays 5 percent. Our review of department accounting data revealed that the total AFDC-FC program expenditures for fiscal year 1984-85 were approximately \$284.6 million and that the budgeted expenditures for fiscal year 1985-86 were approximately \$327.8 million. Table 1 shows the federal, state, and county expenditures for fiscal year 1984-85 and their budgeted expenditures for fiscal year 1985-86 for the AFDC-FC program.

TABLE 1
TOTAL AFDC-FC PROGRAM FUNDING
FOR FISCAL YEARS 1984-85 AND 1985-86
(IN MILLIONS)

<u>Fund Source</u>	<u>Expenditures for Fiscal Year 1984-85</u>	<u>Budgeted Expenditures for Fiscal Year 1985-86</u>
Federal	\$ 66.9	\$ 82.3
State	206.1	233.4
County	<u>11.6</u>	<u>12.1</u>
Total	<u>\$284.6</u>	<u>\$327.8</u>

SCOPE AND METHODOLOGY

The purpose of this audit was to review and evaluate the department's method for setting AFDC-FC group home rates for fiscal years 1983-84 through 1985-86.

To determine if the department audited AFDC-FC group homes, we reviewed audit reports for 158 group homes and identified the audits that revealed group homes' improper costs. However, we did not verify the cost data contained in the audit reports. To determine how the department processed these audits, we reviewed department records and interviewed department staff.

Further, we reviewed the department's methodology for computing group home rates and overpayments. We analyzed the rates computed by the department and compared these rates to the rates the department paid to the group homes. We also computed the overpayments to 85 AFDC-FC group homes that, according to the department's auditors, received payments that exceeded their allowable costs. We then compared the rate computed by the department's auditors, a rate based on allowable costs, with the rate paid to each group home. If the rate computed by the department's auditors was lower than the rate paid to the group home, we estimated the amount overpaid to the group home. Finally, we verified a sample of rate computations with the department's rate-setting staff to ensure that we used these rates correctly to compute overpayments. For the purpose of computing overpayments, we assumed that the average number of children in each group home remained constant after each fiscal period, and we assumed that the department's audit findings would be sustained if a group home protested an audit.

AUDIT RESULTS

THE DEPARTMENT OF SOCIAL SERVICES DOES NOT USE INFORMATION FROM ITS AUDITS TO ADJUST RATES FOR GROUP HOMES THAT RECEIVE FUNDS FROM THE AID TO FAMILIES WITH DEPENDENT CHILDREN-FOSTER CARE PROGRAM

The Department of Social Services (department) has not audited all AFDC-FC group homes as required by law, and the department is not using its audits of the group homes to verify the allowable costs submitted by the group homes in the rate-setting process. Moreover, the department has not used the allowable costs determined by the department's auditors to adjust group home rates. As a result, AFDC-FC group homes may have received \$14.7 million more than their allowable costs.

Audits of All AFDC-FC Group Homes Have Not Been Completed

Sections 11462(a) and (e) of the Welfare and Institutions Code require that the department's system for setting rates for group homes be based on the allowable costs and that the department audit all AFDC-FC group homes at least once every three years beginning October 1, 1982. Although the department has completed audits of 170 group homes, it has not used the allowable costs determined by the department's auditors to adjust group home rates. Our review of audits completed by the department disclosed that, from October 1, 1982, through June 20, 1986, the department audited only 170 of the 300

AFDC-FC group homes that it should have audited. Further, our review of the department's audit reports for 158 group homes revealed that, from fiscal years 1982-83 through 1985-86, the department's auditors identified \$6.9 million in overpayments to 85 group homes. As a result of the department's failure to audit all AFDC-FC group homes and to use audit results to adjust AFDC-FC group home rates, the department does not know the full extent of group home overpayments and is relying on unverified cost data from the group homes to set group home rates.

The Department's Reasons for Not Completing Audits

According to the deputy director for administration, the department has not completed audits of AFDC-FC group homes because the department's Audits Section, the Rates Bureau, and the Audit Appeals Section have insufficient staff to audit all group homes, to review audits, and to process appeals of audits. However, according to the chief of the fiscal policy and procedures bureau, the department has received approval for additional staff to review audits and to process appeals. Furthermore, on July 1, 1986, the department eliminated the audits section within its Fraud and Audits Bureau because the department is currently negotiating an interagency agreement with the State Controller's office to audit 134 AFDC-FC group homes in fiscal year 1986-87.

The Department Does Not Use
Its Audits To Verify AFDC-FC
Group Homes' Allowable Costs

Our review of the department's payments to group homes revealed that some group homes received payments that exceeded the allowable costs determined by the department's auditors. In addition, for fiscal years 1983-84 through 1985-86, we compared rates determined by the department's auditors with the rates the department paid to 85 group homes and found that the department paid from 101 percent up to 206 percent of the allowable costs as determined by the department's auditors. For fiscal years 1982-83 to 1985-86, the department's auditors estimated that the overpayments to the 85 group homes ranged from \$300 to \$750,000 per group home.

Each year the group home operators submit to the department the costs of their operations. The department uses these costs to compute a monthly rate for each child in a group home. The department computes a second rate by adjusting the previous year's rate with a cost-of-living allowance (COLA). The department then pays the group home the lesser of these two rates.

The following examples illustrate discrepancies between the rates the department paid the group homes and the rates computed by the department's auditors in their reviews of the group homes.

For fiscal year 1983-84, the department's Rates Bureau based a group home's monthly rate of \$2,293 per child on unverified cost data. However, the department paid the group home the lesser rate of \$1,760 per child, which was the previous year's rate adjusted for the COLA. The department's auditors determined that the group home claimed \$674,901 in costs that were not allowable. If the department had computed a rate based on the allowable costs determined by the department's auditors, the group home rate would have been \$856 instead of \$1,760 for each child per month. The department paid this group home 206 percent of what the group home should have received for fiscal year 1983-84. Therefore, based on the allowable costs determined by the auditors, we estimate that the group home may have been overpaid approximately \$758,000 in fiscal year 1983-84. State funds totaled approximately \$380,000 (50 percent) of this amount. According to the chief of the Audit Appeals Section, this group home did not protest the department's audit within the required period of time. However, the group home later advised the department that it would protest the audit.

In another instance, in fiscal year 1985-86, the department's Rates Bureau based another group home's monthly rate of \$1,769 per child on unverified cost data. However, the department paid the group home the lesser rate of \$1,538 per child, which was the previous year's rate adjusted for the COLA. The department's auditors determined that the group home claimed \$631,433 in costs that were not allowable. If the department had computed a rate based on the allowable costs

determined by the department's auditors, the group home rate would have been \$1,433 instead of \$1,538 for each child per month. The department paid this group home 107 percent of what the group home should have received for fiscal year 1985-86. Therefore, based on the allowable costs determined by the department's auditors, we estimate that the group home may have been overpaid approximately \$214,000 in fiscal year 1985-86. State funds totaled approximately \$117,000 (55 percent) of this amount. This group home has not protested the audit, but the group home has until August 27, 1986, to submit a protest.

The department's audits revealed approximately \$1.3 million in costs that were not allowable for the two group homes discussed above. According to the department's auditors, these group homes overstated personnel salaries and improperly allocated salary expenses by approximately \$756,000 (58 percent) of the \$1.3 million.

As shown in Table 2, the department's auditors estimated that the department overpaid group homes approximately \$6.9 million from fiscal years 1982-83 through 1985-86. However, the auditors' estimates for each fiscal year do not include the overpayments that occurred when the department based the group home rate for the upcoming fiscal year on the erroneous rate of the previous fiscal year. Therefore, we recomputed the overpayments by using the rates determined by the department's auditors, and we found that the group homes may have been overpaid an additional \$7.8 million in fiscal years 1983-84 through

1985-86. As shown in Table 2, from fiscal years 1982-83 through 1985-86, the department may have overpaid the group homes approximately \$14.7 million.

TABLE 2
ESTIMATED OVERPAYMENTS
FOR 85 AFDC-FC GROUP HOMES
FISCAL YEARS 1982-83 THROUGH 1985-86
(IN MILLIONS)

	<u>Fiscal Years</u>				<u>Total</u>
	<u>1982-83</u>	<u>1983-84</u>	<u>1984-85</u>	<u>1985-86</u>	
Overpayments estimated by the department's auditors	\$0.2	\$3.8	\$2.2	\$0.7	\$6.9
Additional overpayments estimated by the Office of the Auditor General	<u>0.0</u>	<u>0.1</u>	<u>3.0</u>	<u>4.7</u>	<u>7.8</u>
Combined overpayments	<u>\$0.2</u>	<u>\$3.9</u>	<u>\$5.2</u>	<u>\$5.4</u>	<u>\$14.7</u>

Table 3 shows the federal, county, and state portions of the department's overpayments for each fiscal year.

TABLE 3
FEDERAL, COUNTY, AND STATE PORTIONS OF THE
ESTIMATED OVERPAYMENTS TO 85 AFDC-FC GROUP HOMES
FISCAL YEARS 1982-83 THROUGH 1985-86
(IN MILLIONS)

	Fiscal Years				Total
	<u>1982-83</u>	<u>1983-84</u>	<u>1984-85</u>	<u>1985-86</u>	
Federal funds	\$0.1	\$1.6	\$2.1	\$2.1	\$5.9
County funds	0.0	0.1	0.2	0.2	0.5
State funds	<u>0.1</u>	<u>2.2</u>	<u>2.9</u>	<u>3.1</u>	<u>8.3</u>
Combined overpayments	<u>\$0.2</u>	<u>\$3.9</u>	<u>\$5.2</u>	<u>\$5.4</u>	<u>\$14.7</u>

In our analysis and recalculation of these estimated overpayments, we employed the Rate Bureau's methodology for setting rates. We did not reaudit any of the group homes to verify the department's audit findings. The department's auditors estimated that 85 group homes had overpayments ranging from \$300 to \$750,000 per group home in combined federal, state, and county funds. As illustrated in Table 3, for fiscal years 1982-83 through 1985-86, state funds represented \$8.3 million (55 percent) of the total estimated overpayments.

In developing our estimates of the additional overpayments, we again employed the Rates Bureau's methodology for setting rates. In addition, we assumed that the number of children in each group home and the costs paid by the federal government remained equal to those found

by the department's auditors in fiscal years 1982-83 through 1985-86. Our estimates of the additional overpayments, based on audits conducted by the department, revealed \$7.8 million in combined federal, state, and county funds. State funds totaled \$4.5 million (58 percent) of this amount. The overpayments ranged from \$750 to \$650,000 per group home.

These additional overpayments occurred when the department failed to change the rates it paid group homes to the rate determined by the department's auditors. For example, for fiscal year 1982-83, the department's auditors determined that a group home claimed \$84,055 in costs that were not allowable. The department used \$2,119, the monthly rate per child for fiscal year 1982-83, instead of \$2,042, the monthly rate per child determined by the department's auditors, in setting this group home's rates for fiscal year 1983-84. If the department had used the rate determined by the department's auditors for setting the fiscal year 1983-84 rate, the department could have avoided overpayments of approximately \$124,000. In addition, for fiscal years 1984-85 and 1985-86, we computed overpayments of approximately \$61,000 and \$63,000, respectively, due solely to the department's failure to adjust for the difference of \$77 (\$2,119 less \$2,042) paid per child per month to this group home in fiscal year 1982-83. The State portion of these overpayments for fiscal years 1983-84 through 1985-86 was approximately \$169,000.

The Department's Reasons for
Not Collecting Overpayments

According to the deputy director for administration, the department has not collected any overpayments since it began auditing AFDC-FC group homes because the department does not have information on the actual number of children who were in the group homes during the years that the group homes were overpaid. Also, the deputy director for administration said that the department does not have an equitable method to collect overpayments without financially jeopardizing the nonprofit group homes. Lastly, the deputy director for administration stated that the department could collect overpayments made to the group homes once these issues are resolved. The department had not resolved these issues at the time of our review.

CONCLUSION

The Department of Social Services has not audited all group homes that receive funds from the Aid to Families With Dependent Children-Foster Care program, and the department has not used the allowable costs determined by the department's auditors to adjust group home foster care rates. Since October 1, 1982, the department has audited only 170 of the 300 AFDC-FC group homes that it should have audited. Therefore, the department is relying on unverified cost data to set AFDC-FC group home rates, and the department is overpaying some group homes. Moreover, the department does

not know the full extent of group homes' overstated costs because it has not audited all AFDC-FC group homes.

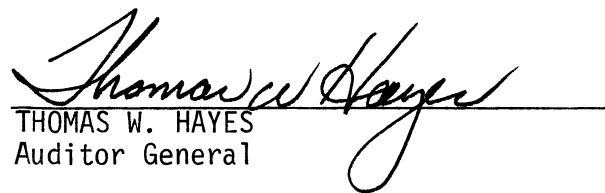
RECOMMENDATIONS

To ensure that the Rates Bureau assigns appropriate rates to group homes that receive funds from Aid to Families With Dependent Children-Foster Care funds and that the rates of AFDC-FC group homes do not exceed the allowable costs of group homes, the Department of Social Services should take the following actions:

- Ensure that all AFDC-FC group homes are audited as required by law;
- Base AFDC-FC rates on allowable costs determined by the department's auditors; and
- Seek restitution from group homes that received AFDC-FC overpayments. To enable the department to seek restitution, the department should consider including occupancy data in its audits of group homes. To collect overpayments from group homes, the department should consider reducing future payments to the overpaid group homes.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this report.

Respectfully submitted,


THOMAS W. HAYES
Auditor General

Date: August 18, 1986

Staff: Thomas A. Britting, Audit Manager
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AUG 14 1986

Mr. Thomas W. Hayes
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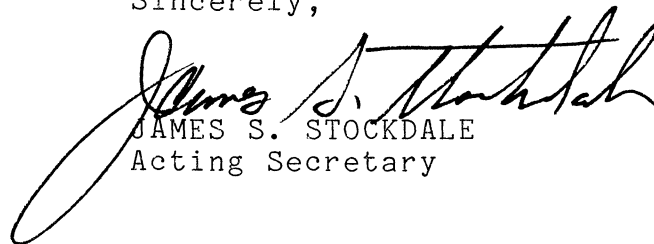
Dear Mr. Hayes:

OFFICE OF THE AUDITOR GENERAL'S REPORT ENTITLED "THE DEPARTMENT OF SOCIAL SERVICES DOES NOT USE INFORMATION FROM ITS AUDITS TO SET RATES FOR GROUP HOMES THAT RECEIVE FUNDS FROM THE AID TO FAMILIES WITH DEPENDENT CHILDREN-FOSTER CARE PROGRAM"

Attached, you will find the comments prepared by the Department of Social Services concerning the above mentioned audit report. The staff of the Department will be pleased to meet with you or members of your staff at your convenience to discuss their responses to any of the subject areas of the report.

If you have any questions, please call me at 445-1732 or Ms. Linda McMahon, Director of the Department of Social Services at 445-2077.

Sincerely,


JAMES S. STOCKDALE
Acting Secretary

Attachment

STATE DEPARTMENT OF SOCIAL SERVICES' RESPONSE

The State Department of Social Services' (SDSS) comments concerning the report of the Office of the Auditor General (AGO) entitled "The Department of Social Services Does Not Use Information From Its Audits To Set Rates For Group Homes That Receive Funds From The Aid To Families With Dependent Children-Foster Care Program."

AGO RECOMMENDATION

Ensure that all AFDC-FC group homes are audited as required by law.

SDSS RESPONSE

While not all group homes have been audited to date, the Department has contracted with the State Controller's Office (SCO) to conduct the remainder of the audits. The SCO will conduct 112 audits during the FY 1986/87. This will result in audits of 88 percent of all homes.

While the SCO can accomplish 112 audits of the remaining 130, some group homes will not need to be audited because a) it may not be possible to conduct the audits or b) it may not be cost beneficial to do so. Past experience has indicated that some group homes serve a different population and may have only one AFDC-FC child. In some cases providers have gone out of business and their records are not available or may have been destroyed.

By completing the 112 audits, the Department will meet compliance requirements of the law.

AGO RECOMMENDATION

Base the rates of AFDC-FC group homes on allowable costs determined by the Department auditors.

SDSS RESPONSE

The majority of auditees have not had the opportunity to complete the appeals process and exhaust all administrative remedies. On completion of due process and final determination of sustained findings, the appropriate rate will be applied to the audited rate year. Overpayments will be based on the actual occupancy of the group home during the audited rate year.

If an adjustment has been made for an audited year, the adjusted rate will be brought forward as the base rate for the current year.

AGO RECOMMENDATION

Seek restitution from group homes that received AFDC-FC overpayments. To enable the department to seek restitution, the department should consider including occupancy data in its audits of group homes. To collect overpayments from group homes, the department should consider reducing future payments to the overpaid group homes.

SDSS RESPONSE

The SDSS concurs with this recommendation. The Department is in the process of resolving audits conducted prior to June 30, 1986 by its Fraud and Audits Bureau. When these audits are resolved, occupancy data will be obtained on facilities which have sustained exceptions which impact the rate paid; for these facilities the total exception amount will be identified. Collection of exception amounts will then commence. Effective July 1, 1986 the State Controller's Office (SCO), under an interagency agreement with SDSS, began conducting audits of group homes. The SCO will obtain occupancy data as part of its audit.

The Department disagrees, however, with the Auditor General's finding that "the overpayments may be as high as \$14.7 million." This disagreement is based on two factors each of which is discussed below: (1) incorrect application of exception amount to all years, (2) incorrect assumption that all exception amounts will be sustained.*

1. Incorrect application of exception amount to all years

The SDSS does not agree with the Auditor General's methodology in determining total overpayments. Rate adjustments from the audited year cannot be applied in each subsequent year to calculate overpayments. Rate setting methodology requires the use of each year's actual costs, as verified by audit, to calculate a rate.

2. Incorrect assumption that all exception amounts will be sustained

Existing regulations (Manual of Policies and Procedures (MPP) Division 11-402.75) authorize an auditee to dispute an auditor's findings through an administrative process, the first step of which is the filing of a timely protest. As most of the audits conducted prior to June 30, 1986 were recently released to the auditee, SDSS has not responded to protests and thus has no history on which to base an estimate of the percentage of the exceptions which will be sustained. The SDSS knows of no program, however, in which all exceptions are sustained.

* The Auditor General's comments on these points contained in the agency's response appear on page 23.

AUDITOR GENERAL'S COMMENTS ON THE
DEPARTMENT OF SOCIAL SERVICES' RESPONSE

We disagree with the department's assertion that we cannot use the rate adjustments from the audited year to estimate the \$7.8 million in overpayments to group homes in subsequent years. Had the department reduced rates to reflect audited costs, the rates paid by the department in the years following the audit year would be based on the reduced rate. Thus, we estimate that the cumulative effect of adjusting the rates to reflect audited costs would have resulted in an additional savings of \$7.8 million from fiscal year 1983-84 through fiscal year 1985-86.

We also disagree with the department's contention that the audit resolution process will reduce the estimated \$14.7 million in overpayments. Although we recognize that not all disallowed costs identified in the department's audit process will be sustained, we point out that the department has failed to audit 43 percent (130 of the 300) of the group homes as required by law. Had the department fulfilled its audit obligation, the amount of overpayments could have been substantially higher than the figure quoted in our report. Thus, we believe that our \$14.7 estimate in overpayments is conservative.

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
State Controller
Legislative Analyst
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Majority/Minority Consultants
Capitol Press Corps