

**COLORADO GENERAL ASSEMBLY  
JOINT BUDGET COMMITTEE**



**INTERIM SUPPLEMENTAL REQUEST FOR FY 2013-14**

**DEPARTMENT OF HUMAN SERVICES**

**(Division of Child Welfare)**

**JBC Working Document - Subject to Change  
Staff Recommendation Does Not Represent Committee Decision**

**Prepared By:  
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## Interim Supplemental Request

### RESTORATION OF PRIOR YEAR ADJUSTMENTS IN CHILD WELFARE SERVICES

	Request	Recommendation
<b>Total</b>	<b><u>\$7,796,708</u></b>	<b><u>\$7,796,708</u></b>
General Fund	7,796,708	7,796,708

<p><b>Does JBC staff believe the request satisfies the interim supplemental criteria of Section 24-75-111, C.R.S.?</b> [The Controller may authorize an overexpenditure of the existing appropriation if it: (1) Is approved in whole or in part by the JBC; (2) Is necessary due to unforeseen circumstances arising while the General Assembly is not in session; (3) Is approved by the Office of State Planning and Budgeting (except for State, Law, Treasury, Judicial, and Legislative Departments); (4) Is approved by the Capital Development Committee, if a capital request; (5) Is consistent with all statutory provisions applicable to the program, function or purpose for which the overexpenditure is made; and (6) Does not exceed the unencumbered balance of the fund from which the overexpenditure is to be made.]</p>	<b>YES</b>
<p><b>Does JBC staff believe the request meets the Joint Budget Committee's supplemental criteria?</b> [An emergency or act of God; a technical error in calculating the original appropriation; data that was not available when the original appropriation was made; or an unforeseen contingency.]</p>	<b>YES</b>
<p>JBC staff and the Department agree that (1) this request meets the interim supplemental criteria of Section 24-75-111, C.R.S., and (2) this request is the result of data that was not available when the original appropriation was made.</p>	

**Department Request:** The Department of Human Services requests an appropriation of \$7.8 million General Fund for FY 2013-14 to cover prior fiscal year accounting errors in the Division of Child Welfare. Specifically, the following errors were made by the Department:

- Payments made to counties for child welfare services were not recorded properly in the accounting system (COFRS) for FY 2011-12. As a result, the Department understated expenditures in in COFRS for FY 2011-12 by \$6.4 million. The moneys were then reverted to the General Fund at the end of FY 2011-12.
- The Department earned (and expended) federal Title IV-E moneys at a higher rate than was allowable in FY 2009-10, FY 2010-11, and FY 2011-12. The amount over-earned was \$1.0 million.

Department of Human Services FY 2013-14 Request Summary	
Error	Amount
Expenditure Recording (FY 2011-12)	\$6,825,508
Title IV-E Earnings (FY 2009-10, FY 2010-11, and FY 2011-12)	971,200
<b>Total</b>	<b>\$7,796,708</b>

**Staff Recommendation:** Staff recommends that the Committee approve the Department's request for an appropriation of \$7.8 million General Fund for FY 2013-14 to remedy the accounting errors committed in FY 2011-12.

**Staff Analysis:**

***Expenditure Recording – The Problem***

The Department reimburses counties for the costs they incur from delivering assistance programs, such as child welfare services. The counties maintain and share financial information for these programs in the Department's County Financial Management System (CFMS). CFMS accumulates expenditure data and calculates the net reimbursements owed to the counties from both State and federal funding sources. Information in CFMS is uploaded to the Colorado Financial Reporting System (COFRS), the State's accounting system, at the end of each month. When the upload is performed, the transactions are recorded in the appropriate COFRS account to reflect amounts expended by and owed to the counties.

Prior to 2013, the Department lacked adequate internal controls governing the data in CFMS and COFRS, including amounts owed to the counties and reconciliation procedures between the information in the two systems. As noted by the Office of the State Auditor's Statewide Single Audit 2012 report, the lack of proper internal controls and reconciliation procedures created an environment whereby incongruities occurred between payments made to counties and corresponding COFRS logs. The report continues, "without a reconciliation process to identify and resolve all discrepancies between CFMS and COFRS and make necessary adjustments, the Department cannot ensure the accuracy of its liabilities and related reimbursements to the counties."

The deficiencies, noted above by the Office of the State Auditor, manifested in FY 2011-12. Due to an error in the child welfare services expenditure reporting, counties properly received funding for services rendered, as noted in CFMS, but the corresponding accounting procedures to log the expenditures in COFRS were not followed properly. The inadequate reconciliation procedures between the two systems did not catch the error. As a result, the Department understated its FY 2011-12 expenditures by \$6.8 million, \$6.8 million was reverted to the General Fund, and the counties received \$6.8 million for the child welfare services provided. The moneys should not have been reverted to the General Fund at the end of FY 2011-12, as this amount was properly expended by the Department to reimburse the counties for child welfare services.

In terms of the moneys reverted to the General Fund at the end of FY 2011-12, statute (Section 24-75-220, (1), C.R.S.) indicates that \$59.0 million was transferred to the State Education Fund after the 4.0 percent General Fund statutory reserve and all other General Fund obligations were met. Any funds above the \$59.0 million transferred from the General Fund to the State Education Fund remained in the General Fund. Joint Budget Committee staff's General Fund Overview indicates this remaining amount to be approximately \$514.6 million. Thus, the \$6.8 million erroneously reverted by the Department to the General Fund is part of the \$514.6 million that remained in the General Fund at the close of FY 2011-12.

***Expenditure Recording – The Solution***

The Department has worked closely with the Office of the State Auditor to identify adequate internal controls governing the accurateness and completeness of data in CFMS and COFRS. Specifically, the agencies have agreed that:

- The Department must develop a procedure to reconcile the CFMS and COFRS data each month. The reconciliation procedure should include investigating and resolving all discrepancies and making adjustments as appropriate; and
- The Department must assign responsibility to specific employees for conducting the monthly reconciliation process and a supervisory review of the process.

As outlined by the Office of the State Auditor’s Statewide Single Audit 2012 report, the Department has taken the following steps to implement the identified fixes.

*“The Department has formed a new task force to complete the monthly reconciliations of CFMS and COFRS for current months, develop and document procedures, and then reconcile the variance in order to make the necessary adjustments. The new task force will meet with the Controller, the Chief Financial Officer of Settlement Accounting, and the lead CFMS Program Accountant on at least a biweekly basis to report progress made and challenges. As the initial monthly reconciliations are completed, a process will be developed and documented whereby the reconciliation can be completed going forward on a monthly basis. This reconciliation will then be assigned to one or more accountants to maintain on a monthly basis and will be reviewed by their supervisor. Reconciling the entire variance will require the task force to reconcile historical data month by month, transaction by transaction, and it may require them to go back as far as Fiscal Year 2000 to complete the reconciliation. Depending upon the complexity and availability of records, the Department may need to make a decision at some point, based upon diminishing returns on effort, to discontinue historical reconciliations. However, that decision cannot be made until further information is gathered from the historical reconciliation process.”*

The Department is taking the necessary steps to resolve prior year discrepancies and ensure that similar discrepancies do not occur in the future. The Office of the State Auditor will continue to audit this function on a yearly basis and is in the process of performing follow-up test work to monitor the Department’s progress. To resolve the remaining fiscal issue for FY 2011-12 discussed above, there are two options:

- Reduce county allocations of State funding by \$6,825,508 and retain \$6,825,508 in the General Fund balance. This option requires counties to use county funds and/or TANF reserves to backfill the loss of revenue from the State due to the State’s accounting error. Assuming that the counties will use TANF reserves first and county funds second, it is estimated that twenty-six counties will have to use TANF reserves, six counties will have to use local funds, six counties will deplete their entire TANF reserves, and two counties will

have less than \$10,000 remaining in TANF reserves to reconcile the State's over-expenditure; or

- Appropriate \$6,825,508 from the balance of the General Fund to the Department and do not require counties to financially participate in reconciling the State's accounting error. (*note, this option is the one proposed in this request*)

**Staff recommends that the Committee approve the request to appropriate \$6,825,508 for FY 2013-14 to the Department from the balance of the General Fund.** The recommendation is based on the following:

- The error made by the Department in FY 2011-12 did not involve the counties, nor did it benefit the counties. It was a State-only accounting issue that should not impact the counties;
- If the error would not have occurred, the General Fund balance at the end of FY 2011-12 would have been reduced by \$6,825,508 due to no reversion occurring;
- Appropriating funds from the balance of the FY 2013-14 General Fund balance allows the error to be corrected using the same fund source as would have been tapped had the error not occurred; and
- Appropriating funds to the Department for FY 2013-14 permits reconciliation of the error committed in FY 2011-12 without introducing additional layers of accounting complexity associated with appropriating moneys to an agency in a fiscal year (FY 2011-12) that closed over a year ago.

#### ***Title IV-E Earnings – The Problem***

Created as part of the Child Welfare and Adoption Assistance Act of 1980, Title IV-E is the major source of federal funding supporting Colorado's state-supervised, county-administered child welfare services. Title IV-E funding is earned by the State based on the number of children in out-of-home placement who are Title IV-E eligible (against the whole out-of-home population) and the number of Title IV-E adoptions (against the adoption population). This formula generates a statistic known as the penetration rate. In addition to the penetration rate, Title IV-E funding is also earned by the State based on the type of child welfare training services provided to county staff.

For FY 2009-10, FY 2010-11, and FY 2011-12, the Department failed to properly apply the penetration or training-type rates when applying for federal earnings. The State erroneously earned \$971,200 in Title IV-E federal funding over this time period as a result of this oversight. If billed correctly, this amount should have been debited to the State's General Fund (or not been expended), not Title IV-E.

#### ***Title IV-E Earnings – The Solution***

The Department discovered the error in calculating the amount of federal Title IV-E earnings when restructuring the Division of Child Welfare's Training Academy. Measures have been implemented to ensure that the correct federal rates are applied moving forward. To resolve the remaining fiscal issue lingering from FY 2009-10, FY 2010-11, and FY 2011-12 discussed above, there are two options:

- Reduce county allocations of State funding by \$971,200. This option requires counties to use county funds and/or TANF reserves to backfill the loss of revenue from the State due to the State’s accounting error. As described in the “Expenditure Recording – The Solution” section of this document on pages three and four, counties have varying means and abilities to backfill this loss; or
- Appropriate \$971,200 from the balance of the General Fund to the Department and do not require counties to financially participate in reconciling the State’s Title IV-E earnings calculation error. *(note, this option is the one proposed in this request)*

**Staff recommends that the Committee approve the request to appropriate \$971,200 for FY 2013-14 to the Department from the balance of the General Fund.** The recommendation is based on the following:

- The error made by the Department in FY 2009-10, FY 2010-11, and FY 2011-12 did not involve the counties, nor did it benefit the counties. It was a State-only, Title IV-E earnings calculation error that should not impact the counties;
- If the error would not have occurred, the Department would have either limited the amount of services delivered to align with General Fund appropriations or sought additional General Fund to cover the costs of the services. The error, however, did occur and funds were expended beyond was able to earned from Title IV-E. This was the State’s error and should be reconciled using State moneys; and
- Appropriating funds to the Department for FY 2013-14 permits the reconciliation of the error committed in FY 2009-10, FY 2010-11, and FY 2011-12 without introducing additional layers of accounting complexity associated with appropriating moneys to an agency in fiscal years (FY 2009-10, FY 2010-11, and FY 2011-12) that closed over a year ago.

*JBC Staff Interim Supplemental Recommendations: FY 2013-14  
Staff Working Document – Does Not Represent Committee Decision*

	FY 2012-13	FY 2013-14	Fiscal Year 2013-14 Interim Supplemental		
	Appropriation	Appropriation	Requested Change	Recommended Change	New Total with Recommendation
<b>DEPARTMENT OF HUMAN SERVICES</b>					
<b>Executive Director - Reggie Bicha</b>					
<b>Interim Supplemental - Restoration of Prior Year Adjustments In Child Welfare Services</b>					
<i>(5) Division of Child Welfare</i>					
Child Welfare Services FY 2012-13					
Supplemental Closeout Funding (new line	<u>0</u>	<u>0</u>	<u>7,796,708</u>	<u>7,796,708</u>	<u>7,796,708</u>
General Fund	0	0	7,796,708	7,796,708	7,796,708