



PERFORMANCE AUDIT REPORT

**The State's Adoption and Foster Care Contracts:
Reviewing Selected Financial and Service Issues**

Executive Summary ***with Conclusions and Recommendations***

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
January 2001**



Legislative Post Audit Committee

Legislative Division of Post Audit

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January 3, 2001

To: Members of the Kansas Legislature

This executive summary contains the findings and conclusions, together with our recommendation and the agency responses, from our completed performance audit, *The State's Adoption and Foster Care Contracts: Reviewing Selected Financial and Service Issues*.

The report also contains an appendix showing costs, revenues and days of care provided during the 2 sample years we reviewed.

The report includes one recommendation for the Department to strengthen its oversight of contractors' financial status. We would be happy to discuss this recommendation or any other items in the report with you at your convenience.

If you would like a copy of the full audit report, please call our office and we will send you one right away.

A handwritten signature in black ink that reads "Barbara J. Hinton". The signature is fluid and cursive.

Barbara J. Hinton
Legislative Post Auditor

EXECUTIVE SUMMARY

LEGISLATIVE DIVISION OF POST AUDIT

Question 1: How Do Results Achieved by the Privatized Adoption Contractor Compare With Results Achieved by the Department of Social and Rehabilitation Services Before Privatization?

Both the size of the adoption program and the number of children adopted have grown significantly since adoption services were privatized.page 7
Between July 1995 and June 2000, the number of open adoption cases has doubled to more than 1,400 children. That growth rate has exceeded the growth in the foster care program. The number of children actually adopted increased from 352 to 546 through the end of December 1999.

Despite the increase in the number of adoptions, the percent of available children who were adopted has decreased since privatization.page 9
In the year before privatization, 33% of the children available for adoption were adopted. Currently, that percentage has dropped to 26%. In addition, the percentage of children placed with potential adoptive families has dropped from 37% to 26%. One reason for the decrease may be that the number of available adoptive families hasn't keep pace with the demand. Also, Lutheran Social Service, the initial adoption contractor, had financial difficulties which may have affected its performance.

Children are being placed with adoptive families and legally adopted in a more timely manner.page 10
For example, in the year before privatization, only 43% of the children awaiting adoption were placed in an adoptive home within 365 days. In the 3 time periods measured since privatization, those percentages were 68%, 66%, and 51%. These numbers show that the performance dropped during the most recent period, which SRS attributes to the adoption contractor's financial problems. Although the initial contractor performed better than SRS, it still didn't meet 2 of the 3 timeliness targets SRS set related to adoptions. SRS officials told us they were hopeful the new adoption contractor would be able to meet these standards in the future.

Question 1 Conclusion: Privatization has had a number of positive effects for foster children who can't be reunited with their parents. Under privatization, far more of those children have been identified as adoptable than in the past, and they've been moved more quickly into permanent homes. However, the new adoption contractor will have to work hard to stop the decline in the percentage of available children being adopted.page 11

Question 2: How Does the Portion of the Total Cost of

**Providing Foster Care and Adoption Services
Currently Paid by the State and by Other Sources
Compare with the Portion Each Paid Before Privatization?**

The responsibilities of some agencies—and the way they were paid—changed after foster care and adoption services were privatized.page 12
Before privatization, SRS provided all case management services for children in foster care, but contracted directly with numerous agencies to provide out-of-home placements and some mental health services. SRS paid 100% of the cost of the services its own staff provided, but set a cap on the amount it paid other agencies to provide services. If State funding didn't cover the costs of those services, most agencies had other sources of funding they could use, such as local funding, donations, and interest earnings.

After privatization, SRS contracted directly with only 4 agencies to provide all foster care and adoption services—including case management and a number of other new services. These contractors in turn subcontracted with other agencies to help provide out-of-home placements. Agencies (whether contractor or subcontractor) whose negotiated payment rates weren't sufficient to cover costs had to use other sources of funds to meet expenses.

Since privatization, the State has funded a greater overall portion of agencies' foster care and adoption costs, but individual agencies' experiences have been very different.page 13
We reviewed financial information submitted by 10 agencies—4 contractors and 6 subcontractors. The 4 contractors reported that their costs in the most recent year were almost \$120 million, compared with about \$16 million before privatization. The subcontractors reported that their costs had grown from about \$12 million to more than \$19 million.

Before privatization the State funded between 40% and 101% of these reported costs; after privatization State funding covered between 73% and 102%. While the overall range is higher now, 1 contractor and 4 subcontractors actually have seen a drop in the portion of their costs covered by State funding. Also, in the most recent year 6 agencies have increased the amount of funding from other sources to cover their costs. Those amounts ranged from \$0 to \$9.7 million.

As a group, the contractors have had more of their reported costs covered by State funding than the subcontractors. For example, in the most recent year State funding covered an average of 92% of the contractors' costs, compared with an average of 83% for the subcontractors. Two likely explanations: the contractors got additional "risk share" funding to help cover their unanticipated costs, and the payment rates the subcontractors negotiated didn't cover as much of their costs.

New contracts took effect July 2000. Budgets of the 6 contractors for the new period show that 5 of them are anticipating State funding will cover at

least 95% of their costs for providing foster care or adoption services.

Most agencies have spent a smaller portion of their budgets on administrative costs and have seen a reduction in their cost per day of service since privatization. *Before privatization, contractors spent an average of 18% of their total budgets on administration; subcontractors spent 25%. After privatization, those amounts fell to 8% and 21%, respectively. The amount each spent for an average day of care also dropped since privatization, primarily because of economies of scale and the use of less expensive placements.*

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Question 2 Conclusion: *Average program-related costs for the 10 agencies in our sample have increased substantially since privatization, as have State payments to help cover those costs. Overall, State funding now covers a greater portion of these agencies' reported foster care and adoption costs. But agencies' experiences have been very different. Half the agencies—mostly at the subcontractor level—now have a smaller portion of their program costs funded by State moneys. At the same time, more than half the agencies still increased the amount of funding from other sources to help cover their costs.*

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For the 4 agencies SRS contracts with, more of their costs are covered by State funding—an average of 92% for them, compared with 83% for the subcontractors. That difference may be due in part to the fact that the contractors became responsible for many of the services SRS provided and fully funded in the past. Contractors also received additional funding to cover unanticipated costs.

Because the rate structure changed completely under the contracts for 2000, it's difficult to assess what impact those new rates will have. Contractors now receive monthly payments for each child in their care, so their revenues should be more predictable. Further, contractors should have a greater understanding today they did than before privatization of the costs they are likely to incur in operating the State's foster care or adoption programs. Their current budgets project that State funding will cover 97% of their costs, on average. As the system currently is structured, however, there's no guarantee the agencies providing services as subcontractors will receive the same level of funding as the contractors. Their funding largely will depend on their ability to negotiate rates with the contractors.

Question 3: Are Current Safeguards for Monitoring the Finances and Services of the Foster Care and Adoption Contractors Adequate?

In general, SRS has established adequate procedures to monitor the financial status of its contractors. *However, it doesn't periodically evaluate each contractor's financial management practices (which would include such things as evaluating the qualifications of management staff, assessing whether the contractors have management controls to prevent financial problems, and verifying that their financial data are accurate and*

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timely). SRS is in the process of completing one-time reviews of these areas for all the contractors, and is developing a policy for making these checks once a year.

SRS has a well-designed process for monitoring contractor services, but it delayed implementing 2 of its procedures. SRS' established procedures met or exceeded our expectations. Among the things SRS does: it requires contractors to file monthly performance reports, and it requires monthly case reviews and client satisfaction surveys. However, SRS delayed the monthly case reviews for the current contracts until November 2000, and the computerized format for filing the adoption program's monthly performance reports won't be ready until January 2001. Neither delay prevented SRS from obtaining information about how well the contractors were providing services.page 22

Question 3 Conclusion: SRS currently has good procedures for monitoring the finances and services of its contractors. If these procedures are followed, they should provide SRS with sufficient reliable information to allow it to identify problems in these areas when they occur.page 23

Question 3 Recommendation: To ensure the financial viability of its contractors, SRS should develop and implement a policy that requires its staff to review contractors' financial management systems on a regular basis—at least once every 2 years. The Department and the 3 agencies that responded agreed with the report's findings, and SRS has agreed to implement this recommendation.page 23

Appendix A: Approved Scope Statementpage 25

Appendix B: Revenues and Costs Per Day of Carepage 28

Appendix C: Agency Responsespage 30

This audit was conducted by Joe Lawhon, Robin Kempf, and Jennifer Wagner. Cindy Lash was the audit manager. If you need any additional information about the audit's findings, please contact Mr. Lawhon at the Division's offices. Our address is: Legislative Division of Post Audit, 800 SW Jackson Street, Suite 1200, Topeka, Kansas 66612. You also may call us at (785) 296-3792, or contact us via the Internet at LPA@lpa.state.ks.us

Comparing the Portion of Agencies' Reported Foster Care and Adoption Costs that Are Covered by State Funding

For the agencies' last fiscal year before privatization:

Description	Contractors					Subcontractors					
	Lutheran Social Service	Kaw Valley Center	Kansas Children's Service League	United Methodist Youthville	Totals for contractors	Elm Acres	Hoisington Youth Home	Wichita Children's Home	The Farm Shelter	St. Francis Academy	Totals for subcontractors
Foster care costs	\$532,148	\$6,039,467	\$1,209,894	\$7,750,607	\$15,532,116	\$1,516,667	\$141,678	\$1,548,677	\$4,309,423	\$4,444,703	\$12,308,589
Payments from SRS	\$402,805	\$5,766,457	\$1,220,807	\$4,929,538	\$12,319,607	\$1,487,821	\$140,065	\$1,231,363	\$4,335,953	\$1,766,371	\$9,300,956
Percent of costs funded by SRS	76%	95%	101%	64%	79%	98%	99%	80%	101%	40%	76%
Amount needed from other sources	\$129,343	\$273,010	\$0	\$2,821,069	\$3,223,422	\$28,846	\$1,613	\$317,314	\$0	\$8,016	\$2,678,332
Percent of costs funded by other sources	24%	5%	0%	36%	21%	2%	1%	20%	0%	2%	24%

For the agencies' most recent fiscal year:

Description	Contractors					Subcontractors					
	LSS	KVC	KCSL	UMY	Totals for contractors	Elm Acres	Hoisington	WCH	The Farm Shelter	St. Francis	Totals for subcontractors
Foster care/adoption costs	\$20,257,114	\$36,662,021	\$13,879,697	\$49,164,880	\$119,963,712	\$1,413,636	\$190,630	\$1,713,309	\$8,982,846	\$6,488,293	\$19,226,851
Payments from SRS or contractors	\$20,584,223	\$36,763,084	\$13,332,904	\$39,492,997	\$110,173,208	\$1,372,253	\$179,942	\$1,497,731	\$7,738,480	\$4,740,124	\$15,901,587
Percent of costs funded by SRS or contractors	102% (a)	100% (a)	96% (a)	80% (a)	92% (a)	97% (a)	94% (a)	87% (a)	86% (a)	73% (a)	83% (a)
Amount needed from other sources	\$0	\$0	\$546,793	\$9,671,883	\$10,218,676	\$41,383	\$10,688	\$215,578	\$1,244,366	\$95,080	\$1,748,169
Percent of costs funded by other sources	0%	0%	4%	20%	8%	3%	6%	13%	14%	20%	17%

(a) This amount includes amounts the contractor made to the subcontractors.

