State Auditor's Office

Lawrence F. Alwin, CPA
State Auditor

A Review of

New Foster Care and Adoption Subsidy Rates Proposed by the Department of Protective and Regulatory Services

August 25, 2003

The Honorable Rick Perry, Governor;
Mr. John Keel, CPA, Executive Director, Legislative Budget Board;
and
Members of the Legislative Audit Committee:

The Department of Protective and Regulatory Services (Department) complied with Rider 18(c) of the 2004–2005 General Appropriations Act by providing the State Auditor's Office with a cost impact analysis, justification, and supporting documentation for the foster care and adoption subsidy rates it is proposing for the 2004–2005 biennium. Based on our review of the Department's information, we made the following determinations:

Rider 18(c), Article II, Page 109

The Office of the State Auditor shall review the cost impact analysis prepared under subsection (a) along with supporting documentation, supporting records, and justification for the rate increase provided by the Department and report back to the Legislative Budget Board and the Governor prior to the rate increase.

- The Department calculated the foster care rates, in all material respects, in accordance with procedures prescribed in the Texas Administrative Code (Section 700.1802). The calculation methodology in the Texas Administrative Code specifies that the Department is to use statistically valid sampling and correct inflation rates, among other things. In addition, the increases in the rates for the 2004–2005 biennium are based on increases in costs reported by foster care providers and market considerations.
- The Department's projected demand for services appear to be reasonable. The assumptions the Department used to convert from making foster care payments by level of care to making them by level of service appear appropriate.
- The Department has developed several alternative rate structures for the consideration of its Board of Directors. We have reviewed each, including a rate structure that assumes additional Temporary Assistance for Needy Families (TANF) funding in fiscal year 2004. Based solely on the Department's projections for foster care services and adoption subsidy payments, the rates for each result in expenditures that are within the Department's total appropriation, assuming it would be amended by the additional TANF funding, for fiscal years 2004 and 2005.

The attachment contains three suggestions the Department should consider for enhancing its methodology for setting foster care rates.

We appreciate the Department's assistance during this review. If you have any questions, please contact Joanna B. Peavy, CPA, Audit Manager, at (512) 936-9500.

Sincerely,

Lawrence F. Alwin, CPA
State Auditor

tgc/Attachment

cc: Department of Protective and Regulatory Services
Board Chair and Members
Mr. Thomas Chapmond, Executive Director

Objectives

The objective of this review was to review foster care and adoption subsidy rates proposed by the Department for the 2004–2005 biennium and supporting documentation and determine whether:

- The rates were calculated in compliance with Texas Administrative Code.
- The cost projections made by the Department upon implementation of the rates are reasonable.
- The cost projections are within appropriated funds.

SAO Report No. 03-046

Suggestions for Improving Foster Care Rate Setting Methodology

We suggest that the Department of Protective and Regulatory Services (Department) consider the following to enhance its methodology for setting foster care rates:

- When setting the rates it will pay child placing agencies (CPAs), the Department considers several factors, one of which is costs reported by CPAs. The current practice is to take a simple average of the average cost calculated for each CPA. No consideration is given to the number of days of service each may provide. Consequently, small CPAs, which tend to have a higher average cost, influence the simple average equally with large CPAs, which tend to have a lower average cost.

  We suggest that the Department consider using a weighted average, which would be calculated by dividing the total cost reported by the total days of service reported for each level of service. Our calculations comparing the results of the two methods show that the weighted averages are 11 percent lower than the simple averages and would reduce the basis of the Department's payments by more than $14 million. However, we did not consider any factor other than how the averages are calculated. For the Department to fully assess the effect of using weighted averages, it would need to consider all factors when performing the calculation.

- For level of care I rates, the Department should consider using cost information that is more current and more relevant to Texas's cost of living. If reliable data specific to Texas is not available, the Department should consider adjusting composite costs to cost estimates for Texas using available cost of living indices. The Texas Administrative Code (TAC) requires the Department to use data from the U.S. Department of Agriculture (USDA) to establish level of care I rates. We noted that the USDA based its data on 1990–1992 consumer cost surveys that it inflated to year 2002. In addition, the data is a composite of 16 states that are classified as "southern urban" and the District of Columbia:

  > **Level of Care I**
  >
  > In fiscal year 2002, the Department paid $34 million for level of care I children. These payments represented 11.6 percent of all foster care payments in fiscal year 2002.

  - Alabama
  - Arkansas
  - Delaware
  - District of Columbia
  - Florida
  - Georgia
  - Louisiana
  - Kentucky
  - Maryland
  - Mississippi
  - North Carolina
  - Oklahoma
  - South Carolina
  - Tennessee
  - Texas
  - Virginia
  - West Virginia

  We did not determine the impact this suggestion would have on the rates but feel that it would enhance the accuracy of the rate calculation and make it more relevant to Texas's foster families.

- The Department should consider adjusting the inflation indices it uses to the base year for which the costs were reported. Rather than setting the year the costs were reported as the base year, the Department calculated the difference between the inflation rate for (1) the period on which the new rates are based and (2) the period to which the new rates apply. The net effect of changing the Department's approach is not material for the 2004–2005 biennium because the Department adjusted the final rates to an amount allowed by the General Appropriations Act. However, in future years, such an adjustment may not be required.