# DEPARTMENT OF HEALTH AND HUMAN SERVICES

## CFDA 93.044 SPECIAL PROGRAMS FOR THE AGING--TITLE III, PART B--GRANTS FOR SUPPORTIVE SERVICES AND SENIOR CENTERS
## CFDA 93.045 SPECIAL PROGRAMS FOR THE AGING--TITLE III, PART C--NUTRITION SERVICES

## I. PROGRAM OBJECTIVES

### Grants for Supportive Services and Senior Centers

The objective of this grant program is to assist States in developing and implementing, through a network of public and private agencies and service providers, comprehensive and coordinated community-based service delivery systems for older Americans, which will assist them in leading independent, meaningful and dignified lives in their own homes and communities as long as possible. The target population for these supportive services, which include in-home services for frail elderly as well as those provided in multi-purpose senior centers, is individuals aged 60 and older with emphasis on those with the greatest social and economic need, particularly low-income minorities; however, proof of age is not required as a condition of receiving services. As the program itself matures, program funding is increasingly being targeted to serve those elderly who, because of their income or age, may not be eligible for Medicaid or Medicare, and recipients are coordinating with other Federal and State programs in ensuring the availability of the broadest range of services for the elderly. As a result, many of the organizations funded under this program and the nutrition program (see below) also receive funds from other Federal sources as well as from non-Federal sources.

Supportive services may include a full range of economic and social services, including access services (transportation, outreach, information and referral, and language translation services), legal assistance and other counseling services, case management services, health screening services, services designed to ensure safe and appropriate housing, pre-retirement planning and assessment of post-retirement needs, ombudsman services, and services to families of elderly victims of Alzheimer's disease and related disorders with neurological and organic brain dysfunction. Nutrition services are provided under a separate authorization as described below.

### Grants for Nutrition Services

The objective of this grant program is to provide individuals aged 60 or older with nutrition services, including meals and nutrition education, either in the home or in a congregate setting. This program is clustered with the grants for supportive services and senior centers for purposes of this Supplement since these services, although separately earmarked, fall under the overall State planning process and process for allocation of funds.

## II. PROGRAM PROCEDURES

### Source of Governing Requirements

These programs are authorized under Parts B and C, respectively, of Title III of the Older Americans Act, as amended, which is codified at 42 USC 3021-3030. These programs may also be referred to as Part B (supportive services and senior centers) and Part C1(congregate nutrition services) and C2 (home-delivered nutrition services). Grants to Indian tribes for similar purposes are authorized under another title of the Older Americans Act and are not included in this Supplement. Implementing regulations are published at 45 CFR part 1321.

### Administration and Services

The Administration on Aging (AoA), a component of the Department of Health and Human Services, administers the supportive services and senior centers program and the nutrition program in cooperation with States, sub-State agencies, and other service providers. The States receive a formula grant from AoA, which is used by the State Unit on Aging (State Agency) both for its planning, administration, and evaluation of these programs as well as to pass through to other entities.

Planning and Service Areas (PSAs) are designated by the State Agency in accordance with AoA guidelines after considering the geographical distribution of the service populations, location of available services, available resources, other service area boundaries, location of units of general purpose local government, and other factors. An Area Agency on Aging (Area Agency) is then designated by the State for each PSA after considering the views of affected local governments (States that had a single Statewide planning and service area in place prior to FY 1981 had the option to continue that method of operation; there are currently eight States in this category). A single Area Agency may serve more than one PSA. The Area Agencies, which may be public or private non-profit agencies or organizations, develop and administer counterpart area aging plans, as approved by the State Agency, and, in turn, provide subgrants to or contract with public or private service providers for the provision of services.

In general, the State Agency and the Area Agencies are precluded from the direct provision of services, other than ombudsman services, unless providing the services is necessary to ensure an adequate supply of services, the services are related to the agency's administrative functions, or where services of comparable quality can be provided more economically by the agency. Federal funds may pay for only a portion of the costs of administration and services with the State and subrecipients required to provide a matching share from other sources.

Service providers may include profit-making organizations (42 USC 3020(c)).

### State Plan and Area Plans

A State plan, approved by AoA, is a prerequisite to funding of the supportive services and nutrition programs; however, the State Plan covers the totality of AoA programs for which the State is the recipient under the Older Americans Act. The State Plan is developed on the basis of input from the Area Agencies as well as input from the affected populations as a result of public hearings. The State Plan addresses how the State intends to comply with the various requirements of the Older Americans Act and, specifically for Title III, its program objectives, designation of Planning and Service Areas (PSAs), and specification of the intrastate allocation formula for distribution of funds to each PSA. The State Plan also contains assurances required by the Act and implementing regulations.

Unless a State is not in compliance with Title III requirements, the State Plan may be submitted on a two-, three-, or four-year cycle, at the option of the State, with annual amendments, as appropriate; however, AoA funding is provided annually. States found to be in noncompliance may be required to submit their State Plans annually until they are determined to be in compliance. Area plans are prepared and submitted to the State for approval for either two, three, or four years, with annual adjustments, as necessary.

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### A. Activities Allowed or Unallowed

#### 1. State Agency

a. State Agencies may use any amount of Title III-B (supportive services) funding necessary to conduct an effective ombudsman program (42 USC 3024 (d)(1)(B)).

b. Grant funds may be used for paying the costs of providing for a State volunteer services coordinator (42 USC 3024 (e)).

c. Grant funds may be used for State plan administration, including State Plan preparation, evaluation of activities carried out under the Plan, the collection of data and the conduct of analyses related to the need for services, dissemination of information, short-term training, and demonstration projects (42 USC 3028 (a)).

d. No supportive services, nutrition services, or in-home services may be provided directly by the State Agency unless the State Agency determines that direct provision of services is necessary to ensure an adequate supply of services, where such services are related to the agency’s administrative functions, or where such services of comparable quality can be provided more economically by the State Agency (42 USC 3027 (a)(10)).

## 2. Area Agency

a. Funds may be used for plan administration, operation of an advisory council, activities related to advocacy, planning, information sharing, and other activities leading to development or enhancement within the designated service area(s) of comprehensive and coordinated community-based systems of service delivery to older persons (45 CFR section 1321.53).

b. Funds may be used for paying the costs of providing for an area volunteer services coordinator (42 USC 3024(e) and 3026(a)(12)).

c. If approved by the State Agency, an Area Agency may use service funds for program development and coordination activities (42 USC 3024 (d)(1)(D); 45 CFR section 1321.17(f)(14)(i)).

d. No supportive services, nutrition services, or in-home services may be provided directly by an Area Agency except if, in the judgment of the State Agency, direct provision of services is necessary to ensure an adequate supply of services, where such services are related to the agency's administrative functions, or where such services of comparable quality can be provided more economically by the agency (42 USC 3027 (a)(10)).

## 3. Service Providers

a. Funds may be used to assist in the operation of multi-purpose senior centers and to meet all or part of the costs of compensating professional and technical personnel required for center operation (42 USC 3030d (b)(2)).

b. Funds may be used for nutrition services and supportive services consistent with the terms of the agreement between the Area Agency and the service provider (42 USC 3026 (a)(1), 3030d(a), and 3030e).

c. Funds may be used for services associated with access to supportive services for in-home services, and for legal assistance (42 USC 3026 (a)(2)).

d. Nutrition services may be provided to older individuals' spouses, who may not be eligible for these services in their own right, on the same basis as they are provided to older individuals, and may be made available to handicapped or disabled individuals who are less than 60 years old but who reside in housing facilities occupied primarily by older individuals at which congregate nutrition services are provided (42 USC 3027 (a)(13)(A)).

e. In accordance with procedures established by the Area Agencies, nutrition project administrators may offer meals to individuals providing volunteer services during the meal hours and to individuals with disabilities who reside at home with and accompany eligible individuals (42 USC 3027 (a)(13)(I)).

f. Funds may be used for provision of home-delivered meals to older individuals (42 USC 3027 (a)(13)(B)).

g. Funds may be used to acquire (in fee simple or by lease for 10 years or more), alter, or renovate existing facilities or to construct new facilities to serve as multi-purpose senior centers for not less than 10 years after acquisition, or 20 years after completion of construction, unless waived by the Assistant Secretary for Aging (42 USC 3027 (a)(15)).

## G. Matching, Level of Effort, Earmarking

### 1. Matching

a. *State*

(1) States must contribute from State or local sources at least 25 percent of the cost of State Plan administration as their matching share. This may include cash or in-kind contributions by the State or third parties (42 USC 3028 (a)(1), 42 USC 3029 (b), and 45 CFR section 1321.47).

(2) Using fiscal year (FY) 1980 as the baseline, the difference, if any, between the amount representing the match for services (of at least 15 percent Statewide) in FY 1980 and the amount required in any subsequent FY shall be met from State sources only (42 USC 3029 (b)).

(3) All services, whether provided by the State Agency, an Area Agency or other service provider (including any ombudsman services provided under the authority of 42 USC 3024 (d)(1)(D)) must be funded with a non-Federal match of at least 15 percent. Funds for ombudsman services provided under the authority of 42 USC 3024 (d)(1)(B) are not required to be matched. This percentage must be met on a Statewide basis (42 USC 3042 (d)(1)(D); 45 CFR section 1321.47).

b. *State and Area Agencies*

Area Agencies, in the aggregate, must contribute at least 25 percent of the costs of administration of area plans (42 USC 3024 (d)(1)(A); 45 CFR section 1321.47).

(1) State - Since this match is computed based on the aggregate of all Area Agencies in the State, the auditor's testing of the amount of this match is performed at the State Agency.

(2) Area Agencies - The auditor's testing of the allowability of the matching (e.g., from an allowable source and in compliance with the administrative requirements and allowable costs/cost principles requirements) should be performed at the Area Agencies.

**2.1 Level of Effort -** *Maintenance of Effort* - State

The State Agency must spend for both services and administration at least the average amount of State funds it spent under the State plan for these activities for the three previous fiscal years. If the State Agency spends less than this amount, the Assistant Secretary for Aging reduces the State's allotments for supportive and nutrition services under this part by a percentage equal to the percentage by which the State reduced its expenditures (42 USC 3029 (c); 45 CFR section 1321.49). See L.1. for reporting requirement regarding maintenance of effort.

**2.2 Level of Effort -** *Supplement Not Supplant* - Not Applicable

**3. Earmarking**

a. *State*

(1) Expenditures for administration of the State plan are limited to the greater of five percent (or $300,000 or $500,000 depending on the aggregate amount appropriated or a lesser amount for the U.S. territories) of the overall allotment to a State under Title III unless a waiver is granted by the Assistant Secretary on Aging (42 USC 3028 (a)(1), and (b)(1), (2) and (3)).

(2) After determination of the amount to be applied to State plan administration under 42 USC 3028 (b), the State may make up to (and including) 10 percent of that amount available for the cost of administration of Area Plans. The State may either calculate the 10 percent based on the total allotment from AoA or on the amount remaining after deducting the amount to be applied to State Plan administration. This is an aggregate amount and need not be applied on an Area Agency-by-Area Agency basis (42 USC 3024 (d)(1)(A)).

(3) Any amounts available to the State for State plan administration which the State determines are not needed for that purpose may be used by the State to supplement the amount available for administration of Area Plans (42 USC 3028 (a)(2)).

(4) Any State which has been designated as a single planning and service area may elect to be subject to the State Plan administration limit (five percent) or the Area Plan administration (10 percent) limit (42 USC 3028 (a)(3)).

(5) A State may transfer:

(a) Up to 30 percent of a State's separate allotments for congregate and home-delivered nutrition services between those two allotments without AoA approval (42 USC 3028 (b)(4)(a); 45 CFR section 1321.45(a)).

(b) Not more than 20 percent between programs under Part B and Part C (Parts C1 and/or C2) for use as the State considers appropriate (42 USC 3028(b)(5)(A)).

A State Agency may not delegate to an Area Agency or any other entity the authority to make such transfers (42 USC 3028(b)(6)).

Additional amounts may be transferred with AoA approval (42 USC 3028 (b)(4)(B) and (b)(5)(B)).

(6) If a State allotted 10 percent of its allotment for administration of area plans, the State may allow any Area Agency, upon request and with justification, to use an amount (that an Area Agency would otherwise make available for direct services) for program development and coordination activities by that Area Agency (42 USC 3024 (d)(1)(D); 45 CFR section 1321.17(f)(14)(i)).

b. *Area Agency*

As provided in agreements with the State Agency, Area Agencies earmark portions of their allotment. The typical earmarks are:

(1) A maximum amount or percentage for program development and coordination activities by that agency (42 USC 3024 (d)(1)(D); 45 CFR section 1321.17(f)(14)(i)).

(2) A minimum amount or percentage for Services related to access, in-home services, and legal assistance (42 USC 3026 (a)(2) and (b)).

## H. Period of Availability of Federal Funds

Funds are made available to the State annually and must be obligated by the State by the end of the Federal fiscal year in which they were awarded. The State has two years to liquidate all obligations for its administration of the State Plan and for awards to the Area

Agencies consistent with its intrastate allocation formula. Therefore, in any given year, multiple years of funding are being used to provide services Statewide.

. Whenever the Assistant Secretary on Aging determines that any amount allotted to a State under Parts B or C for a fiscal year will not be used to carry out the purpose for which the allotment was made, the funds may be reallotted to one or more other States. Any amount made available to a State as the result of a reallotment shall be regarded as part of the State's allotment for the same fiscal year in which the funds were appropriated, but shall remain available for obligation by the State until the end of the succeeding fiscal year (42 USC 3024 (b)).

## J. Program Income

Service providers are required to provide an opportunity to individuals being served under the nutrition services program to make voluntary contributions for meals. These voluntary contributions are to be added to the amounts made available by the State or Area Agency and must be used to increase the number of meals served, facilitate access to meals, and provide other supportive services directly related to nutrition services (42 USC 3027(a)(13)(C)(i)and (ii)).

## L. Reporting

### 1. Financial Reporting

a. SF-269, *Financial Status Report*, and AoA Supplemental Form (OMB No. 0985-0004) - Applicable (Required semi-annually)

b. SF-270, *Request for Advance or Reimbursement* - Not Applicable

c. SF-271, *Outlay Report and Request for Reimbursement for Construction Program* - Not Applicable

d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the Department of Health and Human Services, Payment Management System. Reporting equivalent to the SF-272 is accomplished through the Payment Management System and is evidenced by the PMS 272 series of reports.

### 2. Performance Reporting - Not Applicable

### 3. Special Reporting - Not Applicable

## M. Subrecipient Monitoring

### 1. State Agency

The State Agency is required to develop policies governing all aspects of programs operated under the State Plan and to monitor their implementation, including assessing performance for quality and effectiveness and specifying data system requirements to collect necessary and appropriate data (45 CFR sections 1321.11 and 1321.17 (f)(9)).

### 2. Area Agencies

Area Agencies are required to oversee the activities of service providers with respect to provision of services, reporting, voluntary contributions, and coordination of services (45 CFR section 1321.65).

# DEPARTMENT OF HEALTH AND HUMAN SERVICES

## CFDA 93.210 TRIBAL SELF-GOVERNANCE DEMONSTRATION PROGRAM: PLANNING AND NEGOTIATION COOPERATIVE AGREEMENTS AND IHS COMPACTS

## I. PROGRAM OBJECTIVES

The objective of the Indian Health Service (IHS) Tribal Self-Governance Demonstration Program (SGDP) is to make financial assistance awards to Indian Tribes to enable them to assume programs, services, and functions of the IHS, Department of Health and Human Services (HHS) that are otherwise available to Indian Tribes or Indians.

## II. PROGRAM PROCEDURES

### Administration

Planning cooperative grants are made by the IHS to any Federally recognized Tribe or their designates that meets specific requirements, and are awarded on a one-time basis to allow Tribes to prepare for compact awards. This grant allows a Tribe to gather information to determine the current types and extent of programs, services, and funding available within its service area and to plan for the types and extent of programs, services and funding to be made available to the Tribe under a compact and Annual Funding Agreement (AFA), which identifies the health programs assumed and monies available to the Tribe for these programs. The IHS may also award funding for negotiating the compact agreements. Upon completion of the planning and negotiation phase, funding awarded under compact agreements to meet the agreed-upon program objectives will be multi-year for the remaining time of the demonstration phase. A Tribe may compact with the IHS to be responsible for the provision of certain health services, enter into a contract with the IHS to provide other health services, and have other services be directly provided by the IHS. In addition, a Tribe may use funds received from IHS to contract with other entities in order to provide specified health services.

Services charged to SGPD may be provided by (1) the IHS, either in IHS facilities or in non-IHS facilities; (2) by the Tribe, either directly or by contract with the IHS; or (3) by arrangement with other providers. Direct services, such as hospital and medical care, dental care, public health nursing and preventive care including immunizations, are provided at IHS facilities to members of Federally recognized Tribes who reside within a Health Service Delivery Area, members of Federally recognized Tribes who formerly resided within a Health Service Delivery Area, or other eligible individuals.

If an individual requires services beyond those provided by a local IHS facility, he or she may be sent to a private provider. This additional level of service has similar tribal membership or descendency qualifications, and additional service area residence requirements. Contract services are medical care and services on behalf of eligible recipients that are (1) obtained from non-IHS providers either in IHS or non-IHS facilities, or (2) provided in non-IHS facilities either by IHS or non-IHS providers. A purchase order for such care and services issued by the appropriate ordering official to the medical care provider is required.

## Source of Governing Requirements

SGDP is authorized by Title III of the Indian Self-Determination and Education Assistance Act, as amended, and is codified at 25 USC 450f note.

Regulations concerning the general administration of Indian health programs may be found at 42 CFR part 36. These regulations are not codified in the Code of Federal Regulations, but may be found in the October 28, 1999, *Federal Register* (64 FR 58318-58322). The regulations currently codified at 42 CFR part 36 have been under a congressional moratorium since 1988 and have not been implemented, and pursuant to 64 FR 58318 have been designated 42 CFR part 36a. Accordingly, all references referring to regulatory requirements in this supplement cite those requirements found at 42 CFR part 36 as published on October 28, 1999 in the *Federal Register*, and not those codified in Code of Federal Regulations.

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements**.

### A. Activities Allowed or Unallowed

1. *Planning Cooperative Grants* - These one-time funds may be used for determination and planning for the assumption of health services (25 USC 450f note).

2. *Negotiation Grants* - Funds may be used for the negotiation of the health services program (25 USC 450f note).

3. *Demonstration Compacts* - Funds may be used to carry out and deliver the health services program. The specific services allowed will be indicated in the AFA between the tribal organization and the Secretary of Health and Human Services. While latitude in redesigning programs and activities is provided, such redesign is limited to programs covered by the AFA (25 USC 450f note).

### B. Allowable Costs/Cost Principles

The IHS is payor of last resort. Alternate resources, such as health care providers and institutions, health care programs including but not limited to programs under Social Security Act (i.e., Medicare, Medicaid), State or local health care programs or local health care programs and private insurance, should be billed and all billings pursued for collection. Such third party resources should be exhausted prior to paying claims with program funds. Where a third party liability is established after the claim is paid, reimbursement from the third party should be sought (42 CFR section 36.61).

## E. Eligibility

### 1. Eligibility for Individuals

a. Eligibility for services within facilities operated by the IHS (which are billed by IHS to the Tribe) or run by a tribal organization for the Federal Government:

(1) Individuals of Indian descent belonging to the Indian community served by the local facilities and program are eligible to receive services. An individual may be regarded as within the scope of the Indian health and medical service if he/she is regarded as an Indian by the community in which he/she lives as evidenced by such factors as tribal membership, enrollment, residence on tax-exempt land, ownership of restricted property, active participation in Indian affairs, or other relevant factors in keeping with the general Bureau of Indian Affairs practices in the jurisdiction (42 CFR section 36.12).

(2) Non-Indian women pregnant with an eligible Indian's child are eligible for services. In cases where the woman is not married to the eligible Indian under applicable state or tribal law, paternity must be acknowledged in writing by the Indian or determined by order of a court of competent jurisdiction. Services may be provided only during the period of her pregnancy through postpartum (generally six weeks after delivery) (42 CFR section 36.12).

(3) Services may be provided to non-Indian members of an eligible Indian's household if a medical officer in charge determines that such services are needed to control an acute infectious disease or a public health hazard (42 CFR section 36.12).

(4) Otherwise ineligible individuals may receive temporary care and treatment in case of an emergency, as an act of humanity (42 CFR section 36.14).

b. Eligibility for services in the Contract Health Care component of the IHS:

(1) In order to qualify for the Contract Health Care component of IHS:

(A) An individual must meet the requirements outlined above (42 CFR section 36.23); and

(B) Must either reside in the United States and on a reservation located within a Contract Health Service Delivery Area (CHSDA) as defined under 42 CFR section 36.22; or, if he/she does not reside on a reservation, reside within a CHSDA; and

(C) Be a member of the Tribe or Tribes located on that reservation or of the Tribes or Tribes for which the reservation was established; or maintain close economic and social ties with said Tribe or Tribes (42 CFR section 36.23).

(2) *Students* - Students continue to be eligible for contract health service during their full-time attendance at programs of vocational, technical, or academic education, including normal school breaks and for a period not to exceed 180 days after the completion of their studies (42 CFR section 36.23).

(3) *Transients* - Transient persons, such as those who are in travel or are temporarily employed, remain eligible for contract services during their absence (42 CFR section 36.23).

(4) *Other Persons* - Other persons who leave the CHSDA in which they are eligible and are neither transients or students remain eligible for contract health services for a period not to exceed 180 days from such departure (42 CFR section 36.23).

(5) *Foster Children* - Indian children who are placed in foster care outside a CHSDA by order of a court of competent jurisdiction and who were eligible for contract health services at the time of the court order shall continue to be eligible for contract health services while in foster care (42 CFR section 36.23).

2. **Eligibility for Group of Individuals or Area of Service Delivery** - Not Applicable

3. **Eligibility for Subrecipients** - Not Applicable

## H. Period of Availability of Federal Funds

For each fiscal year during which a self-determination contract is in effect, the carryover of funds is permitted without a fiscal year limitation. The annual funding continues under the same contract number for the length of the program (Pub. L. No. 106-113, Division B, section 1000(a)(3) (Department of Interior and Related Agencies Appropriations Act, Title II, Administrative Provisions, Indian Health Service)).

## N. Special Tests and Provisions

### 1. Collateralization of funds

**Compliance Requirement** - Federal funds (cash balances) exceeding immediate cash needs are to be maintained in insured or collateralized accounts in accordance with requirements of the applicable appropriations act(s) and granting document. Such funds may be invested in (1) obligations of the United States or in obligations or securities that are guaranteed or insured by the United States, or mutual (or other) funds registered with the Securities and Exchange Commission and which only invest in obligations of the United States or securities that are guaranteed or insured by the United States or (2) deposited in accounts that are insured by an agency or instrumentality of the United States, or are fully collateralized to ensure protection of the advance funds, even in the event of a bank failure (Pub. L. No. 105-83, section 112).

**Audit Objective** - Determine whether Indian Tribes, tribal organizations, or consortia are properly investing or depositing funds.

**Suggested Audit Procedures**

a. Obtain and review tribal policies and procedures for the investment and deposit of funds.

b. Review unused funds during the audit period and verify that unused funds were properly invested or deposited throughout the period.

# DEPARTMENT OF HEALTH AND HUMAN SERVICES

## CFDA 93.556 FAMILY PRESERVATION AND SUPPORT SERVICES

## I. PROGRAM OBJECTIVES

The Promoting Safe and Stable Families (PSSF) program provides funds to States and Indian Tribes to prevent the unnecessary separation of children from their families, improve the quality of care and services to children and their families, and ensure permanency for children by reuniting them with their parents, by adoption or by another permanent living arrangement. The program includes: family support, family preservation, time-limited family reunification, and adoption promotion and support services.

## II. PROGRAM PROCEDURES

### Administration and Services

The Children's Bureau, Administration on Children, Youth and Families, Administration for Children and Families (ACF), a component of the Department of Health and Human Services (HHS), administers the PSSF. To be eligible for funds, each State and Indian Tribe must submit a five-year comprehensive State plan, the Child and Family Services State Plan (CFSP). This plan encompasses planning and service delivery for the full child welfare services spectrum. This includes: Title IV-B, Subpart 1, child abuse and prevention, foster care, adoption, and independent living services.

The ACF Regional Offices have approval authority for the plans. Following ACF approval, allotments are based on the number of children in the States who received food stamps in the previous three years. Grants may also be made to Indian Tribes that qualify under the allotment formula; no Tribe may be funded if its allotment is less than $10,000. PSSF services are based on several key principles. The welfare and safety of children and of all family members should be maintained while strengthening and preserving the family. It is advantageous for the family as a whole to receive services, which identify and enhance its strengths while meeting individual and family needs. Services should be easily accessible, often delivered in the home or in community-based settings, and they should respect cultural and community differences. In addition, they should be flexible, responsive to real family needs, and linked to other supports and services outside the child welfare system. Services should involve community organizations and residents, including parents, in their design and delivery. They should be intensive enough to keep children safe and meet family needs, varying between preventive and crisis services.

### Source of Governing Requirements

PSSF is authorized under Title IV-B, Subpart 2 of the Social Security Act, as amended, and is codified at 42 USC 629a through 629e. Implementing program regulations are published at 45 CFR parts 1355 and 1357.

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### A. Activities Allowed or Unallowed

1. *Community-based Services* - Programs delivered in accessible settings in the community and responsive to the needs of the community and the individuals and families residing therein. These services may be provided under public or private nonprofit auspices (45 CFR section 1357.10(c)).

2. *Family Preservation Services* - Services for children and families designed to protect children from harm and help families (including foster, adoptive, and extended families) at risk or in crisis, including (42 USC 629a(a)(1)):

    a. Preplacement preventive services programs, such as intensive family preservation programs, designed to help children at risk of foster care placement remain with their families, where possible;

    b. Service programs designed to help children, where appropriate, return to families from which they have been removed; or be placed for adoption, with a legal guardian, or, if adoption or legal guardianship is determined not to be appropriate for a child, in some other planned, permanent living arrangement;

    c. Service programs designed to provide follow-up care to families to whom a child has been returned after a foster care placement;

    d. Respite care of children to provide temporary relief for parents and other caregivers (including foster parents);

    e. Services designed to improve parenting skills (by reinforcing parents' confidence in their strengths, and helping them to identify where improvement is needed and to obtain assistance in improving those skills) with respect to matters such as child development, family budgeting, coping with stress, health, and nutrition; and

    f. Case management services designed to stabilize families in crisis such as transportation, assistance with housing and utility payments, and access to adequate health care.

3. *Family Support Services* - Community-based services to promote the well-being of children and families designed to increase the strength and stability of families (including adoptive, foster, and extended families), to increase parents' confidence

and competence in their parenting abilities, to afford children a stable and supportive family environment, and otherwise to enhance child development. Family support services may include (45 CFR section 1357.10(c)):

a. Services, including in-home visits, parent support groups, and other programs designed to improve parenting skills (by reinforcing parents' confidence in their strengths, and helping them to identify where improvement is needed and to obtain assistance in improving those skills) with respect to matters such as child development, family budgeting, coping with stress, health, and nutrition;

b. Respite care of children to provide temporary relief for parents and other caregivers;

c. Structured activities involving parents and children to strengthen the parent-child relationship;

d. Drop-in centers to afford families opportunities for informal interaction with other families and with program staff;

e. Transportation, information and referral services to afford families access to other community services, including child care, health care, nutrition programs, adult education literacy programs, legal services, and counseling and mentoring services; and

f. Early developmental screening of children to assess the needs of such children, and assistance to families in securing specific services to meet these needs.

4. *Time-Limited Family Reunification Services* - Services and activities that are provided to a child who is removed from his/her home and placed in a foster family home or a child care institution and to the parents or primary caregiver of such a child, in order to facilitate the reunification of the child safely and appropriately within a timely fashion. These services are provided only during the 15-month period that begins on the date that the child, pursuant to 42 USC 675(5)(F), is considered to have entered foster care. The services and activities are the following (42 USC 629a(a)(7)):

a. Individual, group, and family counseling;

b. Inpatient, residential, or outpatient substance abuse treatment services;

c. Mental health services;

d. Assistance to address domestic violence;

e. Services designed to provide temporary child care and therapeutic services for families, including crisis nurseries;

f. Transportation to or from any of the services and activities described above.

5. *Adoption Promotion and Support Service* - Services and activities designed to encourage more adoptions out of the foster care system, when adoption promotes the best interest of the child, including such activities as pre- and post-adoptive services and activities designed to expedite the adoption process and support adoptive families (42 USC 629a(a)(8)).

6. *Program Costs* - Program costs are costs, other than administrative costs, incurred in connection with developing and implementing the CFSP (e.g., delivery of services, planning, consultation, coordination, training, quality assurance measures, data collection, evaluations, and supervision) (45 CFR section 1357.32).

7. Funds awarded under Title IV-B, Subpart 2, may not be used for the purchase or construction of facilities (45 CFR section 1357.32(e))

## G. Matching, Level of Effort, and Earmarking

### 1. Matching

Funds are federally reimbursed at 75 percent of allowable expenditures. The State's contribution may be in cash, donated funds, and non-public third party in-kind contributions. Except as provided by Federal statute, other Federal funds may not be used to meet the matching requirement (45 CFR section 1357.32(d)).

### 2. Level of Effort - Not Applicable

### 3. Earmarking

States may not claim more than 10 percent of expenditures for administrative costs (42 USC 629b(a)(4)).

## H. Period of Availability of Federal Funds

Funds must be expended by September 30 of the fiscal year following the fiscal year in which the funds were awarded (45 CFR section 1357.32(g)).

## L. Reporting

### 1. Financial Reporting

a. SF-269, *Financial Status Report* - Applicable

b. SF-270, *Request for Advance or Reimbursement* - Not Applicable

c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable

d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the Department of Health and Human Services, Payment Management System. Reporting equivalent to the SF-272 is accomplished through the Payment Management System and is evidenced by the PMS-272 series of reports.

### 2. Performance Reporting - Not Applicable

### 3. Special Reporting - Not Applicable

# DEPARTMENT OF HEALTH AND HUMAN SERVICES

## CFDA 93.558 TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF)

## I. PROGRAM OBJECTIVES

The objectives of this program are to provide time-limited assistance to needy families with children so that the children can be cared for in their own homes or in the homes of relatives; end dependence of needy parents on government benefits by promoting job preparation, work, and marriage; prevent and reduce out-of-wedlock pregnancies, including establishing prevention and reduction goals; and encourage the formation and maintenance of two-parent families. This program replaces the Aid to Families with Dependent Children (AFDC), Job Opportunities and Basic Skills Training (JOBS), and Emergency Assistance (EA) programs.

## II. PROGRAM PROCEDURES

### Administration and Services

The Administration for Children and Families (ACF), a component of the Department of Health and Human Services (HHS), administers the TANF program on behalf of the Federal Government. To be eligible for the TANF block grant, a State (including the District of Columbia, the Commonwealth of Puerto Rico, the United States Virgin Islands, Guam, and American Samoa) must submit a State plan containing specified information and assurances within the 27-month period prior to the Federal fiscal year in which the funds are to be provided.

Indian Tribal governments are also eligible entities for TANF, but under another set of requirements that ACF will implement separately. Until this Supplement is updated for these requirements, audits of Indian Tribal governments should follow Part 7 rather than Part 4 of this Supplement.

Following ACF review of the State Plan and determination that it is complete, ACF awards the basic "State Family Assistance Grant" (SFAG) to the State using a formula allocation derived from funding levels under the superseded programs. The SFAG is a fixed amount to the State subject to reductions based on any penalties assessed. In addition, amounts may be adjusted on the basis of separate Federal funding of counterpart Indian Tribal programs within the State. States meeting the qualifying criteria may also receive supplemental grants, bonuses, loans, and payments from a contingency fund. As long as the minimum requirements are met, a State has significant flexibility in designing programs and determining eligibility requirements and may use grant funds to provide cash or non-cash assistance, including direct services, and for administrative activities. Along with the discretion provided to the States, there are also a number of provisions to ensure accountability for results, in the form of monetary penalties, and requirements to provide a variety of data to ACF about expenditures and individuals receiving benefits under the program. In addition to the penalties for failure to meet programmatic or administrative requirements, a State may be rewarded for its performance in program-related areas, such as reducing out-of-wedlock births.

## Other Considerations

*Funding Methods*

States have different funding options under which to expend Federal grant funds and State Maintenance of Effort (MOE) funds as follows.

1. *Federal Only* - Under this option, Federal grant funds are segregated from MOE funds that are expended in the TANF program operated by the State.

2. *Commingled Federal/State* - Under this option, States commingle their MOE funds with Federal grant funds expended in the TANF program operated by the State. A commingled funding structure means that all expenditures are subject to all Federal funding restrictions, TANF requirements, and MOE limitations.

3. *Segregated State* - Under this option, MOE funds are segregated from the Federal grant funds and expended in the TANF program operated by the State.

4. *Separate State Program* - Under this option, States spend their MOE funds in separate State programs, operated outside of the TANF program operated by the State.

Federal grant funds and MOE funds must both be used for "expenditures." A definition of the term "expenditure" is found in 45 CFR section 260.30. In addition, section 260.33 explains the circumstances under which certain State tax relief provisions would count as expenditures.

*Waivers*

Waivers granted under the authority of Section 1115 of the Social Security Act that allowed a State to operate a program that did not comply with specific statutory requirements of TANF's predecessor programs remain in effect in some States. In some cases, these waivers are inconsistent with the statutory requirements of the TANF program, but are being allowed under 42 USC 615 to continue until their expiration, despite the inconsistency.

## Source of Governing Requirements

This program is authorized under Title IV-A of the Social Security Act, as amended by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) (Pub. L. No. 104-193), and subsequent amendments thereto, and codified at 42 USC 601-619. PRWORA was signed into law on August 22, 1996, and required State implementation no later than July 1, 1997. The statute also afforded the States (other than eligible territories) the opportunity for earlier implementation. In light of that possibility and the extended period necessary to engage in a collaborative consultative process leading to the development of regulations, the ACF issued several Policy Announcements and Program Instructions for State use, primary among them, TANF-ACF-PA-97-1, January 31, 1997. These materials and the statute governed State programs until final rules took effect. During this period, the general standard for judging State behavior was a "reasonable interpretation of the statute."

On April 12, 1999, ACF published final regulations for the TANF program. These final rules took effect October 1, 1999 (April 12, 1999, *Federal Register* (64 FR 17720 *et seq*.)). ACF also published technical and correcting amendments to the final rule on July 26, 1999, which were also effective on October 1, 1999 ( July 26, 1999, *Federal Register* (64 FR 40290 *et seq*.)). Thus, the obligations and expenditures of Federal TANF funds on or after October 1, 1999, and any State actions occurring on or after October 1, 1999, are subject to the provisions in the final rules, as amended.

TANF is subject to the A-102 Common Rule and OMB Circular A-87. This is in contrast to AFDC, which, as described in Appendix I, was excluded from the A-102 Common Rule.

**Availability of Other Program Information**

Other general program information is available from the Office of Family Assistance (OFA) site on the Internet at www.acf.dhhs.gov/programs/ofa.

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### A. Activities Allowed or Unallowed

1. *Federal Only*

   a. Funds may be used for expenditures for activities that are not permissible under 42 USC 601, but for which the State was authorized to use IV-A or IV-F funds under prior law. The previously authorized activities must have been included in a State's approved State AFDC plan, JOBS plan, or Supportive Services Plan, as in effect on September 30, 1995, or at the State's option, on August 21, 1996. Examples of such activities are authorized juvenile justice and foster care activities (42 USC 604(a)(2); 45 CFR section 263.11(a)(2)).

   b. A State may transfer up to 30 percent of the combined total of funds received under the State family assistance grant, supplemental grant for population increases, and bonus funds for high performance and illegitimacy reduction, if any, for a given fiscal year to carry out programs under the Social Services Block Grant (Title XX) (CFDA 93.667) and/or the Child Care and Development Block Grant (CFDA 93.575). However, no more than 10 percent may be transferred to Title XX, and such amounts may be used only for programs or services to children or their families whose income is less than 200 percent of the poverty level. Contingency funds under 42 USC 603(b) cannot be transferred under this authority (42 USC 604(d); 45 CFR section 264.72(e)). The poverty guidelines are issued each year in the *Federal Register* and HHS maintains a page on the Internet which provides the poverty guidelines (http://aspe.os.dhhs.gov/poverty/poverty.htm).

2. Federal Only and Commingled Federal/State

   a. Funds may not be used to provide medical services other than pre-pregnancy family planning services (42 USC 608(a)(6)).

3. *Federal Only, Commingled Federal/State, Segregated State, Separate State Program*

   a. Funds may be used in any manner reasonably calculated to achieve the purposes of the program, including providing low-income households with assistance in meeting home heating and cooling costs (42USC 604(a)(1) and 45 CFR section 263.11(a)(1)). As specified in 42 USC 601 and 45 CFR section 260.20, the TANF program has the following purposes:

      (1) Provide assistance to needy families so that children may be cared for in their own homes or in the homes or relatives;
      (2) End dependence of needy parents on government benefits by promoting job preparation, work, and marriage;
      (3) Prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and
      (4) Encourage the formation and maintenance of two-parent families.

   b. A State may use funds for programs to prevent and reduce the number of out-of-wedlock pregnancies, including programs targeted to law enforcement officials, the educational system and counseling services, that provide education and training of women and men on the problem of statutory rape (42 USC 602(a)(1)(A)(v) and (vi)).

   c. Funds may be used to make payments or provide job placement vouchers to State-approved public and private job placement agencies providing employment placement services to individuals receiving assistance under TANF (42 USC 604(f)).

   d. Funds may be used to implement an electronic benefits transfer system (42 USC 604(g)).

   e. Funds may be used to carry out a program to fund individual development accounts (42 USC 604(h)(2); 45 CFR 263.20) established by individuals eligible to receive assistance under TANF (42 USC 604(h); 45 CFR part 263, subpart C).

f. A State may contract with charitable, religious and private organizations to provide administrative and programmatic services and may provide beneficiaries of assistance with certificates, vouchers, or other forms of disbursement which are redeemable with such organization (42 USC 604a(b) and 42 USC 604a(k)).

4. *Federal Only, Commingled Federal/State, Segregated State*

a. Funds may not be used for sectarian worship, instruction, or proselytization (42 USC 604a(j)).

## C. Cash Management

Under the TANF program's MOE requirement, the drawdown of Federal cash should not exceed the federally funded portion of TANF expenditures taking into account the MOE requirements. For example, if a State has an MOE level that is calculated to be 40 percent of the total funds for a fiscal year, Federal draws should not exceed 60 percent of the amount needed to cover disbursements in any time period (Department of the Treasury, Financial Management Service CMIA Policy Statement Number 19).

## E. Eligibility

### 1. Eligibility for Individuals

The State Plan provides the specifics on how eligibility is determined in each State. The State Plan and eligibility requirements must comply with the following Federal requirements:

a. *Federal Only, Commingled Federal/State, Segregated State, and Separate State Program -*

To be eligible for TANF "assistance" as defined in 45 CFR section 260.31 or any MOE-funded benefits, services, or "assistance," a family must include a minor child who lives with a parent or other adult caretaker relative. The child must be less than 18 years old, or, if a full-time student in a secondary school (or the equivalent level of vocational or technical training), less than 19 years old. (With respect to segregated or separate State MOE funds, the State could use the definition for minor child given in section 419(2) of the Act or some other definition applicable in State law provided the State can articulate a rationale basis for the age they choose.) A family must also be "needy"-- i.e., financially eligible according to the State's applicable income and resource criteria (42 USC 602, 602(a)(1)(B)(iii), 42 USC 609(a)(7)(B)(IV), 608(a)(1), 619(2) and 45 CFR 263.2(b)(2)).

Note: A State may continue to provide federally funded (*Federal Only*) TANF "assistance" pursuant to 42 USC 604(a)(2) using the financial eligibility criteria contained in the State's approved AFDC, EA, JOBS, or Supportive Services plan as of September 30, 1995 (or at State option, as of August 21, 1996). A State may also continue this assistance notwithstanding the family composition requirement described above. (See III A.1.a)

Only the "needy" are eligible for services, benefits, or "assistance" pursuant to TANF purpose 1 or 2 (42 USC 601(a)(1) and (2); 45 CFR sections 260.20(a) and (b)). "Needy" for TANF and MOE purposes means financial deprivation -- i.e., lacking adequate income and resources. For example, a needy family or a needy parent is one who is financially eligible according to the State's financial eligibility criteria (income and resource (if applicable) standards (April 12, 1999, *Federal Register* (64 FR 17825)).

b. *Federal Only and Commingled Federal/State* -

(1) Any family that includes an adult or minor child head of household or a spouse of the head of household who has received assistance under any State program funded by Federal TANF funds for 60 months (whether or not consecutive) is ineligible for additional federally funded TANF assistance. However, the State may extend assistance to a family on the basis of hardship, as defined by the State, or if a family member has been battered or subjected to extreme cruelty. In determining the number of months for which the head of household or the spouse of the head of household has received assistance, the State must not count any month during which the adult received the assistance while living in Indian country or in an Alaskan Native Village and the most reliable data available with respect to that month (or a period including that month) indicate at least 50 percent unemployment among adults living in Indian country or in the village (42 USC 608(a)(7); 45 CFR sections 264.1(a), (b), and (c)).

(See III.G.3., Earmarking, for testing the limits related to the number of exemptions.)

(2) A State may not provide assistance to an individual who is under age 18, is unmarried, has a minor child at least 12 weeks old, and has not successfully completed high school or its equivalent unless the individual either participates in education activities directed toward attainment of a high school diploma or its equivalent, or participates in an alternative education or training program approved by the State (42 USC 608(a)(4); 45 CFR section 263.11(b)).

(3) A State may not provide assistance to an unmarried individual under 18 caring for a child, if the minor parent and child are not residing with a parent, legal guardian, or other adult relative, unless one of the statutory exceptions applies (42 USC 608(a)(5)).

(4) A State may not provide assistance for a minor child who has been or is expected to be absent from the home for a period of 45 consecutive days or, at the option of the State, such period of not less than 30 and not more than 180 consecutive days unless the State grants a good cause exception, as provided in its State Plan (42 USC 608(a)(10)).

(5) A State may not provide assistance for an individual who is a parent (or other caretaker relative) of a minor child who fails to notify the State agency of the absence of the minor child from the home, as in paragraph e. immediately above, within five days of the date that it becomes clear to that individual that the child will be absent for the specified period of time (42 USC 608(a)(10)(C)).

(6) A State may not use funds to provide cash assistance to an individual during the 10-year period that begins on the date the individual is convicted in Federal or State court of having made a fraudulent statement or representation with respect to place of residence in order to simultaneously receive assistance from two or more States under TANF, Title XIX, or the Food Stamp Act of 1977, or benefits in two or more States under the Supplemental Security Income program under Title XVI of the Social Security Act. If the President of the United States grants a pardon with respect to the conduct which was the subject of the conviction, this prohibition will not apply for any month beginning after the date of the pardon (42 USC 608(a)(8)).

(7) A State may not provide assistance to any individual who is fleeing to avoid prosecution, or custody or confinement after conviction, for a felony or attempt to commit a felony (or in the State of New Jersey, a high misdemeanor), or who is violating a condition of probation or parole imposed under Federal or State law (42 USC 608(a)(9)(A)).

(8) Qualified aliens, as defined at 8 USC 1641b, entering the United States on or after August 22, 1996, are not eligible for benefits for a period of five years beginning on the date of the alien's entry into the United States, unless they meet an exception at 8 USC 1612(b)(2) or 1613. A State may, at its option, provide assistance to qualified aliens who entered the United States before August 22, 1996, and, for aliens entering the United States on or after August 22, 1996, after the expiration of the five-year time bar. Non-

qualified aliens may not receive assistance unless one of the exceptions at 8 USC 1612(b)(2) applies (8 USC 1612 and 1613).

c. *Federal Only, Commingled Federal/State, Segregated State*

(1) A State shall require, as a condition of providing assistance, that a member of the family assign to the State the rights the family member may have for support from any other person. This assignment does not exceed the amount of assistance provided (42 USC 608(a)(3)).

(2) An individual convicted under Federal or State law of any offense which is classified as a felony and which involves the possession, use, or distribution of a controlled substance (as defined the Controlled Substances Act (21 USC 802(6)) is ineligible for assistance if the conviction was based on conduct occurring after August 22, 1996. A State shall require each individual applying for assistance under TANF to state in writing whether the individual or any member of their household has been convicted of such a felony involving a controlled substance. However, a State may by law exempt individuals or limit the time period of this prohibition (21 USC 862a).

(3) If an individual refuses to engage in required work, a State must reduce assistance to the family, at least pro rata, with respect to any period during the month in which the individual so refuses, or may terminate assistance. Any reduction or termination is subject to good cause or other exceptions as the State may establish (42 USC 607(e)(1); 45 CFR sections 261.13 and 261.14(a) and (b)). However, a State may not reduce or terminate assistance based on a refusal to work if the individual is a single custodial parent caring for a child who is less than 6 years of age if the individual can demonstrate the inability (as determined by the State) to obtain child care for one or more of the following reasons: (1) the unavailability of appropriate care within a reasonable distance of the individual's work or home; (2) unavailability or unsuitability of informal child care; or (3) unavailability of appropriate and affordable formal child care (42 USC 607(e)(2); 45 CFR sections 261.15(a), 261.56, and 261.57).

2. **Eligibility for Groups of Individuals or Area of Service Delivery** - Not Applicable

3. **Eligibility of Subrecipients** - Not Applicable

## G. Matching, Level of Effort, Earmarking

**1. Matching** - Not Applicable

**2.1 Level of Effort** - *Maintenance of Effort*

The following MOE provisions apply to any State funds that are counted towards the maintenance of effort requirements for TANF, whether such State funds are expended under the *Commingled Federal/State, Segregated State, or Separate State Program* funding options.

a. *Basic MOE* - Every fiscal year, a State must maintain an amount of "qualified State expenditures" (as defined in 42 USC 609(a)(7)(B) and 45 CFR section 263.2) for eligible families (as defined in 42 USC 609(a)(7)(B)(i)(IV) and 263.2(b)) at least at the applicable percentage of the State's historic State expenditures. Therefore, all amounts claimed for or on behalf of eligible families, including amounts that result from State tax provisions, must be the result of expenditure (42 USC 609(a)(7)(A) and (B)(i)(I); 45 CFR sections 260.30 ("expenditure") and 260.33). States may claim qualified expenditures for eligible family members who are citizens or aliens. However, the particular aliens for whom a State may claim qualified expenditures will depend on the State funds used to provide the benefit or service (*Commingled Federal/State, Segregated State, or Separate State Program*) and whether the benefit or service is a Federal, State, or local public benefit (8 USC 1611, 1612(b), 1613, 1621-1622, and 1641(b)).

The applicable percentage for fiscal years 1997 through 2002 is 80 percent of the amount of non-Federal funds the State spent in fiscal year (FY) 1994 on AFDC or 75 percent if the State meets the Act's work participation rate requirements (42 USC 607(a)) for the fiscal year. This is termed "basic MOE" and the requirement is based on the Federal fiscal year. This amount was prorated for FY 1997 based on a State's entry into the program. Qualified expenditures with respect to eligible families may come from all programs, i.e., the State's TANF program as well as programs separate from the State's TANF program (42 USC 609(a)(7)(A) and 609(a)(7)(B)(i)(I); 45 CFR section 263.1).

If a State does not meet the basic MOE requirement, a penalty results. The penalty consists of a reduction of the State's Federal TANF grant for the following fiscal year in the amount of the difference between the State's qualified expenditures and the State's basic MOE. In addition, a State that receives a Welfare-to-Work (WtW) formula grant pursuant to 42 USC 603(a)(5)(A) will receive a reduction in the amount of its Federal TANF grant for the following fiscal year in the amount of the WtW formula grant paid to the State. (42 USC 609(a)(7)(A) and 609(a)(13); 45 CFR section 263.8). If application of a penalty results in a reduction of Federal TANF funding, a State is required in the immediately succeeding fiscal year to spend from State funds an amount equal to the total amount of the reduction, in addition to the otherwise required basic MOE. The additional funds must be spent in the TANF program, not under "separate State programs." Such expenditures may not be claimed toward the basic MOE (42 USC 609(a)(12); 45 CFR sections 263.6(f) and 264.50).

b. *Limitations on "Qualified State Expenditures"* - Expenditures under pre-existing programs, other than those funded under Title IV-A existing prior to PRWORA/TANF, may not count toward the MOE requirement for the current year unless the current year's expenditures with respect to eligible families exceed the expenditures made under the State or local program in FY 1995. Thus, to be considered as "exceeding" the FY 1995 level, the expenditures must be new or additional expenditures (42 USC 609(a)(7)(B)(i)(II)(aa)).

In addition, expenditures by the State from amounts that originated from Federal funds may not count toward meeting a MOE requirement even if the expenditures "qualify" (42 USC 609(a)(7)(B)(iv)(I)).

Except for child care expenditures, double-counting of expenditures to meet the basic MOE requirement is prohibited (42 USC 609(a)(7)(B)(iv)(II-IV); 45 CFR section 263.6). States may count State funds expended to meet the requirements of the Child Care Development Fund Matching Fund (CFDA 93.596) as basic MOE expenditures as long as such expenditures meet the requirements of 42 USC 609(a)(7). The maximum amount of child care expenditures that a State may double-count under this provision is the State's Matching Fund MOE amount under CFDA 93.596 (42 USC 609(a)(7)(B)(iv); 45 CFR sections 263.3 and 263.6).

Expenditures for educational services/activities for eligible families to increase self-sufficiency, job training, and work count if the activities or services are not generally available to other State residents without cost and without regard to their income (42 USC 609(a)(7)(B)(i)(I)(cc); 45 CFR section 263.4).

Administrative costs in connection with the activities that correspond to the qualified expenditures may not exceed 15 percent of the total amount of countable expenditures for the fiscal year (42 USC 609(a)(7)(B)(i)(I)(dd); 45 CFR section 263.2(a)(5)).

The basic MOE requirement expressly does not count expenditures for services or activities that only fall under 42 USC 604 (a)(2) (See III.A.2). Such expenditures are not considered "qualified expenditures" (42 USC 609(a)(7)(B)(i)(I); 45 CFR section 263.2(a)(4)).

c. *Contingency Fund MOE* - A State must spend more than 100 percent of its historic State expenditures for FY 1994 to qualify for contingency funds

(42 USC 603(b) and 45 CFR sections 264.70 through 77). This is termed "Contingency Fund MOE." The Contingency Fund MOE requirement may be met only through qualified expenditures under the State's TANF program with respect to eligible families. Qualified expenditures consist of those defined under 42 USC 609(a)(7)(B)(i)(I), but excludes those expenditures described in subclause (I)(bb) (42 USC 603(b)(6)(B)(ii) and 609(a)(10)).

**2.2 Level of Effort** - *Supplement not Supplant* - Not Applicable

**3. Earmarking**

a. *Federal Only and Commingled Federal/State*-

A State may not spend more than 15 percent for administrative purposes, excluding expenditures for information technology and computerization needed for required tracking and monitoring, of the total combined amounts available under the State family assistance grant, supplemental grant for population increases, bonus funds for high performance and illegitimacy reduction, and contingency funds (42 USC 604(b)(1) and (2)) and 45 CFR 263.13).

b. *Federal Only and Commingled Federal/State* -

The average monthly number of families that include an adult or minor child head of household, or the spouse of the head of household, who has received assistance under any State program funded by Federal TANF funds for more than 60 countable months (whether or not consecutive) may not exceed 20 percent of the average monthly number of all families to which the State provided assistance during the fiscal year or the immediately preceding fiscal year (but not both), as the State may elect. To make this determination for a fiscal year, the average monthly number of families with a head of household who received assistance for more than 60 months would be divided by the average monthly number of families that received assistance in that fiscal year, or, if the State chooses, in the previous fiscal year (42 USC 608(a)(7)(C)(ii); 45 CFR sections 264.1(c) and (e)).

(See III.E.1, Eligibility for Individuals, for related eligibility testing.)

## H. Period of Availability of Federal Funds

Funds, other than contingency funds, are available to the State until expended for the purpose of providing assistance under the TANF Program; contingency funds may be used for qualified expenditures only in the fiscal year for which the funding is provided (42 USC 603(b) and 604(e); 45 CFR sections 263.11 and 265.3(c)). Current year TANF funds may be expended on assistance or non-assistance activities during the current fiscal year. However, the following restrictions to unobligated balances and current year obligations on non-assistance apply to the TANF program.

1. *Unobligated Balances Reported on a State Fourth Quarter Financial Report For the Immediately Preceding Fiscal Year* - Pursuant to section 404(e) of PRWORA of 1996, a State may reserve amounts awarded to the State under section 403 (excluding Contingency Funds), without fiscal year limitation, to provide assistance under the State TANF program. Any Federal Unobligated Balances carried forward into fiscal year 2000 from previous fiscal years (Fiscal Years 1996, 1997, 1998, or 1999) may only be expended on assistance and related administrative costs associated with providing such assistance. States have several options for claiming administrative costs when providing assistance with prior year unobligated balances. The State may charge administrative costs related to providing the assistance to the prior year grant if the State has not expended 15 percent of the prior year's Adjusted SFAG on administrative costs previously. If the State has an unobligated balance and has expended the maximum 15 percent on administrative cost previously, the State may charge the administrative costs associated with providing the assistance to current year administrative costs. If the State chooses this option the administrative costs associated with providing assistance with prior year unobligated balances will be included within the 15 percent administrative cost cap for the current fiscal year.

   The TANF 15 percent administrative cost cap is based on the Adjusted SFAG (reported on Line 4(A)) divided by the amount the State expends on administration. The administrative cost cap is tracked by the fiscal year for which the funds were awarded and not by the total the State expends on administrative costs in a given fiscal year. States may only charge administrative costs to a prior year grant when it is administering assistance with a prior year unobligated balance.

2. *Current Fiscal Year Federal Expenditures on Non-Assistance* - The State must obligate by September 30 of the current fiscal year any funds for expenditures on non-assistance. Non-assistance expenditures are reported on Line 6 categories of the *TANF ACF-196 Financial Report*. The State must liquidate these obligations by September 30 of the immediately succeeding Federal fiscal year for which the funds were awarded. If the final liquidation amounts are lower than the original amount obligated, this difference must be included in the Unobligated Balance Line Item for the year in which they were awarded. Unobligated balances from previous fiscal years may only be expended on assistance and the administrative costs related to providing the assistance.

## L. Reporting

### 1. Financial Reporting

a. SF-269, *Financial Status Report* - Not Applicable

b. SF-270, *Request for Advance or Reimbursement* - Not Applicable

c. SF-271, *Outlay Report and Request from Reimbursement for Construction Program* - Not Applicable

d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the HHS, Payment Management System. Reporting equivalent to the SF-272 is accomplished through the Payment Management System and is evidenced by the PMS 272 series of reports.

e. ACF-196, *Temporary Assistance for Needy Families (TANF) Financial Report (OMB No. 0970-0165)* - This report is due quarterly in lieu of the SF-269, *Financial Status Report.* With the fourth quarter report, the State must also file definitions and descriptive information on the TANF program and expenditure-related information on the State's separate program(s) used to meet the TANF maintenance of effort requirement. Each fiscal year's expenditure reporting must be separate; therefore, multiple reports may be required if the State spent funds from more than one fiscal year in a given quarter. The fourth quarter financial report is used to determine the State's MOE requirement. Beginning with the first quarter of FY 2000, States will submit the *TANF Financial Report (OMB Control No. 0970-0199).*

f. *TANF Financial Report (OMB Control No. 0970-0199)* - This report replaces the ACF-196 (OMB Control No. 0970-0165). Each State files quarterly expenditure data on the State's use of Federal TANF funds, State TANF expenditures, and State expenditures of MOE funds in separate State programs. If a State is expending Federal TANF funds received in prior fiscal years, it must file a separate quarterly TANF Financial Report for each fiscal year that provides information on the expenditures of that year's TANF funds. Territories report their expenditures and other fiscal data on the *Territorial Financial Report* (45 CFR section 265.3(c) and Appendix D).

## 2. Performance Reporting

a. ACF-202, *TANF Caseload Reduction Report (OMB No. 0970-0199)* - Annual report used to calculate caseload reduction credits, which reduce the State's work participation rates for a fiscal year. The caseload reduction credit equals the decline in the State's caseload the prior year in comparison to its caseload in FY 1995, excluding any caseload reductions due to Federal requirements and State changes in eligibility criteria. The report lists all State and Federal changes in eligibility criteria after FY 1995, the implementation date of each, and include an estimate of the positive or negative impact of each change on the caseload. States wishing separate credits for the overall and two-parent participation rates submit separate reports for their respective total and two-parent caseloads.

*Key Line Items* - The following line items contain critical information.

Part II - Application Denials and Case Closures, By Reason - columns that pertain to fiscal year covered by audit.

b. ACF-198, *Emergency TANF Data Report (OMB No.0970-0199)* - This report is submitted quarterly on the basis of information collected monthly, including both disaggregated and aggregated data. If a State provides the disaggregated data based on a sample it must be in accordance with the Generic Sampling Specifications and the report should specify the sampling method used. This report is required through the fourth quarter of FY 1999. Beginning with the first quarter of FY 2000, States submit the *TANF Data Report (OMB Control No. 0970-0199)* (42 USC 611(a)).

*Key Line Items* - The following line items contain critical information.

1. Section 1 (disaggregated data):

| | |
|---|---|
| Item 8 | Type of Family for Work Participation |
| Item 13 B | Cash and Cash Equivalent - Number of Months |
| Item 14 B | Work Subsidies-Number of Months |
| Item 15 B | Child Care-Number of Months |
| Item 20 | Date of Birth (Age) |
| Item 24 | Relationship to Head of Household |
| Item 30 | Work Participation Status |
| Items 31-44 | Adult Work Participation Activities |

2. Section 3 (aggregated data):

| | |
|---|---|
| Item 4 | Total Number of Families |
| Item 5 | Total Number of Two-Parent Families |

Note 1: Section 1, items 30 and 31-44 and Section 3, items 4 and 5 are used by HHS to determine whether a State meets the two-parent participation rate and the overall rate which are achieved by having adults participate in specified work activities for specified minimum hours per week. The proper classification of work participation and caseload reduction is critical to this calculation. HHS may penalize a State for up to 21 percent of the SFAG for failure to meet the participation rates (42 USC 607 and 609(a)(3)).

Note 2: Some of the data required by TANF will be maintained at the local government level rather than the State level. Regardless of any data collection difficulties, the State is required to accurately collect and report the data included in the TANF reports.

c. *TANF Data Report (OMB Control No. 0970-0199)* - This quarterly report replaces and expands the information collected in the *Emergency TANF Data Report* beginning with the first quarter of FY 2000. A State may postpone the due date for submittal of the data until September 30, 2000, if it demonstrates that its failure to submit the data timely was due to "Year 2000" compliance efforts (45 CFR section 265.3(b) and Appendices A, B, and C).

*Key Line Items* - The following line items contain critical information.

Section One - Family-Level Data
Item 12 Type of Family for Work Participation
Item 17 Receives Subsidized Child Care

Section One - Person-Level Data
Item 32 Date of Birth
Item 38 Relationship to Head-of-Household
Item 48 Work Participation Status

Section One - Adult Work Participation Activities
Items 49 - 61 Work Participation Activities

Section Three - Active Cases
Item 8 Total Number of Families

d. *SSP-MOE Data Report (OMB Control No. 0970-0199)* - This report is submitted quarterly beginning with the first quarter of FY 2000. A State may postpone the due date for submittal of the data until September 30, 2000, if it demonstrates that its failure to submit the data timely was due to Year 2000 compliance efforts (45 CFR section 265.3(d) and Appendices E, F, and G).

*Key Line Items* - The following line items contain critical information.

Section One - Family-Level Data
Item 9 Type of Family for Work Participation
Item 15 Receives Subsidized Child Care

Section One - Person-Level Data
Item 28 Date of Birth
Item 34 Relationship to Head-of-Household
Item 41 Work Participation Status

Section One - Adult Work Participation Activities
Items 42 - 54 Work Participation Activities

Section Three - Active Cases
Item 3 Total Number of SSP-MOE Families

**3. Special Reporting**

a. ACF-204, *Annual Report including the Annual Report on State Maintenance-of-Effort Programs (OMB No. 0970-0199)* - Each State must file an annual report containing information on the TANF program and the State's MOE program(s) for that year, including strategies to implement the Family Violence Option, State diversion programs, and other program characteristics. Each State must complete the ACF-204 for each program for which the State has claimed basic MOE expenditures for the fiscal year. States may submit this report as a free-standing report or as an addendum to the fourth quarter TANF Data Report.

*Key Line Items* - The following line items contain critical information.

1. Program Name
2. Description of Major Program Activities
3. Program Purpose(s)
4. Program Type
7. Total State MOE Expenditures
8. Number of Families Served with MOE Funds
9. Eligibility Criteria
10. Prior Program Authorization
11. Total Program Expenditures in FY 1995

## N. Special Tests and Provisions

All of the following Special Tests and Provisions apply to *Federal Only and Commingled Federal/State* funded expenditures.

### 1. Child Support Non-Cooperation

**Compliance Requirement** - If the State agency responsible for administering the State plan approved under Title IV-D of the Social Security Act determines that an individual is not cooperating with the State in establishing paternity, or in establishing, modifying or enforcing a support order with respect to a child of the individual, and reports that information to the State agency responsible for TANF, the State TANF agency must (1) deduct an amount equal to not less than 25 percent from the TANF assistance that would otherwise be provided to the family of the individual, and (2) may deny the family any TANF assistance. HHS may penalize a State for up to five percent of the SFAG for failure to substantially comply with this required State child support program (42 USC 608(a)(2) and 609(a)(8); 45 CFR sections 264.30 and 264.31).

**Audit Objective** - Determine whether, after notification by the State IV-D agency, the TANF agency has taken necessary action to reduce or deny TANF assistance.

**Suggested Audit Procedures:**

a. Review the State's TANF policies and operating procedures concerning this requirement.

b. Test a sample of cases referred by the IV-D agency to the TANF agency to ascertain if benefits were reduced or denied as required.

**2. Income Eligibility and Verification System (IEVS)**

**Compliance Requirement** - Each State shall participate in the Income Eligibility and Verification System (IEVS) required by section 1137 of the Social Security Act as amended. Under the State Plan the State is required to coordinate data exchanges with other federally assisted benefit programs, request and use income and benefit information when making eligibility determinations, and adhere to standardized formats and procedures in exchanging information with other programs and agencies. Specifically, the State is required to request and obtain information as follows (42 USC 1320b-7; 45 CFR section 205.55):

1. Wage information from the State Wage Information Collection Agency (SWICA) should be obtained for all applicants at the first opportunity following receipt of the application, and for all recipients on a quarterly basis.
2. Unemployment Compensation (UC) information should be obtained for all applicants at the first opportunity, and in each of the first three months in which the individual is receiving aid. This information should also be obtained in each of the first three months following any recipient-reported loss of employment. If an individual is found to be receiving UC, the information should be requested until benefits are exhausted.
3. All available information from the Social Security Administration for all applicants at the first opportunity (See *Federal Tax Return Information* below).
4. Information from the Immigration and Naturalization Service and any other information from other agencies in the State or in other States that might provide income or other useful information.
5. Unearned income from the Internal Revenue Service (IRS) (See *Federal Tax Return Information* below).

*Federal Tax Return Information* - Information from the IRS and some information from Social Security Administration (SSA) is Federal tax return information and subject to use and disclosure restrictions by 26 USC 6103. Individual data received from the SSA's Beneficiary Earnings Exchange Record (BEER), consisting of wage, self-employment, and certain other income information is considered Federal tax return information. However, benefits payments such as Supplemental Security Income (SSI) are SSA data and not Federal tax return information. Under 26 USC 6103, disclosure of Federal tax return information from IEVS is restricted to officers and employees of the receiving agency. Outside (non-agency) personnel (including auditors) are not authorized to access this information either directly or by disclosure from receiving agency personnel.

The State is required to review and compare the information obtained from each data exchange against information contained in the case record to determine whether it affects the individual's eligibility or level of assistance, benefits or services under the TANF program, with the following exceptions:

1. The State is permitted to exclude categories of information items from follow-up if it has received approval from ACF after having demonstrated that follow-up is not cost effective.
2. The State is permitted, with ACF approval, to exclude information items from certain data sources without written justification if it followed up previously through another source of information. However, information from these data sources that is not duplicative and provides new leads may not be excluded without written justification.

The State shall verify that the information is accurate and applicable to the case circumstances either through the applicant or recipient, or through a third party, if such determination is appropriate based on agency experience or is required before taking adverse action based on information from a Federal computer matching program subject to the Computer Matching and Privacy Protection Act (45 CFR section 205.56).

For applicants, if the information is received during the application process, the State must use the information, to the extent possible, to determine eligibility. For recipients or individuals for whom a decision could not be made prior to authorization of benefits, the State must initiate a notice of case action or an entry in the case record that no case action is necessary within 45 days of its receipt of the information. Under certain circumstances, action may be delayed beyond 45 days for no more than 20 percent of the information items targeted for follow-up (45 CFR section 205.56).

HHS may penalize a State for up to two percent of the SFAG for failure to participate in IEVS (42 USC 609(a)(4) and 1320b-7; 45 CFR sections 264.10 and 264.11).

**Audit Objective** - Determine whether the State has established and implemented the required IEVS system for data matching, and verification and use of such data. (This audit objective does not include Federal tax return information as discussed in the compliance requirements.)

**Suggested Audit Procedures**

a. Review State operating manuals and other instructions to gain an understanding of the State's implementation of the IEVS system.

b. Test a sample of TANF cases subject to IEVS to ascertain if the State:

    (1) Used the IEVS to determine eligibility in accordance with the State Plan.

    (2) Requested and obtained the data from the State Wage Information Collection Agency, the State unemployment agency, the Social Security Administration (excluding Federal tax return information as discussed in the compliance requirements), the Immigration and Naturalization Service, and other agencies, as appropriate, and performed the required data matching.

(3) Properly considered the information obtained from the data matching in determining eligibility and the amount of TANF benefits.

## 3. Assessment Requirements under TANF

**Compliance Requirement** - Once an individual is determined to be eligible for assistance, the State must make an initial assessment of the skills, prior work experience, and employability of each recipient who is at least age 18, who has not completed high school (or equivalent) and who is not attending secondary school. Once an individual is determined to be eligible for assistance, the State may make any required assessments within 30 days (or 90 days at State option) of the date an individual becomes eligible for assistance (42 USC 608(b)(1), 608(b)(2)(B)(ii); 45 CFR section 261.11).

**Audit Objective -** Determine whether the State agency has, within the appropriate timeframe, made an assessment of skills, prior work experience and employability of an individual age 18 or older who has not completed high school (or equivalent) and who is not attending secondary school.

**Suggested Audit Procedures**

a. Review the State's TANF policies and operating procedures concerning this requirement.

b. Test a sample of TANF cases to ascertain if the assessment requirements were met.

## 4. Penalty for Refusal to Work

**Compliance Requirement** - State agency must reduce or terminate the assistance payable to the family for refusal to work subject to any good cause or other exemptions established by the State. HHS may penalize the State by an amount not less than one percent and not more than five percent of the SFAG for violation of this provision (42 USC 609(a)(14); 45 CFR sections 261.14, 261.16, and 261.54).

**Audit Objective** - Determine whether the State agency is reducing or terminating the assistance grant of those individuals who refuse to engage in work and are not subject to good cause or other exceptions established by the State.

**Suggested Audit Procedures**

a. Review the State's TANF policies and operating procedures concerning this requirement.

b. Test a sample of TANF cases where the individual is not working, and ascertain if benefits were reduced or denied to individuals who are not exempt under State rules or do not meet State good cause criteria.

### 5. Adult Custodial Parent of Child under Six When Child Care Not Available

**Compliance Requirement** - If an individual is an adult single custodial parent caring for a child under the age of six, the State may not reduce or terminate assistance for the individual's refusal to engage in required work if the individual demonstrates to the State an inability to obtain needed child care based upon the following reasons: (a) unavailability of appropriate child care within a reasonable distance from the individual's home or work site; (b) unavailability or unsuitability of informal child care by a relative or under other arrangements; and (c) unavailability of appropriate and affordable formal child care arrangements. The determination of inability to find child care is made by the State. HHS may penalize a State for up to five percent of the SFAG for violation of this provision (42 USC 607(e)(2) and 609(a)(11); 45 CFR sections 261.15, 261.56, and 261.57).

**Audit Objective** - Determine whether the State has improperly reduced or terminated assistance to adult single custodial parents who refused to work because of inability to obtain child care for a child under the age of six.

**Suggested Audit Procedures**

a. Gain an understanding of the criteria established by the State to determine benefits for an adult single custodial parent who refused to work because of inability to obtain child care for a child who is under the age of six.

b. Select a sample of adult single custodial parents caring for a child who is under six years of age whose benefits have been reduced or terminated.

c. Ascertain if the benefits were improperly reduced or terminated because of inability to obtain child care.

## IV. OTHER INFORMATION

*Transfers into TANF*

As described in Part 4, Social Services Block Grant (SSBG) program (CFDA 93.667), Subpart III.A. Activities Allowed or Unallowed, a State may transfer up to 10 percent of its annual allotment under SSBG to this and six other block grant programs for support of health services, health promotion and disease prevention activities, low-income home energy assistance, or any combination of these activities.

Amounts transferred into this program are subject to the requirements of this program when expended and should be included in the audit universe and total expenditures of this program when determining Type A programs. On the Schedule of Expenditures of Federal Awards, the amounts transferred in should be shown as expenditures of this program when such amounts are expended.

*Transfers out of TANF*

Activities Allowed or Unallowed, funds may be transferred out of TANF to Social Services Block Grant (Title XX) (CFDA 93.667) and the Child Care and Development Block Grant (CFDA 93.575). These transfers are reflected on the quarterly *Temporary Assistance for Needy Families (TANF) ACF-196 Financial Report.* The amounts transferred out of TANF are subject to the requirements of the program into which they are transferred and should not be included in the audit universe and total expenditures of TANF when determining Type A programs. On the Schedule of Expenditures of Federal Awards, the amount transferred out should not be shown as TANF expenditures but should be shown as expenditures for the program into which they are transferred.

# DEPARTMENT OF HEALTH AND HUMAN SERVICES

## CFDA 93.563 CHILD SUPPORT ENFORCEMENT

## I. PROGRAM OBJECTIVES

The objectives of the Child Support Enforcement program are to: (1) enforce support obligations owed by non-custodial parents, (2) locate absent parents, (3) establish paternity, and (4) obtain child and spousal support.

## II. PROGRAM PROCEDURES

### Administration and Services

The Child Support Enforcement program is administered at the Federal level by the Office of Child Support Enforcement (OCSE), Administration for Children and Families (ACF), a component of the Department of Health and Human Services (HHS). Funding is provided to the 50 States, the District of Columbia, Puerto Rico, the Virgin Islands, and Guam, based on a State plan and amendments, as required by changes in statutes, rules, regulations, interpretations, and court decisions, submitted to and approved by the cognizant ACF Regional Administrator.

This program is an open-ended entitlement program that allows the State to be funded at a specified percentage, Federal financial participation (FFP), for eligible program costs.

State child support agencies are required to conduct self-reviews of their programs. The first round of self-assessments is required to be completed by March 31, 1999 (42 USC 654.15).

### Source of Governing Requirements

The Child Support Enforcement program is authorized under Title IV-D of the Social Security Act, as amended, and is codified at 42 USC 651 through 669. Implementing program regulations are published at 45 CFR parts 301 through 307. In addition, with regard to eligibility and other provisions, this program is closely related to programs authorized under other titles of the Social Security Act, including the Temporary Assistance to Needy Families (TANF) program (CFDA 93.558), the Medicaid program (CFDA 93.778), and the Foster Care (Title IV-E) program (CFDA 93.658).

As an HHS entitlement program, the Child Support Enforcement program is subject to 45 CFR part 74 (in lieu of the HHS implementation of the A-102 Common Rule), as specified in 45 CFR section 74.1(a)(3), and to Office of Management and Budget Circular A-87 (as implemented in "Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government," HHS Publication ASMB C-10, available on the Internet at http://www.hhs.gov/progorg/grantsnet/index2.htm). This program is also subject to 45 CFR part 95.

States are required to adopt and adhere to their own statutes and regulations for program implementation, consistent with the requirements of Title IV-D and the approved State plan.

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should look first to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### A. Activities Allowed or Unallowed

#### 1. Activities Allowed

Consistent with the approved Title IV-D plan, allowable activities include the following. A more complete listing of allowable types of activities, with examples, as appropriate, is included at 45 CFR sections 304.20 through 304.22.

a. Necessary expenditures for support enforcement services and activities provided to individuals from whom an assignment of support rights (as defined in 45 CFR section 301.1) is obtained (45 CFR sections 304.20, 304.21, and 304.22).

b. Parent locator services for eligible individuals (45 CFR sections 304.20(a)(2), 304.20(b) and, 302.35(c)).

c. Paternity and support services for eligible individuals (45 CFR section 304.20(a)(3)).

d. Administration of the Child Support Enforcement program, including establishment and administration of the State plan; establishment of agreements with other State and local agencies and private providers; purchase of equipment; and development of a cost allocation system and other systems necessary for fiscal and program accountability (45 CFR sections 304.20(b)(1) and 304.24).

e. The costs of cooperative arrangements with appropriate courts and law enforcement officials in accordance with the requirements of 45 CFR section 302.34, including associated administration and short-term training of staff (45 CFR section 304.21(a)).

#### 2. Activities Unallowed

a. The following costs and activities are unallowable pursuant to 45 CFR section 304.23:

(1) Activities related to administering other titles of the Social Security Act.

(2) Construction and major renovations.

(3) Education and training programs other than those for Title IV-D agency staff or as described in 45 CFR section 304.20(b)(2)(viii).

(4) Any expenditures which have been reimbursed by fees collected.

(5) Any costs of caseworkers (45 CFR section 303.20(e)).

(6) Medical support enforcement activities performed under cooperative arrangements/agreements (45 CFR sections 303.30 and 303.31).

(7) Any expenditures related to carrying out an agreement under 45 CFR section 303.15.

(8) Any expenditures for jailing of parents in child support enforcement cases.

(9) Costs of counsel for indigent defendants in IV-D actions.

(10) Costs of guardians *ad litem* in IV-D actions.

b. The following costs associated with cooperative arrangements with courts and law enforcement officials are unallowable: service of process and court filing fees unless the court or law enforcement agency would normally be required to pay the costs of such fees; costs of compensation (salary and fringe benefits) of judges; costs of training and travel related to the judicial determination process incurred by judges; office-related costs, such as space, equipment, furnishings and supplies incurred by judges; compensation (salary and fringe benefits), travel and training, and office-related costs incurred by administrative and support staffs of judges; and costs of cooperative agreements that do not meet the requirements of 45 CFR section 303.107 (45 CFR section 304.21(b)).

## E. Eligibility

### 1. Eligibility for Individuals

Eligible recipients are: (1) individuals applying for or receiving TANF benefits for whom an assignment of child support rights has been made to the State; (2) non-TANF Medicaid recipients; (3) former Aid to Families with Dependent Children/TANF, Title IV-E, or Medicaid recipients who continue to receive child support enforcement services without filing an application; and (4) individuals needing such services who have applied to a State child support enforcement agency (42 USC 608(a)(3); 45 CFR sections 302.32(a) and 302.33(a)).

### 2. Eligibility for Groups of Individuals or Area of Service Delivery - Not Applicable

### 3. **Eligibility for Subrecipients** - Not Applicable

## F. Equipment and Real Property Management

Equipment that is capitalized or depreciated or is claimed in the period acquired and charged to more than one program is subject to 45 CFR section 95.707(b) in lieu of the requirements of the A-102 Common Rule (and the HHS implementation at 45 CFR part 74) (45 CFR section 95.707(b)).

## G. Matching, Level of Effort, Earmarking

### 1. Matching

a. For program costs *other than* laboratory costs related to determining paternity, the Federal share of program costs, including those related to the planning, design, development, installation and enhancement of the Statewide computerized support enforcement system is 66 percent (42 USC 655(a)(2)(C); 45 CFR sections 304.20(c) and 304.30).

b. The Federal share of the costs of computerized support enforcement systems was 90 percent through Federal Fiscal Year 1997 which includes subsequent costs under an approved Advanced Planning Document (42 USC 654(24); 45 CFR section 307.30).

c. The Federal share of laboratory costs for determining paternity is 90 percent (42 USC 655(a)(1)(C); 45 CFR sections 304.20(d) and 304.30).

### 2. **Level of Effort** - Not Applicable

### 3. **Earmarking -** Not Applicable

## H. Period of Availability of Federal Funds

This program operates on a cash accounting basis and each year's funding and accounting is discrete; i.e., there is no carry-forward of unobligated funds. To be eligible for Federal funding, claims must be submitted to ACF within two years after the calendar quarter in which the State made the expenditure. This limitation does not apply to any claim for an adjustment to prior year costs or resulting from a court-ordered retroactive adjustment (45 CFR sections 95.7, 95.13, and 95.19).

## L. Reporting

### 1. Financial Reporting

a. SF-269, *Financial Status Report* - Not Applicable

b. SF-270, *Request for Advance or Reimbursement* - Not Applicable

c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable

d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the HHS, Payment Management System (PMS). Reporting equivalent to the SF-272 is accomplished through the PMS and is evidenced by the PMS-272 series of reports.

e. OCSE 34A, *Child Support Enforcement Program Quarterly Report of Collections (OMB No. 0970-0181).*

f. OCSE 396A, *Child Support Enforcement Program Quarterly Report of Expenditures and Estimates (OMB No. 0970-0181).*

2. **Performance Reporting** - Not Applicable

3. **Special Reporting** - Not Applicable

## N. Special Tests and Provisions

### 1. Establishment of Paternity and Support Obligations

**Compliance Requirement** - The State IV-D agency must attempt to establish paternity and a support obligation for children born out of wedlock. The State IV-D agency must establish a support obligation when paternity is not an issue. These services must be provided for any child in cases referred to the IV-D agency or to individuals applying for services under 45 CFR section 302.33 for whom paternity or a support obligation had not been established (45 CFR sections 303.4 and 303.5). These services must be provided within the time frames specified in 45 CFR sections 303.3(b)(3) and (b)(5), 303.3(c) and, 303.4(d).

**Audit Objective** - Determine whether the State IV-D agency attempted to establish, or established, paternity and a support obligation within the required time frames.

**Suggested Audit Procedures**

a. Review the agency's procedures for tracking case referrals for the provision of paternity and support obligation services and the type of documentation maintained that these services were provided or attempted.

b. Test a sample of cases referred to the agency during the audit period to ascertain if:

(1) For cases involving a child born out of wedlock, the agency established or attempted to establish paternity.

(2) For all cases:

(a) The agency established or attempted to establish support obligation.

(b) Paternity and support obligation services were provided within the required time frame.

## 2. Enforcement of Support Obligations

**Compliance Requirement** - For all cases referred to the IV-D agency or applying for services under 45 CFR section 302.33 in which an obligation to support and the amount of the obligation has been established, the agency must maintain a system for (1) monitoring compliance with the support obligation; (2) identifying on the date the parent fails to make payments in an amount equal to support payable for one month, or an earlier date in accordance with State law, those cases in which there is a failure to comply with the support obligation; and (3) enforcing the obligation. To enforce the obligation the agency must initiate income withholding, if required by and in accordance with 45 CFR section 303.100, and initiate any other enforcement action, unless service of process is necessary, within 30 calendar days of identification of the delinquency or other support-related noncompliance, or location of the absent parent, whichever occurs later. If service of process is necessary, service must be completed and enforcement action taken within 60 calendar days of identification of the delinquency or other noncompliance, or the location of the absent parent whichever occurs later. If service of process is unsuccessful, unsuccessful attempts must be documented and meet the State's guidelines defining diligent efforts. If enforcement attempts are unsuccessful, the agency should determine when it would be appropriate to take an enforcement action in the future and take it at that time (45 CFR section 303.6). Optional enforcement techniques available for use by the State's are found at 45 CFR sections 303.71, 303.73, and 303.104.

**Audit Objectives** - Determine whether the State IV-D agency monitored and, when necessary, enforced cases with support obligations within required time frames.

**Suggested Audit Procedures**

a. Review the agency's procedures for tracking case referrals and identifying those cases where an obligation to support has been ordered and the amount of the support obligation has been established.

b. Test a sample of cases where an obligation to support had been ordered to ascertain that the agency monitored such cases, and identified those cases requiring enforcement within the required time frame.

c. For selected cases identified as requiring enforcement, verify that enforcement action was initiated within the required time frame. Ascertain if a collection resulting from an enforcement action was received. If so, no further audit procedures are necessary. If a collection was not received:

(1) Ascertain if use of income withholding was appropriate. If so, verify that it was initiated within required time frame.

(2) If income withholding was not appropriate and/or successful, ascertain if the agency scheduled and took another enforcement action.

d. If a service of process was necessary, but unsuccessful, verify that unsuccessful attempts were documented and met the diligent effort standard under the State's diligent effort definition.

**3. Securing and Enforcing Medical Support Obligations**

**Compliance Requirement** - The State IV-D agency must attempt to secure medical support information, and establish and enforce medical support obligations for all individuals eligible for services under 45 CFR section 302.33. Specifically, the State IV-D agency must determine whether the custodial parent and child have satisfactory health insurance other than Medicaid. If not, the agency must petition the court or administrative authority to include medical support in the form of health insurance coverage in all new or modified orders for support. The agency is also required to establish written criteria to identify cases not included above, where there is a high potential for obtaining medical support based on: (1) available evidence that health insurance may be available to the absent parent at reasonable cost, and (2) facts (as defined by the State) which are sufficient to warrant modification of an existing support order to include health insurance coverage for a dependent child(ren). For cases meeting the established criteria, the agency shall petition the court or administrative authority to modify support orders to include medical support in the form of health insurance coverage (45 CFR sections 303.31(b)(1)-(4)).

For non-TANF cases, the agency shall petition for medical support when the eligible individual is a Medicaid recipient or with consent of the individual if not a Medicaid recipient (45 CFR section 303.31(c)).

In cases where medical support is ordered, the agency is required to verify that it was obtained. If it was not obtained, the agency should take steps to enforce the health insurance coverage required by the support order, unless it determines that health insurance was not available to the absent parent at reasonable cost (45 CFR section 303.31(b)(7)).

The agency shall inform the Medicaid agency when a new or modified order for child support includes medical support and shall provide information to the custodial parent concerning the health insurance policy secured under any order (45 CFR sections 303.31(b)(5) and (6)).

**Audit Objective** - Determine whether the State IV-D agency petitioned for and secured or pursued enforcement of medical support in the form of health insurance as part of support orders and informed the Medicaid agency and custodial parent as required.

**Suggested Audit Procedures**

a. Test a sample of cases determined eligible during the audit period for services under 45 CFR section 302.33 to ascertain if the agency determined whether the custodial parent had satisfactory health insurance other than Medicaid.

b. For those selected cases where the custodial parent and child do not have satisfactory health insurance other than Medicaid, verify that the agency petitioned the court or administrative authority for health insurance coverage when required.

c. For selected cases where medical support was ordered, ascertain that the agency verified that medical support was obtained by the absent parent. If medical support was not obtained by the absent parent, ascertain if the agency either made a determination that health insurance was not available at a reasonable cost or took action to enforce and obtain the medical support.

d. For selected cases where the absent parent had health insurance or when health insurance was obtained by the agency, ascertain if there is documentation that the Medicaid agency and the custodial parent were informed.

**4. Provision of Child Support Services for Interstate Cases**

**Compliance Requirement** - The State IV-D agency must provide the appropriate child support services needed for interstate cases (cases in which the child and custodial parent live in one State and the responsible relative lives in another State), establish an interstate central registry responsible for receiving, distributing and responding to inquiries on all incoming interstate IV-D cases, and meet required time frames pertaining to provision of interstate services. The case requiring action may be an initiating interstate case (a case sent to another State to take action on the initiating State's behalf) or a responding interstate case (a request by another State to provide child support services or information only). Specific time frame requirements for responding and initiating interstate cases are at 45 CFR sections 303.7(a) and 303.7(b)(2), (4), (5) and (6), respectively (45 CFR sections 302.36 and 303.7).

**Audit Objective** - Determine whether the State IV-D agency provided required child support services to interstate cases within the required time frames.

**Suggested Audit Procedures**

a. Review the agency's interstate central registry and ascertain the procedures for receiving, distributing, and responding to all incoming interstate claim cases.

b. Test a sample of initiating interstate cases to verify that required information was provided to the responding State within required time frames.

c. Test a sample of responding interstate cases to verify that required child support enforcement services were provided within the time frames for providing information.

# DEPARTMENT OF HEALTH AND HUMAN SERVICES

## CFDA 93.568 LOW-INCOME HOME ENERGY ASSISTANCE

## I. PROGRAM OBJECTIVES

The Low Income Home Energy Assistance Program (LIHEAP) is a block grant program in which States (including territories and Indian tribes) design their own programs, within very broad Federal guidelines. There are four components of LIHEAP: (1) block grants, (2) energy emergency contingency funds, (3) leveraging incentive awards, and (4) the Residential Energy Assistance Challenge Option Program (REACH). The objectives of LIHEAP are to help low-income people meet the costs of home energy, defined as heating and cooling of residences, and to increase their energy self-sufficiency and reduce their vulnerability resulting from energy needs. A primary purpose is meeting immediate home energy needs. The target population is low income households, especially those with the lowest incomes and the highest home energy costs or needs in relation to income, taking into account family size. Additional targets are low income households with members who are especially vulnerable, including the elderly, persons with disabilities, and young children.

## II. PROGRAM PROCEDURES

### LIHEAP Block Grants

The Department of Health and Human Services (HHS), Administration for Children and Families (ACF), Office of Community Services, administers the LIHEAP program at the Federal level. LIHEAP block grant funds are distributed by formula to the States, the District of Columbia, and territories. In addition, Federally- or State-recognized Indian tribes (including tribal consortiums and organizations designated by them) have the option to request direct funding from ACF, rather than being served by the State in which they are located. Tribes that are directly funded by HHS receive a share of the funds that would otherwise be allotted to the States in which they are located, based on the number of eligible households in the tribal service area as a percentage of the eligible households in the State, or a larger amount agreed upon in a State/tribe agreement. Over half the States agree to give the tribes in their State a larger amount than required by the statute.

Each grantee is required to submit a plan/application annually in order to receive block grant funding. Grantees must allow for public participation in the development of their annual plan. A separate application is required for those LIHEAP grantees that wish to apply for leveraging incentive awards or a REACH grant.

### Energy Emergency Contingency Funds

In addition to appropriations for the LIHEAP block grant program, funds may be awarded to meet the additional home energy assistance needs of States for a natural disaster or other emergency. Contingency funds that are awarded generally must be used under the normal statutory and regulatory requirements that apply to the LIHEAP block grants, unless special conditions are placed upon their use at the time of the award.

## Leveraging Incentive Awards

Of the funds appropriated for LIHEAP each year, HHS is required to earmark a portion to reward those LIHEAP grantees that have acquired non-Federal resources to help low income persons meet their home heating and cooling needs, as an incentive to stretch the Federal dollars. This could involve the grantee or private organizations putting some of their own funds into LIHEAP or similar State or private programs, buying fuel at reduced or discount prices through bulk purchases or negotiated agreements, obtaining donations of weatherization materials or fuels, waiving utility fees, or any number of other activities. Awards in one year are based on leveraging activities carried out during the previous year.

## Residential Energy Assistance Challenge Option Program

Up to 25 percent of the funds earmarked for leveraging incentive awards each year may be set aside for the REACH to make competitive grants to LIHEAP grantees to help LIHEAP eligible households reduce their energy vulnerability. The purposes of REACH are: (1) to minimize health and safety risks that result from high energy burdens on low-income households; (2) to prevent homelessness as a result of inability to pay energy bills; (3) to increase efficiency of energy usage by low income families; and (4) to target energy assistance to individuals who are most in need. REACH grants are to be administered through community-based organizations. REACH grants are subject to special terms and conditions, which are specified in the grant awards.

## Source of Governing Requirements

The LIHEAP program is authorized under Title XXVI of the Omnibus Budget Reconciliation Act of 1981, as amended (Pub. L. No. 97-35, as amended, also known as OBRA 1981), which is codified at 42 USC 8621-8629. Implementing regulations for this and other block grant programs authorized by OBRA 1981 are published at 45 CFR part 96. Those regulations include general administrative requirements for the covered block grants programs (in lieu of either 45 CFR parts 74 (OMB Circular A-110) or 92 (A-102 Common Rule)). Requirements specific to LIHEAP are in 45 CFR sections 96.80 through 96.89. In addition, grantees are to administer their LIHEAP programs according to the plans which they have submitted to HHS.

As discussed in Appendix I of this Supplement, Federal Programs Excluded from the A-102 Common Rule, States are to use the fiscal policies that apply to their own funds in administering LIHEAP. Procedures must be adequate to assure the proper disbursal of and accounting for Federal funds paid to the grantee, including procedures for monitoring the assistance provided (42 USC 8624(b)(10); 45 CFR section 96.30).

Under the block grant philosophy, each State is responsible for designing and implementing its own LIHEAP program, within very broad Federal guidelines. States must administer their LIHEAP programs according to their approved plan and any amendments and in conformance with the their own implementing rules and policies.

## Availability of Other Program Information

The ACF LIHEAP page on the Internet (http://www.acf.dhhs.gov/programs/liheap) provides general information about this program.

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### A. Activities Allowed or Unallowed

The following guidelines apply to LIHEAP block grants and leveraging incentive award funds, unless noted otherwise. Energy emergency contingency funds generally are subject to the LIHEAP block grant requirements, but the contingency grant award letter should be reviewed to see if different requirements apply. REACH grants are subject to special rules described in the award.

1. LIHEAP funds may be used to assist eligible households to meet the costs of home energy, i.e., heating or cooling their residences (42 USC 8621(a) and 8624(b)(1)).

2. LIHEAP funds may be used to intervene in energy-related crisis situations, as defined by the grantee (42 USC 8623(c) and 8624(b)(1)).

3. LIHEAP funds may be used to conduct outreach activities (42 USC 8624(b)(1)).

4. Leveraging incentive awards must be used to increase or maintain heating, cooling, energy crisis, and weatherization benefits for low-income persons (45 CFR section 96.87(j)).

5. Leveraging incentive award funds may not be used for planning, developing, or administering the LIHEAP program (45 CFR section 96.87(j)).

6. LIHEAP funds may be used to provide low-cost residential weatherization and other cost-effective energy-related home repair (42 USC 8624(b)(1)).

7. LIHEAP grantees may use some or all of the rules applicable to the Department of Energy’s Low Income Weatherization Assistance Program (CFDA 81.042) for their LIHEAP funds spent on weatherization (42 USC 8624(c)(1)(D)).

8. LIHEAP funds may be used to provide services that encourage and enable households to reduce their home energy needs and thereby the need for energy assistance, including needs assessments, counseling, and assistance with energy vendors (42 USC 8624 (b)(16)).

9. LIHEAP funds (other than leveraging incentive award funds) may be used to identify, develop, and demonstrate leveraging programs (45 CFR section 96.87(c)).

10. No LIHEAP funds may be used for the purchase or improvement of land, or the purchase, construction, or permanent improvement (other than low-cost residential weatherization or other energy-related home repairs) of any building or other facility (42 USC 8628).

## B. Allowable Costs/Cost Principles

As discussed in Appendix I of this Supplement, Federal Programs Excluded from the A-102 Common Rule, LIHEAP is exempt from the provisions of OMB cost principles circulars. State cost principles requirements apply to LIHEAP.

## E. Eligibility

### 1. Eligibility for Individuals

Grantees may provide assistance to: (1) households in which one or more individuals are receiving Temporary Assistance for Needy Families (TANF), Supplemental Security Income (SSI), Food Stamps, or certain needs-tested veterans benefits; or (2) households with incomes which do not exceed the greater of 150 percent of the State's established poverty level, or 60 percent of the State median income. Grantees may establish lower income eligibility criteria, but no household may be excluded solely on the basis of income if the household income is less than 110 percent of the State's poverty level. Grantees may give priority to those households with the highest home energy costs or needs in relation to income (42 USC 8624(b)(2)).

### 2. Eligibility for Groups of Individuals or Area of Service Delivery- Not Applicable

### 3. Eligibility for Subrecipients

. To the extent it is necessary to designate local administrative agencies, the grantee is to give special consideration to local public or private nonprofit agencies (or their successor agencies) which were receiving energy assistance or weatherization funds under the Economic Opportunity Act of 1964 or other laws, provided that the grantee finds that they meet program and fiscal requirements set by the grantee (42 USC 8624(b)(6)).

## G. Matching, Level of Effort, Earmarking

1. **Matching** - Not Applicable

2. **Level of Effort** - Not Applicable

### 3. Earmarking

The following limitations apply to LIHEAP block grants and leveraging incentive award funds, as noted. Energy emergency contingency funds generally are subject to the requirements applicable to LIHEAP block grant funds, but the contingency grant award letter should be reviewed to see if different requirements were applied. REACH grants are subject to special rules described in the award.

a. *Planning and Administrative Costs*

(1) No more than 10 percent of the LIHEAP funds payable to the State for a Federal fiscal year may be used for planning and administrative costs, including both direct and indirect costs. This limitation applies, in the aggregate, to planning and administrative costs at both the State and subrecipient levels (42 USC 8624(b)(9)(A); 45 CFR section 96.88(a)).

(2) A tribal or territorial grantee may spend up to 20 percent of the first $20,000 and 10 percent of the amount above $20,000 for administration and planning (45 CFR section 96.88(b)).

(3) Leveraging incentive award funds may not be used for planning and administrative costs. However, either in the award year or the following fiscal year, they may be added to the base on which the maximum amount allowed for planning and administration is calculated (45 CFR section 96.87(j)).

b. *Weatherization*

(1) No more than 15 percent of the greater of the funds allotted or the funds available to the grantee for a Federal fiscal year may be used for low-cost residential weatherization or other energy-related home repairs. The Secretary may grant a waiver, and the grantee may then spend up to 25 percent for residential weatherization or energy-related home repairs (42 USC 8624(k)).

(2) Leveraging incentive award funds may be used for weatherization without regard to the weatherization maximum in the statute. However, they cannot be added to the base on which the weatherization maximum is calculated (45 CFR section 96.87(j)).

c. *Energy Need Reduction Services* - No more than five percent of the LIHEAP funds payable to the grantee may be used to provide services that encourage and enable households to reduce their home energy needs and thereby the need for energy assistance. Such services may include needs assessments, counseling, and assistance with energy vendors (42 USC 8624(b)(16)).

d. *Identifying and Developing Leveraging Programs*

(1) The greater of 0.08 percent of a State’s LIHEAP funds (other than leveraging incentive award funds) or $35,000 may be spent to identify, develop, and demonstrate leveraging programs, without regard to the limit on planning and administering LIHEAP (42 USC 8626a(c)(2); 45 CFR section 96.87(c)(2)).

(2) Indian tribes/tribal organizations and territories may spend up to the greater of two percent or $100 on such activities (45 CFR section 96.87(c)(1)).

## H. Period of Availability of Federal Funds

At least 90 percent of the LIHEAP block grant funds payable to the grantee must be obligated in the fiscal year in which they are appropriated. Up to 10 percent of the funds payable may be held available (or "carried over") for obligation no later than the end of the following fiscal year. Funds not obligated by the end of the following fiscal year must be returned to ACF. There are no limits on the time period for expenditure of funds (42 USC 8626).

Leveraging incentive award funds must be obligated in the year in which they are awarded or the following fiscal year, without regard to the carryover limit. However, they may not be added to the base on which the carryover limit is calculated (45 CFR sections 96.87(j)(1) and (k)). Funds not obligated within these time periods must be returned to ACF (45 CFR section 96.87(k)).

LIHEAP emergency contingency funds are generally subject to the same obligation and expenditure requirements applicable to the LIHEAP block grant funds, but the contingency award letter should be reviewed to see if different requirements were imposed.

## L. Reporting

1. **Financial Reporting** - Not Applicable

2. **Performance Reporting -** Not Applicable

3. **Special Reporting**

a. *LIHEAP Carryover and Reallotment Report (OMB No. 0970-0106)* - Grantees must submit a report no later then August 1 indicating the amount expected to be carried forward for obligation in the following fiscal year and the planned use of those funds. Funds in excess of the maximum carryover limit are subject to reallotment to other LIHEAP grantees in the following fiscal year, and must also be reported (42 USC 8626).

b. *Annual Report on Households Assisted by LIHEAP (OMB No. 0970-0060)* - As part of the application for block grant funds each year, a report is required for the preceding fiscal year of (1) the number and income levels of the households assisted for each component (heating, cooling, crisis, and weatherization), (2) the number of households served that contained young children, elderly, or persons with disabilities, and (3) the number and income levels of households applying for assistance. Territories with annual allowments of less than $200,000 and Indian tribes are required to report only on the number of households served for each component (42 USC 8629; 45 CFR section 96.82).

## IV. OTHER INFORMATION

As described in Part 4, Social Services Block Grant (SSBG) program (CFDA 93.667), Subpart III.A. Activities Allowed or Unallowed, a State may transfer up to 10 percent of its annual allotment under SSBG to this and six other block grant programs.

Amounts transferred into this program are subject to the requirements of this program when expended and should be included in the audit universe and total expenditures of this program when determining Type A programs. On the Schedule of Expenditures of Federal Awards, the amounts transferred in should be shown as expenditures of this program when such amounts are expended.

# DEPARTMENT OF HEALTH AND HUMAN SERVICES

## CFDA 93.569 COMMUNITY SERVICES BLOCK GRANT

## I. PROGRAM OBJECTIVES

The objective of the Community Services Block Grant (CSBG) program is to provide assistance to a network of community-based organizations for programs and services to ameliorate the causes and consequences of poverty and to revitalize low-income communities. CSBG can be used to fund programs and other activities that assist low-income individuals and families attain self-sufficiency; provide emergency assistance; support positive youth development; promote civic engagement; and improve the organization infrastructure for planning and coordination among multiple resources that address poverty conditions in the community.

## II. PROGRAM PROCEDURES

### Administration and Services

The CSBG program is administered at the Federal level by the Office of Community Services (OCS), Administration for Children and Families (ACF), a component of the Department of Health and Human Services (HHS). CSBG funds are awarded to States, Territories, and Federally and State-recognized Indian tribes and tribal organizations. Funds are distributed in accordance with a pre-established formula after submission of an application to OCS and acceptance of that application as complete in accordance with statutory requirements. In turn, States subgrant the CSBG funds according to statewide formulae to designated community-based non-profit organizations (and, in special circumstances, public organizations) that plan, develop and implement, and evaluate local programs.

### Source of Governing Requirements

The CSBG program was reauthorized under the Community Services Block Grant Act of 1998 (Pub. L. No. 105-285), and is codified at 42 USC 9901-9920. The implementing regulations for this and other block grant programs are published at 45 CFR part 96. Those regulations include both specific requirements and general administrative requirements for the covered block grant programs (in lieu of either 45 CFR part 74 (OMB Circular A-110) or 45 CFR part 92 (A-102 Common Rule)). Requirements specific to CSBG are in 45 CFR sections 96.90 through 96.92.

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should look first to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

## A. Activities Allowed or Unallowed

### 1. *Activities Allowed*

a. Subgrantees may use CSBG funds for any programs, services or other activities related to achieving the broad goals of the CSBG programs, such as reducing poverty, revitalizing low-income communities, and assisting low-income individuals and families. Funds may be used to:

(1) Promote economic self-sufficiency, employment, education and literacy, housing and civic participation.

(2) Support community youth development programs.

(3) Fill gaps in services through information dissemination, referrals, and case management.

(4) Provide emergency assistance through grants and loans, and provision of supplies, services and food stuffs.

(5) Secure more active involvement of the private sector, faith-based institutions, neighborhood-based organizations, and charitable groups.

(6) Plan, coordinate, and develop linages among public (Federal, States and local), private, and non-profit resources to improve their combined effectiveness in ameliorating poverty (42 USC 9901 and 42 USC 9908(b).

b. States may use retained funds to achieve CSBG program goals through activities, including, but not limited to:

(1) Training and technical assistance.

(2) Statewide coordination and communication among eligible entities.

(3) Analysis to better target the distribution of funds to the areas of greatest need.

(4) Individual development accounts and other asset-building programs for low-income individuals.

(5) Coordinating State-operated programs and services targeted to low-income children and families.

(6) State charity tax credits.

(7) Supporting innovative programs and activities conducted by community-based organizations to address the goals of the program.

(8) Administrative functions (42 USC 9901 and 9907(b)).

2. *Activities Unallowed*

a. Funds may not be used to purchase or improve land or to purchase, construct, or permanently improve buildings or facilities, other than low-cost residential weatherization or other energy-related home repairs (this limitation may be waived by ACF) (42 USC 9918(a)).

b. Funds may not be used to support any partisan or non-partisan political activity or to provide voters or prospective voters with transportation to the polls or provide similar assistance in connection with an election or any voter registration (42 USC 9918(b)).

**B. Allowable Costs/Cost Principles**

As discussed in Appendix I of this Supplement, Federal Programs Excluded from the A-102 Common Rule, the CSBG program is exempt from the provisions of OMB cost principles circulars at the State level. As a block grant, State cost principles requirements apply to CSBG at the State level. However, OMB administrative requirements and cost principles circulars do apply to subgrantees receiving CSBG funds (42 USC 9916(a)(1)(B)).

**E. Eligibility**

**1. Eligibility for Individuals**

The official poverty guideline as revised annually by HHS shall be used to determine eligibility. The poverty guidelines are issued each year in the *Federal Register* and on the HHS Website (http://aspe.os.dhhs.gov/poverty/poverty.htm). A State may adopt a revised poverty guideline but it may not exceed 125 percent of the HHS-determined poverty guidelines (42 USC 9902(2)).

**2. Eligibility of Groups of Individuals or Area of Service Delivery** - Not Applicable

**3. Eligibility for Subrecipients**

Subgrants may be made to the following entities, based on receipt of a community plan (42 USC 9908(b)(11):

a. A private non-profit organization (including migrant farm worker organization) with a pre-existing designation as an "eligible entity" immediately prior to enactment of the new CSBG Act on October 27, 1999, and with a governance mechanism meeting the tripartite governing board requirement specified in 42 USC 9910(a)).

b. A subdivision of State government with a pre-existing designation as an "eligible entity" immediately prior to enactment of the new CSBG Act, with a governance mechanism meeting either the "tripartite" board requirements or otherwise assuring decision-making and participation by low-income individuals in the development, planning, implementation, and evaluation of CSBG-funded programs (42 USC 9910(b))

c. A private non-profit organization or subdivision of State government newly designated by the State after October 27, 1999 as an "eligible entity" to provide services in an unserved area, in accordance with the criteria, requirements, and procedures specified by 42 USC 9909.

## G. Matching, Level of Effort, Earmarking

1. **Matching** - Not Applicable

2. **Level of Effort** - Not Applicable

3. **Earmarking**

   a. States must use at least 90 percent of the allotted funds for subgrants to eligible entities (42 USC 9907(a)(1)).

   b. State administrative expenses, including monitoring activities, may not exceed the greater of $55,000 or 5 percent of CSBG funds. Such expenditures must be made from the portion of funds remaining to a State after subgranting at least 90 percent of funds to eligible entities (42 USC 9907(b)(2)).

## H. Period of Availability of Federal Funds

CSBG funds granted by the State to subgrantees are available to the subgrantee for obligation during the fiscal year that the grant was made and in the following fiscal year (42 USC 9907(a)(2)).

However, beginning on October 1, 2000, if more than 20 percent of the funds granted by the State to a subgrantee in one fiscal year remain unobligated at the end of that fiscal year, a State may recapture and redistribute those funds. A State must either (1) redistribute the recaptured funds to an eligible entity located within the community served by the original subgrantee, or (2) require the original subgrantee to distribute the funds to a private non-profit organization within that community. Activities undertaken with redistributed funds must conform with the activities allowed under the CSBG Act (42 USC 9907(a)(3)).

## M. Subrecipient Monitoring

States must conduct full onsite reviews of each eligible subgrantee once every three years to check conformity with performance goals, administrative standards, financial management rules, and other requirements. States must conduct an onsite review of each newly designated entity immediately after the completion of the first year in which such entity receives CSBG funding. Follow-up reviews, including prompt return visits to eligible entities and their programs, are required for entities that fail to meet the goals, standards, and requirements established by the State (42 USC 9914(a)).

If a State finds a need for corrective action, the State must (1) inform the subgrantee of the deficiency and require correction; (2) offer training and technical assistance and report to OCS on that assistance, or explain why providing such assistance was not appropriate; (3) and receive an improvement plan from the subgrantee within 60 days, and approve (42 USC 9915). If the subgrantee fails to remedy the deficiency, the State may initiate proceedings to terminate the subgrantees eligibility or reduce its funding (42 USC 9908(b)(8) and 42 USC 9915(a)(5)).

# IV. OTHER INFORMATION

As described in Part 4, Social Services Block Grant (SSBG) program (CFDA 93.667), Subpart III.A. Activities Allowed or Unallowed, a State may transfer up to 10 percent of its annual allotment under SSBG to CSBG and six other block grant programs for support of health services, health promotion and disease prevention activities, low-income home energy assistance, or any combination of these activities.

Amounts transferred into the CSBG program are subject to the requirements of the CSBG program when expended and should be included in the audit universe and total expenditures of this program when determining Type A programs. On the Schedule of Expenditures of Federal Awards, the amounts transferred in should be shown as expenditures of this program when such amounts are expended.

# DEPARTMENT OF HEALTH AND HUMAN SERVICES

## CFDA 93.575 CHILD CARE AND DEVELOPMENT BLOCK GRANT
## CFDA 93.596 CHILD CARE MANDATORY AND MATCHING FUNDS OF THE CHILD CARE AND DEVELOPMENT FUND

## I. PROGRAM OBJECTIVES

The Child Care and Development Fund (CCDF) provides funds to States (including territories and Indian tribes) to increase the availability, affordability, and quality of child care services for low-income families where the parents are working or attending training or educational programs. The CCDF consolidates the Child Care and Development Block Grant and funding formerly provided to States through the child care programs under Title IV-A of the Social Security Act.

## II. PROGRAM PROCEDURES

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) repealed the child care programs under Title IV-A of the Social Security Act, i.e., Aid to Families with Dependent Children Child Care, Transitional Child Care and At-Risk Child Care, and required that all Federal child care funds be spent in accordance with the provisions of the amended Child Care and Development Block Grant program. While these Federal child care programs have been consolidated under a single set of eligibility requirements, there are three distinct funding sources. The three sources are the Discretionary Fund (CFDA 93.575), Mandatory Fund (CFDA 93.596), and the Matching Fund (CFDA 93.596). Additionally, under the Temporary Assistance for Needy Families (TANF) program (CFDA 93.558), a State may transfer TANF funds to CCDF and the funds transferred in are treated as Discretionary Funds (42 USC 606(d); 45 CFR section 98.54(a)).

### Administration and Services

The Child Care Bureau of the Administration for Children and Families (ACF), a component of the Department of Health and Human Services (HHS), administers the CCDF. To receive funds a State, territory or Indian Tribe must submit a plan containing specific information and assurances. The plan serves as the application for funding for States and territories and is effective for a two-year period. Tribes, in contrast, must submit a yearly application as well as a tribal plan. A tribe’s plan is also effective for two years. Tribes are generally subject to the same program requirements as States and territories, except as specifically noted below.

Following ACF approval of the plan (and application, in the case of tribes), funds are awarded based on statutory/regulatory formulas. State awards are not adjusted by separate direct Federal funding of counterpart tribal programs within the State. As long as statutory and regulatory requirements are met (e.g., that the States, territories and those Tribes receiving grants over $500,000 offer parents certificates for the purchase of child care services), grantees have broad flexibility in designing programs and offering services. For example, CCDF funds may be used in collaborative efforts with Head Start (CFDA 93.600) programs to provide comprehensive child care and development services for children who are eligible for both programs. In fact, the coordination and collaboration between Head Start and the CCDF is mandated by sections 640(g)(2)(D) and (E), and 642(c) of the Head Start Act (42 USC 9835(g)(2)(D) and (E); 42 USC 9837(c)) in the provision of full working day, full calendar year comprehensive services (42 USC 9835(a)(5)(v)). In order to implement such collaborative programs which share, for example, space, equipment or materials, grantees may blend several funding streams so that seamless services are provided.

**Source of Governing Requirements**

The Discretionary Fund (CFDA 93.575) is authorized by the Child Care and Development Block Grant Act of 1990, as amended by Title VI of the PRWORA of 1996 (Pub. L. No. 104-193; 42 USC 9858 - 9858q). The Mandatory and Matching Funds (CFDA 93.596) are authorized under section 418 of Title IV-A of the Social Security Act as amended by PRWORA (42 USC 618). The CCDF (i.e., all three funds) is subject to the implementing regulations at 45 CFR parts 98 and 99.

*Transition considerations*

Certain of the PRWORA provisions created new or changed requirements that negated or made obsolete some portions of the August 1992 version of 45 CFR parts 98 and 99. To the extent that a State, territory or Tribe adopted such provisions following PRWORA enactment (August 22, 1996), and prior to the publication of the revised regulations for CCDF (July 24, 1998), the language of the statute and, if appropriate, the State’s reasonable interpretation of the statutory language applies rather than the requirements of the earlier regulations. For example, PRWORA raised the upper eligibility limit that States may establish for families from 75 percent to 85 percent of State median income, which is a change from the 1992 regulations. Since this statutory change is clear, it should be controlling. In contrast, PRWORA also provides that "activities designed to provide comprehensive consumer education to parents and the public" is an allowable expense, but does not define what those activities might be. The State's reasonable interpretation may be accepted.

**Availability of Other Program Information**

The HHS Administration for Children and Families, Child Care Bureau Internet page titled "Welcome to the Child Care Bureau" (http://www.acf.dhhs.gov/programs/ccb/policy) provides general information on this program.

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

## A. Activities Allowed or Unallowed

1. Funds may be used for child care services in the form of certificates, grants or contracts (42 USC 9858c(c)(2)(A)).

2. Funds may be used for activities that improve the quality or availability of child care services, consumer education and parental choice (42 USC 9858e).

3. Funds may be used for any other activity that the State deems appropriate to promoting parental choice, providing comprehensive consumer education information to help parents and the public make informed choices about child care, providing child care to parents trying to achieve independence from public assistance, and implementing the health, safety, licensing and registration standards established in State regulations (42 USC 9858c(c)(3)(B)).

4. No funds may be expended through any grant or contract for child care services for any sectarian purpose or activity, including sectarian worship or instruction (42 USC 9858k(a)).

5. With regard to services to students enrolled in grades 1 through 12, no funds may be used for services provided during the regular school day, for any services for which the students receive academic credit toward graduation, or for any instructional services which supplant or duplicate the academic program of any public or private school (42 USC 9858k(b)).

6. Except for Tribes, no funds can be used for the purchase or improvement of land, or for the purchase, construction, or permanent improvement (other than minor remodeling) of any building or facility (42 USC 9858d(b)).

   Tribes may use funds for the construction and major renovation of child care facilities with ACF approval (42 USC 9858m(c)(6); 45 CFR section 98.84).

7. Except for sectarian organizations, funds may be used for the minor remodeling (i.e., renovation and repair) of child care facilities. For sectarian organizations, funds may be used for the renovation or repair of facilities only to the extent that it is necessary to bring the facility into compliance with the health and safety standards required by 42 USC 9858c(c)(2)(F) (42 USC 9858d(b)).

## C. Cash Management

Under the Matching Fund’s (CFDA 93.596) Maintenance of Effort (MOE) requirement, the drawdown of Federal cash should not exceed the Federally-funded portion of the combination of the Mandatory and Matching Funds (CFDA 93.596), taking into account the State MOE and State matching requirements. For example, the total expenditures for a year, i.e., the sum of: 1) the Mandatory Fund (CFDA 93.596), comprised of Federal funds only, 2) the State MOE requirement, and 3) the entire Matching Fund -- both State and Federal shares -- for a fiscal year is $100. Of this $100, the sum of the State MOE and the State share of the Matching Fund is $40. For any period, the amount of Federal funds drawn down should not exceed 60 percent of the total expenditures for that period (Department of the Treasury, Financial Management Service CMIA Policy Statement Number 19).

## E. Eligibility

### 1. Eligibility for Individuals

The approved plan provides the specific eligibility requirements selected by each State/territory/tribe. Those requirements must comply with the following Federal requirements for individual eligibility:

a. Children must be under age 13 (or up to age 19, if incapable of self care or under court supervision), who reside with a family whose income does not exceed 85 percent of State/territorial/tribal median income for a family of the same size, and reside with a parent (or parents) who is working or attending a job-training or education program; or are in need of, or are receiving, protective services (42 USC 9858n(4); 45 CFR section 98.20(a)).

b. The award of CCDF funds to an Indian tribe shall not affect the eligibility of any Indian child to receive CCDF services in the state or States in which the Tribe is located (45 CFR section 98.80(d)).

### 2. Eligibility for Groups of Individuals or Area of Service Delivery - Not Applicable

### 3. Eligibility for Subrecipients - Not Applicable

## G. Matching, Level of Effort, Earmarking

The matching and MOE requirements apply only to the Matching Fund (CFDA 93.596). The State's matching and MOE expenditures are closely related. For a State to receive the allotted share of the Matching Fund, the State must meet the MOE requirement and obligate the Mandatory Fund by year end (see H. Period of Availability of Funds). The matching and MOE amounts are reported on the CCDF Financial Report (ACF-696) (See L.1. Financial Reporting).

### 1. Matching

a. A State is eligible for Federal matching funds (limit specified in 42 USC 618 and 45 CFR section 98.63) only for those allowable State expenditures which exceed the State’s MOE requirement, provided all of the Mandatory Funds (CFDA 93.596) allocated to the State are also obligated by the end of the fiscal year (45 CFR section 98.53).

b. State expenditures will be matched at the Federal Medical Assistance Percentage (FMAP) rate for the applicable fiscal year. This percentage varies by State and is available on the Internet at http://www.hcfa.gov/medicaid/ofs%2Dffp.htm. To be eligible an activity must be allowable and be described in the approved State plan (45 CFR section 98.53).

c. Private or public donated funds may be counted as State expenditures for this purpose subject to the limitations in 45 CFR section 98.53.

d. No more than 20 percent of State matching claims may be for pre-Kindergarten services. The same expenditure may not be used for both MOE and matching purposes (45 CFR sections 98.53(d) and 98.53(h)).

**2.1 Level of Effort** - *Maintenance of Effort*

If a State requests Matching Funds (CFDA 93.596), State MOE (non-Federal) funds for child care activities must be expended in the year for which Matching Funds are claimed in an amount that is at least equal to the State's share of expenditures for fiscal year 1994 or 1995 (whichever is greater) under former Sections 402(g) and (i) of the Social Security Act (42 USC 618). Private or public donated funds may be counted as State expenditures for this purpose (45 CFR section 98.53).

No more than 20 percent of the MOE requirement may be met with State expenditures for pre-kindergarten services. The same expenditure may not be used for both MOE and matching purposes (45 CFR sections 98.53(d) and 98.53(h)).

**2.2 Level of Effort** - *Supplement Not Supplant* - Not Applicable

**3. Earmarking**

a. *Administrative Earmark* - A State/territory may not spend on administrative costs more than five percent of total CCDF awards expended (i.e., the total of CFDA 93.575 and 93.596) and any State expenditures for which Matching Funds (CFDA 93.596) are claimed (42 USC 9858c(c)(3)(C); 45 CFR section 98.52).

Tribes are allowed 15 percent of the amount expended under CFDA 93.575 and 93.596 for administrative costs. Tribes with at least 50 children under age 13 are provided a base amount of $20,000 which may be expended for any purpose consistent with the purpose and requirements of the CCDF. Tribes with fewer than 50 children who are members of a consortium receive a pro rata amount of the $20,000 in proportion to the number of children under age 13 in relation to 50. The base amount is not included in the amount against which the administrative earmark is calculated (45 CFR sections 98.61(c), 98.83(e), and 98.83(g)).

The following activities are not considered administrative costs (63 FR 39962):

- Eligibility determination and redetermination.
- Preparation and participation in judicial hearings.
- Child care placement.
- Recruitment, licensing, inspection, review and supervision of child care placements.
- Rate setting.
- Resource and referral services.
- Training of child care staff.
- Establishment and maintenance of computerized child care information systems.
- Establishing and operating a certificate program

b. *Quality Earmark* - States and territories must spend on quality and availability activities, as provided for in the State/territorial plan, not less than 4 percent of CCDF funds expended (i.e., the total of CFDA 93.575 and 93.596 funds) and any State expenditures for which Matching Funds (CFDA 93.596) are claimed (45 CFR section 98.51).

Only those Tribes receiving grants over $500,000 must spend at least four percent of CCDF funds expended on quality activities as described in the tribal plan/application. The $20,000 base amount is not included in the amount against which the quality earmark is calculated (45 CFR sections 98.51(a), 98.83(e), and 98.83(f)).

c. *Specific Earmark* - Congress may also specifically earmark funds for certain purposes. For example, in the fiscal year (FY) 1998 HHS appropriation, Congress specified three earmarks -- one for resource and referral and school-aged activities, another for activities to increase the supply of quality child care for infants and toddlers, and a third earmark of additional funds for quality improvement activities. When there is such an earmark, a separate award accompanied by specific terms and conditions is issued for these earmarked funds.

## H. Period of Availability of Federal Funds

1. Discretionary Funds (CFDA 93.575) must be obligated by the end of the succeeding fiscal year after award, and expended by the end of the third fiscal year after award (42 USC 9858h(c); 45 CFR section 98.60).

2. Mandatory Funds (CFDA 93.596) for States must be obligated by the end of the fiscal year in which they are awarded if the State also requests Matching Funds

(CFDA 93.596). If no Matching Funds are requested for the fiscal year, then the Mandatory Funds (CFDA 93.596) are available until expended (45 CFR section 98.60(d)).

3. Mandatory Funds (CFDA 93.596) for tribes must be obligated by the end of the succeeding fiscal year after award, and expended by the end of the third fiscal year after award (45 CFR section 98.60(e)).

4. Matching Funds (CFDA 93.596) must be obligated by the end of the fiscal year in which they are awarded, and expended by the end of the succeeding fiscal year after award (45 CFR section 98.60(d)).

For example, availability periods for FY 1999 funds awarded on any date in FY 1999 (October 1, 1998 through September 30, 1999):

| **If Source of Obligation Is --** | **Obligation must Be Made by End of --** | **Obligation must Be Liquidated by End of --** |
|---|---|---|
| Discretionary* (CFDA 93.575) | FY 2000 (i.e., by 9/30/00) | FY 2001 (i.e., by 9/30/01) |
| Mandatory (State) (CFDA 93.596) | FY 1999 (i.e., by 9/30/99 but ONLY if Matching Funds are used) | No requirement for liquidation by a specific date |
| Mandatory (Tribes) (CFDA 93.596) | FY 2000 (i.e., by 9/30/00) | FY 2001 (i.e., by 9/30/01) |
| Matching (CFDA 93.596) | FY 1999 (i.e., by 9/30/99) | FY 2000 (i.e., by 9/30/00) |

* TANF funds (CFDA 93.558) transferred to the CCDF during a fiscal year are treated as Discretionary Funds of the year they are transferred for purposes of the period of availability (45 CFR section 98.54(a)(1)).

## L. Reporting

1. Financial Reporting

   a. SF-269, *Financial Status Report* - Not applicable

   b. SF-270, *Request for Advance or Reimbursement* - Not Applicable

   c. SF-271, *Outlay Report and Request from Reimbursement for Construction Programs* - Not Applicable

   d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by HHS, Payment Management System (PMS). Reporting equivalent to the SF-272 is accomplished through the PMS and is evidenced by the PMS 272 series of reports.

e. *Child Care and Development Fund Financial Report* (ACF-696) *(OMB No 0970-0163)* is due quarterly from States and territories. The *Child Care and Development Fund Financial Report for Tribes* (ACF-696*T*, *OMB No. 0970-0195)* is required from tribes. These reports are in lieu of the SF-269, *Financial Status Report.* Each fiscal year's expenditure report must be separate, therefore, multiple reports may be required if awards from more than one fiscal year are expended in a given quarter. Any funds transferred from TANF are treated as Discretionary Funds for reporting on the ACF-696 (42 USC 604(d); 45 CFR section 98.54(a)).

2. **Performance Reporting** - Not Applicable

3. **Special Reporting** - Not Applicable

## IV. OTHER INFORMATION

Under the TANF program (CFDA 93.558), a State may transfer TANF funds to CCDF and the funds transferred are treated as Discretionary Funds under CCDF (42 USC 604(d); 45 CFR section 98.54(a)). The amounts transferred into CCDF should be included in the audit universe and in total expenditures of CCDF when determining Type A programs. On the Schedule of Expenditures of Federal Awards, the amount transferred in should be shown as CCDF expenditures when expended.

Also, as described in Part 4, Social Services Block Grant (SSBG) program (CFDA 93.667), Subpart III.A. Activities Allowed or Unallowed, a State may transfer up to 10 percent of its annual allotment under SSBG to this and six other block grant programs for support of health services, health promotion and disease prevention activities, low-income home energy assistance, or any combination of these activities.

Amounts transferred into this program from SSBG are subject to the requirements of this program when expended and should be included in the audit universe and total expenditures of this program when determining Type A programs. On the Schedule of Expenditures of Federal Awards, the amounts transferred in should be shown as expenditures of this program when such amounts are expended.

# DEPARTMENT OF HEALTH AND HUMAN SERVICES

## CFDA 93.600 HEAD START

## I. PROGRAM OBJECTIVES

The objectives of the Head Start and Early Head Start programs are to provide comprehensive health, educational, nutritional, social and other developmental services primarily to economically-disadvantaged preschool children (ages 3 to 5) and infants and toddlers (birth through age 3) so that the children will attain school readiness. Parents receive social services and participate in various decision-making processes related to the operation of the program.

## II. PROGRAM PROCEDURES

### Head Start Services

The Head Start program provides services in the following areas:

*Early Childhood Development and Health* - Head Start's educational program is designed to meet the needs of each child, the community served, and its ethnic and cultural characteristics. Every child receives a variety of learning experiences to foster intellectual, social, and emotional growth. Head Start also emphasizes the importance of the early identification of health problems. Every child is involved in a comprehensive health program, which includes immunizations, medical, dental, mental health, and nutritional services.

*Family and Community Partnerships* - An essential part of the Head Start program is the involvement of parents in parent education, program planning, and operating activities. Many parents serve as members of policy councils and committees and have a voice in administrative and managerial decisions. Participation in classes and workshops on child development and staff visits assist parents in identifying the needs of their children and about educational activities that can take place at home. Specific services are geared to each family after its needs are determined. They include community outreach; referrals; family need assessments; recruitment and enrollment of children; and emergency assistance or crisis intervention.

### Early Head Start

The 1994 Head Start Reauthorization (Pub. L. No. 103-252) established a new program for low-income pregnant women and families with infants and toddlers.

The purpose of this program is to enhance children's physical, social, emotional and cognitive development; enable parents to be better caregivers to and teachers of their children; and help parents meet their own goals, including that of economic independence.

### Administration and Services

Head Start programs operate in all 50 States, the District of Columbia, Puerto Rico, and the U.S. territories. Head Start grants are awarded for an indefinite project period, with an annual budget period which is specific to each grantee. Grants are awarded to public, non-profit, and for-profit organizations directly by the Administration for Children and Families (ACF) in the ten Department of Health and Human Service (HHS) Regional Offices and in Washington, DC.

Early Head Start grantees include Head Start grantees, school systems, universities, colleges, and other public and private entities. In all other respects, Early Head Start grants are subject to the same program performance standards and compliance requirements as Head Start grants; therefore, references to Head Start apply to both. Initial Head Start grants were for a five-year period. Beginning in FY 2000, however, all new Head Start grants were for an indefinite project period. For Early Head Start grantees that are also Head Start grantees, the Early Head Start program will no longer be a separate grant; instead, Early Head Start will be shown as a separate program account in the single grant document.

Grantees may also subgrant some or all of its operational responsibilities for a Head Start/Early Head Start grant to a "delegate agency." Delegate agencies (subrecipients) may be public, non-profit, or for-profit organizations.

Grantees may collaborate with other entities carrying out early childhood education and child care programs in the community, including those funded by the Child Care and Development Fund (CCDF) (93.575, 93.596) and Temporary Assistance to Needy Families (93.558). The coordination and collaboration between Head Start and the CCDF entity is mandated by sections 640(a)(5)(E), 640(g)(2)(D) and (E) and 642(c) of the Head Start Act (42 USC 9837(c)) in the provision of full-working day, full calendar year comprehensive services (42 USC 9835(a)(5)(C)(v).

**Source of Governing Requirements**

Head Start began in 1965 under the Office of Economic Opportunity and is now administered by the ACF, HHS. These programs are currently authorized under the Head Start Act (Title VI, Subtitle A, Chapter 8, Subchapter B of Pub. L. No. 97-35), as amended, which is codified at 42 USC 9831- 9843a. The implementing program regulations are 45 CFR parts 1301 through 1308.

**Availability of Other Program Information**

HHS Head Start Bureau home page on the Internet (http://www.acf.dhhs.gov/programs/hsb) provides general information about this program.

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### A. Activities Allowed Or Unallowed

1. Allowable services include, but are not limited to, health (medical, dental, nutrition, and mental health); education; social services; transportation; parent involvement; use of volunteers; career development for teachers, nonprofessional aides and other staff members; and special services for parents (e.g., literacy) (45 CFR part 1304, subparts B, C, and D).

2. Grant funds may, with specific ACF approval, be used for capital expenditures (including paying the cost of amortizing the principal, and paying interest on, loans) such as construction of new facilities, purchase of new or existing facilities, major renovations on existing facilities, and purchase of vehicles used for programs conducted at the Head Start facilities (42 USC 9839 (f) and (g)).

**B. Allowable Costs/Cost Principles**

Indirect costs attributable to common or joint use of facilities or services must be fairly allocated among the various programs which utilize such services (42 USC 9839(c); 45 CFR section 1301.32), except as provided for in section 640(a)(5)(E)(ii) of the Head Start Act. This provision exempts equipment and nonconsumable supplies from this requirement if Head Start is the predominate funding source for the activity (42 USC 9835(a)(5)(E)(ii)).

**G. Matching, Level of Effort, Earmarking Requirements**

**1. Matching**

Grantees are required to contribute at least 20 percent of the costs of the program through cash or in-kind contributions, unless a lesser amount has been approved by ACF (42 USC 9835 (b); 45 CFR sections 1301.20 and 1301.21).

**2. Level of Effort** - Not Applicable

**3. Earmarking**

a. The costs of developing and administering a Head Start program shall not exceed 15 percent of the annual total program costs, including the required non-Federal contribution to such costs (i.e., matching), unless a waiver has been granted by ACF. Development and administrative costs include, but are not limited to, the cost of organization-wide planning, coordination and general purpose direction, accounting and auditing, purchasing and personnel functions, and the cost of operating and maintaining space for these purposes (42 USC 9839(b); 45 CFR section 1301.32).

b. Enrollment levels must adhere to the levels specified in the financial assistance award.

(1) For grantees other than Indian tribes/tribal organizations, at least 90 percent of the enrollees must come from families whose income

is below the official Federal poverty guidelines or who are receiving public assistance (45 CFR section 1305.4).

(2) For tribal grantees, the percentage may be as low as 51 percent, providing certain conditions are met (45 CFR section 1305.4(b)(3)).

The poverty guidelines are issued each year in the *Federal Register* and HHS maintains a page on the Internet which provides the poverty guidelines (http://aspe.os.dhhs.gov/poverty/poverty.htm).

## L. Reporting

### 1. Financial Reporting

a. SF-269, *Financial Status Report* - Applicable

b. SF-270, *Request for Advance or Reimbursement* - Not Applicable

c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable

d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by HHS, Payment Management System (PMS). Reporting equivalent to the SF-272 is accomplished through the PMS and is evidenced by the PMS 272 series of reports.

## M. Subrecipient Monitoring

Grantees must establish and implement procedures for the ongoing monitoring of their own Early Head Start and Head Start operations, as well as those of their delegate agencies, to ensure that these operations effectively implement Federal regulations. Grantees must inform delegate agency governing bodies of any deficiencies in delegate agency operations identified in the monitoring review and must help them develop plans, including timetables, for addressing identified problems (45 CFR sections 1304.51(i)(2) and (3)).

## N. SPECIAL TESTS AND PROVISIONS

### 1. Licensing Requirement

**Compliance Requirement** - The facilities used by Early Head Start and Head Start grantees for regularly scheduled center-based and combination program option class room activities or home-based group socialization activities must comply with applicable State and local requirements concerning licensing (45 CFR section 1306.30(c)).

**Audit Objective** - Determine whether the grantee has the required license and the license is current.

**Suggested Audit Procedures**

a. Ascertain the applicable State and local licensing requirements.

b. Ascertain if the grantee holds the required license and that the license is current.

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

## CFDA 93.645 CHILD WELFARE SERVICES -- STATE GRANTS

## I. PROGRAM OBJECTIVES

The Child Welfare Services (CWS) program provides funds to State public welfare agencies, Indian Tribes, and Territories to improve their child welfare services in order to keep families together.

## II. PROGRAM PROCEDURES

The Department of Health and Human Services (HHS), Administration for Children and Families (ACF), Administration on Children, Youth and Families, Children's Bureau, administers the Child Welfare Service program on the Federal level. Funds are awarded directly to States and Indian Tribes. State agencies can have agreements and contracts with other public agencies and with private agencies for provision of appropriate services. Each State receives a base amount of $70,000. Additional funds are distributed in proportion to the State's population of children under age 21 multiplied by the complement of the State's average per capita income. The funds must go to, and be administered only by, the State child welfare agency or Indian Tribes or tribal organizations.

To be eligible for funds, each State and Indian Tribe must submit a five-year comprehensive State plan, the Child and Family Services State Plan (CFSP). This plan encompasses planning and service delivery for the full child welfare services spectrum. This includes: Title IV-B, Subpart 2, child abuse and prevention, foster care, adoption, and independent living services. The plan must include how the State or Indian Tribe intends to meet specific goals, provide services, and coordinate services. The ACF Regional Offices have approval authority for the CFSP.

### Source of Governing Requirements

The Child Welfare Services program is authorized under Title IV-B, Subpart 1 of the Social Security Act as amended, and is codified at 42 USC 620-628a. Implementing program regulations are published at 45 CFR parts 1355 and 1357.

## III. Compliance Requirements

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements**.

## A. Activities Allowed or Unallowed

1. Funds for CWS may be used to accomplish the following purposes:

    a. Protecting and promoting the welfare and safety of all children, including individuals with disabilities, homeless, dependent, or neglected children (45 CFR section 1357.10(c)(1));

    b. Preventing or remedying, or assisting in the solution of problems which may result in the neglect, abuse, exploitation, or delinquency of children (45 CFR section 1357.10(c)(2));

    c. Preventing the unnecessary separation of children from their families by identifying family problems and assisting families in resolving their problems and preventing the breakup of the family where the prevention of child removal is desirable and possible (45 CFR section 1357.10(c)(3));

    d. Restoring children who have been removed and may be safely returned to their families, by the provision of services to the child and the family (45 CFR section 1357.10(c)(4));

    e. Assuring adequate care of children away from their homes, in cases where the child cannot be returned home or cannot be placed for adoption (45 CFR section 1357.10(c)(5)); and

    f. Placing children in suitable adoptive homes, in cases where restoration to the biological family is not possible or appropriate (45 CFR section 1357.10(c)(6)).

2. Funds may not be used for the purchase or construction of facilities (45 CFR section 1357.30(f)).

## G. Matching, Level of Effort, Earmarking

### 1. Matching

The State and Indian Tribe match requirement is 25 percent of the Federal funds expended (42 USC 623 and 628). The State's contribution may be in cash, donated funds, and non-public third party in-kind contributions (45 CFR section 1357.30(e)(1)).

### 2. Level of Effort - Not Applicable

### 3. Earmarking - Not Applicable

## H. Period of Availability of Federal Funds

Funds under title IV-B, subpart 1, must be expended by September 30 of the fiscal year following the fiscal year in which the funds were awarded (45 CFR section 1357.30(i)).

## L. Reporting

### 1. Financial Reporting

a. SF-269, *Financial Status Report* - Applicable

b. SF-270, *Request for Advance or Reimbursement* - Not Applicable

c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable.

d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by HHS, Payment Management System (PMS). Reporting equivalent to the SF-272 is accomplished through the Payment Management System and is evidenced by the PMS-272 review of reports.

**2. Performance Reporting** - Not Applicable.

**3. Special Reporting** - Not Applicable.

# DEPARTMENT OF HEALTH AND HUMAN SERVICES

## CFDA 93.658 FOSTER CARE--TITLE IV-E

## I. PROGRAM OBJECTIVES

The objective of the Foster Care program is to help States provide safe, appropriate, 24-hour, substitute care for children who are under the jurisdiction of the administering State agency and need temporary placement and care outside their homes.

## II. PROGRAM PROCEDURES

### Administration and Services

The Foster Care program is administered at the Federal level by the Children's Bureau, Administration on Children, Youth and Families, Administration for Children and Families (ACF), a component of the Department of Health and Human Services (HHS). Funding is provided to the 50 States and the District of Columbia, based on a one-time plan and amendments, as required by changes in statutes, rules, and regulations submitted to and approved by the cognizant ACF Regional Administrator. This program is considered an open-ended entitlement program and allows the State to be funded at a specified percentage (Federal financial participation) for program costs for eligible children.

The designated State agency for this program, which is authorized under Title IV-E of the Social Security Act, as amended, also administers ACF funding provided for other Title IV-E programs, e.g., Adoption Assistance and Transition to Independent Living; Child Welfare Services and Family Support and Preservation (Title IV-B of the Social Security Act, as amended) and the Social Services Block Grant program (Title XX of the Social Security Act, as amended; CFDA 93.667).

### Source of Governing Requirements

The Foster Care program is authorized by Title IV-E of the Social Security Act, as amended (42 USC 670 *et seq.*).

As an HHS entitlement program, the Foster Care program is subject to 45 CFR part 74 (in lieu of the HHS implementation of the A-102 Common Rule), as specified in 45 CFR section 74.1(a)(3), and to Office of Management and Budget Circular A-87 (as implemented in "Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government," HHS Publication ASMB C-10, available on the Internet at http://www.hhs.gov/progorg/grantsnet/index2.htm). This program is also subject to 45 CFR part 95.

States are required to adopt and adhere to their own statutes and regulations for program implementation, consistent with the requirements of Title IV-E and the approved State plan.

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should look first to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements**.

### A. Activities Allowed or Unallowed

#### 1. Activities Allowed

a. Funds may be expended for Foster Care maintenance payments on behalf of eligible children, in accordance with the State's Foster Care maintenance payment rate schedule, to individuals serving as foster family homes, to child-care institutions, or to public or non-profit child-placement or child-care agencies. Such payments may include the cost of (and the cost of providing, including the associated administrative and operating costs of an institution) food, clothing, shelter, daily supervision, school supplies, personal incidentals, liability insurance with respect to a child, and reasonable travel to the child's home for visitation (42 USC 672(b)(1) and (2), (c)(2), and 675(4)).

b. Funds may be expended for training (including both short and long-term training at educational institutions through grants to such institutions or by direct financial assistance to students enrolled in such institutions) of personnel employed or preparing for employment by the agency administering the plan (42 USC 674(a)(3)(A)).

c. Funds may be expended for short-term training, including associated travel and per diem, of foster parents and staff of licensed or approved child-care institutions at the initiation of or during their period of care (45 CFR section 1356.60(c)(4)).

d. Funds may be expended for costs directly related to the administration of the program, including those associated with eligibility determination and redetermination; referral to services; placement; preparation for and participation in hearings and appeals; rate setting; recruitment and licensing of foster homes and institutions; and a proportionate share of related agency overhead (45 CFR section 1356.60(c)).

e. With any required ACF approval, funds may be expended for costs related to design, implementation and operation of a State-wide data collection system (45 CFR sections 1356.60(d) and 95.611).

### 2. Activities Unallowed

Costs of social services provided to a child, the child's family, or the child's foster family which provide counseling or treatment to ameliorate or remedy personal problems, behaviors, or home conditions are unallowable (45 CFR section 1356.60(c)(3)).

## B. Allowable Costs/Cost Principles

In addition to the requirements of OMB Circular A-87, States are subject to the cost allocation provisions and rules governing allowable costs of equipment of 45 CFR part 95, which references OMB Circular A-87 at 45 CFR section 95.507(a)(2) (45 CFR sections 1355.57, 95.503, and 95.705).

## E. Eligibility

### 1. Eligibility for Individuals

Foster Care benefits may be paid on behalf of a child only if all of the following requirements are met:

a. Foster Care maintenance payments are allowable only if the foster child was removed from his or her home by means of a judicial determination or pursuant to a voluntary placement agreement, as defined in 42 USC 672(f) (42 USC 672(a)).

   (1) If the removal was by judicial determination, the court action must have been initiated within 6 months of the child's removal from the home of a specified relative (42 USC 672(a)(4)) and must contain language to the effect that: (i) the child's remaining at home would be contrary to his or her welfare, and (ii) reasonable efforts have been made to prevent the removal and to make it possible for the child to safely return home (42 USC 672(a)).

   (2) If the removal was by a voluntary placement agreement, it must be followed within 180 days by a judicial determination to the effect that such placement is in the best interests of the child (42 USC 672(e); and 45 CFR section 1356.30(b)).

b. The child's placement and care are the responsibility of either the State agency administering the approved Title IV-E plan or any other public agency under a valid agreement with the cognizant State agency (42 USC 672(a)(2)).

c. A child must meet the eligibility requirements of the former Aid to Families with Dependent Children (AFDC) program (i.e., meet the State-established standard of need as of July 16, 1996, prior to enactment of the

Personal Responsibility and Work Opportunity Reconciliation Act). Unless the child is expected to graduate from a secondary educational institution before his or her 19th birthday, eligibility ceases at the child's 18th birthday (42 USC 672(a)).

d. The provider, whether a foster family home or a child-care institution must be licensed by the proper State Foster Care licensing authority. A child care institution is defined as a private child-care institution, or a public child-care institution which accommodates no more than 25 children, which is licensed or approved by the State in which it is situated, but does not include detention facilities, forestry camps, training schools, or facilities operated primarily for the purpose of detention of children who are determined to be delinquent (42 USC 671(a)(10) and 672(c)).

2. **Eligibility of Groups of Individuals or Area of Service Delivery** - Not Applicable

3. **Eligibility for Subrecipients** - Not Applicable

## F. Equipment and Real Property Management

Equipment that is capitalized and depreciated or is claimed in the period acquired and charged to more than one program is subject to 45 CFR section 95.707(b) in lieu of the requirements of the A-102 Common Rule and the HHS implementation at 45 CFR part 74 (45 CFR section 95.707(b)).

## G. Matching, Level of Effort , and Earmarking

### 1. Matching

The percentage of required State funding and associated Federal funding ("Federal financial participation" (FFP)) varies by type of expenditure as follows:

a. The percentage of Federal funding in foster care maintenance payments will be the Federal Medical Assistance Program percentage. This percentage varies by State and is available on the Internet (http://www.hcfa.gov/medicaid/ofs%2Dffp.htm) (42 USC 674(a)(1); 45 CFR section 1356.60(a)).

b. The percentage of Federal funding in expenditures for short- and long-term training at educational institutions of employees or prospective employees, and short-term training of current or prospective foster or adoptive parents and members of staff of State-licensed or State-approved child-care institutions (including travel and per diem) is 75 percent (42 USC 674(a)(3)(A) and (B); 45 CFR section 1356.60(b)).

c. The percentage of Federal funding for expenditures for planning, design, development, and installation and operation of a Statewide automated child welfare information system meeting specified requirements (and expenditures for hardware components for such systems) is 50 percent (42 USC 674(a)(3)(C) and (D); 45 CFR sections 1355.52 and 1356.60(d)).

d. The percentage of Federal funding of all other allowable administrative expenditures is 50 percent (42 USC 674 (a)(1)(E); 45 CFR section 1356.60(c)).

2. **Level of Effort** - Not Applicable

3. **Earmarking** - Not Applicable

## H. Period of Availability of Federal Funds

This program operates on a cash accounting basis and each year's funding and accounting is discrete. To be eligible for Federal funding, claims must be submitted to ACF within 2 years after the calendar quarter in which the State made the expenditure. This limitation does not apply to any claim resulting from a court-ordered retroactive adjustment (45 CFR sections 95.7, 95.13, and 95.19).

## L. Reporting

### 1. Financial Reporting

a. SF-269, *Financial Status Report* - Not Applicable

b. SF-270, *Request for Advance or Reimbursement* - Not Applicable

c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable

d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the HHS, Payment Management System (PMS). Reporting equivalent to the SF-272 is accomplished through the PMS and is evidenced by the PMS-272 series of reports.

e. ACF-Title IV-E-1, *Foster Care and Adoption Assistance Financial Report (OMB No. 0970-0205)* - States report current expenditures for the previous quarter, and estimate costs for the next quarter. States may also report adjustments to prior quarter costs for the prior two years.

*Key Line Items* - The following line items contain critical information.

Part 1, Foster Care, columns (a) through (d)
Part 2, Foster Care, columns (a) through (d)

2. **Performance Reporting** - Not Applicable

3. **Special Reporting** - Not Applicable

# DEPARTMENT OF HEALTH AND HUMAN SERVICES

## CFDA 93.659 ADOPTION ASSISTANCE (Title IV-E)

## I. PROGRAM OBJECTIVES

The objective of the Adoption Assistance program is to facilitate the placement of hard to place children in permanent adoptive homes and thus prevent long, inappropriate stays in foster care.

## II. PROGRAM PROCEDURES

### Administration and Services

The Adoption Assistance program is administered at the Federal level by the Children's Bureau, Administration on Children, Youth and Families, Administration for Children and Families (ACF), a component of the Department of Health and Human Services (HHS). The Adoption Assistance program provides funds to States for adoption assistance agreements with parents who adopt eligible children with special needs. Federal matching funds are provided to States that provide adoption assistance subsidy payments to parents who adopt Aid for Families with Dependent Children (AFDC) eligible (i.e., meet the State-established standard of need as of July 16, 1996, prior to enactment of the Personal Responsibility and Work Opportunity Reconciliation Act) or children eligible for Supplemental Security Insurance (SSI) with special needs. An adoption assistance agreement is a written agreement between the adoptive parents, the State IV-E agency, and other relevant agencies (such as a private adoption agency) specifying the nature and amount of assistance to be given on a monthly basis to parents who adopt eligible special needs children. A child with special needs is defined as a child who the State has determined cannot or should not be returned home; has a specific factor or condition, as defined by the State, because of which it is reasonable to conclude that the child cannot be adopted without financial or medical assistance; and for whom a reasonable effort has been made to place the child without providing financial or medical assistance (42 USC 673(a)(2)).

Funding is provided to the 50 States and the District of Columbia, based on a one-time State plan and amendments, as required by changes in statutes, rules and regulations submitted to and approved by the cognizant ACF Regional Administrator. The Adoption Assistance program is an open-ended entitlement program. Federal financial participation in State expenditures for adoption assistance agreements is provided at the Medicaid match rate for medical assistance payments, which varies among States. Monthly payments to families and institutions made on behalf of eligible adopted children also vary from State to State. Federal financial participation is made at an open-ended 50 percent match rate for State administrative expenditures and at an open-ended 75 percent for State training expenditures. In addition, the program authorizes Federal matching funds for States that reimburse the non-recurring adoption expenses of adoptive parents of special needs children (regardless of AFDC or SSI eligibility).

The designated State agency for this program also administers ACF funding provided for other Social Security Act programs (e.g., Foster Care and Transition to Independent Living; Child Welfare Services and Promoting Safe and Stable Families (Title IV-B of the Social Security Act, as amended) and the Social Services Block Grant program (Title XX of the Social Security Act, as amended).

**Source of Governing Requirements**

The Adoption Assistance program is authorized by Title IV-E of the Social Security Act, as amended (42 USC 670 *et seq.*). Implementing regulations are published at 45 CFR parts 1355 and 1356. States are to implement the program according to their State plan, which is submitted to HHS for approval.

As an HHS entitlement program, the Adoption Assistance program is subject to 45 CFR part 74 (in lieu of the HHS implementation of the A-102 Common rule), as specified in 45 CFR section 74.1(a)(3), and to Office of Management and Budget Circular A-87 (as implemented in "Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost rates for Agreements with the Federal government," HHS Publication ASMB C-10, available on the Internet at www.hhs.gov/progorg/grantsnet/index2.htm. This program is also subject to 45 CFR part 95.

States are required to adopt and adhere to their own statutes and regulations for program implementation, consistent with the requirements of Title IV-E and the approved State Plan.

**Availability of Other Program Information**

The Children's Bureau manages a policy issuance system that provides further clarification of the law and guides States in implementing the Adoption Assistance program. This information may be accessed on the Internet at www.acf.dhhs.gov/programs/cb/policy.htm.

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### A. Activities Allowed or Unallowed

1. *Adoption Assistance Subsidies* - Funds may be expended for adoption assistance agreement subsidy payments, in accordance with the State's foster care maintenance payment rate schedule; administrative payments for expenses associated with placing children in adoption; and training of professional staff and parents involved in adoptions. Subsidy payments are made to adoptive parents based on the need of the child and the circumstances of the adopting parents (42 USC 673(a)(2)). Adoption assistance subsidy payments cannot exceed the foster care maintenance payment the child would have received in a foster family home; however, the amount of the subsidy payments may be up to 100 percent of the foster care maintenance payment rate (42 USC 673(a)(3)).

2. *Administrative Costs*

   a. *Program Administration* - Funds may be expended for costs directly related to the administration of the program. State cost allocation plans will identify which costs are allocated and claimed under this program (45 CFR section 1356.60(c)).

   b. *Nonrecurring Costs* - Funds may be expended by a State under an adoption assistance agreement for nonrecurring expenses (45 CFR section 1356.41). Nonrecurring adoption expenses are defined as reasonable and necessary adoption fees, court costs, attorney fees and other expenses that are directly related to the legal adoption of a child with special needs. Other expenses may include those costs of adoption incurred by or on behalf of the adoptive parents, such as, the adoption study, health and psychological examination, supervision of the placement prior to adoption, transportation and the reasonable costs of lodging and food for the child and/or the adoptive parents when necessary to complete the placement or adoptions process (45 CFR section 1356.41).

3. *Training*

   a. Funds may be expended for short-term training of current or prospective adoptive parents and members of staff of State-licensed or State-approved child care institutions (including travel and per diem) at the initiation of or during their provision of care (42 USC 674(a)(3)(B) and 45 CFR section 1356.60(c)(4)).

   b. Funds may be expended for training (including both short- and long-term training at educational institutions through grants to such institutions or by direct financial assistance to students enrolled in such institutions) of personnel employed or preparing for employment by the agency administering the plan (42 USC 674(a)(3)(A)).

## B. Allowable Costs/Cost Principles

In addition to the requirements of OMB Circular A-87, States are subject to the cost allocation provisions and rules governing allowable costs of equipment of 45 CFR part 95, which references OMB Circular A-87 at 45 CFR section 95.507(a)(2) (45 CFR sections 1355.57, 95.503 and 95.705).

## E. Eligibility

### 1. Eligibility for Individuals

   a. Adoption assistance subsidy payments may be paid on behalf of a child only if all of the following requirements are met:

(1) The child is Title IV-E foster care eligible; is eligible for the former Aid to Families with Dependent Children (AFDC) program (i.e., meet the State-established standard of need as of July 16, 1996, prior to enactment of the Personal Responsibility and Work Opportunity Reconciliation Act); or is eligible for SSI (42 USC 673(a)(2)(A)).

(2) The child was determined by the State to be a child with special needs (42 USC 673(c)).

(3) The State has made reasonable efforts to place the child for adoption without a subsidy (42 USC 673(c)).

(4) The agreement for the subsidy was signed and was in effect before the final decree of adoption and contains information concerning the nature of services; the amount and duration of the subsidy; the child's eligibility for Title XX services and Title XIX Medicaid; and covers the child should he/she move out of State with the adoptive family (42 USC 675(3)).

b. Nonrecurring expenses of adoption may be paid on behalf of a child only if all of the following requirements are met:

(1) The agreement, as a separate document or part of an agreement for State or Federal Adoption assistance payment or services, was signed prior to the final decree of adoption (45 CFR section 1356.41).

(2) The agreement indicates the nature and amount of the nonrecurring expenses to be paid (45 CFR section 1356.41(a)).

(3) The State has determined that the child is a child with special needs (45 CFR section 1356.41(d)).

(4) The child has been placed for adoption in accordance with applicable State and local laws (45 CFR section 1356.41(d)).

c. There may be no income eligibility requirement (means test) for the prospective adoptive parent(s) in determining eligibility for adoption assistance subsidy payments or nonrecurring expenses of adoption (45 CFR sections 1356.40(c) and 1356.41(c)).

2. **Eligibility for Group of Individuals or Area of Service Delivery** - Not Applicable

3. **Eligibility for Subrecipients** - Not Applicable

## F. Equipment and Real Property Management

Equipment that is capitalized and depreciated or is claimed in the period acquired and charged to more than one program is subject to 45 CFR section 95.707(b) in lieu of the requirements of the A-102 Common Rule (and the HHS implementation at 45 CFR part 74) (45 CFR section 95.707(b)).

## G. Matching, Level of Effort, and Earmarking

### 1. Matching

The percentage of required State funding and associated Federal funding ("Federal financial participation" (FFP)) varies by type of expenditure as follows:

a. *Adoption Assistance Subsidy Payments* - The percentage of Title IV-E funding in adoption assistance subsidy payments will be the Federal Medical Assistance Program percentage. This percentage varies by State and is available on the Internet at aspe.os.dhhs.gov/health/fmap.htm (42 USC 674(a)(1); 45 CFR section 1356.60(a)).

b. *Training* - The percentage of Federal funding in expenditures for short- and long-term training at educational institutions of employees or prospective employees, and short-term training of current or prospective foster or adoptive parents and members of staff of State-licensed or State-approved child care institutions (including travel and per diem) is 75 percent (42 USC 674(a)(3)(A) and (B); 45 CFR section 1356.60(b)).

b. *Administrative Costs*

(1) The percentage of Federal funding for expenditures for planning, design, development, and installation and operation of a Statewide automated child welfare information system meeting specified requirements (and expenditures for hardware components for such systems) is 50 percent (42 USC 674(a)(3)(C) and (D); 45 CFR sections 1355.52 and 1356.60(d)).

(2) The percentage of Federal funding of all other allowable administrative expenditures, is 50 percent (42 USC 674 (a)(3)(E); 45 CFR sections 1356.41(f) and 1356.60(c)).

### 2. **Level of Effort** - Not Applicable

### 3. **Earmarking** - Not Applicable

## H. Period of Availability of Federal Funds

This program operates on a cash accounting basis and each year's funding and accounting is discrete. To be eligible for Federal funding, claims must be submitted to ACF within two years after the calendar quarter in which the State made the expenditure. This limitation does not apply to any claim for an adjustment to prior year costs or resulting from a court-ordered retroactive adjustment (45 CFR sections 95.7, 95.13 and 95.19).

## L. Reporting

### 1. Financial Reporting

a. SF-269, *Financial Status Report* - Not Applicable

b. SF-270, *Request for Advance or Reimbursement* - Not Applicable

c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable

d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the HHS, Payment Management System (PMS). Reporting equivalent to the SF-272 is accomplished through the PMS and is evidenced by the PMS-272 series of reports.

e. ACF-IV-E-1, *Foster Care and Adoption Assistance Financial Report* (*OMB No. 0970-0205*) - States report current expenditures for the previous quarter. States may also report adjustments to prior quarter costs for the prior two years.

*Key Line Items* - The following items contain critical information.

Part 1, Adoption Assistance, columns (a) through (d)
Part 2, Adoption Assistance, columns (a) through (d)
Part 4, Demonstration Projects, columns (a) through (d) (applicable only for States with approved Title IV-E waiver demonstration)

### 2. **Performance Reporting** - Not Applicable

### 3. **Special Reporting** - Not Applicable

# DEPARTMENT OF HEALTH AND HUMAN SERVICES

## CFDA 93.667 SOCIAL SERVICES BLOCK GRANT

## I. PROGRAM OBJECTIVES

The purpose of the Social Services Block Grant (SSBG) program is to provide funds to States (including the District of Columbia and five territories) to provide services for individuals, families, and entire population groups in one or more of the following areas: (1) achieving or maintaining economic self-support and self-sufficiency to prevent, reduce, or eliminate dependency; (2) preventing or remedying neglect, abuse, or exploitation of children and adults unable to protect their own interests; (3) preserving, rehabilitating, or reuniting families; (4) preventing or reducing inappropriate institutional care by providing for community-based care, home-based care, or other forms of intensive care; and (5) securing referral or admission for institutional care when other forms of care are not appropriate, or providing services to individuals in institutions.

## II. PROGRAM PROCEDURES

### Administration and Services

The SSBG program is administered by the Administration for Children and Families (ACF), a component of the Department of Health and Human Services (HHS). Funds are awarded based on the State's population following receipt and review of the State's report on the proposed use of funds for the coming year, which serves as the State's plan. States have the flexibility to determine what services will be provided, consistent with the statutory goals and objectives, who is eligible, and how funds will be distributed among services and entities within the State, including whether to provide services directly or obtain them from other public or private agencies and individuals. The State must also conduct a public hearing on the proposed use and distribution of funds, as included in the report, as a prerequisite to the receipt of SSBG funds.

### Source of Governing Requirements

The SSBG program is authorized under Title XX of the Social Security Act, as amended, and is codified at 42 USC 1397 through 1397e. The implementing regulations for this and other block grant programs authorized by Omnibus Budget Reconciliation Act of 1981 are published at 45 CFR part 96. Those regulations include both specific requirements and general administrative requirements (in lieu of either 45 CFR part 74 (OMB Circular A-110) or part 92 (A-102 Common Rule)) for the covered block grant programs. Requirements specific to SSBG are in 45 CFR sections 96.70 through 96.74.

As discussed in Appendix I of this Supplement, Federal Programs Excluded from the A-102 Common Rule, States are to use the fiscal policies that apply to their own funds in administering SSBG. Procedures must be adequate to assure the proper disbursal of and accounting for Federal funds paid to the grantee, including procedures for monitoring the assistance provided (45 CFR section 96.30).

Under the block grant philosophy, each State is responsible for designing and implementing its own SSBG program, within very broad Federal guidelines. States must administer their SSBG program according to their approved plan and any amendments and in conformance with the their own implementing rules and policies.

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### A. Activities Allowed or Unallowed

1. Services provided with SSBG funds may include, but are not limited to, child care services, protective services for children and adults, services for children and adults in foster care, services related to the management and maintenance of the home, day care services for adults, transportation services, family planning services, training and related services, employment services, information, referral, counseling services, the preparation and delivery of meals, health support services and appropriate combinations of services designed to meet the special needs of children, the aged, the mentally retarded, the blind, the emotionally disturbed, the physically handicapped, and alcoholics and drug addicts (42 USC 1397a(a)). Uniform definitions for these services are included in Appendix A to 45 CFR part 96 - Uniform Definitions of Services.

   Expenditures for these services may include expenditures for administration, including planning and evaluation, personnel training and retraining directly related to the provision of those services (including both short- and long-term training at educational institutions), and conferences and workshops and assistance to individuals participating in such activities (42 USC 1397a(a)).

2. A State may purchase technical assistance from public or private entities if the State determines that such assistance is required in developing, implementing or administering the SSBG program (42 USC 1397a(e)).

3. A State may transfer up to 10 percent of its annual allotment to the following block grants for support of health services, health promotion and disease prevention activities, low-income home energy assistance, or any combination of these activities: Preventive Health and Health Services Block Grant (CFDA 93.991); Block Grants for Prevention and Treatment of Substance Abuse (CFDA 93.959); Maternal and Child Health Services Block Grant to the States (CFDA 93.994); Low-Income Home Energy Assistance (CFDA 93.568); Temporary Assistance for Needy Families (CFDA 93.558); Child Care and Development Fund (CFDA 93.575 and 93.596); and Community Services Block Grant (93.569) (42 USC 1397a(d); 45 CFR section 96.72).

4. Funds may not be used for:

a. Purchase or improvement of land, or the purchase, construction, or permanent improvement (other than minor remodeling) of any facility (unless the restriction is waived by ACF) (42 USC 1397(d)(a)(1)).

b. Cash payments for costs of subsistence or for the provision of room and board (other than costs of subsistence during rehabilitation, room and board provided for a short term as an integral but subordinate part of a social service, or temporary shelter provided as a protective service) (42 USC 1397(d)(a)(2)).

c. Wages of any individual as a social service (other than payment of wages of Temporary Assistance for Needy Families (TANF) (CFDA 93.558) recipients employed in the provision of child day care services) (42 USC 1397(d)(a)(3)).

d. Medical care (other than family planning services, rehabilitation services, or initial detoxification of an alcoholic or drug-dependent individual) unless it is an integral but subordinate part of an allowable social service under SSBG (unless the restriction is waived by ACF) (42 USC 1397(d)(a)(4)).

e. Social services (except services to an alcoholic or drug-dependent individual or rehabilitation services) provided in and by employees of any hospital, skilled nursing facility, intermediate care facility, or prison, to any individual living in such institution (42 USC 1397(d)(a)(5)).

f. The provision of any educational service which the State makes generally available to its residents without cost and without regard to their income (42 USC 1397(d)(a)(6)).

g. Any child day care services unless such services meet applicable standards of State and local law (42 USC 1397(d)(a)(7)).

h. The provision of cash payments as a service (this limitation does not apply to payments to individuals with respect to training or attendance at conferences or workshops) (42 USC 1397(d)(a)(8)).

i. Any item or service (other than an emergency item of service) furnished by an entity, physician, or other individual during the period of exclusion from reimbursement by various provisions of Federal regulations (42 USC 1397(d)(a)(9)).

## B. Allowable Costs/Cost Principles

As discussed in Appendix I of this Supplement, Federal Programs Excluded from the A-102 Common Rule, SSBG is exempt from the provisions of OMB cost principles circulars. State cost principles requirements apply to SSBG.

## G. Matching, Level of Effort, Earmarking

1. **Matching -** Not Applicable

2. **Level of Effort** - Not Applicable

3. **Earmarking**

The State shall use all of the amount transferred in from TANF (CFDA 93.558) for only for programs and services to children or their families whose income is less than 200 percent of the official poverty guideline as revised annually by HHS (42 USC 604(d)(3)(A) and 9902(2)). Additional information on this transfer in is provided in IV. Other Information.

The poverty guidelines are issued each year in the *Federal Register* and HHS maintains a page on the Internet which provides the poverty guidelines (http://aspe.os.dhhs.gov/poverty/poverty.htm).

## H. Period of Availability of Federal Funds

SSBG funds must be expended by the State in the fiscal year allotted or in the succeeding fiscal year (42 USC1397a(c)).

# IV. OTHER INFORMATION

*Transfers out of SSBG*

As discussed in III.A, Activities Allowed or Unallowed, funds may be transferred out of SSBG to other Federal programs. The amounts transferred out of SSBG are subject to the requirements of the program into which they are transferred and should not be included in the audit universe and total expenditures of SSBG when determining Type A programs. On the Schedule of Expenditures of Federal Awards, the amount transferred out should not be shown as SSBG expenditures but should be shown as expenditures for the program into which they are transferred.

*Transfers into SSBG*

A State may transfer up to 10 percent of the combined total of the State family assistance grant, supplemental grant for population increases, and bonus funds for high performance and illegitimacy reduction, if any, (all part of TANF) for a given fiscal year to carry out programs under the SSBG. Such amounts may be used only for programs or services to children or their families whose income is less than 200 percent of the poverty level. The amount of the transfers is reflected on the quarterly *Temporary Assistance for Needy Families (TANF) ACF-196 Financial Report*. The amounts transferred into this program are subject to the requirements of this program when expended and should be included in the audit universe and total expenditures of this program when determining Type A programs. On the Schedule of Expenditures of Federal Awards, the amounts transferred in should be shown as expenditures of this program when such amounts are expended.

# DEPARTMENT OF HEALTH AND HUMAN SERVICES

## CFDA 93.767 STATE CHILDREN'S INSURANCE PROGRAM (SCHIP)

## I. PROGRAM OBJECTIVES

Title XXI of the Social Security Act (Act) authorizes a new State Children's Health Insurance Program (SCHIP) to assist State efforts in initiating and expanding the provision of child health assistance to uninsured, low-income children. Under title XXI, States may provide child health assistance primarily for obtaining health benefits coverage through (1) obtaining coverage under a separate child health program that meets specific requirements; (2) expanding benefits under the State's Medicaid plan under Title XIX of the Act; or (3) a combination of both. To be eligible for funds under this program, States must submit a State child health plan (State plan), which must be approved by the Secretary.

## II. PROGRAM PROCEDURES

### Administration and Services

At the Federal level, SCHIP is administered by the Department of Health and Human Services, through the Center for Medicaid and State Operations (CMSO) of the Health Care Financing Administration (HCFA).

Title XXI authorizes grants to States that initiate or expand health insurance programs for low-income, uninsured children. Under title XXI, SCHIP is jointly financed by the Federal and State governments and is administered by the States. Within broad Federal guidelines, each State determines the design of its program, eligible groups, benefit packages, payment levels for coverage and administrative and operating procedures. SCHIP provides a capped amount of funds to States on a matched basis for fiscal years (FY) 1998 through 2007. Federal payments under Title XXI to States are based on State expenditures under approved plans that could be effective on or after October 1, 1997.

Title XXI State plans and amendments to those plans are approved in HCFA's central office. The plans are submitted for review by an intra-Departmental team, which must decide upon approval or disapproval within a 90-day period. This "90-day clock" can be stopped by sending a formal written request for additional information from the State, to be restarted at the same point when a response is formally received.

### Source of Governing Requirements

Section 490l of the Balanced Budget Act of 1997 (BBA), Public Law 105-33, as amended by Public Law 105-100, added Title XXI to the Social Security Act. Title XXI authorizes SCHIP to assist State efforts to initiate and expand the provision of child health assistance to uninsured, low-income children. Title XXI is codified at 43 USC 1397aa-1397jj.

**Availability of Other Program Information**

States and other interested parties can access information on the Department's policies on this and other issues on the Internet at www.hcfa.gov.

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### A. Activities Allowed or Unallowed

1. **Activities Allowed** - States have general flexibility in allocating the individual allotments toward activities needed to conduct the SCHIP program (42 USC 1397ee(a)). In addition to expenditures for child health assistance under the plan for targeted low-income children, other allowable activities, to the extent permitted by 42 USC 1397ee(c), include payment of other child health assistance for targeted low-income children; expenditures for health services initiatives for improving the plan; and expenditures for outreach activities (42 USC 1397ee(a)).

2. **Activities Unallowed** - Federal funds may not be expended under the State plan to pay for any abortion or to assist in the purchase, in whole or in part, of health coverage that includes coverage of abortion, except if necessary to save the life of the mother or if the pregnancy is the result of incest or rape (42 USC 1397ee(c)(7)).

### E. Eligibility

1. **Eligibility for Individuals**

   States have flexibility in determining eligibility levels for individuals for whom the State will receive enhanced matching funds within the guidelines established under the Act. Generally, a State may not cover children with higher family income without covering children with a lower family income nor deny eligibility based on a child having a preexisting medical condition. States are required to include a description of the standards used to determine eligibility of targeted low-income children. State plans should be consulted for specific information concerning individual eligibility requirements (42 USC 1397bb(b)).

2. **Eligibility for Group of Individuals or Area of Service Delivery** - Not Applicable

3. **Eligibility for Subrecipients** - Not Applicable

### G. Matching, Level of Effort, Earmarking

## 1. Matching

The State matching rate for its SCHIP expenditures is determined in accordance with the Federal matching rate for such expenditures, referred to as the enhanced Federal medical assistance percentage (Enhanced FMAP) for a State (42 USC 1397ee(a)). That is, the SCHIP State matching rate is the difference between 100 percent and the State's Enhanced FMAP. FMAP refers to the Federal matching rate for a State's expenditures under the Medicaid program. The Enhanced FMAP is calculated in accordance with 42 USC 1397ee(b) and in no case shall the Enhanced FMAP for a State exceed 85 percent. Calculated FMAPs and enhanced FMAPs may be found on the Internet at aspe.hhs.gov/health/fmap.htm.

## 2.1 Level of Effort - *Maintenance of Effort*

a. In order to receive Federal matching funds for SCHIP expenditures, each State must continue to maintain its Medicaid eligibility standards and the methodologies that were applied in its Medicaid State plans as of June 1, 1997. If a State wishes to draw down Title XXI funds at the enhanced matching rate, it must maintain the Medicaid eligibility requirements that were effective as of March 31, 1997 (42 USC 1397ee(d)(1) and 42 USC 1397jj(b)).

b. Three States, New York, Florida and Pennsylvania, maintain "existing comprehensive State-based programs." For these three States only, beginning with FY 1999, the amount of the State's allotment for a fiscal year is reduced by the amount that the "State children's health insurance expenditures" for the previous fiscal year is less than the total of such expenditures for FY 1996. For purposes of this provision, the term "State children's health insurance expenditures" means: the State share of Title XXI (SCHIP) expenditures; the State share of expenditures under Title XIX (Medicaid) attributable to an enhanced FMAP under 42 USC 1396d(u) of the Act; and State expenditures under health benefits coverage under an existing comprehensive State-based program (42 USC 1397cc(d)(1) and 42 USC 1397ee(d)(2)).

## 2.2 Level of Effort - *Supplement Not Supplant* - Not Applicable

## 3. Earmarking

Expenditures not directly related to providing child health insurance assistance under their plan are limited to 10 percent of the State's total expenditures on health benefits through SCHIP. The following expenditures are subject to the 10 percent limit: (1) payment for other child health assistance for targeted low-income children; (2) expenditures for health services initiatives under the State child health assistance plan for improving the health of children; (3) expenditures for outreach activities; and (4) other reasonable costs incurred by the State to administer the State child health assistance plan (42 USC 1397ee). States may apply for a waiver, or variance of this 10 percent cap under 42 USC 1397ee(c)(2). If applicable, information regarding such a waiver is in the State plan.

The 10 percent limit is applied on an annual fiscal year basis and is calculated based on: (1) the total amounts of expenditures and (2) the quarter in which such expenditures are claimed by the State for the fiscal year (42 USC 1397ee).

## H. Period of Availability of Federal Funds

The amount of a State's SCHIP allotment for a fiscal year remains available for expenditures by that State for a 3-year period, i.e., the fiscal year of award, and the two subsequent fiscal years (42 USC 1397dd(e) and (f)).

## L. Reporting

### 1. Financial Reporting

a. SF-269, *Financial Status Report* - Not Applicable

b. SF-270, *Request for Advance or Reimbursement* - Not Applicable

c. SF-271, *Outlay Report and Request for Reimbursement for Construction Program* - Not Applicable

d. SF-272, *Federal Cash Transactions Report* - Not Applicable

e. Form HCFA-64, *Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (OMB No. 0938-0067)*

f. Form HCFA-21, *Quarterly Children's Health Insurance Program Statement of Expenditures for Title XXI (OMB No. 0938-0731)*

*Key Line Items* - The following line items contain critical information.

HCFA-21 Base - Form HCFA-21 consists of three parts: HCFA-21 Base, HCFA-21B, and HCFA 21C. Only HCFA-21 Base is expected to be tested for compliance.

### 2. **Performance Reporting** - Not Applicable

### 3. **Special Reporting** - Not Applicable

# DEPARTMENT OF HEALTH AND HUMAN SERVICES

## CFDA 93.778 MEDICAL ASSISTANCE PROGRAM (Medicaid; Title XIX)
## CFDA 93.775 STATE MEDICAID FRAUD CONTROL UNITS
## CFDA 93.777 STATE SURVEY AND CERTIFICATION OF HEALTH CARE PROVIDERS AND SUPPLIERS

Note: In accordance with OMB Circular A-133, §___.525(c)(2), when the auditor is using the risk-based approach for determining major programs, the auditor should consider that HHS has identified the Medicaid Assistance Program as a program of higher risk. While not precluding an auditor from determining that the Medicaid Cluster qualifies as a low-risk program (e.g., because prior audits have shown strong internal controls and compliance with Medicaid requirements), this identification by HHS should be considered as part of the risk assessment process.

## I. PROGRAM OBJECTIVES

*Medical Assistance Program*

The objective of the Medical Assistance Program (Medicaid or Title XIX of the Social Security Act, as amended, (42 USC 1396, *et seq*.)) is to provide payments for medical assistance to low-income persons who are age 65 or over, blind, disabled, or members of families with dependent children or qualified pregnant women or children.

*State Medicaid Fraud Control Units*

The objective of the State Medicaid Fraud Control Units is to control provider fraud in the Medicaid program. The State Medicaid Fraud Control Unit's grant application contains the organization, administration, agreements, and procedures for the unit. Federal requirements are contained in 42 CFR part 1007. This unit is separate and distinct from the State Medicaid agency.

*State Survey and Certification of Health Care Providers and Suppliers*

The objective of the State Survey and Certification of Health Care Providers and Suppliers program is to determine whether the providers and suppliers of health care services under the Medicaid program are in compliance with regulatory health and safety standards and conditions of participation. This program is administered in a manner similar to Medicaid and includes an approved State plan which addresses Federal requirements.

Even though the State Medicaid Fraud Control Units and State Survey and Certification of Health Care Providers and Suppliers have substantially less Federal expenditures than the Medicaid Assistance Program, they are clustered with Medicaid because these programs provide significant controls over the expenditures of Medicaid funds. It is unlikely that the expenditures for these two programs would be material to the Medicaid cluster; however, noncompliance with the requirements to administer these controls may be material.

## II. PROGRAM PROCEDURES

The following paragraphs are intended to provide a high-level, overall description of how Medicaid generally operates. It is not practical to provide a complete description of program procedures because Medicaid operates under both Federal and State laws and regulations and States are afforded flexibility in program administration. Accordingly, the following paragraphs are not intended to be used in lieu of or as a substitute for the Federal and State laws and regulations applicable to this program.

### Authoritative Sources

The auditor is expected to use the applicable laws and regulations (including the applicable State-approved plan) when auditing this program. The Federal law that authorizes these programs is Title XIX of the Social Security Act (Title XIX), enacted in 1965 and subsequently amended (42 USC 1396, *et seq*.). The Federal regulations applicable to the Medicaid program are found in 42 CFR parts 430 through 456, 1002, and 1007.

### Administration

The U.S. Department of Health and Human Services (HHS) Health Care Financing Administration (HCFA) administers the Medicaid program in cooperation with State governments. The Medicaid program is jointly financed by the Federal and State governments and administered by the States. For purposes of this program, the term “State” includes the 50 States, the District of Columbia, and five U.S. territories: Puerto Rico, the Virgin Islands, Guam, American Samoa, and the Northern Mariana Islands. Medicaid operates as a vendor payment program, with States paying providers of medical services directly. Participating providers must accept the Medicaid reimbursement level as payment in full. Within broad Federal rules, each State decides eligible groups, types and range of services, payment levels for services, and administrative and operating procedures.

*State Plans*

States administer the Medicaid program under a State plan approved by HCFA. The Medicaid State plan is a comprehensive written statement submitted by the State Medicaid agency describing the nature and scope of its Medicaid program. A State plan for Medicaid consists of preprinted material that covers the basic requirements, and individualized content that reflects the characteristics of each particular State’s program. The State plan is referenced to the applicable Federal regulation for each requirement and will also contain references to applicable State regulations.

The State plan contains all information necessary for HCFA to determine whether the State plan can be approved to serve as a basis for determining the level of Federal financial participation in the State program. The State plan must specify a single State agency (hereinafter referred to as the “State Medicaid agency”) established or designated to administer or supervise the administration of the State plan. The State plan must also include a certification by the State Attorney General which cites the legal authority for the State Medicaid agency to determine eligibility.

The State plan also specifies the criteria for determining the validity of payments disbursed under the Medicaid program. This encompasses the system the State will use to ensure that payments are disbursed only to eligible providers for appropriately-priced services that are covered by the Medicaid program and provided to eligible beneficiaries. Payments must also be based on claims that are adequately supported by medical records, and payments must not be duplicated.

A State plan or plan amendment will be considered approved unless HCFA sends the State written notice of disapproval or a request for additional information within 90 days after receipt of the State plan or plan amendment. Copies of the State plan are available from the State Medicaid agency.

*Waivers*

The State Medicaid agency may apply for a waiver of Federal requirements. Waivers are intended to provide the flexibility needed to enable States to try new or different approaches to the efficient and cost-effective delivery of health care services, or to adapt their programs to the special needs of particular areas or groups of beneficiaries. Waivers allow exceptions to State plan requirements and permit a State to implement innovative programs or activities on a time-limited basis, and are subject to specific safeguards for the protection of beneficiaries and the program.

Actions that States may take if waivers are obtained include: (1) implement a primary care case-management system or a specialty physician system; (2) designate an entity to act as a central broker in assisting Medicaid beneficiaries to choose among competing health care plans; (3) share with beneficiaries (through the provision of additional services) cost-savings made possible through the beneficiaries' use of more cost effective medical care; (4) limit beneficiaries' choice of providers to providers that fully meet reimbursement, quality, and utilization standards, which are established under the State plan and are consistent with access, quality, and efficient and economical furnishing of care; (5) include as "medical assistance," under its State plan, home and community-based services furnished to beneficiaries who would otherwise need inpatient care that is furnished in a hospital, skilled nursing facility (SNF), or intermediate care facility (ICF), and is reimbursable under the State plan; and, (6) impose a deduction, cost-sharing or similar charge of up to twice the "nominal charge" established under the State plan for outpatient services for certain nonemergency services. A State may also obtain a waiver of statutory requirements to provide an array of home and community-based services which may permit an individual to avoid institutionalization (42 CFR part 441 subpart G). Depending on the type of requirement being waived, a waiver may be effective for initial periods ranging from two to three years, with varying renewal periods. Copies of waivers are available from the State Medicaid agency.

**Payments to States**

Once HCFA has approved a State plan and waivers, it makes quarterly grant awards to the State to cover the Federal share of Medicaid expenditures for services, training, and administration. The amount of the quarterly grant is determined on the basis of information submitted by the State Medicaid agency (in quarterly estimate and quarterly expenditure reporting). The grant award authorizes the State to draw Federal funds as needed to pay the Federal financial participation portion of qualified Medicaid expenditures. The HHS Payment Management System Division of Payment Management (PMS-DPM) in Rockville, Maryland, disburses Federal funds to States including funding under Medicaid. Currently, all States use a system developed by HHS called SMARTLINK to request funds on an as needed basis. States may use one of two payment mechanisms which are linked to SMARTLINK: (1) wire transfers through the Automated Clearinghouse in conjunction with the Federal Reserve Bank, which are settled the day after the request date, or (2) FEDWIRE transfers through the Department of the Treasury, which is a same day payment mechanism. The payment method is selected by the State and approved by the Department of the Treasury and HHS before payments are made through either mechanism. States report cash activity to PMS-DPM with a quarterly Cash Transactions Report (PMS-272).

**State Expenditure Reporting**

Thirty days after the end of the quarter, States electronically submit form HCFA-64, *Quarterly Statement of Expenditures for the Medical Assistance Program*. The HCFA-64 presents expenditures and recoveries and other items that reduce expenditures for the quarter and prior period expenditures. The amounts reported on the HCFA-64 and its attachments must be actual expenditures for which all supporting documentation, in readily reviewable form, has been compiled and is available immediately at the time the claim is filed. States use the Medicaid Budget and Expenditure System to electronically submit the HCFA-64 directly to HCFA.

**Eligibility**

Eligibility for Medicaid is based primarily on income and resources. The States must provide services to mandatory categorically needy and other required special groups (e.g., individuals receiving Aid to Families With Dependent Children (AFDC), Temporary Assistance for Needy Families (TANF), or Supplemental Security Income (SSI)). States may provide coverage to members of optional groups who do not receive cash assistance (e.g., individuals who would be eligible for but are not receiving AFDC) and medically needy individuals (individuals who are eligible for Medicaid after deducting large medical expenditures from their income). Eligibility criteria will be specified in the individual State plan.

Under the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, the cash welfare program known as AFDC was repealed and replaced with block grants to States known as TANF. Under the old AFDC law, children and parents who received cash welfare were automatically enrolled in the Medicaid program. While the new law eliminates the entitlement to welfare, access to Medicaid for children and parents who would have met the State’s old AFDC income and asset standards in place on July 16, 1996, has been preserved—whether or not these individuals are eligible for the new TANF system (Pub. L. No. 104-193).

States must provide limited Medicaid coverage for "qualified Medicare beneficiaries." These are aged and disabled persons who are receiving Medicare, whose income is below 100 percent of the Federal poverty level, and whose resources do not exceed twice the allowable amount under SSI (42 CFR section 407.40).

The State plan will specify if determinations of eligibility are made by agencies other than the State Medicaid agency and will define the relationships and respective responsibilities of the State Medicaid agency and the other agencies. The application process includes completing and filing an application form, being interviewed, and having information verified. The State plan must also provide that the State Medicaid agency will maintain individual records on each applicant and Medicaid beneficiary including date of application, date and basis for disposition, facts essential to determination of initial and continuing eligibility, provision of medical assistance, and basis for discontinuing assistance.

**Services**

Medicaid expenditures include medical assistance payments for eligible recipients for such services as hospitalization, prescription drugs, nursing home stays, outpatient hospital care, and physicians' services, and expenditures for administration and training. In order for a medical assistance payment to be considered valid, it must comply with the requirements of Title XIX, as amended, (42 USC 1396, *et seq.*) and implementing Federal regulations. Determinations of payment validity are made by individual States in accordance with approved State plans under broad Federal guidelines.

Some States have managed care arrangements under which the State enters into a contract with an entity, such as an insurance company, to arrange for medical services to be available for beneficiaries. The State pays a fixed rate per person (capitation rate) without regard to the actual medical services utilized by each beneficiary.

Also, Medicaid expenditures include administration and training, the State Survey and Certification Program, and State Medicaid Fraud Control Units.

**Control Systems**

*Utilization Control and Program Integrity*

The State plan must provide methods and procedures to safeguard against unnecessary utilization of care and services, including those provided by long-term care institutions. In addition, the State must have: (1) methods of criteria for identifying suspected fraud cases; (2) methods for investigating these cases; and, (3) procedures, developed in cooperation with legal authorities, for referring suspected fraud cases to law enforcement officials.

These requirements may be met by the State Medicaid agency assuming direct responsibility for assuring the requirements or met by contracting with a peer review organization (PRO) to perform such reviews. The reviewer must establish and use written criteria for evaluating the appropriateness and quality of Medicaid services.

The State Medicaid agency must have procedures for the ongoing post-payment review, on a sample basis, for the necessity, quality, and timeliness of Medicaid services. The State Medicaid agency may conduct this review directly or may contract with a PRO.

Suspected fraud identified by utilization control and program integrity should be referred to the State Medicaid Fraud Control Units.

*Inpatient Hospital and Long-Term Care Facility Audits*

States are required to establish as part of the State plan standards and methodology for reimbursing inpatient hospital and long-term care facilities based on payment rates that represent the cost to efficiently and economically operate such facilities and provide Medicaid services. The State Medicaid agency must provide for the filing of uniform cost reports by each participating provider. These cost reports are used by the State Medicaid agency to aid in the establishment of payment rates. The State Medicaid agency must provide for periodic audits of the financial and statistical records of the participating providers. Such audits could include desk audits of cost reports in addition to field audits. These audits are an important control for the State Medicaid agency in ensuring that established payment rates are proper.

*ADP Risk Analyses and System Security Reviews*

The Medicaid program is highly dependent on extensive and complex computer systems that include controls for ensuring the proper payment of Medicaid benefits. States are required to establish a security plan for ADP systems that include policies and procedures to address: (1) physical security of ADP resources; (2) equipment security to protect equipment from theft and unauthorized use; (3) software and data security; (4) telecommunications security; (5) personnel security; (6) contingency plans to meet critical processing needs in the event of short- or long-term interruption of service; (7) emergency preparedness; and, (8) designation of an agency ADP security manager.

State agencies must establish and maintain a program for conducting periodic risk analyses to ensure appropriate, cost effective safeguards are incorporated into new and existing systems. State agencies must perform risk analyses whenever significant system changes occur. On a biennial basis State agencies shall review the ADP system security of installations involved in the administration of HHS programs. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices.

*Medicaid Management Information System (MMIS)*

The MMIS is the mechanized Medicaid benefit claims processing and information retrieval system that States are required to have, unless this requirement is waived by the Secretary of HHS. HHS provides general systems guidelines (42 CFR sections 433.110 through 433.131) but it does not provide detailed system requirements or specifications for States to use in the development of MMIS systems. As a result, MMIS systems will vary from State to State. The system may be maintained and operated by the State or a contractor.

The MMIS is normally used to process payments for most medical assistance services and normally includes edits and controls which identify unusual items for follow up by the utilization control and program integrity unit. However, the State may use systems other than MMIS to process medical assistance payments. In many cases the operation of the MMIS is contracted out to a private contractor. The State plan will describe the administration of each State's claims processing system.

Generally, the MMIS does not process claims from State agencies (e.g., State operated intermediate care facility for the mentally retarded (ICF/MR)) and certain selected types of claims. The claims payments which are not processed through MMIS may be material to the Medicaid program.

*Medicaid Eligibility Quality Control System (MEQC)*

Each State is required to operate a MEQC system in accordance with requirements specified by HCFA. This HCFA-approved system redetermines eligibility for individual sampled cases and provides national and State measures of the accuracy of eligibility and benefit amount determinations (commonly referred to as "payment accuracy"), including both underpayments and overpayments, and of the correctness of decisions to deny benefits. The MEQC system reviews the determinations of beneficiary eligibility made by a State agency, or its designee, and uses statistical sampling methods to select claims for review and project the number and dollar impact of payments to ineligible beneficiaries (42 CFR sections 431.800 through 431.865).

**Federal Oversight and Compliance Mechanisms**

HCFA oversees State operations through its organization consisting of a headquarters and 10 regional offices.

HCFA program oversight includes budget review, reviews of financial and program reports, and on-site reviews which are normally targeted to cover a specific area of concern. HCFA conveys areas of national and local concerns to the States through the regions. Technical assistance is used extensively to promote improvements in State operation of the program but enforcement mechanisms are available. HCFA considers the single audit as an important internal control in its monitoring of States.

Federal program oversight, because of its targeted nature, should not be used as a substitute for audit evidence gained through transaction testing.

**HHS Office of Inspector General (OIG) Fraud Alerts**

The HHS OIG issues fraud alerts, some of which relate to the Medicaid program. These alerts are available on the Internet from the HHS OIG Home Page, Special Fraud Alerts section (http://www.dhhs.gov/progorg/oig/frdalrt/index.htm).

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

## General Audit Approach for Medicaid Payments

To be allowable, Medicaid costs for medical services must be: (1) covered by the State plan and waivers; (2) for an allowable service rendered (including supported by medical records or other evidence indicating that the service was actually provided and consistent with the medical diagnosis); (3) properly coded; and, (4) paid at the rate allowed by the State plan. Additionally, Medicaid costs must be net of applicable credits (e.g., insurance, recoveries from other third parties who are responsible for covering the Medicaid costs, and drug rebates), paid to eligible providers, and only provided on behalf of eligible individuals.

Due to the complexity of Medicaid program operations, it is unlikely the auditor will be able to support an opinion that Medicaid expenditures are in compliance with applicable laws and regulations (e.g., are allowable under the State plan) without relying upon the systems and internal controls. Examples of complexities include:

- Dependence upon large and complex ADP systems to process the large volume of Medicaid transactions.
- Medical services are provided directly to an eligible beneficiary, normally without prior approval by the State.
- Medical service providers normally determine the scope and medical necessity of the services.
- Notice to the State that service is rendered is after-the-fact when a bill is sent.
- Payments systems do not include a review of original detailed documentation supporting the claim prior to payment.
- Complex billing charge structures and payment rates for medical services, including significance of proper coding of services (e.g., billing by diagnosis related groups (DRG)).
- Different types of Medicaid payments (e.g., inpatient hospital, physicians, prescription drugs and drug rebates).

Medicaid has required control systems that should aid the auditor in obtaining sufficient audit evidence for Medicaid expenditures. These control systems are discussed in the preceding Program Procedures under Control Systems and are: (1) utilization control and program integrity; (2) inpatient hospital and long term care facility audits; (3) ADP risk analyses and system security reviews (e.g, of the MMIS); and (4) the MMIS normally includes edits and controls that identify unusual items for follow up by the utilization control and program integrity function. The first three are generally performed by specialists retained by the State Medicaid agency. The following table indicates the major types of Medicaid payments to which these controls will likely relate:

| **Type of Medicaid Payment** | **1** | **2** | **3** | **4** |
|---|---|---|---|---|
| Inpatient Hospital | X | X | X | X |
| Physicians (including dental) | X | | X | X |
| Prescription Drugs (net of rebates) | X | | X | X |
| Institutional Long-Term Care | X | X | X | X |

Each of the above Medicaid payment types are tested for compliance with applicable laws and regulations under either "A. Activities Allowed or Unallowed;" "B. Allowable Costs/Cost Principles;" or "E. Eligibility." Based upon the assessed level of control risk, the auditor should design appropriate tests of the allowability of Medicaid payments. Testing likely will include tests of medical records, in which case the auditor should consider the need for assistance of specialists. The auditor may consider using the same specialists used by the State.

The auditor should consider the following in planning and performing tests of controls and compliance:

1. Section "N. Special Tests and Provisions," includes required internal control, which are compliance requirements (i.e., controls (1), (2), and (3) above), and audit objectives and procedures for each. The audit procedures will entail tests of work performed by the State Medicaid agency.

2. Tests of compliance with laws and regulations relating to Sections A, B, and E below, and the compliance requirements enumerated in Section N should be coordinated.

**A. Activities Allowed or Unallowed**

1. Funds can only be used for Medicaid benefit payments (as specified in the State plan, Federal regulations, or an approved waiver), expenditures for administration and training, expenditures for the State Survey and Certification Program, and expenditures for State Medicaid Fraud Control Units (42 CFR sections 435.10, 440.210, 440.220, and 440.180).

2. *Case Management Services* - The State plan may provide for case management services as an optional medical assistance service. The term case management services means services which will assist individuals eligible under the plan in gaining access to needed medical, social, educational, and other services.

   Medicaid case management services are divided into two separate categories:

   *Administrative case management* - Services must be identifiable with Title XIX benefit (e.g., outreach services provided by public school districts to Medicaid recipients).

   *Medical/Targeted case management* - Services must be provided to an eligible Medicaid recipient. Services do not have to be specifically medical in nature and can include securing shelter, personal needs, etc. (e.g., services provided by community mental health boards, county offices of aging).

   Case management services is an area of risk because of the high growth of expenditures, the relative newness of the provision that allows these expenditures to be claimed, and prior experience which indicates problems with the documentation of case management expenditures.

With the exception of case management services provided through capitation (a process in which payment is made on a per beneficiary basis) or prepaid health plans, Federal regulations typically require the following documentation for case management services: date of service; name of recipient; name of provider agency and person providing the service; nature, extent, or units of service; and, place of service (P.L. 99-272, Section 9508; 42 CFR part 434).

3. *Managed Care* - A State may obtain a waiver of statutory requirements in order to develop a system that more effectively addresses the health care needs of its population. For example, a waiver may involve the use of a program of managed care for selected elements of the client population or allow the use of program funds to serve specified populations that would be otherwise ineligible (Sections 1115 and 1915 of the Social Security Act). Managed care providers must be eligible to participate in the program at the time services are rendered, payments to managed care plans should only be for eligible clients for the proper period, and the capitation payment should be properly calculated. Medicaid medical services payments (e.g., hospital and doctors charges) should not be made for services that are covered by managed care. States should ensure that capitated payments to providers are discontinued when a beneficiary is no longer enrolled for services. Requirements related to beneficiaries' access to managed care services are covered under N.6., Special Tests and Provisions, Managed Care.

4. *Medicaid Health Insurance Premiums* - A State may enroll certain Medicare-eligible recipients under Medicare Part B and pay the premium, deductibles, cost sharing, and other charges (42 CFR section 431.625).

5. *Disproportionate Share Hospital* - Federal financial participation is available for aggregate payments to hospitals that serve a disproportionate number of low income patients with special needs. The State plan must specifically define a disproportionate share hospital and the method of calculating the rate for these hospitals. Specific limits for the total disproportionate share hospital payments for the State and the individual hospitals are contained in the legislation (Section 1923 of the Social Security Act and 42 USC 1396(r)).

6. *Home Health Care* - A State may obtain a waiver of statutory requirements to provide an array of home and community-based services which may permit an individual to avoid institutionalization (42 CFR part 441 subpart G). The HHS OIG has issued a special fraud alert concerning home health care. Problems noted include cost report frauds, billing for excessive services or services not rendered, and use of unlicensed staff. The full alert was published in the *Federal Register* on August 10, 1995, (page 40847) and is available on the Internet from the HHS OIG Home Page, Special Fraud Alerts section (http://www.dhhs.gov/progorg/oig/frdalrt/frdalrt.html).

## B. Allowable Costs/Cost Principles

*Recoveries, Refunds, and Rebates (Costs must be the net of all applicable credits)*

1. States must have a system to identify medical services that are the legal obligation of third parties, such as private health or accident insurers. Such third party resources should be exhausted prior to paying claims with program funds. Where a third party liability is established after the claim is paid, reimbursement from the third party should be sought (42 CFR sections 433.135 through 433.154).

2. The State is required to credit the Medicaid program for (1) State warrants that are canceled and uncashed checks beyond 180 days of issuance (escheated warrants) and (2) overpayments made to providers of medical services within specified time frames. In most cases, the State must refund provider overpayments to the Federal Government within 60 days of identification of the overpayment, regardless of whether the overpayment was collected from the provider (42 CFR sections 433.300 through 433.320 and 433.40).

3. Section 1903 (w)(1) of the Social Security Act (as amended by Pub. L. No. 102-234) provides that, effective January 1, 1992, before calculating the amount of Federal financial participation, certain revenues received by a State will be deducted from the State's medical assistance expenditures. The revenues to be deducted are (1) donations made by health providers and entities related to providers (except for *bona fide* donations and, subject to a limitation, donations made by providers for the direct costs of out-stationed eligibility workers); and (2) impermissible health care-related taxes that exceed a specified limit (42 USC 1396(b)(w) and 42 CFR section 433.57).

   "Provider related donations" are any donations or other voluntary payments (in-cash or in-kind) made directly or indirectly to a State or unit of local government by (1) a health care provider, (2) an entity related to a health care provider, or (3) an entity providing goods or services under the State plan and paid as administrative expenses. "*Bona fide* provider-related donations" are donations that have no direct or indirect relationship to payments made under Title XIX (42 USC 1396, *et seq*.) to (1) that provider, (2) providers furnishing the same class of items and services as that provider, or (3) any related entity (42 CFR sections 433.58(d) and 433.66(b)).

   Permissible health care-related taxes are those taxes which are broad-based taxes, uniformly applied to a class of health care items, services, or providers, and which do not hold a taxpayer harmless for the costs of the tax, or a tax program for which HCFA has granted a waiver. Health care-related taxes that do not meet these requirements are impermissible health care-related taxes (42 CFR section 433.68(b)).

   The provisions of Pub. L. No. 102-234 apply to all 50 States and the District of Columbia, except those States whose entire Medicaid program is operated under a waiver granted under section 1115 of the Social Security Act (42 CFR part 433; *Federal Register* published August 13, 1993, 58 FR 43156-43183).

4. Section 1927 of the Social Security Act allows States to receive rebates for drug purchases the same as other payers receive. Drug manufacturers are required to provide a listing to HCFA of all covered outpatient drugs and, on a quarterly basis, are required to provide their average manufacturer's price and their best prices for each covered outpatient drug. Based upon these data, HCFA calculates a unit rebate amount for each drug which it then provides to States. No later than 60 days after the end of the quarter, the State Medicaid agency must provide to manufacturers drug utilization data. Within 30 days of receipt of the utilization data from the State, the manufacturers are required to pay the rebate or provide the State with written notice of disputed items not paid because of discrepancies found.

## E. Eligibility

### 1. Eligibility for Individuals

The State Medicaid agency or its designee is required to determine client eligibility in accordance with eligibility requirements defined in the approved State plan (42 CFR section 431.10). States have a high degree of flexibility in designating who will determine eligibility.

The State is required to operate a MEQC system in accordance with requirements specified by HCFA. The MEQC system reviews the determinations of beneficiary eligibility made by State Medicaid agencies, or their designees,, and uses statistical sampling methods to select claims for review and project the number and dollar impact of incorrect payments to ineligible beneficiaries (42 CFR sections 431.800 through 431.865).

As discussed in the General Audit Approach for Medicaid Payments, the auditor will likely combine Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility testing. Therefore, compliance requirements related to amounts provided to or on behalf of eligibles were combined with Activities Allowed or Unallowed.

### 2. Eligibility of Group of Individuals or Area of Service Delivery - Not Applicable

### 3. Eligibility for Subrecipients - Not Applicable

## G. Matching, Level of Effort, Earmarking

### 1. Matching

The State is required to pay part of the costs of providing health care to the poor and part of the costs of administering the program. Different State participation rates apply to medical assistance payments. There are also different Federal financial participation rates for the different types of costs incurred in administering the Medicaid program, such as administration, family planning, training, computer, and other costs (42 CFR sections 433.10 and 433.15). The auditor should refer to the State plan for the matching rates.

### 2. Level of Effort

A State waiver may contain a level of effort requirement.

### 3. Earmarking

A State waiver may contain an earmarking requirement.

## L. Reporting

### 1. Financial Reporting

a. *SF-269, Financial Status Report* - Not Applicable

b. *SF-270, Request for Advance or Reimbursement* - Not Applicable

c. *SF-271, Outlay Report and Request for Reimbursement for Construction Program* - Not Applicable

d. *SF-272, Federal Cash Transactions Report* - Not Applicable

e. *HCFA-64, Quarterly Statement of Expenditures for the Medical Assistance Program (OMB No. 0938-0067)* - Required to be used in lieu of *SF-269, Financial Status Report* and is required to be prepared quarterly and submitted electronically to HCFA within 30 days after the end of the quarter.

f. *PMS-272, Quarterly Cash Transactions Report (OMB No. 0937-0200)* - Required in lieu of the Federal Cash Transaction Report (SF-272).

### 2. Performance Reporting - Not Applicable

### 3. Special Reporting - Not Applicable

## N. Special Tests And Provisions

### 1. Utilization Control and Program Integrity

**Compliance Requirements** - The State plan must provide methods and procedures to safeguard against unnecessary utilization of care and services, including long-term care institutions. In addition, the State must have: (1) methods or criteria for identifying suspected fraud cases; (2) methods for investigating these cases; and, (3) procedures, developed in cooperation with legal authorities, for referring suspected fraud cases to law enforcement officials (42 CFR parts 455, 456, and 1002).

Suspected fraud should be referred to the State Medicaid Fraud Control Units (42 CFR part 1007).

The State Medicaid agency must establish and use written criteria for evaluating the appropriateness and quality of Medicaid services. The agency must have procedures for the ongoing post-payment review, on a sample basis, of the need for and the quality and timeliness of Medicaid services. The State Medicaid agency may conduct this review directly or may contract with a PRO.

**Audit Objectives** - To determine whether the State has established and implemented procedures to: (1) safeguard against unnecessary utilization of care and services, including long term care institutions; (2) identify suspected fraud cases; (3) investigate these cases; and, (4) refer those cases with sufficient evidence of suspected fraud cases to law enforcement officials.

**Suggested Audit Procedures**

a. Obtain and evaluate the adequacy of the procedures used by the State Medicaid agency to conduct utilization reviews and identifying suspected fraud.

   (1) Consider the qualifications of the personnel conducting the reviews and identifying suspected fraud. Ascertain that the individuals possess the necessary skill or knowledge by considering the following: (1) professional certification, license, or specialized training; (2) the reputation and standing of licensed medical professionals in the view of peers; and, (3) experience in the type of tasks to be performed.

   (2) Consider if the personnel performing the utilization review and identifying suspected fraud are sufficiently organized outside the control of other Medicaid operations to objectively perform their function.

   (3) Ascertain if the sampling plan implemented by the State Medicaid agency or the PRO was properly designed and executed.

b. Test a sample of the cases examined by State Medicaid agency or the PRO and ascertain if such examinations were in accordance with the agency's procedures.

c. Test a sample of the identified suspected cases of fraud and ascertain if the agency took appropriate steps to investigate and, if appropriate, make a referral.

d. Based on the above procedures, consider the degree of reliance that can be placed on the utilization review and identification of suspected fraud in performing tests under Sections A, B, and E.

**2. Inpatient Hospital and Long-Term Care Facility Audits**

**Compliance Requirement -** The State Medicaid agency pays for inpatient hospital services and long-term care facility services through the use of rates that are reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated providers. The State Medicaid agency must provide for the filing of uniform cost reports for each participating provider. These cost reports are used to establish payment rates. The State Medicaid agency must provide for the periodic audits of financial and statistical records of participating providers. The specific audit requirements will be established by the State Plan (42 CFR section 447.253).

**Audit Objectives** - To determine whether the State Medicaid agency performed inpatient hospital and long-term care facility audits as required.

**Suggested Audit Procedures**

a. Review the State Plan and State Medicaid agency operating procedures and document the types of audits performed (e.g., desk audits, field audits), the methodology for determining when audits are conducted, and the objectives and procedures of the audits.

b. Through examination of documentation, ascertain that the sampling plan was carried out as planned.

c. Select a sample of audits and ascertain if the audits were in compliance with the State Medicaid agency's audit procedures.

d. Based on the above, consider the degree of reliance that can be placed on the inpatient hospital and long term-care facility audits in performing tests under Sections A, B, and E.

**3. ADP Risk Analysis and System Security Review**

**Compliance Requirement -** State agencies must establish and maintain a program for conducting periodic risk analyses to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems. State agencies must perform risk analyses whenever significant system changes occur. State agencies shall review the ADP system security installations involved in the administration of HHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices. The State agency shall maintain reports on its biennial ADP system security reviews, together with pertinent supporting documentation, for HHS onsite reviews (45 CFR section 95.621).

**Audit Objective** - To determine whether the State Medicaid agency has performed the required ADP risk analyses and system security reviews.

**Suggested Audit Procedures**

a. Review the State Medicaid agency's policies and procedures and document the frequency, timing, and scope of ADP security reviews. This should include any reviews following Statement on Auditing Standards No. 70 (SAS 70) which may have been performed on outside processors.

b. Consider the appropriateness and extent of reliance on such reviews based on the qualifications of the personnel performing the risk analyses and security reviews and their organizational independence from the ADP systems.

c. Review the work performed during the most recent risk analysis and security review.

d. Based on the above, consider the degree of reliance that can be placed on the ADP Risk Analysis and System Security Reviews in performing tests under Sections A, B, and E.

**4. Provider Eligibility**

**Compliance Requirement -** In order to receive Medicaid payments, providers of medical services furnishing services must be licensed in accordance with Federal, State, and local laws and regulations to participate in the Medicaid program (42 CFR sections 431.107 and 447.10; and section 1902(a)(9) of the Social Security Act) and the providers must make certain disclosures to the State (42 CFR subpart B).

**Audit Objective** - To determine whether providers of medical services are licensed to participate in the Medicaid program in accordance with Federal, State, and local laws and regulations, and whether the providers have made the required disclosures to the State.

**Suggested Audit Procedures**

a. Obtain an understanding of the State plan's provisions for licensing and entering into agreements with providers.

b. Select a sample of providers receiving payments and ascertain if:

(1) The provider is licensed in accordance with the State Plan.

(2) The agreement with the provider complies with the requirements of the State Plan, including the disclosure requirements of 42 CFR 455 subpart B.

**5. Provider Health and Safety Standards**

**Compliance Requirement** - Providers must meet the prescribed health and safety standards for hospital, nursing facilities, and ICF/MR (42 CFR part 442). The standards may be modified in the State plan.

**Audit Objective** - To determine whether the State ensures that hospitals, nursing facilities, and ICF/MR that serve Medicaid patients meet the prescribed health and safety standards.

**Suggested Audit Procedures**

a. Obtain an understanding of the State Plan provisions which ensure that payments are made only to institutions which meet prescribed health and safety standards.

b. Select a sample of payments for each provider type (i.e., hospitals, nursing facilities, and ICF/MR) and ascertain if the State Medicaid agency has documentation that the provider has met the prescribed health and safety standards.

**6. Managed Care**

**Compliance Requirement -** A State may obtain a waiver of statutory requirements in order to develop a system that more effectively addresses the health care needs of its population. A waiver may involve the use of a program of managed care for selected elements of the client population or allow the use of program funds to serve specified populations that would be otherwise ineligible (Sections 1115 and 1915 of the Social Security Act).

**Audit Objective -** To determine whether the State is operating managed care in compliance with the approved State plan waiver.

**Suggested Audit Procedures**

a. Obtain an understanding of the State plan's managed care waiver.

b. Perform tests to ascertain if the State has a system to handle beneficiary complaints of not receiving necessary care and provider complaints of not receiving payments for services provided to Medicaid recipients.

c. Perform tests to ascertain if the State has a system to ensure beneficiaries have adequate access to health care from managed care organizations which are being paid premiums on the beneficiaries' behalf.

# DEPARTMENT OF HEALTH AND HUMAN SERVICES

## CFDA 93.915 HIV EMERGENCY RELIEF FORMULA GRANTS

## I. PROGRAM OBJECTIVES

The objective of this program is to improve access to a comprehensive continuum of high-quality community-based primary medical care and support services in metropolitan areas that are disproportionately affected by the incidence of Human Immunodeficiency Virus (HIV)/Acquired Immune Deficiency Syndrome (AIDS). The statute refers to both persons infected with HIV and those who have clinically defined AIDS. These terms are used interchangeably in this compliance supplement but refer to this total universe of eligible individuals.

Emergency financial assistance, in the form of *formula-based funding* and supplemental *project-based funding*, is provided to eligible metropolitan areas (EMAs) to develop, organize, and operate health and support services programs for infected individuals and their care givers. The supplemental grants are discretionary awards and are awarded, following competition, to EMAs that demonstrate severe need beyond that met through the formula award. They must also demonstrate the ability to use the supplemental amounts quickly and cost-effectively. Other criteria, contained in annual application guidance documents, may also apply. All EMAs currently receiving formula assistance are also receiving supplemental assistance.

## II. PROGRAM PROCEDURES

### Administration

The Health Resources and Services Administration (HRSA), a component of the Department of Health and Human Services, administers the HIV emergency relief programs. HRSA uses data reported to and confirmed by the Centers for Disease Control and Prevention (CDC) to determine eligibility (i.e., any metropolitan area for which there has been reported to CDC a cumulative total of more than 2,000 cases of AIDS for the most recent five calendar years for which data are available) and to establish the formula for allocation of funds. A metropolitan area is not eligible if it does not have an overall population of 500,000 or more unless it was eligible for FY 1995 or any prior fiscal year. Geographic boundaries are those that were in effect for FY 1994. A metropolitan area that was eligible in FY 1996 is an eligible area for FY 1997 and each subsequent fiscal year (42 USC 300ff-11(c) and (d)).

At least fifty percent of the appropriated amount (and an amount for subsequent adjustment, if necessary, to ensure funding levels consistent with the baseline year, i.e., FY 1995) is made available for the EMAs' formula allocation and the remainder is retained by HRSA for award as discretionary supplemental "project" assistance on the basis of "severe need" and other factors. Since FY 1998, funding of the EMAs is on the basis of a single application and a combined award is made.

Funds are made available to the chief elected official of the city or urban county that administers the public health agency that provides outpatient and ambulatory services to the greatest number of individuals with AIDS in the EMA in accordance with statutory requirements and program guidelines. Day-to-day responsibility for the grant is ordinarily delegated to the jurisdiction's public health department, and some administrative functions may be outsourced to a private entity. The chief elected official of the EMA is also required to establish or designate an AIDS health services planning council, which carries out a planning process, coordinating with other State, local and private planning and service organizations, and establishes the priorities for allocating funds.

Consistent with funding and service priorities established through the public planning process, the EMA uses the funds to provide direct assistance to public entities or private non-profit or for-profit entities to deliver or enhance HIV/AIDS-related outpatient and ambulatory health and support services, including case management, substance abuse treatment and mental health treatment; comprehensive treatment services, including treatment, education, and prophylactic treatment for opportunistic infections; inpatient case management services that prevent unnecessary hospitalization or that expedite discharge, as medically appropriate, from inpatient facilities; and, within established limits, for associated administrative activities. These administrative activities include EMA oversight of service provider performance and adherence to their subgrant or contractual obligations. Most of these service providers are non-profit organizations.

**Source of Governing Requirements**

This program is authorized under Title I of the Ryan White Comprehensive AIDS Resources Emergency (CARE) Act of 1990, Pub. L. No. 101-381, as amended, which is codified at 42 USC 300ff-11 - 300ff-17. There are no program regulations specific to this program.

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### A. Activities Allowed or Unallowed

1. Funds may be used to provide medical treatment and support services for individuals with HIV/AIDS (42 USC 300ff-78).

2. Consistent with planning council priorities, funds may be used to deliver or enhance HIV/AIDS-related (a) outpatient and ambulatory health and support services, including case management, substance abuse treatment and mental health treatment, (b) comprehensive treatment services, including treatment education, and prophylactic treatment for opportunistic infections, for individuals and families with HIV disease, and (c) inpatient case management services that prevent unnecessary hospitalization or expedite discharge, as medically appropriate, from inpatient facilities (42 USC 300ff-14(b)(1)).

3. Funds may be used for the operation of an HIV health services planning council established by the grantee, including: staff support to the council; costs incurred by members of the council as a result of participation in meetings and other activities, including out-of pocket expenses (e.g., transportation and meals); costs associated with conducting needs assessment, plan development and publicizing council activities; and implementation of grievance procedures (42 USC 300ff-12(b)).

4. The EMA may use funds for routine grant administration and monitoring activities, including, but not limited to, the development of applications under this program, the receipt and disbursal of program funds, the establishment of accounting systems, the preparation of required programmatic and financial reports, and for all activities associated with the grantee's selection, award, and administration of contracts under the grant (42 USC 300ff-14(e)(2)).

5. Funds may be used for service provider (also referred to as first-line entities, including first-tier contractors) administrative activities, including normal overhead, management and oversight of specific projects, and other program support, such as quality control and quality assurance (42 USC 300ff-14(e)(3)).

6. The EMA may use funds to support program activities that are not service-oriented or administrative in nature, e.g., capacity building, technical assistance, program evaluation, and assessment of service delivery patterns, if they are established as priorities by the planning council and meet the requirements of 42 USC 300ff-12(b)(4) (A) and (E).

7. Funds may be used for outreach programs that have as their principal purpose identifying people with HIV disease so they become aware of and may be enrolled in care and treatment services, and informing low-income individuals with HIV disease of the availability of services. Funds may not be used for programs whose primary purpose is to target the general public to increase broad public awareness about HIV services, or programs that exclusively promote HIV counseling and testing and/or prevention education (42 USC 300ff-15(a)(5)(C)).

8. Funds may not be used to make payment for any item or service if payment has already been made or can reasonably be expected to be made under any State compensation program, under an insurance policy or any Federal or State health benefits program, or by an entity that provides health services on a pre-paid basis (42 USC 300ff-15(a)(4)).

9. Funds may not be used to purchase or improve land or to purchase, construct or make permanent improvement to any building. Minor remodeling is allowed (42 USC 300ff-14(f)).

10. Funds may not be used to make cash payments to recipients of services; however, vouchers which may be exchanged only for a specific commodity or service, such

as food or transportation or similar programs, may be provided where direct provision of the service is not possible or effective (42 USC 300ff-14(f)).

11. Funds may not be used to provide individuals with hypodermic needles or syringes (42 USC 300ff-1).

12. Funds may not be used for programs or to develop materials designed to promote or encourage intravenous drug use or sexual activity (42 USC 300ff-78).

## E. Eligibility

### 1. Eligibility for Individuals

Eligible beneficiaries are individuals or families of individuals with HIV/AIDS. To the maximum extent practicable, services are to be provided to eligible individuals regardless of their ability to pay for the services and their current or past health condition. Services to non-infected individuals must have, at least, an indirect benefit to a person with HIV/AIDS (42 USC 300ff-14(b) and 15(a)(5)(A)).

### 2. **Eligibility for Groups of Individuals or Area of Service Delivery** - Not Applicable

### 3. Eligibility of Subrecipients

The EMA may make funds available to public (including Department of Veterans Affairs' facilities) or private non-profit entities or private for-profit entities, if they are the only available providers of quality HIV care in the area. Eligible subrecipients include hospitals, community-based organizations, hospices, ambulatory care facilities, community health centers, migrant health centers, and homeless health centers (42 USC 300ff-14(b)(2)).

## G. Matching, Level of Effort, Earmarking

### 1. **Matching** - Not applicable

### 2.1 **Level of Effort** - *Maintenance of Effort*

Each political subdivision within the metropolitan area is required to maintain its level of expenditures for HIV-related services to individuals with HIV disease at a level equal to its level of such expenditures for the preceding fiscal year. Political subdivisions within the EMA may not use funds received under the HIV grants to maintain the required level of HIV/AIDS-related services (42 USC 300ff-15(a)(1)(B)) and (C)).

### 2.2 **Level of Effort** - *Supplement Not Supplant* - Not Applicable

### 3. Earmarking

a. An amount not less than the percentage represented by the ratio of infants, women, and children with AIDS in the population of the metropolitan area to the metropolitan area's overall population with AIDS is to be spent on services to these populations (42 USC 300ff-14(b)(3)).

b. Not more than five percent of the amounts awarded to the EMA may be used for administration at that level. Program support and planning council support are not considered administration for purposes of this limitation. If the EMA contracts with a third party for the performance of any part of its administrative activities, the five percent limitation applies to the combined total of administrative expenditures by the EMA and the contractor(s) (42 USC 300ff-14(e)).

c. Not more than 10 percent, *in the aggregate*, of amounts allocated by the EMA to first-line entities may be used for administrative expenses (42 USC 300ff-14(e)).

## H. Period of Availability of Federal Funds

Funds are available for the budget period designated on the Notice of Grant Award. Funds carried forward from prior years may not be used for administration. HRSA may reduce the following year's award by the amount of unobligated grant funds reported by the EMA in its *Financial Status Report* (42 USC 300ff-13(a)(3)(D)).

## L. Reporting

### 1. Financial Reporting

a. SF-269, *Financial Status Report* - Applicable

b. SF-270, *Request for Advance or Reimbursement* - Not Applicable

c. SF-271, *Outlay Report and Request for Reimbursement for Construction Program* - Not Applicable

d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the Department of Health and Human Services, Payment Management System. Reporting equivalent to the SF-272 is accomplished through the Payment Management System and is evidenced by the PMS 272-E, *Major Program Statement*.

### 2. Performance Reporting - Not Applicable

### 3. Special Reporting

*Annual Administrative Report (AAR) (OMB No.0915-0166).* Aggregate provider-level data required from each direct service provider. These reports are currently provided to the EMA electronically or in hard copy and may be submitted to HRSA in a similar manner (e.g., the subrecipient (service provider) submits the report to the pass-through entity (EMA), which in turn submits the reports to the Federal agency (HRSA)). The reporting entity has the option of completing the reports on the basis of "all clients receiving a service eligible for Title I (and Title II--HIV Care Formula Grants, 93.917) funding" or "only clients receiving service funded with Title I or II funding." If those "funded" is the reporting basis, the reporting entity would be expected to have a tracking system to develop this data.

*Key Line Items* across an EMA's reporting entities are:

a. Part 4: Client Information:

   (1) Number of clients (unduplicated)
   (2) Number of new clients served

b. Part 5, Services Provided/Clients Served - Number of visits for each of the following types of office-based health care:

   (1) Medical care
   (2) Dental care
   (3) Mental health services
   (4) Substance abuse services
   (5) Rehabilitation services
   (6) Face-to-face case management encounters

c. Part 6, Fiscal Information - Total HIV services funding by source:

   (1) Title I CARE
   (2) Title II CARE
   (3) Other CARE Act funding
   (4) Other Federal funding (exclusive of Medicare and Medicaid)

## M. Subrecipient Monitoring

EMAs are required to establish policies in the areas of verification and documentation of client eligibility, require that service providers follow those policies, and oversee the implementation by service providers (42 USC 300ff-14(b) and (e)(2)(B).

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

## CFDA 93.958 BLOCK GRANTS FOR COMMUNITY MENTAL HEALTH SERVICES

## I. PROGRAM OBJECTIVES

The objective of the Community Mental Health Services Block Grant Program (CMHS) is to provide funds to States and territories to enable them to carry out their respective plans for providing comprehensive community-based mental health services for adults with serious mental illness and children with serious emotional disturbances. To insure creative and cost effective delivery of services, States are encouraged to develop solutions to specific mental health concerns of their local communities.

## II. PROGRAM PROCEDURES

### Administration and Services

The Substance Abuse and Mental Health Services Administration (SAMHSA), an operating division of the Department of Health and Human Services (HHS), administers the block grant program. Examples of CMHS Block Grant funded activities include: (1) a comprehensive, community-based system of mental health care for adults who have a serious mental illness and children and youth who have a serious emotional disturbances, including case management, treatment, rehabilitation, employment, housing, education, medical, dental, and other support services that enable individuals to function in the community and reduce the rate of psychiatric hospitalization; (2) outreach for homeless individuals who also suffer from serious mental illness and the development of special services for individuals with serious illness living in rural areas; and (3) systemic integration of social, educational, juvenile justice, and substance abuse services with health and mental health services for children with a serious emotional disturbance to ensure that care is appropriate to their multiple needs (including services provided under the Individuals with Disabilities Act).

CMHS funds are allocated to the States according to a formula legislated by Congress. States may then distribute these funds to cities, counties, or service providers within their jurisdictions. Funds may only be used for carrying out the State plan, evaluating programs and services carried out under the plan, or planning, administration, and education activities relating to providing services under the plan.

### State Plan

The State must submit to SAMHSA an annual application that includes a plan to meet the community mental health services objectives described above and signed assurances required by the Act. The State plan addresses how the State intends to comply with the various requirements of Title XIX, Part B, Subparts I and III of the Public Health Services Act (42 USC 300x) and its program objectives by addressing the twelve criteria listed in the statute.

### Source of Governing Requirements

This program is authorized under Title XIX, Part B, Subparts I and III of the Public Health Service Act (42 USC 300x *et seq.*). Criteria for the State plan may be found at 42 USC 300x-1. 45 CFR part 96 provides regulations for the general administrative requirements for the covered block grant programs. These regulations are in lieu of either 45 CFR part 74 (OMB Circular A-110) and 92 (A-102 Common Rule).

As discussed in Appendix I of this Supplement, Federal Programs Excluded from the A-102 Common Rule, States are to use the fiscal policies that apply to their own funds in administering CMHS. Procedures must be adequate to assure the proper disbursal of and accounting for Federal funds paid to the grantee, including procedures for monitoring the assistance provided (45 CFR section 96.30).

Under the block grant philosophy, each State is responsible for designing and implementing its own CMHS program, within very broad Federal guidelines. States must administer their CMHS program according to their approved plan and any amendments and in conformance with the their own implementing rules and policies.

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### A. Activities Allowed or Unallowed

1. Services provided with grant funds shall be provided only through appropriate, qualified community programs (which may include community mental health centers, child mental health programs, psychosocial rehabilitation programs, mental health peer support programs and mental health primary consumer-directed programs). Services under the plan will be provided through community mental health centers only if the services are provided as follows:

    a. Services principally to individuals residing in a defined geographic area (service area);

    b. Outpatient services, including specialized outpatient services for children, the elderly, individuals with serious mental illness, and residents of the centers who have been discharged from inpatient treatment at a mental health facility;

    c. 24-hours-a-day emergency care services;

    d. Day treatment and other partial hospitalization services or psychosocial rehabilitation services; or

e. Screening for patients being considered for admission to State mental health facilities to determine the appropriateness of such admission (42 USC 300x-2(b) and (c)).

2. The State shall not use grant funds to:

a. Provide inpatient hospital services;

b. Make cash payments to intended recipients of health services;

c. Purchase or improve land, purchase, construct, or permanently improve (other than minor remodeling) any building or any other facility, or purchase major medical equipment;

d. Satisfy any requirement for the expenditure of non-Federal funds as a condition for the receipt of Federal funding; or

e. Provide financial assistance to any entity other than a public or nonprofit entity. A State is not precluded from entering into a procurement contract for services, since payments under such a contract are not financial assistance to the contractor (42 USC 300x-5(a)).

## B. Allowable Costs/Cost Principles

As discussed in Appendix I of this Supplement, Federal Programs Excluded from the A-102 Common Rule, CMHS is exempt from the provisions of OMB cost principles Circulars. State cost principles requirements apply to CMHS (45 CFR section 96.30).

## G. Matching, Level of Effort, Earmarking

**1. Matching** - Not Applicable

**2.1 Level of Effort** - *Maintenance of Effort*

a. The State shall for each fiscal year maintain aggregate State expenditures for community mental health centers at a level that is not less than the average level of such expenditures maintained by the State for the two State fiscal years preceding the fiscal year of the grant (42 USC 300x-4(b)(1)). Expenditures for the two previous fiscal years are reported in the State plan.

b. The State shall for each fiscal year expend an amount not less than an amount equal to the amount expended in fiscal year 1994 for systems of integrated services for children with serious emotional disturbance (42 USC 300x-2(a)(1)(C)). FY 1994 expenditures are reported in the State plan.

### 2.2 Level of Effort - *Supplement Not Supplant* - Not Applicable

### 3. Earmarking

The State may not expend more than 5 percent of grant funds for administrative expenses with respect to the grant (42 USC 300x-5(b)).

## H. Period of Availability of Federal Funds

The State is required to obligate all the funds awarded during the fiscal year of the award. Amounts obligated by the State which remain unexpended at the end of the fiscal year for which the amounts were awarded shall remain available until the end of the succeeding fiscal year (42 USC 300x-62).

If a State has terminated or reduced the amount of funds awarded to a subrecipient for failure of the subrecipient to comply with the terms upon which the funds were conditioned, the amounts involved shall be available for reobligation by the State through September 30 of the fiscal year following the fiscal year for which the amounts were paid to the State by the Federal Government and any such amounts that are obligated by the State should be available for expenditure through such date (42 USC 300x-62(b)).

## N. Special Tests and Provisions

### 1. Independent Peer Reviews

**Compliance Requirement** - The State must provide for independent peer reviews that assess the quality, appropriateness, and efficacy of treatment services provided to individuals. At least 5 percent of the entities providing services in the State shall be reviewed annually. The entities reviewed shall be representative of the entities providing the services. The State shall ensure that the peer reviewers are independent by ensuring that the peer review does not involve reviewers reviewing their own programs and the peer review is not conducted as part of the licensing or certification process (42 USC 300x-53).

**Audit Objectives** - Determine whether (1) the required number of entities were peer reviewed, (2) the selection of entities for peer review was representative of entities providing services, and (3) the State ensured that the peer reviewers were independent.

**Suggested Audit Procedures**

a. Ascertain the number of entities providing treatment services in the State.

b. Ascertain if the number of entities reviewed was at least 5 percent of the entities providing treatment services.

c. Ascertain if the selection of entities for peer review was representative of entities providing services.

d. From a sample of peer reviews performed, ascertain if the State ensured that the peer reviewers were independent.

# DEPARTMENT OF HEALTH AND HUMAN SERVICES

## CFDA 93.959 BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE

## I. PROGRAM OBJECTIVES

The objective of the Substance Abuse Prevention and Treatment (SAPT) Block Grant Program is to provide funds to States, territories, and one Indian Tribe for the purpose of planning, carrying out and evaluating activities to prevent and treat Substance Abuse (SA) and other related activities as authorized by the statute.

The SAPT Block Grant is the primary tool the Federal government uses to fund State SA prevention and treatment programs. While the SAPT Block Grant provides Federal support to addiction prevention and treatment services nationally, it empowers the States to design solutions to specific addiction problems that are experienced locally.

## II. PROGRAM PROCEDURES

### Administration and Services

The Substance Abuse and Mental Health Services Administration (SAMHSA), an operating division of the Department of Health and Human Services (HHS), administers the block grant program. For purposes of this guidance, the term "State" includes the 50 States, the District of Columbia, American Samoa, Guam, the Marshall Islands, the Federated States of Micronesia , the Commonwealth of the Northern Marianas, Palau, the Commonwealth of Puerto Rico, the U.S. Virgin Islands, and the Red Lake Band of Chippewa Indians. The States generally subaward funds for the provision of services to public and non-profit organizations. Service providers may include for-profit organizations but for-profits may not receive financial assistance.

Examples of SAPT activities are:

a. *Alcohol Treatment and Rehabilitation* - Direct services to patients experiencing primary problems for alcohol, such as outreach, detoxification, outpatient counseling, residential rehabilitation, hospital based care (not inpatient hospital services), abuse monitoring, vocational counseling, case management, central intake, and program administration.

b. *Drug Treatment and Rehabilitation* - Direct services to patients experiencing primary problems with illicit and licit drugs, such as outreach, detoxification, methadone maintenance and detoxification, outpatient counseling, residential rehabilitation, including therapeutic communities, hospital based care (not inpatient hospital services), vocational counseling, case management central intake, and program administration.

c. *Primary Prevention Activities* - Education, counseling, and other activities designed to reduce the risk of substance abuse.

The SAPT funds are allocated to the States according to a formula legislated by Congress. States may then distribute these funds to cities, counties, or service providers within their jurisdictions based on need. Of the SAPT funds dispensed to each State annually, Congress has specified that not less than 35 percent will be expended for prevention and treatment activities relating to alcohol, not less than 35 percent will be expended for prevention and treatment activities related to other drugs, and not less than 20 percent for programs for individuals who do not require treatment for substance abuse. The programs should (a) educate and counsel the individuals on such abuse and (b) provide for activities to reduce the risk of such abuse by the individuals. SAPT Block Grant statutory "set asides" were established to fund programs targeting special populations, such as services for women, especially pregnant and postpartum women and their children, and, in certain States, for screening for human immunodeficiency virus (HIV).

**State Plan**

The State must submit to SAMHSA for approval, an annual application which includes a State plan for SA prevention and treatment services objectives described above and signed assurances required by the Act and implementing regulations. The entire application, including the plan, must be reviewed by SAMHSA to ensure that all of the requirements of the law and regulations are met.

The State plan addresses how the State intends to comply with the various requirements of Title XIX, Part B, Subparts II and III of the Public Health Service Act (42 USC 300x) and its program objectives and specific allocations by: (1) conducting State and local demand and need assessments; (2) establishing statewide prevention and treatment improvement plans with specific multi-year goals for narrowing identified service gaps, implementing training efforts, and fostering coordination among SA treatment, primary health care, and human service agencies; and (3) addressing human resource requirements, clinical standards and identified treatment improvement goals, and ensuring coordination of all health and human services for addicted individuals.

The State shall make the plan public within the State in such a manner as to facilitate comment from any person (including any Federal or other public agency) during development of the plan (including any revisions) and after submission of the plan to SAMHSA.

**Source of Governing Requirements**

This program is authorized under Title XIX, Part B, Subparts II and III of the Public Health Service Act (42 USC 300x). Implementing regulations are published at 45 CFR part 96. Those regulations include general administrative requirements for the covered block grant programs (in lieu of either 45 CFR parts 74 (OMB Circular A-110) and 92 (A-102 Common Rule)). Requirements specific to SAPT are in 45 CFR sections 96.120 through 96.137. In addition, grantees are to administer their SAPT programs according to the plan which they submitted to SAMHSA.

As discussed in Appendix I of this Supplement, Federal Programs Excluded from the A-102 Common Rule, States are to use the fiscal policies that apply to their own funds in administering SAPT. Procedures must be adequate to assure the proper disbursal of and accounting for Federal funds paid to the grantee, including procedures for monitoring the assistance provided (45 CFR section 96.30).

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### A. Activities Allowed or Unallowed

1. The State shall not use grant funds to provide inpatient hospital services except when it is determined by a physician that: (a) the primary diagnosis of the individual is SA and the physician certifies this fact; (b) the individual cannot be safely treated in a community based non-hospital, residential treatment program; (c) the service can reasonably be expected to improve an individual's condition or level of functioning; and (d) the hospital based SA program follows national standards of SA professional practice. Additionally, the daily rate of payment provided to the hospital for providing the services to the individual cannot exceed the comparable daily rate provided for community based non-hospital residential programs of treatment for SA and the grant may be expended for such services only to the extent that it is medically necessary (i.e., only for those days that the patient cannot be safely treated in a residential community based program) (42 USC 300x-31(a) and (b); 45 CFR sections 96.135(a)(1) and (c))

2. Grant funds may be used for loans from a revolving loan fund for provision of housing in which individuals recovering from alcohol and drug abuse may reside in groups. Individual loans may not exceed $4000 (45 CFR section 96.129).

3. Grant funds shall not be used to make cash payments to intended recipients of health services (42 USC 300x-31(a); 45 CFR section 96.135(a)(2)).

4. Grant funds shall not be used to purchase or improve land, purchase, construct, or permanently improve (other than minor remodeling) any building or any other facility, or purchase major medical equipment. The Secretary may provide a waiver of the restriction for the construction of a new facility or rehabilitation of an existing facility, but not for land acquisition (42 USC 300x-31(a); 45 CFR sections 96.135(a)(3) and (d)).

5. The State shall not use grant funds to satisfy any requirement for the expenditure of non-Federal funds as a condition for the receipt of Federal funding (42 USC 300x-31(a); 45 CFR section 96.135(a)(4)).

6. Grant funds may not be used to provide financial assistance (i.e., a subgrant) to any entity other than a public or non-profit entity. A State is not precluded from entering into a procurement contract for services, since payments under such a contract are not financial assistance to the contractor (42 USC 300x-31(a); 45 CFR section 96.135 (a)(5)).

7. The State shall not expend grant funds to provide individuals with hypodermic needles or syringes so that such individuals may use illegal drugs (42 USC 300ee-5; 45 CFR section 96.135 (a)(6) and Pub. L. No. 106-113, section 505).

8. Grant funds may not be used to enforce State laws regarding sale of tobacco products to individuals under age of 18, except that grant funds may be expended from the primary prevention setaside of SAPT under 45 CFR section 96.124(b)(1) for carrying out the administrative aspects of the requirements such as the development of the sample design and the conducting of the inspections (45 CFR section 96.130 (j)).

**B. Allowable Costs/Cost Principles**

As discussed in Appendix I of this Supplement, Federal Programs Excluded from the A-102 Common Rule, SAPT is exempt from the provisions of OMB cost principles circulars. State cost principles requirements apply to SAPT.

**G. Matching, Level of Effort, Earmarking**

**1. Matching** - Not Applicable

**2. Level of Effort**

a. The State shall for each fiscal year maintain aggregate State expenditures for authorized activities by the principal agency at a level that is not less than the average level of such expenditures maintained by the State for the two State fiscal years preceding the fiscal year for which the State is applying for the grant. The "principal agency" is defined as the single State agency responsible for planning, carrying out and evaluating activities to prevent and treat SA and related activities (42 USC 300x-30; 45 CFR sections 96.121 and 96.134).

b. The State must maintain expenditures at not less than the calculated fiscal year 1994 base amount for SA treatment services for pregnant women and women with dependent children. The fiscal year 1994 base amount was reported in the State's fiscal year 1995 application (42 USC 300x-27; 45 CFR section 96.124(c)).

c. Designated States shall maintain expenditures of non-Federal amounts for HIV services at a level that is not less than the average level of such expenditures maintained by the State for the 2-year period proceeding the first fiscal year for which the State receives such a grant. A designated State is any State whose rate of cases of HIV is 10 or more such cases per 100,000 individuals (as indicated by the number of such cases reported to and confirmed by the Director of the Centers for Disease Control for the most recent calendar year for which the data are available.) (42 USC 300x-30; 45 CFR sections 96.128 (b) and (f)).

d. The State shall maintain expenditures of non-Federal amounts for tuberculosis services at a level that is not less than an average of such expenditures maintained by the State for the 2 year period preceding the first fiscal year for which the State receives such a grant (42 USC 300x-24; 45 CFR section 96.127).

**3. Earmarking**

a. The State shall expend not less than 35 percent for prevention and treatment activities regarding alcohol (42 USC 300x-22; 45 CFR section 96.124 (a)(1)).

b. The State shall expend not less than 35 percent for prevention and treatment activities regarding other drugs (42 USC 300x-22; 45 CFR section 96.124 (a)(2)).

c. Of the amount earmarked for alcohol and other drugs prevention and treatment activities (III.G.3.a and b above), the State shall expend not less than 20 percent of SAPT for primary prevention programs for individuals who do not require treatment of SA. The programs should educate and counsel the individuals on such abuse and provide for activities to reduce the risk of such abuse by the individuals (42 USC 300x-22; 45 CFR sections 96.124 (b)(1) and 96.125).

d. Designated States shall expend not less than 2 percent and not more than 5 percent of the award amount to carry out one or more projects to make available to individuals early intervention services for HIV disease at the sites where the individuals are undergoing SA treatment. If the State carries out two or more projects, the State will carry out one such project in a rural area of the State unless the Secretary waives the requirement (42 USC 300x-24; 45 CFR section 96.128(a)(1) and (d)).

e. The State may not expend more than 5 percent of the grant to pay the costs of administering the grant (42 USC 300x-31; 45 CFR section 96.135 (b)(1)).

f. The State may not expend grant funds for providing treatment services in penal or correctional institutions in an amount more than that expended for such programs by the State for fiscal year 1991 (42 USC 300x-31; 45 CFR section 96.135(b)(2)).

## H. Period of Availability of Federal Funds

The State is required to obligate all of the funds awarded during the fiscal year of the award. Amounts obligated by the State which remain unexpended at the end of the fiscal year for which the amounts were awarded shall remain available until the end of the succeeding fiscal year (42 USC 300x-62).

If a State has terminated or reduced the amount of funds awarded to a subrecipient for failure of the subrecipient to comply with the terms upon which the funds were conditioned, the amounts involved shall be available for reobligation by the State through September 30 of the fiscal year following the fiscal year for which the amounts were paid to the State and any such amounts that are obligated by the State should be available for expenditure through such date (42 USC 300x-62(b)).

## L. Reporting

### 1. Financial Reporting - Not Applicable

### 2. Performance Reporting - Not Applicable

### 3. Special Reporting

*Substance Abuse Prevention and Treatment (SAPT) Block Grant Application - Form 06B, Summary of Tobacco Results by State Geographic Sampling Unit (OMB No. 0930-0080*) - This form is part of the overall application for the SAPT Block Grant and it summarizes the tobacco inspection activities.

*Key Line Items* - The following line items contain critical information:

1. *(3) No. of Outlets Randomly Inspected.*

2. *(4) No. of Outlets Found in Violation During Random Inspections.*

## N. Special Test and Provisions

### 1. Independent Peer Reviews

**Compliance Requirements** - The State must provide for independent peer reviews which access the quality, appropriateness, and efficacy of treatment services provided to individuals. At least 5 percent of the entities providing services in the State shall be reviewed. The entities reviewed shall be representative of the entities providing the services. The State shall ensure that the peer reviewers are independent by ensuring that the peer review does not involve reviewers reviewing their own programs and the peer review is not conducted as part of the licensing or certification process (42 USC 300x-53; 45 CFR section 96.136).

**Audit Objectives** - Determine whether (1) the required number of entities were peer reviewed, (2) the selection of entities for peer review was representative of entities providing services, (3) the State ensured that the peer reviewers were independent.

**Suggested Audit Procedures**

1. Ascertain the number of entities providing treatment services in the State.

2. Ascertain if the number of entities reviewed was at least 5 percent of the entities providing treatment services.

3. Ascertain if the selection of entities for peer review was representative of entities providing services.

4. Select a sample of peer reviews and ascertain if the State ensured that the peer reviewers were independent.

## IV. OTHER INFORMATION

As described in Part 4, Social Services Block Grant (SSBG) program (CFDA 93.667), Subpart III.A. Activities Allowed or Unallowed, a State may transfer up to 10 percent of its annual allotment under SSBG to this and six other block grant programs.

Amounts transferred into this program are subject to the requirements of this program when expended and should be included in the audit universe and total expenditures of this program when determining Type A programs. On the Schedule of Expenditures of Federal Awards, the amounts transferred in should be shown as expenditures of this program when such amounts are expended.

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

## CFDA 93.991 PREVENTIVE HEALTH AND HEALTH SERVICES BLOCK GRANT

## IV. OTHER INFORMATION

This program is not included in this Compliance Supplement; however, the following information is included to alert the auditor to transfers from the Social Services Block Grant (SSBG) program (CFDA 93.667), a program which is included in this Supplement.

A State may transfer up to 10 percent of its annual allotment under SSBG to this and six other block grant programs for support of health services, health promotion and disease prevention activities, low-income home energy assistance, or any combination of these activities.

Amounts transferred into this program are subject to the requirements of this program when expended and should be included in the audit universe and total expenditures of this program when determining Type A programs. On the Schedule of Expenditures of Federal Awards, the amounts transferred in should be shown as expenditures of this program when such amounts are expended.

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

## CFDA 93.994 MATERNAL AND CHILD HEALTH BLOCK GRANT TO THE STATES

## I. PROGRAM OBJECTIVES

The objective of the program of grants to States under the Maternal and Child Health (MCH) Block Grant program is to provide funds to the 50 States, the District of Columbia, the Virgin Islands, Puerto Rico, Guam, American Samoa, the Federated States of Micronesia, Palau, the Marshall Islands, and the Northern Marianas (States) for improvement of the health of all mothers and children consistent with applicable health status goals and national health objectives established under the Public Health Service Act.

Specifically, MCH Block Grants are intended to: (1) provide and assure mothers and children (especially those with low income or limited availability of services) access to quality maternal and child health services; (2) reduce infant mortality and the incidence of preventable diseases and disabling conditions among children; (3) reduce the need for inpatient and long-term care services; (4) increase the number of children appropriately immunized against disease and the number of low-income children receiving health assessments and follow-up diagnostic and treatment services; (5) promote the health of mothers and infants by providing prenatal, delivery, and postpartum care for low-income, at-risk pregnant women; (6) promote the health of children by providing preventive and primary care services for low-income children; (7) provide rehabilitation services for blind and disabled individuals under sixteen years of age receiving benefits under Title XVI of the Social Security Act (Supplemental Security Income) to the extent medical assistance for such services is not provided under Title XIX (Medicaid); and (8) provide and promote family-centered, community-based, coordinated care for children with special health care needs and to facilitate the development of community-based systems of services for those children and their families.

## II. PROGRAM PROCEDURES

### Administration and Services

The MCH Block Grant program was created by the Omnibus Budget and Reconciliation Act (OBRA) of 1981. Under that legislation, seven categorical grants programs were consolidated into the single MCH Block Grant program. These were maternal and child health services for children with special health care needs; supplemental security income for children with disabilities; lead-based paint poisoning prevention programs; genetic disease programs; sudden infant death syndrome programs; and adolescent pregnancy grants. Extensive amendments to the authorizing statute in 1989 increased State programmatic and fiscal accountability under the program. These include requirements for States to define health status measures and to develop measurable objectives for program efforts as well as to report progress on key maternal and child health indicators.

The program is currently administered by the Division of State and Community Health, Maternal and Child Health Bureau (MCHB), Health Resources and Services Administration (HRSA), a component of the Department of Health and Human Services (HHS). MCH Block Grant funds are awarded to States in accordance with a preestablished formula after submission to and approval of their applications by HRSA. The application addresses how the State plans to implement prioritized tasks based on a Statewide needs assessment (required to be conducted every five years) for all mothers and children, including those with special health care needs. The State health agency is responsible for overall program administration according to its approved plan but services may be carried out by the recipient or by local nonprofit agencies that are funded in accordance with an allocation methodology determined by the recipient (and approved by HRSA).

**Source of Governing Requirements**

The MCH Block Grant program is authorized under the 1981 Omnibus Budget and Reconciliation Act, as amended, and is codified at 42 USC 701 through 709. The implementing regulations for this and other HHS block grant programs are published at 45 CFR part 96. Those regulations include both specific requirements and general administrative requirements for the covered block grant programs (in lieu of either 45 CFR part 74 (OMB Circular A-110) or 45 CFR part 92 (A-102 Common Rule)).

**Availability of Additional Program Information**

Further information about this program is available on the Internet at www.mchb.hrsa.gov.

## III. COMPLIANCE REQUIREMENTS

**In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should look first to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.**

### A. Activities Allowed or Unallowed

**1.** *Activities Allowed*

a. Funds may be used to provide health services and related activities, including planning, administration, education, and evaluation (42 USC 704(a)).

b. Funds may be used to purchase technical assistance from public or private entities if required to develop, implement, or administer the MCH Block Grant (42 USC 704(c)).

c. Funds may be used for salaries and other related expenses of National Health Service Corps personnel assigned to the State (42 USC 704(a)).

d. Funds may be used to continue funding of special projects in the State funded under Title V of the Social Security Act prior to the enactment of the MCH Block Grant program on August 31, 1981 (42 USC 705(a)(5)(C)(i)).

**2.** *Activities Unallowed*

a. Funds may not be used to purchase or improve land, to purchase, construct, or permanently improve buildings or facilities (other than minor remodeling), or to purchase major medical equipment unless a waiver has been granted by HRSA (42 USC 704(b)(3)).

b. Funds may not be used to make cash payments to intended recipients of services (42 USC 704(b)(2)).

c. Funds may not be provided for research or training to any entity other than a public or nonprofit private entity (42 USC 704(b)(5)).

d. Funds may not be used for inpatient services, other than for children with special health care needs or high-risk pregnant women and infants or other inpatient services approved by the Associate Administrator for Maternal and Child Health (42 USC 704(b)(1)). Infants are defined as persons less than one year of age (42 USC 706(a)(2)(E)).

e. Funds may not be used to make payments for any item or service (other than an emergency item or service) furnished by an individual or entity excluded under Titles V, XVIII (Medicare), XIX (Medicaid), or XX (Social Services Block Grant) of the Social Security Act (42 USC 704(b)(6)).

f. MCH Block Grant funds may not be transferred to other block grant programs (42 USC 702(a)(3) and 705(a)(5)(B)).

## B. Allowable Costs/Cost Principles

As discussed in Appendix I of this Supplement, Federal Programs Excluded from the A-102 Common Rule, the MCH Block Grant program is exempt from the provisions of OMB cost principles circulars. State cost principles requirements apply to the MCH Block Grant program.

## G. Matching, Level of Effort, Earmarking

### 1. Matching

Federal funds expended for the program must be matched 75 percent by State funds (42 USC 703(a)).

### 2.1. Level of Effort - *Maintenance of Effort*

The State must maintain the level of funds provided solely by the State for maternal and child health programs at a level at least equal to the level provided in FY 1989 (42 USC 705(a)(4))).

**2.2. Level of Effort** - *Supplement Not Supplant* - Not Applicable

**3. Earmarking**

a. Unless a lesser percentage is established in the State's notice of award for a given fiscal year, the State must use at least 30 percent of payment amounts for preventive and primary care services for children (42 USC 705(a)(3)(A)).

b. Unless a lesser percentage is established in the State's notice of award for a given fiscal year, the State must use at least 30 percent of payment amounts for services for children with special health care needs (42 USC 705(a)(3)(B)).

c. A State may not use more than 10 percent of allotted funds for administrative expenses (42 USC 704(d)).

## H. Period of Availability of Federal Funds

Funds available to States from their allotment for any fiscal year are available for obligation by the State in that fiscal year or in the succeeding fiscal year. No payment may be made to a State from allotments for a fiscal year for expenditures made after the end of the following fiscal year (42 USC 703(b)).

## J. Program Income

Charges imposed by a State for services under this program must be pursuant to a published schedule of charges and adjusted to reflect the income, resources, and family size of the recipients. No charges may be imposed for low-income mothers or children (42 USC 705(a)(5)(D)). The official poverty guideline, as revised annually by HHS, shall be used to determine whether an individual is considered low-income for this purpose. The poverty guidelines are issued each year in the *Federal Register*. HHS maintains a page on the Internet that provides the poverty guidelines (aspe.os.dhhs.gov/poverty/poverty.htm).

## L. Reporting

**1. Financial Reporting**

a. SF-269, *Financial Status Report* - Not Applicable

b. SF-270, *Request for Advance or Reimbursement* - Not Applicable

c. SF-271, *Outlay Report and Request for Reimbursement for Construction Program* - Not Applicable

d. SF-272, *Federal Cash Transactions Report* - Payments under this program are made by the HHS, Payment Management System. Reporting equivalent to the SF-272 is accomplished through the Payment Management System and is evidenced by the PMS-272 series of reports.

**2. Performance Reporting** - Not Applicable

**3. Special Reporting**

a. *Title V Application/Annual Report* (*OMB No. 0915-0172*) - The State must submit an annual report by July 15 of each year (at the time it submits the annual application). The reporting forms and instructions are contained in a document entitled "Guidance and Forms for the Title V Application/Annual Report." Reports are prepared electronically.

*Key Line Items* - The following line items contain critical information.

Number of Individuals Served and Proportion with Health Coverage:

| | |
|---|---|
| Form 6 | Number and Percentage of Newborns and Others Screened, Confirmed and Treated |
| Form 7 | Number of Individuals Served (Unduplicated) Under Title V |
| Form 8 | Deliveries and Infants Served by Title V and Entitled to Benefits under Title XIX |

Amounts Spent Under Title V on Each Type of Service by Class of Individuals Served for the current year:

| | |
|---|---|
| Form 3 | State MCH Funding Profile, "Expended" column |
| Form 4 | Budget Details by Types of Individuals Served, Item I.a.-g. |
| Form 5 | State Title V Program Budget and Expenditures by Types |

## IV. OTHER INFORMATION

Federal funds from other block grant programs (e.g., Social Services Block Grant (93.667), and Preventive Health and Health Services Block Grant (93.991)) may be transferred into the MCH Block Grant program. MCH Block Grant funds, however, may not be transferred to other block grant programs (42 USC 702(a)(3) and 705(a)(5)(B)). Funds transferred into the MCH Block Grant are subject to the requirements of this program when expended and should be included in the audit universe and total expenditures of this program when determining Type A programs. On the Schedule of Expenditures of Federal Awards, the amounts transferred in should be shown as expenditures of this program when such amounts are expended.