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Progress Report

March 2004 Report No. 04-25

No Lead Agencies Have Earned Excess Federal Funds for Several Years

at a glance

As recommended in our prior report, the Legislature expanded the Department of Children and Families' excess federal earnings distribution program, which enables private community-based entities providing child protection services to receive additional federal funding. However, no lead agency has earned these funds in several years due to unavailability of TANF and limited general revenue funds to match federal dollars.

Although the 2002 Legislature directed the department to develop a proposal to use excess federal earnings to reduce the financial risk to lead agencies, it has not done so. The department was required by law to submit a final proposal to the Legislative Budget Commission by December 31, 2002. Department officials said they expected to submit a proposal in Fiscal Year 2004-05.

Scope

In accordance with state law, this progress report informs the Legislature of actions taken by the Department of Children and Families in response to a 2001 OPPAGA report.[1,2] This report presents our assessment of the extent to which the department has addressed the findings and recommendations included in our report.

Background

Beginning in 1996, the Legislature has enacted community-based care initiatives that significantly privatize foster care and adoption services.[3] The Legislature has directed the Department of Children and Families to contract with private, community-based entities known as lead agencies to perform the management, fiscal, and direct service operational responsibilities that had been previously done by the department's district offices. Lead agencies are to plan, administer, and deliver client services; ensure that services are delivered in accordance with state and federal laws; and coordinate with other local public or private agencies that offer client services. In addition, lead agencies are to provide foster care and adoption services.

Several child welfare programs administered by the department can earn "excess" federal earnings. These programs are funded through a combination of state and federal funds, with the federal government matching eligible state

[1] Section 11.45(7)(f), *F.S.*

[2] *Legislature Should Establish Foster Care Excess Federal Earnings Program Despite Slow Start,* OPPAGA Report No. 01-38, August 2001.

[3] Chapter 96-402, 98-180, and 2000-139, *Laws of Florida.*

or local expenditures. Depending on the type of service or activity, the federal government reimburses Florida between 50% and 75% of the expenditures for services eligible for funding under Title IV-E and Title XIX of the Social Security Act. The Legislature appropriates funds to these programs based on estimates of the number of clients to be served, the expected amount of federal matching funds, and the amount of available state revenue. The state can earn "excess" federal funds if the client mix served or the actual services provided are greater than the projected level.

Any excess federal funds related to the child welfare program are deposited in the department's Federal Grants Trust Fund as unrestricted cash because the state has already met the matching requirements. In Fiscal Year 1999-2000, the department reported earning $14.4 million in excess federal funds.

The 1999 Legislature (in Ch. 99-206, *Laws of Florida*) established a pilot program to be in effect from July 1, 1999, through June 30, 2002, in which lead agencies could retain a portion of the excess federal earnings they generated from the child welfare services they provided. The law required the department to prepare a schedule and methodology for distributing excess earnings to participating lead agencies. The department's methodology established steps to be performed by lead agencies and the department to calculate and distribute excess earnings. Under this methodology, the department retained a portion of the excess earnings that are "earned" by lead agencies to fund activities such as developing an improved child welfare data system.

Prior Findings

In our 2001 report we concluded that the pilot project had been slowly implemented but was having positive effects by providing an incentive for lead agencies to modify their internal processes to maximize federal earnings. The one lead agency (YMCA Children, Youth, and Family Services, Inc.) that was eligible at the time of our prior report received $209,690 in excess federal earnings for Fiscal Year 1999-2000. The lead agency planned to use its excess federal earnings for its foster care and adoption services.

Because the pilot was set to expire on June 30, 2002, but had shown positive effects and state policy was to continue to privatize child welfare services, we recommended that the Legislature expand the pilot program statewide to include all lead agencies as they became operational. We also recommended that the department periodically report to the Legislature how lead agencies used its excess federal earnings.

Current Status

As we recommended, the Legislature (in Ch. 2002-219, *Laws of* Florida) expanded the program statewide and authorized participation by all lead agencies under a community-based care contract as of July 1, 2002.[4] However, since Fiscal Year 1999-2000, no lead agency has earned excess federal funds. The department has not yet submitted a final proposal to the Legislative Budget Commission on the use of excess federal funds, although it was required by law to do so by December 31, 2002.

No lead agency has earned excess federal funds since Fiscal Year 1999-2000

Since our prior report, no lead agency has generated excess federal earnings. The process for generating excess federal funds depends on several factors, including projected federal reimbursement levels, changes in federal regulations, changes in client mixes or services, and the availability of general revenue. Due to budget limitations, general revenue has not been available to match potential excess federal funds that could be earned by lead agencies.

[4] Five lead agencies were under contract with the department as of July 1, 2002—YMCA Children, Youth, and Family Services, Inc. (Sarasota, Manatee, and DeSoto counties); Family Continuity Program, Inc. (Pinellas and Pasco counties); Families First Network, Inc. (Escambia, Santa Rosa, Okaloosa, and Walton counties); Hillsborough Kids, Inc. (Hillsborough County); and Partner for Community Based Care (Flagler and Volusia counties).

The excess federal funds earned by the YMCA for Fiscal Year 1999-2000 resulted from unique circumstances, including greater budget flexibility afforded to the YMCA and a surplus of state Temporary Assistance to Needy Families (TANF) funds in that year.[5] The YMCA provided more in-home services than projected, and these services were eligible for TANF funding. As TANF has a lower state matching requirement than other federal funds, the state was able to leverage its matching funds to claim additional federal funding.

However, it is not feasible for other lead agencies to use this strategy to generate excess federal earnings because Florida's TANF grant is capped, and all available TANF funds have been allocated to other state programs since Fiscal Year 2000-01.

Due to the limited state dollars available to match federal funds, department officials indicated that in the future, lead agencies may need to obtain local revenue in order to generate potential excess federal earnings. Lead agencies could use local revenue to serve clients that are not eligible for federal reimbursable services, thus making available state appropriated general revenue for federal reimbursable services to clients that could generate excess federal earnings. While it is unclear whether such additional federal funds will be available, they would be important for the local agencies as these monies would give the lead agencies greater flexibility.

The department has earned excess federal funds for child welfare services in recent years but has used these funds for other internal purposes, such as Family Safety Program Office salaries and the continuing development of its HomeSafenet computer system. The department reported Fiscal Year 2002-03 expenditures that included $29,687,254 in excess federal earnings. The department may not be able to use these funds to fund a risk pool to cover financial risks to lead agencies, as intended by the Legislature, because it does not have systems or procedures in place to calculate or otherwise manage excess federal earnings on a regular basis. The department reports that its calculations of excess federal earnings are manually prepared using a number of high-level assumptions that must be taken into consideration before the figures are utilized.

The department has not yet submitted proposal outlining access to excess federal funds

The 2002 Legislature directed the department to develop a proposal to create a shared earnings program. The program would allow excess federal earnings to be used to cover financial risks to lead agencies due to circumstances beyond the control of the lead agency.[6] Chapter 2002-219, *Laws of Florida,* required the department to submit a final proposal for a shared earnings program to the Legislative Budget Commission by December 31, 2002.

However, the department has not met this statutory deadline and has yet to submit the required proposal. In March 2004, department officials said they expected to submit a proposal to the Legislative Budget Commission in Fiscal Year 2004-05.

[5] Temporary Assistance to Needy Families (TANF) is a federal block grant program that provides temporary cash assistance to eligible recipients while they find work.

[6] These circumstances include significant changes in the number or composition of clients eligible to receive services; significant changes in the availability of federal funds; shortfalls in state funds available for eligible or ineligible services.

The Florida Legislature

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