

NOTICE OF PROPOSED CHANGES IN REGULATIONS OF THE
CALIFORNIA DEPARTMENT OF SOCIAL SERVICES (CDSS)

ITEM # 1 Title IV-E Foster Care Overpayment Regulations

CDSS hereby gives notice of the proposed regulatory action(s) described below. Any person interested may present statements or arguments orally or in writing relevant to the proposed regulations at a public hearing to be held August 12, 2009, as follows:

August 12, 2009
Office Building # 8
744 P St. Auditorium
Sacramento, California

The public hearing will convene at 10:00 a.m. and will remain open only as long as attendees are presenting testimony. The purpose of the hearing is to receive public testimony, not to engage in debate or discussion. The Department will adjourn the hearing immediately following the completion of testimony presentations. The above-referenced facility is accessible to persons with disabilities. If you are in need of a language interpreter at the hearing (including sign language), please notify the Department at least two weeks prior to the hearing.

Statements or arguments relating to the proposals may also be submitted in writing, e-mail, or by facsimile to the address/number listed below. All comments must be received by 5:00 p.m. on August 12, 2009.

Following the public hearing CDSS may thereafter adopt the proposals substantially as described below or may modify the proposals if the modifications are sufficiently related to the original text. With the exception of nonsubstantive, technical, or grammatical changes, the full text of any modified proposal will be available for 15 days prior to its adoption to all persons who testify or submit written comments during the public comment period, and all persons who request notification. Please address requests for regulations as modified to the agency representative identified below.

Copies of the express terms of the proposed regulations and the Initial Statement of Reasons are available from the office listed below. This notice, the Initial Statement of Reasons and the text of the proposed regulations are available on the internet at <http://www.dss.cahwnet.gov/ord>. Additionally, all the information which the Department considered as the basis for these proposed regulations (i.e., rulemaking file) is available for public reading/perusal at the address listed below.

Following the public hearing, copies of the Final Statement of Reasons will be available from the office listed below.

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CHAPTERS

CDSS Manual of Policies and Procedures (MPP), Division 11 (Administrative Standards for Eligibility and Assistance), Chapter 11-400 (AFDC - Foster Care Rates), Section 11-425 (Responsibilities of County Welfare Departments); Division 22 (State Hearing and Request for Review), Chapter 22-000 (State Hearing - General), Sections 22-001 (Definitions), 22-003 (Right to a State Hearing), and 22-009 (Time Limit on Request for a State Hearing); Division 45 (AFDC-FC [Foster Care]), Chapter 45-300 (AFDC-FC Payee, Payment and Delivery), Sections 45-302 (Payment), 45-303 (Payment Delivery), 45-304 (AFDC-FC Overpayments for Foster Family Homes, Relative Homes, Nonrelative Extended Family Members, and Non-Related Legal Guardians - General), 45-305 (AFDC-FC Overpayments for Foster Family Homes, Relative Homes, and Non-Related legal Guardians - Methods of Overpayment Recovery), and 45-306 (Informal Hearing Procedures).

INFORMATIVE DIGEST/POLICY STATEMENT OVERVIEW

In June 2006, the CDSS was informed that the State was not in compliance with Aid to Families with Dependent Children-Foster Care (AFDC-FC) overpayment recoupment that requires the federal share of overpayments identified through state program audits, county compliance audits, and county overpayment errors be returned immediately once the overpayment has been identified. The past practice at CDSS, based on a federal financial management cost principal of Office of Management and Budget (OMB) Circular A-87, had been to repay the federal share of overpayments upon recoupment from foster care providers. However, the Department of Health and Human Services (DHHS) Region IX advised CDSS that it was out of compliance with the federal Improper Payments Information Act (IPIA) and that it had misinterpreted the federal law. Moreover, DHHS Region IX advised CDSS that it is responsible for crediting the federal government the full amount of the federal share of Title IV-E funds upon identification following the completion of due process, regardless of whether the state or county collects or has the ability to collect overpayments. Therefore, CDSS informed the DHHS Region IX that it would take immediate steps to comply with identifying, tracking, and reporting overpayments and remitting the federal share as required.

In October 2006, CDSS began a series of workgroup meetings with the County Welfare Director's Association (CWDA) and county representatives to address statewide concerns with identifying, tracking, and reporting overpayments, and identify current and potential best practices to prevent and reduce overpayments. Additionally, current state statutes and regulations that prohibit collection of overpayments, information system problems for identifying overpayments, and a need for clarification of policy and oversight for overpayments were identified as issues. Counties were advised to begin tracking identified overpayments regardless of the ability to collect.

Based on the county overpayment lists submitted for specified retroactive periods, CDSS has identified and repaid to date approximately \$12.3 million dollars as the federal share of identified overpayments from county errors, county compliance audits, and state program audits. The DHHS Region IX demanded repayment of any outstanding federal share of overpayments; otherwise, it would begin the formal disallowance process for the federal share of Title IV-E funds prospectively. In response, CDSS made necessary modifications to the county claim form to allow counties to make adjustments for county overpayments beginning with the March 2008 claim month.

Senate Bill (SB) 84 (Chapter 177, Statutes of 2007) contains legislative language that statutorily requires CDSS to collaborate with CWDA to develop and implement processes, procedures, and develop regulations that will ameliorate systemic problems with identifying, tracking, reporting, collecting, and remitting the federal share of Title IV-E foster care and AAP overpayments. The workgroup identified current issues with state statute and regulations that preclude counties from notifying and recovering overpayments; identified possible best practices to reduce or eliminate overpayments; identified issues with due process and appeal rights of providers; identified problems associated with Adoption Assistance Program (AAP) payments, that may occur only every two years when AAP agreements are renegotiated and may affect the timely discovery of an overpayment; defined "uncollectible debt;" and identified the appropriate roles of both counties and the state in recouping overpayments including those identified through state program audits.

Pursuant to SB 84, CDSS is required to repay the federal share of all overpayments identified by counties until such time as CDSS promulgates regulations, or by December 31, 2008, thus, relieving counties of the responsibility to pay back overpayments.

COST ESTIMATE

1. Costs or Savings to State Agencies: Currently, the State incurs all costs for foster care overpayments but pursuant to Welfare and Institutions Code Section 11466.23, counties will share in the costs resulting in savings to the State. Beginning in July 1, 2009, the State's estimated annual savings will be \$1.5 million.
2. Costs to Local Agencies or School Districts Which Must Be Reimbursed in Accordance With Government Code Sections 17500 - 17630: None.
3. Nondiscretionary Costs or Savings to Local Agencies: Under Welfare and Institutions Code Section 11466.23 counties will be required to share in the costs of uncollectable overpayments. Beginning in July 1, 2009, counties estimated annual cost will be \$1.5 million.
4. Federal Funding to State Agencies: The estimated annual Federal savings adjustment for incurred overpayments is \$2.6 million.

LOCAL MANDATE STATEMENT

These regulations do impose a mandate on local agencies but not on school districts. There are no state-mandated local costs in this order that require reimbursement under the laws of California. Any local costs associated with this order can be avoided through local agency compliance with State rules requiring accurate payments to foster care providers.

STATEMENT OF SIGNIFICANT ADVERSE ECONOMIC IMPACT ON BUSINESS

CDSS has made an initial determination that the proposed action will not have a significant, statewide adverse economic impact directly affecting businesses, including the ability of California businesses to compete with businesses in other states.

STATEMENT OF POTENTIAL COST IMPACT ON PRIVATE PERSONS OR BUSINESSES

The CDSS is not aware of any cost impacts that a representative private person or business would necessarily incur in reasonable compliance with the proposed action.

SMALL BUSINESS IMPACT STATEMENT

CDSS has determined that there is no impact on small businesses as a result of filing these regulations because these regulations are only applicable to state and county agencies.

ASSESSMENT OF JOB CREATION OR ELIMINATION

The adoption of the proposed amendments will neither create nor eliminate jobs in the State of California nor result in the elimination of existing businesses or create or expand businesses in the State of California.

STATEMENT OF EFFECT ON HOUSING COSTS

The proposed regulatory action will have no effect on housing costs.

STATEMENT OF ALTERNATIVES CONSIDERED

CDSS must determine that no reasonable alternative considered or that has otherwise been identified and brought to the attention of CDSS would be more effective in carrying out the purpose for which the regulations are proposed or would be as effective as and less burdensome to affected private persons than the proposed action.

AUTHORITY AND REFERENCE CITATIONS

CDSS adopts these regulations under the authority granted in Welfare and Institutions Code Sections 10553 and 10554 and SB 84, Chapter 177, Statutes of 2007, Sections 32 and 33. Subject regulations implement and make specific Welfare and Institutions Code Sections 11466.23, 11466.235, and 11466.24.

CDSS REPRESENTATIVE REGARDING RULEMAKING PROCESS OF THE PROPOSED REGULATION

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EMERGENCY STATEMENT

These regulations are to be adopted on an emergency basis. In order to allow interested persons an opportunity to submit statements or arguments concerning these regulations, they will be considered at public hearing in accordance with Government Code Section 11346.4.