



November 2008
PE 08-12-436

SPECIAL REPORT

WEST VIRGINIA CHILDREN'S TRUST FUND

AUDIT OVERVIEW

The West Virginia Children's Trust Fund
Has a High Percentage of Administrative
Costs Compared to Annual Collections



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EXECUTIVE SUMMARY

The West Virginia Children’s Trust Fund Has a High Percentage of Administrative Costs Compared to Annual Collections.

This is a follow-up report to a Post-Audit Report on the West Virginia Children’s Trust Fund for the Period July 1, 2005 to June 30, 2007. The goal of this report is to expand on the findings in the Post-Audit report and examine the Children’s Trust Fund’s finances prior to 2005. It was found that the Children’s Trust Fund has not been utilized for its purpose proportionate to its revenues. The balance of the fund has increased steadily from \$350,000 in 1994 to over \$1.1 million in 2008 due to the low amounts of disbursement compared to the amount of revenue. While such a growth rate is positive, it is the Legislative Auditor’s opinion that this fund was not created to accumulate at such a rate. In recent years the Children’s Trust Fund has administered just one \$50,000 grant annually. The annual cost to the State to administer this single grant is \$32,425, or 65 percent of the grant amount. **It is the Legislative Auditor’s opinion that the relatively small amount that is collected and disbursed each year and the high percentage of administrative cost indicate that the CTF is inefficient.**

The balance of the fund has increased steadily from \$350,000 in 1994 to over \$1.1 million in 2008 due to the low amounts of disbursement compared to the amount of revenue.

Recommendation

1. *The Legislative Auditor recommends that the Children’s Trust Fund be dissolved and that its balance be transferred to the Family Resource Networks for child abuse and neglect services.*

Children’s Trust Fund has administered just one \$50,000 grant annually. The annual cost to the State to administer this single grant is \$32,425, or 65 percent of the grant amount.

OBJECTIVE, SCOPE & METHODOLOGY

Objective

The goal of this report is to determine the efficiency with which the West Virginia Children's Trust Fund is administered.

Scope

The scope of this report is from FY 1994 to FY 2008.

Methodology

The base of this report was established by the findings of the Post-Audit Report of West Virginia Children's Trust Fund for the Period July 1, 2005 to June 30, 2007. New data were compiled using work papers from that report and financial records from the now-defunct Governor's Cabinet of Children & Families. All applicable statutes regarding the Children's Trust Fund were also reviewed. Every aspect of this review complied with Generally Accepted Government Auditing Standards (GAGAS).

ISSUE 1

The West Virginia Children's Trust Fund Has a High Percentage of Administrative Costs Compared to Annual Collections.

Issue Summary

The Children's Trust Fund (CTF) account balance has grown from \$350,000 in 1994 to over \$1.1 million in 2008. The CTF has grown primarily because the small amount of revenue it receives is greater than what is disbursed each year. However, this revenue-disbursement differential is not as great as it was in the 1990s. It is the Legislative Auditor's opinion that this fund was not created to accumulate at such a rate. While such a growth rate is positive, it is evidence that the account has not been utilized for its purpose proportionate to its revenue. Although the CTF has over \$1 million, its annual disbursements for child abuse prevention programs consists of a \$50,000 grant to one grantee. Moreover, the cost to the State to administer this one grant is \$32,425 which is close to 65 percent of the \$50,000 grant. In addition, a recent report by the Legislative Auditor's Post-Audit Division found that the sole grantee of CTF money in FY 2006 and FY 2007 misused and poorly documented the use of the grant. **It is the Legislative Auditor's opinion that the relatively small amount that is collected and disbursed each year and the high percentage of administrative cost indicate that the CTF is inefficient.** Therefore, the Legislative Auditor recommends that the Children's Trust Fund be dissolved and that its balance be transferred to the Family Resource Networks for child abuse and neglect services.

While such a growth rate is positive, it is evidence that the account has not been utilized for its purpose proportionate to its revenue.

A recent report by the Legislative Auditor's Post-Audit Division found that the sole grantee of CTF money in FY 2006 and FY 2007 misused and poorly documented the use of the grant.

Introduction

The Children's Fund was continued and renamed the West Virginia Children's Trust Fund in 2007 under WVC§49-6C-1. The Code Site states, in part:

(a) The Children's Fund, created for the sole purpose of awarding grants, loans and loan guarantees for child abuse and neglect prevention activities... the fund shall be administered by the Commissioner of the Bureau for Children and Families.

(b) Each state taxpayer may voluntarily contribute a portion of the taxpayer's state income tax refund to the Children's Trust Fund by designating the contribution on the state personal income tax return form.

(c) All interest accruing from investment of moneys in the Children's Trust Fund shall be credited to the fund. The Legislative Auditor shall conduct an audit of the fund before the first day of July, two thousand eight, and at least every three fiscal years thereafter.

(d) Grants, loans and loan guarantees may be awarded from the Children's Trust Fund by the Commissioner of the Bureau for Children and Families for child abuse and neglect prevention activities.

This is a follow-up report to the *Audit Report of the West Virginia Children's Trust Fund for the Period July 1, 2005 to June 30, 2007*. That report was presented by the Post-Audit Division of the Legislative Auditor's Office (Post-Audit) during the September 2008 interim session. The Post-Audit report cited several findings that questioned the use of the Children's Trust Fund by the grantee, TEAM for West Virginia Children, Inc. (TEAM). The following are brief descriptions of the findings.

The Post-Audit report cited several findings that questioned the use of the Children's Trust Fund by the grantee, TEAM for West Virginia Children, Inc. (TEAM).

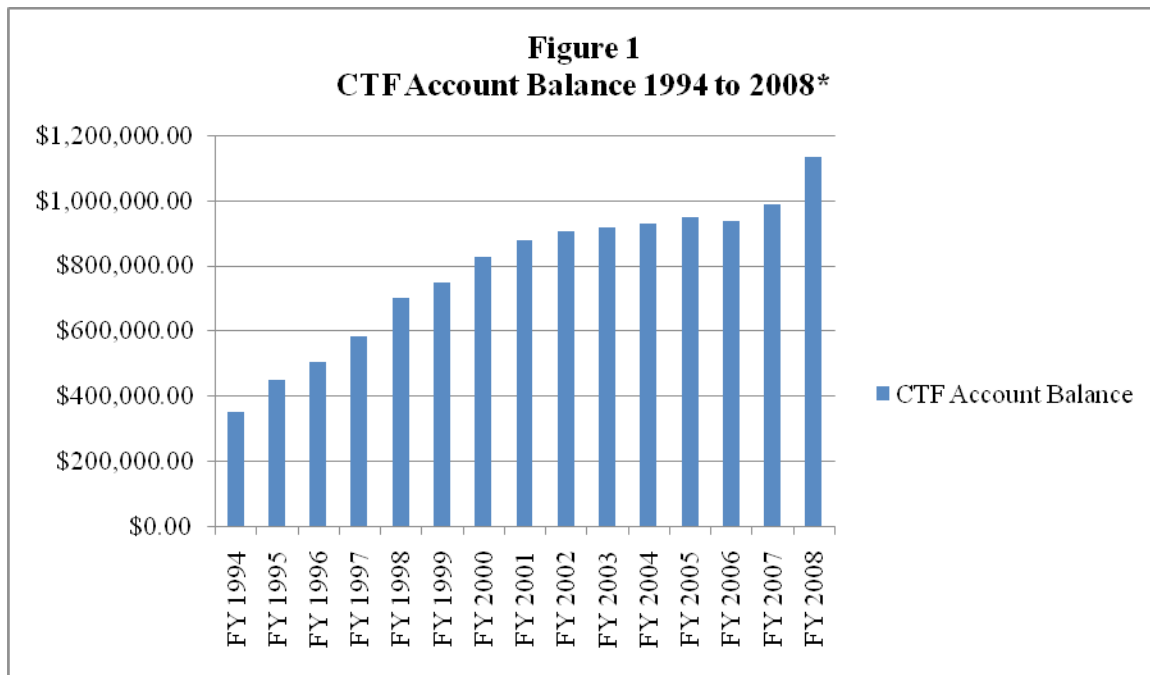
- **Inadequate Documentation:** Descriptions provided of the expenses paid with CTF funds were vague. Also, in 2007, CTF funds were pooled with other federal and state funds and were indistinguishable due to the vague documentation.
- **Unauthorized Application of Grant Funds:** It was apparent in TEAM's accounting ledgers that CTF funds were used for the purpose of increasing financial contributions to the trust fund. According to the Opinion of the Legislative Auditor's Legal Division such use of CTF funds is not permitted by state code. Furthermore, CTF moneys were used to pay TEAM employee wages, which conflicts with the TEAM Grant Work Plan
- **Investment of Children's Trust Fund Moneys:** A 26-day delay in the deposit of CTF money by the Department of Health and Human Resources with the Bureau of Treasury Investments resulted in a loss of interest of approximately \$2,300.

The Amount of CTF Money Disbursed Is Small Compared to the Amount of Revenue Received

The Children’s Fund was created under Senate Bill No. 1 in the Third Extraordinary Session of the 1990 West Virginia Legislature. It became the Children’s Trust Fund with the passage of Senate Bill 2007 effective August 21, 2007. The CTF is funded primarily by taxpayer contributions. Taxpayers check a box on their tax forms and designate an amount to be donated to the fund. That amount can be subtracted from tax refunds or added to taxes owed. In 1994 there was \$350,000 in the CTF account. In 2008 there is over \$1.1 million in the CTF. Since FY 2002, the average revenue of the CTF is \$79,037, while the average disbursements are \$65,343. However, during the 1990s the revenue exceeded disbursements by larger amounts because the CTF received an influx of federal funding. From FY 1995 to FY 1998, the CTF averaged \$33,725 in federal funding, nearly \$30,000 in interest and an average of \$71,337 in private donations. During the same time period the CTF averaged \$47,115 in grant disbursements and \$9,630 in expenses. These figures combine for total averages of \$134,283 in revenue and \$56,745 in disbursements from FY 1995 to FY 1998. The steady increase in the CTF account balance is shown in the Figure 1 below.

The CTF is funded primarily by taxpayer contributions. Taxpayers check a box on their tax forms and designate an amount to be donated to the fund.

Since FY 2002, the average revenue of the CTF is \$79,037, while the average disbursements are \$65,343.



*Source: Audit Report of West Virginia Children’s Trust Fund for the Period July 1, 2005 to June 30, 2007, West Virginia Legislative Auditor’s Office, Post-Audit Division

During the audit period of the Post-Audit's report, FY 2006 to FY 2007, the CTF was used to make three grants, one \$2,000 grant in FY 2006 and one \$50,000 grant in FY 2006 and FY 2007. All three grants went to TEAM. Prior to FY 2006, the CTF was used to make several small grants, normally under \$5,000, to various community-based child abuse and neglect prevention programs, including TEAM. Since FY 2002, the largest amount of total grant disbursement was \$139,800 in FY 2005. However, \$120,751 of that amount was awarded to TEAM over seven different grant payments.

TEAM does, in turn, make smaller grants to community child abuse and neglect prevention initiatives. However, TEAM receives other state and federal funding and its specific use of CTF money has been called into question in Post-Audit's report.

The Legislative Auditor concludes that using the CTF for one \$50,000 grant each fiscal year is an underutilization of the fund. Awarding one grant, despite the worthwhile efforts of the grantee, appears to go against the legislative intent of the program. West Virginia Code §49-6C-1 states:

“The Children's Fund, created for the sole purpose of awarding grants, loans and loan guarantees for child abuse and neglect prevention activities...”

This language implies a more active use of the CTF as it refers to multiple grants, as well as loans and loan guarantees to be awarded towards the goals of the CTF. Given the amount of money in the CTF account, to make just one grant of \$50,000 is underutilizing taxpayer contributions.

The Recent Costs of Administering the CTF Account are High in Relation to the Amount Being Utilized

The West Virginia Department of Health and Human Resources (DHHR) estimated that its cost for administering and managing the CTF in FY 2007 was \$26,644 (see Table 1). The West Virginia Tax Department estimates its direct and indirect costs associated with the CTF at \$3,200 annually. The Legislative Auditor's Office is required to audit the CTF every three years. The cost of its most recent audit, released in September

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Awarding one grant, despite the worthwhile efforts of the grantee, appears to go against the legislative intent of the program.

2008, was \$7,744. Annualized, the administrative cost of the Legislative Auditor’s required audit is \$2,581. It is noted that these administration costs do not come out of the CTF; nevertheless, it is a cost to the State. Thus, the cost to the State in FY 2007 to essentially administer one grant of \$50,000 was \$32,425. That is nearly 65 percent of the grant amount awarded in FY 2007. This relatively high percentage for administrative costs is inefficient and counter-productive to the intent of the fund. According to Charity Navigator, a nationally-recognized evaluator of charities, the median administrative expense percentage for charities is 9.7 percent. Also, when evaluating charities, Charity Navigator gives the lowest scores to charities whose administrative expenses are over 30 percent.

The cost to the State in FY 2007 to essentially administer one grant of \$50,000 was \$32,425. That is nearly 65 percent of the grant amount awarded in FY 2007.

According to Charity Navigator, a nationally-recognized evaluator of charities, the median administrative expense percentage for charities is 9.7 percent.

**Table 1
Children’s Trust Fund Annual Administrative Costs**

Administrative Cost Description	Cost Amount	Cost Amount as % of the Single Grant Awarded by the Fund of \$50,000	Cost Amount as % of Average Annual Fund Collection of \$79, 037
Tax Department Collection of Fund	\$3,200	6.4%	4.0%
DHHR Administration of Fund	\$26,644	53.3%	33.7%
Legislative Auditor’s Office Required Audit of the Fund (annualized)	\$2,581	5.2%	3.3%
Total Administrative Costs	\$32,425	64.9%	41.0%

The CTF Grants Awarded in FY 2006 and FY 2007 Have Been Misused and Poorly Documented

During the initial audit period, the Governor’s Cabinet for Children and Families was responsible for administering the Children’s Trust Fund. In that period of FY 2005 and FY 2006, the Governor’s Cabinet for Children and Families granted \$50,000 of the CTF to the DHHR’s Bureau of Children and Families (Bureau). The Bureau in turn granted the entire \$50,000 to TEAM. Effective August 21, 2007, the CTF was

officially transferred by Senate Bill 2007 from the Governor's Cabinet for Children and Families to the Bureau. Chapter 5, Article 26 of the West Virginia Code was repealed and a new Children's Trust Fund was established by Chapter 49, Article 6C of the State Code. This officially placed the administration of the CTF under the Bureau. In FY 2007, the Bureau again used the CTF to award just one \$50,000 grant to TEAM.

For FY 2006, Post-Audit determined that TEAM used CTF funds to facilitate two projects, Partners in Prevention and the Children's Trust Fund Development Campaign (Development Campaign). It was further determined that the Development Campaign's primary goal was to increase financial contributions to the CTF. The legislative intent of this fund is to directly promote prevention activities. The Children's Trust Fund is essentially funds that should not require further fundraising activities. It is direct funding meant to be used solely for child abuse and neglect prevention awareness. A legal opinion obtained by the Post-Audit Division stated:

“...The fund is still to be used for the sole purpose of awarding grants, loans and loan guarantees for child abuse and neglect prevention activities....The use of Children's Trust Fund monies to increase contributions to the trust fund is not permitted by state code....”

The Post-Audit division concluded from TEAM's ledgers that \$46,300 or 92 percent of the \$50,000 CTF grant was spent on increasing financial contributions to the CTF in FY 2006. The specific line items for these expenses were for a Development Coordinator and a Media Consultant. Their costs were \$29,341 and \$16,786 respectively with an additional cost of \$171 for public service announcements.

In FY 2007, CTF monies were pooled with other state and federal funds totaling \$203,000. As a result, Post-Audit was unable to determine specifically how CTF monies were used. However, it was determined that a minimum of \$68,543 were used towards increasing financial contributions according to TEAM's ledgers. Also, the same aforementioned line items were present in the FY 2007 ledgers.

In FY 2007, the Bureau again used the CTF to award just one \$50,000 grant to TEAM.

The Children's Trust Fund does not require further fundraising activities. It is direct funding meant to be used solely for child abuse and neglect prevention awareness.

The Post-Audit division concluded from TEAM's ledgers that \$46,300 or 92 percent of the \$50,000 CTF grant was spent on increasing financial contributions to the CTF in FY 2006.

In both ledgers, Post-Audit found the documentation of uses of the grant money to be vague, particularly in FY 2007. As a result, Post-Audit was unable to determine if CTF monies were used in accordance with state code and the grant agreement. It should be noted that Post-Audit made recommendations to improve documentation of expenditures and desist in using CTF monies to increase financial contributions. DHHR agreed to more detailed documentation and agreed, in part, as to the use of funds. DHHR stated in effect that better monitoring procedures were now in place and that because of the pooling of funds in FY 2007 it could be reasonably concluded that the CTF monies were used for expenses in accordance with the intent of state code.

Conclusion

It is apparent that the legislative intent in creating the Children's Trust Fund was to fund multiple grants and other funding options for child abuse and neglect prevention activities. The CTF investment account has grown substantially over the years. Investment growth in such an account is positive, but not at the expense of underutilizing the intent of the funds. It is the Legislative Auditor's opinion that it was not the Legislature's intent for this account to accumulate so disproportionately to its disbursements. It can also be argued that is not the intent of the taxpayers when they contribute to the fund.

The Legislative Auditor acknowledges and understands the importance of child abuse and neglect prevention. The goals of the West Virginia Children's Trust Fund are worthwhile and important. But the effectiveness and success of the program must be called into question when such a high proportion of administrative costs is used compared to the amounts awarded for programs. It is also against the mission of the CTF when grant awards are used inappropriately such as for fund raising as opposed to going directly into prevention programs. To use CTF grants to further financial contributions is against state code.

The Legislative Auditor recognizes the need for the programs TEAM sponsors and that the CTF has been beneficial to West Virginia communities. However, based on the Post-Audit Division's report of the Children's Trust Fund, TEAM has misused and poorly accounted for CTF money in FY 2006 and FY 2007. The high administrative expenses relative to disbursements is inefficient and counter-productive

The effectiveness and success of the program must be called into question when such a high proportion of administrative costs is used compared to the amounts awarded for programs.

to the intent of the CTF. Furthermore, the fund is not as active as the Legislature envisioned. Therefore it cannot be confidently stated that the CTF specifically has been an effective tool for child abuse and neglect prevention.

Based on these findings, the Legislative Auditor recommends that the Children's Trust Fund be dissolved. This would include an elimination of the check box mechanism on state tax forms. The Legislative Auditor recommends that the balance of the CTF be transferred to the Family Resource Networks. Family Resource Networks are defined in WVC§49-6C-2 as local community organizations charged with service coordination, needs and resource assessment, planning, community mobilization and evaluation, and which has been recognized by the Bureau of Children and Families as having met certain criteria. The criteria include engaging in activities to improve service systems for families and accepting principles consistent with the Bureau's mission.

The fund is not as active as the Legislature envisioned. Therefore it cannot be confidently stated that the CTF specifically has been an effective tool for child abuse and neglect prevention.

Recommendations

1. *The Legislative Auditor recommends that the Children's Trust Fund be dissolved and that its balance be transferred to the Family Resource Networks for child abuse and neglect services.*

Appendix A: Transmittal Letter

WEST VIRGINIA LEGISLATURE *Performance Evaluation and Research Division*

Building 1, Room W-314
1900 Kanawha Boulevard, East
Charleston, West Virginia 25305-0610
(304) 347-4890
(304) 347-4939 FAX



John Sylvia
Director

November 3, 2008

Martha Walker, Secretary
West Virginia Department of Health and Human Resources
State Capitol Complex, Bldg. 3, Room 206
Charleston, West Virginia 25305

Dear Ms. Walker:

This is to transmit a draft copy of the Special Report on the West Virginia Children's Trust Fund. This report is scheduled to be presented from 12:00 p.m. to 2:00 p.m. during the Tuesday, November 18, 2008 interim meeting of the Joint Committee on Government Operations and Joint Committee on Government Organization in the House Chambers. It is expected that a representative from your agency be present at the meeting to orally respond to the report and answer any questions the committee may have.

If you would like to schedule an exit conference to discuss any concerns you may have with the report, please notify us by November 5, 2008. We need your written response by noon on November 7, 2008, in order for it to be included in the final report. If your agency intends to distribute additional material to committee members at the meeting, please contact the House Government Organization staff at 340-3192 by Thursday, November 13, 2008 to make arrangements.

We request that your personnel not disclose the report to anyone not affiliated with your agency. Thank you for your cooperation.

Sincerely,

Handwritten signature of John Sylvia in cursive script.
John Sylvia

Joint Committee on Government and Finance

Appendix B: Agency Response



**STATE OF WEST VIRGINIA
DEPARTMENT OF HEALTH AND HUMAN RESOURCES**

Office of the Secretary

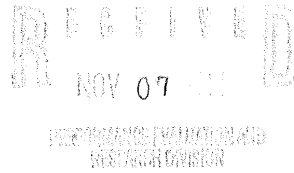
State Capitol Complex, Building 3, Room 206
Charleston, West Virginia 25305
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Joe Manchin III
Governor

Martha Yeager Walker
Secretary

November 7, 2008

John Sylvia, Director
Performance Evaluation and Research Division
Building 1, Room W-314
1900 Kanawha Boulevard, East
Charleston, West Virginia 25305-0610



Dear Mr. Sylvia:

This letter is in response to the special report on the WV Children's Trust Fund (CTF) which was based on the Post-Audit Division's report of the CTF.

The PERD report recommends that the Children's Trust Fund be dissolved and that its balance be transferred to the Family Resource Networks for child abuse and neglect services. In regards to this recommendation, the Department feels it is a policy decision whether or not this occurs. If it continues to be administered by us, we will exercise all due diligence and comply with any directives issued. However, if it is deemed it will be dissolved, we will respectfully do whatever needs to be done to assist with the process necessary to accomplish dissolving the fund, transferring balances, etc.

As you will recall, we concurred for the most part with the recommendations in the Post Audit report. The Department would, however, like to clarify some of the issues mentioned in the report.

- High percentage of administrative costs associated with the fund
- Unauthorized Application of Grant Funds

High Percentage of Administrative Costs Associated with the Fund

In regards to the administrative cost estimate provided by the Department, I would like to reiterate this was a very rough estimate, given the short turnaround time provided to respond. Administration of the fund occurs at many various levels, as one staff person doesn't administer the CTF. There are several individuals that spend a portion of their time working on this account including, contracts, management, budgeting, cash management, and others. Therefore, any costs truly incurred would be incurred whether the fund was administered or not. All staff involved perform many other functions, so there would be no real savings without the fund. Furthermore,

John Sylvia
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with or without CTF funds. Pooling funds into one grant to TEAM and allowing them to award the mini grants saves the State a considerable amount of time, effort and dollars that would be required to award the multiple small grants to communities statewide.

Unauthorized Application of Grant Funds

As stated in response to the audit conducted by Post Audit, we agreed that we would ensure that monies expended from the CTF should be used in accordance with Chapter 49, Article 6C, Section 1 of the West Virginia Code for child abuse and neglect activities. However, the Department fundamentally disagrees with the conclusion that our Grantee, TEAM for WV Children, "misused Children's Trust Funds during 2006 and 2007." The narrow focus of the auditor's findings didn't take into consideration the fact that TEAM clearly awarded mini grants for the purpose of child abuse and neglect prevention activities in excess of the \$50,000 CTF monies used in the grant. TEAM engaged in activities approved by the Department and, (before it fell under DHHR's purview) by the Governor's Cabinet on Children and Families in administering the CTF funds.

The funds were pooled to most efficiently administer them. The reporting requirements of the grant did not specify an accounting by source of funds, but rather by activity. Specific accounting records from TEAM were included in our response to the Legislative Post-Audit report that clearly identified that funds in excess of \$50,000 were spent on child abuse and prevention activities both years of the audit period. These are activities that clearly meet the purpose and intent of the law governing the CTF. By focusing on one source of funds, the auditors failed to fully recognize the benefit of pooling funds for the purpose of child abuse prevention activities. Although CTF funds have remained constant, the use of other sources of funds from DHHR and private foundations has increased the amount of money going out to community-based child abuse prevention activities.

It is important to note that problems arose because not all sources had the same restrictions. Because of this and in adherence with the recommendations and the legal opinion in the Auditor's report, we agreed to ensure the CTF funds are only expended for child abuse and neglect prevention activities. Furthermore, we agreed to monitor the grantee more closely to ensure funds won't be expended for any activities in conflict with grant work plans or grant agreements.

We also agreed that CTF monies should not be used for fund-raising activities or for any activities that conflict with the grant work plans or grant agreements. Prior to the legal opinion rendered by legislative attorneys, DHHR was operating on established practice and believed that growing the CTF was an allowable use of those funds. We are in the process of making changes to the current grant agreement so that funds other than CTF funds are used for the trust fund development campaign.

John Sylvia
November 7, 2008
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The audit report reflected that it was recognized that the goals of the CTF are worthwhile and important. The importance of child abuse prevention activities was understood, the need for the programs was recognized, and that the program has been beneficial to West Virginia communities. However, it is still recommended to dissolve the fund. Again, whatever the decision, the Department hopes the needs are met some way.

Thank you for the opportunity to respond. If you should have any additional questions or concerns, you may reach me at 304-558-0684.

Sincerely,



Martha Yeager Walker
Secretary

MYW/jal

cc: Aaron Allred
Cindy Smith
Warren D. Keefer
Doug Robinson
Jason Najmulski



WEST VIRGINIA LEGISLATIVE AUDITOR

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