
Secretary of State

State of Oregon

ADULT AND FAMILY SERVICES DIVISION

Review of State-subsidized Child Care Payments



Audits Division

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Auditing for a Better Oregon

The Honorable John A. Kitzhaber
Governor of Oregon
State Capitol
Salem, Oregon 97310

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We are pleased to submit this report on our review of the controls over payments to child care providers paid by Adult and Family Services Division (AFS) of the Department of Human Resources. The report also reviews the collection of overpayments made to child care providers.

The 1995-97 biennial budget for child care programs administered by AFS was \$112 million in state and federal funds. As Oregon continues to successfully move welfare recipients into jobs and assist nonwelfare working poor families in staying off welfare, the need for subsidized child care will increase accordingly.

The report submitted to you contains the results of our review, which determined that AFS can strengthen controls over payments to child care providers to help ensure a more efficient use of limited resources. Further, improved procedures for collecting overpayments to child care providers will enhance the integrity of the child care program.

OREGON AUDITS DIVISION

John N. Lattimer
Director

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SUMMARY

PURPOSE

The Adult and Family Services Division (AFS) within the Department of Human Resources is directly responsible for implementing programs to help families become self-supporting. As the number of families receiving welfare payments has declined, there has been a corresponding rise in the number of families receiving child care assistance. There are also many nonwelfare, working poor families who are eligible under Oregon's programs to receive child care assistance. A U.S. General Accounting Office report of the efforts of seven states, including Oregon, to expand child care found that none of the seven states were able to fund child care for all eligible families. To meet this need so that the working poor will not be penalized will require states to make difficult decisions about the levels and allocations of scarce resources.

The purpose of this audit was to review the system used by AFS to ensure that child care payments are made in appropriate amounts to eligible providers for eligible services. In addition, we reviewed the system used by AFS to collect child care overpayments when they occur.

BACKGROUND

Providing subsidies for child care is an integral part of the welfare to work programs that are available to qualifying families who are unable to pay for needed child care. The 1995-1997 biennial budget for child care subsidies for AFS families accounted for nearly \$112 million in state and federal funds. The largest subsidized child care program is Employment/Education-Related Day Care. Although the Child Care Division (CCD) of the Employment Department is responsible for regulating child care in Oregon, approximately 70 percent of child care providers who care for children of AFS clients were not certified or registered at the time of our review. These exempt providers include family providers who may, for example, either care for no more than three children at a time or care for children from only one family or provide care in the child's home. All providers are paid directly by AFS and must pass a criminal and child protection background check before they are listed to provide care for children of AFS clients.

RESULTS IN BRIEF

Collection Activities

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We found that AFS should take additional steps to ensure the collection of overpayments made to inactive child care providers. For active providers, AFS automatically deducts the full amount of overpayments from subsequent child care payment(s). However, if the provider is not currently providing child care services for a client and does not respond to the initial request to repay the overpayment, AFS takes no further action. This has resulted in a balance of uncollected child care overpayments of \$458,489 as of December 31, 1997.

Payments in Appropriate Amounts

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We found that AFS should improve its system to ensure payments to child care providers are made in appropriate amounts. The current automated system does not allow AFS staff to set different maximum allowable hours of care for each child; therefore, the system cannot be set to limit the number of hours for school age children when they are in the same household as infants and preschool children. While identifying overpayments was not the focus of our testing, we did note a high percentage of questionable payments in a small judgment sample. Payments to seven of the 20 providers (35 percent) appear highly questionable. We also found that duplicate payments sometimes occurred when the client changed providers or programs during a month. In addition, there were some occurrences when AFS paid group home and family providers at the higher center rates. In one instance, we found that AFS paid for private schooling for two school age children. AFS is not recouping these payments, which totaled more than \$5,000, because it considers that the error was caused by the action initiated by AFS. We also found some family providers who cared for more children than is allowable and some who should have been registered with CCD, but were not.

Payments to Eligible Providers

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We found that AFS should take additional steps to ensure payments are made only to eligible child care providers. A provider will be denied listing status if he or she is convicted of any number of criminal offenses, or if there is

an outstanding warrant for specified offenses. A cross match of the AFS provider data base and the Oregon State Police (OSP) data base of outstanding criminal warrants identified 54 active providers who had significant outstanding warrants. Most of the warrants were issued after the background checks had been performed by AFS; however, due to a problem in the OSP Law Enforcement Data System that has since been corrected, some providers were erroneously approved even though warrants were outstanding at the time of the background checks. Three providers were approved by AFS on a limited basis to care only for children in their families; one had an outstanding warrant for failure to appear on a charge of “endangering the welfare of a minor,” another had a warrant for assault IV, and the third had warrants for two instances of “larceny-theft II.” AFS has since reinstated the latter provider because she has paid her fines and completed probation.

**Payments For Eligible
Services on Behalf of
Eligible Clients**

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We found that AFS should improve its system to ensure payments are for eligible services on behalf of eligible clients. We found instances in which the provider payment system allowed payments to be made when the social security number of the client and provider were the same. The system also allowed some child care payments for children 13 years of age and older who were not coded as having special needs, contrary to established rules. In other cases, some children 13 years of age and older who had been coded as having special needs other than for a disability, did not have sufficient documentation in their files to substantiate their eligibility. Finally, although we found proof of clients’ wages properly documented in their files, we found that income for self-employed clients was not well documented.

RECOMMENDATIONS

We recommend that AFS:

- Complete and implement its action plan for collecting overpayments from inactive providers to comply with state regulations.
- Enhance the payment system so that it indicates each child’s appropriate full-time or part-time care needs,

- disallows payments for 13-year-olds who do not have special needs or disabilities, and disallows payments when the social security numbers of the provider and client are the same.
- Formalize procedures for staff to follow when an error message occurs indicating that the social security numbers for a provider and client are the same.
 - Utilize its internal auditor to audit child care payments in high risk areas on a periodic basis.
 - Continue its recently established policy of regularly rechecking backgrounds of providers who are actively providing child care.
 - Act on and resolve provider and client information provided by case workers and field contacts.
 - Comply with federal regulations by requiring case workers to review and retain income documentation for all working clients who receive benefits.
 - Collect overpayments and duplicate payments identified by this audit and by subsequent reviews, ensure that overpayments sent to the client in error ultimately went to the provider, and make corrections to federal income reporting forms 1099, when appropriate.
 - Change its current policy, which allows a duplicate payment to occur in the month of a provider change, to prevent paying for the same service twice.

AGENCY'S RESPONSE

AFS generally concurs with our audit findings and most of our recommendations. In response to some of our recommendations, AFS has developed action plans and has proceeded with implementation of some; they are exploring alternative approaches to others. Complete responses to our recommendations can be found at the conclusion of our report.

INTRODUCTION

BACKGROUND

The Adult and Family Services Division (AFS) within the Department of Human Resources (DHR) is directly responsible for implementing programs to help families become self-supporting while assisting them in meeting their basic needs. Providing subsidies for child care is an integral part of these welfare to work programs, which are available to qualifying families who are unable to pay for needed child care.

The 1995-1997 biennial budget for child care subsidies for AFS families accounted for nearly \$112 million in state and federal funds. Program expenditures during our six-month audit period totaled \$30.7 million, averaging more than 18,000 payments a month to child care providers who serviced nearly 15,000 families. Children in care from families enrolled in these AFS programs represent approximately 15 percent of all child care in Oregon.

AFS's success in moving families from welfare to work has brought with it national recognition. From March 1994 to November 1996, there was a 40 percent decrease in welfare cases in Oregon. As the number of families receiving welfare payments has declined, there has been a corresponding rise in the number of families receiving child care assistance. This trend, which AFS expects to continue in the foreseeable future, will require an efficient use of resources.

A January 1998 report of seven states' efforts to expand child care programs during federal fiscal year 1997, was recently released by the U.S. General Accounting Office (GAO). It found that all seven states, including Oregon, were unable to fund child care for all families meeting the federal eligibility criteria who might benefit from such assistance. These include nonwelfare, working poor families who, under Oregon's programs, are eligible for child care assistance and should not be penalized for their work efforts. According to the GAO report, the federal requirement that states place increasingly higher percentages of their caseloads in work activities, combined

with the capping of federal child care funds, could strain the states' capacity to expand child care programs in future years. As the demand for child care subsidies increases, states will have to make difficult decisions about the levels and allocations of scarce resources.

AFS CHILD CARE PROGRAMS

AFS has several programs that provide child care subsidies to low-income families who are working or are involved in work-related activities such as job search, training, and interviewing. These programs include the following:

- Employment/Education-Related Day Care (ERDC) is the largest program and provides child care subsidies to low-income working families and a limited number of families headed by full-time students. This program also requires the client family to participate in the cost of child care by making a co-payment to the provider, based on income and family size. According to the GAO report on child care programs, between July 1992 and February 1997 the number of children served by ERDC in Oregon rose from 9,000 to more than 21,300, an increase of 137 percent.
- Temporary Assistance to Needy Families (TANF), previously known as Aid to Dependent Children, provides child care subsidies for families who are still receiving TANF payments, but need day care to continue to move toward self-sufficiency.
- JOBS and JOBS Plus programs provide child care subsidies for clients who are training for jobs or are in on-the-job training.
- Oregon Food Stamp Employment Transition (OFSET) provides child care subsidies to families on food stamps who are in job search or training activities.

AFS implements these programs through its system of branch offices. This is where case workers explain the programs to potential clients, determine their eligibility, and monitor their progress toward established goals.

**REGULATION OF
CHILD CARE**

The Child Care Division (CCD) of the Employment Department is responsible for regulating child care in Oregon. However, not all child care is required to be regulated. CCD estimates that approximately 70 percent of AFS child care providers were not certified or registered at the time of our review. Child care providers are divided into four distinct categories:

- Child care centers are certified by CCD to provide care to 13 or more children, or care for 12 or fewer children in a building other than a single family dwelling. CCD inspects the centers annually.
- Group home providers are certified by CCD to provide child care for no more than 12 children in a building constructed as a single family dwelling. CCD inspects group homes annually.
- Family child care providers are registered with CCD to provide care in the provider's home for a maximum of six pre-school age children and no more than 10 children at one time. CCD does not inspect these providers.
- Exempt providers are not regulated by CCD. They include providers who provide less than 70 days of care a year, care for no more than three children at a time, care for children from only one family, or are operated by a public school. In-home providers, who provide child care in the child's home, are also exempt and are not regulated by CCD.

Criminal records checks are a significant part of CCD's registration and certification procedure. CCD utilizes information contained in the Law Enforcement Data System (LEDS) at the Oregon State Police to assist in demonstrating that the moral character and habits of the person will not endanger the well-being of the children for whom the person is to provide care.

PROVIDER LISTING PROCESS

AFS has developed a set of health and safety rules, similar to CCD's, for providers who apply to be listed as child care providers for AFS clients. AFS also utilizes LEDS to perform criminal history checks on all AFS providers, including those exempt from CCD rules and regulations. This check includes a review of any founded complaints on file with DHR's State Office for Services to Children and Families. Prior to December 1996, CCD conducted criminal history checks for all registered and ERDC child care providers in Oregon, including exempt providers, through an interagency agreement with AFS. AFS began doing its own background checks in December 1996 to meet the need created by (1) an expansion of welfare reform and the associated ERDC program, and (2) legislative changes that required background checks of child care providers who are registered without inspection. By May 1997, AFS was performing background checks on all providers who provide child care in AFS child care programs, including those in the JOBS and OFSET programs who were previously not required to have background checks.

DIRECT PAYMENTS TO PROVIDERS

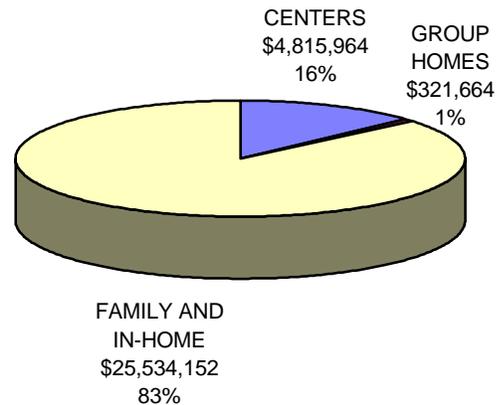
AFS's provider payment system relies heavily on information from its client maintenance system, the primary system containing a client's case history, and documentation of eligibility for AFS programs kept at its branch offices. In many instances, the client's eligibility is referred to automatically through an interface with the provider payment system, or manually by a worker in the direct payment unit, to confirm the propriety of a payment.

Oregon Revised Statute (ORS) 411.122 requires AFS to make payments for child care services directly to the providers. The rate varies with the provider's type and locale. A center is paid more than a group home provider, and a group home provider is paid more than a family provider. In-home providers are family child care providers who provide care in the child's own home.

They may include anyone in or out of the household, other than a biological, adoptive, or step parent, who is over the age of 16 and not in the client's filing group. In-home providers may include a grandparent, aunt, uncle, cousin, girl friend, or boy friend.

During the six-month audit period from December 1, 1996 to May 31, 1997, AFS spent \$30.7 million for child care. By far, the largest amount, \$25.5 million, went to family and in-home child care providers.

**PAYMENTS TO AFS CHILD CARE PROVIDERS
December 1, 1996 to May 31, 1997**



Families may use any child care provider they choose. However, according to Oregon Administrative Rule (OAR) 461-165-160 (6), AFS may only pay providers who meet certain requirements and are listed through the AFS listing process. When a provider enters the listing process, the system generates a child care billing form which is sent to the provider for the first month of service. The form is completed and signed by the provider, who states the number of hours he provided care for each child in the family. After the client signs the form to verify the information, the provider returns the form to AFS, who then sends a check directly to the provider. The system automatically sends a billing form each subsequent month to the provider, unless the provider is denied listing status.

In addition to the child care billing form, case workers at AFS branch offices also issue vouchers for child care

services. Vouchers are issued primarily for clients in the JOBS and OFSET programs, as well as for other short term situations. For each month of child care, the case worker gives a voucher to the client who then gives it to the provider. The provider completes the voucher, which shows the estimated hours and the maximum the provider can bill, by filling in the actual number of hours and amount he is billing for each child. After returning the completed voucher to AFS, the provider is paid directly. Clients do not sign vouchers to verify the number of child care hours provided.

PROVIDER OVERPAYMENTS

The direct payment unit and case workers at AFS field offices are jointly responsible for detecting and writing all overpayments made to providers. Overpayments usually occur as the result of a dispute between a client and provider, a community complaint, or a discrepancy on the Maximum Benefit Exceeded report. When it is determined that a provider has been overpaid, the direct payment unit informs the provider of the amount. The provider either repays the amount by mailing a check to AFS or it is deducted from any subsequent payments to the provider. Overpayments that are in dispute are resolved through an established hearings process. An intentional program violation (IPV) against a provider occurs when a provider receives child care payments by intentionally making a false or misleading statement. If an IPV is established, AFS writes an overpayment against the provider and the provider is ineligible to provide child care for six months.

SCOPE AND METHODOLOGY

The purpose of this audit was to review the propriety of state-subsidized child care paid by AFS. The objectives of our audit were to determine whether AFS had an adequate system in place to ensure that:

- Child care payments are made in appropriate amounts;

- Child care payments are made to eligible providers;
- Child care payments are made for eligible services on behalf of eligible clients;
- Collection of overpayments is sufficient.

The scope of our audit included claims paid by AFS for child care services provided between December 1, 1996 and May 31, 1997.

To gain an understanding of existing controls and related risks, we did the following:

- Reviewed applicable federal and state laws, regulations and agency policies;
- Interviewed personnel at AFS, the Employment Department Child Care Division and Workforce Programs, Department of Administrative Services Budget and Management Division, Oregon Child Care Commission, stakeholders, and other related agency personnel;
- Reviewed budget documents, internal audit reports, and reports of similar audits from other states and federal regulatory agencies;
- Reviewed the system documentation and procedures for computerized information to be utilized; and
- Reviewed the agency's efforts to correct relevant control weaknesses identified by an internal audit report dated August 25, 1997.

To determine whether controls over audit related program activities were sufficient to ensure compliance with program requirements, we developed computer assisted audit techniques to evaluate the effectiveness of selected controls. We designed our tests based on identified risks, materiality, ease of verification and perceived value. Our audit focused on the data contained in the AFS provider payment system. We utilized data from the AFS client maintenance system and special payment system as well as the Employment Department quarterly wage data file, unemployment benefits data file, and CCD registration and

certification data file. We used this data to enhance, confirm and challenge data from the provider payment system. We also used the Oregon State Police Law Enforcement Data System (LEDS) open warrant information to test whether child care providers who had provided care to children of AFS clients had outstanding criminal warrants.

We verified the reliability and completeness of computer-processed data used in our audit procedures by comparing data amounts with financial records, matching download record totals with reported amounts, and comparing data to documented record layouts. We also provided detail copies of our test results to AFS for its verification.

During the course of this review, we identified program violations and instances of potential fraud and abuse. We have referred these cases to the appropriate units at AFS for follow up, resolution, and collection of overpayments when necessary.

We conducted this audit in accordance with generally accepted government auditing standards. We limited our review to those areas specified in this section of the report.

AUDIT RESULTS

COLLECTION ACTIVITIES

The Adult and Family Services Division (AFS) of the Department of Human Resources is responsible for ensuring that provider payment controls are sufficient to detect overpayments to providers and, if errors are found, to make appropriate recovery of funds. We found that AFS should take additional steps to collect identified overpayments.

The state's policy regarding collections, stated in the Oregon Accounting Manual (OAM), "is to collect all receivables due its various agencies and to establish procedures to effect the timely collection of all amounts owed. Management of accounts receivable is an important part of cash management because failure to collect receivables is like losing cash. Agencies are required to actively and aggressively pursue the collection of all receivables owed to the state that are material and cost beneficial." OAM policy further requires that accounts of \$100 or more that have not successfully been collected after 90 days should be referred to the Department of Revenue or other collection professionals.

The AFS overpayment recovery unit is responsible for collecting overpayments made to clients who are recipients of program funds, such as food stamps and other public assistance moneys. However, the AFS direct pay unit, which is responsible for paying child care providers, handles the collection of overpayments made to those providers. These overpayments include instances in which the direct pay unit has paid the provider more than should have been paid, or paid the provider when he or she should not have been paid at all.

When AFS identifies an overpayment for child care provided, it "writes an overpayment" for the amount and sends a notice to the provider requesting reimbursement. The provider may reimburse AFS directly, or, if the provider is actively providing child care, AFS automatically deducts the full amount of the overpayment from the next child care payment or payments until the state is completely reimbursed. However, if the provider is not currently providing child care services for AFS clients and

does not respond to the initial request for reimbursement, AFS takes no further action.

The balance of uncollected child care overpayments as of December 31, 1997 was \$458,489, a 35 percent increase over the prior six-month period. Our testing confirmed that balances for the majority of these providers are \$100 or more and have been outstanding longer than 90 days. As stated previously, these balances should be referred to the Department of Revenue or to other professionals for collection. According to AFS, most of the uncollected overpayment balance is attributable to inactive providers.

AFS should improve its efforts to collect overpayments made to inactive child care providers. Because AFS does not actively pursue the collection of overpayments from inactive providers, the collection rate is considerably less than for collection of overpayments from AFS clients. Currently, the AFS direct payment unit recoups approximately 40 percent of all overpayments written for child care providers. By comparison, the AFS overpayment collection unit, which collects other client benefit overpayments, collects approximately 65 percent of all payments. When overpayment dollars are not recaptured, AFS does not have the opportunity to expend those dollars to meet increasing needs for program services for clients.

Agency Accomplishments

In response to the conditions described above, AFS is in the process of formulating a corrective action plan. This plan includes a process whereby its overpayment collection unit, which presently collects client benefit overpayments, will assume responsibility for the collection of overpayments written for inactive providers.

Audit Recommendations

We recommend that AFS complete and implement its action plan for collecting overpayments from inactive providers. These actions will help AFS comply with state regulations.

**CONTROLS TO ENSURE
PAYMENTS ARE IN
APPROPRIATE AMOUNTS**

According to Oregon Administrative Rule (OAR) 461-160-040, which is included in the Child Care and Development Block Grant Plan, “the maximum dependent care hours will be the hours when a child is not in school or other free care situation and the client is working, commuting, or on a meal break.” This also includes time that a parent is searching for a job or participating in program activities. AFS guidelines in the Child Care Provider Guide set a monthly payment limit as the most AFS will pay for a child’s care in a month. AFS is also responsible for ensuring that care meets applicable standards and that the rate paid is based on the type of care provided. With few exceptions, AFS pays provider claims directly to the provider.

AFS staff in the direct pay unit process provider data from billing forms and vouchers submitted by the providers. Billing forms are used to indicate the actual hours of care and the provider’s charge rate. The required client signature on the form attests that the hours of care are correct. An edit check in the direct payment system compares the claimed amount on the billing form to a maximum authorized amount. The authorized amount is based on maximum hours of care, as determined by the case worker, and an applicable rate that is a blend of a child’s age, location, provider type, and any special needs.

Vouchers, which are produced manually by the case worker, are generally used for short-term child care. They do not require the client’s signature and are not subject to system edit checks.

OAR 461-165-160 requires that providers keep daily attendance records for each child receiving AFS child care benefits. Providers must retain these records or logs for six months and provide them to AFS on request.

Our testing indicates that AFS can improve its controls to ensure that child care payments to providers are made in appropriate amounts. We identified several system control weaknesses, as well as significant weaknesses in the voucher payment process, that increase the risk of inappropriate payments to providers. In many instances, our testing was limited to the extent necessary to determine whether controls were working, or to identify weak controls.

Payments for School Age Children

AFS can strengthen its system to ensure that providers are paid the appropriate amount for school age children who are in care part time.

The direct payment system is presently configured so that a case worker can enter only one amount for allowable child care hours. This creates a system weakness when a family has both a school age child and a younger sibling receiving child care. In most cases, a school age child requires fewer hours of care than younger siblings who may be infants and toddlers.

Even though the primary system control for payments in behalf of each child is based on the maximum allowable hours, the system records an identical hourly amount for each child in the family. The system translates this hourly figure into a maximum dollar amount that prints out on the billing form as the LIMIT AFS will pay for each child's care. For example, the billing form that goes to the provider each month shows the same hourly limit for a 12-year old as it does for a six-month old in the same family, which is the maximum for full-time care.

During the six-month audit period, we identified 37,533 payments to providers for claims where a school age child and a younger sibling had the same maximum allowable hours. From the 6,704 payments to in-home providers, we selected a judgment sample of 20 providers and requested that AFS obtain their provider logs. We requested the logs in order to match the hours a child was in care to the client's work hours and the child's typical school hours. Our objective was to determine if the in-home providers in our sample were billing appropriately.

Of the 20 logs we requested, AFS reported that nine providers were unable or unwilling to provide the required logs. In one case, the provider was billing AFS for full-time day care for a school age child whose mother works an 8-hour daytime shift. In another case, the provider sent a letter to AFS saying that she cares for the child 12 hours a day, which includes four hours of home schooling and eight hours of day care. Neither federal regulations nor state rules provide for funding of school tuition for children of AFS clients.

Further, of the 11 logs we received, only three appeared to appropriately record the child's attendance. Eight either lacked sufficient detail of the child's arrival and departure times or were

suspect as to the authenticity of the information they contained. For example, four logs were reconstructed by either the client or the client and provider together after we requested the logs. In one instance, the AFS field contact assisted the client and provider in reconstructing the log. From this information, we concluded that the logs as currently used do not act as a sufficient control to accurately record child care hours. The best control is the case worker who is most aware of the client's work schedule; however, that control is negated by a system inability to limit hours for school age children.

Agency Accomplishments

In response to the conditions described above, AFS has developed and started issuing to providers a prototype child care attendance log that contains space for recording a child's arrival and departure times each day.

Audit Recommendations

We recommend that AFS better ensure that only appropriate amounts are paid to providers who care for school age children by doing the following:

- Enhance the payment system by adding a descriptor that indicates each child's appropriate full-time or part-time child care needs as determined by the case worker. The descriptor should be used to reduce the maximum hours allowed for the part-time child by some percentage (e.g. 75 percent of maximum for full-time care), thereby initiating an exception when a child in part-time care is claimed at full-time rates.
- Until system enhancements are implemented, AFS should utilize its internal auditor to regularly audit payments for school age children with younger siblings, including an evaluation of each child's eligible hours.
- Until a system solution is put in place to provide an accurate reflection of the child's required hours of care, remove the LIMIT field from the billing form so that the maximum amount a provider can charge does not appear.
- Continue with its plan to implement use of official provider attendance logs, and provide training to both providers and case workers for their proper use.

- Utilize its internal auditor to periodically review provider logs, with special emphasis in the area of in-home providers, especially those who claim full-time or nearly full-time care for school age children.

Inappropriate Payments for Child Care Services

In testing the validity of the 20 judgmentally selected in-home providers' logs, we noted a large percentage of providers who were inappropriately paid. Because the provider logs given to us by AFS lacked the information necessary to determine whether billings were appropriate, we requested that AFS provide us the names of their field contacts in order to verify results. AFS field contacts, who in many cases had made home visits, provided us with the following additional information:

- An interview with the grandmother of one child had revealed that it was she who had cared for the child during the period in question, not the "provider" whom AFS had been paying. Further review by AFS investigators revealed that the child is in foster care with the grandmother and therefore is not eligible for child care. According to AFS, an overpayment will be written against the provider who was the mother's roommate. The case has been referred to the district attorney as a potential welfare fraud of \$10,000 that occurred over three years.
- Interviews with neighbors of one client indicated that either a 14-year old sibling or the father of the two youngest children provided care for the children. A provider is required to be at least age 16, not be in the client's filing group, and not be the parent, step-parent or adoptive parent. When a home visit was made by the case worker, he was told by the 14-year old that her mom and dad were still at work. This case was referred to the investigative unit as a possible fraud.
- One client had provided false information to the case worker in attesting that she was working when she was not. The client's employer confirmed that she had not worked since April 1997. The provider, who lives with the client, received child care payments on behalf of the client until November 1997. AFS had written overpayments for \$3,578 against the provider and the client; however, AFS has since rescinded the overpayment against the provider and is pursuing the overpayment against the client.

- While one provider (a female) was being paid to provide child care, the client (mother) kept the child home from school off and on because she said “the child had head lice.” This case of truancy was verified in a documented letter, obtained by the field contact from the school principal, which stated that the child did not have head lice and the mother earlier had talked to the principal about the child not wanting to attend school. The child may have been kept home to care for the younger children. Later, when an AFS investigator went to the client’s home and questioned a woman who claimed to be the provider, she did not know her own date of birth and could not produce a driver’s license. In a follow-up visit by the investigator, the woman produced a driver’s license obtained the day before. In addition, the apartment manager at the provider’s address said that no female had resided in that apartment for the last 17 months. Questionable payments for this case totaled \$3,099 through May 31, 1997. The case remains under investigation.

While identifying overpayments was not the focus of our testing, we did note a high percentage of questionable payments in our review of a small sample of providers. Payments to seven of the 20 providers (35 percent) appear highly questionable. These 20 providers were judgmentally selected from the 6,704 payments made to in-home providers during our six-month audit period. The total claimed by all in-home providers for the six-month audit period was \$1,314,512.

Agency Accomplishments

AFS is following up on the potential overpayments identified as a result of the information we received from the field contacts.

Audit Recommendations

We recommend that AFS better ensure that payments for child care are appropriate by doing the following:

- Be attentive to and act on provider/client information provided by its case workers and field contacts. Resolution of the information should be documented and questionable cases appropriately referred to the investigative unit.
- Collect the overpayments identified.

Billing for Services Not Rendered

AFS can strengthen its system to ensure that providers are actually providing the child care for which they are billing.

Providers who provide child care for AFS clients are required to sign a provider listing form which states that the provider is required to “supervise children in your care at all times.” This would preclude a provider who is caring for children of AFS clients from hiring someone else to care for the children.

By combining data from the AFS provider pay system and data for the first quarter of 1997 from the Employment Department, we were able to identify AFS child care providers who earned significant wages in addition to providing child care. Our testing identified 14 providers who billed AFS for providing full-time child care and at the same time earned other quarterly wages of \$7,500 or more. We provided this list to AFS for additional research.

In one case, an AFS investigator found that the provider, who lived with the client, was claiming he provided full-time child care for the client’s three children while she was at work; however, he was caring for them less than two hours each morning before school. The provider paid a neighbor to care for the children after school while he was at work. The provider’s swing shift work hours were verified by the personnel director of the company where he was employed. The neighbor said that she watched all three children for 2½ to 3½ hours per day for a flat rate of \$10 per day and was paid by check from the client and provider’s joint checking account. During the one-year period, AFS paid full-time child care claims of \$550 per month to the provider for caring for the three school age children. The provider also claimed that the client paid him the co-payment of \$563 per month.

Agency Accomplishments

In response to the conditions described above, AFS has written overpayments for \$6,750 against the provider.

Audit Recommendations

We recommend that AFS better ensure that providers who bill full-time for child care and are also employed full-time at other

jobs are actually providing care for the children by doing the following:

- Utilize its internal auditor to develop a program to regularly audit full-time providers with significant other income from wages. These factors should also be included in AFS's profile for high-risk child care providers.
- Enhance the payment system as previously recommended.
- Remove the LIMIT field from the billing form as previously recommended.

Duplicate Payments to Providers

AFS can strengthen its controls to ensure that providers are not paid twice for the same service.

OAR 461-155-150 states that the monthly limit for a child care payment is 125 percent of the number of work hours times the AFS hourly rate up to the monthly maximum. For self-employed clients, the limit is one hour of child care for each hourly equivalent of the state minimum wage. Guidelines in the AFS Child Care Provider Guide further state, "the monthly payment limit is the most AFS will pay for a child in a month."

In many instances, when an AFS client changes child care providers or AFS programs, a second billing form is generated in the month of change. Two claims for the same period, without proper controls, can cause AFS to pay for the same services twice, thus exceeding the monthly limit established in AFS's administrative rules. In addition, paying for the same service twice is not a prudent use of taxpayer moneys.

As a control, the payment system prints a "Provider Payment Benefit Exceeded" exception report that lists clients whose monthly child care benefits exceed the AFS established maximum. However, AFS uses this report only to prevent re-occurrences of duplicate payments that are caused by a client changing providers or programs. According to its current policy, "in cases where it is identified as a provider change and a one-time occurrence, it is not considered an overpayment." For example, if a client changes providers or programs mid-month, AFS policy does not preclude full child care payments to each provider for that month. Therefore, in these instances, AFS

does not consider duplicate payments to be an overpayment for services.

We identified 113 potential duplicate payments that occurred during our six-month audit period. We selected a judgment sample of 58, totaling approximately \$35,000. According to AFS, two checks were never cashed and six were returned by the providers. Of the remaining 50 duplicate payments, AFS considers only 30 to actually be overpayments. Because 20 of these duplicate payments occurred only one time and during the clients' change of providers or programs, AFS does not acknowledge them as duplicate payments for which overpayments should be collected.

We provided to AFS an additional list of 55 potential duplicate provider payments, totaling \$17,000, to confirm whether they are duplicate payments and to collect the duplicate payments identified.

Agency Accomplishments

In response to the conditions described above, AFS has hired a full-time overpayment writer to review the Provider Payment Benefit Exceeded exception report. As of March 1998, AFS had collected \$6,467 of the duplicate provider payments it considers as overpayments.

Audit Recommendations

We recommend that AFS better ensure that providers are not paid twice for the same service by doing the following:

- Change its current policy, which allows a duplicate payment to occur in the month of a provider change, to prevent paying for the same service twice.
- Revise its policy of reviewing the monthly Provider Payment Benefit Exceeded exception report on an "as time permits basis" to reviewing it on regular basis. Specifically, the list should be reviewed, overpayments should be written against the provider, and appropriate collection action should be taken.
- Train case workers to counsel all clients that, prior to signing the billing form, they should check the child care hours the provider has billed for the month. AFS should emphasize to

the client that any provider duplicate payment that the provider refuses to repay could be collected out of the client's future child care benefits (appropriate language to this effect should appear on the vouchers and the billing forms).

- Direct a study by its system support staff to determine if system enhancements, such as individual input of hours for each child in the case, can eliminate some of the overpayments.
- Collect the remaining duplicate payments of approximately \$28,500, continue to research the additional duplicate payments, and collect any overpayments identified.

Family and Group Providers Paid at Center Rates

AFS can strengthen its controls to ensure that only certified centers are paid at center rates.

AFS has a tiered payment schedule whereby it pays more for child care at centers than it does at group homes or family child care providers. This, in part, recognizes the higher cost in a presumably better regulated child care environment. Child care centers care for 13 or more children and must be certified and inspected by the Child Care Division (CCD), unless exempted by statute. They are required to meet a variety of health, safety, education, and training regulations.

Our testing identified eight group home and family child care providers between March 1994 and May 1997 who were paid at center rates, but were not certified as child care centers at the time. When these providers were listed, AFS was not checking with CCD to verify whether providers were certified child care centers. In addition, some errors were made during the voucher payment process when staff in the direct payment unit manually entered the type of provider. Overpayments during the approximate three-year period to group home and family child care providers who were paid at center rates totaled approximately \$9,360.

Our testing further identified an exempt center that is also a private school that AFS was paying to provide full-time care for two school age children. Research by AFS determined that provider payments were actually school tuition payments for

these children, who also had a younger sibling receiving full-time child care. Tuition payments paid by AFS for the two school age children totaled \$5,125. AFS does not plan to recoup these payments because it considers that the error was caused by the action initiated by AFS.

Agency Accomplishments

In response to the conditions described above, AFS has implemented a policy to confirm with CCD that the providers they are paying at center rates are either exempt or certified centers. In this process, AFS enters the certification or registration number assigned by CCD into the AFS provider payment data base. In addition, the provider payment system has been upgraded to eliminate the need for case workers in the branch offices to manually enter the provider type when processing vouchers. AFS discontinued making payments at center rates to the above providers.

Audit Recommendations

We recommend that AFS better ensure that only exempt or certified centers are paid at center rates by doing the following:

- Formalize its recently developed policies and procedures for confirming the certification and registration status of all new provider applicants with CCD, during the initial listing process.
- Collect the \$9,360 identified in overpayments made to family and group providers who were paid at center rates, and the \$5,125 paid for private schooling for two school age children.

Family Providers Exceed Limit of Number of Children In Care

AFS can take steps to better ensure that it is paying only for child care where the number of children in care is within the legal limit and the providers are registered when it is appropriate.

Child care providers who regularly provide care in their homes to children from more than one family are limited in the number of children they can care for, depending on their provider type. Group home providers may care for no more than 12 children

and must be certified and inspected by CCD. Family providers who care for more than three children from more than one family must be registered with CCD; however, there is no inspection required.

A number of AFS family providers care for more than three children from more than one family. However, AFS has no system control to identify unregistered family providers. Even though the information is available in the provider payment data, AFS currently does not have system capability to identify providers who are being paid, but may not be in compliance. A further complication to this issue over which AFS has no control is that other non-AFS children may also be in the care of the provider.

CCD is responsible for protecting the health, safety and well-being of children who are cared for outside their own homes. However, AFS also has a responsibility to not subsidize this care when the number of AFS children being cared for exceeds the allowable limit under the provider's certification or registration.

From the AFS provider payment data for the month of May 1997, we identified 325 family providers who appeared to be exceeding their allowable number of AFS children in care. AFS had recently conducted a similar review of providers and we utilized much of that data to determine whether the providers were appropriately registered for the number of AFS children actually in care. Our review of a sample of 42 family providers found that 29 were registered, six were not registered, and seven were exempt from registration. Of the 29 who were registered, AFS documented that six likely exceeded the limit for the number of children for which they are registered. Of the six providers who were not registered, AFS documented that five were caring for more than three children, which requires being registered with CCD. One provider, although not having any registration issues, is suspected of having over-billed AFS for child care services.

Agency Accomplishments

In response to the conditions described above, AFS has recently formalized into written policy the procedure that directs workers, as time permits, to review the number of children for whom an AFS provider is billing, and refer to CCD those providers suspected of exceeding the number of children in care.

Audit Recommendations

We recommend that AFS better ensure they are paying for child care that is within the legal requirements by doing the following:

- Develop a process for regularly examining payment data to identify AFS providers who do not appear to be in compliance with the Oregon Administrative Rules for the number of children in care. AFS, in conjunction with CCD, should establish a written procedure whereby CCD is notified when a non-complying provider is identified.
- Continue to follow-up on exceptions and refer to CCD those providers with regulatory issues.
- Determine the extent of overpayments made to the provider suspected of having over-billed AFS for child care services and collect the overpayments.

CONTROLS TO ENSURE PAYMENTS ARE MADE TO ELIGIBLE PROVIDERS

AFS can take steps to ensure that providers with disqualifying criminal offenses are not allowed to provide child care.

AFS has a direct interest in those child care providers who supply services to AFS clients. OAR 461-165-180 sets out specific health and safety requirements for both regulated and exempt providers who provide child care services for AFS clients. This is accomplished, in part, through the listing process AFS requires for providers of child care to AFS clients.

AFS relies heavily on a criminal background check during the provider listing process to identify providers who are not qualified to provide child care. By signing the listing form, which is now required of all AFS child care providers, the provider authorizes Law Enforcement Data System (LEDS) and Child Protective Services (CPS) criminal records checks for any adult in the facility or home, or anyone else who spends unsupervised time with the children. If a provider is not listed, this does not mean that the provider cannot care for the child. It means only that AFS will not pay the provider for the care.

A provider will be denied listing status if he or she is convicted of any of a number of criminal offenses or if they have an outstanding warrant for specified offenses. Depending upon the severity of the crime, once the warrant is cleared or a sufficient amount of time has passed since a conviction, AFS will reconsider the provider for listing.

When AFS determines that a child care situation is inherently risky, it approves the provider on a “limited” basis. However, AFS does not monitor “limited” situations any differently than it does regular providers. Prior to and throughout our audit period, AFS did not recheck approved providers’ backgrounds, including providers who were approved on a “limited” basis. AFS currently has approximately 180 limited providers.

Our testing involved a cross match of the AFS data base of the 117,249 AFS child care providers (active, inactive, and denied) with the Oregon State Police (OSP) data base of outstanding criminal warrants. We identified 250 child care providers who potentially had outstanding warrants as of the cross match date.

OSP and AFS, once notified of the results of the warrant/provider match, immediately took steps to verify the LEDS information. They determined that a number of the warrants had been satisfactorily cleared or were for minor infractions, and that some providers were inactive and would have had a new background check before being re-activated. Most of the warrants had been issued after background checks had been completed.

AFS research found that 54 providers who were actively providing child care services to AFS clients had significant outstanding warrants and criminal histories, such as child endangerment, possession of dangerous drugs, parole violation, and theft. Three of these active providers had been approved by AFS on a limited basis; one had an outstanding warrant for failure to appear on a charge of “endangering the welfare of a minor,” another had a warrant for assault IV, and the third had warrants for two instances of “larceny-theft II.” The latter provider has since been reinstated by AFS as a limited provider because she has completed her probation and paid her fines. She is still limited to care only for her grandchild.

Additional research by OSP and AFS found that a problem with the LEDS system had prevented warrant searches during some of the criminal background checks, thereby allowing 15

providers to be approved even though they had outstanding warrants.

Agency Accomplishments

In response to the conditions described above, AFS sent denial letters to the 54 active and 41 inactive providers who had outstanding warrants. In addition, through a joint effort, AFS and the OSP have rectified the system problem that had prevented some warrant searches during the background checks of some providers. In January 1998, AFS implemented procedures to recheck backgrounds on all active providers every two years. During our audit period, AFS also began rechecking providers who had been inactive for six months and had applied to be reactivated.

Audit Recommendations

We recommend that AFS better ensure that only qualified providers are allowed to provide child care by doing the following:

- Continue its recently established policy of regularly rechecking backgrounds of active providers to assist in ensuring that state-subsidized child care is healthy and safe.
- Develop additional controls to monitor providers that have been approved on a limited basis, by regularly performing LEADS and CPS criminal background checks, and making quarterly in-home visits.

**CONTROLS TO ENSURE
PAYMENTS ARE FOR ELIGIBLE
SERVICES ON BEHALF OF
ELIGIBLE CLIENTS**

AFS case workers are the primary control for assuring that a client is eligible for the benefits they are receiving. They are responsible for the initial eligibility determination as well as periodic reviews to evaluate the client's need for continued benefits. The case worker typically conducts the eligibility interview with the client, reviews pertinent supporting documents, and sets up the client's case on the system. Active case files are maintained by the case worker and are kept at the branch office.

Federal regulations that govern eligibility documentation and record retention require the agency to keep individual records containing pertinent facts essential to the determination of both initial and continuing eligibility.

**Provider Payments for
Children Older Than
13 Years of Age**

AFS can strengthen its controls to ensure that child care payments are not made for children 13 years and older who do not have special needs.

State regulations require that to be eligible for child care costs paid by AFS a child must be under age 13, or under age 18 and (1) physically or mentally incapable of caring for him or her self, as determined by a professional, or eligible for SSI benefits; (2) under court supervision; (3) receive foster care; or (4) have a disability. After evaluating a client's child care needs and reviewing appropriate support documentation, a case worker may enter a special needs code or a disability code into the system. This allows a child care payment for a child who is over age 13.

From our review of provider payments, we selected a judgment sample of eight children who were coded in the system as having special needs, other than for a disability. We reviewed the cases to see if case workers had properly determined their eligibility to receive child care. Our testing determined that:

- Two of the eight children had eligibility documentation in their files.

- One child was potentially eligible, but there was no documentation to substantiate it.
- Three children did not appear to be eligible and there was no documentation of eligibility.
- Two children, ages 14 and 16, had been improperly coded by the case worker as having special needs. Overpayments paid to providers for these two children totaled \$835.

We also identified 39 children age 13 years or older who had not been coded as having any special needs, yet received child care benefits. Analysis of these cases determined the following:

- Sixteen children did not meet eligibility requirements for special needs. According to AFS, 10 of these were due to case worker errors and six were caused by system errors. The total dollar loss for these claims was \$2,764.
- Seventeen children's claims and files contained clerical, processing, and documentation errors.
- Six children's claims were paid because case workers had made the decision that supervision was necessary, however, there was no documentation of special needs eligibility in file.

Claims for 33 of these 39 children had been paid from manual vouchers written by the case workers; six were processed from billing forms.

Agency Accomplishments

In response to the conditions described above, AFS is researching system errors which they think may have led to six of the inappropriate payments.

Audit Recommendations

We recommend that AFS better ensure that only eligible children receive child care benefits by doing the following:

- Ensure that the payment system will deny automated payments for children 13 years of age or older who are not coded as special needs or disabled.

- Formalize in writing the procedure for the payment unit to review exceptions, which includes contacting the branch for additional information and documenting the determination of whether the claim was finally denied or coded as a special need.
- Provide case workers with written guidelines and additional training on eligibility determination, which includes obtaining and retaining documentation of the applicant's proof of a professional's determination of need.
- Develop a program whereby operations managers periodically review client files for compliance with Oregon Administrative Rules and federal regulations.
- Identify and correct the system problems that led to the overpayment errors and collect from clients the \$2,764 in overpayments.
- Utilize its internal auditor to develop a program to regularly audit child care payments for children 13 years of age and older that includes evaluation of a child's eligibility, particularly when paid through manual vouchers.
- Collect the overpayments totaling \$835 from the clients whose children were improperly coded as having a special need.

**Payments to Providers Whose
Social Security Number
Matches the Client's**

AFS can strengthen its controls over payments to providers whose social security number (SSN) matches the client's SSN.

Oregon regulations governing state-subsidized child care do not allow payment for child care services to the child's parent or anyone in the client's filing group. Additionally, ORS 411.122 requires that payment of claims for child care must be made directly to the provider. Through its payment system, AFS has controls in place to help ensure that these regulations are enforced.

Providers paid through billing forms are subject to the initial listing process. When listing information is entered into the provider payment system, it automatically triggers an error

message if the social security number for a provider matches the social security number for an AFS client. If the data entry person does not acknowledge this edit check, all subsequent payments will proceed to the provider or client. To test the effectiveness of these controls, we matched SSNs for providers and clients during our audit period to determine if there were any instances where the provider and client had the same SSN.

Our review identified 14 matches, a total of \$10,686 in payments, where the SSN of the provider and the client were recorded on the system as being the same. According to AFS, in 13 of the matches the provider was using the client's SSN and in the 14th, the client was using the provider's SSN. Payments that AFS sent to one client and three providers were processed using billing forms which had been subject to the system of edit checks at the time the providers were listed. Payments that went to three clients and seven providers were processed using vouchers which, during most of our audit period, were not subject to edits in the payment system. Payments for four of the 14 matches were inappropriately sent directly to the client.

Federal law requires that AFS must annually issue a federal income reporting form 1099 to providers showing the amount of income earned for the year. The provider's correct SSN is a critical factor in assuring that the appropriate amount of income is attributed to the proper person.

Agency Accomplishments

In response to the conditions described above, AFS has enhanced the provider payment system with an edit check that compares the SSNs of the client and the provider for each voucher payment processed.

As of October 1997, AFS had collected one of the four payments that were sent to clients.

Audit Recommendations

We recommend that AFS better ensure that only qualified providers with valid social security numbers are paid to provide child care by doing the following:

- Formalize procedures for staff in the payment unit to follow when an error message occurs indicating that the SSN for a

client and a provider are the same. Implementation of these procedures should include proper training of the staff.

- Enhance the system to disallow payments when the SSN for the provider and the client match. Exceptions should be investigated and properly resolved prior to payment of claims.
- Until system enhancements are implemented, AFS should utilize its internal auditor's capability of using computer-assisted audit techniques to identify child care payments issued when the SSNs of the provider and client are the same.
- Ensure that the remaining three payments that were sent to the client in error ultimately went to the provider. AFS should collect the remaining overpayments identified.
- Correct the federal income reporting form 1099 for the providers and clients who have been inappropriately credited or not credited with child care income.

Income Documentation for Self-employed Clients

AFS can strengthen its controls over income verification for self-employed clients.

When a case worker establishes client eligibility for child care programs, determining the client's income is critical. The total benefit package, including the client's co-pay responsibility in the Employment/Education-Related Day Care (ERDC) program, is based primarily on income and family size.

Self-employed clients pose a special challenge to case workers in this regard. While wage earner clients typically can provide a series of pay stubs for employment verification, case workers must rely on other sources of documentation for self-employed clients. Self-employed clients may need to provide bank deposit summaries, expense receipts, accounting records or federal income tax forms that list business expenses to verify their self-employment income. Federal regulations require AFS to retain documentation for initial and continuing eligibility.

A review of a judgment sample of eight ERDC client files indicated that income verification for self-employed clients may

not be adequate. Of the eight files reviewed for income documentation, three were for self-employed clients. Although one file contained copies of letters from the client's customer documenting gross income from bookkeeping services, two files had no verification of the clients' gross income. The remaining five files were wage earners and appropriately contained copies of pay check stubs from the employer verifying the clients' employment income.

Although our review indicated that self-employed AFS clients are a small percentage of the total AFS clients served, it also indicated there may be a high risk of under-reported income from self-employed AFS clients due to the nature of their work.

Agency Accomplishments

In response to the conditions described above, AFS has assigned a work group to study self-employed income documentation issues.

Audit Recommendations

We recommend that AFS better ensure that only self-employed clients who are eligible receive child care benefits by doing the following:

- Comply with federal regulations by requiring case workers to review and retain income documentation for all working clients who receive benefits.
- Provide training to case workers on verification and documentation of income for the high risk self-employed population.

REPORT DISTRIBUTION

This report is a public record and is intended for management of the Adult and Family Services Division, the governor of the state of Oregon, the Oregon Legislative Assembly, and all other interested parties.

COMMENDATION

The courtesies and cooperation extended by officials and employees of the Adult and Family Services Division, the Employment Department, and the Law Enforcement Data System of the Oregon State Police during the course of this review were commendable and sincerely appreciated.

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AGENCY'S RESPONSE TO THE AUDIT REPORT



Oregon

John A. Kitzhaber, M.D., Governor

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August 31, 1998



Catherine E. Pollino
Deputy Director
Secretary of States Audit Division
255 Capitol St. NE, Suite 500
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Dear ^{Cathy}Catherine,

Thank you for the opportunity to review the audit of the AFS child-care billing and payment system. Our response to the audit recommendations is included in the attached document.

Because of federal requirements, and our commitment to effectively move families from welfare to work, it has been necessary for AFS to ensure that low-income families who use the state's child-care subsidy programs have the same access to the child-care marketplace as the rest of the population. This means the design and functioning of the programs must be responsive to the business needs of the child-care community as well as the consumer needs of our client base. Within this context adequate fiscal controls are essential to produce the greatest cost-effectiveness. I am confident that the information contained in your audit will help us as we continue to strive to strike the best balance for Oregon's tax payers.

Additionally, I want to take this opportunity to thank the Audits Division team for sharing with us the information about the "Audit Command Language (ACL)" software. We have acquired this new technology, which will greatly aid our ability to monitor our payment systems.

Cathy Pollino
August 31, 1998

AFS is dedicated to continual self-evaluation and improvement, and we welcome this opportunity to enhance our child-care programs.

Sincerely,

Sandie Hoback
Administrator

SH:sh

Summary of Responses to Recommendations

Background:

The mission of AFS is to help low-income families move from public assistance to self-sufficiency. The agency and its partners strive to achieve that mission through a wide range of services, including employment preparation, job-search assistance, and counseling and treatment to address barriers to employment.

Over the past four years, the AFS "self-sufficiency" strategy has been highly successful...more than 81,000 people have found employment with approximately 90 percent remaining off welfare 18 months later. The reduction in Oregon's welfare caseload is estimated to have saved the state's taxpayers more than \$120 million since the 1993-95 biennium.

Child care is a crucial factor in the success of the self-sufficiency strategy – lack of dependable, affordable child care can mean a family must return to welfare rather than remaining in the workforce. Therefore, through its child care subsidy programs, AFS seeks to expand the availability of child care to its clients and ensure its quality.

When welfare-reform began in the early 1990's, AFS recognized its strategies would be seriously hindered because there were not enough child-care providers willing to be part of its subsidy programs. This brought about changes in the payment system aimed at alleviating providers' concerns, which in turn greatly increased the number of providers participating. AFS continues to work closely with the child-care-provider community to ensure its billing and payment-processing system does not place an inappropriate burden on providers as they operate their businesses.

Another factor in shaping child-care programs is the federal requirement that the state work to assure that people on public assistance have the same access to child care as those who are not receiving subsidies. This means the AFS billing practices and payment system must generally conform to the marketplace.

AFS, like private-paying customers, must observe the rules of the marketplace. For example, at times AFS is required to pay for a small amount of unused child care when a parent changes providers. To do otherwise could very well interrupt the family's child care, possibly meaning they return to public assistance at a far greater cost to the taxpayers. Within these limits, however, AFS will always follow a prudent course which recognizes that any money saved can be used for other needed services or can be returned to taxpayers.

AFS currently helps pay child care for 15,000 low-income working families and families on welfare. We send more than \$5 million in payments to more than 12,000 child-care providers across the state each month. We are active in supporting training for child-care providers and education about quality child care for clients. Oregon conducts background checks on providers who want to care for children in its programs because of the importance of providing safe care for all children.

Because AFS recognizes the critical role of child care in its mission, the agency agrees with recommendations for changes and enhancements to specific parts of the program. Implementing them will enhance the program's operations and ensure continued accountability. In many cases, our internal audit processes had recognized the need to strengthen controls and actions were taken in some areas. These include:

- AFS established a special "overpayment writer" position for child-care payments in April 1997, to specifically work on confirming overpayments and entering them into the system for further action.
- In March 1997, AFS formalized a process for dealing with complaints about providers.
- In upcoming months, AFS will begin on-site visits with error-prone providers.

In addition, plans are underway to implement actions in other areas.

A few of the audit recommendations are currently being examined to explore alternative approaches that would accomplish the desired results but be more feasible in terms of their cost or their impact on our overall strategies to assist people in reaching self-sufficiency.

Response to Summary Recommendations:

(Audit recommendations are in bold face)

Complete and implement the AFS action plan for collecting overpayments from inactive providers in order to comply with state regulations.

Response: AFS has developed a PC-based collection system, and the initial collection letters will be sent to providers before November 1, 1998. AFS will diligently pursue these overpayments.

Since April 1997, a special overpayment "writer" has been placed at the Direct Pay Unit to work specifically on confirming possible overpayments and entering them into the system for further action.

Enhance the payment system so that it indicates each child's appropriate full-time or part-time care needs, disallows payments for 13 year olds who do not have special needs or disabilities, and disallows payments when the social security numbers of the provider and the client are the same.

Response: We agree that enhancements and improvements to the internal controls of the process are best implemented through computer system changes. Our current information-systems resources are extremely limited as a result of the "Year 2000" project. In order to make the most efficient use of system resources when they become available, we are now in the process of developing comprehensive system revision plans.

In the interim, the AFS Internal Audit Team will monitor the payments to providers for children 13 years and older, and payments where the Social Security numbers of the provider and client appear to match.

We are currently looking at another important change in the payment system -- moving to a single billing form instead of the current three. We feel this would address many concerns.

Formalize procedures for staff to follow when an error message occurs indicating that the social security numbers for a provider and client are the same.

Response: Procedures addressing this concern have been written and implemented for Direct Payment Unit (DPU) staff who handle the error messages.

Utilize its internal auditor to audit child care payments in high risk areas on a periodic basis.

Response: We agree with this recommendation and it will become part of the ongoing internal evaluation process for error-prone cases. This recommendation will be included in the biennial AFS Internal Audit plan. Child-care payments will be monitored on a periodic basis.

Continue its recently established policy of regularly rechecking backgrounds of providers who are actively providing child care.

Response: We concur, and as part of our continual internal evaluation and improvement process, we will review and improve the process.

Currently, we check all new providers and the members of the provider's household. In addition, the provider and household members are rechecked every two years. We are now developing a process to perform quarterly background checks for "limited" providers, as well as quarterly home visits.

Act on and resolve provider and client information provided by case workers and field contacts.

Response: All AFS staff are required to refer questionable payments or eligibility issues to the division's Investigation Unit. We will reinforce our efforts to respond to information received.

Comply with federal regulations by requiring case workers to review and retain income documentation for all working clients who receive benefits.

Response: The difficulties found by the audit dealt with the income of self-employed clients, which make up less than 1 percent of all day care families which

have earnings. AFS agrees action needs to be taken in this area, and we are executing an action plan.

The self-employment income policy will be revised effective January 1, 1999, to simplify it and align it with the other AFS programs. Prior to the effective date of that revision, caseworkers will receive instructions that will include the necessity of reviewing and retaining income documentation. We will continue our current practice of retaining documentation for all of our wage-earning clients.

Collect overpayments and duplicate payments identified by this audit and by subsequent reviews, ensure that overpayments sent to the client in error ultimately went to the provider, and make corrections to federal income reporting forms 1099, when appropriate.

Response: AFS will diligently explore strengthening our collection efforts of overpayments and duplicate payments. In addition, we will review and strengthen the Administrative Rules under which we determine overpayments. This issue requires additional study of the current marketplace to ensure that requirements around equal access to child care resources for clients are met.

AFS has followed up on the four instances where payments were sent incorrectly to the client instead of the provider. Three of these have been resolved; we are following up on the fourth.

The change discussed earlier regarding a single billing form would also reduce the risk of duplicate payments.

The division will continue to comply with rules governing the federal reporting form 1099.

Attached is the detailed response to all of the recommendations made in the body of the report.

Detailed response to all audit recommendations

REGARDING COLLECTION ACTIVITIES:

AFS complete and implement its action plan for collecting overpayments from inactive providers. These actions will help AFS comply with state regulations.

Response: AFS has developed a PC-based collection system, and the initial collections letters will be sent to providers before November 1, 1998. AFS will diligently pursue these overpayments.

REGARDING CONTROLS TO ENSURE PAYMENTS ARE IN APPROPRIATE AMOUNTS:

Payments for School Age Children

Enhance the payment system by adding a descriptor that indicates each child's appropriate full-time or part-time child care needs as determined by the case worker. The descriptor should be used to reduce the maximum hours allowed for the part-time child by some percentage (e.g. 75 percent of maximum for full-time care), thereby initiating an exception when a child in part-time care is claimed at full-time rates.

Response: AFS agrees with the intent of the recommendation and specific payment enhancement possibilities are being researched. We will convene a work group to consider the following:

- How the descriptor is to be defined and programmed into existing systems.
- What will be used as a trigger to identify those cases that have a high potential for error.

- Additional information, such as shift hours worked by the parent, how income is to be reported, and new methods of calculating prospective income.

Until system enhancements are implemented, AFS should utilize its internal auditor to regularly audit payments for school age children with younger siblings, including an evaluation of each child's eligible hours.

Response: AFS agrees with this recommendation. In addition, AFS will work with the provider community to explore alternative tracking systems such as submitting attendance logs with all billing forms.

Until a system solution is put in place to provide an accurate reflection of the child's required hours of care, remove the LIMIT field from the billing form so that the maximum amount a provider can charge does not appear.

Response: AFS agrees changes need to be made and will seek an interim solution until system changes can be implemented.

When the direct provider pay system was developed, AFS reached an agreement with the provider community to include payment information on billings so providers would know how much they could expect AFS to pay for the maximum amount of care. (This was necessary because AFS would be paying providers at the end of the month; non-AFS customers pay for child care in advance.) AFS will research the feasibility of developing limits specific to each child.

Continue with its plan to implement use of official provider attendance logs, and provide training to both providers and case workers for their proper use.

Response: AFS agrees with this recommendation. This was part of an action plan resulting from our ongoing evaluation process. A sample attendance log was developed and mailed to all providers. Training has been given to providers and caseworkers. A sample attendance log will be distributed to providers with the next Provider Guide.

As stated above, we will work with a provider group to explore the feasibility of having all providers submit attendance logs with all billing forms.

Utilize its internal auditor to periodically review provider logs, with special emphasis in the area of in-home providers, especially those who claim full-time or nearly full-time care for school age children.

Response: AFS agrees with this recommendation and will explore alternative methods, including having providers submit attendance logs at the time of billing.

Inappropriate Payments for Child Care Services

AFS better ensure that payments for child care are appropriate by doing the following:

Be attentive to and act on provider/client information provided by its case workers and field contacts. Resolution of the information should be documented and questionable cases appropriately referred to the investigative unit.

Collect the overpayments identified.

Response: AFS will reinforce our efforts to educate all AFS staff in the process of responding to information received. Our agency places a high value on responding to provider/client information we receive. Agency sponsored and branch initiated training occur on a regular basis to reinforce the commitment of acting and responding to information and then narrating our actions in the client and provider files. All staff are instructed to refer questionable cases to our investigations unit.

One investigation has been completed and referred to the District Attorney. The remaining three are still being investigated.

Billing for Services not Rendered

AFS better ensure that providers who bill full-time for child care and are also employed full-time at other jobs are actually providing care for the children by doing the following:

... Utilize its internal auditor to develop a program to regularly audit full-time providers with significant other income from wages. These factors should also be included in AFS's profile for high-risk child care providers.

... Enhance the payment system as previously recommended.

... Remove the LIMIT field from the billing form as previously recommended.

Response: We agree with the intent of the recommendation.

The Division currently does not have authority to access provider wage information through the Employment Department records or other sources without permission from the provider. In cooperation with the provider community, the division will explore requiring provider permission to access this information as a condition to be listed as an AFS provider.

A response to the recommendation on payment-system enhancements is found on page 6.

Response to the LIMIT field recommendation is on page 7.

Duplicate Payments to Providers

AFS better ensure that providers are not paid twice for the same service by doing the following:

...Change its current policy, which allows a duplicate payment to occur in the month of a provider change, to prevent paying for the same service twice.

Response: AFS agrees with the intent of this recommendation. There are exceptional circumstances, such as when a client must change providers mid-month, where the flexibility may be needed.

AFS will review the current policy and clarify administrative rules to address these limited circumstances. This issue requires additional study and documentation of the current marketplace practices to ensure the requirements of equal access for clients to child care resources is met.

In the interim, duplicate payments will be reviewed on a case by case basis to determine appropriate action. Those determined to be cost-effective will be put into the collection process.

We are currently examining another important change in the payment system – moving to a single billing form instead of the current three. We feel this would address many concerns regarding duplicate payments.

Revise its policy of reviewing the monthly Provider Payment Benefit Exceeded exception report on an "as time permits basis" to reviewing it on a regular basis. Specifically, the list should be reviewed, overpayments should be written against the provider, and appropriate collection action should be taken.

Response: Procedures will be rewritten to reflect the current practice of reviewing the "Provider Payment Benefit Exceeded Report" daily except for the first four working days of the month. (Since most billings are received during the first four days, the workload at DPU is greatly increased. Reports from those four days will be reviewed beginning the fifth working day of the month.) Overpayments will continue to be written and processed for collection.

Train case workers to counsel all clients that, prior to signing the billing form, they should check the child care hours the provider has billed for the month. AFS should emphasize to the client that any provider duplicate payment that the provider refuses to repay could be collected out of the client's future child care benefits (appropriate language to this effect should appear on the vouchers and the billing forms).

Response: AFS will include the importance of client validation of the number of child-care hours in future child-care program training. In addition, the Parent Guide, currently being revised, will include new language to emphasize the importance of checking the number of hours being billed.

Overpayments will be collected from the client or provider, based on responsibility. Consideration of collecting from clients overpayments incurred by the providers would have to include the determination of cost-benefit, impact on the client's ability to retain employment and their continued access to child care.

Direct a study by its system support staff to determine if system enhancements, such as individual input of hours for each child in the case can eliminate some of the overpayments.

Response: AFS agrees with the recommendation. A work group will explore the possibility and conduct a cost benefit analysis of system changes.

Collect the remaining duplicate payments of approximately \$28,500, continue to research the additional duplicate payments, and collect any overpayments identified.

Response: Duplicate payments will be reviewed on a case-by-case basis. If it is determined to be cost-effective, they will be put into the collection process.

Family and Group Providers Paid at Center Rates

AFS better ensure that only centers are paid at center rates by doing the following:

... Formalize its recently developed policies and procedures for confirming the certification and registration status of all new provider applicants with CCD, during the initial listing process.

... Collect the \$9,360 identified in overpayments made to family and group providers who were paid at center rates.

Response: AFS has implemented the recommendations to confirm certification or registration status with CCD. All identified overpayments will be pursued for collection.

The AFS Provider Listing form was revised in September 1997 to include a place for the CCD Certification or Registration number. The Provider Payment system was updated in October 1997 with a new field to capture this CCD number. AFS staff routinely verify the current status of the Certification or Registration with CCD during initial listing and periodic re-evaluation of listing. When a center is exempt from certification, DPU staff enter "exempt" in the number field.

System enhancement has been made to transfer provider type and payment rate information to the payment screens. Data entry errors on this information which were occurring previously are now eliminated in the payment process.

The division is reviewing each of the total \$9,360 in overpayments made to family and group providers who were paid at center rates and, if it is cost effective, they will be put into the collection process.

Family Providers Exceed Limit of Number of Children in Care

AFS better ensure they are paying for child care that is within the legal requirements by doing the following:

... Develop a process for regularly examining payment data to identify AFS providers who do not appear to be in compliance with the Oregon Administrative Rules for the number of children in care. AFS, in conjunction with CCD, should establish a written procedure whereby CCD is notified when a non-complying provider is identified.

... Continue to follow up on exceptions and refer to CCD those providers with regulatory issues.

... Determine the extent of overpayments made to the provider suspected of having overbilled AFS for child care services and collect the overpayments.

Response: AFS agrees with the recommendations. The division is actively seeking to identify providers who are out of compliance and make appropriate referrals. DPU written procedures have been forwarded to Secretary of State auditors. DPU staff regularly check the payment screens to review the number of AFS children being cared for by the provider. CCD is advised of any provider who potentially is caring for too many children and may need assistance in either upgrading their certification or reducing the number of children in their care.

Information about what shift hours the parent works will be added to the program application and to the Quarterly Review Form. AFS will inform providers that they must comply with the legal requirements regarding the number of children in care, or AFS will no longer pay for care with that provider.

REGARDING CONTROLS TO ENSURE PAYMENTS ARE MADE TO ELIGIBLE PROVIDERS:

AFS better ensure that only qualified providers are allowed to provide child care by doing the following:

... Continue its recently established policy of regularly rechecking backgrounds of active providers to assist in ensuring that state-subsidized child care is healthy and safe.

... Develop additional controls to monitor providers that have been approved on a limited basis, by regularly performing LEDS and CPS criminal background checks, and making quarterly in-home visits.

Response: AFS agrees to continue our policy and procedures of regularly rechecking the Criminal History and Child Protective Services History of active providers and those who want reactivation.

We have 180 active providers who are listed as "limited" providers. This is from a total of 12,000 active providers in the state (1.5%). We currently review the Criminal History and Child Protective Services History of all active providers every two years. Those providers listed as being "limited" to a particular client are included in this two year review process.

We are developing a change in our policy regarding the frequency of criminal history and child protective services history checks to conduct a quarterly review of providers with "limited" approvals. In addition, quarterly home visits to these providers will be conducted.

Provider Payments for Children Older Than 13 Years of Age

Develop and implement controls to ensure that the payment system will deny automated payments for children 13 years of age or older who are not coded as special needs or disabled.

Response: The CCB payment system will not include a child 13 and over on the billing form unless the caseworker has authorized the care by specific coding for that child. Without the child on the billing form, there can be no payment.

There is currently no similar control on the 860B payment voucher, but this edit will be reinstated by November 1998. When this is completed, all child care billing forms will require caseworker authorization before a child older than 13 years of age can be included or listed on the billing form. AFS is also planning to conduct a feasibility study regarding a single billing form instead of the current three, to address these kinds of problems.

Formalize in writing the procedure for the payment unit to review exceptions, which includes contacting the branch for additional information and documenting the determination of whether the claim was finally denied or coded as a special need.

Response: Once the system edit is reestablished in this area, we will reinstate the process of contacting the branch office before approving payments for child care for children aged 13 or older in the 860B process.

Provide case workers with written guidelines and additional training on eligibility determination, which includes obtaining and retaining documentation of the applicant's proof of a professional's determination of need.

Response: The new policy manual to be distributed October 1, 1998 clarifies this policy, specifies conditions under which care can be authorized for older children and emphasizes that the determination of need must be documented. Statewide training on the new manual will be delivered in October. This information will also be included in the child-care-program training delivered monthly by the Staff Development Unit.

Develop a program whereby operations managers periodically review client files for compliance with Oregon Administrative Rules and federal regulations.

Response: We agree periodic client file reviews are appropriate and currently conduct client-file reviews on a regular basis. AFS will continue to emphasize that compliance with Oregon Administrative Rules and federal regulations is an important part of good case management and needs to be included in any review of a client file.

Identify the system problems that led to the overpayment errors and collect from clients the \$2,764 in overpayments.

Response: AFS will identify system problems and controls to prevent future overpayments. We will review and determine appropriate action on a case by case basis, considering cost benefit and impact on other programs, including our client's ability to remain employed and progress toward self-sufficiency.

Utilize its internal auditor to develop a program to regularly audit child care payments for children 13 years of age and older that includes evaluation of a child's eligibility, particularly when paid through manual vouchers.

Response: AFS agrees with this recommendation and will utilize its Internal Auditor as well as Child Care Unit and other staff.

Collect the overpayments totaling \$835 from the clients whose children were improperly coded as having a special need.

Response: Further investigation determined that this error was caused because one worker incorrectly coded these two cases which resulted in overpayments of \$835. The worker has been counseled on correct policy.

One case was overpaid for two months; the other for a month. We will review these two cases and take appropriate, cost-effective action.

Payments to Providers Whose Social Security Number Matches the Client's

AFS better ensure that only qualified providers with valid Social Security numbers are paid to provide child care by doing the following:

... Develop policies and procedures for staff in the payment unit to follow when an error message occurs indicating that the SSN for a client and a provider are the same. Implementation of these procedures should include proper training of the staff.

... Enhance the system to disallow payments when the SSN for the provider and the client match. Exceptions should be investigated and properly resolved prior to payment of claims.

... Until system enhancements are implemented, AFS should utilize its internal auditor's capability of using computer-assisted audit techniques to identify child care payments issued when the SSNs of the provider and client are the same.

... Ensure that the remaining three payments that were sent to the client in error ultimately went to the provider. AFS should collect the remaining overpayments identified.

... Correct the federal income reporting form 1099 for the providers and clients who have been inappropriately credited or not credited with child care income.

Response: There is an edit on the computerized payment system which does not allow payment when SSNs are the same. When manual vouchers (860Bs) are processed, they are not exposed to the same computer edit system. Policies and procedures will be developed for our staff in the processing of manual vouchers to eliminate these payments from being processed until the SSN is corrected. The Internal Auditor will review this process to assure appropriate internal controls are in place.

We did ensure that the remaining checks sent to the client in error ultimately went to the provider.

It is policy and procedure to send a corrected federal income form 1099 when changes are made. If the amount paid to a provider is less than \$600, no 1099 form is required.

Income Documentation for Self-Employed Clients

Comply with federal regulations by requiring case workers to review and retain income documentation for all working clients who receive benefits.

Provide training to case workers on verification and documentation of income for the high risk self-employed population.

Response: The difficulties found by the audit dealt with the income of self-employed clients, which make up less than 1 percent of all day care families which have earnings. AFS agrees action needs to be taken in this area, and we are in the process of executing an action plan.

The self-employment income policy will be revised effective January 1, 1999, to simplify it and align it with the other AFS programs. When the policy is revised, caseworkers will receive instructions that will include the necessity of reviewing and retaining income documentation. We will continue our current practice of retaining documentation for all of our wage-earning clients.



Oregon

John A. Kitzhaber, M.D., Governor

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September 1, 1998

Cathy Pollino, Deputy Director
Secretary of State, Audits Division
255 Capitol Street NE
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Dear Ms. Pollino:

Thank you for allowing us the opportunity to review your draft report on the Review of State-subsidized Child Care Payments dated August 4, 1998. We have addressed only the three recommendations involving the Employment Department.

Recommendations:

- *AFS should formalize its recently developed policies and procedures for confirming the certification and registration status of all new provider applicants with CCD, during the initial listing process.*

We concur with the recommendation. The Employment Department and AFS are working cooperatively to establish a procedure for providing the status confirmation on a timely basis.

- *AFS should develop a process for regularly examining payment data to identify AFS providers who do not appear to be in compliance with the Oregon Administrative Rules for the number of children in care. AFS, in conjunction with CCD, should establish a written procedure whereby CCD is notified when a non-complying provider is identified.*

AFS and the Employment Department are working cooperatively to develop joint notification procedures for non-complying providers.

- *AFS should continue to follow up on exceptions and refer to CCD those providers with regulatory issues.*

The Employment Department appreciates receiving notices of providers with regulatory issues. This allows us to target our resources more effectively.

Once again, thank you for this opportunity to respond.

Sincerely,

Virlena Crosley
Director

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