MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT

PERFORMANCE AUDIT
OF

CHILD DEVELOPMENT AND CARE PROGRAM PAYMENTS

DEPARTMENT OF HUMAN SERVICES

July 2008

THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

431-0300-05

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REPORT SUMMARY

Performance Audit
Child Development and Care Program Payments
Department of Human Services

Report Number:
431-0300-05

Released:
July 2008

The Department of Human Services' (DHS's) Child Development and Care (CDC) Program provides payment for childcare services for qualifying families when the parent(s) or substitute parent(s) is unavailable to care for his or her children because of employment; participation in an approved education or employment preparation program; participation in an approved treatment program for a physical, mental, or emotional condition; and/or participation in high school completion classes and when the childcare is provided by an eligible provider.

Audit Objective:
To assess the effectiveness of DHS's efforts to help ensure the proper use of CDC Program resources.

Audit Conclusion:
We concluded that DHS's efforts were not effective to help ensure the proper use of CDC Program resources. We noted seven material conditions (Findings 1 through 7) and five reportable conditions (Findings 8 through 12).

Material Conditions:
DHS improperly provided CDC Program resources to parents who did not demonstrate a verified need for, or request, childcare assistance (Finding 1).

DHS had not implemented controls to help ensure that DHS authorized and paid for CDC Program-funded childcare services only while parents worked or participated in approved activities and when children needed childcare services (Finding 2).

DHS had not established effective controls to help prevent improper and potentially fraudulent overbillings by CDC Program providers (Finding 3).

DHS did not use Unemployment Insurance Agency (UIA) wage data to help verify CDC Program parent employment at application and redetermination. In addition, DHS did not consistently use UIA wage data to help identify high-risk CDC Program cases for investigation. (Finding 4)

DHS had not implemented effective controls to help ensure that CDC Program relative care providers met DHS's established relationship requirements (Finding 5).

DHS had not implemented effective controls to help ensure that it obtained and retained the required application, certification, and identification information for individuals it enrolled as CDC Program childcare providers (Finding 6).

DHS had not implemented effective controls to help prevent improper CDC Program-funded childcare payments to day-care aides who billed DHS for childcare services using multiple service type classifications (Finding 7).

Reportable Conditions:
DHS had not implemented effective controls to help ensure that it obtained and retained required applications and certifications for unlicensed childcare providers (Finding 8).

DHS had not implemented effective controls to prevent improper and, in some cases, potentially

fraudulent payments to, or on behalf of, deceased CDC Program participants (Finding 9).

DHS had not implemented effective controls to prevent improper and potentially fraudulent childcare payments to, or on behalf of, incarcerated CDC Program participants (Finding 10).

DHS had not implemented effective controls to prevent improper childcare payments to CDC Program clients for providing childcare services to children on their own cases (Finding 11).

DHS should consider revising its policies so that it does not allow reciprocal childcare agreements (Finding 12).

Summary of Effects:

We estimate that DHS made potential improper and, in some cases, potentially fraudulent CDC Program payments of $231 million as a result of the material conditions we identified in Findings 1 through 7. We used a combination of methods to arrive at our estimate of $231 million.

For Finding 1, we used a statistical estimation method to project the improper payments identified in our sample to the population of CDC program payments for the audit period. Based on our audit testing results, we estimate that DHS made improper and, in some cases, potentially fraudulent childcare payments totaling $223 million; there is a 95% probability that the actual improper payments during the audit period were at least $43 million and could be as high as $402 million.

For Finding 5, we used a nonstatistical estimation method and projected that DHS made an estimated $7 million in improper and, in some cases, potentially fraudulent childcare payments.

For Findings 4, 6, and 7, we included the amount of the known errors ($1 million) identified in randomly and judgmentally selected items that were not projected to the population.

Our estimate does not include amounts for either the actual or potentially improper payment amounts reported in Findings 2 and 3 because of the possible commingled effects and combined impact of the conditions identified in Findings 1, 2, and 3.

Further, in addition to the $231 million in improper payments related to the material conditions, we identified $1 million in improper payments related to the reportable conditions presented in Findings 8 through 12.

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Agency Response

Our audit report contains 12 findings and 13 corresponding recommendations. DHS's preliminary response indicates that it agrees with all of the recommendations.

Further, DHS stated that it agrees that it is DHS's responsibility to ensure the proper use of CDC Program resources and that, in its effort to ensure that clients were supported in their efforts to engage in the workforce, DHS made programmatic decisions that inadvertently weakened some of the internal controls. DHS informed us that it is redesigning the CDC Program to increase internal controls and facilitate the proper use of CDC Program resources. Additional information on DHS's corrective action is provided after each audit recommendation.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: http://audgen.michigan.gov

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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

July 29, 2008

Mr. Ismael Ahmed, Director
Department of Human Services
Grand Tower
Lansing, Michigan

Dear Mr. Ahmed:

This is our report on the performance audit of Child Development and Care Program Payments, Department of Human Services.

This report contains our report summary; description; audit objective, scope, and methodology and agency responses; comment, findings, recommendations, and agency preliminary responses; nine exhibits, presented as supplemental information; and a glossary of acronyms and terms.

The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during the audit.

Sincerely,

Thomas H. McTavish, C.P.A.
Auditor General

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DEPARTMENT OF HUMAN SERVICES

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Description

The Department of Human Services (DHS) administers the Child Development and Care (CDC) Program*. The goal* of the CDC Program is to preserve the family unit and to promote its economic independence and self-sufficiency by promoting safe, affordable, accessible, and quality childcare* for qualified Michigan families. The CDC Program provides payment for childcare services for qualifying families during periods when the parent(s) or substitute parent(s)* is unavailable to care for his or her children* because of employment; participation in an approved education or employment preparation program; participation in an approved treatment program for a physical, mental, or emotional condition; and/or participation in high school completion classes. During the period October 5, 2003 through March 4, 2006, DHS provided $1.1 billion in CDC Program-funded childcare payments so that CDC Program parents and substitute parents could work and/or participate in approved education and family preservation activities (see Exhibit 1).

Parent(s) or substitute parent(s) seeking CDC Program assistance for childcare services must complete an application at a DHS local office to request services, meet CDC Program eligibility requirements, and demonstrate a valid need* for childcare assistance*. DHS considers a need for childcare assistance to exist only during times when each parent is unavailable to provide childcare because he or she is working or participating in an approved education program or family preservation activity. DHS requires local office staff to verify that the parent(s) needs CDC Program assistance. During our review, we determined that DHS made $974 million (87%) in CDC Program-funded childcare payments for parents who reported that they were employed.

After DHS determines that the parent is eligible for childcare assistance, DHS authorizes each eligible child on the parent's case* for CDC Program-funded childcare services and the parent chooses an eligible provider*. In general, eligible children include those living with the parent who are under age 13 and those with specific qualifying conditions who are ages 13 to 18 years. Eligible providers include a person or agency enrolled, registered, or licensed by DHS and a small number of unlicensed day-care centers and homes that are exempt from licensure under Act 116, P.A. 1973 (see Exhibit 2).

* *See glossary at end of report for definition.*

Enrolled providers* are the largest group of CDC Program childcare providers and include day-care aides* and relative care providers*. DHS enrolls day-care aides and relative care providers solely to provide childcare services to CDC Program children. DHS does not regulate enrolled providers. DHS requires prospective day-care aides and relative care providers to complete and sign a Day Care Aide/Relative Care Provider Application (FIA-220, see Exhibit 3) and to provide proof of identity, age, and social security number at the time of application. DHS uses the information supplied by the provider applicant on the FIA-220 to help determine whether DHS should classify the provider applicant as a day-care aide or relative care provider and to obtain the provider applicant's self-certification that he or she meets the requirements of enrolled CDC Program providers. DHS enrolls day-care aides and relative care providers with open-ended eligibility* to provide CDC Program childcare services.

A day-care aide provides childcare services in the home of the child and may live with and/or may be related to the child needing care. DHS sends payments for day-care aide services directly to the parent. The parent then, in-turn, is required to pay the day-care aide. Payments to parents for day-care aide services totaled $280 million (25%) during our audit period (see Exhibit 2).

A relative care provider provides childcare services in the provider's home and cannot live with the child needing care. Relative care providers must be related to the child needing care by blood, marriage, or adoption as a grandparent/step grandparent, great-grandparent/step great-grandparent, aunt/step aunt, uncle/step uncle, or sibling/step sibling. DHS pays enrolled relative care providers a rate that is up to 30% higher than the rate paid to enrolled day-care aides and sends payments directly to the relative care providers. Payments to enrolled relative care providers totaled $442 million (40%) during our audit period (see Exhibit 2).

Licensed day-care centers*, licensed group day-care homes*, and registered family day-care homes* are also eligible to provide childcare services for both CDC Program eligible children and children of the general public. DHS's Bureau of Children and Adult Licensing licenses, registers, and regulates these providers. DHS sends payments for CDC Program childcare services directly to these providers. Payments to licensed and registered providers totaled $392 million (35%) during our audit period (see Exhibit 2).

* *See glossary at end of report for definition.*

Unlicensed childcare providers* eligible to receive CDC Program-funded childcare payments for their services include day-care centers with parents on-site and day-care centers, family homes, and group homes on federal land. These providers are exempt from licensure under Act 116, P.A. 1973. DHS sends payments for CDC Program childcare services directly to these providers. Payments to unlicensed providers totaled $1 million (less than 1%) during the audit period (see Exhibit 2).

All CDC Program childcare providers bill DHS for childcare services by two-week pay periods. Prior to each two-week pay period, DHS notifies each provider of the number of the children that DHS has authorized the provider to receive CDC Program-funded payments for during the two-week pay period and the maximum number of hours that DHS has authorized for each child. At the close of the two-week pay period, providers bill DHS for the childcare services using an automated billing system.

DHS's automated billing system for childcare providers is accessed by either the telephone or the Internet, using the provider identification number* and personal identification number (PIN) or Internet password. After the provider has accessed the automated billing system, the provider enters the total daily childcare hours provided, any allowable absences and holidays, and the amount charged for the childcare services for each child authorized during the period. DHS's payment system automatically approves payment for all childcare hours billed by the provider, up to the maximum number authorized for each child.

During the period October 5, 2003 through March 4, 2006, DHS used $1.1 billion in CDC Program resources to provide 144,179 CDC Program parents or substitute parents with childcare assistance. DHS authorized childcare payments based on billings from 116,585 CDC Program providers for childcare services to 273,364 CDC Program children. DHS uses both federal and State General Fund/general purpose resources for CDC Program childcare payments. For the fiscal year ended September 30, 2005, approximately 60% of CDC Program childcare payments were federally funded and approximately 40% were funded by the State's General Fund.

* *See glossary at end of report for definition.*

Audit Objective, Scope, and Methodology and Agency Responses

Audit Objective

The objective of our performance audit* of the Child Development and Care (CDC) Program Payments, Department of Human Services (DHS), was to assess the effectiveness* of DHS's efforts to help ensure the proper use of CDC Program resources.

Audit Scope

Our audit scope was to examine the program and other records of the Child Development and Care Program. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances. Our audit procedures, conducted during the period July 2005 through January 2008, included examination of the Program's records and activities generally for the period October 5, 2003 through March 4, 2006.

Supplemental information was provided by DHS and is presented as Exhibits 1, 2, and 9. Our audit was not directed at expressing an opinion on this information, and accordingly, we express no opinion on it.

Audit Methodology

We conducted a preliminary review of the CDC Program's operations to develop our audit objective and define our audit scope. Our preliminary review included interviews of CDC Program personnel, DHS local office staff, Department of Information Technology staff, and DHS's Office of Inspector General (OIG) personnel. We also reviewed CDC Program policies and procedures, visited DHS local offices, reviewed CDC Program client* and provider files, analyzed CDC Program systems and data, and reviewed DHS employee suggestions for CDC Program improvement.

To accomplish our objective, we interviewed CDC Program staff, DHS local office staff, and DHS's OIG staff. We reviewed and obtained an understanding of applicable State

* *See glossary at end of report for definition.*

statutes, *Michigan Administrative Code* rules, and CDC Program policies and procedures. We performed detailed audit testing of DHS's CDC Program files and externally maintained CDC Program childcare provider time and attendance records for a randomly selected sample of CDC Program clients and their CDC Program childcare providers. We randomly selected and reviewed a sample of 58 CDC Program client cases that received childcare assistance during the period October 5, 2003 through March 4, 2006. In addition, we identified and reviewed the 100 providers that billed and received CDC Program-funded childcare payments, during the same period, for the 58 randomly selected client cases. We analyzed our 58 randomly selected client cases, and their 100 providers, and determined that our randomly selected sample of clients and providers fairly represented the mix of clients and providers found in the overall CDC Program population. In addition, our randomly selected clients and providers represented 13 counties of various sizes throughout the State (Berrien, Clare, Gratiot, Ingham, Jackson, Kent, Lenawee, Monroe, Montcalm, Ottawa, St. Joseph, Van Buren, and Wayne.) We projected the errors noted in randomly selected sample items to the population using both statistical and nonstatistical estimation methods and the results are reported in Findings 1, 3, and 5.

For each randomly selected client, we reviewed DHS's client case file documentation to verify the client's need for CDC Program childcare assistance and DHS's authorization for the client to receive services. For each randomly selected provider, we reviewed DHS's provider file documentation, the provider's CDC Program childcare billing history, and any pertinent documentation from the client case file. In addition, we obtained the provider's daily childcare time and attendance records from the provider and compared the records to the provider's billing history and, when applicable, to the client's work schedule and child's school schedule to help determine the propriety of childcare billings and payments.

We also analyzed CDC Program payment data and indentified and reviewed selected payments at high risk for impropriety. In addition, we compared DHS's CDC Program client and provider records to other State department records, including death records from the Department of Community Health, incarceration records from the Department of Corrections, and State employee records from the Department of Management and Budget. Further, we also compared selected CDC Program client records to employer reported wage records from the Unemployment Insurance Agency.

When selecting activities or programs for audit, we use an approach based on assessment of risk and opportunity for improvement. Accordingly, we focus our audit efforts on activities or programs having the greatest probability for needing improvement as identified through a preliminary review. Our limited audit resources are used, by design, to identify where and how improvements can be made. Consequently, we prepare our performance audit reports on an exception basis.

Agency Responses

Our audit report contains 12 findings and 13 corresponding recommendations. DHS's preliminary response indicates that it agrees with all of the recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan Financial Management Guide (Part VII, Chapter 4, Section 100) require DHS to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

COMMENT, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS IN ENSURING PROPER USE OF CHILD DEVELOPMENT AND CARE (CDC) PROGRAM RESOURCES

COMMENT

Audit Summary: Our audit disclosed several weaknesses in the Department of Human Services' (DHS's) management control* over CDC Program resources. Our report presents these weaknesses individually for clarity; however, many of the weaknesses are interrelated and should be considered together to obtain a more complete perspective of the overall condition of CDC Program controls. For example, Findings 1, 2, and 3 separately present significant control weaknesses identified in DHS's processes for determination of parental need for childcare assistance, authorization of the childcare services, and approval of provider billings and payments for the childcare services. However, it is important to recognize the commingled effects of these three weaknesses and to consider the combined impact on DHS's overall ability to ensure that CDC Program payments are proper. Throughout this audit report, we have provided references between findings to help readers identify weaknesses with interrelated effects and to achieve a better understanding of the combined impact on DHS controls over CDC Program resources.

The weaknesses in DHS controls over CDC Program resources disclosed in this audit report provided opportunity and increased risk for potential fraud* and misuse of CDC Program resources, by both CDC Program parents and CDC Program providers. In addition, we found that the risk for potential fraud and misuse of CDC Program resources was likely further increased by the close relationship that often exists between CDC Program parents and their CDC Program childcare providers. This close relationship increases the risk for collusion and/or creates opportunity for access to confidential provider information used to create billings and payments for CDC Program childcare services. Throughout this audit report, we have provided specific examples from our audit testing to help demonstrate the relationships between parents and their providers and the effect on CDC Program billings and payments. In addition, we have included Exhibits 4 through 8 that summarize our collective observations for 5 of our randomly selected parents and their 14 providers.

During the audit period, DHS provided $1.1 billion in CDC Program childcare assistance to 144,179 parents for childcare service billings from 116,585 providers. We randomly

* *See glossary at end of report for definition.*

selected a sample of 58 CDC Program parent cases, and their 100 providers, from this population for our review. For each randomly selected parent, we reviewed DHS's case file documentation for the parent to help determine the parent's need for CDC Program childcare assistance and verify DHS's level of authorization of childcare hours for the parent. We then compared the parent's actual verified need* for childcare assistance with both the level of assistance DHS authorized for the parent and the amount the provider(s) billed, and DHS paid, for CDC Program-funded childcare services. For each randomly selected provider, we reviewed DHS's provider file information, and pertinent information found in the parent's case file, to help determine the provider's eligibility to receive CDC Program-funded childcare payments. In addition, we reviewed selected billings for each provider and compared the billings with the provider's daily childcare time and attendance records, the amount of childcare that DHS authorized, the parent's work schedule, and the child's school schedule to help determine the propriety of provider billings and payments. Our simultaneous review of both the CDC Program parent and provider provided testing results that demonstrate the overall effects of DHS's interrelated control weaknesses over CDC Program resources.

Summary of Effects: We estimate that DHS made potential improper* and, in some cases, potentially fraudulent* CDC Program payments of $231 million as a result of the material conditions* we identified in Findings 1 through 7. We used a combination of methods to arrive at our estimate of $231 million.

For Finding 1, we used a statistical estimation method to project the improper payments identified in our sample to the population of CDC program payments for the audit period. Based on our audit testing results, we estimate that DHS made improper and, in some cases, potentially fraudulent childcare payments totaling $223 million; there is a 95% probability that the actual improper payments during the audit period were at least $43 million and could be as high as $402 million.

For Finding 5, we used a nonstatistical estimation method and projected that DHS made an estimated $7 million in improper and, in some cases, potentially fraudulent childcare payments.

For Findings 4, 6, and 7, we included the amount of the known errors ($1 million) identified in randomly and judgmentally selected items that were not projected to the population.

* *See glossary at end of report for definition.*

Our estimate does not include amounts for either the actual or potentially improper payment amounts reported in Findings 2 and 3 because of the possible commingled effects and combined impact of the conditions identified in Findings 1, 2, and 3.

Further, in addition to the $231 million in improper payments related to the material conditions, we identified $1 million in improper payments related to the reportable conditions* presented in Findings 8 through 12.

Audit Objective: To assess the effectiveness of DHS's efforts to help ensure the proper use of CDC Program resources.

Audit Conclusion: We concluded that DHS's efforts were not effective to help ensure proper use of CDC Program resources. Our audit disclosed seven material conditions:

- DHS improperly provided CDC Program resources to parents who did not demonstrate a verified need for, or request, childcare assistance (Finding 1).

- DHS had not implemented controls to help ensure that DHS authorized and paid for CDC Program-funded childcare services only while parents worked or participated in approved activities and when children needed childcare services (Finding 2).

- DHS had not established effective controls to help prevent improper and potentially fraudulent overbillings by CDC Program providers (Finding 3).

- DHS did not use Unemployment Insurance Agency (UIA) wage data to help verify CDC Program parent employment at application and redetermination*. In addition, DHS did not consistently use UIA wage data to help identify high-risk CDC Program cases for investigation. (Finding 4)

- DHS had not implemented effective controls to help ensure that CDC Program relative care providers met DHS's established relationship requirements (Finding 5).

* *See glossary at end of report for definition.*

- DHS had not implemented effective controls to help ensure that it obtained and retained the required application, certification, and identification information for individuals it enrolled as CDC Program childcare providers (Finding 6).

- DHS had not implemented effective controls to help prevent improper CDC Program-funded childcare payments to day-care aides who billed DHS for childcare services using multiple service type* classifications (Finding 7).

Our audit also disclosed five reportable conditions related to unlicensed providers, deceased CDC Program participants*, incarcerated CDC Program participants, CDC Program payments to CDC Program clients, and CDC Program payments for reciprocal childcare* services (Findings 8 through 12).

FINDING

1. Need for CDC Program Childcare Assistance

DHS improperly provided CDC Program resources to parents who did not demonstrate a verified need for, or request, childcare assistance. As a result, we estimate that DHS improperly expended CDC Program resources of $223 million during the audit period.

DHS policy requires parents to demonstrate their need for childcare assistance in at least one of the following four categories: (1) family preservation, (2) high school completion, (3) approved Michigan Works! agency/family independence services activities, or (4) employment. DHS policy requires staff to obtain and maintain verification of each parent's need and his or her request for assistance in the parent's case file at application and at any subsequent redetermination of CDC Program eligibility. DHS typically provides authorization for childcare assistance for a period of one year at application and each subsequent redetermination. If the parent does not report a change in need for childcare assistance and DHS does not become aware of any changes, DHS continues childcare assistance at the authorized level until the next scheduled redetermination.

DHS policy stipulates that parents may use CDC Program childcare assistance only during times when the parent is unavailable to provide childcare because of a valid need reason(s). However, DHS does not require employed parents to furnish

* *See glossary at end of report for definition.*

daily work schedules to verify when the parent requires childcare in order to work. During our review of DHS's parent case files, we found that parents' need for childcare assistance changed frequently due to job losses, job changes, work schedule changes, and education or employment program completion. DHS relies on parents to self-report changes in their need for childcare assistance during the 12-month period between authorization and redetermination and does not require any further verification of need during that period. During the audit period, DHS provided $974 million (87%) of childcare assistance to parents in the employment need category (see Exhibit 1).

We reviewed a random sample of 58 CDC Program parent cases that received childcare assistance during the audit period. We reviewed DHS's case files to determine if the parents' need and application for childcare assistance were documented. Our review disclosed:

a. DHS improperly provided CDC Program-funded childcare assistance to parents without a verified need for the assistance. We noted:

   (1) DHS provided childcare assistance to 19 (33%) of the 58 randomly sampled parents without a documented need for childcare assistance in the case file. As a result, DHS could not support that approximately $13,780 in childcare assistance that it paid for these 19 parents was proper. We used a statistical estimation method to project the improper payments identified in our sample to the population of CDC Program payments for the audit period. Based on our audit testing results, we estimate that DHS made improper and, in some cases, potentially fraudulent childcare payments totaling $223 million; there is a 95% probability that the actual improper payments during the audit period were at least $43 million and could be as high as $402 million.

   (2) DHS provided childcare assistance to 6 (10%) of the 58 randomly sampled parents even though DHS case file documentation indicated that the parent had either an eliminated need or a reduced need for childcare assistance during a randomly selected pay period. As a result, DHS made improper and, in some cases, potentially fraudulent childcare payments of $11,959 on behalf of these 6 randomly sampled parents.

For example, one parent's case file contained pay stubs indicating that the parent worked 1¼ hours during a two-week period and was on vacation leave during the remainder of the two-week period. However, DHS paid for 100 hours of childcare during that same two-week period (see Finding 3).

b. DHS provided childcare assistance to 4 (7%) of the 58 randomly sampled parents who did not complete and sign an application for CDC Program-funded childcare assistance. As a result, DHS made improper and, in some cases, potentially fraudulent childcare payments of approximately $1,160 on behalf of these 4 parents. DHS requires each parent to complete and sign an application requesting CDC Program childcare assistance in order to be eligible for childcare assistance.

c. DHS provided childcare assistance to 37 (64%) of the 58 randomly sampled parents without obtaining the parents' daily work schedules. DHS policy states that a parent's need for childcare assistance exists only when the parent is unavailable to provide childcare while performing the activity related to the specific need reason. However, DHS does not require employment need parents to furnish daily work schedules to verify when the parents require childcare in order to work.

DHS could significantly reduce the risk for improper and potentially fraudulent childcare payments by obtaining the required verifications of need and signed applications from parents, requiring parents to furnish verifications of their need more frequently, obtaining daily work schedules for parents, and reviewing parental need verifications and adjusting childcare assistance accordingly.

RECOMMENDATION

We recommend that DHS provide CDC Program resources to only those parents who demonstrate a verified need for, or request, childcare assistance.

AGENCY PRELIMINARY RESPONSE

DHS agrees with the recommendation. DHS also agrees that there was not complete documentation in the CDC client files and informed us that it is taking steps to improve case record documentation. DHS indicated that in May 2008 it launched a pilot CDC Case Review Project. DHS informed us that it intends to

expand the case review pilot to a Statewide level in September 2009. DHS also informed us that the project will measure accurate and complete documentation in both the CDC case record (client file) and the provider record. DHS indicated that it intends to correct errors and program noncompliance found during the case review process.

FINDING

2. Authorization of CDC Program Childcare Services

DHS had not implemented controls to help ensure that DHS authorized and paid for CDC Program-funded childcare services only while parents worked or participated in approved activities and when children needed childcare services. As a result, DHS did not help prevent the improper use of an estimated $63 million in CDC Program resources during the audit period.

DHS policy stipulates that parents are only eligible to receive childcare assistance during times when the parents are unavailable to provide childcare because they are working or participating in an approved activity (see Finding 1). However, DHS does not require working parents to furnish DHS with daily work schedules to help DHS verify when the parents actually require childcare assistance in order to work. In addition, DHS does not take into consideration the hours that school-aged children attend school when determining the number of childcare assistance hours it authorizes for parents. Rather than using parents' actual schedules and children's school schedules to determine the number of childcare hours to authorize, DHS uses estimates and a graduated tier schedule*. DHS begins by developing a "best estimate" of the parent's work or approved activity schedule in cooperation with the parent. Next, DHS adds a travel time allotment of 10 hours for each two-week period to arrive at the total estimated childcare hours needed by the parent. Finally, DHS compares the total estimated hours (estimated work hours

* *See glossary at end of report for definition.*

plus travel time hours) to the following graduated tier schedule to determine the number of childcare assistance hours to authorize for the parent:

Total Estimated Childcare Hours Needed by the Parent	Number of Childcare Hours That DHS Authorizes for the Parent
1 to 30 hours	30 hours
31 to 50 hours	50 hours
51 to 75 hours	75 hours
More than 75 hours	100 hours

In most cases, DHS's method results in excess authorization for childcare assistance, thereby increasing the risk and opportunity for improper and potentially fraudulent childcare assistance payments.

We selected a random sample of 58 CDC Program childcare cases that received childcare assistance during the audit period and found that DHS authorized childcare hours that exceeded the parent's need in 34 (59%) of the 58 randomly sampled cases we reviewed. For each case, we randomly selected at least one pay period with billings and payments and compared DHS's case file documentation of actual childcare hours needed by the parent with the number of childcare hours DHS authorized. The 34 cases in which we found excess childcare authorizations included situations where DHS did not consider the parent's work schedule and/or the child's school schedule and instances in which DHS incorrectly authorized childcare hours at a higher tier level than DHS's policy specified for the parent's estimated need (see Finding 3, part a., for the results of our tests of the providers' billings and payments for these 58 randomly sampled cases).

DHS significantly increases the risk for improper and potentially fraudulent childcare payments by authorizing excess childcare hours and automatically approving payments for all billings up to the maximum number of childcare hours authorized. Excess authorization for childcare assistance provides opportunity for parents to overutilize childcare assistance and/or for providers to overbill DHS for childcare services (see Finding 3). DHS relies on parents to use childcare services only while working or participating in an approved activity (see Finding 1) and on providers to bill DHS for only the actual number of childcare hours provided (see

Finding 3) as its primary control to prevent improper payments when excess authorization exists.

However, based on our audit results, DHS's reliance on parents and providers to self-comply with the CDC Program requirements was not effective. For example, a randomly selected case file we reviewed contained the parent's CDC Program application, the parent's work schedule, and the child's school schedule. In addition, we requested and reviewed the provider's time and attendance records for a randomly selected pay period with billings and payments. We reviewed the parent's case file documentation and determined that the parent worked approximately 25 hours a week in 4 days. The parent's application indicated that the child needed approximately 2.5 hours of childcare after school on weekdays when the parent worked and 4 hours on Sunday. Based on the parent's application and work schedule and the child's school schedule from DHS's files, we calculated that the parent needed 13 hours of childcare each pay period for this child, including the travel time allotment. However, DHS authorized 75 hours of childcare per pay period based on the total hours worked by the parent and the graduated tier schedule. We also reviewed the provider's billings and daily time and attendance records for the randomly selected pay period. Our review of the provider's billings disclosed that the provider billed, and DHS approved payment for, the full 75 hours authorized for the pay period for this child. However, the provider's daily childcare attendance record for the pay period did not indicate that this child was in attendance on any of the 14 days during the pay period. We also noted that this provider billed and received payment for 75 hours for the other child on this case, and that child did not appear on the provider's attendance records during the pay period either (see Finding 3). The childcare payments for this case went directly to the parent because the provider was a day-care aide.

In March 2005, DHS's Office of Inspector General (OIG) performed a study that assessed the effect of DHS's use of authorization tiers instead of actual parent need hours for authorization of childcare assistance. The OIG study determined that DHS paid, on average, 5 hours more per child per pay period because DHS used the authorization tiers rather than actual number of hours the parent needed. At that time, OIG recommended that DHS discontinue the use of the authorization tiers and determined that changing DHS's childcare authorization procedures to reflect actual need hours could reduce CDC Program costs by $26 million annually. As of January 2008, DHS continued to use its graduated tier schedule for childcare authorizations and, as a result, DHS has potentially lost an estimated total of

$74 million in CDC Program cost savings since OIG's recommendation in March 2005.

Economic resources available to the CDC Program to provide childcare assistance are limited. Consequently, DHS needs to ensure that it authorizes only the actual number of childcare hours needed by parents in order to safeguard the limited resources. Limiting the authorized hours to actual need would also help DHS minimize the risk of improper childcare payments because of overutilization of childcare assistance by parents and/or overbillings by providers (see Finding 3).

RECOMMENDATION

We recommend that DHS implement controls to help ensure that DHS authorizes and pays for CDC Program-funded childcare services only while parents work or participate in approved activities and when children need childcare services.

AGENCY PRELIMINARY RESPONSE

DHS agrees with the recommendation. DHS indicated that even though DHS may authorize a higher number of hours than needed by the client, this does not eliminate the provider's responsibility to only bill for hours that the child was actually in his or her care. DHS also indicated that providers sign an acknowledgement that they will only bill for the hours of actual care at the time of enrollment.

DHS indicated that in May 2008 it launched a pilot CDC Case Review Project. DHS informed us that it intends to expand the case review pilot to a Statewide level in September 2009. DHS also informed us that the project would measure accurate and complete documentation in both the CDC case record (client file) and the provider record. DHS indicated that in January 2009 it also plans to modify its current provider billing system to require providers to record daily time and attendance. In addition, DHS informed us that it plans to verify the providers' time and attendance with client-entered day-care need information.

FINDING

3. Provider Billings

DHS had not established effective controls to help prevent improper and potentially fraudulent overbillings by CDC Program providers. Our review disclosed that DHS

controls did not prevent improper childcare payments to providers that billed DHS for childcare services not provided; services not supported by time and attendance records; and/or services not in correlation with the parent's work schedule, the child's school schedule, or the provider's schedule. As a result, we estimate that DHS made improper and, in some instances, potentially fraudulent childcare payments of $147 million during the audit period.

DHS policies require providers to bill DHS for only the actual hours of childcare provided. However, DHS does not require childcare providers to furnish information that DHS needs to validate provider billings and DHS does not routinely monitor childcare provider billings to identify providers at higher risk for overbilling because of consistent billings at or above the maximum childcare hours DHS authorized. In addition, DHS's payment system automatically approves payments for all billings up to the maximum number of childcare hours authorized (see Finding 2). DHS primarily relies on providers to bill for only the actual childcare services provided and on the payment system to cap payments to providers at the maximum number of childcare hours DHS authorized for each child.

DHS could reduce the risk of overpayments by periodically comparing provider billings with daily childcare attendance records. Although DHS requires childcare providers to maintain daily childcare attendance records, DHS does not require providers to periodically furnish the records to DHS. In addition, DHS does not require providers to furnish daily care times for children with their biweekly telephone or Internet billings for childcare services. DHS could compare provider billings with parents' work schedules (see Findings 1 and 2), children's school schedules (see Finding 2), and the providers' nonchildcare employment schedules to determine the propriety of the providers' CDC Program childcare billings and reduce the risk of overpayments. However, DHS does not require providers and/or parents to furnish DHS with this information.

Our review disclosed:

a. To assess the overall effectiveness of DHS's control over payments to providers, we reviewed 100 randomly sampled providers that received payment for 58 CDC Program childcare cases during the audit period and performed various tests. In cooperation with DHS, we requested each of the 100 randomly sampled providers to submit their daily childcare attendance records for randomly selected pay periods with billings and payments

occurring during the audit period. Fifty-three providers submitted all or some of the requested time and attendance records, and 47 providers did not respond to our request. Only 25 providers submitted complete records for all pay periods requested. Our review of the daily attendance of the 53 providers that provided records disclosed:

(1) DHS made improper and, in some cases, potentially fraudulent childcare payments to 28 (53%) of the 53 randomly sampled providers. As a result, DHS overpaid the 28 providers $13,130 during the pay periods we reviewed. Based on the results of our testing, we estimate that DHS likely made improper childcare payments totaling $147 million during our audit period to providers that overbilled DHS for childcare services not actually provided per the providers' daily time and attendance records. We used a nonstatistical projection method to develop this estimate because the providers' noncompliance with time and attendance record submission diminished our sample size to a level where statistical validity could not be achieved. We consider this estimate conservative because it does not include an estimated amount for overbillings from the 47 providers that did not submit any daily time and attendance records for our review (see part a.(2) of this finding).

For example, our review disclosed that 11 of the 28 providers that overbilled DHS billed DHS for children who did not appear on the providers' attendance records and billed DHS for the maximum number of hours authorized for those children.

DHS policies require providers to bill DHS for only the actual childcare hours provided and to maintain accurate records of daily attendance for all CDC Program children cared for. However, DHS does not require providers to periodically furnish the records to DHS and DHS's payment system automatically approves payments to providers for all hours billed up to the maximum number of childcare hours authorized for a child.

(2) DHS made improper childcare payments to 75 (75%) of the 100 randomly sampled providers for childcare services not supported by daily time and attendance records. We noted that 47 of the 75 providers did not maintain and/or submit any time and attendance records to support their billings. In addition, 28 of the 75 providers did not submit all of the

records for the pay periods requested and/or submitted records that did not meet DHS's requirements. Exceptions found in the records submitted included records that did not have care times recorded for children, records that did not contain the provider's signature to certify that care was provided and/or did not contain the signature(s) of the parent(s) or substitute parent(s) to certify the child's attendance, and records that were created after the date of our request. As a result, DHS made improper and, in some cases, potentially fraudulent childcare payments totaling $112,256 to these 75 providers for the pay periods we reviewed.

DHS's CDC Program provider handbook requires enrolled providers to maintain complete and accurate daily attendance records for all DHS-funded children in their care. The records must indicate daily begin and end times of care, and the provider and parent or substitute parent must certify that the attendance records are true and accurate. In addition, DHS licensing rules for childcare centers, group day-care homes, and family day-care homes require that daily attendance records be maintained and indicate begin and end times of care. DHS requires providers to retain these records for four years for auditing purposes.

(3) DHS made childcare payments to 12 (23%) of the 53 randomly sampled providers for childcare hours that did not correspond to the parent's work schedule and/or the child's school schedule. Although DHS does not require parents to furnish their work schedules or children's school schedules, some DHS case files contain this information.

DHS policy states that DHS may provide payment for childcare services only when the parent or substitute parent is unavailable to provide the childcare because of a valid need reason (see Finding 1) and requires providers to bill for only the actual childcare hours provided.

(4) DHS made childcare payments to 40 (40%) of the 100 randomly sampled providers for consistent billings for childcare hours greater than or equal to the maximum authorized hours (see Finding 2). These 40 providers billed DHS at or above the maximum hours authorized for at least 50% of all children and all pay periods billed during the audit period. We considered the practice of consistently billing DHS for the maximum number of hours authorized to be an indicator that a provider is likely

billing for care not provided. We determined that 12 of these 40 providers were at even higher risk because the providers consistently billed DHS at or above the maximum authorized hours for all cases during all pay periods in which they billed during the audit period. Actual childcare hours provided would likely vary because of changes in the parent's work schedule, changes in the child's school schedule, and sickness or unavailability of the provider.

Our review of these 12 high-risk providers disclosed that childcare payments to 11 (92%) of the 12 providers were unsupported or improper. Nine of the 12 providers submitted no daily childcare attendance records to support their billings, and 2 submitted daily childcare attendance records indicating that the provider billed DHS for childcare services that were not actually provided.

For example, in our review of 1 of the 12 providers, we noted that the provider submitted billings for the maximum hours authorized for between 4 and 14 children during each of the 63 consecutive two-week pay periods during the audit period and received a total of $99,367. We reviewed the provider's billings and daily childcare attendance records for 4 randomly selected pay periods and determined that the provider billed and received CDC Program-funded childcare payments for hours that exceeded actual care time, for children who did not appear on daily attendance records, and for childcare hours that did not correlate to the parent's work schedule.

DHS did not have a process to identify and monitor payments to providers that consistently billed at or above the maximum authorized to help ensure that the payments were proper. The amounts paid to these providers are included in parts a.(1) and a.(2) of this finding.

b. We judgmentally selected and reviewed childcare billings and payments to 11 providers who also had full-time nonchildcare employment. The 11 providers received in excess of $20,000 individually and $428,592 in total in childcare payments during the audit period.

In cooperation with DHS, we requested that the 11 selected providers submit their daily childcare attendance records for randomly selected pay periods with

billings and payments that occurred during the audit period. In response to our request, only 5 (45%) of the providers provided complete childcare attendance records for the requested period, 2 (18%) of the providers provided incomplete childcare records that did not meet DHS requirements, and the remaining 4 (36%) did not respond to our request. In our review of the 11 providers, we noted:

(1) DHS made improper and potentially fraudulent childcare payments to 5 (45%) of 11 selected providers with other full-time employment by paying for billings for childcare services during times the providers were working for their full-time employer. DHS made $977 in improper payments to these providers during the pay periods we reviewed.

(2) DHS made improper and potentially fraudulent payments of $4,964 for the randomly selected pay periods we reviewed to 4 (57%) of 7 providers that submitted daily time and attendance reports for our review. We identified childcare billings for children not on the providers' submitted daily childcare attendance records and/or billings for more childcare hours than supported by the providers' submitted daily attendance records.

(3) DHS made improper childcare payments to 6 (55%) of the 11 selected providers for childcare services not supported by daily time and attendance records. Four (36%) of the 11 providers did not submit any daily attendance records to support their billings, and 2 (18%) of the 11 providers submitted incomplete records for the periods requested. As a result, the propriety of $12,500 (42%) of $29,991 total childcare payments that DHS paid to providers during the pay periods we reviewed could not be substantiated.

(4) DHS made childcare payments to 4 (36%) of the 11 selected providers for childcare services when the child's school schedule indicated that the child was in school and/or the childcare was closed. As a result, DHS paid $633 in improper and, in some cases, potentially fraudulent payments to these providers during the pay periods reviewed.

DHS policy requires that CDC Program childcare providers bill for only the total number of care hours actually provided. In addition, DHS policy requires all providers to complete and maintain daily attendance records that document

daily care begin and end times for each child in the providers' care. However, DHS neither required nor requested providers to submit their daily childcare attendance records to validate hours billed.

The preceding results demonstrate the need for DHS to strengthen its monitoring of childcare provider billings. Although DHS policies require childcare providers to bill DHS for only the actual childcare services rendered, DHS's payment system automatically approves payments to providers up to the maximum amount authorized for each child and DHS routinely authorizes childcare assistance that exceeds the parent's need (see Finding 2). Therefore, it is essential that DHS help safeguard the CDC Program's limited resources by actively monitoring provider billings and daily childcare time and attendance records to help ensure that childcare payments are proper.

RECOMMENDATION

We recommend that DHS establish effective controls to help prevent improper and potentially fraudulent overbillings by CDC Program providers.

AGENCY PRELIMINARY RESPONSE

DHS agrees with the recommendation. DHS indicated that since March 2007 DHS's OIG has sampled 2,148 (of approximately 34,000) enrolled day-care aides and relative care providers to determine if providers have attendance records that meet DHS requirements. DHS also indicated that it has disenrolled 840 providers who did not respond to the audit request.

DHS indicated that in May 2008 it launched a pilot CDC Case Review Project. DHS informed us that it intends to expand the case review pilot to a Statewide level in September 2009. DHS also informed us that this project will measure accurate and complete documentation in the CDC provider record and will include a request of time and attendance records for review. DHS indicated that it intends to disenroll providers who do not respond to the request for records.

In addition, DHS indicated that in January 2009 it plans to modify its current provider billing system to require providers to record daily time and attendance with their billings so that DHS can verify it against client-entered day-care need information.

FINDING

4. UIA Wage Verification

DHS did not use UIA wage data to help verify CDC Program parent employment at application and redetermination. In addition, DHS did not consistently use UIA wage data to help identify high-risk CDC Program cases for investigation. As a result, DHS could not ensure that childcare payments on behalf of parents who reported that they were employed were proper. In addition, DHS did not always identify and investigate high-risk cases to help ensure that childcare payments were proper.

CDC Program parents are eligible to receive childcare when they are unavailable to care for their child(ren) while they are working (employment need reason). DHS's Program Eligibility Manual (PEM) requires DHS to verify and document a parent's need for childcare assistance in his or her case file; however, DHS does not use UIA wage information to help confirm CDC Program parent employment at application or redetermination. DHS's verification of a parent's employment can include any one of the following:

a. A work schedule or pay stubs indicating the number of hours worked.

b. A verification of employment form (DHS-38) completed by the employer.

c. A signed statement by the employer that contains the employment begin date, number of hours the parent works, and dates and amounts of the parent's paychecks for the requested period (for income eligible parents).

d. A collateral contact (for example, a telephone call or an e-mail) with the employer if the employer refuses or is unable to complete any of the preceding documents.

During our audit, we determined that DHS often provided childcare assistance to parents without a verified need for the assistance (see Finding 1, part a.) and found instances in which the parents' verifications were questionable (see parts (a) through (e) of this finding). Consequently, using UIA wage data as an additional tool to help confirm a parent's employment could help DHS prevent improper and, in some cases, potentially fraudulent childcare payments. During our audit period,

DHS provided $974 million in childcare assistance to parents with an employment need reason for childcare assistance (see Exhibit 1).

DHS did use UIA wage data, on a limited basis, to help identify some high-risk cases for investigation. However, DHS did not consistently match UIA wage data including all parents on a regularly scheduled basis and typically included parents from only one or a select few counties. As a result, DHS's UIA wage reviews did not always identify high-risk cases for investigation. Conducting more regular UIA wage data matches that include all parents could help DHS identify high-risk cases for investigation and reduce its risk for improper and potentially fraudulent childcare payments.

To evaluate the effectiveness of using UIA reported wage data to identify high-risk cases for investigation, we compared all CDC Program-funded payments for the period January 1, 2005 though March 31, 2006 to UIA reported wage data for the parents for the same period. We identified 8,118 parents who received a total of $44 million in childcare assistance and had zero wages reported by employers to UIA during any of the 15 months reviewed. We estimated that approximately 7,090 (87%) of the 8,118 parents received CDC Program childcare assistance because of an employment need reason. We judgmentally selected 8 parents for further review. The 8 parents we selected each received over $35,000 in childcare assistance, reported an employment need for childcare assistance, and had zero reported wages to UIA during the 15-month review period. For each selected parent, we reviewed the parent's DHS case file for employment verification information and the DHS case file and billing information for the childcare provider(s) for the case. In addition, we requested the providers to submit their daily childcare attendance records for randomly selected pay periods with billings and payments during the 15-month review period. Both questionable parent employment (see Finding 2) and unsupported provider billings (see Finding 3) were disclosed in 5 (63%) of the 8 parent cases we identified and reviewed. Therefore, these 5 cases were at high risk for potentially fraudulent payments and warranted further verification by DHS. Childcare payments totaled $211,782 for these 5 cases during the period January 1, 2005 though March 31, 2006. Our review disclosed:

(a) <u>Case 1</u>

DHS's parent case file included a DHS-38 which indicated that the parent was paid in cash by the employer to work 36 hours per week at $7 per hour.

However, DHS's parent case file did not contain pay stubs or receipts for cash received by the parent. Further, the existence of the reported place of employment could not be verified. During the 15-month period, DHS issued childcare assistance totaling $43,762 on behalf of this parent.

The parent had 7 children and 2 childcare providers (one provider for 6 of the children and a second provider for the seventh child). Our review found that, even though DHS authorized hours that exceeded the parent's documented hours of need by 18 hours for each child for each pay period, both providers consistently billed, and DHS paid, for the maximum hours authorized for all pay periods in which they submitted billings (see Finding 2). We requested daily time and attendance records from both providers for randomly selected pay periods; however, neither provider submitted records to support their billings. Although the DHS-38 information indicated that the parent's need totaled 82 hours per pay period, the provider for 6 of the 7 children billed, and DHS paid, for 100 hours for each of the 6 children for all 30 pay periods during the 15-month period (see Finding 3).

(b) Case 2

DHS's parent case file contained handwritten cash receipts as the sole employment verification for this parent and her spouse. DHS's parent case file did not contain daily work schedules for either the parent or her spouse or any further type of employment verification (see Finding 1). The parent and her spouse reported to DHS that they were both employed by the same licensed group day-care home that could care for between 7 and 12 children. This same licensed group day-care home was authorized to receive the childcare payments for the parent and spouse's 6 children. Furthermore, the licensed group day-care home was owned by the spouse's mother. DHS paid the day-care home $35,425 for the parent's 6 children during the 15-month review period.

DHS authorized childcare assistance of 75 hours per pay period for each of the parent's 6 children to attend this day-care home and, at the same time, both the parent and her spouse reported to be working there. The provider/employer billed, and DHS paid, for the maximum number of hours authorized for all 6 of the children for 27 of 30 consecutive pay periods that we reviewed. For the remaining 3 pay periods that we reviewed, the provider/employer billed, and DHS paid, for the maximum number of hours

authorized for at least 4 of the 6 children. We requested daily childcare attendance records from the provider for randomly selected pay periods during the review period; however, the provider did not submit any daily childcare attendance records to support the billings. Therefore, none of the payments to this provider could be substantiated (see Finding 3). This provider is under investigation by OIG.

(c) Case 3

DHS's parent case file included a DHS-38 which indicated that the parent was paid in cash to work 40 hours per week at $7.50 per hour at her sister's place of business. However, DHS's parent case file did not contain pay stubs or receipts for cash received by the parent. Further, the existence of the employer's place of business could not be verified. DHS issued $38,700 in childcare payments to the parent's provider during the 15-month period.

Three of the parent's 6 children were school-aged and the case file documentation indicated that the parent's work schedule was Tuesday through Saturday, 10 a.m. to 6 p.m. Therefore, the 3 school-aged children would have likely only needed approximately 58 hours of childcare for most pay periods (for times when they were not in school and the parent was working); however, DHS authorized each child for 100 hours of childcare for each pay period (see Finding 2). The provider billed, and DHS paid, for the maximum number of hours authorized (100 for each child) for all 6 children for 28 consecutive pay periods billed during the 15-month review period (see Finding 3). We requested daily time and attendance records from the provider for randomly selected pay periods; however, our request was returned by the United States Postal Service as nondeliverable to the current address per DHS's file for this relative care provider (see Finding 6, part c.). Therefore, none of the payments to this provider could be substantiated.

(d) Case 4

DHS's parent case file documentation contained one pay stub for the parent indicating that the parent worked 50 hours during the two-week period at the same day-care center that her 8 children attended. DHS issued $58,729 in childcare payments to the provider/employer for the parent's children during the 15-month period.

The parent's daily employment schedule was not included in DHS's parent case file (see Finding 1); however, DHS licensing information indicated that the day-care center provided daytime care only. Although 5 of the parent's 8 children were school-aged and the day-care center was open only during daytime hours, the provider/employer billed, and DHS paid, for 100 hours for each of the parent's 8 children during 26 consecutive pay periods (one year) during our review period (see Finding 2). The provider submitted a daily time and attendance record for one randomly selected pay period for review per our request. We determined that none of the parent's children appeared on the attendance records during the two-week period; however, the provider/employer billed DHS for 100 hours for each of the parent's 8 children during the pay period (see Finding 3). The provider/employer was under investigation by OIG; however, the parent was not.

(e) Case 5

DHS's parent case file documentation of employment verification included handwritten statements from the parent indicating that she was a self-employed hairstylist. These handwritten employment statements did not indicate the parent's hours of employment, and DHS's parent case file did not contain documentation of further verification of the parent's reported self-employment during the period January 2005 through January 2006 (see Finding 1). DHS issued $35,166 in childcare payments for the parent during the 15-month review period.

DHS authorized each of the parent's 6 children for 100 hours of care during each two-week period (see Finding 2). The providers billed, and DHS paid, for exactly 100 hours for each of the 6 children, including the 3 school-aged children, during each of the 27 consecutive pay periods during our review period, with few exceptions. Also, the time and attendance records we received from the providers for randomly selected pay periods indicated billings to DHS for more hours than recorded on the time and attendance records, school-aged children consistently recorded as in attendance at childcare during typical school hours, and billings to DHS for children from other cases that did not appear on the provider's time and attendance records (see Finding 3).

DHS could benefit from using available UIA wage data to help verify parent employment at application and redetermination. Further, DHS could enhance its

current use of UIA wage data to identify more high-risk parents for investigation and to help prevent improper and potentially fraudulent childcare payments.

RECOMMENDATIONS

We recommend that DHS use UIA wage data to help verify CDC Program parent employment at application and redetermination.

We also recommend that DHS consistently use UIA wage data to help identify high-risk CDC Program cases for investigation.

AGENCY PRELIMINARY RESPONSE

DHS agrees with the recommendations. DHS indicated that although the CDC Program is not currently included in its UIA wage match process, DHS has requested that CDC Program cases be included. DHS also indicated that it intends to implement the match as soon as resources are available.

DHS informed us that since 2005 DHS's OIG has utilized a Reverse Wage Match (RWM) in 36 counties, as resources have permitted. DHS indicated that it intends to continue to explore resources to expand RWM to field staff, and OIG staff will continue to utilize RWM to identify targeted cases needing investigation.

FINDING

5. Relative Care Providers

DHS had not implemented effective controls to help ensure that CDC Program relative care providers met DHS's established relationship requirements. As a result, DHS allowed childcare providers to care for unrelated children in the providers' homes without a license. DHS paid these individuals an estimated $7 million in improper and, in some cases, potentially fraudulent childcare payments.

DHS requires that individuals enrolled as relative care providers be related to the child needing care by blood, marriage (divorce terminates a relationship gained by marriage), or adoption as a grandparent/step grandparent, great-grandparent/step great-grandparent, aunt/step aunt, uncle/step uncle, or sibling/step sibling and that the provider care for the child in the provider's home. It is important for DHS to ensure that enrolled relative care providers meet DHS's relationship requirements

because DHS does not require enrolled relative care providers to become licensed or regulated by DHS's Bureau of Children and Adult Licensing and enrolled relative care providers receive a rate that is up to 32% higher than other enrolled childcare providers.

DHS requires relative care provider applicants to indicate and signature-certify their relationship to the child(ren) needing care on a Day Care Aide/Relative Care Provider Application (FIA-220, see Exhibit 3); however, DHS policies do not require provider applicants to provide proof of the relationship. This increases the risk that providers could falsify their relationship to a child in order to avoid DHS licensing and/or registration requirements and/or to receive an enhanced rate for childcare services. During the audit period, DHS classified 58,947 providers as enrolled relative care providers and paid them $442 million (see Exhibit 2).

Our 100 randomly selected providers included 37 providers whom DHS classified and paid as relative care providers during the audit period. We reviewed DHS's provider file, and the associated parent's case file, for these 37 randomly sampled relative care providers.

Our review disclosed that DHS did not ensure that 7 (19%) of the 37 randomly sampled relative care providers we reviewed met DHS requirements for relative care providers. DHS paid these 7 providers $107,055 during the audit period. Based on our audit test results and using a nonstatistical projection method, we estimated that DHS made improper and, in some cases, potentially fraudulent childcare payments totaling $7 million to enrolled relative care providers who did not meet DHS's requirements for relative care providers during the audit period. Our review disclosed:

a. DHS's provider and parent case files contained documentation indicating that 2 (5%) of the 37 randomly sampled relative care providers did not meet DHS's relationship criteria for relative care providers. Therefore, these enrolled providers were not eligible to receive the enhanced rate for childcare services provided by enrolled relatives in their homes and/or should have been subject to DHS licensing and/or registration requirements.

   For example, one randomly sampled provider initially enrolled as a day-care aide, then subsequently applied for reclassification as a relative care provider. Both of the provider's previous FIA-220s and documentation in the parent's

case file indicated that the provider was a cousin to the children and cared for the children in the home of the children; however, a cousin relationship to a child is not a qualifying relationship for the relative care provider classification. When the provider sought reclassification to a relative care provider, the provider indicated a change in relationship to the children to aunt/step aunt and a care location change from the home of the children to the home of the provider. An aunt/step aunt is a qualifying relationship. Based on the provider's newly submitted FIA-220, DHS changed the provider's classification from a day-care aide to a relative care provider and increased the provider's rate of payment from $1.60 per hour to $2.35 per hour per child. Our review disclosed that neither the DHS provider file nor the DHS case file for the parent contained documentation to support a changed relationship between the provider and the children. In addition, the documentation submitted and signed by the parent after DHS changed the provider's classification indicated that the provider continued to care for the children in the home of the children and not in the home of the provider as required for the enhanced relative care provider rate. DHS paid this provider a total of $52,384 during the audit period to care for 5 children. This amount included approximately $5,340 in improper payments for the additional enhanced relative care provider rate after DHS reclassified the provider.

b. DHS's provider file documentation did not contain the required FIA-220 for 5 (14%) of the 37 randomly sampled relative care providers to document and certify the provider's relationship to the child. As a result, DHS could not determine that the individuals it enrolled as relative care providers met DHS relationship requirements for relative care providers and/or that DHS properly excluded the providers from DHS licensing and/or registration requirements.

RECOMMENDATION

We recommend that DHS implement effective controls to help ensure that CDC Program relative care providers meet DHS's established relationship requirements.

AGENCY PRELIMINARY RESPONSE

DHS agrees with the recommendation. DHS indicated that it relies on providers to self-certify and sign an acknowledgement regarding their relationship to the child. DHS also indicated that because of the complexity of this issue, DHS would continue to explore policy changes and other potential strategies to address this

weakness. DHS further indicated that its policy allows it to request proof of relationship as needed.

FINDING

6. Enrolled Provider Certifications and Identification and Address Information

DHS had not implemented effective controls to help ensure that it obtained and retained the required application, certification, and identification information for individuals it enrolled as CDC Program childcare providers. As a result, DHS could not ensure that the individuals it enrolled as childcare providers met DHS requirements and were properly identified. In addition, DHS could not ensure that it maintained an accurate record of the location of childcare services and accurate address information for enrolled providers or that childcare payments to enrolled providers were proper.

DHS policy requires prospective day-care aides and relative care providers to certify that they meet requirements for enrolled childcare providers by completing a Day Care Aide/Relative Care Provider Application (FIA-220) and to provide proof of identity, age, and social security number (see Exhibit 3). DHS policy also requires local offices to establish and maintain files for all enrolled day-care aides and relative care providers that contain the providers' completed and certified FIA-220s and copies of the providers' proof of identity, age, and social security number. DHS enrolls day-care aides and relative care providers solely to provide childcare services to CDC Program children and accepts completed FIA-220s and copies of identification information from provider applicants by mail, in person from the provider applicants, or delivered by a third party. DHS uses the provider applicants' FIA-220s and identification information to determine whether individuals meet DHS requirements for enrolled childcare providers, such as suitable criminal history and/or child abuse and neglect history and age requirements (see our performance audit of the Suitability of Child Development and Care Program Providers, Department of Human Services, 431-0299-05, released in July 2008), and to document the location of the childcare. Payments to enrolled day-care aides and relative care providers represented 65% of total childcare payments of $1.1 billion paid out during the audit period (see Exhibit 2).

We randomly selected a sample of 58 CDC Program cases that received childcare assistance during the audit period for review. DHS made payments to 56 enrolled

providers for the 58 CDC Program cases sampled. We requested DHS to furnish its enrolled provider file for each of the 56 enrolled providers; however, DHS did not maintain the required provider file for 16 (29%) of the 56 randomly sampled enrolled providers. As a result, DHS could not document that it obtained and maintained critical information for individuals it enrolled to provide childcare services.

During our audit, we found FIA-220 certifications and identification information for some of our sampled providers in other DHS records. Although DHS did not maintain this information in the required location, we used the information for our testing. We determined that DHS did not always maintain important information for the 56 individuals enrolled as childcare providers either in the providers' files, as required, or elsewhere in other DHS records. Our review disclosed:

a. DHS did not maintain a completed and certified FIA-220 for 7 (13%) of the 56 randomly sampled enrolled providers. As a result, DHS could not demonstrate that these 7 individuals applied as childcare providers, determine that they met the requirements for enrolled childcare providers, or document the location of the childcare. Therefore, DHS could not ensure that childcare payments of $142,527 to these individuals were proper.

b. DHS did not maintain proof of identity, age, and/or social security number for 6 (11%) of the 56 randomly sampled enrolled providers. As a result, DHS could not ensure that it properly identified these 6 childcare providers, that the enrolled providers represented bona fide individuals, or that the 6 individuals met important DHS requirements for suitable criminal history and/or child abuse and neglect history or age requirements for enrolled providers (see our performance audit of the Suitability of Child Development and Care Program Providers, Department of Human Services, 431-0299-05, released in July 2008, Finding 10). Therefore, DHS could not ensure that childcare payments of $85,433 to these individuals were proper.

c. DHS did not maintain provider address information in the provider's file that correlated to the provider's address recorded in DHS's payment system for 7 (13%) of the 56 randomly sampled enrolled providers. As a result, DHS could not verify the address of these 7 enrolled providers, ensure that the enrolled providers provided childcare services at the approved locations, or ensure that payments of $36,228 to the providers were proper.

The absence of DHS regulation and monitoring of enrolled providers, coupled with the close personal relationship that often exists between the CDC Program parent and an enrolled provider, significantly increases the risk and opportunity for improper and potentially fraudulent childcare payments to enrolled providers. Therefore, it is essential for DHS to obtain and retain a certified FIA-220 and proper identification information from all individuals it enrolls as childcare providers. This could help DHS ensure that enrolled childcare providers are properly identified and bona fide individuals who meet important DHS requirements, such as suitable criminal history and/or child abuse and neglect history and age requirements, and provide DHS with a record of the location of childcare. This information could help DHS reduce the risk of improper and potentially fraudulent childcare payments to enrolled providers.

RECOMMENDATION

We recommend that DHS implement effective controls to help ensure that it obtains and retains the required application, certification, and identification information for individuals it enrolls as CDC Program childcare providers.

AGENCY PRELIMINARY RESPONSE

DHS agrees with the recommendation. DHS informed us that it agrees that CDC provider files lacked documentation. Further, DHS indicated that although its policy requires providers to report address changes to a DHS office within 10 days of the occurrence, DHS does not require providers to provide proof of the new address.

DHS indicated that in May 2008 it launched a pilot CDC Case Review Project. DHS informed us that it intends to expand the case review pilot to a Statewide level in September 2009. DHS also informed us that the project would measure accurate and complete documentation in both the CDC case record (client file) and the provider record. DHS indicated that it intends to correct errors and program noncompliance found during the case review process.

FINDING

7. Day-Care Aides With Multiple Service Type Classifications

DHS had not implemented effective controls to help prevent improper CDC Program-funded childcare payments to day-care aides who billed DHS for

childcare services using multiple service type classifications. As a result, DHS made an undeterminable amount of improper and, in some cases, potentially fraudulent childcare payments to day-care aides who billed DHS for services under potentially conflicting service types.

Based on the provider's licensure, registration, or enrollment, DHS classifies and regulates childcare providers into five different service types: day-care centers, group day-care homes, family day-care homes, day-care aides, and relative care providers. DHS uses the service type classification to define specific care requirements of the provider and to establish the rate of payment to the provider. For example, DHS has specific requirements for the care location for each service type.

DHS policy stipulates that group day-care homes, family day-care homes, and relative care providers must deliver childcare services in the provider's home, day-care aides must deliver services in the child's home, and day-care centers must provide services in a facility other than a private residence. Therefore, DHS's care location requirements for day-care aides would often preclude them from simultaneously providing care as any other service type because the day-care aide must provide care in the child's home and all other service types are required to care for the child outside of the child's home. However, DHS policy allows enrolled day-care aides to also be simultaneously registered and/or licensed in additional service type categories and allows day-care aides to submit billings using multiple service type categories during the same pay period. DHS does not identify and monitor billings from providers who simultaneously bill DHS for childcare services using multiple service categories, even when DHS requirements for the service types are potentially conflicting. As a result, DHS increased the risk of making improper and potentially fraudulent childcare payments to these providers. DHS paid 5,061 day-care aides $16 million during the audit period for childcare billings when the day-care aides also billed for childcare services under another, potentially conflicting, childcare service type during the same pay period.

We judgmentally selected and reviewed 26 of the 5,061 day-care aides who also billed as another provider service type during the same pay period during the audit period. For each of these 26 providers, we randomly selected 3 pay periods for review. We requested the providers to submit the required daily attendance records for each of the randomly selected pay periods for comparison to DHS billing records to help determine the validity of the childcare payments to the 26

providers. DHS paid these 26 day-care aides $2 million for pay periods when the providers also billed under a potentially conflicting service type.

Our review disclosed that all 26 providers we reviewed received improper and, in some cases, potentially fraudulent childcare payments for childcare service billings that were not supported by required time and attendance records and/or for childcare services that were not actually provided. We noted:

a. Twenty (77%) of the 26 day-care aides did not submit time and attendance records to corroborate their billings (similar to Finding 3). Childcare payments to these 20 providers totaled $754,238. DHS requires all CDC Program providers to maintain daily attendance records for each child in care for audit purposes. However, DHS does not require providers to periodically furnish DHS with the daily attendance records or to furnish daily care times for children with their biweekly billings. Because these providers did not submit their time and attendance records for our review and DHS did not maintain daily childcare times to support childcare payments, the propriety of these payments could not be substantiated.

b. Six (23%) of the 26 day-care aides who submitted time and attendance records were overpaid by DHS (similar to Finding 3). Our review disclosed that the 6 providers improperly billed and received potentially fraudulent payments totaling $10,015. Our comparison of the billing records with the time and attendance records for these 6 providers indicated that all 6 billed for simultaneous childcare times when the location of childcare requirements for the two service types differed. In addition, 4 of the 6 providers billed DHS for children who did not appear on the providers' time and attendance records and 5 of the 6 providers billed DHS for more childcare hours than the providers' time and attendance records supported.

   For example, one provider we reviewed was enrolled as both a day-care aide (care provided in the child's home) and a relative care provider (care provided in the provider's home). We found that DHS paid this provider for simultaneous billings as both a day-care aide and a relative care provider during all 3 of the randomly selected pay periods we reviewed. Our comparison of the provider's daily time and attendance records, DHS billing records, and DHS address information determined that it would have been physically impossible for this provider to deliver the simultaneous childcare the

provider billed, and DHS paid for, because it would have required the provider to be in two separate locations at the same time. DHS requires day-care aides to deliver childcare services in the child's home and relative care providers to deliver childcare services in the provider's home. In addition, our review determined that this provider billed and received payment for a child who did not appear on the time and attendance records and billed and received payment for more hours than the time and attendance records indicated for another child.

It is essential that DHS identify and monitor providers that receive childcare payments for billings under multiple, and potentially conflicting, service types in order to reduce the risk of improper use of CDC Program resources and potentially fraudulent childcare payments to these providers.

RECOMMENDATION

We recommend that DHS implement effective controls to help prevent improper CDC Program-funded childcare payments to day-care aides who bill DHS for childcare services using multiple service type classifications.

AGENCY PRELIMINARY RESPONSE

DHS agrees with the recommendation. DHS indicated that it allows multiple service type classifications to support parental choice and access to childcare. DHS also indicated that it relies on day-care aides to only bill DHS for services provided in the child's home. DHS further indicated that it intends to follow up on the 26 providers identified in the finding for possible referral and investigation when resources allow.

In addition, DHS indicated that in January 2009 it plans to modify its current provider billing system to require providers to record daily time and attendance with their billings so that DHS can verify it against client-entered day-care need information. DHS also indicated that it anticipates it will be able to review multiple service type billings for comparison and follow-up at that time.

FINDING

8. Unlicensed Providers

DHS had not implemented effective controls to help ensure that it obtained and retained required applications and certifications for unlicensed childcare providers. As a result, DHS could not ensure that childcare payments to unlicensed childcare providers were appropriate. In addition, DHS had no assurance that the childcare providers it classified as unlicensed were appropriately exempted from State Child Day Care licensure requirements; that the facilities met applicable health and safety requirements; and that DHS retained documentation of important facility information, such as provider name and address.

In accordance with Act 116, P.A. 1973, DHS exempts childcare centers with parents on-site and childcare centers, family homes, and group homes on federal land from licensure. DHS policy allows childcare payments to these unlicensed providers after DHS obtains the required application and certification. DHS requires the owner/administrator, military base commander, or tribal head to submit an application to DHS for an unlicensed childcare center or home. DHS uses the application to determine that the facility is exempt from State Child Day Care licensure requirements; to obtain the administrator's certification that the facility meets applicable health and safety requirements; and to document important facility information, such as name and location of the center or home. DHS policy requires local offices to maintain the completed application, but it does not require any further monitoring of childcare providers classified as unlicensed. During the audit period, DHS classified 52 providers as unlicensed and paid them $1 million to care for 1,528 CDC Program-funded children.

We judgmentally selected 8 of the 52 childcare providers whom DHS classified as unlicensed that received payment during the audit period for our review. We reviewed DHS files to determine if DHS obtained and retained the required application and certification from the appropriate individuals for the facilities. Our review disclosed that DHS files did not contain the required application for 7 (88%) of 8 selected unlicensed childcare providers. DHS authorized and paid these 7 providers $560,603 to care for 1,052 CDC Program children during the period.

It is important that DHS obtain and retain the required application information from unlicensed providers to document that childcare payments to these providers are proper. In addition, obtaining the required application information would provide

DHS with the required assurances that exemption from State Child Day Care licensure requirements for these providers is appropriate; that the facilities meet applicable health and safety requirements; and that important facility information, such as name and address, are on file.

RECOMMENDATION

We recommend DHS implement effective controls to help ensure that it obtains and retains required applications and certifications for unlicensed childcare providers.

AGENCY PRELIMINARY RESPONSE

DHS agrees with the recommendation. DHS also agrees that documentation for providers who were unlicensed and exempt from licensing was not on file. DHS informed us that it is currently reviewing all unlicensed provider files to ensure that appropriate documentation is on file.

DHS indicated that in May 2008 it launched a pilot CDC Case Review Project. DHS informed us that it intends to expand the case review pilot to a Statewide level in September 2009. DHS also informed us that the project would measure accurate and complete documentation in both the CDC case record (client file) and the provider record. DHS indicated that it intends to correct errors and program noncompliance found during the case review process.

FINDING

9. Deceased CDC Program Participants

DHS had not implemented effective controls to prevent improper and, in some cases, potentially fraudulent payments to, or on behalf of, deceased CDC Program participants. As a result, DHS made improper childcare payments of approximately $273,610 to, or on behalf of, 116 deceased individuals. We estimated that $263,024 (96%) of these improper payments were at high risk for fraud. At the time of our review, DHS records indicated that it had not taken recoupment action for any of the improper payments.

Program Eligibility Manual (PEM) item 706 states that CDC Program payments are made when all eligibility and need requirements are met and an eligible provider provides childcare. PEM item 706 requires providers to submit billings to DHS in

order to receive payment for childcare services. In addition, PEM item 706 stipulates that providers may bill DHS for only actual hours of childcare provided. PEM item 703 states that, for CDC Program eligibility to exist, the parent must be unavailable to provide childcare because of employment, education, and/or a health or social condition* for which treatment is being received. Therefore, these DHS policies prohibit childcare payments to deceased providers, for deceased children, and on behalf of deceased parents. However, DHS controls were not always effective in preventing childcare payments to, and on behalf of, deceased CDC Program participants. We identified the following control weaknesses associated with childcare payments to deceased providers, for deceased children, and on behalf of deceased parents:

a. DHS did not match its childcare provider, child, or parent records with Social Security Administration (SSA) or Department of Community Health (DCH) death records to help identify deceased CDC Program participants. Although DHS periodically submitted recipient social security numbers to SSA for comparison to its death records for four other DHS assistance programs, DHS did not include CDC Program participant social security numbers. Instead, DHS relied on childcare providers and parents to self-report changes in circumstances to DHS.

b. DHS used open-ended dating (99/99/9999) for the providers' period of eligibility to receive childcare payments and did not require enrolled providers to renew their enrollments or to periodically validate their information on file with DHS. DHS continued eligibility for the providers until: (1) DHS became aware of a change in a provider's status, such as death, or (2) a provider's billings ceased for a period exceeding six months. If neither event occurred, the provider's eligibility to receive childcare payments continued indefinitely. In addition, DHS commonly used open-ended dating (99/99/9999) for authorizations of children to receive childcare services and relied on parents to report changes affecting their need and/or eligibility for childcare assistance to DHS between yearly redeterminations (see Findings 1 and 2).

To determine the significance of these control weaknesses, we obtained DCH death records and matched them to the records of CDC Program participants for the audit period. We performed our match on social security number and further

* *See glossary at end of report for definition.*

validated each match with a name comparison. For each validated match, we compared the individual's date of death per the DCH death record with the childcare payment file to determine whether DHS issued and authorized childcare payments after the date of death. We identified 116 deceased CDC Program participants for whom DHS issued and authorized childcare payments after the date of death:

(a) DHS authorized and issued childcare payments for 77 deceased providers totaling $253,065. PEM item 706 requires childcare providers to bill DHS for the actual hours of childcare that they provide; however, the billings and payments for these 77 deceased providers all occurred after the enrolled providers' deaths. Therefore, the childcare payments were at high risk for fraud.

The payments for the 77 deceased providers ranged from $80 to $44,000 and averaged $3,287 per provider identified. Approximately $204,080 (81%) of the total billings and payments for the deceased providers were for day-care aide services. DHS sends childcare payments for day-care aide services directly to the parents.

At the time of our review, DHS had not identified any of the parents on the associated cases for investigation. Upon notification of our match results, the CDC Program made fraud investigation referrals to OIG for all parents on the associated cases for the 77 deceased providers identified in our match. In addition, DHS discontinued childcare payments for 6 of the 77 deceased providers with active billings at the time of our review; DHS also ended their provider eligibility. Further, DHS ended provider eligibility for 5 of the 77 deceased providers who were eligible to receive payments but did not have active billings at the time of our review.

For example, we identified a provider in our match who died May 4, 2003. DHS enrolled this provider as a day-care aide on May 1, 2001 with a system eligibility end date of 99/99/9999. Billings and payments for childcare services continued on a biweekly basis until March 15, 2006, almost three years after the provider's death. Improper childcare payments for this deceased provider totaled $44,000 during our audit period. Because the deceased provider was a day-care aide, DHS sent the payments to the parent. In September 2006,

based on our match results, DHS ended the deceased provider's eligibility and referred the parent to OIG for investigation.

(b) DHS authorized and issued childcare payments for 18 deceased children totaling $9,959. PEM item 706 requires childcare providers to bill DHS for only the actual hours of childcare they provide; however, the billings and payments for these 18 deceased children all occurred after the children's deaths. Therefore, these childcare payments were at high risk for fraud. Payments ranged from $30 to $3,929 and averaged $553 per deceased child identified.

DHS had not identified any of the providers for investigation for billings related to the 18 deceased children identified in our match. Upon notification of our results, the CDC Program made fraud investigation referrals to OIG for the providers that billed and received childcare payments for the deceased children.

For example, we identified a child in our match who died April 4, 2005. However, childcare payments to the provider continued until February 18, 2006, which was more than 10 months after the child's death. The child remained authorized for 100 hours of care for each two-week pay period and the relative care provider billed, and DHS paid, for the maximum hours authorized for this child (100 hours) for 22 consecutive two-week pay periods after the child's death (see Findings 2 and 3). Improper childcare payments totaled $3,929 after the child's death.

(c) DHS authorized and issued childcare payments on behalf of 21 deceased parents totaling $10,586. DHS policy states that the need for childcare assistance is based on the parent's unavailability to provide care because of four specified reasons: family preservation, high school completion, approved Michigan Works! Agency/family independence services activities, and employment. DHS policy also states that childcare for a child while the child is out of the home, such as in the custody of another parent or visiting a relative, is not considered a need. Therefore, the childcare payments made on behalf of 21 deceased parents were ineligible. Payments ranged from $38 to $1,876 and averaged $504 per deceased parent we identified. All payments occurred after the parents' deaths.

It is important for DHS to identify deceased CDC Program participants to help prevent improper and potentially fraudulent childcare payments. It is also important that DHS require enrolled providers to periodically renew their enrollments and/or validate their information on file with DHS and that DHS discontinue open-ended eligibility dating for CDC Program participants to help reduce the risk of improper childcare payments to, and on behalf of, deceased CDC Program participants.

RECOMMENDATION

We recommend that DHS implement effective controls to prevent improper and potentially fraudulent payments to, or on behalf of, deceased CDC Program participants.

AGENCY PRELIMINARY RESPONSE

DHS agrees with the recommendation. DHS indicated that it referred all of the deceased CDC Program participants identified in the finding to OIG for follow-up. DHS also indicated that although it did not have the cited data match in place during the audit, DHS had a requirement for providers and parents or substitute parents to report changes in their circumstances within 10 days. DHS informed us that it has established a data match that it intends to test in July 2008. DHS also informed us that it is still researching the possibility of additional data matches to help ensure it does not make improper payments. In addition, DHS continues to require providers and parents or substitute parents to report changes in their circumstances within 10 days to DHS.

FINDING

10. Incarcerated CDC Program Participants

DHS had not implemented effective controls to prevent improper and potentially fraudulent childcare payments to, or on behalf of, incarcerated CDC Program participants. As a result, DHS made improper childcare payments of approximately $99,930 to, or on behalf of, 40 incarcerated individuals. We estimated that $56,093 (56%) of these improper payments were at high risk for fraud. At the time of our review, DHS records indicated that it had not taken recoupment action for any of the improper payments.

PEM item 706 requires providers to submit billings to DHS in order to receive payment for childcare services and stipulates that providers may bill DHS for only

the actual hours of childcare they provide. In addition, PEM item 703 states that, for CDC Program eligibility to exist, the parent must be unavailable to provide childcare because of employment, education, and/or a health or social condition for which treatment is being received. PEM item 703 further states that childcare for a child while a parent is incarcerated is not considered a valid need for childcare. However, DHS controls were not always effective in preventing childcare payments to incarcerated providers or on behalf of incarcerated parents. We identified the following control weaknesses associated with childcare payments to incarcerated providers and on behalf of incarcerated parents or substitute parents:

a. DHS did not match its childcare provider or parent records with SSA's prisoner information system or with the Department of Corrections' (DOC's) incarceration records to help identify incarcerated providers and parents. Although DHS periodically received incarceration information from SSA's prisoner information system to help identify incarcerated recipients for four other DHS assistance programs, DHS did not use this information to help identify incarcerated CDC Program participants. Instead, DHS relied on providers and parents to self-report changes in their circumstances to DHS.

b. DHS used open-ended dating (99/99/9999) for providers' period of eligibility to receive childcare payments and did not require enrolled providers to renew their enrollments or to periodically validate their information on file with DHS. DHS continued eligibility for providers until: (1) DHS became aware of a change in a provider's status, such as incarceration, or (2) a provider's billings ceased for a period exceeding six months. If neither event occurred, the provider's eligibility to receive childcare payments continued indefinitely. In addition, DHS commonly used open-ended dating (99/99/9999) for authorizations of children to receive childcare services and relied on parents to report changes affecting their eligibility for childcare assistance to DHS between yearly redeterminations (see Findings 1 and 2).

To determine the significance of these control weaknesses, we obtained State prisoner records from DOC and matched them with to records of CDC Program providers and parents for the audit period. We performed our match on social security number and further validated each match with a name comparison. For each validated match, we compared the CDC Program participant's date of incarceration per the DOC record with the childcare payment file to determine whether DHS issued and authorized childcare payments during incarceration. We

identified 40 CDC Program participants for whom DHS issued and authorized childcare payments to, or on behalf of, while they were incarcerated in State prisons. The data available for our match contained only State prisoner records; however, the data available to DHS from SSA's prisoner information system is more complete and includes data for both State prisons and most local jail populations. Consequently, it is likely that there are instances in which DHS issued and authorized childcare payments to, or on behalf of, individuals incarcerated in local jails.

Our review of the 40 CDC Program participants incarcerated in State prisons disclosed:

(a) DHS authorized and issued childcare payments for 26 providers incarcerated in State prison totaling $56,093. PEM item 706 requires childcare providers to bill DHS for the actual hours of childcare provided; however, the billings and payments for these 26 incarcerated providers all occurred while the enrolled providers were incarcerated in State prisons. Therefore, the childcare payments were at high risk for fraud.

The childcare payments ranged from $122 to $10,766 and averaged $2,157 per incarcerated provider whom we identified. Approximately $37,580 (67%) of the total billings and payments for these incarcerated providers were for day-care aide services. DHS sends childcare payments for day-care aide services directly to the parents.

At the time of our review, DHS had not identified any of the 26 CDC Program providers identified in our match, or the parents for the associated childcare cases, for investigation. Upon notification of our results, the CDC Program made fraud investigation referrals to OIG for all 26 incarcerated providers. In addition, DHS ended provider eligibility for 2 providers identified in our match who were, at the time of our review, incarcerated in State prison and actively billing DHS for childcare services.

For example, we identified a provider in our match who was incarcerated in State prison from July 2004 until June 2006. DHS enrolled this provider as a day-care aide in March 2004 with a system eligibility end date of 99/99/9999. Upon enrollment, DHS authorized the provider for CDC Program-funded childcare payments. The provider's billings began immediately upon

enrollment and continued steadily until April 2005, which was nine months after the provider's State prison incarceration began. Because this provider was a day-care aide, DHS sent the childcare payments directly to the parents. Childcare billings and payments totaled $10,766 for the nine-month period during which the provider was incarcerated in State prison.

(b) DHS authorized and issued childcare payments on behalf of 14 incarcerated parents totaling $43,833. PEM item 703 states that the need for childcare assistance is based on the parent's unavailability to provide care because of four specified reasons: family preservation, high school completion, Michigan Works! agency approved activities, and employment. PEM item 703 also states that childcare for periods when the parent is absent for a short period, such as incarceration, is not considered a need. Therefore, the childcare payments made on behalf of the 14 incarcerated parents were ineligible. Childcare payments made on behalf of incarcerated parents ranged from $134 to $30,329 and averaged $3,131 per incarcerated parent we identified (see Finding 1).

It is important for DHS to identify incarcerated CDC Program participants to help prevent improper and potentially fraudulent childcare payments. It is also important that DHS require enrolled providers to periodically renew their enrollments and/or validate their information on file with DHS and that DHS discontinue open-ended eligibility dating for CDC Program participants to help reduce the risk of improper childcare payments to, and on behalf of, incarcerated CDC Program participants.

RECOMMENDATION

We recommend that DHS implement effective controls to prevent improper and potentially fraudulent childcare payments to, and on behalf of, incarcerated CDC Program participants.

AGENCY PRELIMINARY RESPONSE

DHS agrees with the recommendation. DHS indicated that it referred all of the incarcerated CDC Program participants identified in the finding to OIG for follow-up. DHS also indicated that although it did not include the CDC Program in the SSA or DOC data matches, DHS required CDC Program participants to report changes in circumstance to DHS within 10 days. DHS informed us that it implemented an automated match of DOC data for incarcerated providers in

November 2007. DHS indicated that it intends to add the SSA component in July 2008. DHS also indicated that it began conducting checks of the DOC's Offender Tracking Information System prior to a provider's enrollment in April 2007. DHS informed us that it intends to include CDC Program parents and clients in a pending incarceration match process that will begin testing in July 2008.

FINDING

11. CDC Program Payments to CDC Program Clients

DHS had not implemented effective controls to prevent improper childcare payments to CDC Program clients for providing childcare services to children on their own cases. As a result, DHS authorized and paid clients to provide childcare services to children on their own cases.

As an example, DHS requires the parent of a minor mother, who lives with the parent, to be the applicant* (client) for CDC program childcare assistance for the minor mother's child who also lives in the home. Further, DHS policy prohibits any individual from receiving payment for childcare services provided to the children for whom the individual is the applicant (client). However, DHS did not have a system control that prevented childcare payments to clients for childcare services provided to the same children for whom the client applied for CDC Program childcare assistance, i.e., children on the client's own case.

To determine if DHS paid clients to provide childcare services to children on their own case, we compared client and provider social security numbers for the 144,179 CDC Program cases that DHS made childcare payments for during the audit period. We identified 109 childcare cases in which DHS potentially paid the client to provide childcare services to children on the client's own case. We judgmentally selected 16 of these 109 cases for further review and determined that DHS paid 8 of the 16 clients to provide childcare services to children on their own cases. We notified DHS of our social security number comparison methodology and test results in July 2006.

At that time, DHS performed a similar match on the cases that were actively receiving childcare assistance; however, DHS did not include any cases in its

* *See glossary at end of report for definition.*

match that previously received childcare assistance but were inactive as of July 2006. DHS's match on the cases that were active as of July 2006 confirmed that an additional 4 of the 109 clients whom we previously identified as potentially receiving childcare payments to provide childcare to the children on their own cases were actively receiving payments as of July 2006. On July 22, 2006, DHS stopped childcare payments to the 4 clients who were actively receiving payments to provide childcare service to the children on their own cases.

DHS made improper childcare payments totaling $64,910 during the audit period to the 12 clients identified in the matches. The improper payments to 12 clients ranged from $289 to $12,646 and averaged $5,409 per client identified. DHS considered the improper payments to the 12 identified clients to be agency errors and did not seek recoupment. PEM item 730 states that DHS should not pursue recoupment of payments that are a result of agency errors caused by inaccurate use of information; inaccurate calculations; misapplication of policy; or oversight or negligence on the part of local or central office staff, including computer and other machine errors. DHS did not review the remaining 89 clients who potentially received improper payments to provide childcare to the children on their own cases because those clients' cases were inactive as of July 2006. Childcare payments for those 89 clients totaled $207,437 during the audit period.

It is important for DHS to design controls that support DHS policies and help safeguard the CDC Program's limited resources.

RECOMMENDATION

We recommend that DHS implement effective controls to prevent improper childcare payments to CDC Program clients for providing childcare services to children on their own cases.

AGENCY PRELIMINARY RESPONSE

DHS agrees with the recommendation. DHS informed us that in November 2006 DHS added a system edit to prevent this practice. In addition, DHS indicated that its policy concerning agency error was changed effective November 2006 to include the CDC Program, thereby allowing DHS to recoup this type of improper payment.

FINDING

12. CDC Program Payments for Reciprocal Childcare Services

DHS should consider revising its policies so that it does not allow reciprocal childcare agreements. The use of the reciprocal care agreements appears contrary to the overall goal of the CDC Program to provide childcare assistance to parents in order to promote their economic independence and self-sufficiency.

During our audit, we found that DHS's policy allows the use of CDC Program resources to fund childcare assistance and payments to parents whose need for childcare services, and unavailability to care for their own children, is solely created because the parent is providing childcare services to another CDC Program parent's children (see Finding 1). This includes reciprocal care agreements between two CDC Program parents when each parent receives both CDC Program-funded childcare assistance and payments for simultaneously caring for each other's children.

In these agreements, the need for the CDC Program childcare services for their own children is created because they have agreed to provide CDC Program-funded childcare services, as their employment, for each other's child(ren) at the same time.

Our randomly selected sample of 100 providers included 83 individuals and 17 day-care centers. A reciprocal care agreement can only exist between two individuals who are both a CDC Program provider and a CDC Program parent. Therefore, reciprocal care agreements do not exist in situations where the provider is a day-care center. During our testing of 83 randomly sampled individual childcare providers, we identified a reciprocal care agreement in which DHS authorized and paid two CDC Program parents to provide simultaneous childcare services for each other's children. Parent A applied for and received childcare assistance for her 2 children so that she could provide childcare services for up to 6 other children. Parent B, the mother of 2 of the 6 children whom parent A provided care for, applied for and received childcare assistance for her 2 children so that she too could provide childcare services, including childcare services for parent A's 2 children. In this case, DHS approved both childcare assistance and payments to both parents A and B to simultaneously care for each other's children. During our review, we also found that DHS's case file information for parent A clearly indicated that DHS was aware of, and did not prevent, the reciprocal care

agreement between parents A and B. As a result, DHS authorized unnecessary childcare assistance and payments to parents A and B totaling $15,661.

It is essential that DHS design policies that help DHS achieve the CDC Program's primary goal of providing childcare assistance to parents who are unavailable to provide childcare because of employment, education, and/or a health or social condition for which treatment is being received in order to promote the family's economic independence and self-sufficiency. DHS policies should also be designed to help safeguard the CDC Program's limited resources by preventing inefficient and unnecessary CDC Program childcare payments.

RECOMMENDATION

We recommend that DHS consider revising its policies so that it does not allow reciprocal childcare agreements.

AGENCY PRELIMINARY RESPONSE

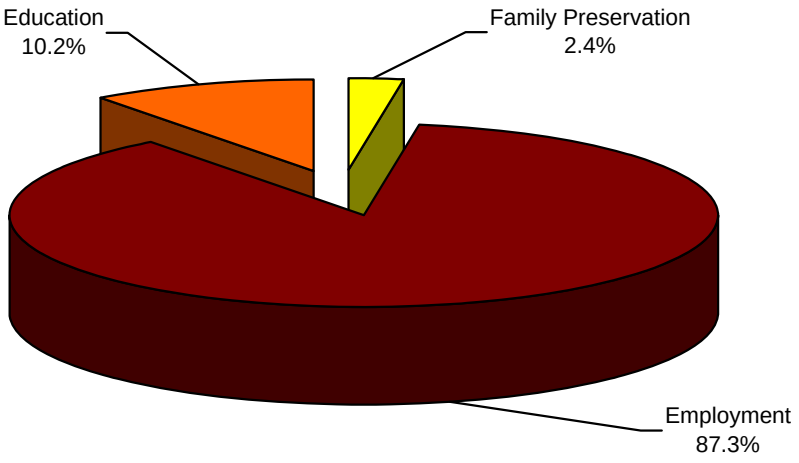
DHS agrees with the recommendation. DHS informed us that it will continue to review its policy and identify when reciprocal care is and is not appropriate. In addition, DHS indicated that it would work to establish system edits and/or policies to prevent the specific situations cited in this finding.

SUPPLEMENTAL INFORMATION

UNAUDITED
Exhibit 1

CHILD DEVELOPMENT AND CARE (CDC) PROGRAM PAYMENTS
Department of Human Services (DHS)

CDC Program Childcare Payments by Parental Need Reason
October 5, 2003 through March 4, 2006

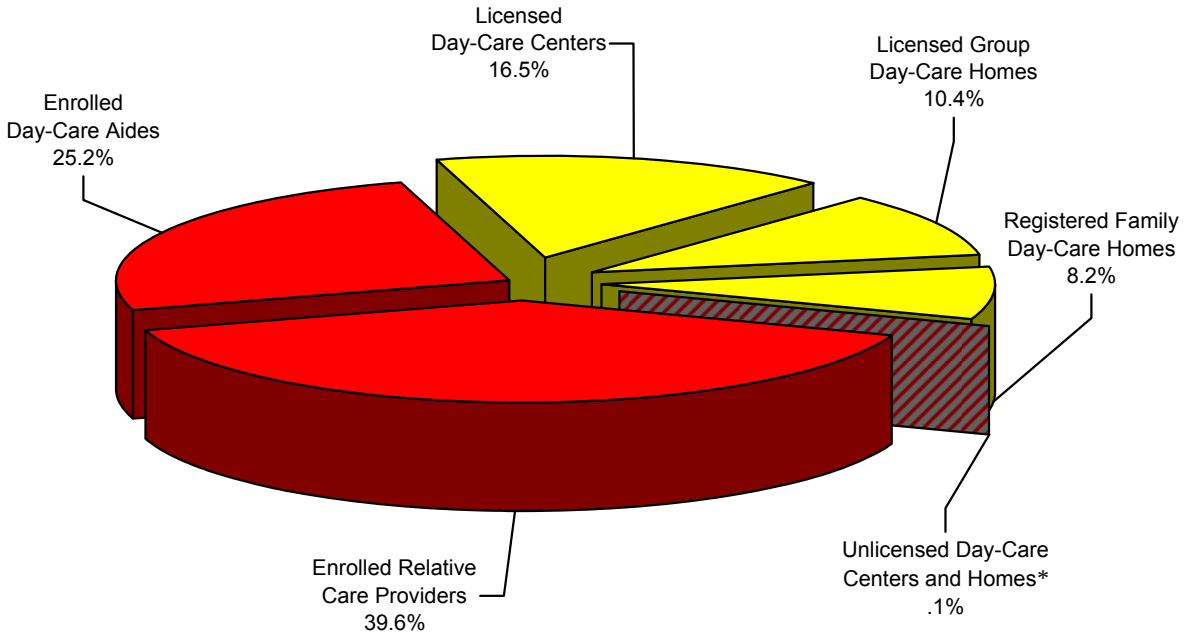


Employment	$ 973,702,346
Education	114,167,186
Family preservation	27,241,257
Total CDC Program childcare payments	$ 1,115,110,789

Source: DHS's CDC Program payment file.

CHILD DEVELOPMENT AND CARE (CDC) PROGRAM PAYMENTS
Department of Human Services (DHS)

CDC Program Childcare Payments by Provider Type
For the Period October 5, 2003 through March 4, 2006



Enrolled Provider Payments		
Relative care providers	$	441,672,006
Day-care aides		280,460,407
Total enrolled provider payments	$	722,132,413
Licensed and Registered Provider Payments		
Licensed day-care centers	$	183,826,705
Licensed group day-care homes		116,348,213
Registered family day-care homes		91,835,806
Total licensed and registered provider payments	$	392,010,724
Unlicensed Provider Payments*		
Unlicensed day-care centers - Federal land	$	542,962
Unlicensed day-care centers - Parent on site		344,099
Unlicensed family homes - Federal land		80,590
Total unlicensed provider payments	$	967,652
Total provider payments	$	1,115,110,789

* There are a small number of unlicensed day-care centers and homes eligible to receive CDC Program payments that are exempt from licensure under Act 116, P.A. 1973. They include day-care centers where all parents are on site and available and day-care centers, family homes, and group homes located on federal land. DHS does not regulate these unlicensed day-care providers.

Source: DHS's CDC Program payment file.

Today's Child

DAY CARE AIDE/ RELATIVE CARE PROVIDER APPLICATION

State of Michigan
Family Independence Agency (FIA)

Grantee Name					
Grantee ID				Case Number	
County	District	Section	Unit	Specialist	Date
Specialist Name					
Local FIA Office				Telephone Number	
Local Office Address (Street Number and Name)					
City				State	Zip Code

The original FIA-220 is to be filed in the local office central provider file.

INSTRUCTIONS TO PROVIDER:

- Read all pages.
- Complete Sections I & II. Relative care providers must also complete Section III.
- Sign and date the form in Section IV.
- **Attach proof of your identity, age and Social Security Number.**
- FIA must receive this form within 21 days of your signature along with proof of your identity, age and Social Security Number.
- You will be sent an FIA-4807, Notice of Child Development and Care (CDC) Provider Eligibility, and FIA Pub-230, Provider Handbook and Reporting Instructions for Child Care Providers.
- You will be sent an FIA-198, Child Development and Care Certificate/ Notice of Authorization, indicating whether or not child(ren) have been authorized for your care based on the family's eligibility determination.

SECTION I

Where will you provide the child care?
☐ HOME WHERE CHILD LIVES ☐ MY HOME

Do you live with the child(ren) in care?
☐ NO ☐ YES If yes, you may only apply to be a day care aide.

I am applying to be a ☐ DAY CARE AIDE or ☐ RELATIVE CARE PROVIDER

As a day care aide, I understand that:
- I **must** provide the care in the home where the child lives.
- I may be related to the child.

As a relative care provider, I understand that:
- I **must** be an adult **and** a grandparent/step-grandparent, great-grandparent/step-great-grandparent, aunt/step-aunt, uncle/step-uncle or sibling/step-sibling of all child(ren) in care.
- I **must** provide the care in my home and **not** the home where the child lives
- I **must** live in Michigan and **not** in the same home as the child.

If you do not meet the requirements for either provider type listed above, do not complete this form.

SECTION II

Name (Last, First, Middle)			Former/Maiden Name		
Date of Birth	Sex	Social Security #		Driver's License #	
Address (Number and Street, Apt. No.)		City	State	Zip Code	County
Have you ever provided child care services for FIA-funded children? ☐ NO ☐ YES (If yes) ▶			Provider ID Number	Telephone Number ( )	

Have you ever had your child care center/group home license or family home registration suspended or revoked? ☐ NO ☐ YES

Do you receive any other reimbursement for child care that you provide?
☐ NO ☐ YES (If yes, from whom?)

Do you receive FIA payment for providing Adult Home Help Services?
☐ NO ☐ Yes (If yes, for whom?)

FIA will complete background checks. If you do not want background checks done, you should not apply.
Have you ever been convicted of a crime? ☐ NO ☐ YES (If yes) ▶ Was the crime a felony? ☐ NO ☐ YES
If you answered "yes" to the previous question, describe all felonies:

SECTION III: (Relative Care Providers Only)

Are you related to all of the children you plan to care for in your home? If no, or if not related as indicated below, you do not qualify to be a relative care provider.
☐ NO
☐ YES (If yes, how are you related?) ▶
☐ Grandparent/step-grandparent
☐ Great-grandparent/step-great-grandparent
☐ Uncle/step-uncle
☐ Aunt/step-aunt
☐ Sibling/step-sibling

If you are applying to be a relative care provider, list all adults who live in your home: (Attach additional sheet if necessary.)

Name	Maiden & Other Names Used	Date of Birth	Sex	Social Security #	Driver's License #

FIA-220 (Rev. 1-04) Previous edition obsolete. MS Word 1

DISTRIBUTION:
Original - Pages 1 and 2, Local office central provider file
Page 3 - Provider

Go to page 2 ▶

Note: Executive Order No. 2004-38 renamed the Family Independence Agency (FIA) as the Department of Human Services (DHS).

SECTION IV

PROVIDER CERTIFICATION

I certify that:

- All information I have given is true and accurate to the best of my knowledge.
- I have read, understand, and meet all enrollment requirements listed in Section V and have retained a copy.
- I understand that the agency will complete background checks to determine:
  - If I, and/or any adult member of my household, if I am applying to be a relative care provider, am a person responsible for the neglect or abuse of children in a substantiated Children's Protective Service case, and
  - If I have been convicted of certain crimes.
- I understand that my enrollment will be denied, revoked or terminated if either of the above is confirmed.
- I understand that I will not be authorized to care for FIA-funded children if my provider enrollment is denied, revoked or terminated.
- I understand that if I have misrepresented my circumstances, or if I fail to meet the conditions as stated in Section V, or fail to abide by the requirements as stated in Section V, the Agency may deny or revoke/terminate my enrollment as a day care aide and/or relative care provider.
- I understand that if the FIA determines I have been overpaid for any reason, the extra payments received will have to be repaid. I may be prosecuted for fraud if my intentional misrepresentation caused the overpayment.
- I understand that if an administrative law judge finds I have committed an intentional program violation, my enrollment may be revoked.
- I acknowledge that the Agency has the right to change the terms and conditions of this enrollment by notice to my last known address.
- I acknowledge that if I default on a repayment agreement, future payments can be reduced.
- I understand that as part of my billing/reporting requirements:
  - I must maintain records showing the time of arrival and departure for each FIA-funded child as certified by the parent/substitute parent on a daily basis, and must retain these records for four years.
  - I must report the following changes to the local FIA office within 10 calendar days of occurrence:
    - a change in address
    - a change in where care is provided
    - if I stop providing care for any FIA-funded child.
- I understand that this certification applies to any FIA-funded children I care for, until my enrollment is revoked or terminated.

Provider Signature	Date

Provider return pages 1 and 2 to the local FIA office.

Payments made for child care services for FIA-funded children are reported to the Internal Revenue Service.

The Family Independence Agency will not discriminate against any individual or group because of race, sex, religion, age, national origin, color, height, weight, marital status, political beliefs or disability. If you need help with reading, writing, hearing, etc., under the Americans with Disabilities Act, you are invited to make your needs known to an FIA office in your county.	AUTHORITY: PA 280 of 1939. COMPLETION: Is Voluntary. CONSEQUENCE FOR NONCOMPLETION: Applicant's care of children will not be Agency funded.

FIA-220 (Rev. 1-04) Previous edition obsolete. MS Word 2

SECTION V

REQUIREMENTS TO BE AN FIA-ENROLLED DAY CARE AIDE OR RELATIVE CARE PROVIDER

Common Requirements:

- You must be able to read and write.
- You must provide proof of your identity, age and Social Security Number.
- You must not have any physical impairment or other problem that would hinder you from giving adequate care and supervision to children.
- You will not be enrolled and will not be authorized to care for FIA-funded children if a background check shows you have been a perpetrator on a confirmed Children's Protective Service case.
- You will not be enrolled and will not be authorized to care for FIA-funded children if you report, or a background check determines, you have been convicted of certain crimes.
- You must know how and when to seek help from others, i.e. how to use the telephone, how to respond to emergency situations which might arise during the provision of care to children.
- You must not have family responsibilities or other obligations that would interfere with providing child care to children.
- You must not be the parent/guardian/usual caretaker of any child for which you would receive payment.
- You must not have had your child care center/group home license or family home registration revoked and your license/registration must not be currently suspended.
- You must not care for more than six children (including your own children) at the same time.
- You must not care for more than two children (including your own children) under the age of 12 months at the same time.
- You must not charge the parent/substitute parent more than what you charge the general public.
- You must give the parents/substitute parents of the children in your care unlimited access to their children while they are in your care.
- As part of your billing/reporting requirements:
  - You must maintain permanent and accurate records of daily attendance of all FIA-funded children served. These records must indicate the time the child arrived and departed from your care as certified by the parent/substitute parent. These records must be kept for four years.
  - You must report the following changes to the local FIA office within 10 calendar days of occurrence:
    - a change in address
    - a change in where care is provided
    - if you stop providing care for any FIA-funded child.

Specific Requirements for Day Care Aides:

- You must be at least 16 years of age during the time care is provided.
- You are employed and paid by the parent/substitute parent of the child(ren) for whom you provide care. The parent/substitute parent is the employer and is responsible for the employer's share of any employer's taxes that need to be paid, such as Federal Insurance Contributions Act (FICA) and Federal Unemployment Tax Act (FUTA) taxes.
- You may only bill for actual care provided (except for State of Michigan holidays and absences due to child's illness) in the home where the child lives.

Specific Requirements for Relative Care Providers:

- You must be at least 18 years of age during the time care is provided.
- You must be a grandparent/step-grandparent, great-grandparent/step-great-grandparent, aunt/step-aunt, uncle/step-uncle, or adult sibling/step-sibling of the child needing care and must not live in the same household as the child.
- You must report all adults living in your household, now and as long as you are a relative care provider. You must also report to the local FIA office any change to the adults living in your household.
- You will not be enrolled, and will not receive FIA payment, if a background check shows that any adult person living with you is a perpetrator on a substantiated Children's Protective Service case.
- You may only bill for actual care provided (except for State of Michigan holidays and absences due to the child's illness) in your home, not the home where the child lives.

Provider retain this page for your records.

FIA-220 (Rev. 1-04) Previous edition obsolete. MS Word 3

DESCRIPTION	Use the FIA-220 as the enrollment application for day care aides and relative care providers. The FIA-220 is completed by: • a person, including a relative, who is applying to become enrolled as a day care aide to provide child care in the home where the child lives; or • a person, who is a grandparent/step-grandparent, great-grandparent/step-great-grandparent, aunt/step-aunt, uncle/step-uncle or sibling/step-sibling of the child needing care, who is applying to become enrolled as a relative care provider to provide care in his/her home (**not** the home where the child lives). • an already enrolled day care aide or relative care provider applying to be enrolled as a different type of provider. If approved, the effective date of enrollment for day care aides and relative care providers is the most recent of the following: • the date care began, or • the customer's effective date of eligibility, or • the day care aide's 16th birthday, or • the relative care provider's 18th birthday. If the signature date is more than 21 days prior to receipt of the FIA-220 by the local FIA office, a new application will need to be submitted. The Spanish version of this form is the FIA-220SP.
INSTRUCTIONS	Complete the top right-hand block of information, including local FIA office, specialist name and telephone number. Give or mail the form to the customer. The customer is to give the form to his/her provider. The provider is to complete all information requested, read all parts of the form, and sign and date the form. Pages 1 and 2 of the form are to be returned to the local FIA office. Page 3 is to be retained by the provider. See PEM 704 for the enrollment process for day care aides and relative care providers.
DISTRIBUTION	File pages 1 and 2 of the FIA-220 in the local office central provider file.

Exhibit 4

CHILD DEVELOPMENT AND CARE (CDC) PROGRAM PAYMENTS
Department of Human Services (DHS)

Sample I - Summary of Observations for a Randomly Selected
CDC Parent and One Provider

We randomly selected this case for review from the population of all CDC Program-funded payments made during the audit period. It demonstrates the effects of the control weaknesses cited in Finding 1, Need for CDC Program Childcare Assistance; Finding 2, Authorization of CDC Program Childcare Services; Finding 3, Provider Billings; and Finding 5, Relative Care Providers.

OVERVIEW:

- Childcare payments for this case during the audit period: $52,384
- Number of providers: 1
- Type of provider: originally, day-care aide but later reclassified as relative care provider
- Number of children: 5 (2 were school-aged during the entire audit period and 1 was school-aged for a portion of the audit period)
- Parent's need reason for childcare assistance: Employment
- Childcare hours authorized for each biweekly pay period: 100 hours for each child
- Total number of biweekly pay periods that the provider billed DHS: 63 (consecutive)

OBSERVATIONS:

- DHS did not obtain daily work schedules from the parent or the employer to verify the full-time designation; however, copies of the parent's pay stubs on file indicated that the parent was employed full time. The parent informed the DHS caseworker that she typically worked Monday through Saturday during the day from 7:30 a.m.

to 5:00 p.m. and occasionally worked until 11:00 p.m. and on Sunday. Two of the 5 children on the case were school-aged during the entire audit period and 1 was school-aged for a portion of the audit period. DHS did not require the caseworker to verify the parent's daily work schedule or the parent to provide a daily school schedule for the school-aged children to help the caseworker determine the number of childcare hours to authorize. As a result, DHS authorized and paid for childcare for each of the 5 children for the maximum number of hours (100 hours) during each of the 63 pay periods during our audit period, even though, based on the parent's statement, the parent often worked during the same time some of the children were in school. DHS does not consider the time that children are in school when determining the number of childcare hours it authorizes for the parent. In addition, DHS did not require the provider to submit daily attendance records for comparison to billings or to provide daily times of care with the provider's biweekly billings. As a result, DHS could not ensure that the number of childcare hours it authorized and paid for the 5 children on this case were proper, nor could it verify that the hours the provider billed DHS for childcare correlated with the parent's work schedule and/or the children's school schedules.

- We requested daily time and attendance records from the provider for 3 selected pay periods so that we could compare the times of childcare provided to the provider's billings, the parent's work schedule, and the children's school schedules to determine if the provider billings were appropriate. However, the provider did not submit any records for our review. Instead, we received records from the parent, not the provider, that were created by the parent. On these created records, the parent reported that childcare for all 5 children typically occurred weekdays from 3:00 p.m. to 11:00 p.m. and on weekends during daytime hours. However, these hours did not agree with the working hours the parent reported to the DHS caseworker. Also, we noted that the total number of childcare hours reported by the parent on the created records were consistently less than the 100 hours of childcare billed by the provider for each child for all 3 pay periods reviewed. Based on the parent-created records, overpayments during the 3 pay periods we reviewed totaled $514. Billings were submitted to DHS for exactly 100 hours of childcare for all 5 children on the case for each of the 63 consecutive two-week pay periods (approximately 2.5 years) during our audit period, including the 3 school-aged children. Providers are required to bill DHS for only actual hours of childcare delivered and are required to maintain daily time and attendance records to support their childcare services.

- Near the beginning of the audit period, both the provider and the parent, on independent documentation, indicated that the provider was a cousin to the children. Also, the provider indicated on the provider application that the provider would deliver the childcare services in the home of the children. Therefore, because the provider's cousin relationship to the children did not meet the relationship requirement for a relative care provider and the provider delivered the childcare services in the home of the children, the provider only qualified to be classified and paid as a day-care aide rather than a relative care provider, which receives a higher rate. Later in the audit period, the provider completed another provider application and indicated that she was an aunt to the children and that she cared for the children in her home. Based on the reported change in relationship and location of childcare, DHS changed the provider's classification from day-care aide to relative care provider and increased the provider's rate by approximately 30%. However, DHS did not verify the provider's change in relationship and the time and attendance records submitted to us by the parent indicated that the provider continued to provide the childcare in the home of the children rather than in the provider's home. Therefore, the provider was not eligible to receive the increased relative care provider rate for the childcare services. As a result, DHS overpaid the provider $5,344 during our audit period at the increased rate.

Exhibit 5

CHILD DEVELOPMENT AND CARE (CDC) PROGRAM PAYMENTS
Department of Human Services (DHS)

Sample 2 - Summary of Observations for a Randomly Selected
CDC Parent and Two Providers

We randomly selected this case for review from the population of all CDC Program-funded payments made during the audit period. It helps to demonstrate the effects of the control weaknesses cited in Finding 1, Need for CDC Program Childcare Assistance; Finding 2, Authorization of CDC Program Childcare Services; Finding 3, Provider Billings; Finding 5, Relative Care Providers; and Finding 6, Enrolled Provider Certifications and Identification and Address Information.

OVERVIEW:

- Childcare payments for this case during the audit period: $52,355
- Number of providers: 2
- Types of providers: 1 relative care provider and 1 licensed day-care center
- Number of children: 5 (3 were school-aged during the entire audit period)
- Parent's need reason for childcare assistance: Employment
- Childcare hours authorized for each biweekly pay period: 100 hours for each child for 4 of 5 pay periods reviewed and 75 hours for 1 of 5 pay periods reviewed
- Total number of biweekly pay periods that the providers billed DHS: The relative care provider billed during 63 biweekly pay periods and received a total of $52,268 for childcare services to children on this case. The licensed day-care center billed during 1 biweekly pay period for 1 child on the case and received $87.

OBSERVATIONS:

- The parent's application indicated that the parent needed childcare services for a total of 90 hours a pay period, including the allotted 10 hours of travel time.

However, DHS authorized all 5 children for 100 hours each for 4 of 5 pay periods reviewed, and the relative care provider billed and received childcare payments for 100 hours for all 5 children during those pay periods, including the 3 school-aged children. The parent was employed full-time as a childcare worker at a licensed day-care center. There was no parent daily work schedule on file for 1 of the 5 pay periods we reviewed, and there were no school schedules on file for the 3 school aged children.

- The relative care provider billed DHS at maximum authorization for all children on this case 100% of the time for all 63 consecutive pay periods during our audit period (approximately 2.5 years), with only one exception. One of the 5 children on this case went to a day-care center for 1 pay period during the audit period. This relative care provider received a total of $99,367 in childcare payments during our audit period, including $52,268 for childcare services for this case, and $47,099 for childcare services as a relative care provider for 5 other CDC Program cases. The relative provider consistently billed, and received payment, at the maximum authorization level for every child the provider billed for during the audit period, without exception. The relative care provider submitted daily attendance records that did not include daily childcare times or the parent's signature to certify that the childcare services were provided. Because DHS did not maintain the required provider file containing a copy of the relative care provider's identification with signature and social security number, the provider's signature on the submitted daily attendance records could not be verified. In addition, DHS could not verify that this provider existed and/or met any of the requirements for relative care providers.

Exhibit 6

CHILD DEVELOPMENT AND CARE (CDC) PROGRAM PAYMENTS
Department of Human Services (DHS)

Sample 3 - Summary of Observations for a Randomly Selected
CDC Parent and Six Providers

We randomly selected this case for review from the population of all CDC Program-funded payments made during the audit period. It helps demonstrate the effects of the control weaknesses cited in Finding 1, Need for CDC Program Childcare Assistance; Finding 2, Authorization of CDC Program Childcare Services; Finding 3, Provider Billings; and Finding 7, Day-Care Aides With Multiple Service Type Classifications.

OVERVIEW:

- Childcare payments for this case during the audit period: $9,556

- Number of providers: 7 (we did not review 1 day-care aide who received $320 in childcare payments)

- Types of providers: 1 licensed day-care center, 1 licensed group day-care home, 1 relative care provider, and 4 day-care aides

- Number of children: 2 (neither were school-aged during the audit period)

- Parent's need reason for childcare assistance: Employment and attendance at Michigan Works! (an approved employment training activity)

- Childcare hours authorized for each biweekly pay period: 100 hours for each child for 4 of 7 pay periods reviewed, 75 hours and 30 hours for each child for 2 of 7 pay periods reviewed, and 70 hours for 1 child for the remaining pay period.

- Total number of biweekly pay periods that the providers billed DHS: 33

OBSERVATIONS:

- DHS authorized childcare hours for this parent that exceeded the parent's verified need for 6 of 7 selected pay periods we reviewed. DHS overauthorized childcare hours in amounts ranging from 2 to 14 hours per pay period, dependent on the pay period. For most pay periods we reviewed, DHS obtained verification of the parent's need reason at the time of application; however, DHS did not obtain activity schedules or daily work schedules for 6 of 7 pay periods we reviewed. As a result, a comparison could not be made of the childcare hours recorded on the provider's daily childcare attendance records for the children on this case to the parent's work schedule.

- Five of the 6 providers we reviewed for this case did not submit daily childcare attendance records to support their childcare billings, per our request. In addition, we noted that 4 of these 5 providers typically billed DHS at or above the maximum amount authorized for all children. The licensed group day-care home and one day-care aide (day-care aide 2) billed DHS at maximum authorization, or greater, for all cases and all recipients during our audit period (100% of all transactions). The remaining two day-care aides (day-care aide 1 and day-care aide 3) billed DHS at the maximum authorization for all children during our audit period 80% of the time or more. These 5 providers received the following total CDC Program-funded childcare payments during our audit period:

Licensed day-care center	$ 116,134
Licensed group day-care home	$ 80,958
Day-care aide 1	$ 4,807
Day-care aide 2	$ 638
Day-care aide 3	$ 1,360

- The relative care provider for this case submitted a daily childcare time and attendance record for our review. Our review of this provider's daily childcare time and attendance record found that the provider overbilled DHS for childcare services. This provider billed DHS for childcare services as both a relative care provider for this case and a day-care aide on other sampled cases during the pay period we reviewed. Our review of the provider's daily childcare time and attendance record determined that this provider billed DHS for childcare supposedly provided at two different locations at the same time. For example, on the same day, this provider billed DHS for childcare services as a day-care aide on

one case from 7:30 a.m. until 6:45 p.m. (childcare service provided in the child's home) and as a relative care provider for the children on this case from 6:30 a.m. until 9:30 p.m. (childcare services provided in the provider's home). Our review of the parent's and the provider's files determined that the provider did not live with any of the children cared for; therefore, it would have been physically impossible for this provider to provide childcare services to children on both cases at the same time. In addition, our review of this provider's submitted daily childcare time and attendance record found that the total hours billed by the provider exceeded the total hours of childcare needed by the parent, per the parent's case file documentation. This provider billed DHS for childcare services provided to children on 6 different CDC Program cases during the audit period and billed at the maximum authorized for each child 97% of the time. The provider received a total of $14,256 in childcare payments during the audit period.

Exhibit 7

CHILD DEVELOPMENT AND CARE (CDC) PROGRAM PAYMENTS
Department of Human Services (DHS)

Sample 4 - Summary of Observations for a Randomly Selected
CDC Parent and One Provider

We randomly selected this case for review from the population of all CDC Program-funded payments made during the audit period. It helps demonstrate the effects of the control weaknesses cited in Finding 1, Need for CDC Program Childcare Assistance; Finding 2, Authorization of CDC Program Childcare Services; and Finding 3, Provider Billings.

OVERVIEW:

- Childcare payments for this case during the audit period: $24,718
- Number of providers: 1
- Type of provider: day-care aide
- Number of children: 3 (1 was school-aged during most of the audit period)
- Parent's need reason for childcare assistance: Employment
- Childcare hours authorized for each biweekly pay period: 100 hours for each child for 2 of 3 pay periods reviewed and 50 hours for each child for the remaining pay period reviewed
- Total number of biweekly pay periods that the provider billed DHS: 59

OBSERVATIONS:

- DHS did not obtain verification of the parent's need reason for 1 of 3 pay periods we reviewed. DHS authorized childcare hours that exceeded the parent's verified need hours by 20 hours for each child for 2 of the 3 pay periods we reviewed. There was no daily work schedule on file for the parent for 1 of 3 pay periods

reviewed. As a result, a comparison of the childcare times reported by the provider to the parent's work schedule could not be made.

- During our review of the parent's case file documentation, we determined that there was a gap in employment for the parent; however, childcare payments continued while the parent was unemployed. Payments made during the parent's unemployment totaled $2,208. These payments went directly to the parent because the billings were submitted to DHS under the day-care aide provider type. We also noted that DHS issued childcare payments for in-home day-care aide services to this parent during a time the parent reported to be homeless. Day-care aides are required to provide childcare services in the home of the parent and child.

- The day-care aide created and submitted documents in response to our request for daily childcare attendance records. For selected pay periods in 2004 and 2005, the provider created daily time and attendance records on forms we sent to the provider with our request in 2006. These forms were for a different purpose. The created documentation did not include the parent's signature for any of the 3 pay periods selected for review. This day-care aide billed at the maximum authorized level for all 3 children on this case for 54 (92%) of 59 pay periods, including 3 pay periods when the parent was unemployed. Childcare payments to this provider totaled $24,718 during our audit period. All of the payments were issued to the parent.

Exhibit 8

CHILD DEVELOPMENT AND CARE (CDC) PROGRAM PAYMENTS
Department of Human Services (DHS)

Sample 5 - Summary of Observations for a Randomly Selected
CDC Parent and Four Providers

We randomly selected this case for review from the population of all CDC Program-funded payments made during the audit period. It helps demonstrate the effects of the control weaknesses cited in Finding 1, Need for CDC Program Childcare Assistance; Finding 2, Authorization of CDC Program Childcare Services; Finding 3, Provider Billings; Finding 4, Unemployment Insurance Agency (UIA) Wage Verification; Finding 5, Relative Care Providers; and Finding 6, Enrolled Provider Certifications and Identification and Address Information.

OVERVIEW:

- Childcare payments for this case during the audit period: $26,889

- Number of providers: 4

- Types of providers: 3 day-care aides and 1 relative care provider

- Number of children: 4 (2 were school-aged during the entire audit period and 1 was school-aged for a portion of the audit period)

- Parent's need reason for childcare assistance: Family Independence Program (FIP) related/active employment

- Childcare hours authorized for each biweekly pay period: 100 hours for each child for 4 of 6 pay periods reviewed, 70 hours for each child during 1 pay period reviewed, and 50 hours for three children and 100 for the fourth child during 1 pay period reviewed.

- Total number of biweekly pay periods that the providers billed DHS: 45

OBSERVATIONS:

- DHS authorized childcare hours that exceeded the parent's verified need hours for 3 of the 6 pay periods we reviewed. There was no parent application for 1 of 6 pay periods reviewed and the application for 3 of the 5 remaining pay periods we reviewed did not contain sufficient information to determine the number of childcare hours the parent requested. There was no employment verification on file for the parent for 3 of 6 pay periods reviewed. UIA wage data for the parent during 2005 indicated earnings of $7,867; however, during the same period, the parent received $17,321 in childcare assistance. None of the providers for this case submitted daily time and attendance records to support their childcare billings, and all billings to DHS were at the maximum amount authorized, or greater, for every child on the case for every billing. DHS issued childcare payments totaling $19,567 directly to the parent during the audit period because the submitted billings were for day-care aide services.

- During our field visits to DHS local offices, a DHS employee informed us that the parent and relative care provider for this case each provided childcare for one another's children. There was no indication in the parent's case file that the parent was also a childcare provider; however, we determined that the parent received $18,848 as a provider for her relative care provider's children during our audit period and the relative care provider received $7,482 to provide childcare services for the children on this case. Both billed DHS at the maximum amount authorized, or more, for each child during the period October 2005 through March 2006. We did not have daily childcare attendance records for review from either provider; therefore, we were unable to determine if the providers received childcare payments for simultaneous care of each other's children (see Finding 12).

- There were no school schedules on file for the 3 school-aged children on the case. As a result, sufficient information was not available to verify that the authorized hours took into account the hours that the school-aged children were typically in school or that the providers' billings included times for childcare when school-aged recipients were typically in school.

- DHS did not maintain a provider file or a Day Care Aide/Relative Care Provider Application (FIA-220) for day-care aide 1. In addition, DHS did not maintain identification or social security number verification for this provider. Billings for this provider were always at or above the maximum amount authorized for every child,

and none of the daily childcare attendance records we requested were submitted by the provider for our review. Childcare payments totaled $7,786 during the audit period for billings for this provider.

- DHS did not maintain a provider file for day-care aide 2. Billings for this provider were always at or above the maximum amount authorized for every child, and none of the daily childcare attendance records we requested were submitted by the provider for our review. Childcare payments totaled $2,240 during the audit period for billings for this provider.

- DHS did not maintain a provider file for day-care aide 3 or obtain verification of the individual's social security number. Billings for this provider were always at or above the maximum amount authorized for every child, and none of the daily childcare attendance records we requested were submitted by the provider for our review. Childcare payments totaled $12,399 during the audit period for billings for this provider.

- DHS did not maintain a provider file for the relative care provider. The relative care provider's address, per the FIA-220 and the provider's identification, did not match the provider's address on the DHS payment system for this provider. During our review of the parent's case file, we found documentation from both the parent and the provider indicating that the relative care provider was not related to the children on the case. This provider billed at or above the maximum hours authorized for each child for all pay periods billed and did not submit the requested daily childcare attendance records for our review. Childcare payments totaled $7,482 during the audit period for billings for this provider.

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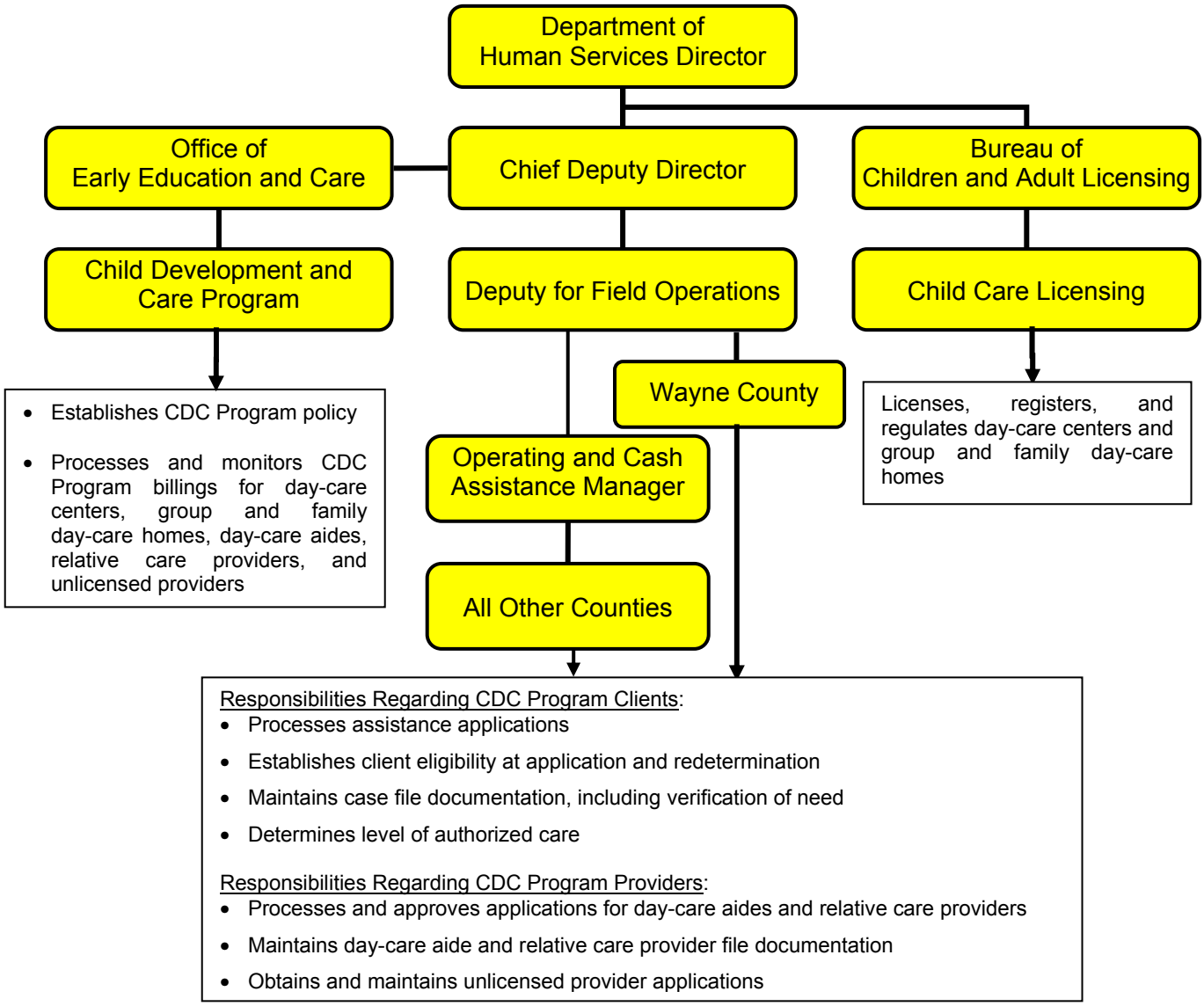
Exhibit 9

CHILD DEVELOPMENT AND CARE (CDC) PROGRAM PAYMENTS

Department of Human Services (DHS)

DHS Organizational Responsibility for CDC Program Payments



Source: DHS organization structure as of November 2007 and applicable policies and procedures for each area.

GLOSSARY

Glossary of Acronyms and Terms

applicant	The person who signs the CDC Program application and requests CDC Program services. The applicant must live with the child(ren) for whom the applicant is requesting care. Also, the applicant must be the parent, stepparent, or foster parent of the child; another related person acting as caretaker to the child; the legal guardian of the child; an unrelated adult who is at least age 21 and whose petition for legal guardianship of the child is pending; an unrelated adult with whom DHS has placed a child, subsequent to a court order identifying DHS as responsible for the child's care and supervision; or the Family Independence Program grantee for the child. Also known as "client."
case	For purposes of this report, the CDC Program eligible parent or substitute parent and his or her CDC Program eligible children.
CDC Program participant	A CDC Program provider, a CDC Program client, or a CDC Program child.
childcare	The provision of childcare for any portion of the day or night, in or out of the child's own home, during a 24-hour period.
childcare assistance	For purposes of this report, CDC Program-funded payments for childcare services.
Child Development and Care (CDC) Program	DHS's childcare assistance program. Qualified families may receive childcare assistance when the parent(s) or substitute parent(s) is unavailable to provide care because of employment, approved education or training, and/or an approved health or social condition for which treatment is being received.

child(ren)	For purposes of this report, child(ren) receiving CDC Program-funded childcare services.
client	See "applicant."
day-care aide	An individual (including a relative) who provides CDC Program childcare in the home of the CDC Program child. A day-care aide may live with the parent or substitute parent and the CDC Program child.
day-care center	A facility, other than a private residence, that is licensed by the Bureau of Children and Adult Licensing to care for one or more children for periods of less than 24 hours a day.
DCH	Department of Community Health.
DHS	Department of Human Services.
DHS-38	verification of employment form.
DOC	Department of Corrections.
effectiveness	Program success in achieving mission and goals.
enrolled providers	Day-care aides and relative care providers. DHS enrolls day-care aides and relative care providers solely to provide CDC Program-funded childcare services to CDC Program children, not the general public. DHS does not regulate enrolled providers.
family day-care home	A private home registered by the Bureau of Children and Adult Licensing to care for up to six children for periods of less than 24 hours a day. A family day-care home may be called a family childcare home.
FIA-220	Day Care Aide/Relative Care Provider Application.

fraud A type of illegal act involving the obtaining of something of value through willful misrepresentation.

fraudulent Engaging in fraud; deceitful. See "fraud."

goal The agency's intended outcome or impact for a program to accomplish its mission.

graduated tier schedule A schedule used by DHS to determine the amount of hours to authorize for CDC Program parents or substitute parents based on the parents' or substitute parents' estimated need.

group day-care home A private home in which more than 6 but not more than 12 minor children are given care and supervision for periods of less than 24 hours a day unattended by a parent or legal guardian, except children related to an adult member of the family by blood, marriage, or adoption. A group day-care home includes a home in which care is given to an unrelated minor child for more than 4 weeks during a calendar year. A group day-care home may be called a group childcare home.

health or social condition Allowable conditions may include, but are not limited to, disability, mental disturbance, chronic health condition, drug or alcohol abuse, social isolation, history of child abuse or neglect, budget mismanagement, and domestic violence. Treatment activities may include, but are not limited to, hospitalization, physical therapy, occupational therapy, speech therapy, counseling sessions, Alcoholics Anonymous meetings, Narcotics Anonymous meetings, parenting classes, support classes, food and nutrition classes, participation in the Special Supplemental Nutrition Program for Women, Infants, and Children, and money management classes.

improper payment Any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative,

	or other legally applicable requirements (including any payment to an ineligible recipient, any payment for an ineligible service, any duplicable payment, payments for services not received, and any payment that does not account for credit for applicable discount).
management control	The plan of organization, methods, and procedures adopted by management to provide reasonable assurance that goals are met; resources are used in compliance with laws and regulations; valid and reliable data is obtained and reported; and resources are safeguarded against waste, loss, and misuse.
material condition	A reportable condition that could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
multiple service types	A CDC Program childcare provider that is licensed, registered, or enrolled to provide CDC Program service under more than one service type category. Service types include day-care centers, group day-care homes, family day-care homes, day-care aides, relative care providers, and unlicensed providers. Each service type has differing requirements.
OIG	Office of Inspector General.
open-ended eligibility	Eligibility that is not time limited because DHS enters an eligibility end date of 99/99/9999.
parent or substitute parent	For purposes of this report, a CDC Program child's parent, stepparent, foster parent, legal guardian, or applicant/client who lives in the home and is unavailable to care for the child because of a valid need reason. See "applicant" (which is also known as "client").

PEM Program Eligibility Manual.

performance audit An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.

provider For purposes of this report, a person or agency enrolled, registered, or licensed by DHS to care for CDC Program eligible children. In addition, a small number of unlicensed day-care centers and homes that are exempt from licensure under Act 116, P.A. 1973, are also "providers."

provider identification number A unique seven-digit number that DHS assigns to identify enrolled, registered, licensed, and unlicensed childcare providers. A provider may be enrolled, registered, or licensed to provide CDC Program childcare services under more than one provider type; however, each provider will only have one provider identification number.

reciprocal childcare An agreement between two CDC Program parents or substitute parents to simultaneously provide CDC Program-funded childcare services for one another's children as the eligible employment that creates the need for CDC Program childcare services.

redetermination The process of determining the client's continued eligibility for CDC Program childcare assistance once every 12 months.

relative care provider A childcare provider that is related to the CDC Program child needing care by blood, marriage, or adoption as a grandparent/step grandparent, great-grandparent/step great-grandparent, aunt/step aunt, uncle/step uncle or sibling/step sibling. The individual must be age 18 or older,

must not live in the same home as the child, and must provide the childcare services in the relative's home.

reportable condition A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.

RWM Reverse Wage Match.

SSA Social Security Administration.

UIA Unemployment Insurance Agency.

unlicensed childcare providers Day-care centers and homes exempt from licensure under Act 116, P.A. 1973, including day-care centers with parents on site and day-care centers, family homes, and group homes on federal land.

valid need A need for childcare assistance that exists only when the parent or substitute parent is unavailable to care for his or her children because he or she is at work or participating in an approved education program or family preservation activity.

verified need DHS's acquisition of documentation to support the parent's or substitute parent's valid need for CDC Program childcare services.

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