

PERFORMANCE AND FINANCIAL RELATED AUDIT
OF THE
CHILD DEVELOPMENT AND CARE PROGRAM
FAMILY INDEPENDENCE AGENCY

January 2000

EXECUTIVE DIGEST

CHILD DEVELOPMENT AND CARE PROGRAM

INTRODUCTION

This report, issued in January 2000, contains the results of our performance* and financial related audit* of the Child Development and Care Program, Family Independence Agency (FIA). The financial related portion of our audit covered the period October 1, 1996 through September 30, 1998.

AUDIT PURPOSE

This performance and financial related audit was conducted as part of the constitutional responsibility of the Office of the Auditor General. Performance audits are conducted on a priority basis related to the potential for improving effectiveness* and efficiency*. Financial related audits are conducted at various intervals to permit the Auditor General to express an opinion on the State's financial statements. Also, this audit complements our FIA Single Audit*. In addition, this audit was complemented by our audit of FIA's Information Technology Management Services (Findings 7, 8, 12, and 13.b. of that report).

BACKGROUND

FIA administers the Child Development and Care Program. The Program's mission* is to ensure the availability, affordability, and quality of child care for Michigan residents. The Program provides financial assistance to eligible families for child care services when

* See glossary at end of report for definition.

the parent, legal guardian, or other caretaker is unavailable to provide child care because of employment, education, or treatment for a health or social condition. Federal program managers and the FIA Director have acknowledged that having affordable and quality child care available to parents is critical to the success of welfare reform.

FIA reimburses eligible families at a rate of 30% to 100% of child care costs, up to FIA's maximum hourly rate. FIA reimburses the child care costs for children who are cared for by day care centers*, group day care homes*, family day care homes*, child care aides*, and relative care providers*.

In fiscal years 1996-97 and 1997-98, Program expenditures for child care services were approximately \$196 million and \$320 million, respectively. Program expenditures for fiscal year 1998-99 were approximately \$400 million. Legislative appropriations for fiscal year 1998-99 were \$420 million. The enacted appropriation for fiscal year 1999-2000 is \$614.3 million, which is a 46% increase.

**AUDIT OBJECTIVES
AND CONCLUSIONS**

Audit Objective: To assess FIA's effectiveness and efficiency in ensuring that recipients receive quality child care services.

Conclusion: We concluded that FIA was generally effective and efficient in ensuring that recipients receive

* See glossary at end of report for definition.

quality child care services. However, our assessment disclosed two material conditions*:

- FIA should improve its screening and monitoring of child care aide and relative care provider applicants and enrollees (Finding 1).

FIA agreed with the corresponding recommendations and responded that it has complied or is researching its options for implementation. However, FIA disagreed with parts of the finding, which is explained in the agency preliminary response to Finding 1.

- FIA could improve its continuous quality improvement process by developing both output* and outcome* measures and by better documenting the monitoring process over Program operations (Finding 2).

FIA agreed with the corresponding recommendation and responded that it will comply.

Our assessment also disclosed reportable conditions* relating to contractual compliance and effectiveness and social security numbers (Findings 3 and 4).

Noteworthy Accomplishment: Our stakeholder survey shows that the Program has been successful in helping recipients obtain and pay for child care services, which then enables the recipients to seek and maintain work (Exhibit 4).

* See glossary at end of report for definition.

Audit Objective: To assess FIA's effectiveness and efficiency in ensuring that child care services for recipients are available and affordable.

Conclusion: We concluded that FIA was generally effective and efficient in ensuring that child care services for recipients were available; however, it was not effective or efficient in providing the Legislature with a comprehensive analysis of State and recipient affordability issues. Our assessment disclosed one material condition:

- FIA should develop, and submit to the Legislature for its consideration, a comprehensive analysis of State and recipient child care affordability issues (Finding 5).

FIA agreed with the corresponding recommendation. However, FIA disagreed with parts a. and d. of the finding, which is explained in the agency preliminary response to Finding 5.

Audit Objective: To assess whether FIA complied with federal and State statutes, regulations, rules, and policies and procedures for the distribution of child care funds.

Conclusion: We concluded that FIA often did not comply with federal and State statutes, regulations, rules, and policies and procedures for the distribution of child care funds. Our assessment disclosed one material condition:

- FIA frequently did not comply with established case file procedures for approving and documenting applicant eligibility and authorizing payments for child care services (Finding 6).

FIA agreed with the recommendation and will comply. However, FIA responded that it disagreed with parts of the finding, as explained in the agency preliminary response to Finding 6.

Our assessment also disclosed reportable conditions relating to eligibility for the foster care reimbursement rate and Enhanced Quality Improvement Program (EQUIP) grants (Findings 7 and 8).

**AUDIT SCOPE AND
METHODOLOGY**

Our audit scope was to examine the program and other records of the Child Care and Development Program. Also, our scope was to examine the financial records of the Child Development and Care Program for the period October 1, 1996 through September 30, 1998. 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.

We examined the program and other records for the period covering October 1, 1996 through December 31, 1998.

We performed a preliminary survey to obtain an understanding of child care services and we examined case files and other records at four FIA county offices. Also, we conducted a computer tape match between FIA's child care aides and relative care providers and the Central Registry* , State of Michigan criminal history files, and the Department of Consumer and Industry Services' listing of revoked child care licenses. In addition, we

* See glossary at end of report for definition.

reviewed various grants and contracts to determine if the services provided improved the quality of child care services for recipients, and we designed a statistical survey of recipients. Further, we examined FIA's processes for ensuring that child care services are affordable for parents and the State, and we reviewed a statistical sample of child care case files to determine compliance with federal regulations, State statutes, and FIA policies and procedures.

AGENCY RESPONSES

Our audit report contains 8 findings and 13 corresponding recommendations. The agency preliminary response indicates that FIA agreed with the 13 recommendations. Also, the agency preliminary response indicates that FIA did not agree with parts of 3 findings.

Mr. Douglas E. Howard, Director
Family Independence Agency
Grand Tower
Lansing, Michigan

Dear Mr. Howard:

This is our report on the performance and financial related audit of the Child Development and Care Program, Family Independence Agency. The financial related portion of our audit covered the period October 1, 1996 through September 30, 1998.

This report contains our executive digest; description of program; audit objectives, scope, and methodology and agency responses; comments, findings, recommendations, and agency preliminary responses; various exhibits, presented as supplemental information; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. 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 this audit.

AUDITOR GENERAL

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Description of Program

The Family Independence Agency (FIA) administers the Child Development and Care Program. The mission of the Program is to ensure the availability, affordability, and quality of child care for Michigan residents. The Program provides financial assistance to eligible families for child care services when the parent, legal guardian, or other caretaker is unavailable to provide child care because of employment, education, or treatment for a health or social condition. Federal program managers and the FIA Director have acknowledged that having affordable and quality child care available to parents is critical to the success of welfare reform.

In addition, FIA administers various contracts designed to improve the availability, affordability, and quality of child care. These contracts provide for a Statewide child care referral service, child care provider training, certification for child care providers, and the recruitment of infant care providers. The Child Day Care Licensing Division, Department of Consumer and Industry Services, is primarily responsible for enforcing regulations intended to maintain the quality of child care services in child care organizations* . In accordance with federal regulations, FIA enrolls child care aides and relative care providers. FIA requires child care aides and relative care providers to meet and attest to various requirements to be eligible to participate in the Program. In all other respects, FIA does not regulate aide and relative providers.

Eligibility

Eligibility is divided into three groups:

Group I: A family is automatically eligible if its need is based on protective and preventive services, the parents are licensed foster parents, or the parents are Family Independence Program (FIP) ineligible grantees. FIA reimburses 100% of child care costs of this group, up to FIA's maximum hourly rate.

Group II: A family is eligible if the parents are FIP applicants or FIP and Food Stamp recipients who are employed, participating in Work First, or attending FIA approved education and training or who have health or social treatment plans. FIA

* See glossary at end of report for definition.

reimburses 100% of child care costs of this group, up to FIA's maximum hourly rate.

Group III: A family is eligible based on family size and income level as specified in the Child Development and Care Income Eligibility Scale. For instance, a family of four in fiscal year 1997-98 who had projected annual earnings of \$31,038 or less annually would have been eligible to participate in the Child Development and Care Program. FIA reimburses 30% to 95% of the child care costs of this group, up to FIA's maximum hourly rate.

Maximum Hourly Rate

The amount paid for child care services is restricted to an approved rate which consists of the lower of the provider's rate or FIA's maximum hourly rate. The maximum hourly rate is based on the age of the child, the geographical region where the child care services are performed, and the type of provider. These rates are based on a market rate survey conducted in 1994 and are approved by the Legislature.

Income Eligibility Scale

The amount of financial assistance is determined by the Child Development and Care Income Eligibility Scale. The Scale limits the amount paid for child care services to a percentage of the maximum cost based on family size and income. For instance, a family of four in fiscal year 1997-98 who had projected annual earnings of \$31,038 annually would have received reimbursement for child care costs at the rate of 30% of the approved agency rate. Rates range from 30% to 95% of cost. Of those families that qualified for child day care services in October 1998, 91% qualified for reimbursement at 95% to 100% of the provider's rate up to FIA's maximum hourly rate (Exhibit 2).

Payments

Payments for child care services are made directly to day care centers, family day care homes, group day care homes, and relatives. Payments for aides are made through two-party checks made out to the client and the aide and mailed to the client. Day care centers and group day care homes must submit billings for payment. Day care centers, family day care homes, and group day care homes must be licensed/registered through the Child Day Care Licensing Unit, Department of Consumer and Industry Services. Child care aides and relatives must be enrolled with FIA to receive payment but are not otherwise regulated.

Expenditures

In fiscal years 1996-97 and 1997-98, Program expenditures for child care services were approximately \$196 million and \$320 million, respectively. From fiscal year 1996-97 to fiscal year 1997-98, total expenditures increased 63% while expenditures for aide and relative child care increased by 91% and 102%, respectively. As shown in Exhibit 1, the percent of total Program expenditures made to aides and relatives has increased to more than 57%.

Program expenditures for fiscal year 1998-99 were approximately \$400 million. As shown in Exhibit 2, 52,707 (91%) of the 58,158 families receiving child care payments on October 10, 1998, were paid as much as 95% to 100% of the State's maximum reimbursement rate for child care services.

Audit Objectives, Scope, and Methodology and Agency Responses

Audit Objectives

Our performance and financial related audit of the Child Development and Care Program, Family Independence Agency (FIA), had the following objectives:

1. To assess FIA's effectiveness and efficiency in ensuring that recipients receive quality child care services.
2. To assess FIA's effectiveness and efficiency in ensuring that child care services for recipients are available and affordable.
3. To assess whether FIA complied with federal and State statutes, regulations, rules, and policies and procedures for the distribution of child care funds.

Audit Scope

Our audit scope was to examine the program and other records of the Child Care and Development Program. Also, our scope was to examine the financial records of the Child Development and Care Program for the period October 1, 1996 through September 30, 1998. 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.

Audit Methodology

Our audit procedures which were performed between May 26, 1998 and March 19, 1999, included a preliminary survey to obtain an understanding of the child care services' eligibility approval process, the payment process, contracted services, and the monitoring process.

We examined the program and other records for the period covering October 1, 1996 through December 31, 1998.

Our audit included examining case files and other records at four FIA county offices: Genesee, Kalamazoo, Saginaw, and Wayne. Also, we reviewed grant award files at the contractor's office that FIA had designated to improve the quality of child care services.

In connection with our first objective, we conducted a computer tape match between FIA's child care aides and relative care providers and the Central Registry, State of Michigan criminal history files, and the Department of Consumer and Industry Services' listing of revoked child care licenses. We reviewed grants and contracts to determine if the services provided improved the quality of child care services for recipients. We also reviewed FIA's quality improvement process for child care services. In addition, we designed a statistical survey of recipients, in conjunction with FIA, to determine stakeholders' perception of the quality of child care services (Exhibit 4).

In connection with our second objective, we reviewed FIA's processes for ensuring that child care services are affordable for parents and the State. Also, we designed a statistical survey of recipients, in conjunction with FIA, to determine stakeholders' perception of the availability and affordability of child care services.

In connection with our third objective, we examined a statistical sample of child care case files to determine compliance with federal regulations, State statutes, and FIA policies and procedures. Also, we conducted a computer tape match between FIA's child care assistance recipient and foster care provider files and examined selected contractor's grant award files to determine compliance with federal regulations.

Agency Response

Our audit report contains 8 findings and 13 corresponding recommendations. The agency preliminary response indicates that FIA agreed with the 13 recommendations. Also, the agency preliminary response indicates that FIA did not agree with parts of 3 findings.

The agency preliminary response which 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 Department of Management and Budget Administrative Guide procedure 1280.02 require FIA to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

QUALITY OF CHILD CARE SERVICES

COMMENT

Audit Objective: To assess the Family Independence Agency's (FIA's) effectiveness and efficiency in ensuring that recipients receive quality child care services.

Conclusion: We concluded that FIA was generally effective and efficient in ensuring that recipients receive quality child care services. However, our assessment disclosed two material conditions. FIA should improve its screening and monitoring of child care aide and relative care provider applicants and enrollees. Also, FIA could improve its continuous quality improvement (CQI) process by developing both output and outcome measures and better documenting the monitoring process over Program operations.

Our assessment also disclosed reportable conditions relating to contractual compliance and effectiveness and social security numbers.

Noteworthy Accomplishment: Our stakeholder survey shows that the Program has been successful in helping recipients obtain and pay for child care services, which then enables the recipients to seek and maintain work (Exhibit 4).

FINDING

1. Screening and Monitoring of Aides and Relative Care Providers

FIA should improve its screening and monitoring of child care aide and relative care provider applicants and enrollees. Current policies and procedures may not protect children receiving child care services from FIA-enrolled aides and relative care providers from the risk of exploitation and endangerment.

One of FIA's primary responsibilities, according to its mission statement, is to help protect children from child abuse*, child neglect*, and child exploitation*.

* See glossary at end of report for definition.

To achieve this, FIA policy states that it will not enroll an applicant as a child care aide or a relative care provider until the applicant certifies that he/she: (1) is not a person responsible for the neglect or abuse of children in a substantiated open or closed Protective Services case, (2) has not been convicted of a crime against a child, and (3) has not had the Department of Consumer and Industry Services (CIS) revoke his/her child care license or registration. During our audit period, FIA had access to the Central Registry and CIS child care licensing information, but it did not have access to the State of Michigan criminal history file. As a result, FIA implemented a policy that required applicants to "self-declare" if they had been convicted of a crime against a child.

We conducted computer tape matches between FIA's child care aides and relative care providers and the Central Registry, the State of Michigan criminal history file, and CIS's listing of revoked child care licenses. During our audit period, there were 125,179 enrolled aide and relative providers. Our computer matches disclosed:

- a. FIA often did not verify that applicants were not on the Central Registry before they were enrolled as child care aides or relative care providers.

FIA Program Eligibility Manual (PEM) item 704 states that local office staff are to verify that an applicant is not on the Central Registry prior to enrolling the applicant. Our computer tape match identified 1,581 (1.3%) aides and relative care providers who had their names placed 2,084 times on the Central Registry prior to being improperly enrolled by FIA (Exhibit 3). Also, during our review of 33 case files, we found that FIA did not verify the Central Registry status of 7 (21.1%) providers as required by policy.

- b. FIA had not identified which crimes in the State's Criminal Code it considered to be crimes against a child and had not identified other crimes in the Code that could be considered sufficient reason for rejecting a child care aide or relative care provider application. Also, FIA's policy of self-declaration often did not identify child care aides and relative care applicants who had committed a crime against a child.

PEM item 704 prohibits the enrollment of child care aide and relative care provider applicants who have been convicted of a crime against a child. However, because FIA had not identified crimes against a child, FIA staff could not deny enrollment. At the time of our audit, FIA did not perform background checks on aide and relative applicants because it did not have the authority to access the State of Michigan criminal history files. Instead, FIA rejected an applicant only if the applicant disclosed that he/she had been convicted of a crime against a child.

We identified a crime against a child as a crime listed in the Criminal Code as a crime against a minor or child. We then performed a background check on all enrolled aides and relative care providers to determine if any had been convicted of a crime against a child. We identified 274 (0.2%) enrolled aides and relative care providers who had 318 convictions for crimes against a child. The 318 crimes included child abuse and neglect (19.8%), criminal sexual conduct against a minor (21.7%), delivery of a controlled substance to a minor (2.2%), delivery of a controlled substance on school property (0.6%), contributing to the delinquency of a minor (22.3%), and nonpayment of support (23.9%). Of the 274 enrolled aides and providers, 94 had received payments totaling \$306,601 in fiscal year 1997-98.

Also, our review found an additional 6,220 (5.0%) enrolled aides and relative care providers who had committed 9,635 other crimes. Although FIA has not identified those crimes that it considers serious enough to deny applicants' enrollment as aides and relative care providers, other states have identified crimes that they consider serious enough to deny licensure for child care organizations, such as family day care homes and group day care homes. Of the 9,635 crimes noted, 5,433 crimes committed by 3,985 (3.2%) enrolled aides and relative providers were serious enough to have warranted denial or termination of enrollment in other states. The 5,433 crimes included homicide (2.1%), criminal sexual conduct (3.0%), assault (15.4%), armed robbery (5.9%), robbery (3.5%), delivery of drugs (22.4%), and fraud (4.6%).

- c. FIA's policy of self-declaration sometimes did not identify child care aide and relative care provider applicants who had their child care licenses revoked.

PEM item 704 prohibits applicants who have had their child care licenses or registrations revoked by CIS from being enrolled as aides and relative care providers. At the time of our audit, FIA did not perform license revocation checks on aide and relative applicants, although FIA could have obtained CIS child care licensing information. Instead, FIA rejected an applicant only if the applicant disclosed that CIS had revoked his/her child care license. We compared the listing of CIS license revocations to the aide and relative care provider listing. We identified 17 (0.01%) aides or relative care providers who had their child care licenses revoked by CIS prior to enrollment as aides or relative care providers.

- d. FIA did not have a policy to periodically check the status of enrolled child care aides and relative care providers to determine if they had been added to the Central Registry, the State of Michigan criminal history files, or CIS's listing of revoked child care licenses.

We identified 765 (0.6%) child care aides and relative care providers who had their names placed 850 times on the Central Registry after enrollment (Exhibit 3).

Also, of the 274 aides and relative care providers identified in part b. as having been convicted of crimes against a child, 63 (.05%) had been convicted of 72 crimes against a child after enrollment. In addition, of the 6,220 aides and relative care providers identified in part b. as having been convicted of other crimes, 896 (0.7%) had been convicted of 1,061 crimes after enrollment. Further, 8 child care aides and relative care providers had their child care licenses revoked after enrollment.

FIA policy allows staff to re-enroll an inactive provider without performing a Central Registry check, as long as the provider is still listed as active on the system. Originally, the system automatically revoked the active status of providers who received no payments over a 15-month period. However, FIA informed us that this control was not working during our audit period. Thus, once an applicant was enrolled, a Central Registry check would not be required again.

The failure of FIA's policies and procedures to properly screen and monitor child care aide and relative care provider applicants increases the risk that children

could be abused, neglected, exploited, and endangered. Research pertaining to the sexual abuse of children suggests that the perpetrator is a person familiar to the child in the majority of cases.

In fiscal years 1997-98 and 1996-97, FIA reimbursed the 1,312 aides and relative care providers listed on the Central Registry or convicted of crimes against a child approximately \$2.2 million and \$1.2 million, respectively. Also, in fiscal year 1997-98, FIA paid aides and relative care providers who would have been denied enrollment in other states for family day care and group day care homes approximately \$8.4 million. Total payments to child care aides and relative care providers in fiscal years 1997-98 and 1996-97 were approximately \$181.9 million and \$92.3 million, respectively. As shown in Exhibit 1, child care aide and relative care providers received approximately 57% and 47% of total Program payments in fiscal years 1997-98 and 1996-97, respectively.

RECOMMENDATIONS

We recommend that FIA improve its screening and monitoring of applicants and enrollees by:

- (a) Verifying that applicants are not on the Central Registry before enrolling them as child care aides and relative care providers.
- (b) Identifying crimes against a child and other crimes that could be considered sufficient reason for rejecting a child care aide or relative care provider application and obtaining authority to perform history checks on all applicants.
- (c) Determining if child care aide and relative care provider applicants have had their child care licenses revoked.
- (d) Periodically checking the status of enrolled child care aides and relative care providers to determine if they have been added to the Central Registry, the State of Michigan criminal history files, or CIS's listing of revoked child care licenses.

AGENCY PRELIMINARY RESPONSE

FIA agreed with recommendation (a) and responded that it has complied. A memorandum was issued to each local office as soon as FIA learned of these occurrences in February 1999. The local offices were instructed to take appropriate action for each child care aide or relative care provider identified by the Office of the Auditor General (OAG) on the Central Registry who had been convicted of a crime against a child or who had his/her license revoked. Training was conducted during summer 1999 and staff were reminded of proper procedures.

Also, FIA agreed with recommendations (b), (c), and (d) and responded that it is researching its options for implementation.

However, FIA responded that it disagrees with the presentation of the facts within part b. of the finding as it relates to other states' policies and procedures on criminal checks and resulting denials or revocations. FIA stated that, per the OAG, the information on other states' practices came from the *1998 Family Child Care Licensing Study* produced by the Children's Foundation. This study covered the criminal and central registry practices in all 50 states, Washington, D.C., and various U.S. territories for the licensure/registration of group and family day care homes. It did not cover day care centers, child care aides, or relative care providers. The entries for Michigan correctly cited CIS policies regarding criminal and other checks for those applying to become licensed/registered group and family day care home providers. FIA also stated that this presentation is leading the reader to believe that other states have policies and procedures on criminal checks and resulting denials or revocations for aides and relative providers when this is not true.

Further, part d. of the finding states that FIA did not have a policy to periodically check the status of enrolled child care aides or relative care providers to determine if they had been added to the State of Michigan criminal history files. FIA responded that, while this is true, it should be noted that FIA did not have legal authority to perform this function so there would have been no policy to perform an illegal act.

EPILOGUE

The *1998 Family Child Care Licensing Study* did not address criminal record checks for child care aides and relative care providers; however, we do not believe that a different standard should be applied to any provider who has direct access to children.

Although FIA did not have the authority to check the State of Michigan criminal history files during our audit, FIA did have the authority to check the Central Registry and the CIS listing of revoked child care licenses.

FINDING

2. Continuous Quality Improvement (CQI) Process

FIA could improve its CQI process by developing both output and outcome measures and by better documenting the monitoring process over Program operations.

The mission of the Child Development and Care Program is to ensure the availability, affordability, and quality of child care for Michigan residents.

Program effectiveness can often be improved by establishing a CQI process. Such a process should include: performance indicators* for measuring outputs and outcomes; performance standards* or goals* that describe the desired level of outcomes based on management expectations, peer group performance, and/or historical performance; a management information system to accurately gather outcome data; a comparison of outcome data to desired outcomes; a reporting of the comparison results to management; and recommendations to improve effectiveness.

Also, in Executive Directive No. 1996-1, the Governor directed department directors to promote and create activities aimed at continuous improvement in the quality of the State's services when managing the use of limited State resources.

* See glossary at end of report for definition.

FIA has used portions of such a process to help manage the Program. For instance, during the budget process, the Program has proposed to FIA various changes to the income eligibility scale, the maximum rates paid, and co-pays. Also, FIA monitors its programs through reports from contractors and other agencies, billing forms, fund transfer requests, internal operation reports, and satisfaction and need surveys. However, FIA has not implemented several key elements of a continuous quality improvement process. For example:

- a. FIA had not established outcome-related performance indicators and performance standards by which management could assess the overall effectiveness of the Program. For instance, FIA had not developed performance standards to determine if it had been successful in making child care affordable to recipients (Finding 5), to evaluate the availability of child care services on a regional basis (Finding 3.a.(3)), and to evaluate the effectiveness of child care services provided by contractors (Finding 3.b.).
- b. FIA had not established the policies and procedures necessary to effectively use its management information system to monitor Program effectiveness. FIA contracts with organizations to provide services and to obtain output and outcome data designed to increase the availability and quality of child care. However, FIA sometimes did not obtain sufficient information, or sometimes did not review the information obtained, to facilitate an assessment of Program effectiveness (Finding 3).

These exceptions have prevented FIA from implementing a comprehensive CQI process to improve overall Program effectiveness. Instead, FIA has concentrated on resolving current output issues, such as approving child care applications, making payments, and referring recipients for child care services. As a result, FIA's ability to improve Program effectiveness has been greatly diminished.

RECOMMENDATION

We recommend that FIA improve its CQI process by developing both output and outcome measures and by better documenting the monitoring process over Program operations.

AGENCY PRELIMINARY RESPONSE

FIA agreed with the finding and recommendation and responded that it will comply. FIA has continued to make progress, since prior to the time of the audit, in contract language, contractor reporting formats, Project Zero* monitoring procedures, client satisfaction survey standards, etc.

FINDING

3. Contractual Compliance and Effectiveness

FIA should improve its written policies and procedures designed to evaluate both contract compliance and the efficiency of its child care services contracts. Also, FIA should improve its performance standards to enable it to better evaluate the effectiveness of its child care services contracts.

FIA administers various contracts designed to improve the availability, affordability, and quality of child care. FIA contracted with the State Office of the Michigan Community Coordinated Child Care Associations and 15 regional offices to obtain some of these services. In fiscal years 1997-98 and 1996-97, FIA paid the 15 regional offices approximately \$2.3 million and \$1.8 million respectively to enhance the Program. Overall, in fiscal years 1997-98 and 1996-97, FIA paid 21 contractors approximately \$7.2 million and \$5.6 million, respectively, to enhance the Program:

a. Our review of FIA's monitoring of Program contracts and the efficiency of the contracts disclosed:

- (1) FIA did not establish output measures for 6 (26%) of 23 and 5 (33%) of 15 types of contracted services in fiscal years 1997-98 and 1996-97, respectively. As a result, FIA often could not objectively determine if contractors provided the level of services anticipated and contracted for. For example, contracts with the 15 regional offices required that referral services be performed "as necessary" to meet demand. Our analysis of demand for the 15 regional offices between fiscal years 1996-97 and 1997-98 disclosed that overall funding for referrals increased \$339,000

* See glossary at end of report for definition.

(35%), although the number of total referrals dropped 2,067 (4%). For instance, the funding for one regional office increased from \$56,238 to \$103,981 (85%), although the number of referrals dropped from 3,151 to 2,779 (12%) in fiscal years 1996-97 and 1997-98, respectively.

- (2) FIA did not document its analysis of the regional offices' reported cost per child care referral. Such an analysis should document the efficiency of each regional office as compared to other regional offices. We analyzed reported costs and referrals and determined that the cost per child care referral for the 15 regional offices ranged from \$17.67 to \$94.86 in fiscal year 1997-98 and from \$11.42 to \$61.18 in fiscal year 1996-97.
- (3) The regional offices sometimes did not report required information pertaining to the availability and accessibility of child care services within an office's region. We reviewed needs assessment reports from 6 of the 15 regional offices and determined that 2 (33%) reports did not contain sufficient information to assess availability and accessibility. FIA also identified these deficiencies, but it did not require the regional offices to submit the information even though it was required by contract. FIA paid the regional offices \$463,022 and \$323,368 to obtain and report this service information in fiscal years 1997-98 and 1996-97, respectively. Subsequent to our audit, FIA designed new procedures to help it obtain complete reporting from all regional offices.
- (4) FIA did not obtain sufficient information from the Department of Education to monitor compliance with the Three-Year-Olds at Risk contracts. FIA awarded the Department \$500,000 and \$770,000 in fiscal years 1997-98 and 1996-97, respectively, to establish a grant program for three-year-old children with development delays, special needs, or other special assistance needs.

FIA required and the Department submitted annual and semi-annual progress reports. However, the Department's reports did not address 4 (67%) of 6 and 3 (30%) of 10 fiscal year 1997-98 and fiscal year 1996-97 contract requirements, respectively. For example, the contract required the Department to award 90% of the grants to programs that operate full

day and year programs. The Department's reports contained no information pertaining to this requirement.

- (5) FIA did not ensure that all contractors provided the services that FIA contracted for. FIA did not perform compliance monitoring for the fiscal year 1997-98 and 1996-97 Project Zero child care service contracts. FIA expended \$71,234 and \$448,132 for these contracts in fiscal years 1997-98 and 1996-97, respectively.
- (6) The regional offices often did not conduct required client satisfaction surveys. FIA required the regional offices to annually survey 20% of their low income clients who received child care referral services to determine Program satisfaction. Our analysis disclosed that 6 (40%) of 15 regional offices did not conduct the required survey in fiscal year 1996-97. FIA awarded the regional offices approximately \$1.2 million for child care referral services in fiscal year 1996-97.

Although FIA may contract for various Program functions, Title 45, Part 98, section 11(b)(6) of the *Code of Federal Regulations (CFR)* requires FIA to retain overall responsibility for the administration of the Program, including monitoring contracted programs and services. Proper contract monitoring is essential to ensure that contracts achieve their purpose at the least possible cost. During our audit, FIA developed a monitoring guideline to evaluate the 15 regional offices. However, the monitoring results were not yet available for our review during the audit. Further, the guideline is limited because it is applicable to only the 15 regional offices. The costs associated with the 15 regional offices was approximately 32% of the total costs for child care quality service contracts in both fiscal years 1996-97 and 1997-98.

- b. Our review of FIA's efforts to evaluate the effectiveness of services provided by contractors disclosed:

- (1) FIA did not establish outcome measures for 18 (75%) of 24 and 14 (88%) of 16 types of contracted services in fiscal years 1997-98 and 1996-97, respectively. As a result, FIA often could not evaluate the effectiveness of the services provided by the contractors. For example, FIA awarded

\$821,280 to CIS in fiscal years 1997-98 and 1996-97 to support CIS staff who monitor child care providers' compliance with licensing laws, rules, and regulations. Without established outcome measures, FIA could not determine if its funding of CIS activities was effective in increasing compliance with licensing laws, rules, and regulations.

- (2) FIA did not document its analysis of client satisfaction survey data obtained from 9 of the 15 regional offices that submitted data for fiscal year 1996-97. As a result, FIA was not able to document the effectiveness of child care referral services. Our analysis of survey data received from 5 of the 9 regional offices disclosed that clients were generally satisfied with the referral services, although actual placement percentages ranged from 38% to 75%. FIA's evaluation of client satisfaction data would be a critical element in evaluating overall Program effectiveness.

In response to our preliminary findings, FIA began to develop and implement internal controls that could enable it to document the effectiveness and efficiency of child care services contracts.

RECOMMENDATIONS

We recommend that FIA improve its written policies and procedures designed to evaluate both contract compliance and the efficiency of its child care services contracts.

We also recommend that FIA improve its performance standards to enable it to better evaluate the effectiveness of its child care services contracts.

AGENCY PRELIMINARY RESPONSE

FIA agreed with the finding and responded that it has complied with the recommendations. FIA stated that it has established written policies and procedures designed to evaluate both contract compliance and the efficiency of its child care services contracts beginning October 1997. However, as part of its CQI processes, FIA continues to review and strengthen its evaluation policies and procedures. For example, as of fiscal year 1997-1998, all but one of the Project Zero child care contracts had been written based on standardized language in a

child day care model contract. The last contract continues as a local office contract under a multi-year contract extension. Instructions have been issued Statewide for the monitoring of all Project Zero contracts. The monitoring includes annual face-to-face visits with the contractors by the local FIA Project Zero coordinators. The coordinators now use a standardized check list to monitor for compliance, efficiency, and effectiveness. They also use a standardized methodology for selecting contractors' case records for review. The coordinators are to submit their annual review findings to both FIA central office child day care program and contract management staff for further review, analysis, and follow-up as needed. Also, fiscal year 1998-1999 and fiscal year 1999-2000 contracts include more specific language regarding Project Zero contract monitoring, such as the content of monthly reports due to the local FIA office.

Also, FIA stated that it has established performance standards to enable it to evaluate the effectiveness of its child care services contracts. However, as part of its CQI processes, FIA continues to review and strengthen its performance standards and ability to evaluate the effectiveness of its child care services contracts on an ongoing basis. See the example in the previous paragraph relating to the strengthening and monitoring of Project Zero contracts.

FINDING

4. Social Security Numbers (SSNs)

FIA did not use applicants' SSNs, in conjunction with other personal data, to search all necessary databases to obtain information critical to the screening of applicants. As a result, FIA may enroll, or the CIS Child Day Care Licensing Division may license, applicants as aides or relative care providers although they may not qualify for enrollment or licensure.

PEM item 704 states that FIA will not enroll applicants as child care aides or relative care providers if they are on the Central Registry or if CIS has revoked their child care licenses. Although the Registry contains SSNs of perpetrators* , FIA's computer software does not allow staff to search the Registry using SSN.

* See glossary at end of report for definition.

Staff can search the Registry using only an applicant's name and birth date. Also, CIS's revoked child care license database often did not include applicants' SSNs. At the time of our audit, CIS's database did not contain SSNs for 135 (56%) of 241 applicants with revoked licenses.

FIA's inability to obtain and access complete applicant SSN information has resulted in the inappropriate enrollment, registration, or licensure of providers. For example, CIS was unable to verify that 4 of 9 aides or relative care providers, who were identified in our Central Registry and CIS licensing files tape match, had active child care licenses. In each case, the applicant's name had changed or the middle initial was different between the Central Registry and the licensing database.

RECOMMENDATION

We recommend that FIA ensure that it uses applicants' SSNs, in conjunction with other personal data, to search all necessary databases to obtain information critical to the screening of applicants.

AGENCY PRELIMINARY RESPONSE

FIA agreed with the finding and recommendation. FIA stated that it is reviewing the recommendation and considering its options.

AVAILABILITY AND AFFORDABILITY

COMMENT

Audit Objective: To assess FIA's effectiveness and efficiency in ensuring that child care services for recipients are available and affordable.

Conclusion: We concluded that FIA was generally effective and efficient in ensuring that child care services for recipients were available; however, it was not effective or efficient in providing the Legislature with a comprehensive analysis of State and recipient affordability issues. Our assessment disclosed one material condition. FIA should develop, and submit to the Legislature for its consideration, a comprehensive analysis of State and recipient child care affordability issues.

FINDING

5. Providing Affordable Child Care With Limited State Resources

FIA should develop, and submit to the Legislature for its consideration, a comprehensive analysis of State and recipient child care affordability issues.

One of the Program's primary goals is to make child care services affordable for eligible recipients. To help achieve this goal, federal funding requirements for child care services have become more flexible. For example, the U.S. Department of Health and Human Services (HHS) suggests that affordable child care services should cost 10% or less of a recipient's total income. HHS considers the amount paid by low income working parents for child care to be critical in determining whether the parents can become, and/or remain, self-sufficient. To expand the number of eligible recipients, in 1997 HHS raised the income level where it would fund child care service payments from 75% of the State's median income* to 85% of the State's median income. In addition, to ensure that reimbursement rates approximate actual costs, HHS requires that states periodically update their income eligibility scale and often require states to conduct market rate surveys. Further, additional funds were made available to support child care programs through the Temporary Assistance for Needy Families block grant.

Our review of FIA's efforts to provide affordable child care with limited State resources disclosed:

- a. FIA, in consultation with the Legislature, should define what it considers to be affordable child care services for eligible recipients.

To initiate a review of Program potential, the eligible target population must be defined. Based on FIA's best information on family income and provider rates as of August 1, 1998, we determined that 21,584 (45%) of 47,779 families receiving day care assistance may pay more than HHS's suggested 10% limitation of their income for child care services. These 21,584 families paid from 11% to 35% of their monthly income to obtain child care services.

* See glossary at end of report for definition.

- b. Although FIA has proposed changes to the Program's income eligibility scale, the scale had not been revised since 1991.

The Program's sliding fee scale was established in 1991, but it has not been updated to keep pace with increases in the State median income or the increase in the federal eligibility level. For example, since 1992, FIA has paid part of the child care costs of a family of four if its annual income was at or below \$31,032. In 1992, this annual income level was 72% of the State's median income (\$42,825) for a family of four. In 1998, this annual income level was 59% of the State's median income (\$52,995) for a family of four.

- c. Although FIA completed a market rate survey in March 1999, the Program's current child care rates are based on a market rate study completed in December 1994.

FIA had not established a policy providing for a periodic market rate survey to update its hourly child care rates. Previously, FIA completed biennial market rate surveys in 1992 and 1994 to comply with federal regulations. As of August 1998, federal regulation 45 *CFR* 98.43(b)(2) required FIA to perform a market rate survey within two years of the effective date of the current State Plan (October 1, 1997) to ensure that the payment rates continue to provide equal access. In fall 1998, FIA initiated a new market rate survey that, when completed, could be used to establish child care reimbursement rates in fiscal year 2000-2001. Therefore, FIA's current child care services rates may not be based on day care recipients' actual cost of care.

- d. FIA should evaluate the long-term demand for child care services and the potential State resources that would be needed if all or a portion of these services were funded.

To comply with *Michigan Administrative Code* R 400.5009, FIA has annually recommended to the Legislature child care funding levels to reimburse providers for services provided during the current and succeeding fiscal year. FIA payments for child care services increased 63% from approximately \$196 million in fiscal year 1996-97 to \$320 million in fiscal year 1997-98. Program expenditures in fiscal year 1998-99 increased to \$400 million, a 25% increase.

In addition, the enacted appropriation for fiscal year 1999-2000 is \$614.3 million, which is a 53% increase.

The Department of Management and Budget estimated that, in October 1998, the Program was serving approximately 21% of the State's eligible low income parents. This indicates that many eligible low income parents have chosen to not participate in the Program or were not aware of the Program. If all eligible low income parents become aware of and choose to participate in the Program, the Department of Management and Budget estimates that fiscal year 1999-2000 child care service costs could be approximately \$1.7 billion.

FIA informed us that it provides the Legislature data and related discussion on child care costs and Program funding requirements each year as part of the ongoing appropriation process. However, FIA has not developed and provided the Legislature with information showing affordable child care for individual recipients or the potential need for State resources if all current or potentially eligible clients were to obtain assistance. Also, in fiscal years 1997-98 and 1998-99, the Legislature approved supplemental appropriation requests for the Program of \$108.7 million and \$120.0 million, respectively.

To permit the Legislature to make an informed decision on the amount of resources to allocate to the Program, FIA should provide the Legislature with sufficient information to determine the level of child care funding that provides affordable child care to the greatest number of eligible recipients that can be funded from limited State resources.

RECOMMENDATION

We recommend that FIA develop, and submit to the Legislature for its consideration, a comprehensive analysis of State and recipient child care affordability issues.

AGENCY PRELIMINARY RESPONSE

FIA agreed with the recommendation but disagreed with parts a. and d. of the finding. FIA stated that it has provided the Legislature with accurate and relative data on child care costs and program funding requirements each year. The dramatic increases in child care funding referenced in the OAG audit are

reflections of this ongoing data analysis, sharing with the Legislature, and legislative response to the need. In addition, for the budget discussions for fiscal year 2000-2001, FIA is providing the Legislature with a comprehensive analysis of these issues.

FIA, in its approved State Plan, defined "affordable child care" as "Child day care services provided at the rate of payment or reimbursement by the Family Independence Agency." Also, what is affordable is debated each year in the legislative process. The OAG's own survey of child day care program clients demonstrated that 191 (51.8%) of 369 clients did not pay any money out of pocket for their day care services and 105 (60.3%) of 174 stated that day care was affordable. The survey summary also stated that most written comments received from those surveyed were favorable. This is particularly significant as the respondents included clients using all types of providers (day care centers, group and family day care homes, child care aides, and relative care providers) and clients who had copays as well as clients who did not.

FIA has formally proposed revisions to the rates in previous budgets. However, they were not approved in the legislative process. Further, *Michigan Administrative Code* R 400.5009 states that provider reimbursement rates will be based on available appropriations and the number of eligible recipients.

COMPLIANCE

COMMENT

Audit Objective: To assess whether FIA complied with federal and State statutes, regulations, rules, and policies and procedures for the distribution of child care funds.

Conclusion: We concluded that FIA often did not comply with federal and State statutes, regulations, rules, and policies and procedures for the distribution of child care funds. Our assessment disclosed one material condition. FIA frequently did not comply with established case file procedures for approving and documenting applicant eligibility and authorizing payments for child care services.

Our assessment also disclosed reportable conditions relating to eligibility for the foster care reimbursement rate and Enhanced Quality Improvement Program (EQUIP) grants.

FINDING

6. Case File Approval and Documentation Procedures

FIA frequently did not comply with established case file procedures for approving and documenting applicant eligibility and authorizing payments for child care services. As a result, FIA often made inaccurate or inappropriate child care services payments.

FIA classifies clients who are determined eligible into three groups: Group I, Group II, and Group III. FIA reimburses clients in each group a percentage of their actual cost of day care, up to FIA's maximum allowable reimbursement rate. We randomly selected 55 child care services case files and determined:

- a. FIA could not locate 1 (2%) case file.
- b. FIA could not locate documentation needed for 3 (6%) of the 54 case files to support fiscal year 1996-97 Program activities.
- c. FIA did not retain complete documentation to support the proper enrollment of child care aides and relative care providers in 8 (24%) of the 33 applicable case files. PEM item 704 states that case files are to contain a provider application form (FIA-220 or FIA-2351), a protective services status check form (FIA-4661), and a verification of the validity of the aide's or provider's SSN. We noted that 2 case files did not contain any of the required documentation; 4 files did not contain an FIA-4661 and 1 file contained an incomplete FIA-4661; and 3 files did not contain documentation that the aide's or provider's SSN was verified.
- d. FIA did not document that a valid "need reason" for child care existed for 4 (7%) of the 54 cases prior to authorizing reimbursement for child care services. PEM item 703 states that a valid need reason for child care exists only when each family member is unavailable to provide care because of education, employment, and/or a physical, mental, or emotional condition for which treatment is being received.

- e. FIA did not verify the foster care status in 3 (75%) of the 4 applicable cases prior to authorizing reimbursement for child care services. FIA provides full reimbursement, up to FIA's maximum reimbursement rates, for day care services needed by clients who are active foster care providers (see Finding 7).
- f. FIA did not classify 3 (6%) of 54 clients within the proper eligibility group. FIA classified 2 clients as Group II rather than Group III. As a result, FIA over reimbursed these clients. Also, FIA classified 1 client as Group III rather than Group II. As a result, FIA under reimbursed this client.
- g. FIA did not obtain sufficient documentation for 2 (7%) of 30 cases to support the client's attempt to obtain child support or establish paternity when a parent was absent from the family group and not paying child support. PEM item 703 requires clients to provide proof that they are actively engaged in obtaining support from absent parents prior to being authorized to receive reimbursement for child care services.
- h. FIA did not classify 3 (8%) of 38 providers as the proper provider type. We noted 2 instances in which providers classified as relative care providers were providing care in the client's home and 1 instance in which a provider was classified as a child care aide and providing care in his/her own home. PEM item 704 states that providers who give care in a client's home are child care aides and are paid less than relative care providers who provide care in their own homes. As a result, FIA overpaid 2 providers and underpaid 1 provider for child care services.
- i. FIA did not obtain sufficient documentation for 11 (20%) of 54 cases to support the hours of care authorized for day care services. PEM item 703 requires adequate documentation to justify the number of hours of day care that FIA authorizes. Further, we noted that FIA issued a memorandum during our audit period which strongly recommended that specialists authorize the maximum number of day care hours expected to be needed during the period of authorization. The intent was to reduce the need for continuous changes in the hours authorized because of variations in day care hours needed. However, this policy seems to have created an atmosphere where

caseworkers authorize hours based on "expected need" rather than actual documentation. One of the 11 exceptions was the direct result of this policy.

- j. FIA did not obtain sufficient documentation for 3 (6%) of 54 cases to support verification of the provider's actual cost of care. PEM item 702 requires FIA to document the actual cost of care on the child care aide/relative care provider application and verification of child care costs form FIA-220 or the provider verification of child care costs form FIA-4025. These forms were missing in all 3 cases.
- k. Payment rate documentation in 2 (4%) of 45 case files with child care aides or relative care providers supported a rate lower than authorized and paid to the provider. PEM item 705 requires that providers be paid the lesser of their actual rate or FIA's maximum rate allowable for the shelter area and provider type in question.
- l. FIA did not obtain sufficient documentation for 6 (40%) of the 15 applicable cases to verify general public rates charged by day care centers. PEM item 705 requires FIA to verify day care centers' rates charged to the general public to ensure that FIA's reimbursement is the lower of the public rate or FIA's maximum rates. FIA generally verifies these rates by obtaining the centers' brochures or applications.

In total, only 24 (44%) of the 55 case files tested were in full compliance with FIA's internal control procedures. FIA's failure to properly document and determine client eligibility and payment authorization rates results in inappropriate and inaccurate child care payments. The client population of the Program has increased significantly in the past two years and is expected to continue to increase significantly in the future.

Similar findings related to case management were reported in our two prior Single Audits, which covered the periods October 1, 1992 through September 30, 1994 and October 1, 1994 through September 30, 1996. In response to both audit reports, FIA agreed to comply with our recommendations.

RECOMMENDATION

WE AGAIN RECOMMEND THAT FIA COMPLY WITH ESTABLISHED CASE FILE PROCEDURES FOR APPROVING AND DOCUMENTING APPLICANT ELIGIBILITY AND AUTHORIZING PAYMENTS FOR CHILD CARE SERVICES.

AGENCY PRELIMINARY RESPONSE

FIA agreed with the recommendation and responded that it will comply.

However, FIA disagreed with part i. of the finding. The finding addresses documentation to support the hours of care authorized for day care services. The specialist authorizes the maximum number of day care hours that are reasonable for the clients and their circumstances. Thus, authorized hours were based on expected need rather than actual documentation. This policy was implemented to cover unexpected increases that may occur due to an increase in a parent's hours of employment, unexpected overtime, adverse weather conditions which may require additional time for the parent to travel to or from work, etc. It should, however, be noted that these positive bill providers submit bills for the actual hours of care provided at the end of each payment period. So while extra hours may be authorized, payment is based only on the actual hours of day care provided.

Also, FIA disagreed with part l. of the finding. The finding states that PEM item 705 requires FIA to verify day care center rates charged to the general public. FIA made a change in December 1996 whereby the provider certified the rate on the child day care billing/attendance invoice (FIA-105A), which contains the statement "I am not charging the FIA more than I charge the general public." The provider recertifies this requirement by signing the FIA-105A each time an invoice is submitted for payment. A payment is not made unless the FIA-105A is completed and signed. However, PEM item 705 was not changed to reflect this change in policy.

EPILOGUE

FIA responded that its policy allowed caseworkers to approve up to 10 additional hours of child care beyond documented need. All 11 exceptions in item i. had more than 10 hours of care authorized beyond documented need.

FINDING

7. Eligibility for the Foster Care Reimbursement Rate

FIA did not verify the eligibility of child care assistance recipients who claimed to be eligible for the foster care reimbursement rate. As a result, FIA overpaid some child care assistance providers and recipients.

Recipients who are also foster care parents are eligible to be paid 100% of their child care costs up to FIA's maximum rates. Depending on family income level, FIA's approval for the foster care reimbursement rate could increase a recipient's child care assistance.

FIA policies and procedures did not require FIA local office staff to verify that a child care assistance applicant, claiming to be a foster care parent, was a foster care parent. As a result, applicants could inappropriately claim and be approved for foster care parent status.

To determine the appropriateness of foster care parent status, we performed a computer tape match between FIA's child care assistance recipient and foster care provider files. The tape match disclosed that, as of September 22, 1998, 175 (8%) of 2,158 child care assistance recipients approved for foster care parent status did not have active foster care provider case files. Therefore, these 175 cases may have been ineligible for the foster care reimbursement rate.

During the period October 1, 1996 through September 22, 1998, FIA reimbursed these 175 recipients \$285,410. Although these recipients may have been eligible for some child care assistance based on family income, we believe that the recipients were not eligible for a substantial portion of the payments received. FIA's review of 3 of the 175 cases determined that all 3 child care assistance recipients were not foster parents for the children for whom they were receiving the foster care reimbursement rate.

RECOMMENDATIONS

We recommend that FIA verify the eligibility of child care assistance recipients who claim to be eligible for the foster care reimbursement rate.

We also recommend that FIA identify and recoup any overpayments for foster care reimbursement and refer cases to the Office of Inspector General, when appropriate.

AGENCY PRELIMINARY RESPONSE

FIA agreed with the finding and recommendations. FIA stated that appropriate follow-up actions are being taken. This includes a systems edit implemented, effective October 4, 1999, to check the children's services database for the child's foster care status and living arrangement whenever a caseworker tries to enter a day care authorization at the foster care reimbursement rate.

Also, FIA stated that appropriate follow-up actions are being taken to identify, review, and take any necessary recoupment action on the 175 previously opened foster care reimbursement rate cases identified by the audit as erroneous. Results to date have demonstrated that many still qualify for 100% reimbursement of child care costs either because the children involved were active with foster care (but under a different recipient number) or because the family qualified for 100% reimbursement under another Group I or II category.

FINDING

8. Enhanced Quality Improvement Program (EQUIP) Grants

FIA did not require that its contractor retain documentation on how it selected EQUIP grants for award. As a result, FIA could not document that EQUIP grants had been awarded for proposals that would most benefit the Program.

FIA contracted with the State Office of the Michigan Community Coordinated Child Care Associations to solicit grant proposals and award federally funded EQUIP grants. In fiscal year 1997-98, the State Office awarded 206 grants, totaling approximately \$763,000, to licensed day care providers intended to increase the availability of and improve the quality of child care services.

Our review of 39 EQUIP grants disclosed that the State Office could not document that EQUIP grants were awarded in accordance with contract provisions. The State Office was to obtain and score grant proposals and award grants to applicants with

the highest rated proposals. However, the State Office could not document its ratings and the basis for awarding the 39 EQUIP grants.

RECOMMENDATION

We recommend that FIA require its contractor to retain documentation on how it selects EQUIP grants for award.

AGENCY PRELIMINARY RESPONSE

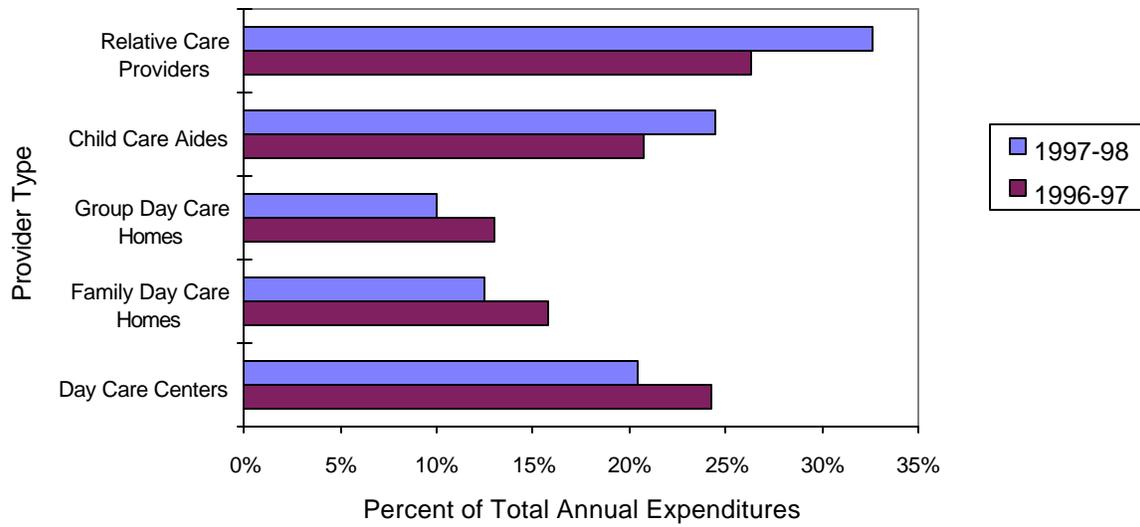
FIA agreed with the finding and recommendation and responded that it has complied.

FIA stated that, effective fall 1998, it has required the contractor to retain the documentation that supports the grant awards.

SUPPLEMENTAL INFORMATION

CHILD DEVELOPMENT AND CARE PROGRAM

Family Independence Agency
Percent of Total Annual Child Care
Expenditures by Provider Type
Fiscal Years 1997-98 and 1996-97

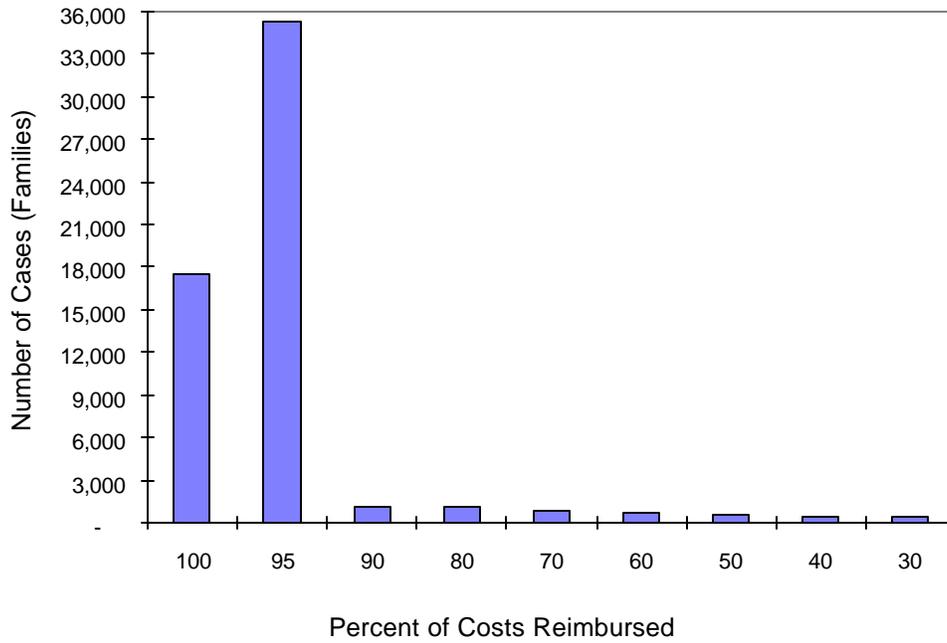


Source: FIA Budget Division

CHILD DEVELOPMENT AND CARE PROGRAM

UNAUDITED
Exhibit 2

Family Independence Agency
Families by Percent of Cost Reimbursed
As of October 10, 1998



Source: Unified Child Day Care System

CHILD DEVELOPMENT AND CARE PROGRAM
 Family Independence Agency
 Summary of Central Registry Perpetrator Matches
As of September 29, 1998

<u>Perpetrator Type*</u>	<u>Before Enrollment</u>	<u>After Enrollment</u>
Parent (custodial)	1,922	700
Parent (noncustodial)	42	32
Sibling (adult)	21	4
Other relative	39	46
Other household member (nonrelative)	28	46
Day care provider	2	2
Foster parent or staff member of foster, shelter, or group home	13	4
Child care institution staff	2	1
Other	15	15
Total Matches	2,084	850
Total Perpetrators	1,581	765

*This is the relationship between the perpetrator and the child involved in the incident(s) leading to entry on the Central Registry. It is not necessarily the relationship between the child and the perpetrator acting as an individual child care provider.

CHILD DEVELOPMENT AND CARE PROGRAM

Family Independence Agency (FIA)

Child Care Services Survey

Summary of Survey Responses

Copies of Survey Distributed	770
Number of Responses	369
Response Rate	48%

Respondent Demographic Information:

Gender:

Female	355
Male	14

Race:

White	207
Black	147
Asian and Pacific Islanders	1
Hispanic	8
Unknown	6

Location:

Detroit	86
Flint	23
Grand Rapids	13
Kalamazoo	7
Pontiac	7
Port Huron	5
Saginaw	14
Traverse City	6
All others	208

Type of Day Caregiver Surveyed:

Day Care Center	67
Family Home	42
Group Home	44
Day Care Aide	96
Relative	120

This summary continued on next page.

CHILD DEVELOPMENT AND CARE PROGRAM

Family Independence Agency (FIA)

Child Care Services Survey

Summary of Survey Responses

Continued

<u>Question</u>	<u>Response</u>	<u>Day Care Center</u>		<u>Family Home</u>		<u>Group Home</u>	
		<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
1. Do you pay money out of your own pocket for child care services?	Yes	49	73.1%	22	52.4%	29	65.9%
	No	17	25.4%	19	45.2%	15	34.1%
	Sometimes	1	1.5%	1	2.4%	0	
	No Response	0		0		0	
	Totals	<u>67</u>	<u>100.0%</u>	<u>42</u>	<u>100.0%</u>	<u>44</u>	<u>100.0%</u>
2. Is the amount you pay to your caregiver affordable? (when response to Question 1 was "yes")	Yes	25	51.0%	18	81.8%	21	72.4%
	No	19	38.8%	4	18.2%	7	24.1%
	Yes and No	2	4.1%	0		0	
	No Response	3	6.1%	0		1	3.4%
	Totals	<u>49</u>	<u>100.0%</u>	<u>22</u>	<u>100.0%</u>	<u>29</u>	<u>100.0%</u>
3. Has your caregiver refused to provide you services or threatened to not provide services because the caregiver has not been paid by FIA?	Yes	6	9.0%	5	11.9%	0	
	No	61	91.0%	36	85.7%	44	100.0%
	No Response	0		1	2.4%	0	
	Totals	<u>67</u>	<u>100.0%</u>	<u>42</u>	<u>100.0%</u>	<u>44</u>	<u>100.0%</u>
4. Was transportation a major reason for your choice of a caregiver?	Yes	25	37.3%	11	26.2%	15	34.1%
	No	41	61.2%	30	71.4%	27	61.4%
	No Response	1	1.5%	1	2.4%	2	4.5%
	Totals	<u>67</u>	<u>100.0%</u>	<u>42</u>	<u>100.0%</u>	<u>44</u>	<u>100.0%</u>
5. If transportation was a major reason for your choice of caregiver, is the location of your caregiver convenient to your home? (when response to Question 4 was "yes")	Yes	17	68.0%	9	81.8%	10	66.7%
	No	4	16.0%	1	9.1%	3	20.0%
	No Response	4	16.0%	1	9.1%	2	13.3%
	Totals	<u>25</u>	<u>100.0%</u>	<u>11</u>	<u>100.0%</u>	<u>15</u>	<u>100.0%</u>
6. If transportation was a major reason for your choice of caregiver, is the location of your caregiver convenient to your work? (when response to Question 4 was "yes")	Yes	22	88.0%	10	90.9%	13	86.7%
	No	3	12.0%	1	9.1%	2	13.3%
	No Response	0		0		0	
	Totals	<u>25</u>	<u>100.0%</u>	<u>11</u>	<u>100.0%</u>	<u>15</u>	<u>100.0%</u>
7. Do you have a child who needs special day care because of a medical problem?	Yes	4	6.0%	0		2	4.5%
	No	63	94.0%	41	97.6%	41	93.2%
	No Response	0		1	2.4%	1	2.3%
	Totals	<u>67</u>	<u>100.0%</u>	<u>42</u>	<u>100.0%</u>	<u>44</u>	<u>100.0%</u>
8. If you have a child who needs special day care because of a medical problem, how difficult was it to find a caregiver? (when response to Question 7 was "yes")	Very Difficult	1	25.0%	0		0	
	Difficult	1	25.0%	0		0	
	Somewhat Difficult	0		0		1	50.0%
	Not Difficult	1	25.0%	0		1	50.0%
	No Response	1	25.0%	0		0	
Totals	<u>4</u>	<u>100.0%</u>	<u>0</u>		<u>2</u>	<u>100.0%</u>	

This summary continued on next page.

<u>Day Care Aide</u>		<u>Relative</u>		<u>Total</u>	
<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
42	43.8%	32	26.7%	174	47.2%
54	56.3%	86	71.7%	191	51.8%
0		1	0.8%	3	0.8%
0		1	0.8%	1	0.3%
<u>96</u>	<u>100.0%</u>	<u>120</u>	<u>100.0%</u>	<u>369</u>	<u>100.0%</u>
22	52.4%	19	59.4%	105	60.3%
18	42.9%	10	31.3%	58	33.3%
0		1	3.1%	3	1.7%
2	4.8%	2	6.3%	8	4.6%
<u>42</u>	<u>100.0%</u>	<u>32</u>	<u>100.0%</u>	<u>174</u>	<u>100.0%</u>
10	10.4%	15	12.5%	36	9.8%
85	88.5%	104	86.7%	330	89.4%
1	1.0%	1	0.8%	3	0.8%
<u>96</u>	<u>100.0%</u>	<u>120</u>	<u>100.0%</u>	<u>369</u>	<u>100.0%</u>
29	30.2%	40	33.3%	120	32.5%
64	66.7%	76	63.3%	238	64.5%
3	3.1%	4	3.3%	11	3.0%
<u>96</u>	<u>100.0%</u>	<u>120</u>	<u>100.0%</u>	<u>369</u>	<u>100.0%</u>
13	44.8%	26	65.0%	75	62.5%
3	10.3%	5	12.5%	16	13.3%
13	44.8%	9	22.5%	29	24.2%
<u>29</u>	<u>100.0%</u>	<u>40</u>	<u>100.0%</u>	<u>120</u>	<u>100.0%</u>
29	100.0%	38	95.0%	112	93.3%
0		1	2.5%	7	5.8%
0		1	2.5%	1	0.8%
<u>29</u>	<u>100.0%</u>	<u>40</u>	<u>100.0%</u>	<u>120</u>	<u>100.0%</u>
13	13.5%	11	9.2%	30	8.1%
82	85.4%	105	87.5%	332	90.0%
1	1.0%	4	3.3%	7	1.9%
<u>96</u>	<u>100.0%</u>	<u>120</u>	<u>100.0%</u>	<u>369</u>	<u>100.0%</u>
3	23.1%	1	9.1%	5	16.7%
2	15.4%	0		3	10.0%
2	15.4%	3	27.3%	6	20.0%
6	46.2%	5	45.5%	13	43.3%
0		2	18.2%	3	10.0%
<u>13</u>	<u>100.0%</u>	<u>11</u>	<u>100.0%</u>	<u>30</u>	<u>100.0%</u>

CHILD DEVELOPMENT AND CARE PROGRAM

Family Independence Agency (FIA)

Child Care Services Survey

Summary of Survey Responses

Continued

<u>Question</u>	<u>Response</u>	<u>Day Care Center</u>		<u>Family Home</u>		<u>Group Home</u>	
		<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
9. How often do you worry about the safety of your children when they are in the care of your caregiver?	All of the time	12	17.9%	7	16.7%	0	
	Often	4	6.0%	1	2.4%	0	
	Sometimes	13	19.4%	4	9.5%	8	18.2%
	Some/Seldom	0		0		0	
	Seldom	23	34.3%	8	19.0%	9	20.5%
	Never	15	22.4%	22	52.4%	27	61.4%
	Totals		<u>67</u>	<u>100.0%</u>	<u>42</u>	<u>100.0%</u>	<u>44</u>
10. Are you satisfied that your caregiver has the training or experience to properly care for your children?	Very Satisfied	36	53.7%	33	78.6%	31	70.5%
	Satisfied	19	28.4%	6	14.3%	11	25.0%
	Somewhat Satisfied	9	13.4%	3	7.1%	2	4.5%
	Not Satisfied	3	4.5%	0		0	
	No Response	0		0		0	
	Totals		<u>67</u>	<u>100.0%</u>	<u>42</u>	<u>100.0%</u>	<u>44</u>
11. If you responded "Somewhat Satisfied" or "Not Satisfied," what is the primary reason(s) you continue to use this caregiver? (see letter code at bottom of survey)	A	0		0		1	50.0%
	A and B	2	16.7%	0		0	
	A, B, and C	1	8.3%	1	33.3%	0	
	A and D	1	8.3%	0		0	
	B	2	16.7%	0		0	
	B and C	0		0		1	50.0%
	C	1	8.3%	0		0	
	D	3	25.0%	2	66.7%	0	
	No Response	2	16.7%	0		0	
	Totals		<u>12</u>	<u>100.0%</u>	<u>3</u>	<u>100.0%</u>	<u>2</u>
12. Are you aware of any agency in your area which can help you find day care?	Yes	18	26.9%	27	64.3%	22	50.0%
	No	46	68.7%	13	31.0%	21	47.7%
	No Response	3	4.5%	2	4.8%	1	2.3%
	Totals		<u>67</u>	<u>100.0%</u>	<u>42</u>	<u>100.0%</u>	<u>44</u>
13. If you are aware of any agency in your area which can help you find day care, have you asked this agency for assistance? (when response to Question 12 is "Yes")	Yes	13		15	55.6%	11	50.0%
	No	5	27.8%	11	40.7%	10	45.5%
	No Response	0		1	3.7%	1	4.5%
	Totals		<u>18</u>	<u>100.0%</u>	<u>27</u>	<u>100.0%</u>	<u>22</u>

14. Please provide us with any additional comments you have regarding your child care services. In general, most comments were favorable. An example of some narrative comments are shown below:

I am very thankful for the child care services provided. Otherwise, I could not afford to pay day care, on top of my monthly bills.

I would like to let you know how grateful I am for my services from FIA. I don't know how I would be able to work and pay for day care. Thank you.

This summary continued on next page.

Day Care Aide		Relative		Total	
Number	Percent	Number	Percent	Number	Percent
6	6.3%	5	4.2%	30	8.1%
2	2.1%	3	2.5%	10	2.7%
9	9.4%	10	8.3%	44	11.9%
0		1	0.8%	1	0.3%
19	19.8%	14	11.7%	73	19.8%
<u>60</u>	<u>62.5%</u>	<u>87</u>	<u>72.5%</u>	<u>211</u>	<u>57.2%</u>
<u>96</u>	<u>100.0%</u>	<u>120</u>	<u>100.0%</u>	<u>369</u>	<u>100.0%</u>

78	81.3%	99	82.5%	277	75.1%
14	14.6%	17	14.2%	67	18.2%
3	3.1%	4	3.3%	21	5.7%
0		0		3	0.8%
<u>1</u>	<u>1.0%</u>	<u>0</u>		<u>1</u>	<u>0.3%</u>
<u>96</u>	<u>100.0%</u>	<u>120</u>	<u>100.0%</u>	<u>369</u>	<u>100.0%</u>

1	33.3%	0		2	8.3%
0		1	25.0%	3	12.5%
0		0		2	8.3%
0		0		1	4.2%
0		2	50.0%	4	16.7%
0		0		1	4.2%
0		0		1	4.2%
2	66.7%	1	25.0%	8	33.3%
<u>0</u>		<u>0</u>		<u>2</u>	<u>8.3%</u>
<u>3</u>	<u>100.0%</u>	<u>4</u>	<u>100.0%</u>	<u>24</u>	<u>100.0%</u>

35	36.5%	33	27.5%	135	36.6%
55	57.3%	76	63.3%	211	57.2%
<u>6</u>	<u>6.3%</u>	<u>11</u>	<u>9.2%</u>	<u>23</u>	<u>6.2%</u>
<u>96</u>	<u>100.0%</u>	<u>120</u>	<u>100.0%</u>	<u>369</u>	<u>100.0%</u>

14	40.0%	11	33.3%	64	47.4%
21	60.0%	20	60.6%	67	49.6%
<u>0</u>		<u>2</u>	<u>6.1%</u>	<u>4</u>	<u>3.0%</u>
<u>35</u>	<u>100.0%</u>	<u>33</u>	<u>100.0%</u>	<u>135</u>	<u>100.0%</u>

CHILD DEVELOPMENT AND CARE PROGRAM

Family Independence Agency (FIA)

Child Care Services Survey

Summary of Survey Responses

Continued

I could not work and pay all my bills without day care assistance.

I thank you for this program. It has helped me a lot.

I am grateful for the assistance I receive for day care.

If I did not receive any assistance, I would not be employed. Before I received assistance, half my paycheck went to day care services.

Without this program, I could not afford to pay for day care. Work and self-support would be next to impossible.

I am extremely appreciative of the FIA assistance I receive to help cover the cost of child care. Without FIA assistance, I wouldn't be able to afford to send my son to day care.

I would like to thank you for all of your help. As a single mother, it would be very hard for me to pay for day care along with living expenses. I really appreciate it.

A = Only caregiver that provides care during work hours.

B = Only caregiver that is located near work or home.

C = Only caregiver that has a co-pay I can afford.

D = Other (please describe).

Glossary of Acronyms and Terms

Central Registry	The automated data system maintained and used by FIA to keep a record of all reports filed with FIA pursuant to the Child Protection Law (Sections 722.621 - 722.638 of the <i>Michigan Compiled Laws</i>) in which a preponderance of relevant and accurate evidence of child abuse or neglect is found to exist.
child abuse	Harm or threatened harm to a child's health or welfare by a parent, legal guardian, or any other person responsible for the child's health or welfare or by a teacher or teacher's aide that occurs through nonaccidental physical or mental injury; sexual abuse; sexual exploitation; or maltreatment (per Section 722.6226 (e) of the <i>Michigan Compiled Laws</i>).
child care aide	An individual employed by the applicant and registered by FIA to provide child care in the child's own home.
child care organization	A governmental or nongovernmental organization having as its principal function the receiving of minor children for care, maintenance, training, and supervision, notwithstanding that educational instruction may be given. This includes organizations commonly described as child caring institutions, child placing agencies, children's camps, child care centers, day care centers, nursery schools, parent cooperative preschools, foster homes, group homes, or day care homes.
child exploitation	Allowing, permitting, or encouraging a child to engage in prostitution, or allowing, permitting, encouraging, or engaging in the photographing, filming, or depicting of a child engaged in a listed sexual act as defined in Section 145c, Act 328, P.A. 1931, being Section 750.145c of the <i>Michigan Compiled Laws</i> .

Child neglect	Harm or threatened harm to a child's health or welfare by a parent, legal guardian, or any other person responsible for the child's health or welfare that occurs through either of the following: (i) Negligent treatment, including the failure to provide adequate food, clothing, shelter, or medical care, or (ii) Placing a child at an unreasonable risk to the child's health or welfare by failure of the parent, legal guardian, or any other person responsible for the child's health or welfare to intervene to eliminate the risk when that person is able to do so and has, or should have, knowledge of the risk (per Section 722.622(f) of the <i>Michigan Compiled Laws</i>).
CIS	Department of Consumer and Industry Services.
CQI	continuous quality improvement.
day care center	A facility other than a private residence licensed by the CIS Child Day Care Licensing Division to care for one or more children.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical for the amount of resources applied or minimizing the amount of resources required to attain a certain level of outputs or outcomes.
EQUIP	Enhanced Quality Improvement Program.
family day care home	A private home registered by the CIS Child Day Care Licensing Division to care for up to six children.
FIA	Family Independence Agency.
financial related audit	An audit that includes determining whether (1) financial information is presented in accordance with established or

stated criteria, (2) the entity has adhered to specific financial compliance requirements, or (3) the entity's internal control over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve the control objectives.

FIP	Family Independence Program.
goals	The agency's intended outcomes or impacts for a program to accomplish its mission.
group day care home	A private home licensed by the CIS Child Day Care Licensing Division to care for up to 12 children.
HHS	U.S. Department of Health and Human Services.
material condition	A serious reportable condition which could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the opinion of an interested person concerning the effectiveness and efficiency of the program.
median income	The middle income of all incomes sequentially ordered. For instance, the median income amongst incomes of \$9,000, \$11,500, \$14,500, \$17,000 and \$35,000 would be \$14,500.
mission	The agency's main purpose or the reason the agency was established.
OAG	Office of the Auditor General.
outcomes	The actual impacts of the program. Outcomes should positively impact the purpose for which the program was established.

outputs	The products or services produced by the program. The program assumes that producing its outputs will result in favorable program outcomes.
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.
performance indicators	Information of a quantitative or qualitative nature indicating program outcomes, outputs, or inputs. Performance indicators are typically used to assess achievement of goals and/or objectives.
performance standards	A desired level of output or outcome as identified in statutes, regulations, contracts, management goals, industry practices, peer groups, or historical performance.
perpetrator	Person who committed child abuse or neglect.
Project Zero	A welfare reform pilot program designed by local communities to overcome the barriers and meet the unique needs of their Family Independence Program customers as they enter the work force.
relative care provider	A grandparent, great grandparent, aunt, uncle or sibling age 18 or older who does not live in the home of the child needing care and who is registered by FIA to provide care in the provider's own home (not the child's home).

reportable condition

A matter coming to the auditor's attention that, in his/her judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in the design or operation of internal control or in management's ability to operate a program in an effective and efficient manner.

Single Audit

A financial audit performed in accordance with the Single Audit Act of 1984 that is designed to meet the needs of all federal grantor agencies and other financial report users. A Single Audit is a financial audit which requires additional study and evaluation of the internal control structure and testing of compliance with laws and regulations relevant to federal assistance programs.

SSN

social security number.