Michigan

*Office of the Auditor General*

# 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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