



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT



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

“...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.”

– Article IV, Section 53 of the Michigan Constitution

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Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit

Child Day Care and Child Welfare Licensing Divisions

*Office of Children and Adult Licensing (OCAL)
 Department of Human Services*

Report Number:
 63-432-03

Released:
 May 2005

OCAL licenses and regulates child care organizations to provide protection to children receiving care from licensed agencies, facilities, and homes as required by applicable laws. OCAL regulates child day care homes and centers. OCAL also regulates child caring institutions, child placing agencies, and children's camps and licenses foster homes for children. In addition, OCAL conducts complaint, abuse, and neglect investigations of child care organizations and institutes disciplinary action when appropriate.

Audit Objectives:

1. To evaluate the effectiveness of OCAL in licensing child care organizations.
2. To evaluate the effectiveness of OCAL in conducting complaint investigations of child care organizations.

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Audit Conclusions:

1. We concluded that OCAL needs to improve its effectiveness in licensing child care organizations. Our audit disclosed three material conditions (Findings 1, 3, and 5) and three reportable conditions (Findings 2, 4, and 6).
2. We concluded that OCAL was generally effective in conducting complaint investigations of child care organizations. Our report does not include any reportable conditions related to this audit objective.

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Material Conditions:

OCAL did not always obtain necessary criminal history background information on individuals in child care organizations, including licensees, administrators, directors, and adult household members residing in day care homes. Also, OCAL did not obtain periodic updates of the criminal histories of these individuals. (Finding 1)

OCAL was not effective in performing on-site visits of child day care providers (Finding 3).

OCAL did not issue child day care licenses and renewals in a timely manner (Finding 5).

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Reportable Conditions:

OCAL had not established effective criminal history background check procedures to protect children from contact with unsuitable individuals in child care organizations (Finding 2).

OCAL had not established effective procedures to monitor child day care providers who did not submit applications for renewal of their licenses and registrations (Finding 4).

OCAL should periodically reassess the propriety of its licensing fee structure (Finding 6).

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Agency Response:

Our audit report contains 6 findings and 7 corresponding recommendations. The Department of Human Services' preliminary response indicated that it agreed with all of our recommendations.

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Background:

Executive Order No. 2003-18 transferred the authority, powers, duties, functions, and responsibilities of the former Bureau of Family Services from the Department of Consumer and Industry Services to the Family Independence Agency, effective December 7, 2003. Upon transfer, the Bureau was renamed Office of Children and Adult Licensing, which included the Child Day Care Licensing Division and the Child Welfare Licensing Division. The Family Independence Agency was renamed Department of Human Services, effective March 15, 2005, by Executive Order No. 2004-38.

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

May 20, 2005

Mrs. Marianne Udow, Director
Department of Human Services
Grand Tower
Lansing, Michigan

Dear Mrs. Udow:

This is our report on the performance audit of the Child Day Care and Child Welfare Licensing Divisions, Office of Children and Adult Licensing, Department of Human Services.

This report contains our report summary; description of agency; audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; and a glossary of acronyms and terms.

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

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

AUDITOR GENERAL

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Description of Agency

The Office of Children and Adult Licensing (OCAL), Department of Human Services, is responsible for licensing and regulating child care organizations* to provide protection to children who receive care in out-of-home settings. OCAL describes its mission* as ". . . to ensure protection to vulnerable adults and children, who are receiving care services from licensed agencies, facilities, and homes licensed as required by Public Act 116 (1973) and Public Act 218 (1979) and other applicable laws." OCAL describes one of its goals* as ". . . to protect children and vulnerable adults who are receiving care and services in licensed and regulated homes and facilities that provide care and services in accordance with applicable laws and administrative rules."

Executive Order No. 2003-18 transferred the authority, powers, duties, functions, and responsibilities of the former Bureau of Family Services from the Department of Consumer and Industry Services to the Family Independence Agency (FIA), effective December 7, 2003. The transfer was a type II transfer as defined by Section 16.103 of the *Michigan Compiled Laws*. Upon transfer, the Bureau was renamed Office of Children and Adult Licensing, which included the Child Day Care Licensing Division (CDCLD) and the Child Welfare Licensing Division (CWLD). FIA was renamed Department of Human Services, effective March 15, 2005, by Executive Order No. 2004-38. Both CDCLD and CWLD have central office administrative operations and field operations located in local offices throughout the State.

CDCLD is responsible for regulating and providing training and consultative services to approximately 14,700 child day care homes* and 4,700 child day care centers*. CDCLD regulates child day care centers and group day care homes* through a biennial licensing process that includes investigating licensee* day care standards and activities. CDCLD regulates family day care homes* through a one-time registration process that includes an initial on-site inspection of registrants* at issuance, subject to a sample re-inspection of 10% of registrants in each county in each year, or when a complaint about the registrant is made to OCAL. More than 350,000 children received services from these licensed/registered day care homes and centers.

CWLD is responsible for regulating and providing technical assistance to approximately 220 child caring institutions*, 235 child placing agencies*, and 390 children's camps*.

* See glossary at end of report for definition.

CWLD also licenses approximately 8,000 foster homes* for children based on the recommendation and certification of regulated child placing agencies. More than 94,000 children receive services from these child care organizations.

In addition, OCAL conducts complaint, abuse, and neglect investigations of child care organizations and institutes disciplinary action when appropriate.

OCAL child day care and child welfare licensing activities are funded with State General Fund/general purpose appropriations, federal financial assistance, and licensing fees. As of April 1, 2004, OCAL had 201 employees, including 65 assigned to CDCLD and 60 assigned to CWLD. OCAL had expenditures of approximately \$19.4 million for the fiscal year ended September 30, 2003.

* See glossary at end of report for definition.

Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

Audit Objectives

Our performance audit* of the Child Day Care Licensing Division (CDCLD) and the Child Welfare Licensing Division (CWLD), Office of Children and Adult Licensing (OCAL), Department of Human Services (DHS), had the following objectives:

1. To evaluate the effectiveness* of OCAL in licensing child care organizations.
2. To evaluate the effectiveness of OCAL in conducting complaint investigations of child care organizations.

Audit Scope

Our audit scope was to examine the program and other records of the Child Day Care and Child Welfare Licensing Divisions. 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, performed between April and October 2003, included testing records for the period October 1, 2001 through September 30, 2003.

To establish our audit methodology, we conducted a preliminary survey of OCAL's operations. This included discussions with agency staff regarding CDCLD's and CWLD's functions, responsibilities, policies and procedures, licensing rules, licensing process, and alleged license violation and adverse action process.

We reviewed a sample of license files and information maintained in the Bureau Information Tracking System* (BITS) to assess CDCLD's and CWLD's effectiveness in licensing child care organizations. Our review included assessing the timeliness and completeness of required on-site visits, the processing of new and renewal licenses, the reasonableness of licensing fees, the completeness of criminal history checks, and the reasonableness of OCAL's use of its available resources.

* See glossary at end of report for definition.

We reviewed a random sample of files to assess CDCLD's and CWLD's effectiveness in conducting complaint investigations of child care organizations. We examined files and reviewed CDCLD's and CWLD's licensing rules and policies and procedures used to support the investigation process. We evaluated the alleged license violations to determine that they were handled on a timely basis, based on the types of violations, and consistent with applicable policies and procedures. We examined the results of the adverse actions taken by OCAL to determine that they were reasonable under the circumstances. We reviewed alleged license violation and adverse action files to determine that the files contained the documentation necessary to support the recommendation of action.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 6 findings and 7 corresponding recommendations. DHS's preliminary response indicated that it agreed with all of our recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require DHS to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

We released our prior performance audit of the Child Day Care and Child Welfare Licensing Divisions in March 1998 (#6343297). At that time, CDCLD and CWLD were part of the Bureau of Regulatory Services, Department of Consumer and Industry Services. Within the scope of this audit, we followed up all 4 prior audit recommendations. OCAL complied with 2 of the 4 prior audit recommendations. One prior audit recommendation was rewritten for inclusion in this report, and 1 was not repeated.

COMMENTS, FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS IN LICENSING CHILD CARE ORGANIZATIONS

COMMENT

Background: The Office of Children and Adult Licensing (OCAL) is responsible for regulating child care organizations, including licensure of child day care centers, group day care homes, child caring institutions, child placing agencies, children's camps, and children's foster care homes. OCAL also regulates family day care homes through a registration process. OCAL performs initial, renewal, and interim on-site inspections of licensees, as well as 90-day and 10% sample inspections of family day care home registrants. OCAL also performs ongoing reviews of licensing rules and provides technical and educational assistance to the licensees and registrants.

Fiscal year 2001-02 and 2002-03 appropriations acts, Act 119, P.A. 2001, and Act 527, P.A. 2002, respectively, required that the State and federal funds appropriated for day care licensure be used to help maintain a day care facility to day care inspector ratio of no more than 210 to 1. The ratio of day care facilities to day care inspectors was 231 to 1 in fiscal year 2001-02 and 321 to 1 in fiscal year 2002-03.

OCAL was originally appropriated the following amounts by the Legislature in fiscal years 2001-02 and 2002-03:

	2001-02	2002-03
Appropriated from:		
State General Fund	\$14,840,100	\$14,785,200
Federal revenues	10,762,500	10,664,800
Licensing fees	495,500	490,500
Health system fees and collections	156,800	94,200
Gross appropriation	\$26,254,900	\$26,034,700

Source: Act 119, P.A. 2001, and Act 527, P.A. 2002.

The U.S. Department of Health and Human Services (HHS) grants federal funds annually to the State of Michigan under the Child Care and Development Block

Grant (CCDBG). The grants provide funding for child day care licensing staff and activities, including monitoring on an annual basis.

Michigan's State Plan for Child Care and Development Fund Services describes how health and safety requirements are effectively enforced. The Plan states that enforcement includes an on-site visit before a license is issued, a renewal inspection for centers and group homes, and interim visits (every other year) for centers and group homes and that 10% of family day care homes are to be inspected annually.

The Family Independence Agency (FIA), known as the Department of Human Services (DHS) effective March 15, 2005, receives the State's annual Child Care and Development Fund appropriation directly from HHS to fund various child care and development services under the CCDBG Act of 1990 (Title 45, Parts 98 and 99 of the *Code of Federal Regulations*). During fiscal years 2001-02 and 2002-03, OCAL was part of the Department of Consumer and Industry Services (CIS). Accordingly, an interagency agreement between FIA (prior to being renamed DHS by Executive Order No. 2004-38) and CIS was established to allocate a portion of CCDBG funds to OCAL for its share of expenditures for child day care licensing staff and activities.

Of the \$16.6 million in federal funds allocated to OCAL for child day care licensing staff and activities (\$8.9 million in fiscal year 2001-02; \$7.7 million in fiscal year 2002-03), OCAL had not utilized \$1.8 million (over 10%) in federal child care and development funds (\$745,760 in fiscal year 2001-02; \$1,018,911 in fiscal year 2002-03).

In addition, OCAL had not utilized \$2.6 million in State General Fund appropriations, after taking into account reductions of \$955,000 by Executive Order No. 2003-3 and an additional \$1.5 million in appropriation transfers for "budgetary savings" and "early retirement savings" in fiscal year 2002-03.

Audit Objective: To evaluate the effectiveness of OCAL in licensing child care organizations.

Conclusion: We concluded that OCAL needs to improve its effectiveness in licensing child care organizations. Our audit disclosed three material conditions*. OCAL did not always obtain necessary criminal history background information on individuals in child care organizations, including licensees, administrators, directors, and

* See glossary at end of report for definition.

adult household members residing in day care homes. Also, OCAL did not obtain periodic updates of the criminal histories of these individuals (Finding 1). In addition, OCAL was not effective in performing on-site visits of child day care providers (Finding 3). Further, OCAL did not issue child day care licenses and renewals in a timely manner (Finding 5).

Our audit also disclosed reportable conditions* related to criminal history background check procedures (Finding 2), expired day care licenses and registrations (Finding 4), and child day care licensing fees (Finding 6).

FINDING

1. Criminal History Background Information

OCAL did not always obtain necessary criminal history background information on individuals in child care organizations, including licensees, administrators, directors, and adult household members residing in day care homes. Also, OCAL did not obtain periodic updates of the criminal histories of these individuals.

Criminal history background checks allow OCAL to identify unsuitable individuals who may come in contact with children in licensed child care organizations and to evaluate the suitability of these individuals' presence in the child care environment.

Child Day Care Licensing Manual item 233 requires that criminal history checks are to be conducted on the program directors of child day care centers and on licensees and adult persons residing in group day care homes at the time of the initial application. Child Welfare Licensing Manual item 232 similarly requires that criminal history checks are to be conducted on the chief administrators of child welfare agencies.

Our review of OCAL's performance of criminal history background checks disclosed the following deficiencies:

- a. OCAL did not perform the required criminal history check on each child day care center program director, child welfare agency administrator, group day

* See glossary at end of report for definition.

care home licensee, and adult residing in a group day care home during the initial licensure process:

- (1) Our review of 74 child day care center licensing files disclosed 4 (5%) instances in which the required criminal history check was not performed on the child day care center program director.
 - (2) Our review of 34 child welfare agency licensing files disclosed 5 (15%) instances in which the required criminal history check was not performed on the agency chief administrator.
 - (3) Our review of 71 group day care home licensing files disclosed 2 (3%) instances in which the required criminal history checks (1 licensee and 1 adult household member) were not performed.
- b. OCAL did not periodically obtain an update on the criminal histories of child day care licensees or adult household members residing in group day care homes.

Child Day Care Licensing Manual item 233 requires that criminal histories be checked on each child day care licensee and each adult household member residing in a group day care home at the time of the initial application. However, this procedure does not address criminal acts that may occur subsequent to the time of initial application, new adult household members that may join the household, or existing household members who become adults subsequent to the time of initial application.

Periodic updates of criminal histories would help OCAL ensure that it has the information necessary to make licensing decisions. For example, we noted 2 occasions when OCAL's criminal history checks did not uncover serious offenses committed by 1 licensee and 1 adult group home household member.

RECOMMENDATIONS

We recommend that OCAL obtain necessary criminal history background information on individuals in child care organizations, including licensees, administrators, directors, and adult household members residing in day care homes.

We also recommend that OCAL obtain periodic updates of the criminal histories of these individuals.

AGENCY PRELIMINARY RESPONSE

DHS agreed and indicated that periodic updates of criminal history checks would improve effectiveness in this area, although not required by statute or rule. DHS informed us that in January 2005, it implemented a process to identify any current licensee who, subsequent to licensure, has been convicted of a felony or certain misdemeanors related directly to the care of children. DHS also informed us that, in the future, its process will also check adult members of the household and other affiliated persons listed on OCAL's database, i.e., program directors and administrators.

DHS informed us that OCAL, in response to the audit recommendations, instituted a new business rule on its database, the Bureau Information Tracking System (BITS). DHS indicated that the new business rule precludes original license issuance unless criminal history background information has been entered in the database within one year before the issuance date for each licensee/licensee designee, adult member of the household, and program director. In addition, DHS indicated that this business rule also requires DHS's Central Registry information to have been entered within the previous year.

Also, in response to the audit recommendations, DHS informed us that OCAL has instructed the Child Welfare Licensing Division consultants to verify, at the time of the next agency on-site visit, that the person named on the database as the facility administrator is correct, current, and entered on the proper database screen. DHS also informed us that, to implement and establish a more effective clearance process, OCAL consultants are being instructed either to verify the presence of clearance information on the current program director or administrator in the licensing file or to acquire a new clearance at the time of the next licensing inspection. DHS indicated that the specific errors disclosed by this audit have been corrected.

FINDING

2. Criminal History Background Check Procedures

OCAL had not established effective criminal history background check procedures to protect children from contact with unsuitable individuals in child care organizations.

Obtaining criminal histories of licensees, staff, or other persons present in child care organizations helps prevent unsuitable individuals from having contact with children in the licensed child care environment.

Our review of OCAL's criminal history background check process disclosed the following weaknesses:

- a. OCAL neither obtained criminal history background information on child care organization staff members or volunteers nor required licensees to obtain this information.

Section 722.119 of the *Michigan Compiled Laws* prohibits staff members from being present in a child care center, child caring institution, or child placing agency if convicted of child abuse or neglect or a felony involving harm or threatened harm to an individual within 10 years previous to hire. Section 722.119 also prohibits volunteers from having unsupervised contact with children in these child care organizations if convicted of child abuse or neglect or a felony involving harm or threatened harm to an individual within 10 years previous to volunteering.

Current OCAL procedures require criminal history background checks of licensees and adult household members at the time of initial licensure. OCAL procedures also include criminal history background checks of child day care program directors and child welfare agency administrators when hired. However, OCAL does not obtain or require criminal history background checks of other child care organization staff members or volunteers.

- b. OCAL did not ensure that licensed child caring institutions and child placing agencies obtained required information confirming that staff members and volunteers were not named as perpetrators in DHS's Central Registry for child abuse or neglect.

Section 722.119 of the *Michigan Compiled Laws* provides that before a staff member or unsupervised volunteer may have contact with a child in the care of a child caring institution or a child placing agency, these child care organizations must obtain documentation that such individuals are not named in the Central Registry as the perpetrator of child abuse or neglect.

Our review of license renewals for 4 child caring institutions and 4 child placing agencies disclosed that OCAL had renewed the licenses of all 8 without determining whether Central Registry information had been obtained.

- c. OCAL did not have the proper administrator's identity entered in BITS for 4 (12%) of 34 child welfare agency licensing files reviewed.

OCAL indicated that it performs a weekly comparison of the names of the administrators of licensees listed in BITS to determine if any are contained in the Central Registry as perpetrators of child abuse or neglect. OCAL cannot determine if administrators are listed in the Central Registry unless OCAL maintains accurate, up-to-date information on BITS.

Effective administration of the criminal history background check process includes instituting the procedures necessary to ensure that each person prohibited from being present in a child care organization, and each person prohibited from unsupervised contact with children, is identified and treated accordingly in the licensed child care environment.

RECOMMENDATION

We recommend that OCAL establish effective criminal history background check procedures to protect children from contact with unsuitable individuals in child care organizations.

AGENCY PRELIMINARY RESPONSE

DHS agreed with the recommendation; however, DHS disagreed with part a. of the finding.

DHS disagreed that either OCAL or a licensee should be required to obtain criminal history checks on staff members or volunteers of a child care organization. DHS indicated that the administrative rules in both programs only require that the

licensee develop and implement a written policy to address the good moral character of its staff members and volunteers. DHS also indicated that Section 722.115(1) of the *Michigan Compiled Laws* only requires that OCAL establish an "applicant's" good moral character but not the good moral character of staff members or volunteers. DHS further indicated that the Legislature amended the Child Care Organizations Act in March 2003 by adding Section 722.119 of the *Michigan Compiled Laws*. DHS believes that, because the amendment did not require that the licensee conduct a criminal history check of staff members or volunteers, this shows that recent legislative intent supports OCAL's current practices.

DHS agreed that procedures for Central Registry verification and administrator identity should be improved. DHS informed us that the Child Welfare Licensing Division has updated its current licensing review forms to specifically reflect the consultant's verification of an organization's compliance with Section 722.119, as to Central Registry checks.

FINDING

3. On-Site Visits

OCAL was not effective in performing on-site visits of child day care providers. As a result, OCAL could not ensure that all day care providers met applicable licensing requirements.

On-site visits are the primary means that OCAL uses to evaluate whether the child care organizations that it licenses are providing a safe environment for children. On-site visits allow OCAL licensing consultants to personally meet with caregivers, examine facilities, observe the surroundings, and verify that applicable licensing standards are met.

Our review of OCAL's performance of on-site visits disclosed the following weaknesses:

- a. OCAL did not always conduct on-site visits of newly registered family day care homes within 90 days of initial registration.

Section 722.115(2) of the *Michigan Compiled Laws* requires OCAL to make an on-site visit of family day care homes within 90 days of initial registration.

We determined the following as of August 1, 2003:

- (1) OCAL did not perform 373 (18%) of 2,130 on-site family home visits until more than 90 days after registration. These visits were an average of 48 days late and occurred as many as 457 days after registration.
- (2) OCAL did not perform any on-site visits for 19 (0.9%) of the 2,149 family day care homes that were registered during fiscal year 2001-02.

On-site visits of newly registered family day care homes are critical because it may be OCAL's only opportunity to inspect a family day care home to ensure that licensing standards are met. Unlike other child care providers, family day care homes are not required by law to receive an annual on-site visit or an on-site visit upon each renewal. Unless a complaint is filed or it is subject to a sample visit (item c.), a family day care home may not be subject to further inspection by OCAL.

- b. OCAL did not always follow up with newly registered family day care homes to ensure that deficiencies noted during the initial 90-day on-site visits were corrected.

We sampled 31 of the initial 90-day on-site visits of family day care homes performed by OCAL and found 7 (23%) family homes that OCAL determined had not met facility requirements. However, only 4 (57%) of the 7 family home files contained documentation which indicated that OCAL had followed up with the applicant to make sure that the deficiencies were corrected before continuation of the certificate of registration.

A process to ensure that deficiencies noted during the initial 90-day on-site visits are corrected is not required by either statute or the Child Day Care Licensing Manual. However, when on-site visits disclose that registrants have not met facility requirements, OCAL should subsequently follow up with registrants to ensure that deficiencies are corrected.

- c. OCAL did not perform on-site visits to a 10% sample of registered family day care homes in each county each year as required by law. Our review of on-site visits performed during fiscal year 2001-02 disclosed that OCAL did not visit a sample of at least 10% of family day care homes for 62 (76%) of the State's 82 counties with active family day care homes.

Section 722.119a of the *Michigan Compiled Laws* provides:

The department shall make on-site visits . . . to a 10% sample of the family day care homes in each county each year, or when a complaint about a family day care home or registrant is received by the department.

Because family day care homes are not required by law to receive on-site visits either on an interim basis or at renewal unless a complaint is made, the 10% sample is the primary means by which OCAL oversees family day care home operations subsequent to the time of initial registration.

- d. OCAL did not always perform annual on-site visits of child day care centers and group day care homes as required by law or in a timely manner.

OCAL licensed approximately 4,847 child day care centers and approximately 3,372 group day care homes in fiscal year 2001-02. Sections 722.115 and 722.118a of the *Michigan Compiled Laws* require child day care center and group home licensees to receive an annual on-site visit, including an on-site visit upon each renewal. To meet this requirement, OCAL performed an on-site visit at license renewal and an interim visit between renewals. However, our review disclosed:

- (1) OCAL did not conduct the required license renewal visits for 57 child day care centers and 19 group day care homes during fiscal year 2001-02.
- (2) OCAL did not conduct the required license renewal visits within 90 days for 714 child day care centers and 94 group day care homes.
- (3) OCAL did not conduct the required interim visits for 869 child day care centers and 349 group day care homes during fiscal year 2001-02.

- (4) OCAL did not conduct the required interim visits within 90 days for 381 child day care centers and 217 group day care homes during fiscal year 2001-02.

Periodic, timely oversight of child day care providers would allow OCAL to determine that licensed providers continue to comply with applicable licensing standards.

We noted that, for the years we examined, neither the statute nor the Child Day Care Licensing Manual defined timeliness in the context of license renewals and interim visits. As a result, for those renewals and interim visits that were not conducted for an extended period of time, we selected 90 days as a standard of promptness, which was 30 days more than the 60-day standard of promptness programmed in OCAL's licensing database for interim visits.

Subsequent to our audit fieldwork, Act 315, P.A. 2004, established a 6-month standard of promptness for license issuance and renewal that becomes effective on October 1, 2007.

- e. OCAL did not perform on-site visits of closed child day care facilities on a random basis to determine that unlicensed child care activities were not conducted.

Child Day Care Licensing Manual item 242 requires an on-site visit to be made within 10 working days after a license terminates to confirm that child care operations have ceased. During fiscal year 2001-02, 3,797 child day care facilities either chose not to renew their licenses or registrations or had their license or registration revoked by OCAL.

On-site visits of closed child day care facilities are necessary to ensure that day care providers do not continue to operate child day care facilities after license termination. Operation of an unlicensed child day care facility is punishable by a fine of up to \$1,000 or imprisonment of up to 90 days, or both.

RECOMMENDATION

We recommend that OCAL improve its performance of on-site visits of child day care providers.

AGENCY PRELIMINARY RESPONSE

DHS agreed with the recommendation; however, DHS disagreed with part b. of the finding.

DHS agreed that OCAL needs to improve its performance of on-site visits of child care providers. DHS informed us that OCAL's database provides information for staff and their supervisors as to upcoming and overdue licensing reviews and that supervisors are required to review each consultant's on-site statistics regularly and prepare a written report outlining their staff's performance for the OCAL director on a monthly basis. DHS indicated that OCAL is incorporating the 180-day standard of timeliness under Act 315, P.A. 2004, into its policies and procedures which, under the Act, does not become effective until October 1, 2007. DHS also indicated that database changes have been made to assist in computing this standard.

DHS disagreed that OCAL should always follow up with registrants to ensure that deficiencies are corrected because no statute or policy requires this. DHS informed us that OCAL ensures that licensees resolve licensing violations through, at least, a written corrective action plan and, when needed at the discretion of the consultants and their managers, on-site verification. DHS asserts that the current process in the area of follow-up is sufficient and effective.

FINDING

4. Expired Day Care Licenses and Registrations

OCAL had not established effective procedures to monitor child day care providers who did not submit applications for renewal of their licenses and registrations. As a result, OCAL could not verify whether 758 child day care providers without current licenses or registrations ceased providing child day care services.

OCAL indicated that, consistent with Section 24.291 of the *Michigan Compiled Laws*, it allows child day care facilities with expired licenses or registrations to continue operating pending renewal, as long as renewal materials were submitted

in a timely manner. However, Child Day Care Licensing Manual item 242 requires facilities to be closed if renewal materials were not submitted by the renewal date.

Our review of expired child day care licenses and registrations disclosed:

- a. OCAL did not take formal action to close child day care facilities with lapsed licenses or registrations.

Of the 19,552 child day care facilities listed in OCAL's records, 758 (4%) had not submitted renewal materials and should have ceased providing child day care services.

Child Day Care Licensing Manual item 242 requires OCAL to send a transmittal letter informing each facility when its license to operate has expired and no application for renewal was received. The letter should also describe the penalties for operating an unlicensed facility.

OCAL did not regularly initiate contact with lapsed facilities regarding their expired status. We reviewed the licensing files for a sample of 41 expired facilities and found only 2 (5%) that were sent correspondence informing the facility that its license or registration had expired and of the penalties for failure to close the facility and discontinue child day care operations.

- b. DHS's Web site listing of licensed child day care facilities included providers that were no longer licensed to operate a child day care facility because they had not submitted their license renewal applications, as required by law.

Act 645, P.A. 2002, required DHS to establish and maintain on its Web site a database of licensed child care centers, family day care homes, and group day care homes to be available to the public as a central clearinghouse for persons seeking information on child care options. However, the database contained on DHS's Web site included facilities that no longer qualified for a day care license.

We determined that DHS's Web site listing of licensed child day care facilities (June 2003) included the 758 expired child day care licensees that no longer qualified for licensure. Facilities with licenses that had been expired for as

long as two years continued to be listed as licensed facilities on DHS's Web site.

RECOMMENDATION

We recommend that OCAL establish and implement effective procedures to monitor child day care providers who did not submit applications for renewal of their licenses and registrations.

AGENCY PRELIMINARY RESPONSE

DHS agreed and indicated that OCAL had already taken corrective action to address these issues. DHS also indicated that in early 2004, OCAL developed the following automated processes to address the expired child day care licenses/registrations: mailing renewal applications to licensees at least 90 days before expiration; mailing a reminder letter to the licensee 30 days before license expiration; warning that the license will close at expiration if no application is received; and closing the license/registration the day after expiration if no renewal application has been received. DHS informed us that Web site information is updated daily and no longer displays facilities with expired licenses unless a renewal application is on file.

FINDING

5. Child Day Care License Issuance and Renewal

OCAL did not issue child day care licenses and renewals in a timely manner.

Child day care licenses must be issued in a timely manner to ensure that new day care facilities can begin serving the child day care needs of their community as soon as they have demonstrated a capacity to do so. Similarly, child day care licenses must be renewed in a timely manner to ensure that current licensees are regularly evaluated and found to be continuing to meet applicable child day care licensing standards.

Our review of OCAL's issuance of child day care licenses and renewals disclosed:

- a. OCAL did not issue some child day care licenses in a timely manner.

During fiscal year 2001-02, OCAL issued 3,857 new licenses, 220 (6%) of which were issued more than 6 months after OCAL received the applications.

Of the 220 licenses issued, we noted the following:

<u>Overdue</u>	<u>Number of Licenses</u>
More than 6 months to 1 year	165
More than 1 year*	<u>55</u>
	<u>220</u>

* Includes day care licenses issued as many as 725 days late.

OCAL stated that it had not established any requirements or standard of promptness for issuance of licenses. We initially selected 90 days as a standard of promptness, which was conservative compared with OCAL's standard of promptness for interim visits (60 days). However, subsequent to our audit fieldwork, Act 315, P.A. 2004, amended Section 722.115 of the *Michigan Compiled Laws*, establishing a 6-month standard of promptness for license issuance and renewal, effective October 1, 2007.

- b. OCAL experienced a significant backlog of renewal applications.

As of September 2003, OCAL had a backlog of 579 renewal applications. The backlog ranged from 84 days to as many as 335 days that renewal applications remained unrenewed.

Section 722.115 of the *Michigan Compiled Laws* states that child care organizations shall not be established or maintained unless licensed or registered by OCAL. Sections 722.115 and 722.118 of the *Michigan Compiled Laws* require OCAL to issue and renew day care licenses, as applicable, biennially on application and approval.

OCAL acknowledged its backlog and stated that all licensees that submit timely applications receive letters verifying the license status. OCAL also stated that, under Section 24.291 of the *Michigan Compiled Laws*, if licensees

submit timely applications, their licenses remain in effect until OCAL can act on the renewal applications.

RECOMMENDATION

We recommend that OCAL issue child day care licenses and renewals in a timely manner.

AGENCY PRELIMINARY RESPONSE

DHS agreed that it is necessary to issue child day care licenses and renewals in a timely manner. However, DHS disagreed that a 90-day standard of timeliness was appropriate because it is not based on a rule, statute, or policy. DHS will adopt the 180-day standard of timeliness that was provided for in Act 315, P.A. 2004, which takes effect October 1, 2007. DHS informed us that database-generated reports are available for OCAL consultants and managers to track the number of days elapsed from completed application to license renewal. DHS also informed us that effective February 2005, OCAL established new reporting requirements to identify individual consultants with problems in the area of timeliness.

FINDING

6. Child Day Care Licensing Fees

OCAL should periodically reassess the propriety of its licensing fee structure.

The annual appropriations acts for the child day care licensing programs require OCAL to assess and collect fees to be used in licensing and regulating child care organizations and further specify that the fees collected be used exclusively for the purpose of licensing and regulating child care organizations. OCAL collected fees totaling approximately \$270,000 and \$266,000 during fiscal years 2001-02 and 2002-03, respectively. Expenditures for licensing and regulating activities totaled approximately \$8.1 million and \$6.1 million, respectively, during these fiscal years.

We reviewed the fees collected by OCAL and noted that OCAL had not periodically reassessed the appropriateness of licensing fees for child day care licenses and registrations since they were initially established in 1992.

OCAL collects the following child day care application fees:

Application Type	Fee for Original Application	Fee for Renewal
Child day care centers:		
Capacity: 1 - 20	\$50	\$25
21 - 50	\$60	\$30
51 - 100	\$70	\$35
101 or more	\$80	\$40
Family day care homes	\$25	\$10
Group day care homes	\$40	\$20

As part of a periodic reassessment of its licensing fee structure, OCAL could:

- a. Consider assessing licensing fees on a per child basis. As illustrated in the preceding table, OCAL imposed the same fee on a child day care center licensed for 51 children as it did for a child day care center licensed for nearly double (100) that amount.
- b. Consider assessing the same fee for license renewals as it does for original licenses. Our review disclosed that the resources required to process and approve license renewals were comparable to those required to process original licenses. However, as illustrated in the preceding table, OCAL's renewal fees were one-half or less of the fee amount imposed for original licensure.
- c. Consider assessing fees to support the costs to the State of performing required criminal history background checks on day care licensees, family members, and child day care center administrators. OCAL performed approximately 22,000 criminal history background checks in fiscal years 2001-02 and 2002-03. We determined that Wisconsin imposes a background check fee of \$7.50.
- d. Consider assessing late fees on day care renewal applications. Many renewal applications were submitted to OCAL near or subsequent to license expiration. During fiscal years 2001-02 and 2002-03, OCAL received 828 applications after license expiration and another 4,587 applications less than 45 days prior

to license expiration. As a result, day care license and registration renewals were often issued after the previous license or registration had expired.

Assessing late fees on renewal applications, similar to those imposed by Ohio, would not only help support the costs associated with administering belatedly filed applications and expired licenses, but also encourage licensees to submit renewal applications on a timely basis.

RECOMMENDATION

We recommend that OCAL periodically reassess the propriety of its licensing fee structure.

AGENCY PRELIMINARY RESPONSE

DHS agreed that the licensing fee structure should be periodically reassessed.

EFFECTIVENESS IN CONDUCTING COMPLAINT INVESTIGATIONS OF CHILD CARE ORGANIZATIONS

COMMENT

Background: OCAL is responsible for the receipt and proper entry into BITS of all complaints against child care organizations. OCAL is also responsible for conducting complaint, abuse, and neglect investigations of child care organizations and instituting disciplinary action when appropriate. OCAL indicated that it received 4,205 complaints related to child care organizations in fiscal year 2001-02 and took disciplinary action on 195 occasions.

Audit Objective: To evaluate the effectiveness of OCAL in conducting complaint investigations of child care organizations.

Conclusion: We concluded that OCAL was generally effective in conducting complaint investigations of child care organizations. Our report does not include any reportable conditions related to this audit objective.

GLOSSARY

Glossary of Acronyms and Terms

Bureau Information Tracking System (BITS)	OCAL's licensing file and complaint investigation information database.
CCDBG	Child Care and Development Block Grant.
CDCLD	Child Day Care Licensing Division.
child care center	See child day care center.
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 caring institution	A child care facility that operates throughout the year and is organized for the purpose of receiving minor children for care, maintenance, and supervision, usually on a 24-hour basis, in buildings maintained by the child caring institution for that purpose.
child day care center	A facility, other than a private residence, receiving 1 or more preschool or school-age children for care for periods of less than 24 hours a day, and where the parents or guardians are not immediately available to the child.
child day care home	A family day care home or a group day care home.

child placing agency	A governmental organization or nonprofit agency organized for the purpose of receiving children for placement in private family day care homes for foster care or for adoption.
children's camp	A residential, day, troop, or travel camp conducted in a natural environment for more than 4 school-age children, apart from the children's parents, relatives, or legal guardians, for 5 or more days in a 14-day period, and providing care and supervision for the same group of children for usually not more than 12 weeks.
CIS	Department of Consumer and Industry Services.
CWLD	Child Welfare Licensing Division.
day care home	See child day care home.
day care center	See child day care center.
DHS	Department of Human Services.
effectiveness	Program success in achieving mission and goals.
family day care home	A private home in which at least 1 but fewer than 7 minor children are received for care and supervision for periods of less than 24 hours a day, unattended by a parent or legal guardian.
FIA	Family Independence Agency.
foster family group home	A private home in which more than 4 but fewer than 7 minor children, who are not related to an adult member of the household by blood or marriage or who are not placed in the household pursuant to the Michigan Adoption Code, are provided care for 24 hours a day, for 4 or more days a week, for 2 or more consecutive weeks, unattended by a parent or legal guardian.

foster family home	A private home in which at least 1 but not more than 4 minor children, who are not related to an adult member of the household by blood or marriage or who are not placed in the household pursuant to the Michigan Adoption Code, are provided care and supervision for 24 hours a day, for 4 or more days a week, for 2 or more consecutive weeks, unattended by a parent or legal guardian.
foster home	A foster family home or foster family group home.
goals	The agency's intended outcomes or impacts for a program to accomplish its mission.
group day care home	A private home in which more than 6 but not more than 12 minor children are provided care and supervision for periods of less than 24 hours a day, unattended by a parent or legal guardian.
HHS	U.S. Department of Health and Human Services.
licensee	A person, partnership, firm, corporation, association, nongovernmental organization, or local or State government child care organization that has been issued a license to operate a child care organization.
material condition	A reportable condition that could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
mission	The agency's main purpose or the reason that the agency was established.
OCAL	Office of Children and Adult Licensing.

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.
registrant	A person who has been issued a registration to provide family day care home services to children.
reportable condition	A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.

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