Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

VIRGINIA PROPERLY OBLIGATED AND LIQUIDATED MOST TARGETED FUNDS UNDER THE CHILD CARE AND DEVELOPMENT FUND PROGRAM

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Stephen Virbitsky
Regional Inspector General

October 2013
A-03-12-00251

Office of Inspector General

https://oig.hhs.gov

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

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EXECUTIVE SUMMARY

Virginia properly obligated and liquidated most of its Child Care and Development targeted funds for fiscal years 2007 through 2009. Of the $21.6 million of targeted funds that we reviewed, Virginia did not comply with requirements for the use of $51,000.

WHY WE DID THIS REVIEW

The Child Care and Development Fund (CCDF) provide discretionary funding for three targeted funds known as Infant and Toddler, Quality, and School Age Resource and Referral funds. These targeted funds are used for activities that improve the availability, quality, and affordability of childcare and to support the administration of these activities. The funds are 100 percent federally funded. Previous Office of Inspector General reviews found that some States did not always comply with Federal requirements when claiming targeted funds for reimbursement.

The objective of this review was to determine whether the Virginia Department of Social Services (State agency) complied with Federal requirements for the use of CCDF targeted funds for Federal reimbursement for Federal fiscal years (FY) 2007 through 2009.

BACKGROUND

Under the CCDF program, States have considerable latitude in administering and implementing their childcare programs. Each State must develop, and submit to the Administration for Children and Families (ACF) for approval, a State plan that identifies the purposes for which CCDF funds will be expended for two grant periods (i.e., 2 FYs). Program requirements state that a State agency has 2 FYs to obligate CCDF funds and a third FY to liquidate those funds. The State plan must also designate a lead agency responsible for administering childcare programs. In addition, States are required to report expenditures of targeted funds on the quarterly Child Care and Development ACF-696 Financial Report (ACF-696 report), which is a cumulative report for the FY.

In Virginia, the State agency is the lead agency. As the lead agency, the State agency is required to oversee the expenditure of funds by contractors, grantees, and other agencies of the Virginia State government to ensure that the funds are expended in accordance with Federal requirements.

The State agency claimed CCDF targeted funds totaling $21,561,884 on its ACF-696 reports for FYs 2007 through 2009. This amount included $4,946,576 of funding provided by the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (February 17, 2009). We reviewed the entire amount.

WHAT WE FOUND

Of the $21,561,884 of targeted funds that we reviewed, the State agency complied with Federal requirements for the obligation and liquidation of $21,510,584 for FYs 2007 through 2009. However, the State agency did not comply with Federal requirements for the use of $51,300 in CCDF targeted funds. Specifically, the State agency improperly (1) obligated $17,174 of targeted funds for expenditures claimed before the obligation period, and (2) reobligated $34,126 of unexpended grant funds after the obligation period had ended.

The State agency did not have written policies and procedures in place to guide appropriate monitoring of the obligation and liquidation of the targeted funds. In the absence of necessary written policies and procedures, the State agency could not always identify which expenditures would be allowable for a particular FY.

WHAT WE RECOMMEND

We recommend that the State agency:

- refund to the Federal Government $51,300 for targeted funds that were not properly obligated and

- develop written policies and procedures to guide in appropriate monitoring of the obligation and liquidation of CCDF targeted funds.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency concurred with our findings and recommendations and described the action it had taken, or planned to take, to address them.

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INTRODUCTION

WHY WE DID THIS REVIEW

The Child Care and Development Fund (CCDF) provides discretionary funding for three targeted funds, administered at the Federal level by the U.S. Department of Health and Human Services, Administration for Children and Families (ACF), and known as Infant and Toddler, Quality, and School Age Resource and Referral funds. These targeted funds are used for activities that improve the availability, quality, and affordability of childcare and to support the administration of these activities. The funds are 100 percent federally funded. Previous Office of Inspector General (OIG) reviews found that some States did not always comply with Federal requirements when claiming targeted funds for reimbursement. Appendix A contains a list of related OIG reports on these targeted funds.

OBJECTIVE

The objective of this review was to determine whether the Virginia Department of Social Services (State agency) complied with Federal requirements for the use of CCDF targeted funds for Federal reimbursement for Federal fiscal years (FY) 2007 through 2009.

BACKGROUND

Under the CCDF program, States have considerable latitude in implementing and administering their childcare programs. Each State must develop, and submit to ACF for approval, a State plan that identifies the purposes for which CCDF funds will be expended for two grant periods (i.e., 2 FYs). Program requirements state that a State agency has 2 FYs to obligate CCDF funds and a third FY to liquidate those funds. The following table shows the obligation and liquidation periods for each FY covered by our review.

Table 1: Obligation and Liquidation Periods

FY	Obligation Period Start Date	Obligation Period End Date	Liquidation Period End Date
2007	10/1/2006	9/30/2008	9/30/2009
2008	10/1/2007	9/30/2009	9/30/2010
2009	10/1/2008	9/30/2010	9/30/2011

The State plan must also designate a lead agency responsible for administering childcare programs. In addition, States are required to report expenditures of targeted funds on the quarterly Child Care and Development ACF-696 Financial Report (ACF-696 report), which is a cumulative report for the FY.

In Virginia, the State agency is the lead agency. As the lead agency, the State agency is required to oversee the expenditure of funds by contractors, grantees and other agencies of the Virginia State government to ensure that the funds are expended in accordance with Federal requirements. The State agency entered into contracts with these entities that would expend the funds; for each such contract, the funds were considered obligated with the execution (that is, the signing) of the contract.

HOW WE CONDUCTED THIS REVIEW

We reviewed the $21,561,884 of targeted fund expenditures that the State Agency claimed on its ACF-696 reports for FYs 2007 through 2009.[1] This amount included $4,946,576 of funding provided by the American Recovery and Reinvestment Act of 2009, P.L. No. 111-5 (February 17, 2009) (Recovery Act).

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix B contains details of our audit scope and methodology, and Appendix C contains details on the Federal and State requirements related to CCDF targeted funds.

FINDINGS

Of the $21,561,884 of targeted funds that we reviewed, the State agency complied with Federal requirements for the obligation and liquidation of $21,510,584 for FYs 2007 through 2009. However, the State agency did not comply with Federal requirements for the use of $51,300 in CCDF targeted funds. Specifically, the State agency improperly (1) obligated $17,174 of targeted funds for expenditures claimed before the obligation period, and (2) reobligated $34,126 of unexpended grant funds after the obligation period had ended.

The State agency did not have written policies and procedures in place to guide appropriate monitoring of the obligation and liquidation of the targeted funds. In the absence of necessary written policies and procedures, the State agency could not always identify which expenditures would be allowable for a particular FY.

STATE AGENCY IMPROPERLY OBLIGATED TARGETED FUNDS BEFORE OBLIGATION PERIOD

Federal regulations specify that CCDF funds must be obligated[2] in the FY in which the funds were awarded or in the succeeding FY and that any funds not obligated during this period will revert to the Federal Government (45 CFR §§ 98.60(d)(1) and 98.60(d)(7)).

Contrary to these Federal requirements, the State agency improperly obligated $17,174 in targeted funds. The State agency entered into contracts with contractors and grantees that would expend the funds; for each such contract, the funds were considered obligated with the execution of the contract. The State agency did not, however, always obligate targeted funds within the required timeframe for each FY in our audit period. The obligation date for a FY 2007 claimed

[1] The 3-year obligation and liquidation cycle described in this report creates an inherent delay in terms of when those funds can be regarded as closed for adjustment and then subject to audit.

[2] The determination of whether funds have been obligated and liquidated will be based on State or local law; if there is no applicable State or local definition, the Federal definition of obligations and outlays (expenditures at 45 CFR § 92.3) apply. We are unaware of any State or local laws that define these terms.

expenditure of $17,174 was July 1, 2006.[3] The allowable obligation period for FY 2007 funding is the 2 FYs beginning October 1, 2006. Therefore, the funds were obligated before the obligation period began.

STATE AGENCY IMPROPERLY REOBLIGATED TARGETED FUNDS AFTER OBLIGATION PERIOD

Federal regulations specify that CCDF funds must be obligated in the FY in which the funds were awarded or in the succeeding FY and that any funds not obligated during this period will revert to the Federal Government (45 CFR §§ 98.60(d)(1) and 98.60(d)(7)). In addition, any funds not liquidated within 1 year of the end of the obligation period will revert to the Federal Government (45 CFR §§ 98.60(d)(1) and 98.60(d)(7)). Furthermore, funds that are properly obligated and liquidated but are subsequently returned to the grantee within the original obligation period can be reobligated and liquidated (45 CFR § 98.60(g)(1)). If such funds are received by the grantee after the applicable obligation period, they must be returned to the Federal Government (45 CFR § 98.60(g)(2)).

Contrary to these Federal requirements, the State agency improperly reobligated $34,126 of targeted grant funds that remained after the obligation periods had ended. This amount included $4,200 in FY 2009 funds provided under the Recovery Act. Although the funds were initially obligated properly, these unused funds could not be reobligated because the obligation period had ended.

Table 2: Improperly Reobligated Funds

Fiscal Year	Obligation Period End Date	Reobligation Date	Amount
2007	9/30/2008	02/05/2009	$ 16,923
2008	9/30/2009	10/30/2009	3,254
2009	9/30/2010	03/01/2011	9,749
2009	9/30/2010	06/22/2011	1,700
2009	9/30/2010	06/27/2011	2,500

STATE AGENCY DID NOT HAVE WRITTEN POLICIES AND PROCEDURES IN PLACE

The State agency did not have written policies and procedures in place to guide appropriate monitoring of the obligation and liquidation of the targeted funds. In the absence of necessary written policies and procedures, the State agency could not always identify which expenditures would be allowable for a particular FY.

Written policies and procedures regarding appropriate monitoring can provide the State agency with the tools to ensure that targeted funds are obligated according to the time frame specified in Federal requirements.

[3] This amount was also claimed as an FY 2006 expenditure.

RECOMMENDATIONS

We recommend that the State agency:

- refund to the Federal Government $51,300 for targeted funds that were not properly obligated and

- develop written policies and procedures to guide in the appropriate monitoring of the obligation and liquidation of CCDF targeted funds.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency concurred with our findings and recommendations and described the action it had taken, or planned to take, to address them.

The State agency's comments appear in their entirety as Appendix D.

APPENDIX A: RELATED OFFICE OF INSPECTOR GENERAL REPORTS

Report Title	Report Number	Date Issued
Review of Unexpended Infant and Toddler Targeted Funds and Quality Targeted Funds Claimed by the Iowa Department of Human Services for Fiscal Years 1998–2003	A-07-07-00231	8/2008
Iowa Improperly Claimed Some Child Care and Development Targeted Funds	A-07-11-03163	3/2012
Michigan Properly Obligated and Liquidated Targeted Funds Under the Child Care and Development Fund Program	A-05-12-00062	4/2013
Ohio Properly Obligated and Liquidated Targeted Funds Under the Child Care and Development Fund Program	A-05-12-00061	4/2013
Nebraska Improperly Claimed Some Child Care and Development Targeted Funds	A-07-12-03175	4/2013

APPENDIX B: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed $21,561,884 of targeted fund expenditures claimed by the State agency for FYs 2007 through 2009. This amount included $4,946,576 of funding provided by the Recovery Act. We did not perform a detailed review of the State agency's internal controls because our objective did not require us to do so. We limited our review to the controls related to the obligation and liquidation of the targeted funds.

We conducted fieldwork at the State agency in Richmond, Virginia, from September 2012 through May 2013.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and program guidance, as well as State laws and the approved Virginia CCDF State plans;

- reviewed the ACF-696 reports for FYs 2007 through 2009 to determine the amount of targeted funds that the State agency claimed;

- interviewed State agency staff responsible for preparing the ACF-696 reports to obtain an understanding of how the reports were prepared, how the targeted funds were reported, and what documentation was maintained to support expenditures on the reports;

- reconciled all CCDF targeted fund expenditures claimed on the ACF-696 reports to the State agency's documentation used to prepare the reports;

- reviewed the State agency's contracts with the contractors, grantees, and other agencies of the Virginia State government to determine the dates on which the contracts were signed in relation to the obligation requirements of the targeted funds for FYs 2007 through 2009;

- reviewed the State agency's payment dates to contractors, grantees, and other agencies of the Virginia State government in relation to liquidation requirements of the targeted funds for FYs 2007 through 2009;

- reviewed accounting documentation maintained by the State agency to support adjustment transactions;

- reviewed documentation submitted by contractors to the State agency in support of the expenditure of targeted funds; and

- discussed the results of our review with State agency officials on May 2, 2013.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C: FEDERAL REQUIREMENTS RELATED TO CHILD CARE AND DEVELOPMENT FUND TARGETED FUNDS

FUND OBLIGATION REGULATIONS

Federal regulations (45 CFR § 98.60(d)(1)) state: "Discretionary Fund allotments shall be obligated in the fiscal year in which funds are awarded or in the succeeding fiscal year. Unliquidated obligations as of the end of the succeeding fiscal year shall be liquidated within one year."

Federal regulations (45 CFR § 9860(d)(7)) states that "[a]ny funds not obligated during the obligation period specified in paragraph (d) of this section will revert to the Federal government. Any funds not liquidated by the end of the applicable liquidation period specified in paragraph (d) of this section will also revert to the Federal government."

Federal regulations (45 CFR § 98.60(g)) require that funds that were properly obligated and liquidated but are subsequently returned to the grantee within the original obligation period shall,"(1) if received by the Lead Agency during the applicable obligation period … be used for activities specified in the Lead Agency's' approved plan and must be obligated by the end of the obligation period; or (2) if received after the end of the applicable obligation period … be returned to the Federal government."

ACTIVITY REGULATIONS

Federal regulation (45 CFR § 98.16(h)) require that the approved CCDF State plan include '[a] description of the activities to provide comprehensive consumer education, to increase parental choice, and to improve the quality and availability of child care, pursuant to [45 CFR] § 98.51."

Federal regulations (45 CFR §§ 98.51(a) and (b)) require that no less than 4 percent of the aggregate funds be spent on activities to improve the quality of childcare and that the Lead Agency describe in the CCDF State plan the activities it will fund under the quality activities (which includes the targeted funds).

APPENDIX D: STATE AGENCY COMMENTS

COMMONWEALTH *of* VIRGINIA

DEPARTMENT OF SOCIAL SERVICES

August 20, 2013

Mr. Stephen Virbitsky
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Inspector General
Public Ledger Building, Suite 316
150 S. Independence Mall West
Philadelphia, Pennsylvania 19106

RE: Report No. OIG-VA-03-12-00251

Dear Mr. Virbitsky,

Thank you for the opportunity to respond to OIG's Office of Audit Services above referenced Draft Report on the results of an audit of Child Care & Development Fund (CCDF) "Targeted Funds" expenditures claimed by the Virginia Department of Social Services (DSS) for Federal Fiscal Years (FFY) 2007 through 2009. DSS concurs with your findings and recommendations, and our responses are shown below.

<u>DSS RESPONSE to OIG Recommendations</u>

<u>OIG Recommendation 1:</u> Refund to the Federal Government $51,300 for targeted funds that were not properly obligated.

<u>DSS RESPONSE:</u> DSS concurs with this recommendation and within 30 days following the issuance of the final audit report, DSS will refund to the Federal Government $51,300.

OIG Recommendation 2: Develop written policies and procedures to guide inappropriate monitoring of the obligation and liquidation of CCDF targeted funds.

<u>DSS RESPONSE:</u> DSS concurs with this recommendation and procedures to facilitate the monitoring of federal obligation and liquidation of CCDF Targeted Funds requirements have been written and disseminated within the appropriate DSS processing units.

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Please contact Barbara Newlin, CCDF State Administrator, at 804-726-7398 if additional information is required.

Sincerely,

/Margaret Ross Schultze/

Commissioner

MRS/mhl

cc: Michael Walsh, Audit Manager
Paul McWhinney, Deputy Commissioner
J.R. Simpson, Chief Financial Officer
Barbara Newlin, CCDF State Administrator