

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**NOT ALL OF NEBRASKA'S
CONTROLS FOR ITS
CHILD CARE SUBSIDY PROGRAM
CLAIMS WERE EFFECTIVE**

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Office of Inspector General

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EXECUTIVE SUMMARY

Nebraska did not always have effective controls for its Child Care Subsidy program. We identified at least 1 control deficiency in 32 of 100 childcare claims reviewed and estimated that, as a result, the costs affected by these control deficiencies totaled approximately \$16.4 million (\$8.8 million Federal share).

WHY WE DID THIS REVIEW

Subsidized childcare services are available to assist low-income families, families receiving temporary public assistance, and families transitioning from public assistance to obtain childcare so that family members can work or attend training or education. The subsidized childcare services are administered by each State and are funded in part by the Child Care and Development Fund (CCDF) Federal program. A previous review conducted by the Government Accountability Office revealed vulnerabilities in the administration of the CCDF program in selected States.

The objective of this review was to determine whether the Nebraska Department of Health and Human Services' (State agency) controls for client and provider eligibility determinations and for claims processing for the Child Care Subsidy program were effective.

BACKGROUND

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 fiscal years) and that designates a lead agency responsible for administering childcare programs. In Nebraska, the State agency is the lead agency and is responsible for administering the CCDF program at the State level, which is known as the Child Care Subsidy program. As the lead agency, the State agency is required to oversee the expenditure of funds by contractors, grantees, and other agencies of the Nebraska State government to ensure that the funds are expended in accordance with Federal requirements.

The State agency paid childcare claims totaling \$90,305,946 for the period April 1, 2010, through March 31, 2011.

WHAT WE FOUND

The State agency's controls for client and provider eligibility determinations and for claims processing for the Child Care Subsidy program were not always effective. Of the provider eligibility controls we tested, the State agency's controls for the performance of provider background checks were not effective, but the State agency's controls for the maintenance of required provider forms and for the completion of provider rate agreements were effective. Of the claims processing controls we tested, the State agency's controls for preventing payment to providers in excess of amounts established by the State were not effective, but the State agency's controls for preventing payment to providers who were caring for their own children and for

documenting supervisor approval of excess rates and excess units were effective. Of the client eligibility controls we tested, the State agency's controls for verifying client citizenship and client age were not effective, but the State agency's controls for verifying family income and for verifying need-for-service eligibility were effective.

The State agency's lack of sufficient written policies and procedures was the primary cause for ineffective controls over the Child Care Subsidy program. Without written policies and procedures, the State agency's Child Care Subsidy program is vulnerable to fraud, waste, and abuse.

Of the 100 claims reviewed, we determined that 32 claims showed evidence of ineffective controls for client and provider eligibility and for claims processing. We estimated that \$16,412,057 (\$8,759,115 Federal share) of the Child Care Subsidy program claims could have had one or more of the control deficiencies we identified.

WHAT WE RECOMMEND

We recommend that the State agency improve its controls for client and provider eligibility determinations and for claims processing to ensure that payments for the Child Care Subsidy program are made for eligible clients and to eligible providers. Specifically, the State agency should take steps to develop written policies and procedures that will:

- ensure that background checks, including criminal history checks and other State registry checks, are documented;
- validate that the units and rates paid to providers are in accordance with the State's established maximum payment amounts;
- ensure that providers are being paid only for childcare that they provided during approved hours;
- maintain documentation to demonstrate that all clients are U.S. citizens or qualified aliens; and
- maintain documentation to demonstrate that all clients are eligible based on the age requirements.

STATE AGENCY COMMENTS AND OUR RESPONSE

In written comments on our draft report, the State agency neither agreed nor disagreed with our recommendations. However, the State agency's comments described procedures that it had implemented, or said it would implement, to address some of our findings. We maintain that all of our findings and the associated recommendations remain valid.

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INTRODUCTION

WHY WE DID THIS REVIEW

Subsidized childcare services are available to assist low-income families, families receiving temporary public assistance, and families transitioning from public assistance to obtain childcare so that family members can work or attend training or education. The subsidized childcare services are administered by each State and, under the provisions of the Child Care and Development Block Grant Act and section 418 of the Social Security Act, are funded in part by the Child Care and Development Fund (CCDF) Federal program.

A previous review conducted by the Government Accountability Office (GAO) revealed vulnerabilities in the administration of the CCDF program in selected States. The GAO report (*Undercover Tests Show Five State Programs Are Vulnerable to Fraud and Abuse* (GAO-10-1062, issued September 2010)) found that the five States that it tested (Illinois, Michigan, New York, Texas, and Washington) lacked controls for childcare assistance application and billing processes for unregulated relative providers, leaving the program vulnerable to fraud and abuse.

For the current audit, we reviewed the Nebraska Department of Health and Human Services' (State agency) controls for three interrelated aspects of its childcare assistance program: client eligibility, provider eligibility, and claims processing.¹

OBJECTIVE

Our objective was to determine whether the State agency's controls for client and provider eligibility determinations and for claims processing for the Child Care Subsidy program were effective.

BACKGROUND

Childcare Services Funded by Child Care and Development Fund

At the Federal level, the U.S. Department of Health and Human Services, Administration for Children and Families (ACF), administers the CCDF program. Under this 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 fiscal years (FYs)) and that designates a lead agency responsible for administering childcare programs.

States provide subsidized childcare services to eligible families through certificates (vouchers) or through grants and contracts with providers. Parents may select a childcare provider that satisfies applicable State and local requirements. These requirements must address prevention and control of infectious diseases, including immunizations; building and physical premises

¹ We use the term "client" to describe the child for whom the provider is being paid and the family of the child for whom eligibility is being determined.

safety; and certain minimum levels of health and safety training, as well as any requirements needed for State licensing, unless the provider is exempt from the licensing requirements.

Nebraska’s Child Care Subsidy Program

In Nebraska, the State agency is the lead agency and is responsible for administering the CCDF program at the State level, which is known as the Child Care Subsidy program. As the lead agency, the State agency is required to oversee the expenditure of funds by contractors, grantees, and other agencies of the Nebraska State government to ensure that the funds are expended in accordance with Federal requirements.

Nebraska’s Child Care Subsidy program is funded with Federal CCDF funds and State general funds. Title 392 of the Nebraska Administrative Code (NAC), “Child Care Subsidy Program,” establishes the requirements for the Child Care Subsidy program regardless of the funding source (Federal CCDF funds or State general funds).

Under Nebraska’s Child Care Subsidy program, the childcare subsidy² may be provided to the children in income-eligible families in which parents³ are absent for a portion of the day due to employment or participation in academic or vocational training or on-the-job training. The subsidy may also be available for a limited period of time when a parent is looking for employment (Employment First program⁴) or when the parent who normally cares for the child is absent from the home due to personal medical issues or has to care for another family member with medical issues.

Nebraska’s Child Care Subsidy program also specifies that the childcare subsidy is provided without regard to income when made on behalf of a child who would benefit from childcare services in situations of abuse, neglect, or exploitation when a report will be made to the State registries.⁵

Approved childcare providers include (1) licensed childcare centers, (2) licensed family childcare homes, (3) license-exempt family childcare homes, and (4) in-home providers (i.e., within the child’s own home). For this report, we refer to the latter two categories as “nonlicensed providers.”

² We will refer to the subsidy payments for the Child Care Subsidy program as “childcare.”

³ 45 CFR § 98.2 defines a “parent” as “a parent by blood, marriage or adoption and also means a legal guardian, or other person standing *in loco parentis*...”

⁴ Employment First is Nebraska’s Temporary Assistance to Needy Families (TANF) program.

⁵ The State agency must keep electronic records of individuals whom it or the courts find responsible for abuse and neglect of a child or vulnerable adult. The State agency maintains these records in the Nebraska Child Abuse and Neglect Central Register and in the Adult Abuse and Neglect Central Registry. We collectively refer to these two databases as “State registries.” See http://dhhs.ne.gov/children_family_services/Pages/nea_cr.aspx.

HOW WE CONDUCTED THIS REVIEW

We reviewed 100 paid childcare claims using a stratified random sample. We selected this sample from 474,455 paid childcare claims totaling \$90,305,946 (which included both Federal and State funds) for the period of April 1, 2010, through March 31, 2011. We interviewed State officials and reviewed applicable Federal and State laws, regulations, and available guidance to obtain an understanding of the policies and procedures used to determine client and provider eligibility and claims processing. We did not review the State agency's overall internal control structure. We reviewed only those controls that pertained to our objective.

Within the areas of client and provider eligibility and claims processing, we tested the controls that the State agency had in place to help prevent fraud, waste, and abuse. For client eligibility, we determined whether the State agency had controls in place to help ensure that all clients met the eligibility requirements related to citizenship or qualified alien status,⁶ age, family income, and need for service. For provider eligibility, we determined whether the State agency had controls in place to help ensure that all providers met the eligibility requirements related to background checks, required forms, and provider rate agreements. For claims processing, we determined whether the State agency had controls in place to help ensure that all claims processed met the requirements related to providers and clients who live at the same address, supervisory approval of excess units of childcare provided (units) and excess rates paid, and the units and rates paid compared to the State agency's authorized amounts.

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 A contains details of our audit scope and methodology, Appendix B contains details of our statistical sampling methodology, Appendix C contains details of our calculation of the aggregate Federal share percentage, Appendix D contains our sample results and estimates, Appendix E contains our summary of sampled items, Appendix F provides Federal and State criteria related to the CCDF program, and Appendix G lists the State agency's controls that we tested and found to be effective.

FINDINGS

The State agency's controls for client and provider eligibility determinations and for claims processing for the Child Care Subsidy program were not always effective.⁷ Of the provider eligibility controls we tested, the State agency's controls for the performance of provider background checks were not effective, but the State agency's controls for the maintenance of

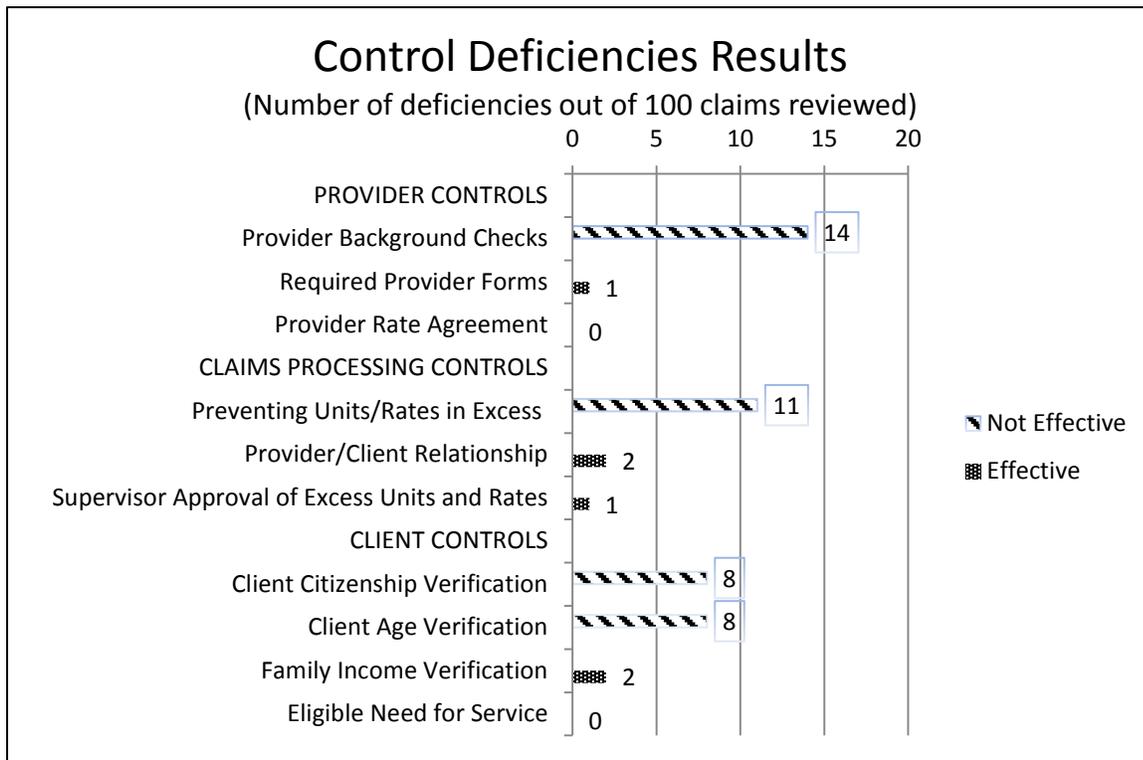
⁶ We collectively refer to citizenship and qualified alien status as "citizenship."

⁷ For each of the 100 randomly selected paid claims, we reviewed 10 specific controls for effectiveness. We considered a control with 6 or more deficiencies (out of the 100 paid claims reviewed) as evidence of ineffective controls, and a control objective with 5 or fewer control deficiencies as evidence of effective controls.

required provider forms and for the completion of provider rate agreements were effective. Of the claims processing controls we tested, the State agency’s controls for preventing payment to providers in excess of amounts established by the State were not effective, but the State agency’s controls for preventing payment to providers who were caring for their own children and for documenting supervisor approval of excess rates and excess units were effective. Of the client eligibility controls we tested, the State agency’s controls for verifying client citizenship and client age were not effective, but the State agency’s controls for verifying family income and for verifying need-for-service eligibility were effective.

The State agency’s lack of sufficient written policies and procedures was the primary cause for ineffective controls over the Child Care Subsidy program. Without written policies and procedures, the State agency’s Child Care Subsidy program is vulnerable to fraud, waste, and abuse.

Of the 100 claims reviewed, we determined that 32 claims showed evidence of ineffective controls for client and provider eligibility and for claims processing. We estimated that \$16,412,057 (\$8,759,115 Federal share) of the Child Care Subsidy program claims could have had one or more of the control deficiencies we identified. The extent of these control deficiencies left the Child Care Subsidy program vulnerable to fraud, waste, and abuse.⁸ The graph below shows the number of control deficiencies we identified for each of the areas that we reviewed.⁹



⁸ We used the ineffective control deficiencies in our projection of affected cost amounts.

⁹ Some of the individual claims reviewed had more than 1 control deficiency, resulting in a total of 32 claims with a total of 47 control deficiencies.

PROVIDER ELIGIBILITY CONTROLS

Control Design and Testing for Provider Background Checks

The State agency should have internal controls in place to prevent payments to childcare providers that are the subject of substantiated reports of abuse or neglect and to protect children from such providers. Appendix F provides criteria related to provider background checks.

Control Design

For each *licensed childcare provider*, State agency investigators were required to check that childcare agencies had the appropriate policies in place and were conducting appropriate background checks of employees. Investigators were also required to check licensed individual providers and, where appropriate, household members, against the State registries.

For each *nonlicensed childcare provider*, State agency caseworkers were to perform background checks of the individual provider and any applicable household members against the State registries.

The State agency officials told us that they maintained the documentation of the background check in the provider file and that State registries were checked after the provider made its initial application for licensing or when a change in the provider status required a new application.¹⁰

Control Testing

We obtained the provider files from the State agency and verified whether each file contained documentation that the State agency had verified that background checks had been performed at childcare agencies. For other licensed and nonlicensed childcare providers, we verified whether the State agency had checked the provider and, where appropriate, household members, against all of the required registries. Next, we verified that none of the checks had revealed any adverse information about the provider and evaluated whether the State agency had adequately followed up on any discrepancies.

State Agency Controls for Provider Background Checks Were Not Effective

Of the 100 claims that we reviewed, we identified 14 claims, all involving nonlicensed providers, for which the State agency's provider files lacked documentation to support that the State agency performed background checks against all of the required registries.

Without adequately documenting provider background checks, the State agency runs an increased risk that care is being provided to children by individuals with histories of abuse and/or

¹⁰ Generally, changes in provider status occur when a provider moves from one provider type to another; in such cases a new provider application must be submitted.

criminal convictions. The extent of these deficiencies indicated that the State agency's controls for obtaining provider background checks for nonlicensed providers were not effective.

CLAIMS PROCESSING CONTROLS

Control Design and Testing for Childcare Payment Amounts

The State agency should have internal controls in place that prevent childcare payment amounts (rates or units) from being paid in excess of the State's established maximum amounts. Appendix F provides criteria related to the allowable rates and units for providers.

Control Design

The State agency required each provider to sign a provider agreement specifying the rates that the provider would be paid. State agency officials told us that the State agency was required to maintain a scanned copy of the agreement in the provider's file. After the State agency approved the provider to receive childcare payments, the State agency would establish the provider as a payee within its computer system (N-FOCUS),¹¹ a task which included entering the provider type and provider rates based on the provider agreement.¹² If the provider agreement was subsequently updated, the new agreement information was entered in N-FOCUS.

The State agency also required each client to provide need-for-service documentation, which the State agency then used to determine the number of childcare units for which the client would be approved.^{13, 14} The State agency maintained the need-for-service documentation in the client file. After the State agency approved the client to receive childcare benefits, the State agency established the client within N-FOCUS, a task which included entering the units approved for the client.

Further, the State agency established system edits to help ensure that childcare payment amounts would not be paid in excess of established maximum amounts.

Control Testing

We obtained the provider files from the State agency. We verified whether each file contained a completed and signed provider agreement and ensured that the rates documented on the

¹¹ N-FOCUS is the Nebraska Family On-line Client User System, which the State agency uses for activities such as intake, eligibility determinations, payments, and the monitoring of ongoing services.

¹² The provider type is one of the data elements the State uses to calculate the maximum provider rate amount.

¹³ A need for service can consist primarily of attending work, job training, or educational program. We tested controls related to need for service as part of our client eligibility work, the results of which can be found in Appendix G.

¹⁴ Under State regulations, units of childcare may be measured and claimed in either hours or days. See Appendix F, "Claims Processing Criteria," "State Regulations."

agreement matched the rates that were actually paid to the provider by comparing the agreed-upon rates to the actual claim payment amount.

We also reviewed the number of units paid to the provider for the specific claim to determine whether the units paid exceeded the State's maximum of 18 hours per day unit or 60 hourly units per week. We recalculated each payment based on the reported units provided and the established rates to ensure that the payment was computed correctly.

State Agency Controls for Childcare Payment Amounts (Rates and Units) Were Not Effective

Of the 100 childcare claims that we reviewed, all had completed and signed provider agreements; however, we identified 11 claims that showed payment amounts (units or rates) in excess of the State's maximum amounts. For 10 of the 11 claims, we found that the respective provider files contained a new provider agreement that changed the provider status, which included a change to the provider type and rate. While N-FOCUS showed that the provider's profile had been updated with the new rate, the provider type had not been updated in N-FOCUS to reflect the change in status. For each of the 10 claims, the provider status changed from "licensed exempt provider" to "licensed provider," which is eligible for higher rates. However, established N-FOCUS system edits did not prevent providers from being paid at rates that were inconsistent with the rates that the State had established for that provider type.

For 1 of the 11 claims, the provider was overpaid by 2.25 hours. Specifically, the provider was paid for 14 day units plus 20.25 hourly units during a 15-day period. The State agency's maximum hourly units allowed per day are 18 hours; therefore, the provider was overpaid by 2.25 hours. Thus, established N-FOCUS system edits did not prevent the provider from being paid for more units than were allowable.

In addition to the controls testing performed, we determined that the State agency did not have procedures to ensure that providers were paid only for childcare that was provided to clients during approved hours based on the needs of service. Specifically, we found that the State agency did not track or consistently maintain documentation that identified what days and times the client was approved for childcare and what days and times the provider actually provided the care. Because the State agency did not track or consistently maintain this information, we could not test the extent to which this control deficiency may have contributed to childcare payment amounts being paid in excess of the State's established maximum amounts.

Without ensuring that the rates and units paid to providers are consistent with the State's established amounts and that the reimbursed childcare occurred during the client's approved schedule based on needs of service, there is an increased risk that the State agency overpaid its providers for childcare services rendered. As a result of these deficiencies, the State agency's controls for preventing excess payment amounts were not effective.

CLIENT ELIGIBILITY CONTROLS

Control Design and Testing for Client Citizenship Verification

The State agency should have internal controls in place that prevent childcare payments to providers on behalf of clients who are not U.S. citizens or qualified aliens. Appendix F provides criteria related to client citizenship.

Control Design

The State agency required each client to be a U.S. citizen or qualified alien and verified citizenship to help ensure that it made childcare payments to providers on behalf of clients who were eligible for assistance. To accomplish this, the State agency officials told us that they either obtained proof-of-citizenship documentation directly from the client or checked citizenship by accessing Nebraska's Vital Statistics system, which compiles birth documentation for children born within the State. For individuals who were not U.S. citizens, the State agency was required to verify that the individual was a qualified alien using the Systematic Alien Verification for Entitlements (SAVE) system. Furthermore, if the client provided his or her Social Security number (SSN) as part of the application, the State agency sent the information to the Social Security Administration (SSA) for verification.

State agency officials told us that when the State agency obtained citizenship documentation directly from the client, a copy of the documentation was maintained in the client's file. When the State agency manually verified a client's citizenship using the Vital Statistics system, the State agency considered this action to constitute documentation of citizenship, in light of the fact that the information was accessible within the Vital Statistics system. In such cases, when a member of a family that was already in the N-FOCUS system gave birth to an additional child, the Vital Statistics system automatically notified the N-FOCUS system of the birth, and the Vital Statistics system added the child's date of birth and SSN information to the client's N-FOCUS profile.

Control Testing

We obtained access to the client files from the State agency. We verified whether each file contained documentation of citizenship verification by looking in the case file for (1) a copy of the birth certificate or citizenship papers, (2) automatic notification from the Vital Statistics system, or (3) caseworker notes regarding citizenship.

State Agency Controls for Client Citizenship Verification Were Not Effective

Of the 100 claims that we reviewed, we identified 8 claims for which the case files contained no evidence that the State agency had verified client citizenship.

Without evidence that the citizenship was verified and without a requirement to maintain documentation from the Vital Statistics system, there was an increased risk that childcare was

being provided to clients who were not eligible. As a result of the identified deficiencies, we determined that the State agency's controls for client citizenship verification were not effective.

Control Design and Testing for Client Age Verification

The State agency should have internal controls in place that prevent childcare payments to providers on behalf of clients who exceed the legal age requirements. Appendix F provides criteria related to client age.

Control Design

State agency officials told us that to prevent childcare payments to providers on behalf of clients who exceed the legal age requirements, the State agency verified a client's age by using his or her citizenship documentation to obtain the date of birth and thus calculate the age. For a client to be age-eligible, he or she must be either (1) 12 years old or younger, or (2) 18 years old or younger and physically or mentally incapable of caring for himself or herself, be under court supervision, or be involved in protective services. The child's age must be verified in order to qualify for childcare.

Control Testing

We obtained access to the client files from the State agency. We verified whether each client met the age requirements by obtaining his or her date of birth from the citizenship documentation and calculating the client's age at the time of payment.

State Agency Controls for Client Age Verification Were Not Effective

Of the 100 claims that we reviewed, we identified 8 claims for which the case files contained no evidence that the State agency had verified client age.

Without evidence that the client's age was verified, there was an increased risk that childcare was being provided to clients who were not eligible. As a result of the identified deficiencies, we determined that the State agency's controls for client age verification were not effective.

STATE AGENCY DID NOT HAVE SUFFICIENT WRITTEN POLICIES AND PROCEDURES

The State agency lacked sufficient written policies and procedures to guide its staff in tasks such as determining provider and client eligibility and processing claims. Sufficient written policies and procedures are a key element in a strong system of internal control. The lack of sufficient written policies and procedures contributed to the ineffective application of the controls we tested. Sufficient and clearly written policies and procedures can serve as a tool to help staff understand the appropriate steps to performing critical tasks to help ensure adherence to Federal and State laws and regulations, and doing so consistently. Without sufficient written policies and

procedures, the State agency's Child Care Subsidy program is vulnerable to fraud, waste, and abuse.

COSTS ASSOCIATED WITH DEFICIENCIES

We estimated that \$16,412,057 (\$8,759,115 Federal share)¹⁵ of the Child Care Subsidy program claims could have had one or more of the control deficiencies identified in this report.

RECOMMENDATIONS

We recommend that the State agency improve its controls for client and provider eligibility determinations and for claims processing to ensure that payments for the Child Care Subsidy program are made for eligible clients and to eligible providers. Specifically, the State agency should take steps to develop written policies and procedures that will:

- ensure that background checks, including criminal history checks and other State registry checks, are documented;
- validate that the units and rates paid to providers are in accordance with the State's established maximum payment amounts;
- ensure that providers are being paid only for childcare that they provided during approved hours;
- maintain documentation to demonstrate that all clients are U.S. citizens or qualified aliens; and
- maintain documentation to demonstrate that all clients are eligible based on the age requirements.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency neither agreed nor disagreed with our recommendations. However, the State agency's comments described procedures that it had implemented, or said it would implement, to address some of our findings.

With respect to our first finding on provider background checks, the State agency said that "[d]uring the review time frame ... staff would have loaded/documented the background checks for License Exempt Child Care Providers into the NFOCUS ORG Background Check Detail and there would not have been paper copies in the file." The State agency added that it "... will review a percentage of Child Care Provider files monthly to ensure all required background checks are completed and documented appropriately." The State agency also said that it "... will

¹⁵ To calculate the Federal share, we multiplied the \$16,412,057 point estimate (Appendix D) by the 53.37 percent aggregate Federal share percentage (Appendix C).

develop a background checks process/procedure guide for staff responsible [for] provider approvals on completing background checks on Child Care Subsidy Providers.”

With respect to our second finding on childcare payment amounts (rates and units), the State agency identified several procedures that it had implemented or planned to implement. Specifically, the State agency stated that it:

- “... [i]n August of 2012 ... started a process where a sample [of] child care claims are tested each month for accuracy by comparing the claim to the provider attendance records to ensure that providers are being paid only for childcare that they provided during approved hours”;
- “... will review a sample of child care authorizations monthly to test for accuracy of need for service and of the units a client is authorized”;
- “... will review a percentage of Child Care Provider files monthly to ensure that NFOCUS system is updated to match the provider’s status, appropriate rates are established for the specific provider type, and required documentation are in the provider file”; and
- “... will create system edits [and] will create a system limit for the amount of units that a provider can submit monthly for each unit type.”

With respect to our third and fourth findings on client citizenship and age verification, the State agency said that this information was and is available through the interface with Nebraska’s Vital Statistics system and is thus not maintained separately. On this basis, the State agency indicated that it questioned our findings regarding the ineffective controls for client citizenship and age verification. The State agency added that it had, beginning in March 2012, implemented a new citizenship verification process that uses an interface with SSA to verify citizenship of participants in new Medicaid or TANF cases. According to the State agency, this process will verify citizenship of participants who are also receiving childcare. The State agency said that it “... will expand this verification to all participants in a Childcare Program.”

With respect to insufficient written policies and procedures, the State agency said that it hired an internal auditor in October 2011 and that it had, in the past year, issued several department-wide internal control policies and documented numerous processes and procedures. “The Department will continue to review all its internal control policies and procedures on an ongoing basis.”

The State agency’s comments, excluding technical comments, appear as Appendix H.

OFFICE OF INSPECTOR GENERAL RESPONSE

We maintain that all of our findings and the associated recommendations remain valid. With respect to the State agency’s comments that the documentation of background checks in NFOCUS during the time period covered by our review would have precluded the inclusion of paper copies in the file, we examined the N-FOCUS ORG Background Check Detail to verify

the background check documentation for the License Exempt Child Care providers. Our references to “provider files” in our finding on provider background checks included both hard copy (paper files) and electronic files (documentation within N-FOCUS). Accordingly, we looked for both paper copies and electronic files in developing our finding that 14 of 100 reviewed claims lacked documentation of provider background checks.

With respect to the State agency’s comments on the role of the Vital Statistics interface in client citizenship and age verifications, we understand that client citizenship and age information can be verified in the Vital Statistics system and can be accessed through an interface in the N-FOCUS system. We note, though, that if the verification is not documented in the case narrative of the client’s N-FOCUS file, there is no assurance that the caseworker actually performed the verification. We encourage the State agency to explore the implications of this possibility as it continues to strengthen its controls and enhance its policies and procedures.

OTHER MATTERS

The State agency did not require periodic background checks on licensed and nonlicensed providers once they had been initially approved to provide childcare services.¹⁶ The State agency performed background checks on each provider and/or its employees at the time of the provider’s initial application or when a change in the provider status required a new application. However, after the initial application and background checks, the provider might not again undergo the application-and-review process for many years, if at all, which could result in providers and employees going unchecked for many years. We identified 16 of 100 claims¹⁷ for which the provider files indicated that the most recent background checks were over 5 years old.¹⁸ For 10 of these 16 claims, the providers’ most recent background checks were performed between 6 and 10 years before April 30, 2010, and for the remaining 6 claims the providers’ most recent background checks were performed more than 10 years earlier than April 30, 2010. We estimated that \$34,386,761 (\$18,352,214 Federal share)¹⁹ of the Child Care Subsidy program claims could have similar issues as the one noted above.

We noted two additional issues with the State agency’s provider background check procedures. First, the State agency had not established formal procedures for conducting annual inspections

¹⁶ While not a requirement in Nebraska, some States conduct periodic background checks. Our analysis of questionnaires obtained from an ongoing Office of Inspector General evaluation showed that 25 of 50 States self-reported that they required childcare providers to undergo periodic background checks ranging from every 1 to 6 years, with an average frequency of approximately every 3 years (all of these State background checks consisted of, at a minimum, a child abuse check and/or a State criminal records check). Seventeen other States, including Nebraska, self-reported that they did not require any periodic background checks.

¹⁷ The 16 claims were in addition to the 14 claims that we identified as errors in “Provider Eligibility Controls” earlier in this report.

¹⁸ We calculated the length of time, in years, that had lapsed between the date of the most recent background check and the first day of our audit period, April 30, 2010.

¹⁹ To calculate the Federal share, we multiplied the \$34,386,761 point estimate (Appendix D) by the 53.37 percent aggregate Federal share percentage (Appendix C).

at the licensed providers' facilities, increasing the risk that the annual inspections could be executed inconsistently by the various State agency investigators or not be conducted at all. In the absence of formal procedures, some State agency investigators conducted annual inspections of licensed providers, which included examining a sample of employee background check documentation to ensure that each of the employee files contained the completed background checks.²⁰ Second, the State agency's background check procedures were not comprehensive in nature, in that those checks did not fully use other existing registries to identify childcare providers with substantiated reports of abuse or neglect. For instance, the State agency required that providers and their employees be checked against the State registries but did not require that out-of-State registry checks or criminal history checks be conducted.²¹

²⁰ These examinations consisted of the State agency selecting, from each provider, either approximately five employees or all of the new employees, whichever was greater. We selected and reviewed 29 different provider files, located in 2 State field offices that we visited, and verified that the State agency was performing these examinations during our audit period.

²¹ In this context, the prior GAO report mentioned earlier (GAO-10-1062) suggested that States evaluate the feasibility of requiring all providers, including relative providers, to undergo national fingerprint criminal history checks and screenings against the national sex offender registry. Moreover, since the conclusion of our audit work, ACF has issued a Notice of Proposed Rulemaking that proposes regulatory changes that would improve health and safety protections for children receiving CCDF assistance. Among these proposed changes are provisions for greater use of other existing registries in the performance of background checks (78 Fed. Reg. 29422, 29465 (May 20, 2013)).

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed the State agency's controls for client and provider eligibility determinations and for claims processing for the period of April 1, 2010, through March 31, 2011. We did not review the State agency's overall internal control structure. We reviewed only those controls that pertained to our objective. For our audit period, the State agency paid childcare claims totaling \$90,305,946.

We conducted fieldwork at the State agency in Lincoln, Nebraska, from December 2011 to February 2012.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and program guidance for the CCDF program;
- reviewed applicable State laws and the approved Nebraska CCDF State plans related to the Child Care Subsidy program for FYs 2010 and 2011;
- reviewed the State agency's ACF-696 reports²² and supporting documentation for FYs 2009 through 2011 to determine the amount of childcare payments that were included in each FY's report and the breakdown of the payments charged to each funding source (Federal or State funds);
- interviewed State agency staff responsible for preparing the ACF-696 reports to obtain an understanding of how the reports were prepared, how the childcare claims were reported, and what documentation the State agency maintained to support these claims;
- interviewed State agency staff to obtain an understanding of the policies, procedures, and guidance used to determine childcare client and provider eligibility and claims processing;
- interviewed State agency staff to obtain an understanding of the State agency's specific controls for
 - client eligibility (citizenship, age, family income, and need for service),

²² States are required to report childcare assistance expenditures to ACF on the quarterly Child Care and Development ACF-696 Financial Report (ACF-696 report), which is a cumulative report for the FY. The ACF-696 report summarizes the total childcare assistance expenditures made by the State agency and identifies the funding sources (Federal or State funds) that the State agency used for childcare assistance expenditures.

- provider eligibility (background checks, required forms, and provider rate agreements), and
- claims processing (providers and clients living at the same address, supervisor approval of excess units provided and excess rates paid, and units and rates paid compared to the State agency's established amounts);
- obtained the paid claims data from the State agency for the period April 1, 2010, through March 31, 2011;
- reconciled paid claims data with the State agency's accounting system and the ACF-696 reports to ensure that the childcare paid claims population that we used to perform the tests of controls represented the amounts that the State agency claimed for Federal reimbursement;
- divided the claims paid during our audit period into 2 strata by provider type (1 stratum for licensed provider types²³ and 1 stratum for nonlicensed provider types²⁴) and randomly selected 50 claims from each stratum, totaling 100 claims reviewed;
- reviewed the 100 randomly selected paid claims' case files (electronic or paper) to evaluate the adequacy of the State agency's controls for client eligibility determinations, and specifically:
 - determined whether each case file contained the completed application, citizenship documentation, and verification of family income and hours worked and
 - recomputed the child's age based on date of birth and date of service to verify that the child was under 13 years old, unless special needs or protective needs had been documented;
- reviewed the provider files related to the 100 randomly selected paid claims to evaluate the adequacy of the State agency's controls for provider eligibility determinations and specifically determined whether each provider file contained documentation of the required background checks and evaluations, the required provider forms, and an approved provider application;
- reviewed the 100 randomly selected paid claims to evaluate the adequacy of the State agency's controls for claims processing by specifically (1) determining whether billing of more than the approved units of service per service period had supervisor approval,

²³ Licensed provider types include childcare centers, family childcare home I providers, and family childcare home II providers.

²⁴ Nonlicensed provider types include license-exempt providers and in-home providers who provide care in the child's home.

- (2) determining whether paid claims exceeded the approved number of units, and
- (3) analyzing instances in which the provider address and client address were the same;
- used the results of the claims review to determine the impact of the deficiencies in the ineffective controls identified using the variable appraisal;
- applied the aggregate Federal share percentage (Appendix C) to the point estimate (Appendix D) to estimate the Federal share of the impact of the deficiencies in the ineffective controls; and
- discussed the results of our review with State agency officials on August 8, 2012.

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: STATISTICAL SAMPLING AND MATHEMATICAL CALCULATION METHODOLOGY

POPULATION

The population consisted of the paid childcare claims in the State of Nebraska from April 1, 2010, through March 31, 2011.

SAMPLING FRAME

The sampling frame was a database of 474,455 paid childcare claims totaling \$90,305,946.

SAMPLE UNIT

The sample unit was a paid childcare claim.

SAMPLE DESIGN

We used a stratified sample consisting of two strata, based on the grouped provider types.

Stratum 1 consisted of 416,975 paid claims totaling \$78,036,612 paid to licensed providers.

Stratum 2 consisted of 57,480 paid claims totaling \$12,269,334 paid to nonlicensed providers.

SAMPLE SIZE

We selected 50 paid childcare claims per stratum for a total of 100 paid childcare claims.

SOURCE OF RANDOM NUMBERS

We generated the random numbers with the Office of Inspector General, Office of Audit Services, statistical software (RAT-STATS).

ESTIMATION METHODOLOGY

We used RAT-STATS to estimate the costs associated with the control deficiencies in total. Because the paid childcare payments included both Federal and State paid claims, we developed an aggregate percent to identify the approximate Federal share of the total cost associated with the control deficiencies. We calculated the aggregate percentage by determining the amount of childcare paid claims that were reported on each quarterly ACF-696 report for each fund type (Federal funds, State fund, and matching funds) and divided the total Federal funds by the total paid childcare claims for the audit period. (See Appendix C for the calculation.)

APPENDIX C: AGGREGATE FEDERAL SHARE PERCENTAGE

ALLOCATION OF PAID CHILDCARE CLAIMS ON ACF-696 REPORT

Quarter	Mandatory (100% Federal)	Matching (FMAP Federal & State)	Discretionary (100% Federal)	Maintenance of Effort (100% State)	ARRA²⁵ (100% Federal)
4/1/2010– 6/30/2010	\$1,775,000	\$5,266,415	\$8,325,000	\$5,055,412	\$1,812,000
7/1/2010– 9/30/2010	1,775,000	2,397,946	5,528,230	12,366,674	3,200,000
10/1/2010– 12/31/2010	1,300,000	4,743,676	6,650,000	9,260,731	0
1/1/2011– 3/31/2011	2,240,000	3,168,894	6,272,619	9,154,282	0
Total	\$7,090,000	\$15,576,731	\$26,775,849	\$35,837,099	\$5,012,000

FEDERAL PORTION OF MATCHING

Quarter	Matching	FY 2009	FY 2010	FY 2011	
4/1/2010– 6/30/2010	\$5,266,415	\$19,278	\$5,247,137	\$0	
7/1/2010– 9/30/2010	2,397,946	2,721	2,395,025	0	
10/1/2010– 12/31/2010	4,743,676	0	2,254,343	2,489,333	
1/1/2011– 3/31/2011	3,168,894	0	0	3,168,894	
Total	\$15,576,731	\$21,999	\$9,896,505	\$5,658,227	
FMAP Rate		59.54%	60.56%	58.44%	
Federal Portion		\$13,098	\$5,993,323	\$3,306,668	\$9,313,089

FEDERAL SHARE PERCENTAGE

	Total	Federal
Mandatory	\$7,090,000	\$7,090,000
Matching	15,576,731	9,313,089
Discretionary	26,775,849	26,775,849
Maintenance of Effort	35,837,099	0
ARRA	5,012,000	5,012,000
Total Childcare Claims	\$90,291,679	48,190,938
Aggregate Federal Share		53.37%

²⁵ American Recovery and Reinvestment Act of 2009 funds (P.L. No. 111-5).

APPENDIX D: SAMPLE RESULTS AND ESTIMATES

**TOTAL DEFICIENCIES EXCLUDING
PROVIDER PERIODIC BACKGROUND CHECK**

Stratum	Frame Size	Frame Value	Sample Size	Value of Sample	Number of Claims With Control Deficiencies	Amount of Claims With Control Deficiencies
1	416,975	\$78,036,612	50	\$10,218	7	\$1,503
2	57,480	\$12,269,334	50	\$ 9,746	25	\$3,371

ESTIMATES OF CONTROL DEFICIENCIES
(Limits Calculated for a 90-Percent Confidence Interval)

	Total Estimated Costs Associated with Control Deficiencies
Point estimate	\$16,412,057 ²⁶
Lower limit	\$ 7,007,326
Upper limit	\$25,816,789

**PROVIDER PERIODIC BACKGROUND
CHECK DEFICIENCIES**

Stratum	Frame Size	Frame Value	Sample Size	Value of Sample	Number of Claims With Control Deficiencies	Amount of Claims With Control Deficiencies
1	416,975	\$78,036,612	50	\$10,218	16	\$4,123
2	57,480	\$12,269,334	50	\$ 9,746	0	\$0

ESTIMATES OF CONTROL DEFICIENCIES
(Limits Calculated for a 90-Percent Confidence Interval)

	Total Estimated Costs Associated with Control Deficiencies
Point estimate	\$34,386,761 ²⁷
Lower limit	\$17,125,684
Upper limit	\$51,647,838

²⁶ As discussed earlier in footnote 15, to calculate the \$8,759,115 Federal share shown in “Costs Associated With Deficiencies,” we multiplied this \$16,412,057 point estimate by the 53.37 percent aggregate Federal share percentage (Appendix C).

²⁷ As discussed earlier in footnote 19, to calculate the \$18,352,214 Federal share shown in “Other Matters,” we multiplied this \$34,386,761 point estimate by the 53.37 percent aggregate Federal share percentage (Appendix C).

APPENDIX E: SUMMARY OF SAMPLED ITEMS

Sample Claim Information			Client Eligibility Missing				Provider Eligibility Missing			Claim Processing Missing		
Sample Order	Paid Claim Amount	Deficient Claim Amount	Citizenship w/ Social Security #	Need For Service	Family Income Verification	Over 13	Background Check	Required Forms	Provider Agreement	Unit in Excess of Approved	Units Not Approved	Same Address
LS1	\$275.00	\$0.00										
LS2	79.20	0.00										
LS3	673.00	0.00										
LS4	140.00	0.00										
LS5	81.25	0.00										
LS6	51.48	0.00										
LS7	570.00	0.00					O					
LS8	651.00	0.00										
LS9	376.13	0.00					O					
LS10	38.00	0.00										
LS11	30.00	0.00					O					
LS12	23.63	0.00										
LS13	375.00	0.00										
LS14	93.00	0.00										
LS15	111.00	0.00										
LS16	420.00	420.00								X	X	
LS17	550.00	0.00										
LS18	22.00	0.00					O					
LS19	520.00	0.00										
LS20	279.00	0.00					O					
LS21	37.13	0.00					O					
LS22	22.50	0.00					O					
LS23	44.00	0.00					O					
LS24	73.72	0.00										
LS25	44.00	44.00	X			X						
LS26	2.75	0.00										
LS27	39.50	0.00										

Sample Claim Information			Client Eligibility Missing				Provider Eligibility Missing			Claim Processing Missing		
Sample Order	Paid Claim Amount	Deficient Claim Amount	Citizenship w/ Social Security #	Need For Service	Family Income Verification	Over 13	Background Check	Required Forms	Provider Agreement	Unit in Excess of Approved	Units Not Approved	Same Address
LS28	\$200.00	\$0.00										
LS29	266.40	0.00										
LS30	750.00	0.00					O					
LS31	94.50	0.00										
LS32	210.00	210.00	X			X	O					
LS33	600.00	0.00					O					
LS34	57.00	0.00										
LS35	155.00	0.00										
LS36	13.06	0.00										
LS37	25.00	0.00										
LS38	261.50	0.00					O					
LS39	37.60	0.00					O					
LS40	420.00	420.00			X		O					
LS41	66.50	0.00										
LS42	64.50	64.50	X			X						
LS43	126.00	0.00					O					
LS44	121.25	0.00										
LS45	200.00	0.00										
LS46	208.00	0.00										
LS47	36.75	0.00										
LS48	246.75	246.75	X		X	X						
LS49	337.50	0.00					O					
LS50	98.00	98.00	X			X						
NLS1	75.00	75.00									X	
NLS2	330.00	0.00										
NLS3	130.00	130.00					X					
NLS4	45.00	0.00										

Sample Claim Information			Client Eligibility Missing				Provider Eligibility Missing			Claim Processing Missing		
Sample Order	Paid Claim Amount	Deficient Claim Amount	Citizenship w/ Social Security #	Need For Service	Family Income Verification	Over 13	Background Check	Required Forms	Provider Agreement	Unit in Excess of Approved	Units Not Approved	Same Address
NLS5	\$8.00	\$8.00					X					
NLS6	52.00	52.00					X					
NLS7	74.25	74.25									X	
NLS8	5.98	0.00										
NLS9	6.00	0.00										
NLS10	75.00	0.00										
NLS11	157.50	0.00										
NLS12	300.00	0.00										
NLS13	175.00	175.00									X	
NLS14	195.00	0.00										
NLS15	1,348.50	0.00						X				X
NLS16	90.00	0.00										
NLS17	330.00	0.00										
NLS18	31.50	31.50					X					
NLS19	22.50	0.00										
NLS20	105.00	0.00										
NLS21	300.00	0.00										
NLS22	45.50	45.50									X	
NLS23	35.00	35.00					X					
NLS24	43.50	43.50					X					
NLS25	300.00	0.00										
NLS26	13.00	13.00					X					
NLS27	198.00	0.00										
NLS28	50.00	50.00	X			X					X	
NLS29	251.00	0.00										
NLS30	104.00	104.00					X					
NLS31	924.71	0.00										

Sample Claim Information			Client Eligibility Missing				Provider Eligibility Missing			Claim Processing Missing		
Sample Order	Paid Claim Amount	Deficient Claim Amount	Citizenship w/ Social Security #	Need For Service	Family Income Verification	Over 13	Background Check	Required Forms	Provider Agreement	Unit in Excess of Approved	Units Not Approved	Same Address
NLS32	\$292.00	\$292.00									X	
NLS33	273.00	273.00					X					
NLS34	19.00	19.00					X					
NLS35	25.74	25.74	X			X					X	
NLS36	94.50	94.50					X					
NLS37	1,271.98	1,271.98					X					
NLS38	108.50	0.00										X
NLS39	162.00	162.00					X					
NLS40	125.00	125.00									X	
NLS41	91.00	0.00										
NLS42	50.00	50.00									X	
NLS43	208.00	0.00										
NLS44	105.00	105.00									X	
NLS45	239.41	0.00										
NLS46	515.54	0.00										
NLS47	12.38	12.38	X			X						
NLS48	104.00	104.00					X					
NLS49	215.44	0.00										
NLS50	13.00	0.00										
TOTAL	\$19,964.03	\$4,874.60	8	0	2	8	14	1	0	1	11	2

X: Claims with a control deficiency

O: Claims with provider periodic background check issues (not included in the projection of control deficiencies)

APPENDIX F: FEDERAL AND STATE CRITERIA RELATED TO CHILD CARE AND DEVELOPMENT FUND

PROVIDER ELIGIBILITY CRITERIA

Federal Regulations

Federal regulations (45 CFR § 98.11) delegate the overall responsibility for the administration of the CCDF program to the lead agency and specify that the lead agency ensure that all State and local or nongovernmental agencies operate according to the rules established by the program.

Federal regulations (45 CFR § 98.40(a)(1)) require that a lead agency certify that it has put in effect licensing requirements applicable to childcare services provided within the area served by the lead agency.

Federal regulations (45 CFR § 98.41) require that a lead agency certify that it has put in effect provider health and safety requirements that are designed to protect children receiving childcare services. Such requirements shall address the prevention and control of infectious diseases, including immunizations; building and physical premises safety; and certain minimum levels of health and safety training.

Federal regulations (45 CFR § 98.43(a)) require the State to certify that the rates paid to CCDF providers are sufficient to ensure equal access, for eligible clients, to childcare services comparable to those provided to families who are not eligible for CCDF assistance.

State Regulations and Provider Handbook

State regulations (392 NAC 5-001) require the State agency to take steps to ensure that providers do not have substantiated reports of abuse or neglect. If the provider is an agency, the State agency staff must review agency policies regarding hiring and reporting to ensure that appropriate procedures regarding abuse or neglect are in place. If the provider is an individual, the State agency staff must check the State registries to determine whether the provider is the subject of any substantiated reports of abuse or neglect. If the provider provides services in his or her own home, the State agency staff must also check the State registries to determine whether household members of the provider are the subject of any substantiated reports of abuse or neglect.

State regulations (392 NAC 5-001.01) require the State agency to take steps to ensure that before childcare is provided, each provider receiving childcare funds signs the State agency's Form CC-9B, Child Care Provider Agreement, which documents the rates that the provider will receive from the State for providing childcare to eligible clients.

The State agency's *Child Care Provider Handbook*, Section III – Program Standards, requires all providers to allow State registry checks to be performed on themselves and household members, if appropriate. If the provider is an agency, the provider must agree to allow the State agency to review its policies regarding hiring and reporting to ensure that appropriate procedures regarding

abuse or neglect are in place. If a report of abuse or neglect has been substantiated, the State agency will not contract with the provider. If the provider is a current Child Care Subsidy provider and if a report of abuse or neglect concerning the provider (or a household member) as perpetrator is substantiated, State agency staff will immediately terminate the provider agreement and notify relevant State agency officials.

State agency procedures require the State agency to take steps to ensure that providers receiving Child Care Subsidy funds have completed various forms: a provider agreement, release of information, Federal W-9 tax form, proof of insurance, and provider checklist.

CLAIMS PROCESSING CRITERIA

Federal Regulations

Federal regulations (45 CFR § 98.11) delegate the overall responsibility for the administration of the CCDF program to the lead agency and specify that the lead agency ensure that all State and local or nongovernmental agencies operate according to the rules established by the program.

Federal regulations (45 CFR § 98.43(a)) require the State to certify that the rates paid to CCDF providers are sufficient to ensure equal access, for eligible clients, to childcare services comparable to those provided to families who are not eligible for CCDF assistance.

State Regulations

State regulations (392 NAC 000-203, Manual Letter number 48-2009) establish the State's maximum rates and require the State agency to take steps to ensure that payments to providers receiving childcare funds do not exceed those specific rates established by the State. Those rates vary based on provider type, child age, geographic region, and unit type.

State regulations (392 NAC 2-004) establish the requirements for the file contents of the State's case records, which must include appropriate forms for and documentation of: the request for services or the application, income verification, and service eligibility.

State regulations (392 NAC 3-008.01A) state that providers receiving childcare funds are limited to the units of childcare provided, to a maximum of 18 hours per day and 60 hours per week.

State regulations (392 NAC 5-001(3)) state that providers receiving childcare funds are not the parent, stepparent, caretaker relative or foster parent, or subsidized adoptive parent of the minor child receiving childcare, or the legal guardian, subsidized guardian, spouse, or minor child of the childcare client.

CLIENT ELIGIBILITY CRITERIA

Federal Requirements

Federal regulations (45 CFR § 98.11) delegate the overall responsibility for the administration of the CCDF program to the lead agency and specify that the lead agency ensure that all State and local or nongovernmental agencies operate according to the rules established by the program.

Federal regulations (45 CFR § 98.20(a)(1)) require that a child be under 13 years old, be under 19 years old and physically or mentally incapable of caring for himself or herself, or be under court supervision, to be eligible for childcare under the CCDF program.

Federal regulations (45 CFR § 98.20(a)(2)) state that to be eligible for childcare under the CCDF program, a client must reside with a family whose income does not exceed 85 percent of the State's median income for a family of the same size.

Federal regulations (45 CFR § 98.20(a)(3)) state that to be eligible for childcare assistance, a child shall reside with a parent or parents who are working or attending a job training or educational program, or a child shall receive, or need to receive, protective services.

Title IV of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, P.L. No. 104-193, as amended, prohibits individuals who are not U.S. citizens or qualified aliens from receiving Federal public benefits. The CCDF is considered a Federal public benefit, and citizenship and immigration status must be verified (63 Fed. Reg. 41662 (August 4, 1998)).

State Regulations

State regulations (392 NAC 3-003) require that in order for a child to receive Child Care Subsidy assistance, the child must be a citizen of the United States or a qualified alien.

State regulations (392 NAC 3-005.04) require that clients receiving childcare provide verification of the client family's earned income with a copy of check stubs, a statement from his or her employer, or, if self-employed, a copy of latest income tax return(s) or bookkeeping records.

State regulations (392 NAC 3-007) state that childcare is available for children aged 12 years old or under, aged 18 years old or under with special needs, or under court supervision or involved in protective services. The child's age must be verified in order to qualify for childcare.

State regulations (392 NAC 3-008.01) state that a case manager may authorize childcare services for eligible clients only if each parent or usual caretaker: is employed or actively seeking employment; is participating in an Employment First activity; requires childcare to obtain medical services; is enrolled in and regularly attending vocational, educational, or on-the-job training; is incapacitated; would benefit from childcare services in situations of abuse, neglect, or exploitation; has a child in foster care and requires childcare to receive Social Services Block

Grant assistance or community services directed toward the return of the child to the home; or needs to escort a child to receive medical care or visit a child in the hospital.

APPENDIX G: CONTROLS TESTED THAT WERE DETERMINED TO BE EFFECTIVE

PROVIDER ELIGIBILITY

Maintenance of Required Provider Forms

The State agency should have controls in place to prevent payment to providers that have not completed all of the forms that the State agency requires.

Control Design

The State agency required each provider to complete various provider forms so that the State agency could determine the provider's compliance with childcare rules and regulations. State agency officials told us that they maintained scanned copies of the forms in the provider file.

Test Results

Of the 100 claims that we reviewed, we determined that the State agency maintained copies of all of the required provider forms for 99 of the claims. However, we identified one claim that did not have all of the required provider forms on hand in the case file.

Provider Rate Agreements

The State agency should have controls in place to prevent payment to providers at rates that exceed the rates agreed upon between the provider and the State agency.

Control Design

The State agency required each provider to complete and sign a provider agreement that documented the agreed-upon rates. State agency officials told us that they maintained a scanned copy of the provider agreement in the provider file.

Test Results

For all 100 of the claims that we reviewed, we determined that the rates paid to the providers did not exceed the approved and agreed-upon rate.

CLAIMS PROCESSING

Provider/Client Relationship

The State agency should have controls in place to prevent payments to providers for care of their own children.

Control Design

To ensure that the State agency prevented payments to providers who were caring for their own children, the State agency's N-FOCUS system prompted the State agency to determine whether or not the provider and the client were relatives. State agency officials told us that the State agency also documented the provider/client relationship in the N-FOCUS case narrative.

Test Results

Of the 100 claims that we reviewed, we determined that there were no indicators of familial relationship for 98 of the claims. However, we identified two claims for which the provider's address and the client's address were the same at some point in time, conveying the possibility that a familial relationship existed between the two individuals. However, the State agency did not note any such relationship in the case files.

Documentation of Supervisor Approval of Excess Rates and Excess Units

The State agency should have controls in place to prevent excess payment amounts to providers without proper supervisor approval.

Control Design

State agency officials told us that to ensure that the State agency met the requirements related to supervisor approval of excess rates and excess units, in cases when a client was eligible for childcare services that exceeded the maximum hours permitted by State regulations, the client's caseworker could obtain approval from the supervisor (at the State agency) for excess rates paid or excess units provided. State agency officials added that the supervisor documented the reason for approval in the case file. Furthermore, employees in the State agency's field offices monitored the detailed billing documentation that providers submitted to ensure that providers were not billing for unreasonably excessive amounts. When excessive billing amounts were identified, the State agency followed up with the provider before approving or denying the payment.

Test Results

Of the 100 claims that we reviewed, we determined that for 99 claims, providers were not paid for excessive rates or excessive units without State agency supervisory approval. However, we identified one claim for which the units of childcare provided to the client by the provider were excessive when compared to the actual hours worked by the client; in addition, there was no supervisor approval in this instance for the excess units provided.

CLIENT ELIGIBILITY

Family Income Verification

The State agency should have controls in place to prevent payments to providers on behalf of clients who exceed the State-designated income amounts.

Control Design

State agency officials told us that to ensure that the State agency met the requirements related to preventing payment to providers on behalf of clients who did not meet the State-designated income amounts, the State agency verified income by obtaining documentation from the client's family, including pay stubs and employment verifications signed by the employer. The State agency also checked various systems, including the State Employee Wage interfaces, the Integrated Unemployment Compensation interface, and the Child Support Enforcement interface, to identify any income that was unreported by the client's family. Furthermore, the State agency's N-FOCUS system interfaced with the State of Nebraska's New Hire Match system, which alerted the State agency whenever a member(s) of a client's family gained new employment during the service period.

Test Results

Of the 100 claims that we reviewed, we determined that for 98 claims, the documentation demonstrated that clients did not exceed State-designated income amounts. However, we identified two claims for which the case file did not contain the client's family income verification.

Need-for-Service Eligibility

The State agency should have controls in place to prevent payments to providers on behalf of clients who have no eligible need for service.

Control Design

State agency officials told us that to ensure that the State agency met the requirements related to preventing payment to providers on behalf of clients with no eligible need for service, the State agency obtained documentation from the client, to ensure that the client had an eligible need for childcare, and maintained the documentation in the case file. Need-for-service documentation included employment verification letters completed by the client's employer, pay stubs, school schedules, and similar documents.

Test Results

For all 100 of the claims that we reviewed, the client families' need for service was documented in the case files.

APPENDIX H: STATE AGENCY COMMENTS



State of Nebraska
Dave Heineman, Governor

November 25, 2013

Report Number: A-07-11-03167

Mr. Patrick J. Cogley
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Inspector General
601 East 12th Street, Room 0429
Kansas City, MO 64106

Dear Mr. Cogley,

This letter is in regards to your draft report entitled *Not All of Nebraska's Controls for its Child Care Subsidy Program Claims Were Effective*. At this time, we would like to provide the following responses to your findings.

State Agency Controls for Provider Background Checks Were Not Effective

The period of review was April 1, 2010 through March 31, 2011. During the review time frame the Department's Resource Development staff would have loaded/documented the background checks for License Exempt Child Care Providers into the NFOCUS ORG Background Check Detail and there would not have been paper copies in the file. The release of information would have been the provider brown file (also in Scanned Images). Resource Development would not have been printing any background check records. The Department will continue to have Resource Development staff document the required background checks in the NFOCUS ORG Background Check Detail. Before enrolling a provider into the Child Care Subsidy Program, Resource Development staff will check the Nebraska Adult and Child Abuse Registries, Nebraska law enforcement records, The Nebraska Department of Motor Vehicles Driver License Information System, and Nebraska's License Information System. These checks are done for license-exempt providers and licensed Family Child Care Homes I and II.

The Department will review a percentage of Child Care Provider files monthly to ensure all required background checks are completed and documented appropriately.

The Department will develop a background checks process/procedure guide for staff responsible provider approvals on completing background checks on Child Care Subsidy Providers. This will provide a consistent procedure to complete background checks State Wide.

State Agency Controls for Childcare Payment Amounts (Rates and Units) Were Not Effective

In August of 2012, the Department started a process where a sample child care claims are tested each month for accuracy by comparing the claim to the provider attendance records to ensure that providers are being paid only for childcare that they provided during approved hours. The State Agency will continue this testing to ensure the accuracy of provider claim submission.

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The Department maintains a Child Care Job Aid for eligibility staff to use to create authorizations to ensure that appropriate documentation is provided in the authorization descriptions identifying what days and times the client is approved for child care. The email reflecting current Job Aid is attached as Exhibit 1.

The Department will review a sample of child care authorizations monthly to test for accuracy of need for service and of the units a client is authorized.

The Department will review a percentage of Child Care Provider files monthly to ensure that NFOCUS system is updated to match the provider's status, appropriate rates are established for the specific provider type, and required documentation are in the provider file.

The Department will create system edits regarding provider claim submission. The Department will create a system limit for the amount of units that a provider can submit monthly for each unit type.

State Agency Controls for Client Citizenship and Age Verification Were Not Effective

The Department uses a computer interface with Vital Statistics which verifies the birth of all children born in Nebraska. This interface provides an electronic view of all Nebraska birth Certificates which were issued on or after January 1, 1995. This interface was in place during the review and will continue.

The interface information documenting the verification is always available through the interface so is not maintain separately from the interface. The Department is not confident that this point was understood during the OIG review thus questions the number of cases where verification was found.

A new citizenship verification process was implemented in March 2012 with the Social Security Administration (SSA). The Department has an interface with the SSA that verifies citizenship of participants in a new Medicaid or TANF case. If a participant is also receiving Childcare, the citizenship will be verified for them as well. The Department will expand this verification to all participants in a Childcare Program.

State Agency Did Not Have Sufficient Written Policies and Procedures

In October 2011, the Department hired an Internal Auditor to review and enhance the Department's internal controls. During the past year, the Department has issued several Department wide internal control policies and numerous processes and procedures have been documented. The Department will continue to review all its internal control policies and procedures on an ongoing basis.

If you have any questions or comments regarding our responses, please contact me at 402-471-9213 or kevin.r.nelson@nebraska.gov.

Sincerely,



Kevin R. Nelson, CPA
Internal Auditor, Nebraska Department
Of Health and Human Services

Cc: Thomas Pristow, Director of Children and Family Services
Nebraska Department of Health and Human Services
Jill Schreck, Deputy Director; Economic Assistance
Nebraska Department of Health and Human Services
Teri Chasten, Economic Assistance Policy Chief
Nebraska Department of Health and Human Services
Willard Bouwens, Financial Services Administrator
Nebraska Department of Health and Human Services