

Measuring Improper Payments in the Child Care Program:  
A Pilot Project of the ACF Child Care Bureau

Working Papers for Discussion

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## Background

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The Improper Payment Information Act of 2002 (IPIA) and related OMB guidance describes certain federal programs that are to have a national error rate. The Child Care Program has been identified as a federal program that falls within the terms of the Act. The Child Care Program has been included among a number of HHS programs working on developmental projects under this legislation. Given the variables in State child care operations, the Child Care Bureau (the Bureau) conducted a pilot project with selected Partner States for the purpose of determining whether there is an efficient and cost-effective approach/methodology for estimating improper payment amounts or rates in the Child Care Program. In addition, the Bureau used this pilot to discover methods that could help States identify, measure, and prevent errors in the administration of child care funds. The pilot objectives were:

- To evaluate the feasibility of developing a strategy for estimating improper payments in the Child Care program;
- To produce recommendations for improved monitoring regarding improper payments and fraud;
- To provide better definitions of child care payment error and child care fraud;
- To gather documented “best practices,” plus other technical assistance materials, as well as data and reporting protocols.

The Child Care and Development Fund (CCDF) is a block grant composed of three distinct funding elements (Mandatory, Discretionary and Matching) authorized in two different statutes. It is managed by HHS as a unitary funding stream and treated that way by States, Territories and Tribes, although adjustments are sometimes required to accommodate such things as differing rules for expensing appropriated funds. The statute provides maximum *flexibility for States* in setting critical policies such as eligibility criteria, defining administrative structures, and providing maximum *choice for parents* to select the type of child care – center-based, family child care, relative care, friends and neighbors, etc. – that best meets their family’s needs, and establishing fiscal approaches that best meet States’ needs.

Because of the discretion given to States, such critical policies as eligibility rules for parents, amount of co-pay, regulation of child care providers, maintenance of waiting lists, and payment mechanisms vary widely from jurisdiction to jurisdiction. There are also substantial variations in

administrative structures ranging from locally-administered to fully-centralized systems. Some Child Care Administrators are located in the State's education agency, while others are in the social services or workforce development agency. Often, the licensing function is located in a separate agency.

The provision for parental choice also leads to variations from State to State. Some States rely heavily on providing vouchers to parents; some lean more toward buying slots from providers. Transfer of significant amounts of Temporary Assistance for Needy Families (TANF) funds to CCDF is common among several States, but not among others. A few leave millions of CCDF dollars on the table during any given year because for one reason or another they choose not to supply the non-federal share. Information systems – both fiscal and programmatic – differ greatly among the States, Territories, and Tribes.

The result of all this block grant flexibility is a responsive, supple federal funding stream that States can and do adjust as budget pressures and market forces change or families' needs shift. This flexibility a strength for the program – also makes it difficult to develop common definitions or approaches for identifying and managing improper payments. ACF has no oversight activity concerning the issues of improper payments or management of the roughly \$8.5 billion in CCDF and TANF funds spent on child care. This is further compounded by the lack of authority and resources to conduct monitoring and oversight reviews of CCDF. The various fiscal and programmatic data elements such as single State audits and State financial expenditures reporting do not capture information about the various strategies and tools that States have in place for managing improper payments. In the absence of such information, HHS cannot determine if the CCDF programs are susceptible to significant improper payments.

## **Pilot Project: Measuring Improper Payments in the Child Care Program**

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This project explored, with a limited number of States, the feasibility of establishing a national error rate in child care. Additionally, it produced recommendations for improved monitoring and administration, produced better definitions of child care error and child care fraud, documented “best practices” and provided other technical assistance materials, including data and reporting protocols. This initial phase of the project was successful in beginning to focus more attention on the need for accurate payments, as well as correction and collection, if appropriate, for improper payments. While much has been accomplished, much work remains to be done before a determination can be made as to the feasibility of a national error rate in the Child Care Program.

The following describes the implementation of the pilot project, and recommendations for Phase II of the project which should be completed within the next twelve months.

### ***Recruit Specialized Staff to Administer the Project***

To augment existing staff, the Bureau recruited Mary Jo Thomas, an experienced official from the Commonwealth of Virginia, on an Intergovernmental Personnel Act assignment to oversee this effort and help analyze the findings and recommendations from the pilot project. Regional Office and contractor staff assisted as team members on visits to States.

### ***Solicit Volunteer Partner States; Confirm Participation of Partner States; Confirm Field Site States; Convene Initial Meeting of Partner States***

To understand the issue from a State perspective, the Bureau invited eleven States to participate in this Pilot Project to help assess the adequacy of systems, databases, policy constants, and administrative structures, and to describe the critical differences among broad categories of States. Of the eleven, six States volunteered to serve as field sites and the remaining five agreed to participate as partners in the project. These eleven States bring to this project experience in dealing with improper payments, knowledge of the capacity of their State and locally-administered automated systems, and strong working

relationships among key State agencies. Both State- and locally-administered organizational structures are represented in the eleven States.

The initial meeting with the Partner States was held on November 12 – 13, 2003 in Washington, DC. Participants included State Child Care Administrators, Fraud Directors, Quality Assurance Directors, Auditors, Investigators, Federal partners and contract staff. During the two-day meeting, States shared the various approaches to service delivery in the administration of the CCDF program. There was general acknowledgement among States that:

- The difficulty of developing a national error rate is compounded by the fact that State systems are so diverse.
- There can be significant differences between those programs that are supervised and administered at the State level and those that are administered locally.
- The definition of “error” varies greatly from jurisdiction to jurisdiction, which presents a challenge in developing a model system with national application.
- The culture of the administering agencies/units is typically very different from the culture of investigating and prosecuting agencies/units. This can have a significant influence on defining, identifying and subsequent prosecution of improper payments.
- States with a solid infrastructure, integrated and automated systems, and sufficient staffing stand the best chance of preventing fraud, as well as successfully pursuing fraud when it occurs.
- Integrated automated systems are powerful tools in tracking clients, providers, and payments, and establishing thresholds for fraud prevention and monitoring errors.
- Setting consistent measurements and benchmarks to make a national error rate meaningful across States will present a significant technical problem. It remains to be seen whether it will be possible to produce a useful national metric.
- With progressively larger sums of money going into child care, there has been an increase in recent years in concern about good stewardship and program integrity.

### ***Collaborate with Federal and Non-Federal Partners***

#### *Federal Partners.*

*GAO.* The Bureau collaborated with GAO, which was asked by the House Ways and Means Committee to conduct a study of improper payments in child care. Since both agencies sought information on this topic from States, we concluded that we should coordinate and broaden the base of information available overall. GAO released its final report on the results of the survey and site visits in June 2004; prior to that release, the Bureau participated in the review process. The Bureau met with staff from GAO to review and comment on the initial findings and submitted a response to their final report.

*OIG.* The HHS Office of Inspector General has been fully involved with the Bureau in the development of this project, and participates in key meetings. In addition, OIG has provided fraud training and technical assistance to Federal,

State, and Tribal staff at the Bureau's request. OIG staff participated in the site visit to Virginia.

*SAMHSA.* Child Care Bureau and ACF Regional Office staff presented at five bidders' conferences across the country (Atlanta, Denver, Phoenix, Seattle, and Washington, DC) for States and Tribes interested in applying for grants under the Substance Abuse and Mental Health Services Administration's new program that will provide vouchers for substance abuse treatment. (Travel costs were covered by SAMHSA.) ACF staff provided a framework and ideas for ensuring program integrity and controlling errors in a voucher environment, based largely on lessons learned through the Bureau's improper payments pilot project. These efforts are anticipated to lead to cross-program discussions and coordination at the State and Tribal levels, with potential benefits for CCDF programs.

#### *Tribes.*

The Bureau made a presentation at the annual National Tribal Child Care Conference in April 2004; several Tribes expressed interest in participating in this project. The Bureau will involve the Tribal Workgroup, with representatives from Tribes from nine of the ten HHS Regions<sup>1</sup>, in future quarterly conference calls.

#### *Non-Governmental Organizations.*

The Bureau has been in regular communication with the American Public Human Services Association (APHSA), the National Association for Program Information and Performance Measurement (NAPIPM), and the United Council on Welfare Fraud (UCOWF) concerning this project. The Bureau made presentations at the spring meeting of APHSA in March 2004, as well as UCOWF in March 2004. The Deputy Associate Commissioner of the Child Care Bureau was one of the opening speakers at the national UCOWF conference in August 2004. Additionally, the Bureau made a presentation at the NAPIPM annual conference in August 2004.

### ***Communicate regularly with Federal Staff, State Child Care Administrators, and Regional Office Staff***

To ensure good communication and foster an ongoing partnership between Federal and State participants, the Bureau has undertaken a variety of actions. The Bureau has conducted quarterly conference calls with State Administrators, Territories, representatives of the Tribal Workgroup and Regional Offices; conducted special briefings for non-governmental organizations; shared information within ACF, including Regional Office staff; and included workshop and roundtable discussions on controlling improper payments at the national State Child Care Administrators meetings.

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<sup>1</sup> *Region III has no federally recognized Tribes.*

***Consult with other Federal agencies that have experience with erroneous payments for examples of technical or program solutions***

***PARIS.***

In response to growing interest in the role of automation in preventing and pursuing erroneous payments, the Bureau hosted a conference call with selected States on the topic of PARIS (Public Assistance Reporting Information System), a voluntary information exchange system designed by the Administration for Children and Families to provide State Public Assistance Agencies with appropriate data as a result of a Federal computer matching initiative. Some States are investigating the use of PARIS for their child care program. The Bureau arranged for a PARIS presentation at the NAPIPM annual conference in August 2004 in Richmond, VA. Another call is planned with all States invited to participate.

***ACF State Systems Summit.***

The Bureau sent staff to the State Systems Summit, “Reaching New Heights in Human Services Collaboration,” hosted by the Administration for Children and Families, in May 2004. The Summit enabled Bureau Staff to collaborate with Federal and State leaders in TANF, Child Welfare, and Child Support Enforcement programs on a variety of topics. Child Care staff participated in sessions on cost allocations; State systems profiles, data exchange with XML, Food Stamps, TANF reauthorization, PARIS, and titles IV-A and IV-D.

***USDA.***

During the Arkansas site visit, ACF confirmed the critical role that the Child and Adult Care Food Program (CACFP)<sup>2</sup> can play. Bureau staff met with Food and Nutrition Service staff to explore opportunities for coordination, cooperation and mutual support at the State level.

***Conduct field site visits***

Six field site visits (Arkansas, Connecticut, Indiana, Ohio, Oklahoma, Virginia) have been conducted. State officials were very generous with their time and materials, and went out of their way to ensure that the site visits were productive.

A wealth of information was gathered during the site visits. States have developed a range of strategies to prevent errors, identify errors, and take appropriate enforcement action—as demonstrated in the examples below:

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<sup>2</sup> CACFP is administered by the U.S. Department of Agriculture.

## Prevention

- Documentation requirements to establish eligibility--e.g., pay stubs to document income.
- Verification of client or provider-reported information--e.g., access to government databases for confirmation.
- Periodic determination of eligibility to capture changes in circumstances.
- Training of program staff on policies and procedures.
- Outreach and clear communication with parents and providers about program rules--e.g., clear application materials that describe requirements.
- Public relations campaigns to discourage fraud.
- Up-front verification of suspect cases prior to determining eligibility.

## Identification of Errors

- Quality assurance reviews or audits of case records.
- Monitoring of providers--e.g., on-site visits based on complaints or random selection.
- Automated data runs to identify red flags--e.g., providers with no absent children.
- Red Flag Process – when there is any indication that there is an error in payments or fraudulent practices, the State does not automatically mail the check to the provider or parent, but holds the check until the issue is investigated further.
- Investigation of cases in response to public complaints.

## Enforcement

- Recouping of erroneous payments--e.g., establishing repayment plans with parents/providers.
- Barring clients from benefits or providers from future business.
- Referrals to prosecution for fraud.

## ***Immediate Benefits of the Pilot Project***

Since the initial national meeting in November 2003 and the last site visit in June 2004, the Bureau has witnessed a variety of positive actions as a result of this pilot project. For example, considerable interest has been generated in the project as evidenced by

- growing State and Regional Office participation in the conference calls;
- non-Partner and Partner States' willingness to share State and local activities and best practices, and
- State and other partner attendance at workshop presentations.

States that are not among the original Partner States have begun to volunteer information about their experiences and successes with improper payments. The growing number of other cooperating organizations is another indication of Federal, State and local interest in accountability and program integrity.

## **Preliminary Conclusions and Recommendations Related to the Pilot Project Objectives**

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### ***Strategy for Estimating Improper Payments***

One of the major objectives of the pilot was to evaluate the feasibility of developing a strategy for estimating improper payments in the Child Care program. While States are looking into ways of developing measurements in their own jurisdictions, they are having difficulty in establishing error rates due to the complexity and flexibility of the program, as well as limited data available. Similarly, establishing a national estimate of error seems especially elusive due to the same flexibility and complexity plus the unique approaches to administering the CCDF block grant among the States, Tribes and Territories. More work is needed to further explore the problems that surfaced and to refine the initial learnings. A plan has been developed to address this need and expand the base of States involved.

### ***Improved Monitoring Regarding Improper Payments and Fraud***

Many States have already taken active steps to measure, prevent, identify and recover improper payments, addressing everything along the continuum from overt fraud to inadvertent, unintentional errors. Progress is uneven across States, and some States are stronger at addressing certain types of error than others (e.g., administrative error, provider error, client error). However, existing strategies and practices provide a solid basis for future improvements and sharing best practices across States, Territories, and Tribes.

Our observation is that State child care systems which share information with other systems, such as the labor, welfare, and education departments, are better able to independently verify information supplied by families; this facilitates both initial awarding of benefits and re-determination of eligibility. Linking systems to each other cuts down on the amount of time required to verify information. It also provides a tool to enhance monitoring capabilities within the jurisdiction. Conversely, the lack of integrated systems or the lack of collaboration greatly impedes the ability of the jurisdiction to monitor the accuracy of its program administration. Another challenge is the lack of a common identifier among the multiple systems. Multiple systems and lack

of consistent data hinders States from corroborating information self-reported by providers or parents.

ACF does not regularly conduct any reviews, or engage in other oversight activity concerning the issues of improper payments or other aspects of grantees' management of the roughly \$8.5 billion in CCDF and TANF funds spent on child care. The various fiscal and programmatic data elements such as single State audits and State financial expenditures reporting, while useful for some purposes, do not capture information about the various strategies and tools that States have in place for managing improper payments

### ***Better Definitions of Child Care Payment Error and Child Care Fraud***

Reduction of improper payments may begin with States re-examining their existing child care subsidy policies and their definitions. For example, adjusting payment strategies, such as payment rate units (hourly, daily, or weekly) and policies related to children's absences, can impact the level of resources required for tracking attendance in child care and the resulting level of improper payments.

Finding common specific definitions proved to be elusive. Definition of what constitutes error and what constitutes fraud varies greatly among the States. States report that certain types of errors in the child care subsidy program are more problematic and larger in scope than others. By clearly defining error and fraud, by prioritizing their efforts, and by focusing on prevention and identification strategies that are most cost-effective, States, Tribes and Territories can improve program integrity without unnecessarily diverting scarce resources. Additional work is necessary and is planned.

### ***Documented "Best Practices," Technical Assistance Materials, Data, and Reporting Protocols***

A wealth of information was gathered from the Partner States in the pilot project. Information has been shared in a variety of ways. It has become abundantly clear that there is both a willingness and need to share "best practices," technical assistance materials, data, and reporting protocols with not just the Partner States, but with all the States, Tribes, and Territories. It has been strongly suggested that this sharing be done in a variety of ways and on a continuous basis.

While a number of excellent initiatives were documented by the Partner States, there is much more to be learned and shared. With the limited resources available and the guidelines outlined, the Bureau is moving forward to continue this project into the next phase of development and implementation.

It is imperative to recognize that each State, Territory, and Tribe has its own unique set of policies, procedures, and structures that support the child care subsidy program. Locally-administered States can have more than one system of administering the program even within their own borders. Therefore, no one set of solutions or strategies can be applied on a national level. To address the issue of improper payments, the variability with

which States, Territories, and Tribes implement the block grant must be acknowledged and respected.

It is clear that improper payments need to be addressed within the broader context of service delivery. Many States report that efforts to control erroneous payments need to be balanced by efforts to provide effective service delivery for clients. If strategies to limit erroneous payments (e.g., increased paperwork, verification requirements) discourage significant numbers of parents or providers from participating in the subsidy program, the effectiveness of the program may be undermined.

The pilot project phase of addressing improper payments and fraud in the child care subsidy program is concluded but there is much more work that remains to be done. Many proposed future initiatives have been suggested by Partner States and others involved in the conference calls and/or workshops as necessary and extremely helpful to States, Tribes, and Territories in addressing improper payments and fraud.

## Next Steps – Phase II

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### *Near-Term Activities*

*Continuing Analysis of Information.* In the next several months, the Bureau will be continuing to collect, analyze and evaluate information gathered from the site visits and voluntarily provided from other sources.

*Ongoing Communication.* The Bureau plans to continue briefings for key associations and grantees to build consensus and pave the way for broad and hopefully reasonably quick buy-in among the States, Territories, and Tribes. The Bureau will design ongoing communication with the States to provide current information on project status and State activities. The Bureau will explore with other federal agencies (e.g., FNS, CMS) ways to learn from their experience and possibly test approaches to State-level collaboration.

*State Partners Meeting.* The Bureau is conducting a follow-up meeting of field site and Partner States September 28-29, 2004, in Washington, DC to review progress on the initial phase of the project. As with the November 2003 meeting, the Bureau invited State Child Care Administrators, Fraud Directors, Quality Assurance Directors, Auditors, Investigators, Federal partners and contract staff to discuss the project in a closed setting, to allow for a candid exchange of views. This meeting will launch Phase II of the project.

*Cost-Benefit Analysis.* The Bureau will conduct a cost-benefit analysis to produce a technical assistance document for States to help them think through the economics of controlling errors and fraud, and consider such difficult questions as whether practices that preserve program integrity may also limit client access and client choice. The document is intended to help States to formulate policies for error prevention, detection, and recovery, and provide information that State and Territorial legislatures may use in calculating the return they can expect on an investment in controlling errors and fraud in child care payments.

*Technology Conference.* A Technology Conference, planned for the winter of 2004-2005, will convene States, Territories and selected Tribes to learn about automation

solutions for their data collection challenges. The Conference will also share best practices currently used by States, Territories and Tribes.

*Intensive Site Visits.* A follow-up pilot project planned for early 2005 with two States (one State-administered, one locally-administered) will offer the Bureau a chance for more intensive site visits for lengthier periods of time, to learn about the States' data management efforts and to explore more thoroughly the economics of child care improper payments at the level of State and local governments. The Bureau is interested in examining a number of technological approaches currently being tested in States, such as software that highlights potential fraud or error and EBT applications for child care vouchers. This follow-up pilot project will focus on policies, procedures and administrative structure, as well as technologies used, and will also provide in-depth fiscal information for the cost/benefit analysis.

*State Surveys.* The release of the GAO report, "TANF and Child Care Programs: HHS Lacks Adequate Information to Assess Risk and Assist States in Managing Improper Payments," and State self-reports have highlighted the need for systematic information requests of States regarding their efforts to prevent and identify improper payments. The Bureau has submitted a request to survey the States, to ask State Child Care Administrators to provide information on a voluntary basis regarding actions they are taking to reduce or eliminate improper payments in the Child Care Program. The Office for Family Assistance has developed a parallel information request for TANF. A Notice has been published in the Federal Register, for a 60 day comment period. Once the survey is approved and forwarded to the States, State responses will be available to all States for viewing on the HHS/ACF website.

### ***Policy Clarification***

In the course of work on this pilot project it has become clear, from the testimony of State officials and Federal Regional Office staff alike, that there are some Child Care Bureau policies that are seen as inhibiting States in their efforts to prevent, detect or collect erroneous payments. Likewise, policy gaps, and misunderstandings or misinterpretations of current policies also exist.<sup>3</sup> The Bureau will analyze existing law to determine which policy clarifications can be made. The first phase of policy issuances will involve clarifications and new policy in areas that do not involve regulatory or statutory change. If regulatory change is needed, the Bureau will develop an NPRM and forward it to the Assistant Secretary for Children and Families and the Department of Health and Human Services for review. The Bureau is conducting this work within the context of existing law, so the Bureau will not develop recommendations for statutory change as a part of this project.

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<sup>3</sup> A major portion of the two-day meeting of Regional Office staff in Kansas City in July 2004 was devoted to a discussion of Federal policy regarding improper payments in child care.

### *Developmental Work*

Given the absence of direct legislative authority in this area under the Child Care Program, the Child Care Bureau must pay special attention to ways of informing, persuading, and otherwise influencing Child Care Program grantees to continue or even increase their efforts to improve fiscal monitoring and administration. The Bureau is compiling products that will contribute the implementation of new approaches for controlling improper payments. For example, these will include case studies, or other best practice descriptions; model policies/procedures; training materials; systems descriptions; cost/benefit analyses; audit protocols and quality assurance methodologies; and other products intended to help implement improved error prevention and support improved reporting. A roll-out plan will also be developed to provide a strategic framework for moving toward the next stage of implementation.