COMPLIANCE AND CONTROL AUDIT REPORT

Child-Care Assistance: Determining Whether SRS' Procedures Limit the Risk of Improper Payments

A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
July 2009

08CC04

Legislative Post Audit Committee
Legislative Division of Post Audit

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We conduct our audit work in accordance with applicable government auditing standards set forth by the U.S. Government Accountability Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. The standards also have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

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June 25, 2009

To: Members, Legislative Post Audit Committee

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Representative Tom Burroughs	Senator Anthony Hensley
Representative John Grange	Senator Derek Schmidt
Representative Peggy Mast	Senator Chris Steineger
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This report contains the findings, conclusions, and recommendations from our completed performance audit, *Child-Care Assistance: Determining Whether SRS' Procedures Limit the Risk of Improper Payments*.

The report includes several recommendations for the Department of Social and Rehabilitation Services. We would be happy to discuss these recommendations or any other items in the report with any legislative committees, individual legislators, or other State officials.

Barbara J. Hinton

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Legislative Post Auditor

READER'S GUIDE

The Big Picture

Executive Summary	Provides an overview of the questions we asked and the answers we found
Conclusions and Recommendations	Located at the end of the report sections, and referenced in the Executive Summary
Agency Response	Included as the last Appendix in the report
List of Figures	Lists all figures used in the report and their location (as shown at the end of the Executive Summary)

The Details

"At-a-Glance Box"	Used to describe key aspects of the audited agency; generally appears in the first few pages of the main report
Side Headings	Point out key issues and findings
Charts, Tables, and Graphs	Visually help tell the story of what we found
Narrative Text Boxes	Highlight interesting information or provide detailed examples

This audit was conducted by Randy Tongier, Brad Hoff, Lisa Hoopes, Katrin Osterhaus, and Ivan Williams. Leo Hafner was the audit manager. If you need any additional information about the audit's findings, please contact Randy Tongier at the Division's offices.

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Child-Care Assistance: Determining Whether SRS' Procedures Limit the Risk of Improper Payments

The Department of Social and Rehabilitation Services' Child-Care Assistance Program pays for child care for low-income families, which allows parents to work or attend educational programs that will help them find jobs. To qualify for the Program, families must meet certain income eligibility requirements and, if applicable, comply with child-support enforcement requirements. Families with incomes above a certain level are required to pay a share of the child-care costs. Child care paid for under this Program can be provided by licensed or registered daycare providers, or by unregulated providers such as relatives or others

As part of the ongoing compliance and control audit work authorized by the Legislative Post Audit Committee to address the risk of fraud and abuse, Legislative Post Audit conducted audit work reviewing the practices of the Department of Social and Rehabilitation Services (SRS) to limit the risk of fraud and abuse in the Child-Care Assistance Program.

This performance audit answers the following question:

Do SRS' practices reasonably limit the risk of inappropriate payments from the State's Child-Care Assistance Program?

To answer this question, we interviewed SRS officials to become familiar with the Program, including the policies and procedures the Department uses to limit the risk of inappropriate benefit payments. We also reviewed the State Plan for the Program, as well as handbooks, and other documents. In addition, we reviewed audits that have been done of child-care assistance programs in other states to determine the types of inappropriate payments they identified.

Finally, we applied selected "data mining" audit techniques to this Program. These techniques make use of modern technology—both hardware and software—to increase the likelihood of finding fraud and abuse if it exists. Compared to traditional audit approaches, data mining allows us to:

- analyze entire groups of transactions, budget categories, etc., instead of just samples
- identify specific transactions or situations more likely to be fraudulent or abusive, and focus the audit effort on those items
- compare large data sets belonging to different agencies or divisions that normally couldn't be compared

While no program procedures and no audit approach can guarantee that existing fraud and abuse will be prevented or found, this audit approach increases that likelihood.

A copy of the scope statement for this audit approved by the Legislative Post Audit Committee is included in ***Appendix A***.

Generally accepted government auditing 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 conducted this compliance and control audit in accordance with those standards with one exception. We didn't fully test the accuracy of the data contained in certain databases we used.

In this audit, we used databases of benefit payments and participant data that we obtained from SRS. We also used employment data from the Department of Labor and income tax data from the Department of Revenue.

We conducted preliminary testing of these data sets to ensure that they looked complete for the time periods we were using, and that they didn't have any obvious errors that would affect our findings and conclusions. Examples of this type of testing included looking in the data for the following:

- empty spaces where there should be data
- unusually high amounts
- unusually low amounts
- a total number of items differing significantly from the number expected
- a total dollar amount differing significantly from the amount expected
- dates of activity before or after the dates of the time period supposedly covered by the data
- duplicate amounts

However, we didn't assess the reliability of the data <u>entered into</u> those computer systems. During the audit, we discovered that the benefit payment data we obtained from SRS to conduct our analyses didn't include some reversing entries and adjustments. Total program expenditures recorded in the database we used for our analyses were about 1% higher than the net program expenditures recorded in the database with adjustments – so the difference in total is not material. However, individual analyses we conducted could vary from actual totals by more or less than 1% depending on whether there were adjustments to the specific group of client accounts we were analyzing.

Based on the results of our data analyses, we reviewed selected case documentation—including evidence of employment, records related to income levels, and individual child-care plans. We also contacted employers, reviewed work done by SRS' quality assurance staff, and looked into work done by SRS field staff to follow up on potential problem cases.

We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our findings begin on page 9, following a brief overview of the Child-Care Assistance Program.

Overview of the Child-Care Assistance Program

Child-Care Assistance Is a Joint Federal-State Program To Help Certain Low-Income Families Afford Child Care

In 1996, as part of the passage of the Personal Responsibility and Work Opportunity Reconciliation Act, the federal government combined several previously existing child-care programs into a single program funded from a single source: the Child Care and Development Fund. The federal government funds about two-thirds to three-fourths of the cost of child-care services.

The federal government offers this funding to the states, territories, Indian tribes, and tribal organizations to help do the following:

- provide low-income families with the financial resources to find and afford quality child care for their children
- enhance the quality and increase the supply of child care for all families, including those who have no direct assistance under the Child Care and Development Fund
- provide parents with a broad range of options in addressing their child-care needs
- strengthen the role of the family
- improve the quality of, and coordination among, child-care programs and early childhood development programs
- increase the availability of early-childhood development and before-and after-school services

In Kansas, SRS is responsible for determining eligibility and for awarding child-care benefits. SRS employees screen each family that applies for assistance to determine whether they are eligible for child-care benefits. To be eligible, families generally must meet the four basic eligibility requirements established by the federal government.

Two of those requirements relate to the child. For a family to be eligible for federal assistance, <u>the child receiving the care</u>:

- must be a resident of the State
- must be no more than 12 years old (18 if handicapped or under court supervision)

The other two requirements relate to the <u>parent or family</u>:

- the parent receiving the assistance must be working or in a job-training or educational program
- the family must have an income that's less than 85% of the State's median income (depending on family size)

Federal regulations give state agencies considerable flexibility in determining eligibility. For example, states are allowed to do the following:

- waive the income requirements on a case-by-case basis
- impose additional eligibility requirements or priority rules as long as those rules don't discriminate against children on the basis of race, national origin, ethnic background, sex, religious affiliation, or disability, or limit parental rights or otherwise violate the provisions of federal law or the State plan

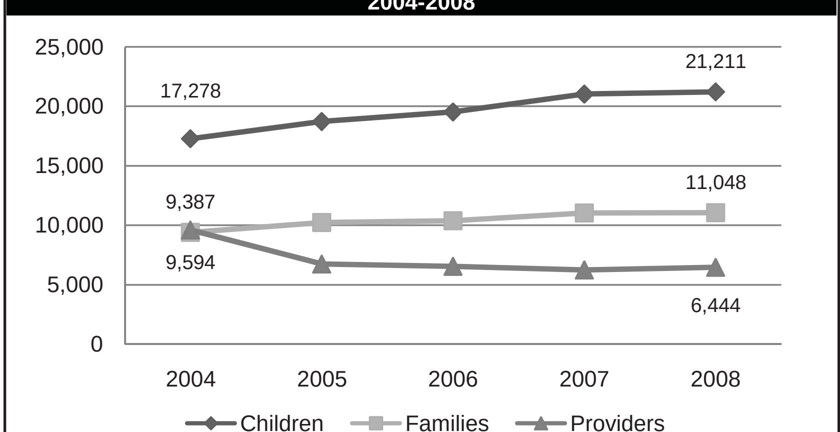
Once a family is determined to be eligible, SRS employees compute the amount of benefits the family can receive, and the family is issued a card—much like a credit card—to access those benefits. SRS contracts with eFunds Corporation to set up an electronic benefits transfer account for each recipient. Once that's done, SRS automatically transfers benefits to each recipient's account at the start of each month.

As noted earlier, child care paid for under this Program can be provided by licensed or registered daycare providers, or by unregulated providers such as relatives or others. Either way, the provider must be approved by SRS and registered as a daycare provider for the Program.

The family can pay for benefits at any approved daycare provider by swiping its electronic benefits card through a "point-of-sale" (POS) device at the daycare provider's location. (If a provider doesn't have a POS device, the payment can be processed by phone.) Payments can be made daily, weekly, or monthly as agreed upon by the family and their provider. ***Figure OV-1*** on page 7 graphically depicts the overall process.

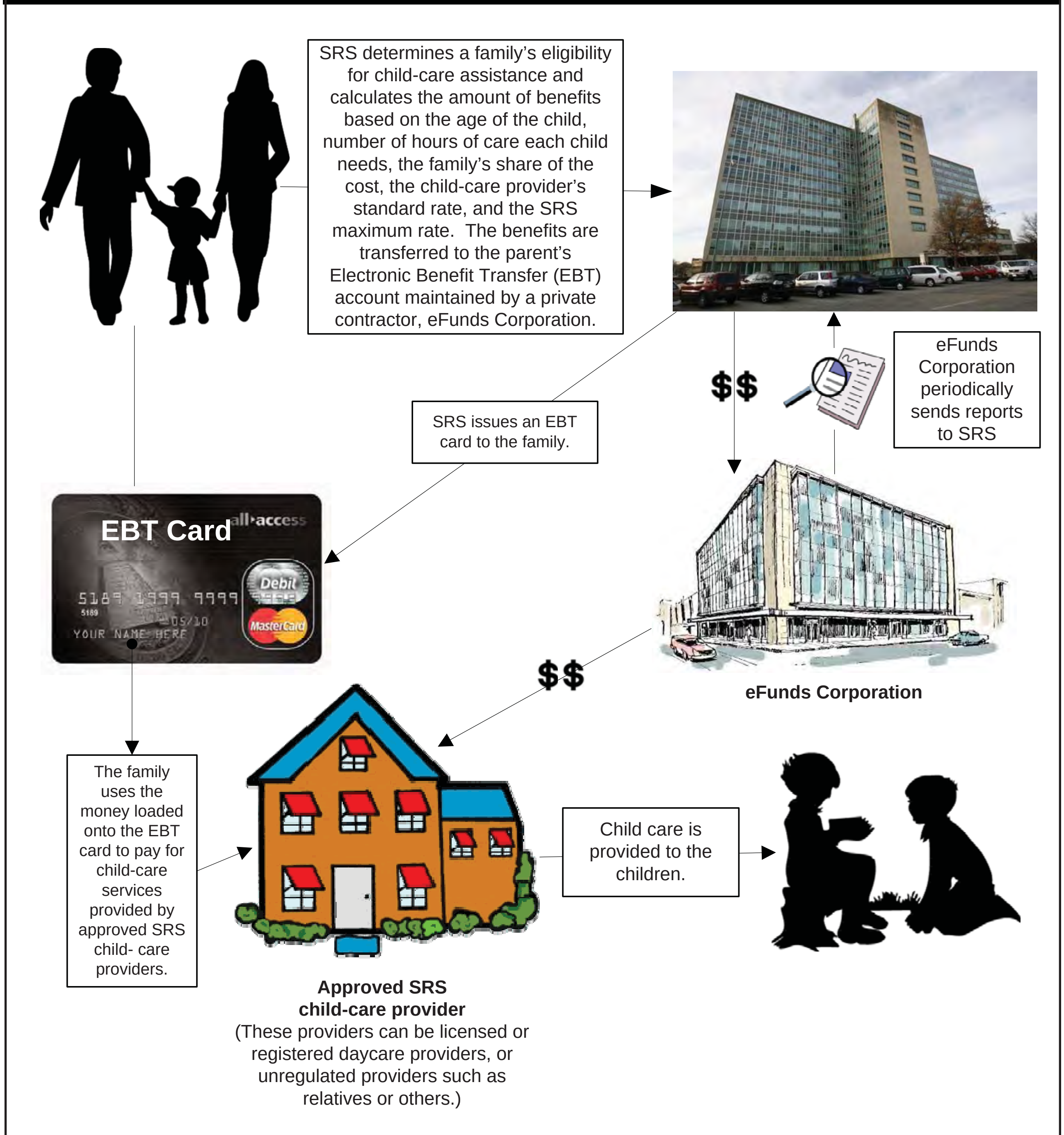
During fiscal year 2008, SRS spent $78.1 million on child-care assistance for about 11,000 families. The care was provided by about 6,400 providers. As ***Figure OV-2*** shows, during the past five years the number of families served increased by 18%, and the number of children receiving care increased by about 23%.

Figure OV-2
Trends in Children, Families and Providers Participating in Kansas' Child-Care Assistance Program 2004-2008



Source: Department of Social and Rehabilitation Services

Figure OV-1
Child-Care Assistance Program
Electronic Benefits Transfer Process

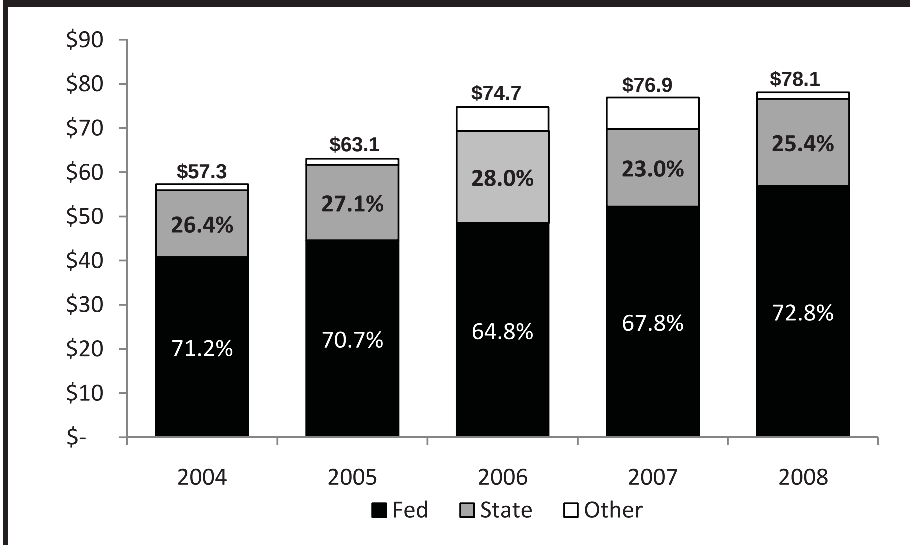


Source: Developed by Legislative Post Audit in consultation with SRS officials.

At the same time, the number of child-care providers participating in the Program decreased by a third. That decrease was mainly in the number of non-licensed providers, such as neighbors and relatives. In other words, more of the child-care services now being paid for through the Program appear to be provided by larger, licensed providers than in the past.

During the same five-year period, the Program's expenditures increased by 36%, with federal moneys providing about 70% of that total and the State providing about 25%. The remaining 5% came from miscellaneous sources such as the Departmental fee funds and transfers from the Children's Initiative Fund. This information is summarized in ***Figure OV-3***.

Figure OV-3
Child-Care Assistance Expenditures
2004-2008 (In Millions)



Source: LPA analysis of Department of Social and Rehabilitation Services reports.

Do SRS' Practices Reasonably Limit the Risk of Inappropriate Payments in the Child-Care Assistance Program?

Answer in Brief:

SRS generally has established reasonable and well-designed procedures to help prevent or detect improper payments that occur within the Child-Care Assistance Program. At the time we conducted our work, we found a few potentially improper payments that SRS's system didn't appear to catch, and we also noted that the agency's system for following up on improper payments to ensure they are corrected needed to be strengthened. In addition, we noted several small problems with the accuracy of Program data.

A more significant issue we noted was that the eligibility criteria SRS has adopted for the Child-Care Assistance Program allowed more than 571 families whose income significantly exceeded the basic income limits to receive about $1.8 million in benefits during calendar year 2007. Included in that group were 30 families whose incomes exceeded $100,000 and who each received an average of about $3,400 in benefits that year. Although federal regulations allow SRS to waive income requirements for the Program, this raises questions about whether Program funds are being used to assist families who may not need financial assistance. These and related findings are discussed in more detail in the sections that follow.

SRS Generally Has Established Reasonable Procedures To Help Reduce Improper Payments In the Child-Care Assistance Program

Through our discussions with SRS officials, our review of other audits of these types of programs, and our own internal discussions, we identified a number of potential types of improper payments that could occur within the Child-Care Assistance Program. We also interviewed the SRS officials responsible for operating the Program to determine what steps they have taken to minimize the likelihood that improper payments would occur.

Figure 1-1 on page 10 summarizes some of the potential types of improper payments that could occur, and some of the procedures SRS has established to try to minimize the risk that improper payments will occur and go undetected.

SRS' Procedures Caught Most of the Improper Payments We Identified in Our Testwork

To identify potentially improper payments, and to determine whether SRS' procedures to catch such payments were working as described, we conducted a number of individual tests on the Department's data and its procedures. In doing those tests, we looked at Program data and a sample of case files.

In reviewing individual cases, we did such things as examining documentation of client employment and care plans for individual children, and calling employers to verify employment. However, we didn't visit provider locations to verify attendance of those children at a child-care facility.

Most of our analyses had to focus on 2007 data so we could compare families' incomes as shown in the most recently available income tax information to the Program's income guidelines that were in effect at the time. More specifics on some of the things we looked for and what we found can be seen in ***Figure 1-2*** on the next page.

Figure 1-1
SRS Actions to Prevent/Detect Improper Payments

Types of Potentially Improper Payments	Actions the Department Takes to Detect/Guard Against Improper Payments Include the Following
Payments to people who don't meet eligibility criteria—For this Program, ineligible people would be: • those whose incomes exceed guidelines • those who aren't employed or in an educational program • those who don't have an eligible child age 12 or less (up to age 18 in some cases) • those who don't cooperate with child-support enforcement efforts • those who aren't Kansas residents	**Initial screening**—to ensure that applicants are eligible, SRS requires clients to provide information such as employer, income, address, names, ages and relationships of members of the family/household **Annual renewals—**Each year at renewal time, participants are required to provide the same type of information required with their original application **Verification of employment or participation in educational programs—**Quarterly and on a sample basis, SRS contacts employers or educational institutions to confirm information reported by clients
Payments for incorrect amounts--This would be any payment in which the recipient receives more or less money than he or she is entitled to. Incorrect payments could result from computational errors, or from families submitting incomplete or inaccurate information	**Periodic reviews—**SRS staff review the following: • provider billings • benefit reports • case files (by supervisors, central office staff, quality assurance staff)
Payments due to potentially fraudulent or inappropriate activities by a program participant or provider—Some types of potentially fraudulent or inappropriate scenarios could include: • a client who also is a daycare provider using his or her benefits card to make payments to himself or herself • two clients who also are daycare providers swapping children and getting benefits to watch each other's children when in fact they aren't • daycare centers being paid far more money than it would be possible to generate, given the number of children they are licensed to care for • payments to daycare providers that don't exist or that aren't registered with the Program. • payments made for children that don't exist	**Ongoing monitoring and data mining**—SRS uses the information in its computer systems about clients, providers, and payments made under the Program to identify such things as people using their cards to pay themselves, payments to daycare centers that aren't registered, and the like. Specific instances that are identified by these activities are sent on to the regional office for investigation.

Source: Compiled by Legislative Post Audit

Figure 1-2 Child-Care Assistance Program Summary of Our Tests for Improper Payments and the Results We Found		
Problem Tested For	**What We Did**	**What We Found**
Tests we conducted that revealed no problems		
Were all providers receiving payments from Program clients registered with SRS?	We compared a list of daycare providers paid by Program clients during 2007 to a list of providers registered to participate in the Program.	We identified no daycare providers receiving payments in 2007 who weren't registered with the Program.
Were providers potentially getting payments from the Program without providing child care?	We identified providers with large amounts of revenue from the Program. (*Large revenues would indicate they care for more than one or two children.*) We then looked to see whether wage data maintained by the Department of Labor showed those same people were earning wages that looked like a full-time income. (*If someone is working full-time it would be difficult to also be a daycare provider at the same time.*) We contacted employers to determine what the work schedules were for those cases where it appeared the provider had a full-time job.	We found no cases where it appeared that it was impossible for a person to be a Program provider and also have a job.
Were small-capacity providers generating more revenue from the program than seemed reasonable, given their size?	We looked for providers with large amounts of revenue from the Program who weren't large-capacity providers. (*Small-capacity providers generally wouldn't be expected to generate large amounts of revenue from the Program*.)	All providers with high amounts of benefits from the Program were large-capacity providers.
Were clients getting benefits without being income-eligible?	We matched clients getting child-care assistance benefits to their reported incomes. Based on their family size, we then compared the results to income-eligibility requirements.	We found some clients who appeared to exceed basic income-eligibility limits for their family size, but those clients were allowed exceptions to the basic Program rules. **Although our analysis didn't identify any payments that didn't qualify under current SRS rules, we discuss the fiscal impact of these situations later in this report.**
Were there clients who weren't employed or in an educational program, as required by the Program's eligibility criteria?	We compared clients getting benefits to wage data maintained by the Department of Labor. We also tested SRS' review procedures designed to ensure that clients are employed.	We found some clients receiving benefits who didn't have any wages reported to the Department of Labor. We tested a sample of those clients, and found all actually were employed or in an educational program. *Some clients didn't show up in the Department of Labor's wage data because they worked in jobs not covered by unemployment insurance.*
Source: Compiled by Legislative Post Audit		

As shown in ***Figure 1-2***, many of the tests we conducted found no problems with improper payments. In other tests, however, we found a few potentially improper payments that SRS' processes didn't appear to catch. Those payments are discussed in the sections that follow.

Using data-mining techniques, we identified 20 instances of clients paying themselves that SRS' procedures didn't catch. Clients who receive child-care assistance also may serve as daycare providers and receive payments from other program participants. Clients are not, however, allowed to provide daycare for their own children.

Our review of Program records showed that, during 2007, about 470 clients also were daycare providers. Because these individuals have an electronic benefits card to pay for the daycare of their own children, and also have a point-of-sale device to charge the accounts of other Program participants, there's a risk they could use their benefits card to make payments to themselves—a practice that is not allowed under Program rules.

Our review of payment data identified 50 clients who appeared to make one or more payments to themselves during 2007. Those 50 clients made 130 payments to themselves totaling about $49,000. SRS officials told us they look for such payments quarterly, and warn violators that their benefits may be terminated. However, 20 of the payments we identified were not included in the data SRS produced in its quarterly tests.

SRS missed 12 of those payments because it hadn't run a regular computer check for one quarter in 2007. For the other eight payments SRS reported the following:

- in six cases, they had previously identified improper payments to the individuals we identified, so their names weren't repeated on subsequent reports SRS ran.
- one payment was missed because SRS ran its report before a Social Security number was entered for that particular program participant.
- the last payment was missed because an incorrect date parameter was used in producing one of the reports.

SRS does appear to take action when it finds clients making payments to themselves. Based on a sample of 12 other cases we reviewed, we noted that SRS terminated the benefits for seven clients, had sent a letter to four clients warning their benefits may be cut off if they made payments to themselves again, and they were in the process of preparing a notification for the last client at the time we conducted our review.

We identified 10 potentially problematic reciprocal child-care arrangements where clients who also were providers may be trading child care with each other—an area that SRS doesn't test for. Another risk that arises when a client also is a provider is that he or she will seek out another client who also is a provider. Both providers will then claim benefits for providing daycare for each other's children, or simply submit the paperwork to make it look like they are providing daycare to each other's children, when in fact they aren't. These types of reciprocal arrangements could allow people to participate in the Child-Care Assistance Program without really meeting the requirements of the Program.

Our review of 2007 Program data identified 10 cases where it appeared this type of arrangement could be occurring. In these 10 cases, about $13,000 in benefits were paid out during 2007. We reviewed information in SRS' files to see if we could determine whether the situations we identified represented unallowable reciprocal arrangements. However, based on information SRS collects, we couldn't tell whether these situations were problematic.

SRS does not test for reciprocal arrangements as part of its regular analyses. The fact that we found so few cases, and that the dollar amount was small, suggests the practice wasn't widespread in 2007.

SRS' process for ensuring that potential improper payments are identified and resolved needed to be strengthened. Program officials told us when their quality control reviews or data-mining efforts identify payments that appear to be improper, they send the information to the regional office responsible for handling those particular cases. Officials told us the regional office is responsible for conducting an investigation and initiating any corrective action needed.

To determine whether this process was working as described, we asked Program officials to provide us with information about the cases they had sent to the regional offices for investigation for the last two quarters of 2007, and the outcomes of those investigations.

Although they were able to provide us with information about cases they sent on for investigation, at the time we conducted our fieldwork SRS management officials weren't able to provide documentation of the outcome of the investigation and the corrective actions taken.

For the system to be effective, SRS management needs to have procedures for documenting what is done with potentially improper payments. Otherwise, there's no way for management to know whether those payments were properly followed up on, and whether corrective actions were taken if necessary.

Toward the end of our audit work, SRS officials told us they had developed a database of potential problems referred to field staff. According to those officials, field staff members enter their actions in the database, so that central office staff can track ultimate resolution. We didn't test this process to see how well it was working.

In conducting our analyses, we noted some accuracy problems with SRS' Child-Care Assistance Program data. A number of the tests we ran on the Program's data required us to use certain information contained in the Program's client, provider, or benefit-payment databases. In using these databases, we identified the following issues related to the accuracy of the data contained in them:

- The computer codes that identify the composition of the child-care assistance cases aren't always accurate. In the computer system, each case has codes that identify the relationship between the various members of the case. We used this information to identify the number of people associated with each case, and who they are (i.e., child, grandparent, aunt, uncle, boyfriend, girlfriend, etc.). In a number of cases, the data showed that the client had no children. SRS officials told us the computer system they use won't let them show a given child on more than one case at a time. As a result, when a child in the Program changes the parent he or she is staying with, the second parent is set up in the system as a new case, the system leaves the first parent in the system as an old case, but doesn't show the child on the old case any longer. Thus, the record for the old case shows as a client with no children.

- In some cases, a single Social Security number was assigned to two different people. In conducting work to identify clients making payments to themselves as providers, we came across 7 instances where the same Social Security number appeared in the computer record for two different people. Our investigation of these cases showed that these instances apparently resulted from data-entry errors.

- Some people in the child-care databases appeared to have out-of-State addresses. We identified 139 records that either showed an address outside Kansas, or the address field was blank. This is important because Program participants must reside in Kansas to be eligible. SRS officials told us that both STARS (the State's central accounting system) and KAESCES (another of the Department's main case-tracking systems) have over-ride capability for KSCARES, the main database used for the Child-Care Assistance Program. When these systems interact with KSCARES, their address data replaces KSCARES data if there's a difference. In some cases, STARS and KAESCES have the most recent address for someone who was a resident when receiving services but since has moved out of the State.

- Information regarding some birth dates doesn't appear to be accurate. We identified 217 cases where the birth date information entered for people related to the case did not appear to be reasonable. For example, we saw a person listed as a grandchild on an active case that was supposedly born in 1939.

Although some of these errors didn't affect the work we conducted for this audit, they do show that SRS needs to perform more quality control checks on the data in the databases associated with the Child-Care Assistance Program. Without accurate data, some of SRS' reviews and control procedures for Program activity won't be fully effective.

Although Allowed by SRS, We Found That 571 Families Whose Incomes Were Significantly Above Eligibility Limits Received $1.8 Million in Child-Care Assistance In 2007

As mentioned in the Overview, to be eligible for child-care assistance, a family can't make more than 85 percent of the home state's median income for a family of the same size. ***Figure 1-3*** shows Kansas' income limits for the program in effect in May 2007 and 2009.

Figure 1-3 Income Limits for the Child Care Assistance Program		
Family Size	Max. Annual Income Allowed May 2007	Max. Annual Income Allowed May 2009
2	$25,332	$26,952
3	$31,764	$33,876
4	$38,208	$40,800
5	$44,640	$47,712
6	$51,084	$54,636
7	$57,516	$61,560
8	$63,960	$68,460
Source: Department of Social and Rehabilitation Services income schedules.		

Federal law gives states flexibility in determining what types of income they count toward the income limits, and also allows them to waive the income requirements on a case-by-case basis.

Our initial review identified more than 571 families receiving more than $1.8 million in child-care assistance payments in 2007 whose incomes appeared to be significantly above the 2007 income guidelines for their family size. During this audit, we compared the incomes of families participating in the Program during calendar year 2007 to records of income tax returns filed with the Department of Revenue for that year. SRS does <u>not</u> have the capability to run the same types of tests we ran, because it doesn't have access to the Department of Revenue's income tax information.

To determine families that significantly exceeded income guidelines, we identified all families that appeared to exceed income limitations by more than one income bracket for their family size. In other words, we allowed a family of two to earn up to the maximum income allowable for a family of three, and a family of three to earn up to the maximum income for a family of four, before we counted them as being <u>significantly</u> above the limits. Essentially, the parameters we set for our analysis allowed families to earn about $6,000 a year more than the 2007 limits specified by SRS for their family size, before we counted them.

Among the families who appeared to significantly exceed income guidelines, we identified 30 families whose incomes topped $100,000 in 2007. This level of income was far above the amounts SRS guidelines allow, as shown in ***Figure 1-3***.

Figure 1-4 shows information about the amount of child-care assistance payments these families received in 2007, as well as information about the incomes of these 30 families over the past three years.

Figure 1-4
Summary of Families with High Incomes Receiving Child-Care Assistance During 2007

Family	Child-Care Assistance Payments Received 2007	Adjusted Gross Income		
		2007	2006	2005
Families with incomes > $100,000 for all 3 years				
#1	**$6,176**	$192,167	$165,057	$150,615
#2	**$5,384**	$170,552	$107,126	$106,312
#3	**$2,504**	$139,869	$125,641	$130,541
#4	**$995**	$138,403	$135,313	$130,761
#5	**$7,070**	$131,539	$167,352	$104,759
#6	**$3,604**	$121,799	$212,780	$158,617
#7	**$1,491**	$121,240	$108,936	$126,355
#8	**$1,914**	$119,190	$151,741	$103,163
#9	**$3,528**	$112,302	$127,096	$123,202
#10	**$786**	$112,158	$113,497	$138,700
#11	**$116**	$110,664	$105,139	$101,870
#12	**$2,830**	$109,023	$111,262	$104,313
Families with incomes > $100,000 for 2 of the 3 years				
#13	**$4,775**	$236,455	$159,445	$55,694
#14	**$2,960**	$161,178	$122,441	$98,734
#15	**$1,966**	$118,322	$115,666	$96,251
#16	**$10,182**	$117,685	$109,433	$47,694
#17	**$5,728**	$110,142	$125,268	$84,909
#18	**$4,545**	$105,731	$102,586	$99,394
#19	**$2,211**	$104,276	$126,432	$73,812
#20	**$1,572**	$104,018	$97,636	$103,091
#21	**$10**	$102,026	$104,129	$69,214
Families with incomes > $100,000 for 1 of the 3 years				
#22	**$230**	$187,991	($81,282)	$3,692
#23	**$1,096**	$129,048	$29,630	$29,431
#24	**$1,675**	$120,655	$99,237	$94,205
#25	**$8,254**	$105,413	$81,143	$73,719
#26	**$6,247**	$105,681	$53,285	$47,563
#27	**$2,224**	$102,007	$57,739	$53,156
#28	**$4,579**	$101,745	$84,995	$80,021
#29	**$2,459**	$100,774	$18,758	$15,856
#30	**$4,122**	$108,403	$39,215	$49,048
TOTAL	**$101,233**			

Source: Compiled by Legislative Post Audit from records at SRS and the Department of Revenue.

As the figure shows, most of these families have had a consistently high level of income over time. In total, these 30 families received more than $101,000 of benefit payments from the Child-Care Assistance Program during 2007.

These payments are allowable under rules SRS has adopted when children are eligible for Temporary Assistance to Families (TAF). The rules SRS has adopted when determining the eligibility for child-care assistance can be different based on the family's situation.

- one rule applies to families with children who don't qualify for Temporary Aid to Families (TAF)
- a different rule applies when one or more family members do qualify for TAF, including a child who qualifies for TAF because the parent is absent and the child is being cared for by a non-legally responsible party such as a grandparent or aunt/uncle.

The primary difference in these determinations is in whose income gets counted toward the Program's income limits. This can best be displayed by looking at various types of family groupings that can occur within the Child-Care Assistance Program. ***Figure 1- 5*** shows the various family groupings and whose income gets counted by SRS under each scenario.

As the figure shows, if a child who is eligible for Temporary Assistance to Families because the parent is absent and the child is being cared for by a non-legally responsible party such as a grandparent or aunt/uncle, only the child's income is counted for determining the family unit's eligibility for child-care assistance.

Figure 1-5
Summary of Whose Income Counts Toward Income Limits Under Various Scenarios

Family Grouping	Non-TAF Cases	TAF Cases
Is Their Income Counted for Eligibility Purposes?		
Grandfather	Yes	**No**
Grandmother	Yes	**No**
Child	Yes	Yes
Uncle	Yes	**No**
Aunt	Yes	**No**
Child	Yes	Yes
Parent	Yes	Yes
Client's Boyfriend/ Girlfriend	**No**	**No**
Child	Yes	Yes
Grandfather	**No**	**No**
Grandmother	**No**	**No**
Teen Parent	Yes	Yes
Child	Yes	Yes

Source: Compiled by Legislative Post Audit from information provided by SRS.

In these sorts of situations, the grandparents or aunt and uncle could have very high incomes and still receive assistance from the State for child-care costs. The majority of the cases we identified where Program participants were making $100,000 a year or more fit this rule.

Three of five other states we contacted followed similar rules, while two states tended to count family members' income more often. Because the rules Kansas has adopted allow a number of people with high incomes to receive assistance with child-care expenses, we wanted to know whether other states had similar rules for determining income eligibility when Temporary Assistance to Families was involved. We contacted officials from Colorado, Illinois, Iowa, Nebraska, and Oklahoma. The information they provided is shown in ***Figure 1-6*** on page 18.

Figure 1-6
Comparison of State Rules for Counting Income When Temporary Assistance to Families Is Involved Under Various Scenarios

Family Grouping	Kansas	States With Rules Similar to Kansas			States Stricter Than Kansas	
		Iowa	Colorado	Oklahoma	Nebraska	Illinois
Grandfather	**No**	(a)	**No**	**No**	Yes	Yes
Grandmother	**No**	(a)	**No**	**No**	Yes	Yes
Child	Yes	(a)	Yes	Yes	Yes	Yes
Uncle	**No**	(a)	**No**	**No**	Yes	Yes
Aunt	**No**	(a)	**No**	**No**	Yes	Yes
Child	Yes	(a)	Yes	Yes	Yes	Yes
Parent	Yes	(a)	Yes	Yes	Yes	Yes
Client's Boyfriend/ Girlfriend	**No**	(a)	**No**	Yes	**No**	**No**
Child	Yes	(a)	Yes	Yes	Yes	Yes
Parent	Yes	(a)	Yes	Yes	Yes	Yes
Step-Parent	Yes	(a)	Yes	Yes	Yes	Yes
Child	Yes	(a)	Yes	Yes	Yes	Yes
Grandfather	**No**	(a)	Yes	**No**	**No**	**No**
Grandmother	**No**	(a)	Yes	**No**	**No**	**No**
Teen Parent	Yes	(a)	Yes	Yes	Yes	Yes
Child	Yes	(a)	Yes	Yes	Yes	Yes

(a) The State of Iowa doesn't conduct a separate income-eligibility test for child care if the family receives Temporary Assistance to Families. That determination is made by officials in Iowa's equivalent of Kansas' Temporary Assistance to Families Program. From what Iowa officials described to us about how their program works, it appears that the rules for counting income are very similar to Kansas. Iowa officials, however, asked that we not display their information in this format because the determination isn't made by their Child-Care Assistance Program.

Source: Compiled by Post Audit based on information provided by officials from each of the states.

As the figure shows, Iowa, Colorado, and Oklahoma generally are very similar to Kansas in how they determine whose income to count and whose income to exclude when someone related to the case was eligible for Temporary Assistance for Families.

Nebraska and Illinois tended to be stricter with regard to the income they counted. Unlike the other states, when a child was living with grandparents or an aunt and uncle, they counted the income of all members of the family unit, regardless of whether the case involved Temporary Assistance to Families.

Conculsion:	Because of the significant amounts of moneys involved and the thousands of families and providers located throughout the State, the Child-Care Assistance Program should be considered a high-risk program. Other states have reported numerous instances of improper payments under their programs. To mitigate this risk, SRS has implemented substantial controls to both prevent and detect fraud and abuse. Our review found that those controls are designed to provide reasonable protections. During this audit, we also searched for evidence of potential fraud and abuse. That search was based on problems found by other states and on our own assessment of the likelihood and significance of potential problem situations. Our search didn't identify any significant fraud, abuse, or improper payments. That doesn't mean such payments don't exist in the Program, but suggests the risk of significant problems are being mitigated. While conducting our search, we found that some clients with very high incomes are receiving benefits under the Program. Given the flexibility provided by federal regulations in applying the income-eligibility requirements, these payments can not be called improper. Still, SRS' policy decision in this area does have fiscal implications.

Recommentation for Executive Action:

1. To ensure that families are not engaging in reciprocal childcare arrangements that aren't allowed by Program rules, SRS should:

   a. periodically conduct a test to identify potentially improper reciprocal childcare arrangements.

   b. investigate the 10 potentially problematic reciprocal child-care arrangements we identified in our analyses, and take any appropriate actions needed.

2. To ensure that the information used for managing the Child-Care Assistance Program is accurate, SRS should take appropriate steps to check the integrity of relationship codes, Social Security numbers, and birth dates entered into its KSCARES system.

3. To ensure that Child-Care Assistance moneys are being used only to help those who are in financial need, SRS should report to the Legislature's Social Services Budget, House Appropriations, Senate Ways and Means, and Legislative Post Audit Committees before the start of the 2010 legislative session on its rationale for allowing certain high-income family units to participate in the Child-Care Assistance Program, and the fiscal impact of that decision.

APPENDIX A

Scope Statement

This appendix contains the scope statement for this audit. The audit was conducted as part of our ongoing compliance and control audit work authorized by the Legislative Post Audit Committee on April 29, 2008.

SCOPE STATEMENT

Child-Care Assistance Program: Do the Department of Social and Rehabilitation Services' Practices Adequately Limit the Risk of Fraud and Abuse?

The Department of Social and Rehabilitation Service's Child-Care Assistance Program provides payments to child-care providers to allow low income families to remain in the workforce. To qualify for the program, families must have incomes below 85 percent of the State's median income and must comply with child support enforcement requirements. Families with incomes above certain limits are required to pay a share of the child-care cost. Child care is provided by centers, licensed providers, registered providers, and unregulated providers (which covers care by relatives).

The Program's financing comes from both State General Fund and federal funds. For fiscal year 2008, the Department has requested $82.6 million ($22.3 million from the State General Fund and $60.3 million from federal funds).

A compliance and control audit in this area would address the following question:

1. **Do SRS's practices reasonably limit the risk of inappropriate payments from the State's Child-Care Assistance Program?** In conducting this work, we will identify required practices, best practices, practices adopted by agency management, and processes actually in place. We will compare these and identify areas that need improvement to better ensure that benefits are provided only as allowed. This work will involve interviewing applicable Department staff, reviewing guidance documents, conducting on-site observations, and reviewing applicable documentation. As needed, we also will test samples of actual benefits provided to ensure that they were properly handled. This work will look for inadequately controlled risks and make recommendations for needed improvements.

Estimated time to complete: 1 person, 20 weeks

APPENDIX B

Agency Response

On June 12, 2009, we provided a copy of the draft audit report to the Department of Social and Rehabilitation Services. This appendix contains the Department's response to the audit.

In its response, the Department generally concurred with the report's findings and it outlined steps SRS has taken or plans to take to address the recommendations. Department officials acknowledged that payments were made on behalf of some high-income individuals and attributed those payments to its eligibility policies which exempt the income of a non-legally responsible caretaker. The Department pointed out that these eligibility policies are consistent with other programs it operates, and they think that the policy strengthens the role of the family.

KANSAS
DEPARTMENT OF SOCIAL
AND REHABILITATION SERVICES

Mark Parkinson, Governor
Don Jordan, Secretary

www.srskansas.org

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JUN 23 2009
LEGISLATIVE DIVISION OF POST AUDIT

June 18, 2009

Barbara J. Hinton
Legislative Division of Post Audit
800 SW Jackson St. Suite 1200
Topeka, KS 66612-2212

Dear Ms. Hinton:

Thank you for the opportunity to provide feedback on a recent performance audit, *Child Care Assistance: Determining Whether SRS' Procedures Limit the Risk of Improper Payments.* The Child Care Assistance Program is a significant family support program within SRS and its integrity continues to be a departmental focus. SRS values the insights and analysis of LPA and appreciates your recognition of existing agency protocols aimed at risk reduction, fraud prevention, and detection of erroneous child care subsidy benefits.

The agency would like to offer the following information in response to LPAs recommendations:

Ensure families are not engaging in reciprocal child care arrangements – investigations are underway to determine the legitimacy of the ten cases cited in the report. SRS will continue to identify and investigate such arrangements in the future and take appropriate action.

Guard against providers making payments to themselves – LPA cited eight case irregularities in the quarterly SRS monitoring reports upon which we have completed additional follow up. SRS had already initiated investigations on six cases, so names appearing on a prior report were not duplicated on a subsequent report. Another discrepancy resulted from the timing between input of the social security number (SSN) and date the extract was produced. Although federal CCDF regulations don't permit the "mandatory" collection of SSNs, we regularly attempt to obtain this information for prompt inclusion in our data system. The last situation resulted from an SRS error when the date parameter was incorrectly set when the report was produced. These factors will be taken into consideration as future reports are produced an analyzed.

Address accuracy of data entered into the KSCares informational system – Technical assistance will be provided to field staff, reinforcing the importance of correctly entering information when applications are registered. This includes relationship codes, SSNs, birth dates, etc. This data will be reviewed for accuracy when eligibility workers later authorize benefits. These efforts will be complimented by existing system edits and warning messages.

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Examine high income families receiving benefits – Our review of high income families reflected this is largely attributed to eligibility policies which exempt the income of a non-legally responsible caretaker, such as grandparents/aunts/uncles, when determining the child's child care subsidy. This policy is consistent with other benefitting programs such as Temporary Assistance to Needy Families, and encourages kin to provide care for children whose biological parents are deceased, institutionalized, or otherwise absent. The policy strengthens the role o the family, as set forth in the federal act.

We very much appreciate the opportunity to interact with your staff during the collection and analysis of information. Thank you for these additional insights in strengthening program administration and accountability.

Sincerely,

Don Jordan
Secretary

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