

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**PUERTO RICO'S CONTROLS FOR
ITS CHILD CARE AND
DEVELOPMENT PROGRAM
CLAIMS WERE NOT
EFFECTIVE**

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EXECUTIVE SUMMARY

Puerto Rico did not have effective controls for its Child Care and Development Program. We identified at least 1 control deficiency in 99 of 100 childcare claims reviewed and estimated that, as a result, the costs affected by these control deficiencies totaled approximately \$16.2 million.

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 child care so that family members can work or attend training or education. The subsidized childcare services are administered by each State and are funded entirely or in part by the Child Care and Development Fund (CCDF) Federal program. A Government Accountability Office review identified vulnerabilities in the administration of the CCDF Program in five selected States.

The objective of this review was to determine whether the Commonwealth of Puerto Rico's Department of the Family's (State agency) controls for provider and client eligibility determinations and for processing CCDF Program claims were effective.

BACKGROUND

Each State must develop, and submit to the Administration for Children and Families 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. In retaining overall responsibility for the administration of the program, the lead agency must ensure that the program complies with the approved plan and all Federal requirements and must monitor programs and services.

In Puerto Rico, the State agency is the lead agency and is responsible for administering the CCDF Program, which is known as the Child Care and Development Fund Program. As the lead agency, the State agency is required to oversee the expenditure of funds by contractors, grantees, and other Puerto Rico government agencies to ensure that the funds are expended in accordance with Federal requirements. The State agency has a licensing office responsible for licensing providers as well as a separate office responsible for maintaining a registry of providers, including nonlicensed providers. Puerto Rico's Child Care and Development Fund Program is funded entirely with Federal CCDF funds.

HOW WE CONDUCTED THIS REVIEW

Our review covered paid childcare voucher claims totaling \$16,396,612 for the period October 1, 2011, through March 31, 2013, that the State agency paid with FY 2012 CCDF funds. We reviewed a stratified random sample of 100 of these paid claims and, for each sample claim, tested the State agency's controls for provider and client eligibility determinations and claim processing.

WHAT WE FOUND

Not all of the State agency's controls for provider and client eligibility determinations were effective. Specifically, all of the provider eligibility controls we tested for provider background checks, required provider forms, and provider rate agreements were not effective. Of the client eligibility controls we tested, we determined that the State agency's controls for family income and need-for-service eligibility were not effective. Although we found that the State agency's controls for verifying clients' citizenship were effective, we identified that the State agency was not implementing Federal law regarding client eligibility. Specifically, the State agency was not considering qualified aliens eligible for childcare services. Finally, the State agency's controls for client age and claim processing that we tested were effective.

The State agency lacked sufficient written policies and procedures and sufficient staff to effectively oversee licensed providers, and it lacked adequate procedures to monitor nonlicensed providers in relation to its Child Care and Development Fund Program. As a result, the program is vulnerable to fraud, waste, and abuse and places the health and safety of children at risk.

Of the 100 voucher claims that we reviewed, we determined that 99 claims showed evidence of ineffective controls for provider and client eligibility. On the basis of our sample results, we estimated that \$16,163,293 of the Child Care and Development Fund Program's paid claims could have had one or more of the control deficiencies we identified. We also found that the State agency improperly claimed \$82,544 in FY 2012 CCDF for childcare services provided during FY 2011. This occurred because the State agency did not have procedures to properly identify and assign childcare funds to voucher payments in accordance with obligation requirements established by Federal criteria.

WHAT WE RECOMMEND

We recommend that the State agency improve its controls for provider and client eligibility determinations and for processing claims to ensure that payments for the CCDF Program are made only for eligible clients and to eligible providers. Specifically, the State agency should take steps to:

- develop written policies and procedures and implement effective monitoring to ensure that documentation is maintained for licensed and nonlicensed providers demonstrating that appropriate criminal background checks are conducted every 6 months and sex offender and child abuse registries are checked annually,
- ensure that all providers submit all required forms,
- develop policies and procedures to ensure that only childcare licenses issued by the State agency are accepted,
- develop written policies and procedures to ensure that provider rate agreements are signed and dated before childcare services are provided,

- provide services to eligible children who are U.S. citizens and qualified aliens,
- develop policies and procedures for verifying the eligibility of children who are qualified aliens, and
- develop adequate written policies and procedures to maintain documentation to demonstrate that all clients are in need of service and financially eligible.

In addition, we recommend that the State agency:

- return to the Federal Government \$82,544 for unallowable obligations and
- establish policies and procedures to ensure that childcare funds are identified and assigned to voucher payments in compliance with obligation requirements.

STATE AGENCY COMMENTS

In written comments on our draft report dated December 15, 2016, the State agency concurred with our procedural recommendations and described steps it has taken to implement them. The State agency also described why it made unallowable obligations but did not indicate whether it planned to return the funds. In a follow-up email dated December 20, 2016, the State agency indicated that it agreed to return these funds to the Federal Government.

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INTRODUCTION

WHY WE DID THIS REVIEW

Subsidized childcare services assist low-income families, families receiving temporary public assistance, and families transitioning from public assistance to obtain child care so that family members can work or attend training or education. 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 entirely or in part by the Child Care and Development Fund (CCDF) Federal program.

A Government Accountability Office (GAO) review identified vulnerabilities in the administration of the CCDF Program in five States.¹ GAO found that the 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.

In light of GAO's findings, we conducted a series of reviews,² including a review of the Commonwealth of Puerto Rico's Department of the Family's (State agency's) controls for three interrelated aspects of its childcare assistance program: provider eligibility, client eligibility, and claim processing.³

OBJECTIVE

Our objective was to determine whether the State agency's controls for provider and client eligibility determinations and for processing CCDF Program claims were effective.

BACKGROUND

Childcare Services Funded by the 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. In retaining overall

¹ *Child Care and Development Fund: Undercover Tests Show Five State Programs Are Vulnerable to Fraud and Abuse* (GAO-10-1062, issued September 2010).

² *Not All of Kansas's Controls for Its Child Care Subsidy Program Claims Were Effective* (A-07-12-03182, issued July 2014), and *Not All of Nebraska's Controls for Its Child Care Subsidy Program Claims Were Effective* (A-07-11-03167, issued March 2014).

³ 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.

responsibility for the administration of the program, the lead agency must ensure that the program complies with the approved State plan and all Federal requirements and must monitor programs and services. The State agency has two FYs to obligate CCDF funds and a third FY to liquidate those funds.⁴ States are required to report 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.⁵

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 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.

Puerto Rico's Child Care and Development Fund Program

In Puerto Rico, the State agency is the lead agency⁶ and is responsible for administering the CCDF Program, which is known as the Child Care and Development Fund Program. As the lead agency, the State agency is required to oversee the expenditure of funds by contractors, grantees, and other Puerto Rico government agencies to ensure that the funds are expended in accordance with Federal requirements. The State agency has a licensing office responsible for licensing providers as well as a separate office responsible for maintaining a registry of providers, including nonlicensed providers. Puerto Rico's Child Care and Development Fund Program is funded entirely with Federal CCDF funds.

Under Puerto Rico's Child Care and Development Fund Program, subsidized childcare services may be provided to children in income-eligible families in which parents⁷ are absent for a portion of the day because of employment or participation in academic, vocational, or on-the-job training. The services may also be available for a limited period when a parent is looking for employment.

The State agency's eligibility requirements for the Child Care and Development Fund Program also specify that the childcare subsidy is provided without regard to income when made on

⁴ The determination of whether funds have been obligated and liquidated will be based on State or local law or, if there is no State or local law, the definitions at 45 CFR 92.3 for "Obligations and Outlays" apply (45 CFR 98.60(d)(4)).

⁵ 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.

⁶ Specifically, the State agency delegated its lead agency responsibilities to its Administration for Integral Child Care and Development, which is commonly referred to by its Spanish acronym ACUDEN.

⁷ According to 45 CFR § 98.2, a "parent" is defined as "a parent by blood, marriage or adoption and also means a legal guardian, or other person standing *in loco parentis*."

behalf of a child with special needs, and children who would benefit from childcare services in situations of abuse, neglect, exploitation, or certain family crises.

In Puerto Rico, approved childcare providers include (1) licensed childcare centers,⁸ (2) licensed group homes, (3) license-exempt family childcare homes, and (4) license-exempt in-home providers (i.e., providers within the child’s own home). For this report, we refer to the latter two categories as “nonlicensed providers.” Childcare services in Puerto Rico are funded through three different methods, commonly referred to as modalities: (1) contractors, (2) State-agency-administered centers, and (3) vouchers. We reviewed only the voucher method.

HOW WE CONDUCTED THIS REVIEW

We reviewed a stratified random sample of 100 paid childcare voucher claims: 50 paid claims to licensed providers and 50 paid claims to nonlicensed providers. We selected this sample from 82,022 childcare voucher claims paid with FY 2012 CCDF funds totaling \$16,396,612 for the period October 1, 2011, through March 31, 2013.⁹ We reviewed the State agency’s controls related to provider and client eligibility and claim processing. For each of the 100 randomly selected paid claims, we reviewed 9 specific controls for effectiveness. We considered a control with 6 or more deficiencies (of the 100 paid claims reviewed) as evidence of ineffective controls and a control with 5 or fewer control deficiencies as evidence of effective controls. We equally weighted all controls and made no determination that some controls were more important than others.

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 our sample results and estimates, Appendix D contains a summary of our sampled items, Appendix E provides Federal and State criteria related to the CCDF Program, and Appendix F lists the State agency’s controls that we tested and found to be effective.

⁸ Early Head Start and Head Start programs are the only center-based child care providers exempted from the licensing requirements (CCDF State Plan for Puerto Rico FY 2012-2013, sect. 3.1.1(c)).

⁹ FY 2012 CCDF funds could be obligated from October 1, 2011, through September 30, 2013.

FINDINGS

Not all of the State agency's controls for provider and client eligibility determinations were effective.¹⁰ Specifically:

- All of the provider eligibility controls we tested for provider background checks, required provider forms, and provider rate agreements were not effective.
- Of the client eligibility controls we tested, we determined that the State agency's controls for family income and need-for-service eligibility were not effective. While we found that the State agency's controls for verifying clients' citizenship were effective, we identified that the State agency was not implementing Federal law regarding client eligibility. Specifically, the State agency was not considering qualified aliens eligible for childcare services. We were not able to quantify the number of qualified aliens that the State agency had incorrectly excluded from the program.

We found that the State agency's controls for client age and claim processing that we tested were effective.

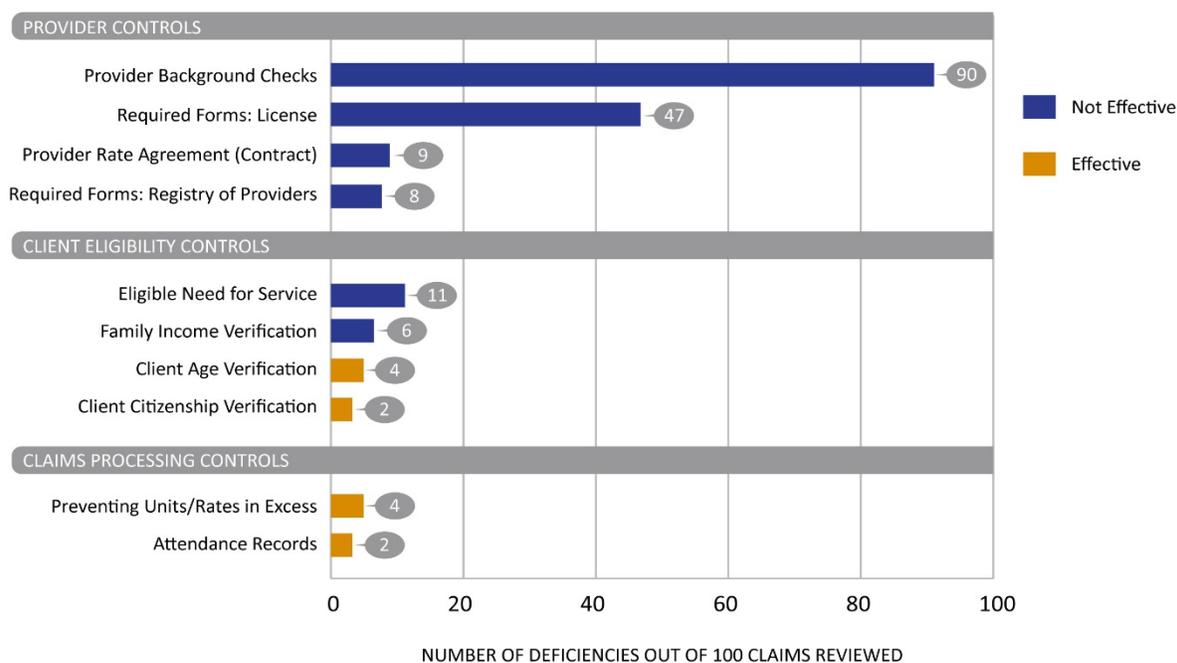
We determined that the State agency lacked sufficient written policies and procedures and sufficient staff to effectively oversee licensed providers, and it lacked adequate procedures to monitor nonlicensed providers in the Child Care and Development Fund Program. Of the 100 voucher claims that we reviewed, we determined that 99 claims showed evidence of ineffective controls for provider and client eligibility. On the basis of our sample results, we estimated that \$16,163,293 of the Child Care and Development Fund Program's paid claims could have been associated with one or more of the control deficiencies we identified. These deficiencies left the Child Care and Development Fund Program vulnerable to fraud, waste, and abuse, and deficiencies in the controls for background checks and provider forms place the health and safety of children at risk.¹¹ The following graph shows the number of control deficiencies we identified for each of the areas that we reviewed.¹²

¹⁰ A determination that a control is ineffective does not necessarily mean that improper payments have been made. Rather, an ineffective control means that there is an increased risk that an improper payment could occur. Likewise, a determination that a control is effective does not mean that an improper payment cannot be made; it means that there is a decreased risk that an improper payment could occur.

¹¹ We used the ineffective control deficiencies in our projection of affected cost amounts.

¹² Some of the individual claims reviewed were associated with more than 1 control deficiency, resulting in a total of 99 claims associated with a total of 183 control deficiencies.

Control Deficiencies Results



In addition to the control deficiencies that we identified, we found that the State agency improperly claimed \$82,544 of FY 2012 CCDF funds used to pay for childcare services provided during FY 2011. This occurred because the State agency did not have procedures to properly identify and assign childcare funds to voucher payments in accordance with obligation requirements established by Federal criteria.

PROVIDER ELIGIBILITY CONTROLS

Control Design and Testing for Provider Background Checks

Puerto Rico requires the State agency to have internal controls in place to prevent individuals who have been convicted of sex crimes, child abuse, or other felonies from participating in the State agency's Child Care and Development Fund Program as childcare providers or employees. Appendix E provides criteria related to provider background checks.

Control Design

State agency officials described for us a process that required State agency employees to request background checks of licensed and nonlicensed childcare providers and to maintain documentation of these checks in State agency files to ensure that providers had not been convicted of sex crimes, child abuse, or other felonies. According to the State plan, all personnel at childcare providers, whether licensed or nonlicensed, are subject to the following background checks: (1) Puerto Rico child abuse registry (annually), (2) Commonwealth criminal background check (every 6 months), and (3) sex offender registry (annually).

For each licensed provider, officials from the State agency's Department of Family Licensing Office (Licensing Office) were required to maintain background check information. Specifically, officials were required to maintain a Puerto Rico Police-issued "Certificate of No Penal Record" certifying that a criminal background check verified that the individual has not been convicted of certain felonies in Puerto Rico.¹³ Although State law and regulations require the State agency to request individuals to present a Certificate of No Penal Record at least every 6 months, the only enforcement mechanism for this requirement is that the provider's license application, which can be granted for not more than 2 years, must include this required documentation.

The background check system for licensed providers also included a Puerto Rico Police-issued "Registry Certification Form" certifying that the individual is not listed in Puerto Rico's registry of persons convicted of sex crimes and child abuse. State law required the State agency to incorporate into its regulations on the certification, authorization, or issuance of licenses for entities that provide care services the verification that individuals presented certifications to childcare providers that they are not registered as child abusers or sex offenders. Although State law requires the registry check and the State Plan indicates the Registry Certification Form is required annually, the State agency has not promulgated implementing regulations, and the Licensing Office has no policies and procedures to obtain these Registry Certification Forms from licensed providers before issuing licenses.

According to Licensing Office officials, the Licensing Office is responsible for ensuring that updated Certificates of No Penal Record and Registry Certification Forms are obtained from employees of licensed childcare providers. However, the officials stated that the Licensing Office was unable to perform this oversight task because of a lack of sufficient staff. Although there was no formal requirement for submitting these documents during the 2-year license period, the Licensing Office relied on the good faith of providers to submit the documents before the documents expired.

For each nonlicensed provider, State agency caseworkers from ACUDEN were required to maintain documents in what ACUDEN refers to as its "Registry of Providers." Nonlicensed providers selected by clients using vouchers must be registered in the Registry of Providers and are required to submit, among other things, a Certificate of No Penal Record every 6 months. However, the Registry of Providers did not contain Registry Certification Forms documenting that these individuals were not listed as child abusers or sex offenders. Although State law required all care services providers for children in Puerto Rico to apply for and receive a certification indicating that they are not registered in Puerto Rico's registry of persons convicted of sex crimes and child abuse, the law also required the State agency to incorporate the verification of compliance with this statutory requirement into regulations. The State agency failed to promulgate the necessary regulations, and ACUDEN did not have policies and procedures to obtain these Registry Certification Forms from nonlicensed providers.

¹³ In the case of licensed family childcare homes, there is a requirement to maintain the Certificates of No Penal Record for all family members.

Control Testing

We obtained provider files from the State agency and verified whether each file contained the required background check documentation. We also verified that documentation was valid during the sampled service month.

State Agency Controls for Provider Background Checks Were Not Effective

Our examination of Puerto Rico's statutes, regulations, policies, and procedures revealed significant gaps in the State agency's background check system described for us by State agency officials and described for ACF in the State Plan.

For 90 of the 100 claims reviewed,¹⁴ the State agency did not comply with background check requirements. For 69 of the 90 claims, the State agency's provider files (i.e., ACUDEN's and the Licensing Office's) lacked documentation that provider employees were not in Puerto Rico's registry of persons convicted of sex crimes and child abuse. Of the 69 claims, 50 were associated with nonlicensed providers, and 19 were associated with licensed providers.

For 37 of the 90 claims, the State agency's provider files lacked documentation that provider employees' or family members' Certificates of No Penal Record were valid during the sampled service month. All 37 of these claims were associated with licensed providers.

The State Plan indicates that all childcare provider employees—whether licensed or nonlicensed—are subject to criminal background checks every 6 months and checks of the registry of persons convicted of sex crimes and child abuse every year. However, for the criminal background checks, the State agency has limited enforcement mechanisms for requiring licensed providers to present updated Certificates of No Penal Record every 6 months when licenses are issued every 2 years. For the checks of the registry of sex offenders and child abusers, Puerto Rico regulations and State agency policies and procedures do not establish any requirements related to these checks. Without adequately documenting and monitoring provider background checks, the State agency runs an increased risk that care is being provided to children by individuals with histories of sex crimes, child abuse, or felony convictions. The extent of these deficiencies indicated that the State agency's controls for provider background checks for licensed and nonlicensed providers were not effective.

Control Design and Testing for Required Provider-Submitted Forms

The State agency should have internal controls in place that ensure that providers submit all required forms. Appendix E provides criteria related to required forms.

Control Design

The State agency required providers to maintain various forms so that the State agency could determine whether providers complied with relevant requirements. Required forms for the licensing of centers include personnel documentation, such as an annual health certificate;

¹⁴ The 90 claims files lacked 1 or more background check documents in the provider files.

authorization to conduct a behavior investigation; evidence of having completed a first-aid course; and facility documentation, such as fire and health department certifications, annual financial reports, and liability insurance policies. Required forms for the licensing of childcare homes include documentation for all family members and employees of an annual health certificate, an authorization to conduct a behavior investigation, and evidence of income. In addition, for direct childcare givers, evidence of having completed a first-aid course is required. Nonlicensed providers were required to present certain forms to be included in the State agency's Registry of Providers. In addition to the background check documents discussed in the prior finding (the Certificate of No Penal Record and Registry Certificate Form), the required forms for the State agency's Registry of Providers include an annual health certificate and evidence that the nonlicensed provider had been issued a valid Social Security card. As described in more detail in the prior finding, State agency officials stated that the State agency maintained copies of these documents in its provider files.

Control Testing

We obtained provider files from the State agency and verified whether each file contained the required provider forms. We also verified whether documentation was valid during the sampled service month. This review excluded the background check documents that are discussed separately in the prior finding.

State Agency Controls for Required Provider-Submitted Forms Were Not Effective

For 55 of the 100 claims reviewed, the State agency did not maintain copies of all required forms. For 45 of the 55 claims (all 45 were for licensed providers), the State agency did not maintain copies of required forms valid during the sampled service month. In addition, we found that the State agency allowed two childcare centers to provide services without a license issued by the State agency. Specifically, the State agency accepted licenses issued by the Council of Education of Puerto Rico, an agency that issues licenses to establish and operate educational institutions, although the law permits only the State agency to issue licenses to childcare facilities. For 8 of the 55 claims (all nonlicensed providers), the State agency did not maintain copies of required Registry of Providers forms.

Without adequate written policies and procedures and sufficient monitoring of the process for maintaining required provider-submitted forms, the State agency's Child Care and Development Fund Program could not ensure compliance with its provider forms requirements and was vulnerable to fraud and health and safety issues. Specifically, by accepting licenses issued by the Council of Education of Puerto Rico, the State agency increased the risk that care was not being provided under the terms and conditions established by the Child Care and Development Fund Program because providers with these licenses were not held to the State agency's licensing requirements. Therefore, the State agency could not ensure that only vetted childcare providers had been approved to provide subsidized childcare services. Further, the health and safety of children are at risk at providers that do not have fire and health department certifications for their facilities, or whose personnel do not have valid health certificates or have not completed a first-aid course. The extent of these deficiencies indicated that the State agency's controls over provider required forms were not effective.

Control Design and Testing for Provider Rate Agreements

The State agency should have controls in place to prevent payments to providers that have not completed a provider rate agreement, or at rates that exceed those agreed upon between the provider and the State agency. Appendix E provides criteria related to provider rate agreements.

Control Design

The State agency required each provider to sign a provider rate agreement (service contract) that specified the terms and conditions for which they were contracted. State agency officials stated that they maintained a copy of the provider rate agreement in the client's file.

Control Testing

We obtained client files from the State agency and verified whether each file contained a signed provider rate agreement that detailed the terms and conditions valid during the sampled service month.

State Agency Controls for Provider Rate Agreements Were Not Effective

For 9 of the 100 claims reviewed, State agency client files lacked a valid provider rate agreement during the sampled service month. Specifically, these agreements (1) lacked the required provider signature or date or (2) were dated after the sampled service month.

Without valid provider agreements, the State agency increased the risk that care was not being provided or paid under the terms and conditions established by the CCDF Program. The extent of these deficiencies indicated that the State agency's controls for documenting provider agreements were not effective.

CLIENT ELIGIBILITY CONTROLS

State Agency Did Not Implement All Federal Law Regarding Client Eligibility

While we found that the State agency's controls for verifying clients' citizenship were effective (see Appendix F), we identified that the State agency was not implementing all Federal law regarding client eligibility. Federal law requires that a child must be a U.S. citizen or a qualified alien to receive Federal public benefits, which include CCDF benefits. According to State agency procedures, child care is available only to U.S. citizens. Further, in its policies for determining client eligibility, the State agency was not considering qualified aliens eligible for childcare services. We were not able to quantify the number of qualified aliens excluded from the CCDF Program because we reviewed paid childcare voucher claims—not applications for childcare services. Without policies describing documentation of clients' proof of qualified alien status, there was an increased risk that child care was denied to individuals who were qualified aliens.

Control Design and Testing for Need-for-Service Eligibility

The State agency should have controls in place to prevent payments to providers on behalf of clients with no eligible need for services. Appendix E provides criteria related to need-for-service eligibility.

Control Design

State agency officials said that the State agency obtained documentation from clients indicating that each client had an eligible need for child care and maintained this documentation in client files. Need-for-service documentation included client-employment verification, school schedules, and other documents demonstrating the client's need for services.

Control Testing

We obtained the State agency's client files and verified whether each file contained relevant evidence of each client's need for services.

State Agency Controls for Need-for-Service Eligibility Were Not Effective

For 11 of the 100 claims reviewed, State agency client files lacked adequate documentation of the client's need for service. Specifically, for six claims, client files did not include documentation of one or more parents' educational or employment status. For three other claims, one or more of the parents did not comply with the State agency's training or education requirements. For the two remaining claims, documentation indicated that childcare services were received for school-age children during school hours for the entire month.

Without adequate documentation of clients' need for services, there was an increased risk that child care was provided to ineligible clients; thereby preventing potentially eligible clients from participating in and receiving subsidized childcare services from the CCDF program. As a result of the identified deficiencies, we determined that the State agency's controls for need-for-service eligibility verification were not effective.

Control Design and Testing for Verifying Family Income

The State agency should have internal controls in place to prevent payments to providers on behalf of clients whose parents' incomes exceed State-designated income thresholds. Appendix E provides criteria related to client family income verification.

Control Design

State agency officials stated that the State agency verified family incomes by obtaining documentation from clients' families, including pay stubs or recent employment verifications, or affidavits that clients' families owned businesses or were self-employed. In addition, the State agency requested updated documents verifying family income when provider rate agreements were renewed.

Control Testing

We obtained the State agency's client files and verified whether each file contained documentation that family incomes were verified and that incomes did not exceed State-designated income thresholds.

State Agency Controls for Verifying Family Income Were Not Effective

For 6 of the 100 claims reviewed, State agency client files lacked adequate documentation of the client's family income. For five of the six claims, the client file did not contain adequate documentation to determine the family income eligibility.¹⁵ For one other claim, the documentation indicated that the client's family income exceeded State-designated income thresholds.

Without adequate documentation of clients' family incomes, there was an increased risk that child care was being provided to ineligible clients; thereby preventing potentially eligible clients from participating in and receiving subsidized childcare services from the CCDF program. As a result of the identified deficiencies, we determined that the State agency's controls for verifying family incomes were not effective.

UNALLOWABLE PAYMENTS FOR PRIOR-YEAR SERVICES

CCDF funds must be obligated in the FY in which the funds were awarded or in the succeeding FY, and any funds not obligated during this period will revert to the Federal Government (45 CFR § 98.60(d)(1) and (7)). Further, CCDF discretionary funds must be used to carry out the State plan in the period for which the funds are made available (45 CFR § 98.64(b)).

The State agency improperly claimed \$82,544 in FY 2012 CCDF funds¹⁶ for childcare services provided during the prior FY. As a result, the funds were not available to pay for obligations incurred during FY 2012 or the succeeding FY. This occurred because the State agency did not have procedures to properly identify and assign childcare funds to voucher payments in accordance with obligation requirements established by Federal criteria.

¹⁵ Supporting documentation was missing, for a different period, or incomplete (no income included); or marital status evidence was missing, and we could not determine whether income from both parents was needed to be included in the income calculation.

¹⁶ Specifically, the State agency claimed these costs on the ACF-696 quarterly report for the period ended March 31, 2013.

STATE AGENCY DID NOT HAVE SUFFICIENT WRITTEN POLICIES AND PROCEDURES OR EXERCISE ADEQUATE OVERSIGHT

The State agency did not have sufficient written policies and procedures to guide its staff in tasks such as determining provider eligibility, client eligibility for vouchers, and processing claims. Written policies and procedures that address the core operations of an organization help to establish a strong system of internal control. The lack of sufficient written policies and procedures contributed to the ineffective application of the controls we tested. State agency officials stated that they are currently reviewing the policies and procedures for the CCDF Program to guide their staff in tasks such as determining provider and client eligibility and claim processing. In addition, the State agency was understaffed to ensure that providers submitted required documentation. State agency officials admitted that they did not monitor nonlicensed providers and stated that the reason was because the agency had not implemented adequate procedures for overseeing these providers.

Sufficient and clearly written policies and procedures can help staff ensure adherence to Federal and State laws and regulations. The State agency must ensure adequate monitoring of all providers. Without sufficient written policies and procedures and the staff necessary to perform proper oversight of licensed providers, and without adequate procedures to monitor nonlicensed providers, the State agency's CCDF Program is vulnerable to fraud, waste, and abuse; and places the health and safety of children at risk.

COSTS ASSOCIATED WITH DEFICIENCIES

On the basis of our sample results, we estimated that \$16,163,293 of the CCDF 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 provider and client eligibility determinations and for claim processing to ensure that payments for the CCDF Program are made only for eligible providers and to eligible clients. Specifically, the State agency should take steps to:

- develop written policies and procedures and implement effective monitoring to ensure that documentation is maintained for licensed and nonlicensed providers demonstrating that appropriate criminal background checks are conducted every 6 months and sex offender and child abuse registries are checked annually,
- ensure that all providers submit all required forms,
- develop policies and procedures to ensure that only childcare licenses issued by the State agency are accepted,

- develop written policies and procedures to ensure that provider rate agreements are signed and dated before childcare services are provided,
- provide services to eligible children who are U.S. citizens and qualified aliens,
- develop policies and procedures for verifying the eligibility of children who are qualified aliens, and
- develop adequate written policies and procedures to maintain documentation to demonstrate that all clients are in need of service and financially eligible.

In addition, we recommend that the State agency:

- return to the Federal Government \$82,544 for unallowable obligations and
- establish policies and procedures to ensure that childcare funds are identified and assigned to voucher payments in compliance with obligation requirements.

OTHER MATTER: UNLIQUIDATED OBLIGATIONS

The State agency must obligate the childcare funds in the FY in which funds are awarded or in the succeeding FY. Any unliquidated obligations as of the end of the succeeding FY shall be liquidated within 1 year (45 CFR § 98.60(d)(1)). In addition, the State agency must establish controls and procedures to permit the tracing of funds to ensure they have not been used improperly (45 CFR § 98.67(c)(2)).

The State agency reported unliquidated obligations as direct services expenses in the FY 2012 ACF-696 report for the quarter ended March 31, 2013. The State agency calculated childcare voucher expenses on the basis of expenditure estimates rather than actual liquidations to providers. Further, the State agency did not perform timely reconciliations between its accounting system records and special payer account records for childcare vouchers. As a result, the State agency overstated direct services expenses on its ACF-696 report for the quarter ended March 31, 2013, by \$55,482 of unliquidated CCDF obligations. We noted, however, that the State agency subsequently corrected this overstatement.

STATE AGENCY COMMENTS

In written comments on our draft report dated December 15, 2016, the State agency concurred with our procedural recommendations and described steps it has taken to implement them. The State agency also described why it made unallowable obligations but did not indicate whether it planned to return the funds. In a follow-up email dated December 20, 2016, the State agency indicated that it agreed to return these funds to the Federal Government. The State agency's comments are included as Appendix G. We did not include a copy of a lengthy January 2016 childcare policy on program eligibility and health and safety that the State agency included with its comments.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed the State agency's controls for provider and client eligibility determinations and for claim processing for the period October 1, 2011, through March 31, 2013. We did not review the State agency's overall internal control structure. We reviewed only those controls that pertained to our objective. Our review covered 82,022 paid childcare voucher claims totaling \$16,396,612. We did not review contractors' or State agency-administered centers' expenditures.

We conducted fieldwork at the State agency's offices throughout Puerto Rico from April to December 2013.

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 Puerto Rico CCDF State plan related to the CCDF Program for FYs 2012 and 2013;
- reviewed the State agency's FY 2012 ACF-696 report for the period ended March 31, 2013, and supporting documentation to determine the amount of childcare payments that were included in the report;
- 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 claim processing;
- interviewed State agency staff to obtain an understanding of the State agency's specific controls for:
 - provider eligibility (background checks, required forms, and provider rate agreements),
 - client eligibility (citizenship, age, family income, and need for service), and
 - claim processing (providers and clients living at the same address, supervisor approval of excess units provided and excess rates paid, units and rates paid compared to the State agency's established amounts and attendance records);

- obtained the voucher paid claim data with FY 2012 CCDF Program funds from the State agency for the period October 1, 2011, through March 31, 2013;
- reconciled paid voucher claim data with the State agency’s accounting system and the ACF-696 report to ensure that the childcare paid voucher claims population that we used to perform the tests of controls represented the amounts that the State agency claimed for Federal reimbursement;
- extracted \$82,544 of paid voucher claims for services provided in FY 2011 but paid with FY 2012 funds;
- identified a sampling frame of 82,022 paid voucher claims totaling \$16,396,612;
- divided the claims paid during our audit period into 2 strata by provider type (1 stratum for licensed provider types¹⁷ and 1 stratum for nonlicensed provider types¹⁸) and randomly selected 50 claims from each stratum, totaling 100 claims reviewed;
- identified the provider name in the State agency’s claims database for each of the 100 randomly selected paid claims and requested from the State agency a copy of the provider’s file for each of the claims;
- reviewed the provider and client 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, the provider rate agreement (available at client file), and the required provider forms;
- reviewed the 100 randomly selected paid claims’ client files to evaluate the adequacy of the State agency’s controls for client eligibility determinations, and specifically:
 - determined whether each client file contained citizenship, age, family income, and eligible need-for-service documentation;
 - recomputed the child’s age based on date of birth and date of service to verify that childcare services provided during school hours were not paid for children 5 or older and that the child was younger than 13, unless special needs or protective needs had been documented; and
 - recomputed the family income to verify compliance with State-designated income amounts;

¹⁷ Licensed provider types include childcare centers and family childcare home providers.

¹⁸ Nonlicensed provider types include license-exempt providers and in-home providers who provide care in the child’s home.

- reviewed the 100 randomly selected paid claims to evaluate the adequacy of the State agency's controls for claim processing and specifically determined whether paid claims exceeded the approved number of units and rate;
- estimated the dollar amount of the CCDF Program claims that could have had 1 or more of the control deficiencies; and
- discussed the results of our review with State agency officials.

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 METHODOLOGY

POPULATION

The population consisted of voucher childcare claims paid with FY 2012 CCDF Program funds in the Commonwealth of Puerto Rico for services provided from October 1, 2011, through March 31, 2013.

SAMPLING FRAME

The sampling frame was 2 Excel files consisting of 82,022 paid voucher childcare claims. There was a total of 82,389 voucher claims totaling \$16,479,156; however, we excluded 367 voucher claims totaling \$82,544 for services rendered in FY 2011 that were paid with FY 2012 funding. As a result, we drew our sample from the remaining 82,022 voucher claims totaling \$16,396,612.

SAMPLE UNIT

The sample unit was a paid voucher childcare claim.

SAMPLE DESIGN

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

Stratum 1 consisted of 35,298 paid voucher claims totaling \$8,068,406 paid to licensed providers.

Stratum 2 consisted of 46,724 paid voucher claims totaling \$8,328,206 paid to nonlicensed providers.

SAMPLE SIZE

We selected 50 paid voucher childcare claims per stratum for a total of 100 paid voucher 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. We are reporting the potential cost savings at the point estimate.

APPENDIX C: SAMPLE RESULTS AND ESTIMATES

TOTAL DEFICIENCIES

Stratum	Frame Size	Frame Value	Sample Size	Value of Sample	Number of Claims with Control Deficiencies	Amount of Claims with Control Deficiencies
1	35,298	\$8,068,406	50	\$10,938	49	\$10,712
2	46,724	8,328,206	50	9,204	50	9,204
Total	82,022	\$16,396,612	100	\$20,142	99	\$19,916

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

Point estimate	\$16,163,293
Lower limit	15,247,817
Upper limit	17,078,769

APPENDIX D: SUMMARY OF SAMPLED ITEMS

Sample Claim Information			Provider Eligibility Missing			Client Eligibility Missing				Claims Processing Missing	
Sample Order	Paid Claim Amount	Deficient Claim Amount	Provider Background Checks	Required Provider Forms	Provider Rate Agreement	Client Citizenship Verification	Eligible Need for Service	Family Income Verification	Client Age Verification	Preventing Units / Rates in Excess	Attendance Records
LS1	\$ 114.00	\$ 114.00	X	X	X						
LS2	280.00	280.00	X	X							
LS3	260.00	260.00	X	X							
LS4	160.00	160.00	X	X							
LS5	231.00	231.00		X	X		X	X			
LS6	240.00	240.00	X	X							
LS7	288.00	288.00		X							
LS8	160.00	160.00	X	X	X		X	X			
LS9	273.00	273.00	X	X			X	X			
LS10	114.00	114.00	X	X			X				
LS11	114.00	114.00		X							
LS12	273.00	273.00	X	X			X	X			
LS13	200.00	200.00	X	X							
LS14	273.00	273.00	X	X							
LS15	233.00	233.00	X	X							
LS16	280.00	280.00	X								
LS17	273.00	273.00	X	X					X		
LS18	273.00	273.00		X							
LS19	114.00	114.00	X	X							
LS20	239.00	239.00		X							
LS21	280.00	280.00	X	X							
LS22	185.00	185.00	X	X							
LS23	275.00	275.00	X	X							
LS24	226.00	0.00									

Sample Claim Information			Provider Eligibility Missing			Client Eligibility Missing				Claims Processing Missing	
Sample Order	Paid Claim Amount	Deficient Claim Amount	Provider Background Checks	Required Provider Forms	Provider Rate Agreement	Client Citizenship Verification	Eligible Need for Service	Family Income Verification	Client Age Verification	Preventing Units / Rates in Excess	Attendance Records
LS25	273.00	273.00	X	X			X				
LS26	180.00	180.00	X	X							
LS27	160.00	160.00	X	X							
LS28	288.00	288.00	X	X							X
LS29	250.00	250.00	X	X	X						
LS30	255.00	255.00	X	X							
LS31	217.00	217.00	X	X							
LS32	114.00	114.00		X							
LS33	275.00	275.00	X								
LS34	273.00	273.00		X							
LS35	244.00	244.00	X	X							
LS36	196.00	196.00	X	X							
LS37	288.00	288.00		X							
LS38	236.50	236.50	X	X							
LS39	280.00	280.00	X	X							X
LS40	160.00	160.00	X	X			X				
LS41	114.00	114.00	X	X							
LS42	114.00	114.00	X	X							
LS43	280.00	280.00	X	X	X						
LS44	114.00	114.00	X	X							
LS45	114.00	114.00	X	X							
LS46	273.00	273.00	X	X							
LS47	160.00	160.00	X	X							
LS48	288.00	288.00	X	X							
LS49	160.00	160.00	X	X							
LS50	273.00	273.00		X	X						
NLS1	115.00	115.00	X				X				

Sample Claim Information			Provider Eligibility Missing			Client Eligibility Missing				Claims Processing Missing	
Sample Order	Paid Claim Amount	Deficient Claim Amount	Provider Background Checks	Required Provider Forms	Provider Rate Agreement	Client Citizenship Verification	Eligible Need for Service	Family Income Verification	Client Age Verification	Preventing Units / Rates in Excess	Attendance Records
NLS2	250.00	250.00	X	X						X	
NLS3	181.00	181.00	X								
NLS4	200.00	200.00	X								
NLS5	114.00	114.00	X								
NLS6	114.00	114.00	X	X							
NLS7	250.00	250.00	X								
NLS8	115.00	115.00	X			X			X		
NLS9	272.00	272.00	X								
NLS10	95.19	95.19	X								
NLS11	210.00	210.00	X								
NLS12	115.00	115.00	X								
NLS13	115.00	115.00	X	X							
NLS14	219.00	219.00	X								
NLS15	114.00	114.00	X								
NLS16	217.00	217.00	X	X							
NLS17	175.00	175.00	X								
NLS18	272.00	272.00	X								
NLS19	114.00	114.00	X								
NLS20	264.00	264.00	X								
NLS21	114.00	114.00	X							X	
NLS22	264.00	264.00	X	X	X					X	
NLS23	272.00	272.00	X				X				
NLS24	250.00	250.00	X								
NLS25	173.00	173.00	X	X				X			
NLS26	200.00	200.00	X								
NLS27	219.00	219.00	X								
NLS28	114.00	114.00	X						X		

Sample Claim Information			Provider Eligibility Missing			Client Eligibility Missing				Claims Processing Missing	
Sample Order	Paid Claim Amount	Deficient Claim Amount	Provider Background Checks	Required Provider Forms	Provider Rate Agreement	Client Citizenship Verification	Eligible Need for Service	Family Income Verification	Client Age Verification	Preventing Units / Rates in Excess	Attendance Records
NLS29	114.00	114.00	X		X		X				
NLS30	272.00	272.00	X	X							
NLS31	179.00	179.00	X								
NLS32	115.00	115.00	X							X	
NLS33	250.00	250.00	X		X						
NLS34	217.00	217.00	X								
NLS35	75.00	75.00	X								
NLS36	240.00	240.00	X								
NLS37	272.00	272.00	X								
NLS38	217.00	217.00	X								
NLS39	219.00	219.00	X								
NLS40	200.00	200.00	X			X			X		
NLS41	217.00	217.00	X								
NLS42	74.00	74.00	X				X				
NLS43	74.00	74.00	X	X				X			
NLS44	217.00	217.00	X								
NLS45	95.29	95.29	X								
NLS46	217.00	217.00	X								
NLS47	217.00	217.00	X								
NLS48	217.00	217.00	X								
NLS49	264.00	264.00	X								
NLS50	115.00	115.00	X								
Total	\$20,141.98	\$19,915.98	90	55	9	2	11	6	4	4	2

APPENDIX E: FEDERAL AND STATE CRITERIA RELATED TO THE 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) 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. The lead agency may impose more stringent standards and licensing or regulatory requirements on childcare providers.

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 controls of infectious diseases, including immunizations; building and physical premises safety; and certain minimum levels of health and safety training.

State Laws and Regulations, CCDF State Plan, and State Agency Procedures

State laws (Title 8 § 69 of the Laws of Puerto Rico Annotated (P.R. Laws Ann.)) establish that the State agency is the only agency authorized to issue licenses to every childcare facility established in Puerto Rico. The State agency and the State Department of Education must request every owner, administrator, operator, manager, and custodian, and every candidate, employee, or volunteer who is interested in rendering or who renders services in said establishments, to present a certificate of physical and mental health, each year, and a certificate of no penal record, at least every 6 months, and that authorizes that their physical and mental health and conduct be investigated with the proper guarantees of confidentiality and due process of law.

State laws (P.R. Laws Ann. Title 8 § 70) establish that no private person, entity, association, corporation, or the Commonwealth Government, or any municipality or other political subdivision, with the exception of the State agency, may establish, operate or maintain an establishment for the care of children without holding a license issued by the State agency for such purposes. Any person who cares for one or two children or any person who cares for children who are related by blood or affinity up to the third grade of consanguinity are exempted from complying with this provision.

State laws (P.R. Laws Ann. Title 8 § 482) establishes that no person may function as a care services provider for children and the elderly or be able to provide such services in the jurisdiction of the Commonwealth of Puerto Rico unless having previously applied for and received a certification indicating that said person is not registered in the registry of persons

convicted of sex crimes and child abuse created by Act No. 28 of July 1, 1997, as amended, in the Criminal Record Register of the Puerto Rico Police, authorized by §§ 1725 et seq. of Title 34, or in the Criminal Justice Information System created by §§ 531 et seq. of Title 4, as convicted of any violent sex crime or child abuse. It shall furthermore be required to request and obtain a certificate from the Puerto Rico Police or from the Criminal Justice Information System indicating that the person has not been convicted of any felonies.

State laws (P.R. Laws Ann. Title 8 § 483) require that care services entities may not contract, employ, or use in any capacity, through remuneration or for free, any provider of such services unless he or she has previously presented a certification indicating that the person is not registered in the Puerto Rico registry of persons convicted of sex crimes and child abuse or other specified criminal justice systems. The State agency must incorporate the verification of compliance with this requirement in its respective regulations related to the certification, authorization, or issue of licenses or operating permits for entities that provide care services.

State regulations (Puerto Rico Regulation 4758, section 3.1) require any person or entity which operate or plan to establish a child care facility to file a license application with required documentation at least 2 months before the proposed date of commencement of the services. Specifically, State regulations (Puerto Rico Regulation 4758, section 4.4 and 5.1) require childcare facilities to submit annually a financial report and to comply with requirements of the Regulations and Permits Administration, the Environmental Health Division of the Department of Health and the Fire Prevention Division of the Fire Department of Puerto Rico. Also, the facilities must have a valid liability insurance policy (section 11.2). In addition, all facility personnel must submit a health certificate (annually), a certificate of no penal record (every 6 months), evidence that a first aid course was taken, and authorization in writing for a police and Department of Justice and Social Services behavior investigation (section 4.6).

State regulations (Puerto Rico Regulation 6474, section 4.2) establish that all family members within a licensed childcare home must comply with submission of a health certificate (annually), certificate of no penal record (every 6 months), authorization in writing for a Puerto Rico Police and Departments of Justice and Family behavior investigation, income evidence, and the operator must submit three letters of reference. In addition, direct childcare givers must submit an official certification that a first aid course was taken (section 5.1).

CCDF State Plan for Puerto Rico FY 2012–2013, sect. 1.3.2, establishes that all childcare providers must sign a written contract/agreement specifying the terms and conditions for which they were contracted.

CCDF State Plan for Puerto Rico FY 2012–2013, sect. 3.1.1, establishes that the State agency's Licensing Division is the entity responsible for licensing childcare facilities.

CCDF State Plan for Puerto Rico FY 2012–2013, sect. 3.1.3(d), requires that all personnel at childcare facilities and providers (licensed and nonlicensed) at group, family and in-home childcare homes are subject to the following background checks: child abuse registry (annually), State/Territory criminal background (every 6 months), and sex offender registry (annually).

The State agency's *Service Provider Orientation Manual*, p. 3 (March 2009) requires all care service providers selected by clients using vouchers to be registered in the Registry of Providers.

State agency procedures (*Guide and Procedures for the Registry of Providers* (July 5, 2006, sections I and II) require nonlicensed providers to be registered in the Registry of Providers. To be part of this registry, the person must submit a no penal record certificate (every 6 months), a health certificate (annually), a Social Security card, evidence of postal and physical address, and complete an Authorization for Contracting Service Provider.

State agency procedures (*Puerto Rico Department of Family Policies and Procedures Manual of the Licensing Office* (October 2006), Sections XXX and XXX.A.) require the State agency to maintain evidence of required documents from all licensed childcare establishments.

CLIENT 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 § 98.20(a)(1)) require that a child be under 13 years old, or at the option of the Lead Agency, be under 19 years old and physically or mentally incapable of caring for him- or herself or under court supervision, to be eligible for child care under the CCDF Program.

Federal regulations (45 CFR § 98.20(a)(2)) state that to be eligible for child care under the CCDF Program, a child 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 job training or an 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 (8 U.S.C. 1611), 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)). A Lead Agency has flexibility to establish procedures for verifying a child's citizenship and immigration status, but its procedures should comply with Department of Justice requirements for verifying eligibility (62 Fed. Reg. 61344 (November 17, 1997)). See also program guidelines at ACYF-PI-CC-98-08 and CCDF-ACF-PI-2008-01.

State Laws and Regulations, CCDF State Plan, and Eligibility Requirements Manual

State law (P.R. Laws Ann. Title 3 § 143b) requires all children between the ages of 5 and 18 years old to attend school, with certain limited exceptions.

CCDF State Plan for Puerto Rico FY 2012–2013, sect. 2.3.3, requires that working parents be employed in a regular verifiable, remunerated full-time or part-time job. Parents studying must be enrolled in an accredited institution that certified enrollment in 12 or more credits. Also, there is a minimum of 15 hours of training weekly for those parents attending job training.

The State agency's *Eligibility Requirements Manual* (June 2011) states that childcare services will be offered to children who are U.S. citizens.

The State agency's *Eligibility Requirements Manual* (section 1) states that childcare services will be offered to children from birth until they are 12 years and 11 months old, or 18 years and 11 months old if they have a physical or mental disability, are under State protective services, or are at risk of abuse or neglect.

The State agency's *Eligibility Requirements Manual* (section 2) states that childcare will be offered to children who live among a family with an income not exceeding 85 percent of State median income.

The State agency's *Eligibility Requirements Manual* (section 3) states that childcare services will be offered to children who live among a family where parents or legal guardians are working not less than 15 hours weekly, or studying (full academic load), or in job training (minimum 15 hours weekly), or searching for a job for a maximum period of 1 year.

The State agency's *Eligibility Requirements Manual* (section 4) states that families of children with special needs are exempt from compliance with income requirements of childcare services. Also, children under State protective services, or at risk of abuse or neglect are qualified for childcare services. These cases are exempt from CCDF eligibility criteria.

The State agency's *Eligibility Requirements Manual* (section 10) requires clients to submit to the State agency evidence to receive vouchers for childcare services, including:

- Social Security cards for all family members.
- Check stub or recent employment certification, as evidence of gross salary and deductions made by the employer. An affidavit is required for clients who are self-employed or own their own businesses.
- Evidence from the Puerto Rico Department of Labor and Human Resources documenting that the client is actively seeking employment.
- A class program certified by the educational institution including the schedule of classes and number of credits.
- Voluntary work certification, and evidence showing that the client participated in 4 or more hours of training per day, conducive to employment.
- Evidence in cases of temporary disability.

- Birth certificate or certification that an official reviewed a birth certificate for a child for which services are requested.
- In the case of children with special needs, the client must submit a Puerto Rico Department of Education or Puerto Rico Department of Health certification, or a medical evaluation.
- In cases where the parents are minors, the client must submit an affidavit from their legal guardian or evidence of their emancipation.
- Depending on civil status, client must submit an affidavit (for single or separated parent) or divorce decree (for divorced parent) or death certificate (for widower).

PROVIDER RATE AGREEMENTS AND CLAIM 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 families to childcare services comparable to those provided to families who are not eligible for CCDF assistance or childcare assistance under any other Federal, State or tribal programs.

CCDF State Plan, Provider Rate Agreement (Service Contract), and State Procedures

The CCDF State Plan for Puerto Rico FY 2012–2013, section 1.3.2, establishes that all childcare providers must sign a written contract/agreement specifying the terms and conditions for which they were contracted.

The State agency's provider rate agreement (contract) terms and conditions require the client to submit an attendance sheet not later than 5 days after the end of the service month. The provider must render at least 80 percent of the service to receive payment.

State agency procedures (*Service Provider Manual*, pp. 5-6) states that all care providers must comply with daily and monthly attendance certification, which must be submitted to the State agency within the first 5 working days of the month. In the case of unlicensed care providers, the parent has the option to deliver monthly attendance during the first 5 working days of the month. The State agency will not authorize payment of services not representing at least 80 percent of monthly service.

APPENDIX F: CONTROLS TESTED THAT WERE DETERMINED TO BE EFFECTIVE

CLIENT ELIGIBILITY

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.

Control Design

State agency officials stated 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 their citizenship documentation to obtain the date of birth and thus calculate their age. For a client to be age-eligible, he or she must be either (1) 12 years and 11 months old or younger or (2) 18 years and 11 months old or younger and be physically or mentally incapable of caring for him- or herself, be under court supervision, or be involved in protective services. The child's age must be verified to qualify for child care.

Test Results

For 96 of the 100 claims reviewed, the case files contained evidence that the State agency had verified the client's age; however, 4 case files did not.

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.

Control Design

The State agency verifies that a child is a U.S. citizen by requesting a birth certificate showing that the child was born in one of the 50 States, the District of Columbia, Puerto Rico, or the U.S. Virgin Islands. The birth certificate must be presented when applying for CCDF benefits, and the State agency was required to maintain a copy in the client's file.

Test Results

For 98 of the 100 claims reviewed, the case files contained evidence that the State agency had verified the client's citizenship; however, 2 case files did not.

CLAIM 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) from being paid in excess of the State's established maximum amounts.

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 stated that the State agency was required to maintain the agreement in the client's file. The provider agreement states that at least 80 percent of the childcare services contracted must be rendered for the provider to receive payment. After the State agency approved the provider to receive childcare payments, the State agency established the provider as a payee. The tasks performed by the State agency included entering the provider type and child category to establish a service category.¹⁹ The provider rates were determined on the basis of the services category and amount of hours established on the provider agreement.

Test Results

Of the 100 childcare claims that we reviewed, all had provider agreements; however, we identified 2 claims for which the wrong service category was selected, resulting in a higher payment rate, and 2 claims for which billed service hours were less than 80 percent of time contracted.

Attendance Records

The State agency should have controls in place to prevent payments to providers not presenting evidence of childcare services rendered.

Control Design

The State agency required that all childcare providers maintain a daily attendance log. A monthly attendance certification must be completed and submitted to the designated State agency regional office within the first 5 working days of each month to be eligible for payment.

Test Results

For 98 of the 100 claims reviewed, documentation demonstrated that providers complied with the monthly attendance certification requirements. However, in case files for two claims, there was no documentation of the required monthly attendance certifications.

¹⁹ The provider type and child category are two of the data elements the State agency uses to calculate the maximum provider rate amount.

APPENDIX G: STATE AGENCY COMMENTS



ESTADO LIBRE ASOCIADO DE
P U E R T O R I C O
Administración para el Cuidado y
Desarrollo Integral de la Niñez

December 15, 2016

Mr. James P. Edert
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Inspector General
Office of Audit Services, Region II
Jacob K. Javits Federal Building
26 Federal Plaza, Room 3900
New York, BY 10278

RE: REPORT NUMBER A-02-13-02005

Dear Mr. Edert:

Please find enclosed the written comments to the draft report entitled *Puerto Rico's Control for its Child Care and Development Program Claims Were Not Effective*, Report Number A-02-13-02005. For each finding, a statement of concurrence is included.

The Administration for Integral Child Care and Development (ACUDEN, for its Spanish acronym) of the Commonwealth of Puerto Rico's Department of the Family is responsible for the management and supervision of the *Child Care Development Fund Grant* awarded to the Commonwealth. To address the recommendations made in other reports, as well as implement new strategies to comply with federal and state regulations, ACUDEN began last year a reorganization plan in the Child Care Program. The plan includes the appointment of a Director and a Deputy Director, posts that were vacant for almost a decade. The organizational chart was reviewed and changed according to programmatic and monitoring requirements, creating an area that will work exclusively with the inspection and certification of facilities and other that will determine eligibility of participants, among other mayor changes that are reflected in our concurrence statements.

In addition, on January 2016, ACUDEN implemented the Child Care Program State policy. Based on these policies, procedures were developed for eligibility and health and safety areas in compliance with the Child Care Reauthorization Act. The procedures were approved on September and December 2016, respectively. By adopting and implementing the aforementioned documents, ACUDEN already address the concerns and findings

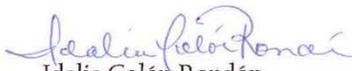
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mentioned on OIG's draft report. Please find enclosed, a detail of actions taken by ACUDEN that demonstrate compliance with the legal requirements. All recommendations included on the draft report have been fully implemented.

Due to a power failure that damaged the electric system of the building in which ACUDEN houses its central office, we lost access to our servers. We only enclose copy of the Child Care Program Regulation Num. 8687 with this letter, with the commitment that the remaining policies cited in this response will be included in a supplemental report as soon as the systems are available.

Our Department is committed with improving the quality of services to the children and their families. We are implementing policies and procedures and a stronger administrative structure to ensure the adequate use of federal funds awarded for the development of the Child Care Program in Puerto Rico. We appreciate the opportunity to submit written comments on the findings before the publication of the final determination.

Cordially,


Idalia Colón Rondón
Secretary



ESTADO LIBRE ASOCIADO DE
PUERTO RICO

Administración para el Cuidado y
Desarrollo Integral de la Niñez

COMMENTS TO DRAFT REPORT NUMBER A-02-13-02005

Finding:

“Not all of the States agency’s controls for provider and client eligibility determinations were effective. Specifically, all of the provider eligibility controls we tested for provider background checks, required provider forms, and provider rate agreements were not effective. Of the client eligibility controls we tested, we determined that the State agency’s controls for family income and need-for-service eligibility were not effective. While we found that the State agency’s controls for verifying clients’ citizenship were effective, we identified that the State agency was not implementing Federal law regarding client eligibility. Specifically, the State agency was not considering qualified aliens eligible for childcare services. Finally, the State agency’s controls for client age and claim processing that we tested were effective.

The State agency lacked sufficient written policies and procedures and sufficient staff to effectively oversee licensed providers, and it lacked adequate procedures to monitor nonlicensed providers in relation to its Child Care and Development Fund Program. As a result, the program is vulnerable to fraud, waste and abuse and places the health and safety of children at risk.

Of the 100 voucher claims that we reviewed, we determined that 99 claims showed evidence of ineffective controls for provider and client eligibility. On the basis of our sample results, we estimated that \$16,163,293 of the Child Care and Development Fund Program’s paid claims could have had one or more of the control deficiencies we identified. We also found that the State agency improperly claimed \$82,544 in FY 2012 CCDF for childcare services provided during FY 2011. This occurred because the State agency did not have procedures to properly identify and assign childcare funds to voucher payments in accordance with obligation requirements established by Federal criteria.”

Comments:

Since January 2015, ACUDEN initiated a reorganization process of the Child Care Program to comply with federal and state regulations. As part of the process, all of the recommendations stated in the draft report have been implemented. The organizational chart was reviewed to maximize the allocation of human resources. The following positions were recruited and/or reassigned to strengthen the programmatic areas:

1. Director of the Child Care Program: Sidnia J. Vélez González
2. Deputy Director of Child Care Program: Christian Beltré Tavarez

Oficina de la Administradora

Ave. Constitución Pda. 2, San Juan, PR 00902-8591
PO Box 15091, San Juan, PR 00902
Tel. 787-724-7474 Fax: 787-977-7820



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3. Administrative Assistant: Vanessa Ramis
4. Health and Safety Area:
 - a. Supervisors- Rebecca Román Pérez and Argie Díaz
 - b. Monitors- José Oscar Pérez Millán, Ismael Canet and two vacant positions currently in recruitment process due to recent resignations.
5. Eligibility Area: María T. Pérez Rodríguez and Luis Rodríguez
6. Family and Community Area: Elsa M. López
7. Children Development Area: Luris Betancourt
8. Health: Lourdes Avilés

ACUDEN applied the same structure at the regional level, reassigning current staff to the new programmatic areas. In addition, the State agency approved and implemented a State regulation applicable to the Child Care program on January 14th, 2016 (Child Care Program Regulation Num. 8687), that establishes the minimum requisites for background check, client eligibility, provider agreements, family income verification, client and provider responsibilities, health and safety requirements, among other aspects. Based on the regulation, procedures were developed and approved for eligibility and health and safety areas on September 23rd, 2016, and December 12th, 2016, respectively. The procedures were adopted and ACUDEN personnel received training to implement the new policies and requirements in the eligibility process and health and safety assessment.

The new administrative and programmatic structure and adoption of the aforementioned procedures allows for the adequate oversight of the childcare requirements and address the findings and recommendations mentioned on OIG's draft report:

OIG's Recommendations	ACUDEN's position		Procedures
	Concurrence	Non-concurrence	
1. Develop written policies and procedures and implement effective monitoring to ensure that documentation is maintained for licensed and nonlicensed providers (hereinafter designated as exempt	✓		Child Care Program Regulation Num. 8687 requires that all licensed or exempt childcare provider personnel, are subject to the following background checks: <ol style="list-style-type: none"> a. Commonwealth criminal background check, b. State and national certification form evidencing that the individuals were not listed as sex offenders,

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<p>providers) demonstrating that appropriate criminal background checks are conducted every 6 months and sex offender and child abuse registries are checked annually</p>			<ul style="list-style-type: none"> c. Verification of the Central Registry of Puerto Rico's Administration of Families and Children to evidence that individuals do not have history of child abuse and negligence, d. Verification of the National Crime Information Center, and e. Verification of the Integrated Automated Fingerprint Identification System of the Federal Bureau of Investigations. <p>Health and Safety Procedure requires that ACUDEN offer initial pre-service orientation about the program requirements which includes monitoring and background checks. Subsequently, they will perform unannounced follow up visit once a year to licensed providers, and every six months to exempt providers. The State law allows for providers that are family relatives to be exempt of the pre-service, monitoring and background check requirements, but they receive consumer education in health and safety issues.</p> <p>The new procedures established that if the provider does not comply with the requirements they lose their eligibility to provide services. The eligibility certification is granted for one year, if at any time during this period they do not comply, they will not be able to receive CCDF.</p>
<p>2. Ensure that all providers submit all requirement forms</p>	<p>✓</p>		<p>The health and safety procedure provides that designated personnel is responsible for ensuring that all providers submit the required forms, including background checks and licensing evidence from Department of the Family Licensing Office, when applicable. This personnel works under the supervision of the regional Executive Director and is responsible of the provider registration on the electronic case management system for Child Care organizations (CIMA).</p> <p>In addition, the Health and Safety Monitor conducts initial and periodical inspections of facilities where services are or will be provided to the program to ensure compliance with health and safety issues related to center facilities, licensing, employee records and records of children, among others.</p>

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<p>3. Develop policies and procedures to ensure that only childcare licenses issued by the State agency are accepted</p>	✓		<p>Licensing State law, Child Care Program Regulation Num. 8687 and procedures state that the Department of the Family Licensing Office is the only one that is empowered to issue health and safety license for childcare facilities. Licenses issued by the Council of Education of Puerto Rico and other entities are not valid for this purpose. The designated personnel ensures the provider has a valid license and required documentation. The monitors will conduct initial visits and unannounced follow up visit once a year to licensed providers and every six months to exempt providers.</p>
<p>4. Develop written policies and procedures to ensure that provider rate agreements are signed and dated before childcare services are provided</p>	✓		<p>ACUDEN implemented a new form of service agreement between the provider and the client that does not require a "service contract". The eligibility procedure establishes that only registered providers in CIMA will be eligible to offer childcare services. When the eligibility technician certifies the client as eligible for receiving childcare services under the program they sign a "eligibility certification" that includes the selection of the provider. ACUDEN will not pay the provider for childcare services rendered unless the form is signed and dated by the client and the eligibility technician. The provider has to be in the CIMA registry in order to be selected by a client. CIMA registry requirements serves as guarantee that the provider complies with federal and local regulation to offer childcare services.</p>
<p>5. Provide services to eligible children who are U.S. citizens and qualified aliens</p>	✓		<p>The eligibility procedure states that services under Child Care and Development Grant are applicable to children that are U. S. citizens or qualified aliens that have permanent residency or are legally admitted residents. In compliance with federal law, the eligibility technician verifies citizenship or qualified alien status of the child by requiring a birth certificate, or evidence that establishes American citizenship, permanent residency or legal residency.</p>
<p>6. Develop policies and procedures for verifying the eligibility of children who are qualified aliens, and</p>	✓		<p>The eligibility procedure states that services under Child Care and Development Grant are applicable to children that are U. S. citizens or qualified aliens that have permanent residency or are legally admitted residents.</p>

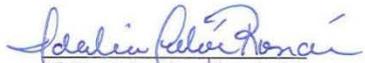
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7. Develop adequate written policies and procedures to maintain documentation to demonstrate that all clients are in need of service and financially eligible	✓		The new regulation and procedures uniform the requirements for the necessary documents in the process of determining clients need for service and verifying family income. These documents are evaluated by the eligibility technician and require the coordinator's review and approval.
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In relation to the additional recommendations made in the draft report requiring the State agency to:

- Return to the Federal Government \$82,544 for unallowable obligations and
- Establish policies and procedures to ensure that childcare funds are identified and assigned to voucher payments in compliance with obligation requirements.

We disclose that the unallowable payments for prior year services occurred because during the audited period, the ACUDEN was in transition between two electronic payment systems: Clarion and CIMA. The actual system CIMA has procedures that does not allow to make payments for childcare services provided during the prior fiscal year. Also, CIMA provider modules are being updated to comply with the new federal and state requirements.


 Idalia Colón Rondón, MTS
 Secretary
 PR Department of the Family


 Laura I. Santa Sánchez, Esq.
 Administrator
 ACUDEN