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**Audit of State Payments to Child Care Providers**

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**Audit Report:** 1008493

**Objective Number:** 001

**Objective:** Estimate how much in state child care subsidies were overpaid and/or questionable in state fiscal year 2011.

**Summary:** The auditor's estimate of overpayments paid to providers by the Working Connections program for child care subsidies in state fiscal year 2011 was \$74.0 million. Additionally, the auditors estimated providers were paid an additional \$35.0 million based on questionable documentation.

In addition to the estimates, the audit identified actual overpayments of more than \$1.6 million, and \$2.9 million in questionable payments for 153 providers that were analyzed.

**Recommendation:** Based on the estimates that the Working Connections program overpaid providers more than \$74.0 million in state fiscal year 2011, and paid an additional \$35.0 million with questionable supporting documentation, the auditors recommended that the Departments of Early Learning (DEL) and Social and Health Services (DSHS):

- Continue to improve the internal controls that detect and prevent provider overpayments, and
- Monitor exempt providers for compliance with program rules. This could include on-site visits to ensure the children are present and reconciling paid invoices to attendance records.

Additionally, the auditors recommended that DEL and DSHS pursue collection of the \$1.6 million of actual overpayments identified, and for the providers paid more than \$2.9 million based on questionable documentation, investigate whether the providers were overpaid or violated program rules.

**Agency Response:** Both DEL and the DSHS have firm policies that every overpayment for child care that is identified is followed up on and an overpayment is written. The provider is entitled to due process to appeal the overpayment.

To address overpayments caused by erroneous eligibility determinations, DEL contracted with an independent consultant to review the eligibility system and make recommendations for improvement. Both DEL and DSHS developed an action plan to implement the recommendations, including:

- In the spring of 2013, DEL improved eligibility worker training to better align with DEL's mission.
- DEL is in the process of simplifying policies to benefit families and DSHS staff.
- By March 2014, system improvements are expected to be complete that will ensure eligibility workers are able to accurately determine eligibility. System improvements include recommended policy changes to allow more flexibility in verifications, improved case management, updated procedure manuals, and more clarity in rules.

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In addition, under the terms of the collective bargaining agreement with Service Employees International Union 925, DEL contracts with a third party to provide training on subsidy billing to licensed family home and license exempt providers on a regular basis.

DEL is leading a project to develop an automated time, attendance and billing system which will reduce the potential for payment errors. This system is planned for implementation by July 2015.

DEL initiated a subsidy audit team beginning in January 2011, which originally consisted of four auditors and an audit lead; and was expanded in January 2013 to nine auditors and an audit supervisor. This unit selects random high risk time and attendance records and reconciles them to actual payments. These audits include exempt providers.

DEL also performs the federally required Improper Payment Act audit every three years, the next report is due June 30, 2014.

With respect to the overpayments, DEL wrote all the overpayments (99 in total) as identified by the auditors. These overpayments were approximately \$1.6 million. DEL is currently in the process of reconciling overpayments as initially identified.

DSHS reviewed all of the questionable payments identified by the auditors. Overpayments were issued for those cases in which the child care provider could not provide any documentation at all. These overpayments totaled approximately \$400,000. Overpayments were not issued for the remaining amount because the Department is of the opinion any action taken would not be defensible in an administrative hearing. The documentation indicated to some degree that services were provided.

As of October 2013, the original figure of \$400,000 in overpayments was reduced to \$396,023 after administrative hearings. This amount was further reduced to \$210,850 to reflect those overpayments which were still in dispute, unserved or written off. Of that amount, \$11,477 has been collected to date.

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**Audit of State Payments to Child Care Providers**

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**Audit Report:** 1008493

**Objective Number:** 004

**Objective:** Report on the state's effort to collect overpayments that were identified by our 2011 child care audit.

**Summary:** In the first child care audit, which focused on fiscal year 2010 program activities, more than \$2.6 million in overpayments were identified.

Of the \$2.6 million in overpayments identified, a single provider accounted for more than \$2.0 million. The Department of Social and Health Services (DSHS) referred this case to local prosecutors. Of the remaining \$600,000, the Department of Early Learning (DEL) and DSHS sought reimbursement for \$336,560. As of June 1, 2012, \$6,103 had been collected.

**Recommendation:** The auditors recommended that DEL and DSHS continue to devote resources to identify and pursue child care providers who are overpaid and/or who willfully defraud the program.

**Agency Response:** DEL has hired five more auditors (in addition to the five hired in January 2012) to specifically audit child care subsidy payments by comparing child care provider billings with attendance records. Approximately 500 cases are audited each month. For state fiscal year 2012, over \$8.0 million of payments have been audited so far, and \$786,000 of overpayments identified. A desk manual for the audit team has been developed. The DEL audit team works with DSHS auditors as well as staff from the DSHS Office of Fraud and Accountability and the Health Care Authority to ensure that any audit activities being performed by each are not duplicative or disruptive to the other agencies' work. All potential fraud activities are referred by DEL to the Office of Fraud and Accountability in DSHS.

For the single provider who accounted for more than \$2.0 million of the overpayments, the case was presented to local prosecutors for prosecution of false reporting of a burglary, because the provider reported that all the records were stolen. Both the county and city prosecutors declined to prosecute. Since there was no conviction for the false reporting, DEL did not pursue collection for any overpayment.

As of October 2013, the \$336,560 original collection figure was reduced to \$244,187 after administrative hearings. Additionally, some of the \$244,187 is not collectable yet because it is disputed or written off due to Chapter 7 bankruptcy filings. This leaves an estimated \$168,096 in collectible overpayments. Of that amount, \$19,010 has been collected.

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