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STATE OF MICHIGAN
DEPARTMENT OF HUMAN SERVICES
LANSING



ISMAEL AHMED
DIRECTOR

February 19, 2008

The Honorable Bill Hardiman, Chair
Senate Appropriations Subcommittee on DHS
Michigan State Senate
Lansing, Michigan 48933

The Honorable Dudley Spade, Chair
House Appropriations Subcommittee on DHS
Michigan House of Representatives
Lansing, Michigan 48933

Dear Senator Hardiman and Representative Spade:

Section 674 of 2007 Public Act No. 131 requires the Department of Human Services to develop and implement a plan to reduce waste, fraud, and abuse within the child day care program and to report to the legislature on the plan details and implementation status. The department report is attached.

Of you have any questions about the attached material, please contact John Sorbet, chief administrative officer, at 373-7787.

Sincerely,

for Ismael Ahmed

- c: Senate and House Appropriations Subcommittees on DHS
- Senate and House Fiscal Agencies
- Senate and House Policy Offices
- State Budget Director

Sec. 674. The department shall develop and implement a plan to reduce waste, fraud, and abuse within the child day care program. Beginning December 31, 2007, the department shall report annually to the senate and house appropriations subcommittees for the department budget, the senate and house fiscal agencies and policy offices, and the state budget director on plan details and implementation status.

Report to the Legislature

When the Child Day Care (CDC) system was put into place in 1992 it was designed as a work support program. As such, the goal was to offer as many avenues as possible for clients to receive day care assistance so child care was not an obstacle to work participation. Since that time, we have been able to see the program in operation and the department has learned more about brain development of the youngest children. DHS has realized the necessity to make fundamental changes in the CDC program. These fundamental changes ultimately will meet the following goals:

- To improve the quality and safety of child care received by children (for example, DHS has expanded the background checks it conducts on providers and adult household members).
- To improve the financial integrity of the program (for example, DHS implemented a toll free phone number for fraud referrals and a requirement for providers to complete a verification of care form that must be signed by the parent).
- To improve the likelihood that families who rely on child care subsidy dollars to pay for a portion of their child care costs will be able to become self-sufficient.

These changes are critical to the success of the CDC program. It is important to realize, however, that these program improvements to increase efficiency and effectiveness will likely occur over several years and will need to include policy changes, technological innovations, and enhanced internal controls.

As part of this fundamental change DHS has created and implemented a comprehensive CDC Integrity Plan that addresses errors, program noncompliance and fraud. The plan reflects ongoing collaborative commitment between the Office of Early Education and Care (which includes the Child Day Care Program Office), the Office of Inspector General, the Office of Quality Assurance, Field Operations Administration, the Bureau of Child and Adult Licensing, and the Office of Internal Audit to strengthen policy and procedures that will support program integrity, and provides for continuous monitoring to ensure accountability. The plan links process changes, enhanced oversight through the use of measurable performance indicators and creates a system for continued feedback from child care partners. The plan will generate baseline data to facilitate reliable ongoing accountability monitoring. The plan includes eight core initiatives listed below.

1. Amend Child Care Administrative Rules

The current Administrative Rules for the CDC Program, R400.5001 et seq., are in the process of being amended. The proposed rules will define the administrative process to enable DHS to impose penalties and disqualifications on child care providers or clients receiving child care funds through program non-compliance or fraud. Uniform sanctions will be assigned for providers and clients found to be in non-compliance with

the rules. The rule set has been revised by a committee comprised of department staff and external child care advocates. In addition, the department has delayed submission of the proposed rules to the State Office of Administrative Hearings and Rules in order to solicit input from the newly created Michigan Home Based Child Care Council. We expect to hold public hearings on the rules in the summer of 2008 and that the rules will be promulgated by the end of FY 2008. This administrative process is critical to increasing the accountability of clients and providers, reliably identifying case closures due to fraud and accurately measuring related savings.

2. Office of Internal Audit (OIA) Project

The Office of Internal Audit performed an audit between March 2007 and December 2007. There were two objectives to the audit: (1) determine if providers had attendance records that met department requirements and (2) determine if clients had documentation of hours worked for the hours their children were in subsidized care.

OIA sampled 2,005 (of 34,462) enrolled day care aides and relative care providers to determine if providers had attendance records that met the requirements detailed on page 4 of the Provider Handbook and Reporting Instructions for Child Care Providers. In general, OIA determined that the time and attendance records maintained by the enrolled providers did not meet these requirements. The OIA determined:

- Four hundred eighty nine (24.4%) of the providers sampled provided documentation of attendance records that did not meet some or all of the requirements outlined in the provider handbook.
- An additional 295 (14.7%) providers stated they did not maintain any attendance records.
- Thirty-three (1.6%) providers kept records, but the records did not properly support the number of hours billed.
- Eight hundred and forty providers (41%) did not respond to the request for attendance documentation and were disenrolled as approved child care providers by DHS.
- It was also found that 10 (.5%) providers indicated that no service was provided or that the parent was not working.
- The remaining 338 (16.9%) providers complied with requirements.
- Subsequent to disenrollment, 728 of the 840 providers (86%) did not reenroll with DHS. In addition, 1,288 of the 1,945 (66%) children they were providing care for are not currently being cared for by another DHS subsidized child care provider.

OIA also determined that 8,568 of 36,793 clients had no earnings reported to the Michigan Unemployment Insurance Agency for the review period, even though employment was the stated reason why care was needed. They obtained payment records for a sample of 207 of these clients to determine if they had supporting documentation of hours worked that supported child care payments for the hours their children were in care. Results were that:

- Ninety-eight clients (47%) did not respond to the audit request.
- Thirty-four clients (16.4%) provided employment verification records that were insufficient to verify their employment.
- The remaining 75 clients (36.60%) were in compliance with program requirements.

The department continues to explore options to provide training and additional assistance to clients and providers to ensure they understand program requirements. At this time, the department continues to conduct these audits.

3. Office of Quality Assurance CDC Case Reviews

The project, that will be piloted beginning in April 2008, will measure accurate and complete documentation in the CDC case record (client file) and the provider record. Errors and program non-compliance will be corrected and referrals to the OIG and recoupment specialists will be initiated as appropriate. This project will allow DHS to identify and address causes related to errors, program non-compliance and fraud. The results of quality assurance case reviews will provide data for continuous program improvement including revised procedures, policy clarifications and related staff training. Two staff have been hired and a detailed project plan that includes noncompliance risk areas has been developed. It is expected the project will be expanded statewide in July 2008 and will incorporate new federal payment accuracy and accurate eligibility determinations and reporting requirements for CDC programs.

4. Office of Inspector General Reverse Wage Match

The OIG doubled the assignment of CDC reverse wage match investigations in FY 2007. The process is a data query that matches employment earnings as reported to the Michigan Unemployment Insurance Agency against CDC payment history. The query matches high dollar child care payments for an employment need with low quarterly employee earnings reports to help screen for potentially fraudulent CDC cases. The OIG expanded the CDC Reverse Wage Match technology to additional counties for participation in Saginaw, Kent, Genesee, Kalamazoo, Berrien, Calhoun, Jackson, Washtenaw, Oakland, Macomb, and Wayne.

The chart below demonstrates the FY 2005-07 investigative performance of The Office of Inspector General.

REVERSE Wage Match Outcomes FY 2005-07	FY 2005	FY 2006	FY 2007
Investigations assigned via reverse wage match	730	384	777
Investigations referred for prosecution/administrative hearing	740	724	862
CDC alleged fraud found value*	\$7.9M	\$7.6M	\$8.7M
Completed investigations**	1,124	1,137	1,483

*The alleged fraud found value equals the amount of money determined by the agent to be owed by the client at the point of referral to the prosecutor or administrative law judge.

**Completed investigations are those where all actions have been taken by the agent and include cases where fraud has and has not been found.

5. Bi-Annual CDC Client Recertification

Currently a CDC client's eligibility is evaluated annually. The department is currently assessing the policy, technology and workload impacts associated with a biannual (every

six months) recertification requirement for CDC clients. It is believed that a biannual recertification that verifies the client's continued eligibility for the CDC program would help increase the integrity of the child day care program by more quickly identifying clients whose circumstances have changed making them no longer eligible to receive day care subsidies.

6. New Hire Data Match

The New Hire Data Match is an eligibility determination desktop tool for DHS staff that will match active CDC clients with Department of Treasury earned income data to facilitate accurate employment verification and improved payment accuracy. Currently DHS is evaluating the development and implementation of the New Hire Data Match for local office staff.

7. Recoupment and Reconciliation

Currently client recoupment and reconciliation for the CDC program is done manually at the local offices. Automation for client recoupment will enable DHS to increase payment receivables and increase actual recoveries of improper payments. Automation is expected to be incorporated into Bridges.

For providers, DHS has implemented an automated system to recoup overissuances caused by providers. In FY 2006, DHS recovered \$389,567 in CDC program funds. Currently there are 500 providers owing \$3,264,734 in established overissuances. The amount collected in 2007 was \$427,411.

This automated system recoups overissuances by:

- Tracking the provider overissuance amounts.
- Recording manual and automated repayments.
- Producing provider recoupment notices.
- Automatically deducting a percentage of current CDC payments and applying the deducted amount to the provider's overissuance balance.
- Producing reports to assist in crediting recouped monies to the proper accounts
- Referring delinquent accounts for tax stop.

DHS will continue to explore new recoupment methods and automation enhancements to increase efficiency in this area.

8. DHS/CDC Field Council

The Field Council will help review and monitor the activities contained in the CDC Integrity Plan by engaging local office staff in active participation of CDC policy review and program feedback.