



OCT 08 2002

REGION IV  
Room 3T41  
61 Forsyth Street, S.W.  
Atlanta, Georgia 30303-8909

CIN: A-04-01-00006

Carmen Hooker Odom, Secretary  
North Carolina Department of Health  
and Human Services  
Adams Building, 101 Blair Drive  
Raleigh, North Carolina 27603

Dear Secretary Odom:

Enclosed are two copies of a United States Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' (OAS) report entitled, *Audit of Child Care Claims at the North Carolina Department of Health and Human Services' Division of Child Development*. A copy of this report will be forwarded to the action official noted below for his/her review and any action deemed necessary.

Final determinations as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise (see 45 Code of Federal Regulations Part 5).

To facilitate identification, please refer to Common Identification Number (CIN) A-04-01-00006 in all correspondence relating to this report.

Sincerely yours,

Charles J. Curtis  
Regional Inspector General  
for Audit Services, Region IV

Enclosures - as stated

Page 2 - Carmen Hooker Odom

**Direct Reply to HHS Action Official:**

Regional Grants Officer  
Division of State Programs  
Administration for Children and Families, Region IV  
U.S. Department of Health and Human Services  
61 Forsyth Street, S.W., Suite 4M60  
Atlanta, Georgia 30303-8909

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**AUDIT OF CHILD CARE CLAIMS AT  
THE NORTH CAROLINA DEPARTMENT  
OF HEALTH AND HUMAN SERVICES'  
DIVISION OF CHILD DEVELOPMENT  
FOR THE PERIOD  
JANUARY 1, 1996 TO MARCH 31, 1999**



**JANET REHNQUIST**  
Inspector General

**OCTOBER 2002**  
A-04-01-0006

# *Notices*

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In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, Office of Inspector General, Office of Audit Services, reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5.)

## **OAS FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed as well as other conclusions and recommendations in this report represent the findings and opinions of the HHS/OIG/OAS. Final determination on these matters will be made by authorized officials of the HHS divisions.





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Carmen Hooker Odom, Secretary  
North Carolina Department of Health  
and Human Services  
Adams Building, 101 Blair Drive  
Raleigh, North Carolina 27603

Dear Secretary Odom:

This final report provides the results of our *Audit of Child Care Claims at the North Carolina Department of Health and Human Services' Division of Child Development for the Period January 1, 1996 to March 31, 1999.*

## EXECUTIVE SUMMARY

### OBJECTIVE

The objective of our audit was to determine whether the state was paid for unallowable At-Risk, Child Care and Development Block Grant (CCDBG), Child Care and Development Fund (CCDF) and Social Services Block Grant (SSBG) (Other Grants) child care claims.

### SUMMARY OF FINDINGS

The state was reimbursed \$18,275,715 federal financial participation (FFP) in unallowable Other Grants' child care payments. Our stratified random sample of 230 Other Grants' child care line items showed that 26 did not meet the requirements for FFP. Of the 26 unallowable line items, 10 were unallowable for 2 or more of the following reasons:

- Claims were paid by other funding sources;
- Applications for child care for service month tested were missing;
- Vouchers/Action Notices for service month tested were missing;
- Payments were greater than applicable market rates;
- Child care services were for unallowable reasons; and
- Attendance records for service month tested were missing.

In our opinion, the unallowable payments resulted from the state's inadequate review of a consultant's identification of children who were determined to be eligible for a specific grant. Each grant had different requirements; yet, the state's accounting system did not identify which grant program was used to pay for a child's care. In addition, the state's inadequate instructions to the counties resulted in insufficient documentation to support eligibility factors and the need for services.

## **RECOMMENDATIONS**

We recommend that the state:

- ❑ refund the \$18,275,715 FFP overpayment;
- ❑ develop accounting procedures that identify the grant used to pay for a child's care;
- ❑ maintain documentation to support eligibility for all child care claims for required periods; and
- ❑ monitor its consultant to ensure that only allowable child care claims are assigned for FFP.

In written comments to our draft report, state officials generally disagreed with our findings and recommendations. The state officials' written comments and Office of Inspector General's (OIG) response to the state's comments are summarized in more detail after the **RECOMMENDATIONS** section of this report. The complete text of the state's comments, except the attachments that accompanied the state's responses, is included in **Appendices C and D**. Because of their volume, the attachments accompanying the state's responses have been excluded, but are available upon request.

## **BACKGROUND**

The Administration for Children and Families (ACF) requested this audit of the North Carolina Department of Health and Human Services' (state) claims for child care funds.

The ACF disallowed the state's initial IV-E claim because documentation the state submitted did not substantiate what appeared to be, in some cases, exorbitant child care expenditures. North Carolina appealed the disallowance to the Department of Health and Human Services' (HHS) Departmental Appeals Board. The ACF agreed to pay the claims with the condition that the OIG

would audit the disallowed claim, as well as the current claims for IV-E and Other Departmental Grants.

This is the last of three OIG reports relating to the state's claims for child care payments. Our first audit reported on IV-E paid claims totaling \$6.2 million FFP for the period October 1, 1993 through October 31, 1997 and Other Grants<sup>1</sup> totaling \$68.4 million FFP for the period October 1, 1993 through June 30, 1995 (Common Identification Number (CIN): A-04-98-00123). Our second audit reported on IV-E paid claims totaling \$1.9 million FFP for the period November 1, 1997 through March 31, 1999 (CIN: A-04-01-00002).

The criteria from the Catalog of Federal Domestic Assistance applicable to At-Risk, CCDBG, CCDF and SSBG child care are as follows:

### **At-Risk Child Care**

At-Risk Child Care funds are available to allow states the option of providing child care to low-income families who are not receiving Aid to Families with Dependent Children<sup>2</sup> (AFDC), who need child care in order to work, and who would otherwise be at-risk of becoming eligible for AFDC.

### **CCDBG Child Care**

The CCDBG provides funds to assist low-income families with child care services. Beneficiary eligibility is based on children under age 13 (or up to age 19, if disabled), who reside with a family whose income does not exceed 75 percent of the state median income for a family of the same size, and reside with a parent (or parents) who is working or attending a job-training or educational program; or are in need of, or are receiving protective services.

### **CCDF Child Care**

The objectives of CCDF child care are to assist low-income families with child care; allow each state maximum flexibility in developing child care programs and policies that best suit the needs of children and parents within the state; promote parental choice to empower working parents to make their own decisions on the child care that best suits their family's needs; encourage states to provide consumer education information to help parents make informed choices about child care; assist states to provide child care to parents trying to achieve independence from public assistance; and assist states in implementing the health, safety, licensing, and registration standards established in state regulations. Beneficiary eligibility requirements for CCDF are similar to those for CCDBG child care, except that a child can be served up to age 19 if under

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<sup>1</sup> Other HHS grants reviewed in the first audit included the At-Risk, the CCDBG, and the SSBG.

<sup>2</sup> The Temporary Assistance to Needy Families (TANF) Block Grant Program replaced the AFDC Program.

court supervision, and family income cannot exceed 85 percent of the state median income for a family of the same size.

### **SSBG Child Care**

The SSBG provides funds to enable each state to furnish social services best suited to the needs of the state's residents. The SSBG funds may be used to provide services to prevent, reduce, or eliminate dependency; achieve or maintain self-sufficiency; prevent neglect, abuse, or exploitation of children and adults; prevent or reduce inappropriate institutional care and secure admission or referral for institutional care when other forms of care are not appropriate.

### **State's Claim**

A consultant developed retroactive IV-E child care claims from child care costs that had previously been paid from other federal and/or state sources. The state prepared the child care claims for all Other Grants' child care during our audit period. However, since the state's accounting system does not differentiate among the specific grants, the consultant prepared the final assignment of children for the Other Grants' child care.

The North Carolina Department of Health and Human Services' Division of Child Development (DCD) is responsible for administering the child care grants.

## **OBJECTIVE, SCOPE AND METHODOLOGY**

### **Objective**

The objective of our audit was to determine whether the state was paid for unallowable Other Grants' child care claims.

### **Scope**

Our audit included \$285 million FFP of Other Grants' child care claims for the period January 1, 1996 through March 31, 1999.

We selected and reviewed a stratified random sample of 230 Other Grants' line items the state's consultant had assigned to theoretically duplicate child care claims that DCD had submitted to ACF for reimbursement. The sample was selected from a universe of line items totaling \$288 million (\$285 million FFP) for the period January 1, 1996 through March 31, 1999. This \$288 million included child care claims for At-Risk, CCDBG, CCDF Mandatory and Discretionary, and SSBG. All of these grants are 100 percent federal funds except At-Risk. We did not audit TANF child care because the federal regulations were not finalized until after the end of our

audit period. We did not audit CCDF Matching or claims identified as maintenance of effort or any of the other 100 percent state-funded claims.

Our sampling unit was a line item charge greater than \$1 for child care services where payment was assigned to one of the Other Grants. Details of our sampling methodology and projections are presented in Appendix A. Appendix B contains details for each sample unit reviewed.

We reviewed applicable laws, regulations, Other Grants' guidelines, and information obtained from state officials to determine whether the Other Grants' child care claims were allowable for FFP.

Our internal control review of the state was limited to obtaining an understanding of the Other Grants' child care programs. However, we did observe that the state's accounting system did not show from which grant a child's care was paid; therefore, it could not be relied upon. In addition, limited tests of Foster Care child care claims performed by the North Carolina State Auditor's Office during the 1998 Single Audit, showed an error rate of 13.6 percent. Based on these and other observations, we did not rely on the state's internal controls. Therefore, the objective of our review was accomplished through substantive testing of 230 sample items.

## **Methodology**

The objective of our audit was discussed with ACF regional and headquarters officials to identify requirements for the Other Grants' child care programs. We reviewed applicable federal regulations, the North Carolina State Plans, the state's Child Day Care Services Manuals, the North Carolina Division of Social Services' Family Services Manual, and work performed by the North Carolina Office of the State Auditor.

We prepared and used review forms to apply the various programs' criteria and to identify any unallowable payments applicable to each sampled item. Prior to our review, we submitted the review forms to the state for its input and made all changes suggested by the DCD's policy unit staff.

For the 230 Other Grants' line items reviewed, supporting documentation was obtained from the state's DCD and county Department of Social Services' (DSS) offices which typically included an application/authorization form, a voucher/action notice, age of child, need for service, facility license/registration, an attendance record and payment information.

We held discussions with county DSS program officials, state program officials and employees of the state's consultant as we reviewed the claims. During the course of our review, we made a "second request" from county DSS or state DCD staff for missing documentation. In cases where they provided adequate documentation, we considered the line items allowable.

Fieldwork was performed at the state's offices in Raleigh, North Carolina and 58 county DSS offices from May 2001 through July 2001 and continued in the OIG's Raleigh Field Office

through August 2001. Our audit was made in accordance with generally accepted government auditing standards.

On October 10, 2001, we issued a draft of this report to state officials for comment on our findings and recommendations. State officials declined our invitation to have an exit conference to discuss the draft report's contents. On November 5, 2001, state officials requested, and OIG granted, a 2-week extension of time to provide written comments. We also provided state officials with copies of various audit working papers for use in preparing their written comments. We received the state's written comments dated November 20, 2001. Subsequent to receiving the state's comments, we identified additional line items and previously questioned line items that are now questioned based on claims being paid by other funding sources. On January 30, and May 24, 2002, we provided state officials with documentation related to the additional questioned line items. The state provided written comments dated March 5, 2002 and July 2, 2002. The state's July 2, 2002 response included comments similar to those the state provided in its written comments dated March 5, 2002. Accordingly, only the state's November 20, 2001 and July 2, 2002 comments are included as appendices. In addition, because of their volume, the enclosures accompanying the state's responses have been excluded from this report, but are available upon request.

## FINDINGS AND RECOMMENDATIONS

The results of the statistical sample of 230 Other Grants' child care line items for the period January 1, 1996 through March 31, 1999 showed that 26 line items did not meet requirements for FFP. As a result, the state was reimbursed \$18,275,715 FFP in unallowable child care payments.

Of the 26 unallowable line items, 10 were unallowable for 2 or more of the following reasons:

- Claims were paid by other funding sources;
  - Applications for child care for service month tested were missing;
  - Vouchers/Action Notices for service month tested were missing;
  - Payments were greater than applicable market rates;
  - Child care services were for unallowable reasons; and
  - Attendance records for service month tested were missing.
- 
- **Claims Paid by Other Funding Sources**

**Fourteen** line items were paid from other funding sources. Through analysis of additional documentation provided with the state's November 20, 2001 response to the draft report, we identified 7 line items that showed either Family Support Act (FSA) or Smart Start funds were used to pay for the child care. In addition, subsequent to issuing the draft report for the state's comments, we identified another similar 8 line items through analysis of documentation provided by the counties. We provided the state with information related to these 15 line items. After

reviewing the state's comments relative to these 15 line items, we determined that 1 was allowable. (See page 18, line item # 1-25)

The consultant's rationale for assignment to the IV-E or Other Grants' child care stated that the Funding Source would be Non-FSA.

Also according to the Office of Management and Budget (OMB) Circular A-87, C. 1.,

*"...To be allowable under Federal awards, costs must...h. Not be included as a cost... of any other Federal award in either the current or a prior period, except as specifically provided by Federal law or regulation."*

- **Missing Child Care Applications**

**Nine** line items did not include an application for the service month tested. In North Carolina, the application form is used for determining and documenting eligibility under the child care programs and for approving the service.

According to the state's Child Day Care Services Manual, September 1993, Part II, Chapter B, Section 1, Request for Services, A.,

*"...Families are not considered eligible for services until they sign a formal application....3. The [application] must be completed at the time of initial determination of eligibility as well as the routine redetermination of eligibility. A new application must also be completed and signed any time during the twelve month eligibility period that a change is reported which impacts eligibility for services."*

Also according to the state's Child Day Care Services Manual, Revised July 1997, Chapter 8, Applying for Child Day Care Services, Section 1, Application Form Requirements.

*"A formal request for child day care services must be initiated by completing a written application.... The application must be completed at the time of initial determination of eligibility and during routine redetermination of eligibility. Redetermination of eligibility must be made at least every twelve months."*

Grant regulations under Title 45 Code of Federal Regulations (CFR) Section 74.21(b)(7) require that recipients' financial management systems include: *"Accounting records, including cost accounting records, that are supported by source documentation."*

- **Missing Vouchers/Action Notices**

**Nine** line items had missing vouchers/action notices.

The Child Day Care Services Manual, September 1993, Part II, Chapter B, Section 1, Request for Service, D. *What other forms are needed in order for the request for child care services to be processed?*, states that *“The Child Day Care Voucher . . . must be issued to the parent for each child in need of services....”*

The Child Day Care Services Manual, Revised July 1997, Chapter 13: Voucher Procedures, A., states:

*“...The intent of the voucher is to enable the parent to assume responsibility for the selection of the provider rather than the local purchasing agency arranging the care. The voucher serves as an agreement between the parent and the provider and is a mechanism which places the liability for the selection of a provider with the parent instead of with the agency.... C.... Only an initial voucher is needed, with subsequent ones issued when there is a change of provider. Once the voucher has been issued initially, it is not necessary to issue another one when the individual’s 12-month eligibility period ends. A Child Day Care Action Notice...is issued instead to document the new eligibility period.”*

The CCDBG State Plan, Section 5.5 states:

*“...North Carolina chose a voucher which is issued to the parent, to take to the provider of her choice. The voucher form indicates the eligible child, period of eligibility, and applicable parent fees...”*

The CCDF State Plan, Section 4.3 states *“...The Child Day Care Voucher issued to parents...is signed by each provider who is approved to receive subsidized care funds.”*

▪ **Payments to Day Care Facility in Excess of Applicable Market Rates**

Three CCDF line items were for payments greater than allowable. Two payments were greater than the applicable market rates. The child care market rate for the applicable counties was \$438 per month for the service months tested. The state paid \$923 for the month for one child and \$813 for the other child. According to the child care center, neither child was classified as “special needs,” which would have justified the higher rate.

Also, each child care center’s enrollment of subsidized children was greater than 50 percent. One center’s percentage of subsidized children was 80 percent and the other was 78 percent. The CCDF State Plan, Section 3.2 – Payment Rates for the Provision of Child Care states:

*“...When 50% or more of the children enrolled in the facility receive child care subsidies, the reimbursement rate is the county market rate or the rate charged to full fee paying parents, whichever is less. In addition, the new legislation allows these providers to receive 110% of the market rate (or the private paying rate, whichever is lower) if they meet higher licensing standards...”*

According to the county, the third child was in an unlicensed child care facility and the facility should not have been paid for the service month tested.

Child Day Care Law, North Carolina G.S. 110-85 (3) requires:

*“...Mandatory licensing of day care facilities under minimum standards; promotion of higher levels of day care than required for a license through the development of high standards which operators may comply with on a voluntary basis; registration of child day care homes which are too small to be regulated through licensing...”* (August 11, 1993)

▪ **Child Care Services for Unallowable Reasons**

Three line items show unallowable reasons for the specific grant assignment. One child assigned to At-Risk funds was in the legal custody of the DSS while physical custody remained with the mother. The county records showed the need for services was child welfare services. At-Risk funds could only be used for the employment of parent(s) who were at risk of welfare dependency or of needing AFDC.

Title 45 CFR Chapter II, Part 257.30, Eligibility, states:

*“(a) A family is eligible for child care under this part provided the family: (1) Is low income, as defined in the approved State At-Risk Child Care plan; (2) Is not receiving AFDC; (3) Is at risk of becoming eligible for AFDC, as defined in the approved At-Risk Child Care plan; (4) Needs such child care in order to accept employment or remain employed; and (5) Meets such other conditions as the State may describe in its approved At-Risk Child Care plan.”*

A second child’s day care was funded through CCDF. Records showed that the reason for child care was “child welfare services”. The CCDF funds can only be used for employment, education or training for parent(s) or for a child in need of protective services.

Title 45 CFR 98.20 (a) states that to be eligible for services under CCDF:

*“...a child shall:...(2) Reside with a family whose income does not exceed 85 percent of the State’s Median income...(3) (i) Reside with a parent or parents...who are working or attending a job training or educational program; or (ii) Receive, or need to receive, protective services...”*

The third child’s day care was funded by CCDBG. Records showed that the reason for child care was Developmental Needs. The CCDBG can only be used for employment, education or training for parent(s) or for a child in need of protective services.

Title 45 CFR 98.20 states that to be eligible for services under CCDBG:

*“...a child must:...(2) Reside with a family whose income does not exceed 75 percent of the State’s Median income...(3) (i) Reside with a parent or parents...who are working or attending a job training or educational program; or (ii) Receive, or need to receive, protective services....”*

- **Missing Attendance Records**

Two line items did not have records that showed the child attended day care for the months tested. Attendance records are used to document services received and to authorize payments for child care services. Grant regulations under Title 45 CFR Section 74.21(b)(7) require that recipients’ financial management systems include: *“Accounting records, including cost accounting records, that are supported by source documentation.”*

Title 45 CFR 98.67(c) requires that recipients’:

*“Fiscal control and accounting procedures shall be sufficient to permit:...(2) The tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the provisions of this part.”*

Child Day Care Law, North Carolina G.S. 110-91 (9) states:

*“...Each day care facility shall keep accurate records on each child receiving care in the day care facility in accordance with a form furnished or approved by the Commission, and shall submit attendance reports as required by the Department. (August 11, 1993)*

### **State’s Claim Preparation**

The claims included in this audit were prepared by the state. However, the state’s consultant performed the assignment of children to specific grants. The consultant developed a computer program to extract the names of eligible children from the state’s Subsidized Child Care Reimbursement System (SCCRS). In our opinion, there was inadequate review of the consultant’s identification of children who were determined to be eligible for a specific grant. Each grant had different requirements; yet, the state’s accounting system did not identify which grant program was used to pay for a child’s care.

The state acknowledged in its brief to the HHS Departmental Appeals Board (relative to its original IV-E claim upon which ACF levied a disallowance) that it did not have an adequate accounting system in place to provide ACF with adequate documentation to verify that there would be no duplication of federal funding or duplication of state matching in its process to document its retroactive child care claims.

Also, the state provided the counties with inadequate instructions on record retention requirements. In some instances, the inadequate instructions resulted in insufficient documentation to support eligibility factors and the need for services.

## **RECOMMENDATIONS**

We recommend that the state:

- ❑ refund the \$18,275,715 FFP overpayment;
- ❑ develop accounting procedures that identify the grant used to pay for a child's care;
- ❑ maintain documentation to support eligibility for all child care claims for required periods; and
- ❑ monitor its consultant to ensure that only allowable child care claims are filed for FFP.

## **STATE'S COMMENTS AND OIG'S RESPONSE**

In written comments to the draft report, state officials generally disagreed with our findings and recommendations. The state's comments and the OIG's response to those comments are summarized in the paragraphs that follow.

### **GENERAL COMMENTS**

#### **Original Documentation**

##### **State's Comments**

In their written comments, state officials said that they contacted the counties responsible for sample items we identified as missing documentation and requested the information. They stated that in many instances the missing documentation was located.

##### **OIG's Response**

After we initially reviewed the supporting documentation provided by the counties and determined documentation was missing for the sample items, we made a second request to the counties. We have considered the additional supporting documentation provided with the state's response and made adjustments to our results where appropriate.

## **Missing Documentation**

### **State's Comments**

In their written comments, state officials said that they disagree with missing documentation being considered an error. State officials said that we were inconsistent with another audit in the treatment of missing sample items and that the decision was arbitrary. State officials also said there was other evidence available to support claims where original documentation was missing.

### **OIG's Response**

We do not agree with the state's contention that we were inconsistent in our treatment of missing sample items. Our policy states, "How missing sample items are handled depends on the objectives of the audit and characteristics being analyzed. The sampling plan should include a discussion of how missing sample items are to be handled and the rationale." For this particular audit, our preliminary review of the sampled population indicated that when documentation was missing there was not enough information to determine eligibility. Thus, we do not believe we were inconsistent.

Documentation is a significant issue in any audit. As stated in our sampling plan, we considered it an error if a file could not be located or documentation was either not available or incomplete to support the child care services claimed. Without adequate supporting documentation, we could not ensure the child's eligibility or that services were actually authorized, received, and claimed correctly. According to the records retention requirements at 45 CFR 74.53, the state should not have purged any of these files by March 31, 1999, when we first requested this information.

We reviewed and considered all evidence provided to us by the county offices and the state in support of its claims. This included the evidence the state provided during the audit after we made at least two requests, as well as the evidence the state provided after the draft report was issued.

## **Critical Forms**

### **State's Comments**

State officials disagreed with the criticality of the attendance record form since North Carolina's child care payment is based upon enrollment. They also said that we would not consider other evidence at the counties.

### **OIG's Response**

We agree that most day care facilities are paid based on enrollment and not attendance. However, it is essential that attendance sheets be required and reviewed by the counties to assure that the child is receiving services. Attendance records help ensure that the child actually existed, received services and was not added to the roster in error. They are also used by the state to reduce payments when a child is absent more than five days. The state was required to maintain these records to support its claim. Child Day Care Law, North Carolina G.S. 110-91 (9) states:

*“...Each day care facility shall keep accurate records on each child receiving care in the day care facility in accordance with a form furnished or approved by the Commission, and shall submit attendance reports as required by the Department.”* (August 11, 1993)

According to the state's Child Day Care Services Manual, Revised July 1997, child day care coordinator responsibilities include “...Review of monthly attendance reports from providers” and “following up on attendance discrepancies...” The Payment Policies section of this same manual describes applicable payment rates based on the child's attendance during the service month. Also, the Manual states that:

*“When a child has been absent five days in any month, the provider must notify the purchasing agency within a week of the fifth day of absence.... If the provider fails to notify the agency, payment for that month for that child may be made on the basis of attendance if the child is absent for more than five days.”*

As stated above under the heading **Missing Documentation**, we reviewed and considered all evidence provided to us by the county offices and the state in support of its claims.

### **Legal Criteria**

#### **State's Comments**

In their written comments, state officials said that it was improper for federal auditors to base audit findings on whether or not a state has complied with state policies and procedures that are not required by federal law. State officials further asserted that the policies and procedures described in North Carolina's Child Day Care Services Manual were discretionary policies and procedures that the state had the authority to waive.

#### **OIG's Response**

We do not agree that it is improper for the OIG to base findings on whether or not a state complied with its own policies and procedures. In our opinion, federal regulations require states to develop and follow policies and procedures in order to obtain child care grant funds. The

OMB Circular A-87, Attachment A, Section (C)(1)(c), requires that grant expenditures “...*be authorized or not prohibited under State or local laws or regulations.*”

## **Reconstructed Records**

### **State’s Comments**

State officials said that the counties had “reconstructed” some of the missing documents based on information in their files, and that social workers and clients have signed or attested to the reconstructed documents.

### **OIG’s Response**

In a letter to the state dated April 29, 1998, the ACF Regional Hub Director stated:

*“Until final resolution on the allowability of the questioned costs is reached, the State should not discard any documents or records applicable to the time period of the original claim, or subsequent claims for the same purpose.”*

The state acknowledged the receipt of ACF’s letter in its response dated May 15, 1998. Yet, the state sent a letter to the counties dated May 14, 1998 authorizing the destruction of all fiscal records (not client case records) through June 30, 1995.

It was not until a letter dated May 27, 1999 that the state instructed the counties that “...*if there are pending audits such as the current Title IV-E audit, please do not destroy related records until the audit is complete and all pending matters are resolved.*” However, since the audit period for this report began on January 1, 1996, no records relating to our audit should have been destroyed. Further, this audit could have been completed much earlier had the state provided timely the information we requested on March 31, 1999. Therefore, a reasonable justification does not exist for consideration of “reconstructed” or “recreated” documents.

## **OIG’S DRAFT REPORT FINDINGS**

### **Missing Child Care Applications**

The OIG questioned 14 line items that did not have an application for child care.

**State’s Comments** - (line item #s 1-27 and 2-78) – The missing applications were located and provided with the state’s response.

**OIG’s Response** - (line item #s 1-27 and 2-78) – Based on our review of the applications provided with the state’s response, we have determined that these line items are allowable and modified our cost recommended for adjustment accordingly.

**State's Comments** - (line item #1-31) – A reconstructed application was provided with the state's response. According to the state, the missing application was reconstructed from information in the case file and signed or attested to by the appropriate parties.

**OIG's Response** - (line item #1-31) – According to the reconstructed application, this child care was for Developmental Needs which is an unallowable reason for CCDBG. Therefore, this line item remains questioned.

**State's Comments** - (line item #s 1-37 and 2-64) – Reconstructed applications and vouchers were provided with the state's response. According to the state, the missing applications and vouchers were reconstructed from information in the case file and signed or attested to by the appropriate parties. State officials also said that #1-37 was not receiving AFDC and that for #2-64 no FSA funding could be involved since FSA funding ceased in September 1996.

**OIG's Response** - (line item #s 1-37 and 2-64) – According to the attendance sheets furnished with the reconstructed applications and vouchers, child care was paid for by family assistance. See **Claims Paid by Other Funding Sources**, page 18 for further considerations. Therefore, these line items remain questioned.

**State's Comments** - (line item #1-60) – State officials said the missing application and voucher/action notice were caused by an overdue recertification. The state quoted criteria for IV-E Foster Care maintenance payments.

**OIG's Response** - (line item #1-60) – There was no application or voucher for the applicable month of service. Criteria quoted by the state apply to maintenance payments for Foster Care not child care payments. In addition, the line item was not IV-E. Therefore, this line item remains questioned.

**State's Comments** - (line item #2-4) – The missing application and voucher were located and provided with the state's response. Also, state officials said no FSA funding could be involved since FSA funding ceased in September 1996.

**OIG's Response** - (line item #2-4) – The missing application and voucher provided show that the child care was paid by family assistance. See **Claims Paid by Other Funding Sources**, page 18, for further considerations. Therefore, this line item remains questioned.

**State's Comments** - (line items #s 2-10 and 3-25) – According to the state, the documentation requested was purged in accordance with record retention requirements after three years and prior to the September 2000 notification. State officials said the missing applications and vouchers were reconstructed from information in the case file and signed or attested to by the appropriate parties.

**OIG's Response** - (line item #s 2-10 and 3-25) – In a letter to the state dated April 29, 1998, the ACF Regional Hub Director stated,

*“Until final resolution on the allowability of the questioned costs is reached, the State should not discard any documents or records applicable to the time period of the original claim, or subsequent claims for the same purpose.”*

Also, we held an entrance conference for this audit with the state in July of 1998. However, it was not until a letter dated May 27, 1999 that the state notified the counties not to destroy related records until the audit was complete and all pending matters were resolved. Even so, since the months of service were February of 1997 and August of 1996, the earliest the documentation should have been routinely purged would have been July of 2000.

Based on the date of our entrance conference and record retention requirements, no records relating to our audit should have been destroyed. Therefore, a reasonable justification does not exist for consideration of “reconstructed” or “recreated” documents. These line items remain questioned.

**State's Comments** - (line item #2-23) – The missing application was located by the county and was provided in the state's response. Also, state officials said the child was not receiving AFDC and no FSA funding could be involved since FSA funding ceased in September 1996.

**OIG's Response** - (line item #2-23) – The application provided shows Work First Family Assistance which would have been family assistance funding and the voucher and the state's accounting system show the same. See **Claims Paid by Other Funding Sources**, page 18, for further considerations. Therefore, this line item remains questioned.

**State's Comments** - (line item #2-40) – The missing application and voucher were located by the county and were provided with the state's response. According to state officials, this was a child-only AFDC case and the child was eligible for multiple grants.

**OIG's Response** - (line item #2-40) – The application provided shows client was recipient of Social Security and family assistance. The voucher provided was for the wrong year. Therefore, this line item remains questioned.

**State's Comments** - (line item #2-53) – A reconstructed application and voucher were provided with the state's response. According to the state, the missing application and voucher were reconstructed from information in the case file and signed or attested to by the appropriate parties.

**OIG's Response** - (line item #2-53) – See **OIG's Response** for line item # 2-10 above. This line item continues to be questioned.

**State's Comments** - (line item #s 3-16 and 3-64) – Reconstructed applications and vouchers were provided with the state's response. According to the state, the missing applications and vouchers were reconstructed from information in the case file and signed or attested to by the appropriate parties. According to the state, the children were not receiving AFDC and no FSA funding could be involved since FSA funding ceased in September 1996.

**OIG's Response** - (line item #s 3-16 and 3-64) – The missing applications and vouchers provided were reconstructed and all showed that family assistance paid for the child's day care. See **Claims Paid by Other Funding Sources**, page 18, for further considerations. Therefore, these line items remain questioned.

### **Missing Voucher/Action Notices**

The OIG questioned 11 line items that were missing a voucher/action notice.

**State's Comments and OIG's Response** - (line item #s 1-37, 1-60, 2-4, 2-10, 2-40, 2-53, 2-64, 3-16, 3-25 and 3-64) – Nine of these line items continue to be questioned because of the voucher/action notice. Sample # 2-4 is no longer questioned for this reason. See the corresponding line items under **Missing Child Care Applications** on page 14.

**State's Comments and OIG's Response** - (line item #2-78) – We have determined that this line item is allowable. See the corresponding line item under **Missing Child Care Applications** on page 14.

### **Missing Attendance Records**

The OIG questioned nine line items that did not have records to show the child attended day care.

**State's Comments** - (line items #'s 1-2, 1-49, 1-54, 2-60, 2-78 and 3-45) – These missing attendance records were located by the county and were provided with the state's response.

**OIG's Response** - (line item #'s 1-2, 1-49, 1-54, 2-60, 2-78 and 3-45) – Based on our review of the attendance records provided with the state's response, we have determined that these line items are allowable and modified our costs recommended for adjustment accordingly.

**State's Comments** - (line item #2-24) – The state provided a reconstructed attendance sheet for the month of service with original sheets for the month before and month after. The state contended that day care payments are based on enrollment, not daily attendance.

**OIG's Response** - (line item #2-24) – See OIG's Response for items #2-10, page 15, under **Missing Child Care Applications**. Also, the attendance records provided show a child "Garrett" whereas the line item reviewed shows a child "Jarrett." This line item continues to be questioned.

**State's Comments** - (line item #2-37) – According to the state, the actual classroom attendance records have been located for (service month tested) December 1998. A reconstructed consolidated attendance record was provided.

**OIG's Response** - (line item #2-37) – The reconstructed attendance record has no signature and the actual classroom attendance records were not provided. See OIG's Response, page 14, under **Missing Child Care Applications** for the OIG's response to the state's comments on line item # 2-10. This child care line item continues to be questioned.

**State's Comments** - (line item #3-64) – The missing attendance record was not provided; however, the state provided daily attendance sheets from the day care center showing daily attendance for the child for the month of services. State officials said the child received AFDC and no FSA funding could be involved since FSA funding ceased in September 1996.

**OIG's Response** - (line item #3-64) – We accept the daily attendance sheets as documentation of the child's attendance. However, the missing voucher/action notice and application provided were reconstructed and both showed that the source of funds was family assistance. See **Claims Paid by Other Funding Sources**, below, for further considerations. Therefore, this line item remains questioned.

### **Claims Paid by Other Funding Sources**

The OIG questioned 14 line items that were paid from other funding sources.

**State's Comments** - The state argued that 13 of the 15 line items occurred after September 30, 1996 when FSA funding had ceased. Therefore, the state could not have used this funding to pay for childcare.

**OIG's Response** - The state used the terms "FSA" (Family Support Act), "AFDC" (Aid to Families with Dependent Children), and "WFFA" (Work First Family Assistance) to refer to both the **Family Support Payments to States – Assistance Payments (AFDC)**,

**CFDA 93.560** and the **Temporary Assistance for Needy Families (TANF)**, **CFDA 93.558** which replaced AFDC.

Between June and September of 1997, the state issued various documents with revised day care “Category Codes” and “Funding Sources”. The Category Codes included WFFA codes that would now be paid from the TANF grant. Some county personnel continued to use old forms that referred to FSA Funding Sources as well as AFDC references. Other county personnel moved to the WFFA terminology.

However, the state as well as county personnel continued to refer to all of these programs (AFDC, JOBS, WFFA, Family Support Act, TANF, etc.) as **FSA** also. As late as March 31, 2000, the state system was still using the AFDC terminology. Regardless of whether the funding was AFDC or TANF, the line items were not paid from the funding source indicated by the state. In our response, we have referred to both as family assistance.

**State’s Comments** - (line item # 1-25) – According to the state, the child care provider received a Smart Start Enhancement bonus and SSBG funds participated in the transportation. The FSA funds would not have paid for transportation costs and no FSA funding could be involved since FSA funding ceased in September 1996.

**OIG’s Response** - (line item # 1-25) – Based on a review of the state’s child care reimbursement codes, transportation would not have been paid as a separate cost by family assistance; although, it would have been paid as part of the total service offered by a provider. We have determined that this line item is allowable and modified our costs recommended for adjustment accordingly.

**State’s Comments** - (line items #'s 1-46, 1-55, 2-31, 2-59, 2-76, and 3-20) – State officials said the child care providers received payments funded in part by CCDF funds. No FSA funding could be involved since FSA funding ceased in September 1996 and funding notations at the local level may not be the funding chosen by the state.

**OIG’s Response** - (line items #'s 1-46, 1-55, 2-31, 2-59, 2-76 and 3-20) – Since documentation provided for these line items indicates that the child care was paid by family assistance funds, these line items continue to be questioned. See **OIG’s Response to Claims Paid by Other Funding Sources**, page 18.

**State’s Comments** - (line item # 3-21) – According to the state, the child care provider received a Smart Start subsidy and SSBG funds were used to partially fund the basic child care payment. No FSA funding could be involved since FSA funding ceased in September 1996 and funding notations at the local level may not be the funding chosen by the state.

**OIG’s Response** - (line item # 3-21) – Since this line item was assigned to CCDF and documentation provided for this line item indicates that the child care was paid by family

assistance, this line item continues to be questioned. See **OIG's Response to Claims Paid by Other Funding Sources**, page 18.

In addition, through analysis of documentation provided with the state's response to the draft report, we identified 7 line items (#'s 1-37, 2-4, 2-23, 2-40, 2-64, 3-16 and 3-64) originally questioned for missing documentation that showed either family assistance or Smart Start funds were used to pay for the child care.

**State's Comments** - (line items #'s 1-37, 2-40, 2-64, 3-16 and 3-64) – See the state's comments for corresponding line items under **Missing Child Care Applications**.

**OIG's Response**-. (line items #'s 1-37, 2-40, 2-64, 3-16 and 3-64) – These line items continue to be questioned. See the corresponding line items under **Missing Child Care Applications**.

**State's Comments** - line items (#'s 2-4 and 2-23) – According to state officials, no FSA funding could be involved since FSA funding ceased in September 1996.

**OIG's Response** - line items (#'s 2-4 and 2-23) – See **OIG's Response to Claims Paid by Other Funding Sources**, page 18. These line items continue to be questioned.

### **Payments to Day Care Facility in Excess of Applicable Market Rates**

The **OIG** questioned three **CCDF** line items where payments were greater than allowable.

**State's Comments** - (line item #1-48) – State officials disagreed that the provider was unlicensed. They agreed that there was premature use of a building that had not completed the licensure process. Upon subsequent investigation state officials said they have determined that the child was housed in one of the provider's licensed facilities.

**OIG's Response** - (line item #1-48) – We continue to believe that this line item is unallowable. The provider may have been licensed, but the voucher shows the child was housed in facility #4 which was not. In addition, we do not believe it would be prudent to rely on the testimonial evidence of a provider who, according to a letter from the state to the provider, falsified attendance records during November 1997, the service month tested. This line item continues to be questioned.

**State's Comments** - (line item #s 3-5 and 3-7) – State officials did not agree that the payments to the day care facilities were in excess of the allowable payment. State officials pieced together portions of several versions of the Child Day Care Services Manual that jointly state that typically developing children in centers primarily for children with special needs are to be paid at a rate established by **DMH/DD/SAS**. According to state officials, the centers could be paid up to \$1,032 a month for typically developing children.

**OIG's Response** - (line item #s 3-5 and 3-7) – We continue to question the amount of these payments in excess of market rates. Based on the percentage of subsidized children enrolled at each of the day care centers and the fact that neither of the children was classified as “special needs”, the CCDF State Plan clearly states that the reimbursement rate is the lesser of the county market rate or the rate charged to full fee paying parents.

Also, OMB Circular A-87, Attachment A, Section C, requires that costs be reasonable. It also states that in determining reasonableness, consideration should be given to market prices for comparable services. We do not believe payments up to \$1,032 a month, more than twice the market price for typically developing children, is reasonable.

### **Child Care Services Were for Unallowable Reasons**

The OIG questioned three line items that showed unallowable reasons for the specific grant assignment.

**State's Comments** - (line item #1-24) – The child was in the legal custody of the DSS but resided with the mother who was employed. The social worker stated that the mother was at-risk of becoming welfare dependent.

**OIG's Response** - (line item #1-24) – According to the application provided, this child care was for Child Welfare Services which is not allowable for At-Risk child care. Therefore, this line item remains questioned.

**State's Comments** - (line item #3-56) – The CCDF funds can be used for employment and the application shows that the mother was working. A memo from emergency housing shows the mother was employed and that the children were at risk.

**OIG's Response** - (line item #3-56) – The application provided shows that the need for services was Child Welfare Services. This is not an allowable reason for CCDF child care. Other documentation we obtained showed that the father was not working. Therefore, this line item remains questioned.

In addition, line item #1-31 was originally questioned because the application was missing. The application furnished by the state with its response showed the need for services was Developmental Needs, which is not an allowable reason for CCDBG child care. Therefore, this line item remains questioned.

## **STATE'S CLAIM PREPARATION**

### **Record Retention**

#### **State's Comments**

In their written comments, state officials disagreed that unallowable payments were the result of the state's inadequate instructions on record retention requirements to the counties. However, in their comments, state officials said that counties were not informed until September 2000 not to destroy audit documentation.

#### **OIG's Response**

The state does have record retention policies in place. However, in its May 1998, annual memorandum to the counties regarding record retention, the state directed the counties that they could destroy files through June 30, 1995. It was not until May 27, 1999 that the state began informing the counties not to destroy files relating to our audit even though this audit was begun in July of 1998. Since our audit period for this report began on January 1, 1996, the counties should have destroyed no records relating to our audit.

The state was instructed to maintain all information applicable to this audit for prior and future claims' periods in a letter from the ACF Regional Hub Director dated April 29, 1998. Also, this audit would have been completed much earlier had the state provided timely the information we requested on March 31, 1999.

### **North Carolina's Accounting System**

#### **State's Comments**

In their written comments, state officials agreed that the state's accounting system did not identify which grant program was used to pay for a child's care. However, state officials said there has always been accountability by grant based on the segregated pools of costs for children meeting various grant restrictions.

#### **OIG's Response**

We understand that the state uses "segregated pools of costs" to classify child care based on need for services. However, based on numerous discrepancies between the actual applications/vouchers and the SCCRS, the fallacy of the state's system becomes evident.

Also, DCD's SCCRS is sophisticated enough to divide a child care claim into several: rate groups, category codes, need codes, client statuses and funding sources. However, by choice the state never permanently identified to which specific grant a child's care was charged. Based on our review, we believe that the permanent identification of the specific grant that paid for a

specific month of services for a specific child should be required for adequate documentation of eligibility.

In the April 29, 1998 letter referred to above, ACF reiterated that:

*“Any decision we would make to allow the retroactive claim currently in dispute must be based on our determination that the State does in fact now have in place an accounting system which can tie each specific child for whom Federal funding is being claimed to the appropriate funding source.... We were willing to disregard the fact that the State, by its own admission, did not have an adequate accounting system in place to accurately capture the costs involved in the retroactive claim for which it requested FFP. This concession was made with the understanding that the State could document to the RO's [Regional Office] satisfaction that it had developed and implemented an improved accounting and record keeping system which it agreed to do more than a year ago.”*

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Final determinations as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, Office of Audit Services reports issued to the department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the department chooses to exercise (see 45 CFR Part 5).

To facilitate identification, please refer to CIN A-04-01-00006 in all correspondence relating to this report.

Sincerely yours,



Charles J. Curtis  
Regional Inspector General  
for Audit Services, Region IV

Enclosure

Page 24 - Carmen Hooker Odom

**Direct Reply to HHS Action Official:**

Southeast Regional Hub Director  
Administration for Children and Families, Region IV  
U.S. Department of Health and Human Services  
61 Forsyth Street, S.W., Suite 4M60  
Atlanta, Georgia 30303-8909

## SAMPLING METHODOLOGY AND RESULTS OF SAMPLE

### OBJECTIVE

The objective of this sample was to determine whether Other Grants' claims made for child care services between January 1, 1996 and March 31, 1999 met applicable guidelines.

### POPULATION

The population was the 1,556,136 line item expenditures greater than \$1.00 for clients for child care services charged to Other Grants between January 1, 1996 and March 31, 1999. The assignment to specific funding sources was created by the state's consultant from data furnished by the state's DHHS.

Stratum	Range	# Of Line Items	Dollars
1	\$1.01 – \$200.00	874,204	\$ 78,981,695.36
2	\$200.01 – \$400.00	616,327	\$173,149,337.75
3	\$400.01 – \$2,800.00	65,605	\$ 35,735,766.03
Totals		1,556,136	\$287,866,799.14

### SAMPLE UNIT

The sampling unit was a line item charge greater than \$1.00 for child care services where payment was assigned to Other Grants.

### SAMPLE DESIGN

A stratified sample consisting of three strata was used. We stratified by the dollar value of the line items.

**SAMPLE SIZE**

We reviewed a sample of 230 child care line item charges, stratified as follows:

Stratum	Range	Sample Items
1	\$1.01 – \$200.00	65
2	\$200.01 – \$400.00	100
3	\$400.01 – \$2,800.00	65
Total		230

**ESTIMATION METHODOLOGY**

Using the HHS-OIG-Office of Audit Services RAT-STATS Variable Appraisal Program for stratified samples, we projected the overpayment that resulted from reimbursements for ineligible and unallowable line items.

**RESULTS OF SAMPLE**

Stratum	Dollar Range	Number of Line Items	Sample Size	Number of Errors	Value of Errors
1	\$1.01 – 200.00	874,204	65	7	\$552.87
2	\$200.01 - \$400.00	616,327	100	11	\$2,799.19
3	\$400.01 - \$2,800.00	65,605	65	8	\$4,225.05
Totals		1,556,136	230	26	\$7,577.11

**PROJECTION OF SAMPLE**

Point Estimate                      \$28,952,249

90% Confidence Interval

Lower Limit	\$18,275,715
Upper Limit	\$39,628,784
Precision Amount	\$10,676,534
Precision Percent	36.88%

OTHER GRANTS' CHILD CARE CLAIMS  
January 1, 1996 through March 31, 1999  
Summary of Sample Review

	Stratum	Number	Grant	Unallowable FFP	Unallowable for the Following Reasons:						Totals
					1	2	3	4	5	6	
1	1	1	AR	\$0.00							0
2	1	2	AR	0.00							0
3	1	3	SSBG	0.00							0
4	1	4	SSBG	0.00							0
5	1	5	CCDF1	0.00							0
6	1	6	CCDF1	0.00							0
7	1	7	CCDF1	0.00							0
8	1	8	CCDF1	0.00							0
9	1	9	CCDF1	0.00							0
10	1	10	CCDF1	0.00							0
11	1	11	CCDBG	0.00							0
12	1	12	CCDBG	0.00							0
13	1	13	SSBG	0.00							0
14	1	14	CCDF1	0.00							0
15	1	15	CCDF1	0.00							0
16	1	16	CCDF1	0.00							0
17	1	17	CCDF1	0.00							0
18	1	18	CCDF1	0.00							0
19	1	19	CCDF1	0.00							0
20	1	20	CCDF1	0.00							0
21	1	21	CCDF1	0.00							0
22	1	22	CCDF1	0.00							0
23	1	23	CCDF1	0.00							0
24	1	24	AR	28.42	✓						1
25	1	25	SSBG	0.00							0
26	1	26	CCDF1	0.00							0
27	1	27	CCDF1	0.00							0
28	1	28	CCDF1	0.00							0
29	1	29	CCDF1	0.00							0
30	1	30	CCDF1	0.00							0
31	1	31	CCDBG	35.00	✓	✓					2
32	1	32	CCDBG	0.00							0
33	1	33	CCDBG	0.00							0
34	1	34	CCDBG	0.00							0
35	1	35	CCDBG	0.00							0
36	1	36	AR	0.00							0
37	1	37	AR	60.65		✓	✓			✓	3
38	1	38	CCDBG	0.00							0
39	1	39	CCDBG	0.00							0
40	1	40	CCDBG	0.00							0
41	1	41	SSBG	0.00							0
42	1	42	CCDBG	0.00							0
43	1	43	CCDF1	0.00							0
44	1	44	CCDF1	0.00							0
45	1	45	CCDF1	0.00							0

**OTHER GRANTS' CHILD CARE CLAIMS**  
**January 1, 1996 through March 31, 1999**  
**Summary of Sample Review**

	Stratum	Number	Grant	Unallowable FFP	Unallowable for the Following Reasons:						Totals
					1	2	3	4	5	6	
46	1	46	CCDF1	193.00						✓	1
47	1	47	CCDBG	0.00							0
48	1	48	CCDF1	195.00					✓		1
49	1	49	CCDF1	0.00							0
50	1	50	CCDF1	0.00							0
51	1	51	SSBG	0.00							0
52	1	52	CCDF1	0.00							0
53	1	53	CCDF1	0.00							0
54	1	54	CCDF1	0.00							0
55	1	55	CCDF1	4.80						✓	1
56	1	56	CCDF1	0.00							0
57	1	57	CCDF1	0.00							0
58	1	58	CCDF1	0.00							0
59	1	59	CCDF1	0.00							0
60	1	60	CCDF1	36.00		✓	✓				2
61	1	61	CCDF1	0.00							0
62	1	62	CCDF1	0.00							0
63	1	63	CCDF1	0.00							0
64	1	64	CCDF1	0.00							0
65	1	65	CCDF1	0.00							0
				<b>\$552.87</b>	<b>2</b>	<b>3</b>	<b>2</b>	<b>0</b>	<b>1</b>	<b>3</b>	
Total With Errors										<b>7</b>	
Total With More Than One Error										<b>3</b>	

OTHER GRANTS' CHILD CARE CLAIMS  
January 1, 1996 through March 31, 1999  
Summary of Sample Review

	Stratum	Number	Grant	Unallowable FFP	Unallowable for the Following Reasons:						Totals
					1	2	3	4	5	6	
66	2	1	CCDBG	\$0.00							0
67	2	2	CCDF1	0.00							0
68	2	3	CCDF1	0.00							0
69	2	4	CCDF1	329.00						✓	1
70	2	5	CCDF1	0.00							0
71	2	6	CCDF1	0.00							0
72	2	7	CCDF1	0.00							0
73	2	8	CCDF1	0.00							0
74	2	9	CCDF1	0.00							0
75	2	10	SSBG	219.50		✓	✓				2
76	2	11	SSBG	0.00							0
77	2	12	CCDF1	0.00							0
78	2	13	CCDF1	0.00							0
79	2	14	CCDF1	0.00							0
80	2	15	CCDF1	0.00							0
81	2	16	CCDF1	0.00							0
82	2	17	CCDF1	0.00							0
83	2	18	CCDF1	0.00							0
84	2	19	CCDF1	0.00							0
85	2	20	SSBG	0.00							0
86	2	21	CCDF1	0.00							0
87	2	22	CCDF1	0.00							0
88	2	23	CCDF1	233.00						✓	1
89	2	24	CCDBG	285.00				✓			1
90	2	25	CCDF1	0.00							0
91	2	26	CCDF1	0.00							0
92	2	27	CCDF1	0.00							0
93	2	28	CCDF1	0.00							0
94	2	29	CCDF1	0.00							0
95	2	30	CCDF1	0.00							0
96	2	31	CCDF1	325.00						✓	1
97	2	32	CCDF1	0.00							0
98	2	33	CCDF1	0.00							0
99	2	34	CCDF1	0.00							0
100	2	35	CCDF1	0.00							0
101	2	36	CCDF1	0.00							0
102	2	37	CCDF1	226.80				✓			1
103	2	38	CCDF1	0.00							0
104	2	39	AR	0.00							0
105	2	40	CCDBG	286.00			✓			✓	2
106	2	41	CCDF1	0.00							0
107	2	42	CCDF1	0.00							0
108	2	43	CCDF1	0.00							0
109	2	44	CCDF1	0.00							0
110	2	45	CCDF1	0.00							0

OTHER GRANTS' CHILD CARE CLAIMS  
January 1, 1996 through March 31, 1999  
Summary of Sample Review

	Stratum	Number	Grant	Unallowable FFP	Unallowable for the Following Reasons:						Totals
					1	2	3	4	5	6	
111	2	46	SSBG	0.00							0
112	2	47	SSBG	0.00							0
113	2	48	SSBG	0.00							0
114	2	49	CCDF1	0.00							0
115	2	50	CCDF1	0.00							0
116	2	51	CCDBG	0.00							0
117	2	52	CCDBG	0.00							0
118	2	53	AR	146.94		✓	✓				2
119	2	54	AR	0.00							0
120	2	55	SSBG	0.00							0
121	2	56	SSBG	0.00							0
122	2	57	CCDBG	0.00							0
123	2	58	CCDF1	0.00							0
124	2	59	CCDF1	222.30						✓	1
125	2	60	CCDF1	0.00							0
126	2	61	CCDF1	0.00							0
127	2	62	CCDF1	0.00							0
128	2	63	CCDF1	0.00							0
129	2	64	CCDF1	253.65		✓	✓			✓	3
130	2	65	CCDF1	0.00							0
131	2	66	CCDF1	0.00							0
132	2	67	CCDF1	0.00							0
133	2	68	CCDF1	0.00							0
134	2	69	CCDF1	0.00							0
135	2	70	CCDBG	0.00							0
136	2	71	CCDF1	0.00							0
137	2	72	CCDF1	0.00							0
138	2	73	CCDF1	0.00							0
139	2	74	CCDF1	0.00							0
140	2	75	SSBG	0.00							0
141	2	76	CCDF1	272.00						✓	1
142	2	77	CCDF1	0.00							0
143	2	78	CCDF1	0.00							0
144	2	79	CCDF1	0.00							0
145	2	80	CCDF1	0.00							0
146	2	81	CCDF1	0.00							0
147	2	82	SSBG	0.00							0
148	2	83	CCDF1	0.00							0
149	2	84	CCDF1	0.00							0
150	2	85	CCDF1	0.00							0
151	2	86	CCDF1	0.00							0
152	2	87	CCDF1	0.00							0
153	2	88	CCDF1	0.00							0
154	2	89	CCDF1	0.00							0
155	2	90	CCDF1	0.00							0

**OTHER GRANTS' CHILD CARE CLAIMS**  
**January 1, 1996 through March 31, 1999**  
**Summary of Sample Review**

	Stratum	Number	Grant	Unallowable FFP	Unallowable for the Following Reasons:						Totals
					1	2	3	4	5	6	
156	2	91	CCDF1	0.00							0
157	2	92	CCDF1	0.00							0
158	2	93	CCDF1	0.00							0
159	2	94	CCDF1	0.00							0
160	2	95	CCDF1	0.00							0
161	2	96	CCDF1	0.00							0
162	2	97	CCDF1	0.00							0
163	2	98	CCDF1	0.00							0
164	2	99	CCDF1	0.00							0
165	2	100	CCDBG	0.00							0
				<b>\$2,799.19</b>	<b>0</b>	<b>3</b>	<b>4</b>	<b>2</b>	<b>0</b>	<b>7</b>	
Total With Errors											11
Total With More Than One Error											4

OTHER GRANTS' CHILD CARE CLAIMS  
January 1, 1996 through March 31, 1999  
Summary of Sample Review

	Stratum	Number	Grant	Unallowable FFP	Unallowable for the Following Reasons:						Totals
					1	2	3	4	5	6	
166	3	1	SSBG	\$0.00							0
167	3	2	CCDF1	0.00							0
168	3	3	CCDF1	0.00							0
169	3	4	CCDF1	0.00							0
170	3	5	CCDF1	375.00					✓		1
171	3	6	SSBG	0.00							0
172	3	7	CCDF1	485.00					✓		1
173	3	8	CCDF1	0.00							0
174	3	9	CCDF1	0.00							0
175	3	10	CCDF1	0.00							0
176	3	11	CCDF1	0.00							0
177	3	12	CCDF1	0.00							0
178	3	13	CCDF1	0.00							0
179	3	14	CCDF1	0.00							0
180	3	15	CCDF1	0.00							0
181	3	16	CCDF1	417.00		✓	✓			✓	3
182	3	17	CCDF1	0.00							0
183	3	18	SSBG	0.00							0
184	3	19	SSBG	0.00							0
185	3	20	CCDF1	429.00						✓	1
186	3	21	CCDF1	1,150.05						✓	1
187	3	22	CCDF1	0.00							0
188	3	23	CCDF1	0.00							0
189	3	24	CCDBG	0.00							0
190	3	25	SSBG	437.00		✓	✓				2
191	3	26	CCDF1	0.00							0
192	3	27	CCDF1	0.00							0
193	3	28	CCDF1	0.00							0
194	3	29	CCDF1	0.00							0
195	3	30	SSBG	0.00							0
196	3	31	CCDF1	0.00							0
197	3	32	CCDF1	0.00							0
198	3	33	CCDF1	0.00							0
199	3	34	SSBG	0.00							0
200	3	35	CCDF1	0.00							0
201	3	36	CCDF1	0.00							0
202	3	37	CCDF1	0.00							0
203	3	38	CCDF1	0.00							0
204	3	39	CCDF1	0.00							0
205	3	40	CCDF1	0.00							0
206	3	41	CCDF1	0.00							0
207	3	42	SSBG	0.00							0
208	3	43	CCDF1	0.00							0
209	3	44	CCDF1	0.00							0
210	3	45	CCDF1	0.00							0

**OTHER GRANTS' CHILD CARE CLAIMS**  
January 1, 1996 through March 31, 1999  
Summary of Sample Review

	Stratum	Number	Grant	Unallowable FFP	Unallowable for the Following Reasons:						Totals
					1	2	3	4	5	6	
211	3	46	CCDF1	0.00							0
212	3	47	CCDF1	0.00							0
213	3	48	SSBG	0.00							0
214	3	49	CCDF1	0.00							0
215	3	50	CCDF1	0.00							0
216	3	51	CCDF1	0.00							0
217	3	52	CCDF1	0.00							0
218	3	53	CCDF1	0.00							0
219	3	54	CCDF1	0.00							0
220	3	55	CCDF1	0.00							0
221	3	56	CCDF1	486.00	✓						1
222	3	57	CCDF1	0.00							0
223	3	58	CCDF1	0.00							0
224	3	59	CCDF1	0.00							0
225	3	60	CCDF1	0.00							0
226	3	61	CCDF1	0.00							0
227	3	62	CCDF1	0.00							0
228	3	63	CCDF1	0.00							0
229	3	64	CCDF1	446.00		✓	✓			✓	3
230	3	65	SSBG	0.00							0
				<b>\$4,225.05</b>	<b>1</b>	<b>3</b>	<b>3</b>	<b>0</b>	<b>2</b>	<b>4</b>	
				Total With Errors							8
				Total With More Than One Error							3

Totals for Other Grants	\$7,577.11	3	9	9	2	3	14
Total With Errors							26
Total With More Than One Error							10

**Legend:**

**Errors:**

(1) Child care services were for unallowable reasons.	3
(2) Application for service month tested missing.	9
(3) Voucher/Action Notice for service month tested missing.	9
(4) Attendance record for service month tested missing.	2
(5) Payment greater than applicable market rates.	3
(6) Claims paid by other funding sources.	14



North Carolina Department of Health and Human Services  
2001 Mail Service Center • Raleigh, North Carolina 27699-2001  
Tel 919-733-4534 • Fax 919-715-4645

Michael F. Easley, Governor

Carmen Hooker Buell, Secretary

November 20, 2001

Reference: CIN: A-04-01-00006

Mr. Charles J. Curtis  
Regional Inspector General for Audit Services, Region IV  
Room 3T41, Atlanta Federal Center  
61 Forsyth Street, S.W.  
Atlanta, Georgia 30303-8909

Dear Mr. Curtis:

Thank you for the opportunity to respond to the OIG draft audit of *At-Risk, CCDBG, CCDF and SSBG Payments for Child Care Claims at the North Carolina Department of Health and Human Services' Division of Child Development* for the period January 1, 1996 to March 31, 1999. We are also appreciative of the two week extension of time granted for this purpose. After having reviewed the draft report and select audit workpapers which were supplied to NCDHHS, we would like for consideration to be given to the following comments and attached documentation prior to finalizing the audit report.

### General Comments

- **Original documentation.** We contacted the counties from which the audit samples were drawn and requested copies of the documents that were cited in the draft report as "missing." In many instances, these "missing" original documents were located by the counties and copies are attached to this response.
- **Missing documentation.** In some instances, original documents could not be located due to either being lost, misfiled or purged after three years. The audit treatment of these items has a significant impact on the amount of the monetary disallowance. Whether these items are treated as a \$0 error or errors that extrapolate to a payback of millions of dollars is an



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arbitrary decision of the auditor. For example, another OIG audit for NC DHHS (Audit A-04-97-001-9) states in the Sample Planning Document that:

- *"Missing sample items will be treated as \$0 errors... These sample items will also be treated as \$0 errors."* (Audit A-04-97-001-9)

However, in the current audit, the auditor made the following decision:

- *"In the event that a file cannot be located or documentation to support the client's child care services' line item selected is unavailable or incomplete, the sample item will be considered an error."* (Audit A-04-01-0006)

The use of such inconsistent audit standards amounts to an abuse of discretion. *See California Department of Social Services, DAB No. 319 (1982)* (agency's inconsistent application of policy regarding when errors would support a disallowance was unreasonable and would not be upheld)."

We disagree with the arbitrary audit decision to consider a missing piece of paper as an error, particularly when there is other evidence/documentation available. In county departments of social services, there are literally millions of paper documents. Further, it is a given fact that older documents/files are more likely to be lost, misfiled, purged or inadvertently destroyed. Some of the files in question were over five years old when the audit fieldwork was performed. It is quite easy to see how documents could be "missing" (misfiled, purged or destroyed).

It is also important to note that one "missing" piece of paper could represent over a million dollars when the disallowance is extrapolated to the population universe. For example, one of the smaller North Carolina counties spent many hours searching all of their files until they found the "missing" application which had been misfiled. This particular misfiled application represented a potential payback of over \$600,000. The State and counties should not be subject to such exorbitant paybacks when alternative documentation exists to substantiate client eligibility.

- **Critical Forms.** To compound the problem presented above regarding a missing document, the audit considered as critical for Federal financial participation (FFP) purposes, forms that were not even required by Federal legislation. An example of this is the child care attendance form.

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While this is a form that is utilized in the provision of day care services, it should not be considered a critical form since North Carolina's child care payment is based upon a child's enrollment as opposed to attendance. Nine of the 230 cases examined were cited in the draft report as an error due to a "missing" attendance record. Proportionately, these 9 "missing" attendance sheets represent over \$6 million of the \$17.6 million in questioned costs. We disagree as to the criticality of these forms, especially when considered in conjunction with other information in the client files and internal controls in the child care system.

We also object to the fact that the auditors did not consider other evidentiary matter at the counties but only isolated their review to a few specific forms rather than the content of the client file and other records at the county and state level. Audit evidence is much broader than the approach used by the auditors. Generally accepted government auditing standards (GAGAS), which is supposed to be the OIG's adopted standard of fieldwork, states in Section 6.47 of the Government Auditing Standards:

"Evidence may be categorized as *physical, documentary, testimonial, and analytical*. *Physical evidence* is obtained by auditors' direct inspection or observation of people, property, or events. Such evidence may be documented in memoranda, photographs, drawings, charts, maps, or physical samples. *Documentary evidence* consists of created information such as letters, contracts, accounting records, invoices, and management information on performance. *Testimonial evidence* is obtained through inquiries, interviews, or questionnaires. *Analytical evidence* includes computations, comparisons, separation of information into components, and rational arguments." (Emphasis added.)

Unless a specific piece of paper could be produced, the auditors considered the case as an error despite other evidence in the client file that clearly demonstrated client eligibility and the provision of services.

**Legal Criteria -- State Child Day Care Services Manual.** The audit cites the State's Child Day Care Services Manual in several findings. As stated above, we disagree with a number of the auditors' findings and associated questioned costs premised on the State's alleged failure to comply with procedures described in this State manual. It is improper for federal auditors to

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base audit findings on whether or not a State has complied with State policies and procedures that are not required by federal law. The procedures and policies described in North Carolina's Child Day Care Services Manual on which the OIG auditors relied were not required by federal law. Rather, they were discretionary procedures and policies that the State has the authority to waive. Non-compliance with these State procedures and policies cannot support a finding that the State's claims for FFP were overstated. See, e.g., Ohio Department of Health and Human Services, DAB Decision No. 725A (1986) (reversing disallowance based on State's failure to follow its own policy because the State had the authority to waive its administrative requirements).

**Reconstructed records.** In situations where certain forms could not be located, the county departments of social services have reconstructed the documents based on the information in their files. In addition, authorized social workers and clients have signed/attested to the reconstructed documents. The Departmental Appeals Board has held repeatedly that when contemporaneous documentation is lost and a reasonable explanation exists why the documentation is not available, other documentation may be presented to establish the existence or allowability of a claimed expenditure. Such reconstruction has been allowed in the past by ACF and should be allowed in the current report. See, e.g., Washington Department of Social and Health Services, (Section III), DAB Decision No. 693 (1985); Indiana Dept. of Public Welfare, DAB No. 772 (1986); Puerto Rico Gericulture Commission, DAB No.1009 (1989). In this case, too, the reconstructed documents should satisfy the audit documentation requirements.

## **OIG Draft Report Findings and NCDHHS Responses**

### **A. Missing Child Care Applications [Error Attribute 2]**

**OIG Draft Finding:** Fourteen line items did not include an application for the service month tested. In North Carolina, the application form is used for determining and documenting eligibility under the child care programs and for approving the service.

According to the State's Child Day Care Services (Manual) 9/93, Part II, Chapter B, Section 1, Request for Services, A. "... *Families are not considered eligible for services until they sign a formal application.* ... 3. *The [application] must be completed at the time of initial*

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*determination of eligibility as well as the routine redetermination of eligibility. A new application must also be completed and signed any time during the twelve month eligibility period that a change is reported which impacts eligibility for services."*

Also according to the State's Child Day Care Services Manual, Revised July 1997, Chapter 8, Applying for Child Day Care Services, Section 1, Application Form Requirements. "A formal request for child day care services must be initiated by completing a written application. . . . The application must be completed at the time of initial determination of eligibility and during routine redetermination of eligibility. Redetermination of eligibility must be made at least every twelve months."

Grant regulations under Title 45 Code of Federal Regulations (CFR) Section 74.21(b)(7) require that recipients' financial management systems include: "Accounting records, including cost accounting records, that are supported by source documentation."

## **NCDHHS Response to Error Attribute 2**

In six cases, the "missing" application has been located as noted in the subsequent comments. However, in other instances, the application remains either lost, misfiled or purged. In those situations, county personnel have researched their files and provided alternative documentation as to the eligibility of the client. This approach is supported by Section 6.47 of the Government Auditing Standards which characterizes audit evidence as *physical, documentary, testimonial, and analytical*. Thus, substitute documentation should be considered as acceptable alternative evidence when it documents that the client's child was enrolled in the child care program.

**Case 1-27** The "missing" application is attached. Thus, this should be neither a finding nor a questioned cost. (Attachment 1-27)

**Case 1-31** The "missing" application that is attached has been reconstructed from information in the case file and also signed/attested by the appropriate parties (social worker and client). Thus, this should be neither a finding nor a questioned cost. (Attachment 1-31)

**Case 1-37** The "missing" application that is attached has been reconstructed based on case file information and also signed/attested by the appropriate parties (social worker and client). These documents reflect the eligibility of the child. Accordingly, this should not be listed as a questioned cost. (Attachment 1-37)

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Case 1-60 Two errors (application form and voucher/action notice missing for the month of November 1998) were noted by the auditor. There was an approved application and voucher action notice through October 30, 1998. A note from Forsyth County personnel indicated that the problem was an overdue recertification. According to county personnel, *the "case was transferred to another worker in another building before October 30, 1998. The case was misplaced for a number of months."* When it was discovered that a review had not been completed, the caseworker had the client come to the agency, complete a new application and the worker sent a Change Action Notice to the day care provider. Based on Federal ACF guidance, we believe that the entire amount should be allowable as referenced below.

ACF Policy Interpretation Questions (PIQ) are Federal issuances that provide interpretations of Federal statutes and program regulations that have significance for program operations at all levels, Federal and State. Generally, they respond to grantee inquiries, received either directly or through the regional offices. ACYF-CB-PIQ-85-06 provides official guidance for eligibility in cases of late redetermination which is germane to Case 1-60. The policy states in part:

*Question 3:*

*"We believe failure to hold a timely redetermination of title IV-E eligibility is a program issue, not an eligibility issue. Similarly, we believe failure to hold a six month case review is a program issue and not an eligibility issue. Is this correct?"*

*ACF Answer 3:*

*"You are correct in your assessment that failure to hold a timely redetermination of title IV-E eligibility is a State plan issue (a program issue, as stated in your question) rather than an issue related to the eligibility of the child for title IV-E foster care maintenance payments. Under the Aid to Families with Dependent Children (AFDC) Program, a six month eligibility redetermination is a State plan requirement (45 CFR 206.10(a)(9)(iii)) and not a factor affecting the child's eligibility. While there is no statutory requirement under title IV-E concerning the frequency of eligibility redeterminations, such a procedure should be carried out periodically in order to assure that Federal financial participation is claimed properly. (Section 471(a)(1) allows for FFP for foster care maintenance payments only in accordance with the requirements in section 472. Therefore, the State must assure that the child meets those eligibility requirements.) ACYF has advised State agencies in ACYF-PIQ-82-*

*14, that an appropriate period for redetermination would be every six months, at which time factors subject to change, such as continued deprivation of parental support and care and the child's financial need (section 406(a) or 407 of the Act) would be reviewed and documented. However, if the State agency misses the six month eligibility redetermination schedule in certain cases, those cases would not be considered ineligible for FFP for that reason alone. When the eligibility review is held, however, if the child is found to have been ineligible for any prior month, no claim for FFP may be made for that month.*

*Also, we agree that failure to hold a periodic review as required in Section 471(a)(16) of the Act is not an eligibility issue. Section 471(a)(16) is a title IV-E State plan requirement for a case review system with respect to each child receiving title IV-E foster care maintenance payments. It is not an eligibility requirement for the individual child in care. Failure to conduct timely periodic reviews of the status of each child receiving assistance under title IV-E could result in the State's being out of compliance with its title IV-E State plan; however, such failure would not affect the individual child's eligibility under the program." [emphasis supplied]*

Thus, the Federal interpretation is that recertification is a program issue as opposed to an eligibility issue. The child in question was eligible for the entire period, the costs were allowable and the only problem was a programmatic late recertification. While the ACF guidance was for IV-E, this guidance clearly demonstrates ACF's position on late recertifications. Accordingly, this should not be listed as a questioned cost. (Attachment 1-60)

Case 2-4 The "missing" application is attached. Thus, this should be neither a finding nor a questioned cost. (Attachment 2-4)

Case 2-10 According to the county, the documentation requested for this February 1997 case was purged in accordance with record retention requirements after three years and prior to the September 2000 notification from the North Carolina Division of Child Development of the pending audit. However, the "missing" application has been reconstructed based on

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case file information and also signed/attested by the appropriate parties (social worker and client). These documents reflect that the child was indeed eligible for the day care services provided. These documents meet the Government Auditing Standards, Section 6.47 definition of "evidence". (Attachment 2-10)

Case 2-23 The "missing" application is attached. Thus, this should be neither a finding nor a questioned cost. (Attachment 2-23)

Case 2-40 The "missing" application is attached. Thus, this should be neither a finding nor a questioned cost. (Attachment 2-40)

Case 2-53 The "missing" application that is attached has been reconstructed from information in the case file and also signed/attested by the appropriate parties (social worker and client). These documents reflect the eligibility of the child and meet the Government Auditing Standards, Section 6.47 definition of "evidence". Accordingly, this should not be listed as a questioned cost. (Attachment 2-53)

Case 2-64 The "missing" application has been reconstructed based on case file information and is attached. Also, the applicant signed the Child Care Assistance Report for the month August 1998, the month audited. These documents reflect the eligibility of the child and meet the Government Auditing Standards, Section 6.47 definition of "evidence". Accordingly, this should not be listed as a questioned cost. (Attachment 2-64)

Case 2-78 The "missing" application is attached. Thus, this should be neither a finding nor a questioned cost. (Attachment 2-78)

Case 3-16 The "missing" application has been reconstructed from information in the case file and shows that the client was eligible for the day care services provided. The application has been signed/attested by the applicant and the authorized county social worker. These documents reflect the eligibility of the child and meet the Government Auditing Standards,

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Section 6.47 definition of "evidence". Thus, this should be neither a finding nor a questioned cost. (Attachment 3-16)

**Case 3-25** According to the county, the documentation requested for this August 1996 case was purged in accordance with record retention requirements after three years and prior to the September 2000 notification from the North Carolina Division of Child Development of the pending audit. However, the County has provided alternative documentation to negate this finding. *"CCRI [Child Care Resources, Inc.] has located the responsible adult for this case. Documentation has been re-created to include an application and a voucher. A letter was signed by the responsible adult and is included in this new documentation. The childcare center no longer exists and provider files could not be located because its former director is currently hospitalized. If original documentation can be located when the center director is available, it will be forwarded"* to the State. The documents have been signed/attested by the social worker and the applicant and reflect the eligibility of the child, meets the Government Auditing Standards, Section 6.47 definition of "evidence" and should constitute acceptable alternative documentation. Thus, this should be neither a finding nor a questioned cost. (Attachment 3-25)

**Case 3-64** The "missing" application has been reconstructed by the county department of social services from information in the case file and shows that the client was eligible for the day care services provided. The application has been signed/attested by the appropriate parties (social worker and client), reflects the eligibility of the child and meets Government Auditing Standards, Section 6.47 definition of "evidence". Thus, this should be neither a finding nor a questioned cost. (Attachment 3-64)

## **B. Missing Voucher/Action Notices [Error Attribute 3]**

**OIG Draft Finding:** Eleven line items had missing vouchers/action notices.

The Child Day Care Services (Manual) 9/93, Part II, Chapter B, Section 1, Request for Service, D. What other forms are needed in order for the request for child care services to be processed? states that "The Child Day Care Voucher . . . must be issued to the parent for each child in need of services." . . .

The Child Day Care Services Manual, Revised July 1997, Chapter 13: Voucher Procedures, A. states: "... The intent of the voucher is to enable the parent to assume responsibility for the selection of the provider rather than the local purchasing agency arranging the care. The voucher serves as an agreement between the parent and the provider and is a mechanism which places the liability for the selection of a provider with the parent instead of with the agency. . . . C. . . . Only an initial voucher is needed, with subsequent ones issued when there is a change of provider. Once the voucher has been issued initially, it is not necessary to issue another one when the individual's 12-month eligibility period ends. A Child Day Care Action Notice . . . is issued instead to document the new eligibility period."

The CCDBG State Plan, Section 5.5 states "... North Carolina chose a voucher which is issued to the parent, to take to the provider of her choice. The voucher form indicates the eligible child, period of eligibility, and applicable parent fees. . . ."

The CCDF State Plan, Section 4.3 states "... The Child Day Care Voucher issued to parents . . . is signed by each provider who is approved to receive subsidized care funds."

### **NCDHHS Response to Error Attribute 3**

**Case 1-37** The "missing" voucher action notice that is attached has been reconstructed based on case file information and has also been signed/attested by the appropriate parties (social worker and client). These documents reflect the eligibility of the child and meet the Government Auditing Standards, Section 6.47 definition of "evidence." Accordingly, this should not be listed as a finding nor a questioned cost. (Attachment 1-37)

**Case 1-60** This case was a matter of late recertification. The Federal interpretation is that recertification is a program issue as opposed to an eligibility issue. (See previous narrative on this case in Finding A). The child in question was eligible for the entire period, the costs were allowable and the only problem was a programmatic late recertification. While the ACF guidance was for IV-E, this guidance clearly demonstrates ACF's position on late recertifications. The attached documents reflect the eligibility of the child and meet the Government Auditing Standards, Section 6.47 definition of "evidence". Accordingly, this should not be listed as a finding nor a questioned cost. (Attachment 1-60)

**Case 2-4** The "missing" voucher/action notice is attached. Thus, this should be neither a finding nor a questioned cost. (Attachment 2-4)

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Case 2-10 According to the county, the documentation requested for this February 1997 case was purged in accordance with record retention requirements after three years and prior to the September 2000 notification from the North Carolina Division of Child Development of the pending audit. However, the county has reconstructed the "missing" voucher/action notice from the client case file records. The reconstructed voucher/action notice has also been signed/attested by the social worker and the applicant. The documents reflect the eligibility of the child and meet the Government Auditing Standards, Section 6.47 definition of "evidence". Thus, this should be neither a finding nor a questioned cost. (See Attachment 2-10)

Case 2-40 The "missing" voucher/action notice is attached. Thus, this should be neither a finding nor a questioned cost. (Attachment 2-40)

Case 2-53 The "missing" voucher/action notice that is attached has been reconstructed based on case file information and has also been signed/attested by the appropriate parties (social worker and client). These documents reflect the eligibility of the child and meet the Government Auditing Standards, Section 6.47 definition of "evidence". Accordingly, this should not be listed as a finding nor a questioned cost. (Attachment 2-53)

Case 2-64 The "missing" voucher/action notice has been reconstructed based on case file information and is attached. Also, the applicant signed the Child Care Assistance Report for the month August 1998, the month audited. These documents reflect the eligibility of the child and meet the Government Auditing Standards, Section 6.47 definition of "evidence". Accordingly, this should not be listed as a finding nor a questioned cost. (Attachment 2-64)

Case 2-78 The "missing" voucher/action notice is attached. Thus, this should be neither a finding nor a questioned cost. (Attachment 2-78)

Case 3-16 A copy of the original child day care voucher is attached. Also, the "missing" action notice has been reconstructed by the county based on client case file information. This meets the Government Auditing Standards, Section 6.47 definition of "evidence". Thus, this should be neither a finding nor a questioned cost. (Attachment 3-16)

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**Case 3-25** According to Mecklenburg County, the documentation requested for this August 1996 case was purged in accordance with record retention requirements after three years and prior to the September 2000 notification from the North Carolina Division of Child Development of the pending audit. However, the County has provided alternative documentation to negate this finding. *“CCRI [Child Care Resources, Inc.] has located the responsible adult for this case. Documentation has been re-created to include an application and a voucher. A letter was signed by the responsible adult and is included in this new documentation. The childcare center no longer exists and provider files could not be located because its former director is currently hospitalized. If original documentation can be located when the center director is available, it will be forwarded”* to the State. The documents have been signed by the social worker and the applicant, reflect the eligibility of the child and meet the Government Auditing Standards, Section 6.47 definition of “evidence”. (Attachment 3-25)

**Case 3-64** The “missing” voucher/action notice has been reconstructed from information in the case file. The voucher has been also signed/attested by the appropriate parties (social worker and client), reflects the eligibility of the child and meets Government Auditing Standards, Section 6.47 definition of “evidence”. Thus, this should be neither a finding nor a questioned cost. (Attachment 3-64)

### C. Missing Attendance Records [Error Attribute 4]

**OIG Draft Finding:** Nine line items did not have records that showed the child attended day care for the months tested. Attendance records are used to document services received and to authorize payments for child care services. Grant regulations under Title 45 CFR Section 74.21(b)(7) require that recipients’ financial management systems include: *“Accounting records, including cost accounting records, that are supported by source documentation.”*

Title 45 CFR 98.67(c) requires that recipients’ *“Fiscal control and accounting procedures shall be sufficient to permit: . . . (2) The tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the provisions of this part.”*

Child Day Care Law, North Carolina G.S. 110-91 (9) states *“ . . . Each day care facility shall keep accurate records on each child receiving care in the day care facility in accordance with a form furnished or approved by the Commission, and shall submit attendance reports as required by the Department. (August 11, 1993)”*

## NCDHHS Response to Error Attribute 4

Before discussing the specific cases cited in the audit, several points should be made in regard to the validity of this attribute test as a critical test for federal participation.

- (1) **Validity of the attendance record as a critical document.** It should be noted that it is North Carolina's official day care policy that day care providers are paid based on a child's enrollment--not attendance. If a child is absent for various reasons, the provider is still paid for maintaining the slot for the child. This is the usual and customary practice in day care centers. More specifically, the State's Child Day Care Services Manual, Part II, Chapter C, Section 2, page 14 states: "*Payment for child day care services is based on the child's enrollment according to the plan of care developed by the service worker and the parent.*" Thus, child care plan enrollment is the key. Attendance records, which are kept at the local level (counties and LPA), are only one type of evidence that provides the basis for payments to the various child care providers. Therefore, we disagree that the absence of an attendance record should be the sole basis for disallowing Federal financial participation (FFP) in the cost of child care.

- (2) **Attendance record is not a Federal requirement.** It should be noted that it is improper for federal auditors to base audit findings on whether or not a State has complied with State policies and procedures that are not required by federal law. The procedures and policies described in North Carolina's Child Day Care Services Manual on which the OIG auditors relied were not required by federal law. Rather, they were discretionary procedures and policies that the State has the authority to waive. Non-compliance with these State procedures and policies cannot support a finding that the State's claims for FFP were overstated. See, e.g., Ohio Department of Health and Human Services, DAB Decision No. 725A (1986) (reversing disallowance based on State's failure to follow its own policy because the State had the authority to waive its administrative requirements).

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### Response to Specific "Missing Attendance" Cases

Case 1-2 The "missing" attendance record for December 1995 is attached. Thus, this should be neither a finding nor a questioned cost. (Attachment 1-2)

Case 1-49 The "missing" attendance record for October 1997 is attached. Thus, this should be neither a finding nor a questioned cost. (Attachment 1-49)

Case 1-54 The "missing" attendance record September 1997 is attached. Thus, this should be neither a finding nor a questioned cost. (Attachment 1-54)

Case 2-24 A reconstructed attendance record signed by the day care owner is attached for the month of December 1997. In addition, copies of original attendance records for the prior month of November 1997 and subsequent month of January 1998 are attached. As stated earlier, day care payments are based on enrollment—not daily attendance. Together, these documents clearly provide documentation to support the claim that the child was continuously enrolled. The application and voucher/action notice have been reviewed by the OIG auditors which established the child's eligibility. These documents meet the Government Auditing Standards, Section 6.47 definition of "evidence". Thus, this should be neither a finding nor a questioned cost. (Attachment 2-24)

Case 2-37 The actual classroom attendance records have been located for December 1998 which contain all of the attendance information for the child in question. In addition, the consolidated attendance record has been reconstructed by the administrative assistant at Charlotte – Mecklenburg School staff based on the "*parent sign-in and sign-out form information, classroom roster records, and CCRI reimbursement forms.*" Such documents are an excellent documentation source since the original attendance record is derived from these basic source documents. These documents also meet the Government Auditing Standards, Section 6.47 definition of "evidence". Thus, this should be neither a finding nor a questioned cost. (Attachment 2-37)

Case 2-60 The "missing" attendance record for August 1997 is attached. Thus, this should be neither a finding nor a questioned cost. (Attachment 2-60)

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**Case 2-78** The “missing” attendance record for November 1997 is attached. Thus, this should be neither a finding nor a questioned cost. (Attachment 2-78)

**Case 3-45** The “missing” attendance record for October 1997 is attached. Thus, this should be neither a finding nor a questioned cost. (Attachment 3-45)

**Case 3-64** The “missing” attendance record for November 1996 was four and a half years old as of this audit’s beginning field work date (May 2001). However, the day care provider has furnished the attached daily attendance sheets from the day care center that reflects the daily attendance for the child in question. In addition, we have a statement signed by the mother of the child attesting to the fact that the child in question received child care services during the month of November 1996. These documents adequately meet the Government Auditing Standards, Section 6.47 definition of “evidence”. Thus, this should be neither a finding nor a questioned cost. (Attachment 3-64)

#### **D. Payments to Day Care Facility in Excess of Applicable Market Rates (Error Attribute 5)**

**OIG Draft Finding:** Three CCDF line items were for payments greater than allowable. Two payments were greater than the applicable market rates. The child care market rate for the applicable counties was \$438 per month for the service months tested. The State paid \$923 for the month for one child and \$813 for the other child. According to the child care center, neither child was classified as “special needs”, which would have justified the higher rate.

Also, each child care center’s enrollment of subsidized children was greater than 50 percent. One center’s percentage of subsidized children was 80 percent and the other was 78 percent.

The CCDF State Plan, Section 3.2 – Payment Rates for the Provision of Child Care: states . . .  
*“When 50% or more of the children enrolled in the facility receive child care subsidies, the reimbursement rate is the county market rate or the rate charged to full fee paying parents, whichever is less. In addition, the new legislation allows these providers to receive 110% of the market rate (or the private paying rate, whichever is lower) if they meet higher licensing standards. . . .”*

According to the county, the third child was in an unlicensed child care facility and the facility should not have been paid for the service month tested.

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Child Day Care Law, North Carolina G.S. 110-85 (3) requires “. . . *Mandatory licensing of day care facilities under minimum standards; promotion of higher levels of day care than required for a license through the development of high standards which operators may comply with on a voluntary basis; registration of child day care homes which are too small to be regulated through licensing; . . .*” (August 11, 1993)

## **NCDHHS Response to Error Attribute 5**

**Case 1-48** We disagree that this provider was unlicensed. It is a documented fact that the provider was licensed during the month audited of November 1997 and has been continuously licensed from 1994 to date. (See attachment 1-48). The auditor's finding was based on a March 1998 visit by a day care licensing consultant and a subsequent day care fine/penalty assessment against the licensed day care provider for various violations including the premature use of an additional building that had not completed its licensure process. Upon subsequent investigation by Gaston County officials, we have verified that the child in Case 1-48 was indeed housed in one of the licensed facilities. The day care operator kept the child (Case 1-48) with his younger brother in Building #3, a licensed facility. This also agrees with the provider's billing for that time period that both children were in Building #3. The bottom line is that the child was in a licensed facility in November 1997. Thus, this should be neither a finding nor a questioned cost. (Attachment 1-48)

**Cases 3-5 and 3-7, General Comments.** The Child Day Care Services Manual is quoted and used as an authoritative reference by the auditors in other places in this draft report. Chapter 15 of the Child Day Care Services Manual deals with payment rates. Specifically, the Manual addresses payment rates for different types of day care centers. One of the charts in the Manual issued in March 1996 clearly delineates the fallacy of the logic utilized in the audit finding.

Payment Rates For Different Types of Centers

	Category A Center	Category B Center	Category E Center
Definition	Less than 50% of children are subsidized	50% or more of children are subsidized	Primarily children with special needs
Maximum Payment Rate	Rate charged to private paying parents	County market rate	Rate established by DMH/DD/SAS

The chart in the Manual clearly states that Category E is for “primarily children with special needs” and differentiates the various categories and maximum payment rates. The Manual narrative expands the chart information for Category E centers.

*“Category E centers are centers which are certified as developmental day centers by the Division of Mental Health, Developmental Disabilities and Substance Abuse Services (DMH/DD/SAS) and serve children who meet the definition of children with special needs as described below and in the attachments at the end of the chapter....*

*Because of the additional costs associated with providing care for children with special needs, Category E facilities are exempt from the rate setting procedures for other child care centers. The maximum payment rates, which include the cost of transportation, are determined by the Division of Mental Health, Developmental Disabilities and Substance Abuse Services and are indicated on each provider's Approval Notice.*

*Developmental day centers are being encouraged to enroll typically developing children.* *The maximum payment for these children is also determined by DMH/DD/SAS; however, it is not included on the provider's Approval Notice. It is necessary for the purchasing agency to contact the facility to determine the*

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*modified rate. The rate established for typically developing children is different from the rate established for children with special needs and excludes those costs that are associated exclusively with serving children with special needs." (Child Day Care Services Manual - Revised July 1997) [emphasis supplied]*

Thus, it is clear that incorrect criteria has been applied in the draft audit to these two cases. The market rate did not apply for Category E centers; rather, these rates were set by DMH/DD/SAS and reflected different rates for typically developing children. The rates paid for the two children in question were below the maximum rates established for these two children. (See additional notes for these two children listed below.)

**Case 3-5 Specific comment.** The maximum monthly rate for a child with special needs was \$2,184 at Southwestern Child Development Commission during February 1998. The maximum monthly rate for typically developing children was \$1,032 for the same time period. The provider only billed \$813 as indicated in the OIG draft report which is below the applicable typically developing children's rate of \$1,032. Thus, this should not be a finding nor a questioned costs based upon the above documentation. (See Attachment 3-5)

Maximum rate for Special Needs children	\$ 2,184
Maximum rate for Typically Developing children	\$ 1,032
Amount billed in Case 3-5	\$ 813

**Case 3-7 Specific comment.** The maximum monthly rate was \$2,184 for children with special needs at Webster Child Development Center in December 1997. The maximum monthly rate was \$1,032 for typically developing children for the same time period. The center only billed \$923 as indicated in the OIG draft report. Thus, this should not be a finding nor a questioned costs based upon the above documentation. (See Attachment 3-7)

Maximum rate for Special Needs children	\$ 2,184
Maximum rate for Typically Developing children	\$ 1,032
Amount billed in Case 3-5	\$ 923

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### E. Child Care Services for Unallowable Reasons – Error Attribute 1

**OIG Draft Finding:** Two line items show unallowable reasons for the specific grant assignment. One child assigned to At-Risk funds was a foster child. There was no evidence that this child was at risk of becoming welfare-dependant. At-Risk funds could only be used for the employment of parent/s who were at risk of welfare dependency or of needing AFDC.

Title 45 CFR Chapter II, Part 257.30 Eligibility – states “(a) A family is eligible for child care under this part provided the family: (1) Is low income, as defined in the approved State At-Risk Child Care plan; (2) Is not receiving AFDC; (3) Is at risk of becoming eligible for AFDC, as defined in the approved At-Risk Child Care plan; (4) Needs such child care in order to accept employment or remain employed; and (5) Meets such other conditions as the State may describe in its approved At-Risk Child Care plan.”

The second child’s day care was funded through CCDF. Records showed that the reason for child care was “child welfare services”. The CCDF funds can only be used for employment, education or training for parent/s or for a child in need of protective services.

Title 45 CFR 98.20 (a) states that to be eligible for services under CCDF “. . . a child shall: . . . (2) Reside with a family whose income does not exceed 85 percent of the State’s Median income . . . (3) (i) Reside with a parent or parents . . . who are working or attending a job training or educational program; or (ii) Receive, or need to receive, protective services. . . .”

### NCDHHS Response to Error Attribute 1

**Case 1-24** The child in question was in the legal custody of the Lincoln Department of Social Services but resided with the mother. (See case review dated 5-15-96). The mother was employed through a temporary service at Foamex. She became a permanent employee at Foamex several months later in September 1996. The social worker stated that the mother was at-risk of becoming welfare dependent. Therefore, this should be neither a finding nor a questioned cost. (Attachment 1-24)

**Case 3-56** As indicated in the above auditor’s comments, “CCDF funds can only be used for employment...” The auditor’s file copy of the application clearly shows that the mother was working which meets the grant requirement. There is also a paycheck stub in the case file for the same date as the application for day care services. In addition, a memo dated August 28, 1997 from the Charlotte Emergency Housing reflected that the mother was employed while residing at

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Charlotte Emergency Housing, Inc. The same memo indicated that the children were "at risk." Therefore, this should be neither a finding nor a questioned cost. (Attachment 3-56)

## F. State's Claim Preparation

**OIG Draft Finding.** The claims included in this audit were prepared by the State. However, the State's consultant performed the assignment of children to specific grants. The consultant developed a computer program to extract the names of eligible children from the State's Other Grants' child care database.

In our opinion, the unallowable payments were the result of the State's inadequate instructions on record retention requirements to the counties. This resulted in insufficient documentation to support eligibility factors and the need for services. Also, there was inadequate review of the consultant's identification of children who were determined to be eligible for a specific grant. Each grant had different requirements; yet, the State's accounting system did not identify which grant program was used to pay for a child's care.

The State acknowledged in its brief to the Departmental Appeals Board (relative to its original IV-E claim upon which ACF levied a disallowance) that it did not have an adequate accounting system in place to provide ACF with adequate documentation to verify that there would be no duplication of Federal funding or duplication of State matching in its process to document its retroactive child care claims.

## NCDHHS Response to State's Claim Preparation

**Record Retention.** It is difficult to comprehend the auditor's opinion that "*unallowable payments were the result of the State's inadequate instructions on record retention requirements to the counties.*" Each county has multiple copies of North Carolina's Child Care Subsidy Services Manual. Chapter 2 of the Manual, entitled "Funding for Child Care Services," states that:

*"Any agency administering the Subsidized Child Care Programs must provide records of administration of the program upon request for review by staff of local, state, or federal agencies. These records must be maintained for three years or until all audits begun within the three-year period are complete."*

This Manual is on-line. In addition, correspondence has been sent to the various counties reiterating the directions not to purge day care records. (Attachment 4)

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**North Carolina's Accounting System.** Part of what the auditor states is true when very narrowly construed—"the State's accounting system did not identify which grant program was used to pay for a child's care." What the auditor does not state is even more important and has been communicated previously to the auditors. We will restate the rest of the story once more.

In North Carolina, children eligible for day care are often eligible for several day care grants. The State of North Carolina utilizes a categorical eligibility process. Children and their associated day care costs are segregated into eleven cost pools based upon various eligibility criteria recorded in the State's Child Care Subsidy system by the county departments of social services. Qualifying child care expenditures are typically applied to available funding through a hierarchical approach using the more restrictive grants first and then utilizing grants with lesser restrictions. This hierarchical methodology allows excess eligible children (costs) for one grant to be used in another less restrictive grant for which they are also eligible. While each child is not "stamped" with a particular funding source, the cost of the day care for children with specific attributes is pooled and charged to the applicable grant(s).

The basis of the auditor's statement that the State "*did not have an adequate accounting system in place to provide ACF with adequate documentation to verify that there would be no duplication of Federal funding or duplication of State matching in its process to document its retroactive child care claim*" was reportedly a DAB Brief by the State of North Carolina. What is not stated in the audit report is that the same DAB Brief also stated:

"In order to document the fact that payment of this claim would not result in duplicate payment of federal money, the State has performed a painstaking analysis. First, all IV-E eligible children were assigned to an account which contained only state funds; thus, ensuring that payment of the IV-E claim would not result in reimbursement to the State for costs which were already paid by federal funds."

There has always been accountability by grant based on the segregated pools of costs for children meeting various grant restrictions.

In conclusion, we are not so naïve as to think that the State or local government agencies never make errors. Errors are routinely made at all levels of government: local, State and Federal—

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even auditors make errors. The three OIG day care audits have shown that North Carolina in reality has a very low error rate. Most of the alleged errors have been instances of missing/purged records that were over three years old that the auditors classified as errors, a position that we strongly disagree with. Without the "missing records" finding relating to records over three years old, there would be little to report in the three audits which cover six years of day care funding (\$355 million) and required thousands of audit hours.

In our opinion, the auditors have taken a punitive stance against the State due to the State's use of contractors to maximize Federal funding—a stance documented in the audit report narratives. It is the fiduciary responsibility of State officials to maximize Federal resources appropriated by Congress for the welfare of the taxpayers of the State. It is not the right of the OIG to be critical of the State's attempts to maximize resources and punitive in its audit procedures to create exorbitant paybacks to the Federal government and classify these paybacks as OIG "savings". Nothing could be further from the truth. Services were provided to eligible clients. There is also nothing in the present punitive direction of OIG audits that supports the concept of a Federal/State partnership whose focus is the delivery of services to the country's needy citizenry. We hope that the current antagonistic audit environment will change.

While the additional response information and documentation provided is essentially self-explanatory, NCDHHS staff will be glad to meet with the OIG audit staff to provide any additional clarification deemed necessary. (Copies of the response attachments with uncensored confidential client data have been remitted under separate cover to the OIG's Raleigh Office that performed the audit work.) Again, we appreciate this opportunity to provide input relative to the audit process.

Sincerely,

  
Carmen Hooker Buell

CHB:dcs

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cc: Lanier Cansler  
Satana Deberry  
Peggy Ball  
Gary Fuquay  
Dan Stewart  
Honorable Ralph Campbell

Attachments are numbered to match assigned Case Sample numbers.



North Carolina Department of Health and Human Services  
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Michael F. Easley, Governor

Carmen Hooker Odom, Secretary

July 2, 2002

Confidential Information Attached

Reference: CIN: A-04-01-00006

Mr. Charles J. Curtis  
Regional Inspector General for Audit Services, Region IV  
Office of Inspector General - Office of Audit Services  
Room 3T41, Atlanta Federal Center  
61 Forsyth Street, S.W.  
Atlanta, Georgia 30303-8909

RECEIVED

JUL 03 2002

Office of Audit Svcs.

Dear Mr. Curtis:

We have received your February 25, 2002 and May 24, 2002 letters outlining additional disallowances for the draft report entitled Audit of At-Risk, CCDBG, CCDF and SSBG Payments for Child Care Claims at the North Carolina Department of Health and Human Services' Division of Child Development. The Department's March 5, 2002 response has been updated and now also includes the seven cases outlined in your latest letter.

### NCDHHS Response Addendum

We do not concur with any of the new disallowances taken by OIG. In our previous response dated December 20, 2000 to the first released child care audit report, we outlined the process through which children in North Carolina's child care program are pooled by eligibility criteria.

*Background. In North Carolina, the provision of subsidized day care services is administered by county agencies (county-operated departments of social services and other local purchasing agencies [LPA]) who determine eligibility and purchase day care services for eligible clients under policies promulgated by the N.C. Division of Child Development. Funding for day care is available from a variety of Federal sources such as At-Risk Child Care, Child*



*Care Development Block Grant (CCDBG), Social Services Block Grant (SSBG) and IV-E Foster Care. Children are often eligible for several grants; thus, it is at the State's option and best interest to choose the most beneficial funding formula subject to the availability of funding. Eligibility data for the children is entered into a computer-based system by the various counties/local purchasing agencies responsible for determining eligibility and authorizing the purchase of day care services. Since a child is usually eligible for multiple grants, i.e. CCDBG, At-Risk, SSBG and IV-E federal funding, the State utilizes a categorical eligibility process wherein children (child care costs) are pooled based upon various eligibility criteria. Qualifying child care expenditures are typically applied to available funding through a hierarchical approach using the more restrictive grants first and then utilizing grants with lesser restrictions. The hierarchical approach allows excess eligible children (costs) for one grant to be used in another less restrictive grant that they are also eligible for, etc.*

ASMB C-10, Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government, supports this concept that it is at "the State's option and best interest to choose the most beneficial funding formula." Section 2-16 of ASMB C-10 has this to say:

*"A function or activity within the government organization that benefits two or more programs may be set up as a single cost objective. Costs allocable to that cost objective would be allowable under any of the involved programs which benefit from these activities/costs. The government can make a business decision regarding what combination of funds made available under these programs would be applied to this cost objective. In public assistance agencies, for example, certain services rendered to children may comprise a cost objective. If the services provided and the criteria establishing the children's eligibility to receive them are the same for two or more child welfare programs, the*

*government could fund the services with any combination of funds made available under these programs. This results in applying eligible funding sources to the single cost objective, rather than allocating the cost objective to the programs involved.*

*EXAMPLE: Program A allows payments for children in foster care whose parents' incomes do not exceed 180% of the poverty income level. The payments to the care givers are matched by the Federal program at 50% with no ceiling on the total amount that can be paid by the Federal Government. Program B allows payments for children in foster care regardless of the parents' income. While Program B will match these payments at 75%, total Federal payments may not exceed \$10M. The state opts to establish a single center for children in foster care whose parents' income is less than 180% of the poverty level. As these children qualify for either program, the state can initially fund these services with the higher matching Program B funds (75%). When the Federal ceiling of \$10M is reached, the cost center can then be funded, from that point forward, with Program A funds, albeit at a lower matching rate of 50%. Children whose parents' income exceeds the 180% income level would be charged to a separate cost center, along with the attendant eligibility and other administrative costs."*

As the previous Federal policy narrative indicates, children are often eligible for more than one source of funding. It is the prerogative of the State to choose the funding source when children are eligible for multiple sources and funds are available. Also, it is quite common to use multiple funding sources for a single child in a given month. For example, prior to October 1, 1996, FSA funds may have been used to pay the provider's charge up to the market rate and other funds may have been used to pay the amount over the market rate, transportation costs, quality incentive bonuses, etc. There can be no situations of duplicate

reimbursement based on the edits/audits within the automated Child Care Subsidy System.

And lastly, we recognize that audits are sometimes contentious affairs and this series of audit reports have certainly risen to the occasion. In the last two audit reports, additional disallowances have even been generated after the draft report was issued. In this report, it appears that the auditors have gone to even greater lengths to question additional costs and extrapolate the results.

For example, the auditors utilized funding notations at the local level to conclude that there was duplicate or inappropriate funding. As we have pointed out in previous responses and what the auditors should know after thousands of audit hours is that funding decisions are made by the State based on eligibility criteria and the availability of funds. Notations regarding funding at the local level do not necessarily prevail. For practically all these disallowances, the auditor asserts that FSA funds were used to pay for these claims in addition to CCDBG, etc. Not only is that precluded by the edits and audits in the State's Subsidized Child Care payment system, it is impossible as a factual matter since FSA funding ceased on September 30, 1996. Thirteen of the following fifteen cases occurred after September 30, 1996—the cessation of FSA funding. The State could not have utilized non-existent Federal funding to pay for child care. Following are detailed comments on each case cited as unallowable.

#### Detailed Cases

Strata Sample 1-25. The auditor's comment for the finding was that the "*Action Notice and Narrative show Work First Employment Services which is paid by the Family Support Act (FSA). System shows Work First Family Assistance (WFFA) also.*"

First, funding notations at the local level may not be the funding chosen by the State agency based on eligibility criteria and availability of funds. More importantly, FSA funding ceased in September 1996 and this claim is for seven months later -- April 1997.

The child care provider received a Smart Start Services Enhancement bonus of \$21.30 and SSBG funds participated in the \$38 for transportation. (FSA funds would not have even paid for transportation costs.) No duplicate reimbursement occurred and this should not be cited as a finding. [Correspondence dated June 6, 2002 from the OIG indicates that this is now considered allowable based on previously submitted documentation.]

Strata Sample 1-37. The auditor's comment was that "*Attendance sheet indicates AFDC*". This was a non-descript AFDC notation on the top of an attendance sheet. A search in the Eligibility Information System showed that this child was not receiving AFDC in August 1996. Even IF the child was receiving AFDC, this would not preclude eligibility for other day care grants. The March 1996 issuance of the Child Day Care Services Manual, Chapter 8 (5) states that Work First Family Assistance (which replaced AFDC benefits) "*recipients are eligible for FSA funded child day care to support employment and certain education activities on the basis of their status as income maintenance recipients. If services are needed for other reasons, the WFFA recipient must meet income eligibility criteria for Non-FSA child day care unless the service is available without regard to income.*" This audit finding is without merit and should not be cited as a finding. Documentation attached.

Strata Sample 1-46. The auditor's reference and support for the finding was that the "*Voucher and Narrative show WFFA which is paid by the FSA.*" First, funding notations at the local level may not be the funding chosen by the State agency based on eligibility criteria and availability of funds. More importantly, FSA funding ceased in September 1996 and this claim is for July 1998—almost two years later.

The child care provider received payment of \$193 funded in part from CCDF funds for which the child was eligible. Day care was needed to support employment. No duplicate reimbursement occurred and this should not be cited as a finding. (Documentation attached.)

Strata Sample 1-55. The auditor's reference and support for this finding was that the "*Application, Voucher and Narrative say WFFA which is paid by FSA. System shows WFFA.*" First, funding notations at the local level may not be the funding chosen by the State agency based on eligibility criteria and availability of funds. More importantly, FSA funding ceased in September 1996 and this claim is for November 1998—two years later.

The child care provider received payment of \$4.80 funded in part from CCDF funds which was an appropriate funding source for this child. Application reflects employment as the need for day care. No duplicate reimbursement occurred and this should not be cited as a finding. Documentation attached.

Strata Sample 2-4. The auditor's comment on this finding was that the "*Voucher & application indicate AFDC.*" The child was receiving AFDC for the month of December 1996. The reason or need for day care was employment. However, no FSA funding either was or could have been utilized for this child since FSA funds ceased for the day care program three months earlier on September 30, 1996. Documentation attached.

Strata Sample 2-23. The auditor's reference support for this finding was a WFFA notation on the application. A search in the Eligibility Information System showed that this child was not receiving AFDC in February 1998. The reason or need for day care was employment. No FSA funding was involved for this child since FSA funds ceased for the State's day care program a year and a half earlier on September 30, 1996. Therefore, this should not be cited as a finding. Documentation attached.

Strata Sample 2-31. The auditor's reference and support for this finding was "*Application, Voucher say WFFA which is paid by FSA. System shows WFFA.*" First, funding notations at the local level may not be the funding chosen by the State agency based on eligibility criteria and availability of funds. More importantly, FSA funding ceased in September 1996 and this claim is for January 1999—over two years after the end of FSA funding.

The reason or need for day care was employment. The child care provider received payment of \$ 325 funded in part from CCDF funds which was an appropriate funding source for this child. No duplicate reimbursement occurred and this should not be cited as a finding.

Strata Sample 2-40. The auditor's reference and support for this finding was "*Application indicates AFDC.*" The child's mother was murdered and the child resided with the grandparent who applied for day care. The grandparent did not have financial responsibility for the child. This was a child-only AFDC case and AFDC benefits were paid to the child—not the grandparent during the month of April 1996. Therefore, AFDC was not an income consideration for the grandmother. In addition, the child was eligible for multiple grants including CCDF--the grant used to fund day care for this child. The grandmother was also employed at the same day care center that the child attended. Documentation attached.

Strata Sample 2-59. The auditor's reference and support for this finding was "*Action Notice shows WFFA which is paid by FSA. System shows WFFA.*" First, funding notations at the local level may not be the funding chosen by the State agency based on eligibility criteria and availability of funds. More importantly, FSA funding ceased in September 1996 and this claim is for August 1997—almost a year after the end of FSA funding.

The reason or need for day care was employment. The child care provider received payment of \$222.30 funded in part from an appropriate funding source (CCDF funds). No duplicate reimbursement occurred and this should not be cited as a finding. Documentation attached.

Strata Sample 2-64. A search in the Eligibility Information System showed that this child was not receiving AFDC in August 1998. Application showed employment as the need for day care. Also, no FSA funding could possibly be involved for this child since there were no FSA funds for the State's day care program after September 30, 1996. Therefore, this should not be cited as a finding. Documentation attached.

Strata Sample 2-76. The auditor's reference and support for this finding was that the "*Application, Voucher and Narrative show WFFA which is paid by FSA. System shows WFFA.*" First, funding notations at the local level may not be the funding chosen by the State agency based on eligibility criteria and availability of funds. More importantly, FSA funding ceased in September 1996 and this claim is for September 1997--a year later.

The application and narrative indicates the reason for day care was employment. The child care provider received only one payment of \$272 which was appropriately funded in part from CCDF funds. This should not be cited as a finding.

Strata Sample 3-16. A search in the Eligibility Information System showed that this child was not receiving AFDC in February 1999. Also, no FSA funding could possibly be involved for this child since there were no FSA funds for the State's day care program after September 30, 1996. Therefore, this should not be cited as a finding. Documentation attached.

Strata Sample 3-20. The auditor's reference and support for the finding was that the "*Application and Voucher show WFFA which is paid by FSA. System shows WFFA.*" First, funding notations at the local level may not be the funding chosen by the State agency based on eligibility criteria and availability of funds. More importantly, FSA funding ceased in September 1996 and this claim is for May 1998—almost two years later.

The child care provider received a payment of \$429 funded in part from CCDF funds and a Smart Start Services Enhancement bonus of \$ 21. The auditor assumed that because a August 1997 application and voucher referenced receiving WFFA, that the parent was receiving WFFA nine months later in May 1998—an incorrect assumption. The attached Eligibility Information System report shows that WFFA terminated in March 1998. This should not be cited as a finding.

Strata Sample 3-21. The auditor's reference and support for the finding was that the "Application and Voucher show WFFA which is paid by FSA. Narrative shows funded by Smart Start. Voucher also shows Smart Start as well as WFFA. Neither should have been used to assign Other Grants' Childcare. System shows WFFA."

- First, funding notations at the local level may not be the funding chosen by the State agency based on eligibility criteria and availability of funds.
- Also, it is quite common to use multiple funding sources for various components of child care for a single child in a given month. For example, CCDF funds may pick up the base child care payment and Smart Start may be utilized to pay for program enhancements. Eligibility for Smart Start does not in any way preclude a child from eligibility for other grants.
- More importantly, FSA funding ceased in September 1996 and this claim is for March 1998—a year and a half later. The NC Child Care Subsidy System did not even have a FSA fund source code 30 after September 1996.

As for this specific case, the day care center applied for NAEYC (National Association for the Education of Young People) certification which is a nationally recognized child care accreditation program. In this regard, the local Smart Start partnership designated that Smart Start subsidy funds could be used to pay a rate enhancement for every child enrolled in the program to assist the Center in the cost of this quality improvement initiative. Smart Start funds could not be used to pay the basic child care reimbursement. Therefore, the reimbursement for this month was segregated by funding source. CCDF funds were used to partially fund the basic child care payment of \$1,150.05 and Smart Start participated in the quality improvement initiative in the amount of \$563.55. No duplicate reimbursement occurred and this should not be cited as a finding. (Documentation attached.)

Strata Sample 3-64. The child did receive AFDC for the month of November 1996. However, no FSA funding was involved for this child since FSA funds ceased for the day care program on September 30, 1996.

### Conclusion

Janet Rehnquist recently stated that "As a standard practice, the audit staff routinely favors the State whenever there is reasonable doubt or uncertainty on the allowability of a particular case." We have seen no evidence that this "standard practice" has been applied in this child care audit. Further, we find it disconcerting to have new disallowances on cases that the OIG previously

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deemed allowable and were not in the draft report. These "new" cases appear to represent either:

- a lack of a basic understanding of North Carolina's day care system by the OIG auditors after thousands of hours of review and audit work; or
- a punitive posture toward the State.

Auditing, when performed in an unbiased manner, represents a valuable test of program controls and program integrity for management. The North Carolina Department of Health and Human Services is committed to improving both the administration and delivery of needed services to the citizens of the State. We are trying to do so within the confines and the funding restrictions we are subject to. Our ability to carry out this mission is heavily impacted by the cooperation of the Federal government. To this end, we encourage the reintroduction of a true State/Federal partnership and a spirit of working together rather than at odds with one another.

Sincerely yours,



Carmen Hooker Odom

CHB:ds

Cc: Lanier Cansler  
Peggy Ball  
Satana Deberry  
Gary Fuquay  
Dan Stewart  
Honorable Ralph Campbell  
Marc Lodge

Attachments – Confidential Client Information