

Testimony of:  
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Hearing Title: “The Foundation for Success: Strengthening the Child Care  
and Development Block Grant Program”  
House Committee on Education and the Workforce  
Subcommittee on Early Childhood, Elementary, and Secondary Education

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Chairman Rokita, Ranking Member McCarthy, and other distinguished Members of the Subcommittee, thank you for the opportunity to testify about the U.S. Department of Health and Human Services (HHS) Office of Inspector General’s (OIG) recent reviews of the Child Care and Development Block Grant, also known as the Child Care and Development Fund (CCDF) program. In fiscal year (FY) 2013, Congress appropriated \$5.1 billion to the CCDF which provides financial assistance for child care for approximately 1.6 million children each month. Within HHS, the Administration for Children and Families (ACF) administers the CCDF as a block grant to the States. My testimony today summarizes challenges related to monitoring the health and safety of children served by the CCDF program and fiscal controls over CCDF funds to ensure that they are used to improve the availability, quality, and affordability of child care. I will also discuss improper payments<sup>1</sup> in the CCDF program and reported corrective actions.

Since 2012, we have conducted a series of reviews of States’ efforts to administer and implement the CCDF program. See the attachment for a list of OIG reports related to the CCDF program. States are required to have health and safety standards in place for all providers, including providers receiving CCDF money.<sup>2</sup> By statute, these standards must cover three areas: prevention and control of infectious disease, building and physical premises safety, and health and safety training. OIG has focused on States’ monitoring to ensure that providers that received CCDF funds complied with State requirements related to the health and safety of children.

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<sup>1</sup> An improper payment is any payment that should not have been made or that was made for an incorrect amount (either an overpayment or an underpayment).

<sup>2</sup> Section 658E(c)(2)(F)(i)-(iii) of the Child Care and Development Block Grant Act of 1990.

OIG oversight efforts also include an examination of States' use of funds for targeted purposes. Specifically, CCDF provides discretionary funding for three targeted areas known as Infant and Toddler, Quality and School Age Resources, and Referrals funds. These targeted programs are 100 percent federally funded. OIG audits have assessed whether State agencies complied with Federal requirements in the expenditure of targeted funds for activities that improve the availability, quality, and affordability of child care. We also have ongoing work to assess States' controls for determining eligibility of the family to receive child care services, regulating and monitoring the child care providers, and ensuring proper payment for services. In addition, we annually report on HHS's compliance with the Improper Payments Information Act of 2002 (IPIA), as amended, regarding the reporting of improper payments. OIG reporting includes an evaluation of the accuracy and completeness of HHS's reported estimated improper payments for the CCDF program.

On the basis of this work, OIG has three key takeaways:

- Vulnerabilities exist in States' standards and monitoring of child care providers that put the health and safety of some children at risk. Federal requirements mandating that States strengthen minimum health and safety requirements (including background checks) and strengthen monitoring (including unannounced site visits) would reduce those risks.
- Weaknesses in certain States' fiscal controls over obligation and liquidation activities put CCDF funds at risk of being misspent.
- HHS had identified the CCDF program as being susceptible to significant improper payments. HHS reported significant progress in reducing the improper payment rate for the CCDF program from 9.4 percent in FY 2012 to 5.9 percent in FY 2013. However, sustained attention will be needed to further reduce improper payments in this program.

Following are more details regarding the CCDF program and applicable Federal requirements, the results of our reviews, and conclusions.

## Background and Federal Requirements Related to the Child Care and Development Fund

CCDF subsidizes child care for low-income children under age 13 whose parents work or attend educational or job training programs.<sup>3</sup> After a parent enrolls in the program, he or she may either enroll the child with an eligible provider that has a grant or contract for the provision of services or receive a child care certificate (a check or voucher), which must be used as payment for child care services.<sup>4</sup> States may contribute matching funds and are responsible for determining program priorities and overseeing funds. As such, States share responsibility with ACF for protecting the financial integrity of the CCDF program. In addition, States must designate a lead agency to administer program funds and submit a plan to ACF for approval. A State plan identifies the purposes for which CCDF funds will be expended for 2 fiscal years.

Federal regulations require that States have sufficient fiscal control and accounting procedures adequate to demonstrate that funds have been used in accordance with legal requirements of the block grant.<sup>5</sup> CCDF program requirements provide that a State has 2 fiscal years to obligate CCDF funds and a third fiscal year to liquidate those funds. Any funds not obligated or liquidated during the specified period will revert to the Federal government.<sup>6</sup> The CCDF program consists of discretionary, mandatory and matching funds for direct services, non-direct services, quality activities and administration costs. Several of our audits have looked at “targeted funds,” discretionary funds used for activities that improve the availability, quality, and affordability of childcare and to support the administration of these activities.

OIG is required to review HHS’s annual improper payment information to determine and report compliance with IPPIA as amended by the Improper Payments and Elimination Recovery Act of

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<sup>3</sup> At the option of the State, services may be provided for a child under age 19 who is physically or mentally incapable of caring for him or herself or is under court supervision. 45 CFR § 98.20 lays out eligibility requirements.

<sup>4</sup> 45 CFR § 98.30.

<sup>5</sup> 45 CFR § 98.67(c).

<sup>6</sup> 45 CFR § 98.60(d)(7).

2010.<sup>7</sup> HHS had identified CCDF as one of its eight programs susceptible to significant improper payments. Because of this designation, IPIA requires that HHS estimate improper payments for the program, take corrective actions to reduce improper payments, and annually report to Congress the actions taken to reduce improper payments for those programs with estimated improper payments exceeding \$10 million. For FY 2013 reporting, HHS estimated that improper payments for the CCDF program totaled about \$306 million, or a 5.9-percent error rate.

### **OIG Has Identified Challenges in Monitoring the Health and Safety of Children Served by the CCDF Program**

Gaps in oversight and monitoring can place the health and safety of children at risk, as our work has demonstrated. In September 2013, we issued our first report of a series<sup>8</sup> to address the health and safety of children under the care of licensed providers that receive CCDF funding.<sup>9</sup> This report focused on the State of Connecticut's onsite monitoring activities for 20 selected providers. We determined that all 20 of the providers we reviewed did not comply with one or more State licensing requirements to ensure the health and safety of children. Specifically, we found that 19 of the 20 providers did not always comply with 1 or more requirements related to the physical conditions of the family homes and 8 of the providers did not comply with required criminal records and protective services checks. Two of the providers voluntarily surrendered their licenses after our review of their compliance with State licensing regulations.

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<sup>7</sup> OIG is required to review how HHS is assessing the programs' improper payment information it reports as well as the accuracy and completeness of the reporting in HHS's annual *Agency Financial Report*.

<sup>8</sup> *Connecticut Family Day Care Home Providers Did Not Always Comply With State Health and Safety Licensing Requirements* (A-01-12-02504, September 23, 2013).

<sup>9</sup> OIG has ongoing health and safety reviews of family homes and day care centers in 10 States and 1 territory. These include Arizona, Connecticut, Louisiana, Maine, Michigan, Minnesota, Missouri, New York, Pennsylvania, Puerto Rico, and South Carolina. We considered various risk factors for our selection of States and child care providers. Examples include previous health and safety findings, length of time since last State inspection, geographical location, and total children receiving CCDF funds.

Examples of health and safety violations included:

- lighter fluid, charcoal, gasoline, and a propane tank found either in unlocked cabinets or in the children’s outdoor play area, all accessible to children;
- an outdoor play area that was not properly protected from the driveway by a fence or other child-safe barrier;
- a smoke detector that did not have a battery; and
- homes without adequate sleeping arrangements for the children in their care—e.g., three children sleeping on the same air mattress in the living room instead of each child having his or her own sleeping arrangement.

Our work examining the CCDF program has also focused on each State’s health and safety requirements for licensed child care providers, including an in-depth review of monitoring activities in five States representing 35 percent of children served in licensed settings in FY 2009. In November 2013, we reported<sup>10</sup> that all States complied with the Federal requirement to have health and safety requirements in place for licensed child care providers. Although there is no required Federal standard, States’ monitoring requirements for licensed providers did not always meet ACF’s recommendations for background screenings or the recommended standards for unannounced inspections. For example, only 15 States reported performing background checks sufficient to be considered comprehensive background screenings for both center-based and family home providers. As another example, 21 States did not report requirements for routine unannounced inspections that met recommended national standards.<sup>11</sup> Routine unannounced inspections are a means for States to determine whether providers are maintaining healthy and safe environments for children. Moreover, monitoring of licensed providers was not conducted in accordance with States’ own requirements. For five selected States that we further reviewed, four

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<sup>10</sup> *Child Care and Development Fund: Monitoring of Licensed Child Care Providers* (OEI-07-10-00230, November 4, 2013).

<sup>11</sup> ACF partners with another HHS agency component, the Health Resource and Services Administration (HRSA) to disseminate the book entitled *Caring for Our Children: National Health and Safety Performance Standards; Guidelines for Out-of-Home Child Care Programs*, funded by a HRSA grant. According to the National Standards, a licensing agency should conduct at least two inspections per year of each center and family home. At least one of the inspections should be unannounced; more unannounced inspections should be conducted if needed for the facility to achieve satisfactory compliance.

States that required routine unannounced inspections failed to comply with their own requirements and none of the five States adhered to their own frequency requirements for reviewing providers' compliance with State requirements for background screening. We found that ACF did little to monitor how States were overseeing CCDF providers.

In July 2013, we issued an early alert memorandum<sup>12</sup> to ACF regarding the gaps in health and safety requirements and monitoring for license-exempt providers. These gaps represent vulnerabilities that could potentially lead to harm for children in care, including care financed by the Federal Government. We found that a number of States did not report having any requirements for certain license-exempt providers for at least one of the three health and safety areas.<sup>13</sup> As such, these States were not fully compliant with Federal regulations. Additionally, a few States reported that they did not have requirements in place to monitor license-exempt providers. Other States reported allowing providers to self-certify compliance with health and safety requirements, and reported limited monitoring, limited use of background checks, and provider non-reporting of serious injuries.

On May 20, 2013, ACF issued a Notice of Proposed Rulemaking that proposed regulations that ACF expects would strengthen health and safety requirements for the oversight of child care providers.<sup>14</sup> These proposed regulations would provide more comprehensive health and safety requirements for center-based, group home, and family home CCDF providers (including license-exempt providers). For example, the proposed regulations would not allow providers to self-certify compliance with health and safety requirements and would require States to take specific steps to monitor all CCDF providers. Comments on the proposed rule were due on or before August 5, 2013. To date, ACF has not issued its final regulations.

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<sup>12</sup> *License-Exempt Child Care Providers in the Child Care and Development Fund Program* (OEI-07-10-00231, July 11, 2013).

<sup>13</sup> States may exempt certain providers from State specific licensing requirements (i.e., license-exempt providers). The types of providers that are license-exempt vary by State. For example, center-based child care providers located in public schools are exempted from licensing requirements in 22 States. As another example, family home child care providers that serve children from one family are exempted from licensing requirements in seven States. However, all providers, including license-exempt, must meet Federal health and safety standards.

<sup>14</sup> 78 Fed. Reg. 29941 (May 20, 2013).

## **OIG Has Identified Weaknesses in the Fiscal Controls Over CCDF Targeted Funds in Certain States**

For FY 2013, CCDF targeted funds awarded to States totaled about \$300 million. Financial stewardship at the Federal and State levels is paramount to help ensure that these vital Federal dollars are spent for their intended purposes and in accordance with program requirements. OIG audits have assessed whether State agencies complied with Federal requirements in the expenditure of targeted funds for Infant and Toddler, Quality and School Age Resources, and Referrals funds.

Our findings regarding the fiscal accounting of CCDF targeted funds were similar for each of the four State reviews.<sup>15</sup> We found that several States lacked supporting documentation for expenditures, improperly reobligated targeted funds after the obligation period, and did not refund unliquidated funds after the award period had ended. In these instances, we found that States did not have adequate policies and procedures in place to monitor the obligation and liquidation of CCDF targeted funds pursuant to Federal requirements. In addition, one State had not set up its accounting system to track expenditures to the funding source or grant year of the funding source. Instead, the State relied on externally created spreadsheets to allocate and support reported expenditures. However, the State's financial reporting process did not ensure the accuracy and validity of those spreadsheets, which were used to calculate expenditures reported to ACF.

To date, our audits in four of seven States reviewed<sup>16</sup> have identified a total of \$5.8 million in targeted fund expenditures that did not comply with Federal requirements for FYs 2004 - 2009. The four States expended \$57.2 million in CCDF targeted funds during this same time period. These weaknesses in financial controls put additional funds at risk of being misspent.

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<sup>15</sup> The four States are Iowa, Louisiana, Nebraska, and Virginia. In addition, we have audits underway at six additional States that are expected to be issued in FY 2014. We considered several risk factors for our selection of States, including total CCDF funds expended and claimed for Federal reimbursement, geographical location, and input from ACF.

<sup>16</sup> OIG completed audits in seven States: four States with OIG reported findings—Iowa, Louisiana, Nebraska, and Virginia—and three States with no OIG reported findings—Connecticut, Michigan, and Ohio. These seven States' expenditures of targeted funds totaled \$120.3 million in CCDF funds for FYs 2004 - 2009.

## **HHS Reported Significant Improper Payment Reductions Under the CCDF; Sustained Attention Is Needed to Continue This Progress**

To improve the accountability of Federal agencies' administration of funds, IPFA requires agencies, including HHS, to publish improper payment estimates for programs and activities identified as being susceptible to significant improper payments. HHS annually reports estimated improper payments for the CCDF program in its *Agency Financial Report*. HHS has made significant progress in reducing the CCDF improper payment rate from 9.4 percent in FY 2012<sup>17</sup> to 5.9 percent in FY 2013. Looking ahead, further reductions of this rate are important to protect the \$5.1 billion at stake. This is a challenging goal for many reasons.

As steward of taxpayer dollars, HHS is accountable for how States spend federal CCDF dollars and for safeguarding these funds from improper payments. States are also responsible for ensuring that these funds are used for the intended purposes outlined in the grant award. Measuring improper payments and designing and implementing actions to minimize or eliminate them are not simple tasks, particularly for grant programs that rely on quality administration efforts at the State level. Implementing strong preventive controls can help mitigate improper payments, increasing public confidence and avoiding the difficult "pay and chase" aspects of recovering improper payments.

For FY 2013, HHS reported that administrative and documentation errors accounted for 51 percent of the reported \$306 million of estimated improper payments. Errors were due primarily to the fact that documentation was missing or insufficient. Examples of missing or insufficient documentation include missing case records; incomplete documentation about the work, educational, or training activity of the head of the household; and insufficient documentation of earned income. HHS reported that the remaining 49 percent of estimated improper payments resulted from verification errors. These types of errors occurred when there was a lack of information to verify portions of a case record. HHS stated that the errors consisted of the failure

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<sup>17</sup> In its FY 2013 *Agency Financial Report*, HHS stated that the published FY 2012 estimated improper payment rate had been overstated because incorrect data for a small number of States had not been detected prior to the 2012 publication. OIG had brought this reporting error to HHS's attention during our review of its 2012 reported improper payment information. For its 2013 publication, HHS stated that the correct 2012 estimated improper payment rate was 9.2 percent. However, HHS would continue to report the initial 2012 estimate of 9.4 percent in its 2013 publication for consistency.



to apply policy correctly such as inability to determine income calculation method and incorrect computation of the hours of care needed.

HHS reported corrective actions that it and States are taking to target payment errors in the CCDF program. Examples of HHS corrective actions include providing technical assistance to States through on-site visits and Webinars, coordination of conference calls with State Administrators to facilitate peer-to-peer sharing of error causes and program improvements, and implementation of a technical assistance tool entitled “Grantee Internal Control Self-Assessment Instrument” for States with high error rates. According to HHS, the tool will help States assess their internal control systems, identify areas of risk, and develop mitigation strategies. States have also initiated corrections to reduce CCDF payment errors. Examples include performing ongoing case record reviews; developing training plans that include policy clarifications, calculation tools, and checklists to ensure accuracy in processing eligible children for child care assistance; and enhancing automated systems to track attendance of children receiving child care, produce monitoring reports, and generate computer edits. Collectively, these corrective actions are important steps for HHS and States to further minimize improper payments and ensure the proper administration of the CCDF program and compliance with Federal requirements. Sustained attention by HHS will be needed to continue achieving significant reductions of improper payments in the CCDF program.

## **Conclusion**

OIG will continue its oversight of CCDF to help ensure the health and safety of children, improve program integrity, and ensure sound financial management. We have ongoing audits in these areas at various State agencies that oversee the provision of childcare services to ensure that they comply with Federal requirements. Given our findings and recommendations to date, we support Congressional or administrative action that will enhance the health and safety of children. This is especially important with respect to the facilities where children are receiving care and with respect to the background checks of the providers that are delivering services. Additionally, increased accountability for funds and further reduction of improper payments are also important.

I thank the Subcommittee for its commitment to our shared goals—ensuring that Federal CCDF dollars are used for their intended purposes of providing affordable child care to low-income families that does not sacrifice quality or safety.

Thank you for your interest in our work and the opportunity to testify on OIG oversight of the CCDF program. I would be pleased to answer your questions.

ATTACHMENT

RELATED OFFICE OF INSPECTOR GENERAL REPORTS for 2012 and 2013

<b>Report Title</b>	<b>Report Number</b>	<b>Date Issued</b>
Child Care and Development Fund: Monitoring of Licensed Child Care Providers	OEI-07-10-00230	11/4/2013
Virginia Properly Obligated and Liquidated Most Targeted Funds Under the Child Care and Development Fund Program	A-03-12-00251	10/17/2013
Louisiana Improperly Claimed Some Child Care and Development Fund Targeted Funds	A-06-12-00057	9/30/2013
Connecticut Family Day Care Home Providers Did Not Always Comply With State Health and Safety Licensing Requirements	A-01-12-02504	9/23/2013
License-Exempt Child Care Providers in the Child Care and Development Fund Program	OEI-07-10 00231	7/11/2013
Nebraska Improperly Claimed Some Child Care and Development Targeted Funds	A-07-12-03175	4/30/2013
Michigan Properly Obligated and Liquidated Targeted Funds Under the Child Care and Development Fund Program	A-05-12-00062	4/26/2013
Ohio Properly Obligated and Liquidated Targeted Funds Under the Child Care and Development Fund Program	A-05-12-00061	4/26/2013
Iowa Improperly Claimed Some Child Care and Development Targeted Funds	A-07-11-03163	3/28/2012
U.S. Department of Health and Human Services Met Many Requirements of the Payments Information Act of 2002 but Was Not Fully Compliant	A-17-13-52000	3/15/2013
Connecticut Properly Obligated and Liquidated Targeted Funds Under the Child Care and Development Fund Program	A-01-12-02505	2/21/2013