

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**SOUTH CAROLINA PROPERLY
OBLIGATED AND LIQUIDATED TARGETED
FUNDS UNDER THE CHILD CARE AND
DEVELOPMENT FUND PROGRAM**

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

INTRODUCTION

South Carolina complied with Federal requirements when submitting Child Care and Development Fund claims for fiscal years 2007 through 2009.

WHY WE DID THIS REVIEW

The Child Care and Development Fund (CCDF) provides Federal discretionary funding for the following three targeted funds: School Age Resource and Referral, Quality Expansion, and Infant and Toddler. These targeted funds are used for activities that improve the availability, quality, and affordability of childcare and to support the administration of these activities. At the Federal level, the U.S. Department of Health and Human Services, Administration for Children and Families (ACF) administer the funds. We conducted this review because previous Office of Inspector General reviews found that other States did not always comply with Federal requirements when claiming targeted funds for reimbursement. (See Appendix A for a list of OIG reports related to targeted funds.) We therefore identified State CCDF claims as being potentially at risk.

OBJECTIVE

The objective of our audit was to determine whether the South Carolina Department of Social Services (State agency) complied with Federal requirements for the use of CCDF targeted funds for Federal reimbursement for fiscal years (FYs) 2007 through 2009.

BACKGROUND

Under CCDF, States have considerable latitude in implementing and administering their childcare programs. Each State must develop and submit to ACF a State plan that identifies the purposes for which CCDF funds will be expended for two grant periods (i.e., 2 FYs). Program requirements state that a State agency has 2 FYs to obligate CCDF funds and a 3rd FY to liquidate those funds. Table 1 shows the obligation and liquidation periods for each FY covered by our review.

Table 1: Obligation and Liquidation Periods

FY	Obligation Period Start Date	Obligation Period End Date	Liquidation Period End Date
2007	10/1/2006	9/30/2008	9/30/2009
2008	10/1/2007	9/30/2009	9/30/2010
2009	10/1/2008	9/30/2010	9/30/2011

The State plan must also designate a lead agency responsible for administering childcare programs. In addition, States are required to report expenditures of targeted funds on the

quarterly Child Care and Development ACF-696 Financial Report (ACF-696 report), which is a cumulative report for the FY.

In South Carolina, the State agency is the lead agency designated to administer the CCDF program. The State agency is responsible for monitoring programs and services, ensuring compliance with program rules, and overseeing the expenditures of funds by sub-grantees and contractors. The State agency does not directly administer and implement all services, programs, and activities funded under the CCDF act. Instead, the State agency maintains control of services that are provided by other agencies by entering into legally binding contracts or grant agreements with these agencies at which time the funds are considered obligated.

HOW WE CONDUCTED THIS REVIEW

For FYs 2007 through 2009, the State received \$20,494,592 from ACF for targeted funds (Table 2):

Table 2: Federal Funding of South Carolina’s Targeted Funds

	School Age Resource and Referral	Quality Expansion	Infant and Toddler	Total
2007	\$319,910	\$3,115,476	\$1,804,274	\$5,239,660
2008	314,571	3,059,154	1,771,656	5,145,381
2009	326,492	3,192,986	1,849,166	5,368,644
ARRA Funding		<u>3,002,225</u>	<u>1,738,682</u>	<u>4,740,907</u>
Subtotal 2009	326,492	6,195,211	3,587,848	10,109,551
Total	\$960,973	\$12,369,841	\$7,163,778	\$20,494,592

We reviewed contracts totaling \$19,676,107 of targeted fund expenditures claimed by the State agency.¹

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix B contains details of our audit scope and methodology, and Appendix C contains details on the Federal and State requirements related to CCDF targeted funds.

¹ The 3-year obligation and liquidation cycle described above delays the moment when these funds can be regarded as both closed for adjustment and subject to audit.

RESULTS OF AUDIT

The State agency complied with Federal requirements for the obligation and liquidation of the full amount of the \$19,676,107 of CCDF targeted funds that we reviewed. Accordingly, this report contains no recommendations.

APPENDIX A: RELATED OFFICE OF INSPECTOR GENERAL REPORTS

Report Title	Report Number	Date Issued
<i>Review of Unexpended Infant and Toddler Targeted Funds and Quality Targeted Funds Claimed by the Iowa Department of Human Services for Fiscal Years 1998-2003</i>	<u>A-07-07-00231</u>	8/18/2008
<i>Ohio Properly Obligated and Liquidated Targeted Funds Under the Child Care and Development Fund Program</i>	<u>A-05-12-00061</u>	4/26/2013
<i>Connecticut Properly Obligated and Liquidated Targeted Funds Under the Child Care and Development Fund Program</i>	<u>A-01-12-02505</u>	2/21/2013
<i>Iowa Improperly Claimed Some Child Care and Development Targeted Funds</i>	<u>A-07-11-03163</u>	3/26/2012
<i>Virginia Properly Obligated and Liquidated Most Targeted Funds Under The Child Care and Development Fund Program</i>	<u>A-03-12-00251</u>	10/17/2013
<i>Louisiana Improperly Claimed Some Child Care and Development Fund Targeted Funds</i>	<u>A-06-12-00057</u>	9/30/2013
<i>Nebraska Improperly Claimed Some Child Care and Development Targeted Funds</i>	<u>A-07-12-03175</u>	4/30/2013
<i>Michigan Properly Obligated and Liquidated Targeted Funds Under the Child Care and Development Fund Program</i>	<u>A-05-12-00062</u>	4/26/2013

APPENDIX B: SCOPE AND METHODOLOGY

SCOPE

Of the \$20,626,250 claimed by the State agency for targeted funds reimbursement for FYs 2007 through 2009, we reviewed expenditures totaling \$19,676,107. We did not perform a detailed review of the State agency's internal controls because our objective did not require us to do so. We limited our review to the controls related to the obligation and liquidation of the targeted funds.

We conducted fieldwork at the State agency in Columbia, South Carolina, in May 2013.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and program guidance, as well as State laws and the approved South Carolina CCDF State plans;
- discussed with ACF allocations and reporting;
- discussed with the State agency its contracts, liquidation, grants, ARRA funding, expenditures, journal entries, transfers, and other related topics;
- reviewed and reconciled the ACF-696 reports for FYs 2007 through 2009 to determine the amount of targeted funds that the State agency claimed;
- reconciled the execution dates of relevant South Carolina State Government contracts to the obligation requirements of the targeted funds for FYs 2007 through 2009;
- reconciled the State agency's payment dates to contractors, grantees, and other agencies of the South Carolina State Government to the liquidation requirements of the targeted funds for FYs 2007 through 2009;
- reviewed the documentation that the State agency used to prepare the ACF-696 reports;
- reconciled accounting documentation maintained by the State agency to expenditures of the Infant and Toddler targeted fund for direct childcare services;
- reviewed documentation submitted by contractors to the State agency in support of the expenditure of targeted funds; and
- discussed the results of our review with State agency officials on December 5, 2013.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX C: FEDERAL REQUIREMENTS RELATED TO CHILD CARE AND DEVELOPMENT TARGETED FUNDS

FUND OBLIGATION REGULATIONS

Federal regulations (45 CFR § 98.60(d)(1)) state: “Discretionary Fund allotments shall be obligated in the fiscal year in which funds are awarded or in the succeeding fiscal year. Unliquidated obligations as of the end of the succeeding fiscal year shall be liquidated within one year.”

Federal regulations (45 CFR § 98.60(d)(7)) state that “[a]ny funds not obligated during the obligation period specified in paragraph (d) of this section will revert to the Federal government. Any funds not liquidated by the end of the applicable liquidation period specified in paragraph (d) of this section will also revert to the Federal government.”

Federal regulations (45 CFR § 98.60(g)) require that funds that are properly obligated and liquidated but are subsequently returned to the grantee within the original obligation period, “(1) if received by the Lead Agency during the applicable obligation period ... be used for activities specified in the Lead Agency’s approved plan and must be obligated by the end of the obligation period; or (2) if received after the end of the applicable obligation period ... be returned to the Federal government.”

ACTIVITY REGULATIONS

Federal regulations (45 CFR § 98.16(h)) require that the approved CCDF State plan include “[a] description of the activities to provide comprehensive consumer education, to increase parental choice, and to improve the quality and availability of child care, pursuant to [45 CFR] § 98.51.”

Federal regulations (45 CFR §§ 98.51(a) and (b)) require that no less than 4 percent of the aggregate funds be spent on activities to improve the quality of childcare and that the Lead Agency describe in the CCDF State plan the activities it will fund under the quality activities (which includes the targeted funds).²

Federal regulations (45 CFR § 92.20(b)(2)) require the financial systems of grantees and subgrantees to maintain records which adequately identify the source and application of funds provided for financial assisted activities.

Federal regulations (45 CFR § 98.67(c)) require fiscal control and accounting procedures be sufficient to (1) prepare reports required by the Secretary and (2) the tracing of funds to a level of expenditure adequate to establish the funds have not been used in violation of the provisions of this part.

² Quality activities include the targeted funds, which are in addition to the 4-percent minimum.

Program Guidance issued in 2009 required the grantee to have sufficient fiscal and accounting procedures to permit the preparation of required reports and the tracing of expenditures to a level of expenditure adequate to establish that such funds have not been used in violation of 45 CFR part 98.