March 26, 2012

TO: George Sheldon
   Acting Assistant Secretary
   Administration for Children and Families

FROM: /Gloria L. Jarmon/
   Deputy Inspector General for Audit Services

SUBJECT: Iowa Improperly Claimed Some Child Care and Development Targeted Funds
         (A-07-11-03163)

Attached, for your information, is an advance copy of our final report on our review of the fiscal years 2004 through 2008 Child Care and Development Targeted Funds in Iowa. We will issue this report to the State of Iowa within 5 business days.

If you have any questions or comments about this report, please do not hesitate to contact me, or your staff may contact Kay L. Daly, Assistant Inspector General for Audit Services, at (202) 619-1157 or through email at Kay.Daly@oig.hhs.gov or Patrick J. Cogley, Regional Inspector General for Audit Services, Region VII, at (816) 426-3591 or through email at Patrick.Cogley@oig.hhs.gov. Please refer to report number A-07-11-03163.

Attachment
March 28, 2012

Report Number: A-07-11-03163

Mr. Charles M. Palmer
Director
Department of Human Services
Hoover State Office Building, Fifth Floor
1305 East Walnut Street
Des Moines, IA  50319-0114

Dear Mr. Palmer:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled Iowa Improperly Claimed Some Child Care and Development Targeted Funds. We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this 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.

If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, or contact Greg Tambke, Audit Manager, at (573) 893-8338, extension 30, or through email at Greg.Tambke@oig.hhs.gov. Please refer to report number A-07-11-03163 in all correspondence.

Sincerely,

/ Patrick J. Cogley/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Shannon Rudisill
Director
Office of Child Care
Administration for Children and Families
U.S. Department of Health and Human Services
901 D Street SW
Aerospace 5th Floor East
Washington, DC  20447
IOWA IMPROPERLY CLAIMED SOME CHILD CARE AND DEVELOPMENT TARGETED FUNDS
The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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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.
EXECUTIVE SUMMARY

BACKGROUND

The U.S. Department of Health and Human Services (HHS), Administration for Children and Families (ACF), is responsible for promoting the economic and social well-being of children, families, and communities. ACF carries out this responsibility through grants and contracts to State, county, city, and tribal governments, as well as public and private local agencies.

Child Care and Development Fund

Pursuant to the Child Care and Development Block Grant Act and section 418 of the Social Security Act, the Child Care and Development Fund (CCDF) assists low-income families, families receiving temporary public assistance, and families transitioning from public assistance in obtaining childcare so that family members can work or attend training or education. The CCDF provides targeted discretionary funding for certain activities, such as Infant and Toddler, Quality, and School Age Resource and Referral activities, to improve the availability, quality, and affordability of childcare and to support the administration of these activities. These activities are 100 percent federally funded. 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 Federal fiscal year (FY).

Under the CCDF program, State Lead Agencies have considerable latitude in administering and implementing their childcare programs. Every 2 years each State must develop, and submit to ACF for approval, a CCDF State plan. The State plan must designate a Lead Agency that has the responsibility to administer and maintain overall responsibility for childcare programs. In Iowa, the Department of Human Services (State agency) is the Lead Agency and is responsible for administering the CCDF program.

The State agency claimed CCDF targeted funds totaling $12,884,014 on its ACF-696 reports for FYs 2004 through 2008.

OBJECTIVE

Our objective was to determine, for FYs 2004 through 2008, whether the State agency complied with Federal requirements when claiming CCDF targeted funds for Federal reimbursement.

SUMMARY OF FINDINGS

Of the $12,884,014 that the State agency claimed for CCDF targeted funds, the State agency did not comply with Federal requirements when claiming $2,654,238 for FYs 2004 through 2008. Specifically, the State agency (1) improperly reobligated $2,464,723 of FY 2004 targeted funds after the obligation period had ended, (2) improperly obligated $134,209 of FY 2006 CCDF targeted funds to another entity at the same level in the State government as the State agency, and (3) did not refund to the Federal Government the $55,306 of targeted funds that either were returned by the grantee after the obligation period had ended or remained unliquidated after the
liquidation period ended. For the remaining $10,229,776 of CCDF targeted funds, the State agency obligated and liquidated the funds in accordance with Federal requirements.

These errors occurred because the State agency did not have adequate policies and procedures in place to monitor the obligation and liquidation of CCDF targeted funds pursuant to Federal requirements.

RECOMMENDATIONS

We recommend that the State agency:

- refund to the Federal Government $2,464,723 for FY 2004 targeted funds that were not properly obligated,
- refund to the Federal Government $134,209 for FY 2006 targeted funds that were not properly obligated,
- refund to the Federal Government $55,306 in FY 2004 through 2008 targeted funds that were returned after the obligation period had ended or were not properly liquidated, and
- develop sufficient policies and procedures to monitor the expenditure of CCDF targeted funds to ensure that expenditures are properly obligated and liquidated.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency concurred with our second and third recommendations and the associated findings and described corrective actions that it planned to implement. The State agency did not concur with our first recommendation and partially concurred with our fourth recommendation.

Regarding our first recommendation, the State agency said that the targeted funds for FYs 1998 through 2003 were obligated and liquidated in compliance with Federal and State regulations. The State agency added that, for the same reasons, the FY 2004 targeted funds were obligated and liquidated correctly. The State agency also stated that ACF agreed with its methodology for handling the FY 2004 targeted funds after the dissolution of the contractor to which the $2,464,723 had been obligated.

Regarding our fourth recommendation, the State agency described corrective actions that it had taken or planned to take to monitor the expenditure of CCDF targeted funds. The State agency stated that it had tracked the obligation and liquidation timeframes for funds issued to contractors; however, in some instances providers did not submit invoices for grants that they had requested or cash checks that they had received, resulting in unexpended funds.

The State agency’s comments appear in their entirety as the Appendix.
OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing the State agency’s comments, we maintain that our findings and recommendations are valid. The State agency’s comments regarding the obligation and liquidation of targeted funds for FYs 1998 through 2003 refer to our prior audit (A-07-07-00231, issued August 21, 2008), in which we found that the State agency did not comply with Federal regulations. We recommended in that audit that the State agency refund the unexpended targeted funds to the Federal Government; ACF upheld that recommendation.

The FY 2004 targeted funds that we reviewed in the current audit were obligated to the same contractor involved in the targeted funds for FYs 1998 through 2003; however, the FY 2004 targeted funds were never disbursed to that contractor. In the current audit, we determined that the FY 2004 targeted funds were deobligated (funds no longer obligated) after the obligation period had ended (September 30, 2005) as a result of the termination of the contract on June 30, 2006. Federal regulations require that funds deobligated after the end of the applicable obligation period be returned to the Federal Government.

In addition, a letter sent by ACF to the State agency specified that the allowability of the FY 2004 targeted funds would depend upon the proper obligation and liquidation of those funds. ACF added that it would make a determination on the allowability of the FY 2004 targeted funds based upon an audit that we would conduct. We reviewed these targeted funds during the current audit and determined that the FY 2004 targeted funds were improperly reobligated and therefore should be refunded to the Federal Government.

With respect to the State agency’s partial concurrence with our fourth recommendation, we commend the State agency for tracking the liquidation and obligation timeframes. Nevertheless, in its role as the Lead Agency, the State agency is responsible for ensuring that it obtains the documentation needed to support the claimed targeted funds from the contractors and maintains that documentation.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTRODUCTION</td>
<td>1</td>
</tr>
<tr>
<td>BACKGROUND</td>
<td>1</td>
</tr>
<tr>
<td>Child Care and Development Fund</td>
<td>1</td>
</tr>
<tr>
<td>Administration of Child Care and Development Fund at State Level</td>
<td>1</td>
</tr>
<tr>
<td>OBJECTIVE, SCOPE, AND METHODOLOGY</td>
<td>2</td>
</tr>
<tr>
<td>Objective</td>
<td>2</td>
</tr>
<tr>
<td>Scope</td>
<td>2</td>
</tr>
<tr>
<td>Methodology</td>
<td>2</td>
</tr>
<tr>
<td>FINDINGS AND RECOMMENDATIONS</td>
<td>3</td>
</tr>
<tr>
<td>FISCAL YEAR 2004 TARGETED FUNDS IMPROPERLY REOBLIGATED</td>
<td>3</td>
</tr>
<tr>
<td>Federal Requirements</td>
<td>3</td>
</tr>
<tr>
<td>Unallowable Reobligation of Targeted Funds</td>
<td>4</td>
</tr>
<tr>
<td>FISCAL YEAR 2006 TARGETED FUNDS IMPROPERLY OBLIGATED</td>
<td>4</td>
</tr>
<tr>
<td>Federal Requirements</td>
<td>4</td>
</tr>
<tr>
<td>Unallowable Obligation of Targeted Funds</td>
<td>4</td>
</tr>
<tr>
<td>TARGETED FUNDS NOT PROPERLY LIQUIDATED OR REFUNDED</td>
<td>4</td>
</tr>
<tr>
<td>Federal Requirements</td>
<td>4</td>
</tr>
<tr>
<td>Unliquidated or Returned Funds</td>
<td>5</td>
</tr>
<tr>
<td>INADEQUATE POLICIES AND PROCEDURES</td>
<td>5</td>
</tr>
<tr>
<td>RECOMMENDATIONS</td>
<td>6</td>
</tr>
<tr>
<td>STATE AGENCY COMMENTS</td>
<td>6</td>
</tr>
<tr>
<td>OFFICE OF INSPECTOR GENERAL RESPONSE</td>
<td>7</td>
</tr>
<tr>
<td>APPENDIX</td>
<td></td>
</tr>
<tr>
<td>STATE AGENCY COMMENTS</td>
<td></td>
</tr>
</tbody>
</table>
INTRODUCTION

BACKGROUND

The U.S. Department of Health and Human Services (HHS), Administration for Children and Families (ACF), is responsible for promoting the economic and social well-being of children, families, and communities. ACF carries out this responsibility through grants and contracts to State, county, city, and tribal governments, as well as public and private local agencies.

Child Care and Development Fund

Pursuant to the Child Care and Development Block Grant Act and section 418 of the Social Security Act, the Child Care and Development Fund (CCDF) assists low-income families, families receiving temporary public assistance, and families transitioning from public assistance in obtaining childcare so that family members can work or attend training or education. The CCDF provides targeted discretionary funding\(^1\) for certain activities, such as Infant and Toddler, Quality, and School Age Resource and Referral (SAR&R) activities, to improve the availability, quality, and affordability of childcare and to support the administration of these activities. These activities are 100 percent federally funded. 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 Federal fiscal year (FY).

Administration of Child Care and Development Fund at State Level

Under the CCDF program, State Lead Agencies have considerable latitude in administering and implementing their childcare programs. Each State must develop, and submit to ACF for approval, a State plan that identifies the purposes for which CCDF targeted funds will be expended for two grant periods (i.e., 2 FYs). Federal regulations (45 CFR § 98.60) require that CCDF discretionary funds, which include targeted funds, be obligated and liquidated within a specified timeframe. Funds that are neither obligated nor liquidated within this timeframe must revert to the Federal Government.

Furthermore, the State plan must designate a Lead Agency responsible for administering childcare programs. Federal regulations (45 CFR § 98.11(b)) state: “In retaining overall responsibility for the administration of the program, the Lead Agency shall: … (5) Oversee the expenditure of funds by subgrantees and contractors; (6) Monitor programs and services; … (8) Ensure that all State and local or non-governmental agencies through which the State administers the program, including agencies and contractors that determine individual eligibility, operate according to the rules established for the program.”

In Iowa, the Department of Human Services (State agency) is the Lead Agency and is responsible for administering the CCDF program. As the Lead Agency, the State agency is required to oversee the expenditure of funds by contractors, grantees, and other agencies of the

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\(^1\) Congress specifically appropriates funding each year for these targeted activities. Targeted funds were referred to in the past as “earmarks.” ACF Program Instruction, CCDF-ACF-PI-2007-05 (July 17, 2007).
Iowa State government to ensure that the funds are expended in accordance with Federal requirements.

We undertook this review of Iowa’s CCDF program at ACF’s request and in response to information provided by ACF’s regional office.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine, for FYs 2004 through 2008, whether the State agency complied with Federal requirements when claiming CCDF targeted funds for Federal reimbursement.

Scope

We reviewed the $12,884,014 of targeted funds that the State agency claimed on its ACF-696 reports for FYs 2004 through 2008. 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 Des Moines, Iowa, from December 2010 through March 2011.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and program guidance, as well as State laws and the approved Iowa CCDF State plans;

- reviewed the ACF-696 reports for FYs 2004 through 2008 to determine the amount of targeted funds that the State agency claimed;

- interviewed State agency staff responsible for preparing the ACF-696 reports to obtain an understanding of how the reports were prepared, how the targeted funds were reported, and what documentation was maintained to support expenditures on the reports;

- reviewed the State agency’s contracts with and the timing of payments to contractors in relation to liquidation and obligation requirements of the targeted funds for FYs 2004 through 2008;

- reviewed the State agency’s documentation used to prepare the ACF-696 reports;

- reviewed documentation submitted by contractors to the State agency in support of the expenditure of targeted funds;

- judgmentally selected 46 targeted fund disbursements for more detailed review;
• interviewed staff of other agencies of the Iowa State government and of contractors that received targeted funds to obtain an understanding of the oversight provided by the State agency and how the funds were reimbursed;

• judgmentally selected two other agencies of the Iowa State government, one fiscal agent, and one contractor, and reviewed selected payments and supporting documentation maintained at their locations; and

• discussed the results of our review with State agency officials on July 1, 2011.

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 objective.

FINDINGS AND RECOMMENDATIONS

Of the $12,884,014 that the State agency claimed for CCDF targeted funds, the State agency did not comply with Federal requirements when claiming $2,654,238 for FYs 2004 through 2008. Specifically, the State agency (1) improperly reobligated $2,464,723 of FY 2004 targeted funds after the obligation period had ended, (2) improperly obligated $134,209 of FY 2006 CCDF targeted funds to another entity at the same level in the State government as the State agency, and (3) did not refund to the Federal Government the $55,306 of targeted funds that either were returned by the grantee after the obligation period had ended or remained unliquidated after the liquidation period ended. For the remaining $10,229,776 of CCDF targeted funds, the State agency obligated and liquidated the funds in accordance with Federal requirements.

These errors occurred because the State agency did not have adequate policies and procedures in place to monitor the obligation and liquidation of CCDF targeted funds pursuant to Federal requirements.

FISCAL YEAR 2004 TARGETED FUNDS IMPROPERLY REOBLIGATED

Federal Requirements

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.” Additionally, 45 CFR § 98.60(d)(7) states that “[a]ny funds not obligated during the obligation period specified in paragraph (d) of this section will revert to the Federal government.”

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2 The term “fiscal agent” refers to a contractor that disburses targeted funds to grantees.
Unallowable Reobligation of Targeted Funds

The State agency claimed $2,464,723 of FY 2004 targeted funds ($903,915 of Infant and Toddler funds and $1,560,808 of Quality funds) that were unallowable because the State agency reobligated the targeted funds after the obligation period had ended.

The obligation period for the FY 2004 targeted funds ended on September 30, 2005. The State agency obligated the $2,464,723 of targeted funds in a contract with a single contractor and did so within the timeframe specified by Federal regulations. However, in June 2006 (after the obligation period had ended), the State agency terminated its contract with the contractor without having disbursed the $2,464,723. The State agency then reobligated the FY 2004 targeted funds to other contractors. In a letter to ACF, the State agency acknowledged that the funds were reobligated after the obligation period had ended.

FISCAL YEAR 2006 TARGETED FUNDS IMPROPERLY OBLIGATED

Federal Requirements

Federal regulations (45 CFR § 98.60(d)(1)) provide: “Discretionary Fund allotments shall be obligated in the fiscal year in which funds are awarded or in the succeeding fiscal year.” Federal regulations (45 CFR § 98.60(d)(5)) further state: “Obligations may include subgrants or contracts that require the payment of funds to a third party (e.g., subgrantee or contractor). However, the following are not considered third party subgrantees or contractors: … (ii) Another entity at the same level of government as the Lead Agency.”

Unallowable Obligation of Targeted Funds

The State agency claimed $134,209 of FY 2006 targeted funds ($103,901 of Quality funds and $30,308 of Infant and Toddler funds) that were not obligated properly within the prescribed time period. Specifically, the State agency contracted with other State agencies to expend a portion of the targeted funds, but these contracts did not constitute valid obligations of funds pursuant to Federal regulations. These other State agencies did not expend the targeted funds until after the obligation period had ended. Therefore, the targeted funds that were not expended prior to the end of the obligation period were unallowable. As a result, $134,209 of FY 2006 targeted funds was unallowable.

TARGETED FUNDS NOT PROPERLY LIQUIDATED OR REFUNDED

Federal Requirements

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.” Additionally, 45 CFR § 98.60(d)(7) states 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.”

Unliquidated or Returned Funds

The State agency did not properly liquidate $55,306 in SAR&R targeted funds. During our audit period, the State agency contracted with the Iowa Afterschool Care Alliance (the Alliance) to identify and disburse grants to childcare providers within the State. Although the Alliance properly obligated these funds within the specified obligation period, it did not liquidate $34,150 in FY 2004 SAR&R targeted funds to grantees within the specified liquidation period.

Furthermore, the State agency properly obligated and then drew down all of the FY 2005 SAR&R targeted funds to disburse; however, during its reconciliation the State agency determined that it did not disburse $7,388 in targeted funds to its contractors. The State agency identified this error after the liquidation period had ended.

In addition, the grantees returned to the Alliance $13,768 in unexpended grant funds relating to FYs 2005 through 2008 SAR&R targeted funds after the respective obligation and liquidation periods had ended. Although the funds initially were obligated and liquidated properly, these unused funds could not be reobligated because the obligation and liquidation periods had expired.

Therefore, the State agency claimed $55,306 of unallowable SAR&R targeted funds for FYs 2004 through 2008.

INADEQUATE POLICIES AND PROCEDURES

These errors occurred because the State agency did not have adequate policies and procedures in place to monitor the obligation and liquidation of CCDF targeted funds pursuant to Federal requirements.

Although the State agency performed one site visit per year at each of its contractors and required that applicable contractors submit audited financial statements, it performed no monitoring of its CCDF targeted fund contractors to ensure that the contractors properly obligated and liquidated targeted funds. Of the 46 judgmentally selected targeted fund disbursements that we reviewed, 20 included only a standard form requesting payment, without any supporting documentation. In each of these cases, this form contained only a summary of the disbursement being requested and provided no detail support for the cost incurred.

The Iowa Code requires that documentation contain sufficient detail to support requests for payments; however, in these cases the State agency did not ensure that the invoices contained
documentation sufficient to support the payment requests prior to the approval of the invoices for payment.³

Better monitoring, to include adequate review of the supporting documentation, would have revealed that the targeted funds were not being obligated and liquidated pursuant to Federal requirements.

RECOMMENDATIONS

We recommend that the State agency:

- refund to the Federal Government $2,464,723 for FY 2004 targeted funds that were not properly obligated,
- refund to the Federal Government $134,209 for FY 2006 targeted funds that were not properly obligated,
- refund to the Federal Government $55,306 in FY 2004 through 2008 targeted funds that were returned after the obligation period had ended or were not properly liquidated, and
- develop sufficient policies and procedures to monitor the expenditure of CCDF targeted funds to ensure that expenditures are properly obligated and liquidated.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency concurred with our second and third recommendations and the associated findings and described corrective actions that it planned to implement. The State agency did not concur with our first recommendation and partially concurred with our fourth recommendation.

The State agency provided several reasons it did not concur with our first recommendation:

- The State agency said that the targeted funds for FYs 1998 through 2003 were obligated and liquidated in compliance with Federal and State regulations. The State agency added that, for the same reasons, the FY 2004 targeted funds were obligated and liquidated correctly.
- The State agency also stated that it did not “terminate its original contract” without disbursing the $2,464,723. The State agency said that it was notified of the decision to dissolve the contractor corporation on April 20, 2006. This event occurred after the end

³ The Iowa Code 8A.514 (2003 Supp.) states: “Before a warrant or its equivalent is issued for a claim payable from the state treasury, the department shall file an itemized voucher showing in detail the items of service, expense, item furnished, or contract for which payment is sought.” The standard contract that the State agency enters into with CCDF providers specifically incorporates this requirement: “The Department [i.e., the State agency] shall pay all approved invoices in arrears and in conformance with Iowa Code section 8A.514 (2003 Supp.)”
of the obligation period (September 30, 2005) but before the end of the liquidation period (September 30, 2006). The State agency added that the contractor’s board of directors voted to dissolve the entity as a corporation, a decision that the State agency “… could have neither foreseen nor was forewarned [about].”

- The State agency said that thereafter, it collaborated with the ACF Regional Office regarding the expenditure of the FY 2004 targeted funds in an effort to “remedy a ‘no fault’ situation” brought about by the dissolution of the contractor. Specifically:
  - The State agency said that it reached an agreement with ACF that if the State agency could identify appropriate expenditures from the 4-percent “set aside” expenditures, and if these appropriate expenditures had been obligated and liquidated within the required timeframes, the State agency could revise the ACF-696 report to reflect those adjustments.
  - The State agency submitted a revised ACF-696 report in October 2006, along with a narrative explanation 2 months later. The State agency said that in the absence of any further communication from ACF’s Child Care Bureau, it believed that this report had been accepted. The State agency added that the ACF On-line Data Collection system indicated that the revised ACF-696 report was reviewed and accepted by both the ACF Regional and Central Offices.

Regarding our fourth recommendation, the State agency described corrective actions that it had taken or planned to take to monitor the expenditure of CCDF targeted funds. The State agency stated that it had tracked the obligation and liquidation timeframes for funds issued to contractors; however, in some instances providers did not submit invoices for grants that they had requested or cash checks that they had received, resulting in unexpended funds.

The State agency’s comments appear in their entirety as the Appendix.

**OFFICE OF INSPECTOR GENERAL RESPONSE**

After reviewing the State agency’s comments, we maintain that our findings and recommendations are valid. The targeted funds for FYs 1998 through 2003 were outside the scope of this current audit, but we reviewed those funds in a prior audit (A-07-07-00231, issued August 21, 2008). In that audit, we found that the State agency did not comply with Federal regulations and recommended that the State agency refund the unexpended targeted funds to the Federal Government; ACF upheld that recommendation.

The FY 2004 targeted funds that we reviewed in the current audit were obligated to the same contractor involved in the targeted funds for FYs 1998 through 2003; however, the FY 2004 targeted funds were never disbursed to that contractor. In the current audit, we determined that

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4 The 4-percent “set aside” expenditures refer to the fact that Federal regulations require that no less than 4 percent of the aggregate amount of CCDF funds expended be used to improve the quality of childcare.
the FY 2004 targeted funds were deobligated (funds no longer obligated) after the obligation period had ended (September 30, 2005) as a result of the termination of the contract on June 30, 2006. Federal regulations (45 CFR § 98.60(g)) state: “Funds that are returned (e.g. … funds deobligated by cancellation of a child care certificate, unused subgrantee funds) … shall… (2) if received after the end of the applicable obligation period … be returned to the Federal government.”

In addition, a letter sent by ACF to the State agency on September 22, 2006, stated in part: “The allowability of your proposal [regarding the FY 2004 targeted funds] depends upon the proper obligation and liquidation of the funds. We plan to make a determination on this issue based upon an audit by the Office of Inspector General.” In this context, we point out that the ACF On-line Date Collection system indicated only that the ACF-696 reports had been filed, not that they had been reviewed and accepted. ACF’s letter to the State agency made it clear that ACF would not make a determination as to the allowability of the targeted funds until we had audited them. We reviewed these targeted funds during the current audit and determined that the FY 2004 targeted funds were improperly reobligated and therefore should be refunded to the Federal Government.

With respect to the State agency’s partial concurrence with our fourth recommendation, we commend the State agency for tracking the liquidation and obligation timeframes. Nevertheless, in its role as the Lead Agency, the State agency is responsible for ensuring that it obtains the documentation needed to support the claimed targeted funds from the contractors and maintains that documentation.
JAN 2 2012

Patrick J. Cogley
Regional Inspector General for Audit Services
Office of Inspector General
Region VII
601 East 12th Street, Room 0429
Kansas City, MO 64106


Dear Mr. Cogley:

Enclosed please find comments from the Iowa Department of Human Services (DHS) on the November 17, 2011 draft report concerning Office of Inspector General’s (OIG) review of Child Care Development Targeted Funds at DHS.

DHS appreciates the extension and opportunity to respond to the draft report and provide additional comments to be included in the final report. Questions about the attached response can be addressed to:

Jody Lane-Molnari, Executive Officer II
Division of Fiscal Management
Iowa Department of Human Services
Hoover State Office Building, 1st Floor SW
1305 E Walnut Street
Des Moines, IA 50319-0114

Email: jlanemo@dhs.state.ia.us
Phone: 515-281-6027

Sincerely,

Charles M. Palmer
Director

cc: Greg Tambke, Audit Manager
Attachments
RE: A-07-11-03163

IOWA DEPARTMENT OF HUMAN SERVICES
RESPONSE TO OIG DRAFT REPORT:

Iowa Improperly Claimed Some Child Care Development Targeted Funds,
Report Number, A-07-11-03163

Background

The U.S. Department of Health and Human Services (HHS), Administration for Children and Families (ACF), is responsible for promoting the economic and social well-being of children, families, and communities. ACF carries out this responsibility through grants and contracts to State, county, city, and tribal governments, as well as public and private local agencies.

Pursuant to the Child Care and Development Block Grant Act and section 418 of the Social Security Act, the Child Care and Development Fund (CCDF) assists low-income families, families receiving temporary public assistance, and families transitioning from public assistance in obtaining childcare so that family members can work or attend training or education. The CCDF provides targeted discretionary funding for certain activities, such as Infant and Toddler, Quality, and School-Age Resource and Referral activities, to improve the availability, quality, and affordability of childcare and to support the administration of these activities. These activities are 100 percent federally funded. 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 each Federal fiscal year (FFY).

Under the CCDF program, State Lead Agencies have considerable latitude in administering and implementing their childcare programs. Every 2 years each State must develop, and submit to ACF for approval, a CCDF State plan. The State plan must designate a Lead Agency that has the responsibility to administer and maintain overall responsibility for childcare programs. In Iowa, the Department of Human Services (DHS) is the Lead Agency and is responsible for administering the CCDF program.

OIG Findings and Recommendations

DHS did not have adequate policies and procedures in place to monitor the obligation and liquidation of some CCDF targeted funds pursuant to Federal requirements.

DHS claimed CCDF targeted funds totaling $12,884,014 on its ACF-696 reports for FYs 2004 through 2008. In OIG’s evaluation of the total CCDF targeted funds claimed, DHS did not comply with Federal requirements when claiming $2,654,238 for FYs 2004 through 2008.

Specifically, DHS:

• improperly reobligated $2,464,723 of FY 2004 targeted funds after the obligation period had ended,
RE: A-07-11-03163

- improperly obligated $134,209 of FY 2006 targeted funds to another entity at the same level in the State government as DHS, and
- did not refund to the Federal Government the $55,306 of targeted funds that either were returned by the grantee after the obligation period had ended or remained unliquidated after the liquidation period ended.

DHS did properly obligate and liquidate $10,229,776 of CCDF targeted funds in accordance with Federal requirements.

OIG recommends that DHS:
- refund to the Federal Government $2,464,723 for FY 2004 targeted funds that were not properly obligated,
- refund to the Federal Government $134,209 for FY 2006 targeted funds that were not properly obligated,
- refund to the Federal Government $55,306 in FY 2004 through 2008 targeted funds that were returned after the obligation period had ended or were not properly liquidated, and
- develop sufficient policies and procedures to monitor the expenditure of CCDF targeted funds to ensure that expenditures are properly obligated and liquidated.

DHS Response

Please see the discussion for each of the findings and recommendations as detailed below. Following are the corrective actions taken and planned for each finding.

Fiscal Year 2004 Targeted Funds Improperly Reobligated

In OIG’s evaluation, DHS claimed $2,464,723 of FY 2004 targeted funds that were unallowable because DHS reobligated the targeted funds after the obligation period had ended.

The obligation period for the FY 2004 targeted funds ended on September 30, 2005. DHS obligated the $2,464,723 of targeted funds in a contract with a single contractor and did so within the timeframe specified by Federal regulations. However, in June 2006, after the obligation period ended, DHS terminated its original contract without disbursing the $2,464,723. DHS then reobligated the FY 2004 targeted funds to other contractors.

Response:

Iowa Department of Human Services does not concur with the referenced finding and the recommendation.
The relevant background and specific reasons for nonconcurrence include:

- The Department retains its original position that the state did in fact obligate and liquidate CCDF funds in compliance with federal and state regulations as stated in the agency's response to the audit of FFY1998-2003 funds. The FFY04 funds in question carry forward that assertion.
- DHS did not, as stated in the draft report, "terminate its original contract" without disbursing the $2,464,723. The statement implies that DHS arbitrarily opted to cease the relationship with the contractor, thereby putting the federal funds in jeopardy by doing so after the obligation period had ended.
- In fact, the board of directors of the contractor opted to dissolve as a 501(c)(3) corporation, an act DHS could have neither foreseen nor was forewarned.
- DHS was notified of the decision to dissolve the corporation on 4/20/06. The action of the board occurred after the obligation period had ended (9/30/05) and without opportunity for DHS to anticipate or plan. The dissolution occurred prior to the end of the liquidation period for the FFY2004 funds.
- The resulting actions by the DHS in regards to the expenditure of the $2,464,723 came about after extensive collaboration with the Kansas City ACF Regional Office. See Attachment A, Memo from DHS to KC Regional Office, dated 10/31/2006.
- In September 2006, DHS administrators and the ACF Regional Administrator and ACF Child Care Program Manager determined strategies to allow DHS to remedy a 'no fault' situation. [Note: Only one of the original parties to this conversation remains in state/federal government]
- Agreement was reached that if the agency could identify appropriate expenditures from the 4% 'set aside' expenditures, that were both obligated and liquidated within the required timeframes, DHS could adjust the FFY2004 ACF-696 Financial report to reflect those adjustments. DHS/ACF concurred that this was a reasonable solution due to the fact that the agency consistently exceeds the minimum 4% required to be expended for quality activities.
- ACF staff was consulted with the federal Child Care Bureau to determine if there was any precedent that would preclude this strategy. No further communication from ACF or the Child Care Bureau was received by DHS to indicate the strategy would not be allowed.
- In October 2006, DHS submitted the FFY2004 ACF-696 Financial Report. In December 2006 a narrative for the ACF-696 was submitted. See Attachment B, Addendum to the CCDF ACF-696 Report for the Quarter Ending 9/30/06, submitted to KC Regional Office, dated 12/13/06. Absent any further follow-up by the Child Care Bureau, DHS believed the report to be accepted.
- The ACF On-line Data Collection system indicates that the report was both reviewed and accepted by both the ACF Regional Office and Central Office levels.
- DHS also, at the request of ACF Regional Office, submitted a draft amendment to the CCDF FFY04-05 State Plan to reflect the dissolution of the contractor for the funds and to identify the activities corresponding to the agreed-upon expenditure adjustment. It was later determined by ACF Regional Office that an amendment was no longer necessary, as the period of the plan had expired.
- To ask now for DHS to return $2.5M in funding to the federal government, more than 5 years after DHS acted in good faith based on the consultation with ACF/Child Care Bureau, is unduly punitive.
RE: A-07-11-03163

DHS offers the following alternative actions:
• No refund to the Federal Government is warranted.
• DHS no longer uses fiscal agents to obligate/liquidate CCDF federal funds.
• DHS is mindful of the requirement that discretionary funds be obligated in the fiscal year in which they are received, or in the succeeding fiscal year (i.e., by the end of the 2nd FFY) and liquidated by the end of the 3rd federal fiscal year. The majority of funds are now obligated and liquidated within a timeframe that allows for the re-obligation of funds, if necessary, within the allowable obligation timeframe.

Fiscal Year 2006 Targeted Funds Improperly Obligated

In OIG's evaluation, DHS claimed $134,209 of FY 2006 targeted funds that were not obligated properly within the prescribed time period. Specifically, DHS contracted with other State agencies to expend a portion of the targeted funds, but these contracts did not constitute valid obligations of funds pursuant to Federal regulations. These other State agencies did not expend these targeted funds until after the obligation period ended. Therefore, the targeted funds that were not expended prior to the end of the obligation period were unallowable.

Response:

Iowa Department of Human Services concurs with the referenced finding and the recommendation.

To address this finding, DHS has taken and will take the following actions:
• DHS is mindful of the requirement that discretionary funds be obligated in the fiscal year in which they are received, or in the succeeding fiscal year (i.e., by the end of the 2nd FFY) and liquidated by the end of the 3rd federal fiscal year. Though we no longer contract out targeted funds to any state agency (i.e., at the same level of government), any effort in that regard in the future would be obligated and liquidated within the obligation period.

Targeted Funds Not Properly Liquidated or Refunded

In OIG's evaluation, DHS did not properly liquidate $55,306 in School Age Resource & Referral (SARR) targeted funds.

DHS contracted with the Iowa Afterschool Care Alliance to identify and disburse grants to childcare providers within the State. Although the Alliance properly obligated these funds within the specified obligation period, it did not liquidate $34,150 in FY 2004 SARR targeted funds within the specified liquidation period.

DHS properly obligated and then drew down all of the FY 2005 SARR targeted funds to disburse; however, during its reconciliation, DHS determined it did not disburse $7,388 in targeted funds to its contractors. DHS identified this error after the liquidation period ended.
RE: A-07-11-03163

In addition, the grantees returned to the Alliance $13,768 in unexpended grant funds relating to FYs 2005 through 2008 SARR targeted funds after the respective obligation and liquidation periods ended. Although the funds were obligated and liquidated properly, these unused funds could not be reobligated because the obligation and liquidation periods expired.

Response:

Iowa Department of Human Services concurs with the referenced finding and the recommendation.

To address this finding, DHS has taken and will take the following actions:

- DHS is currently reviewing the best strategy to use with the School-Age Targeted Funds. Should provider grants continue to be a component of that strategy, DHS will instruct the contractor that all claims for grant funding must be received by providers by the end of the 3rd quarter of the 2nd year of obligation to allow for re-obligation if necessary. Furthermore, expenditures will be tracked on a quarterly basis with the contractor to assure that all funds are liquidated within the allowable timeframes.

Inadequate Policies and Procedures

In OIG's evaluation, DHS did not have adequate policies and procedures in place to monitor the obligation and liquidation of CCDF targeted funds pursuant to Federal requirements.

Although DHS performed one site visit per year at each of its contractors and required that applicable contractors submit audited financial statements, it performed no monitoring of its CCDF targeted fund contractors to ensure that the contractors properly obligated and liquidated targeted funds.

Iowa Code requires that documentation contain sufficient detail to support requests for payments; however, DHS did not ensure that the invoices contained documentation sufficient to support the payment requests prior to approval of the invoices for payment.

Better monitoring, to include adequate review of the supporting documentation, would have revealed that the targeted funds were not being obligated and liquidated pursuant to Federal requirements.

Response:

Iowa Department of Human Services concurs (but not in whole) with the referenced finding and the recommendation.

To address this finding, DHS has taken and will take the following actions:

- The contract program manager did track the obligation and liquidation timeframes for funds issued to contractors. In some instances, providers failed to submit invoices for
RE: A-07-11-03163

grants they had requested, or failed to cash checks they had received, resulting in unexpended funds.
- Both the budget analyst and the program manager now keep spreadsheets that indicate the obligation and liquidation dates, and also track the funding issued by contract for each federal fiscal year. The program manager maintains spreadsheets for each contractor and funding code to track spending on a monthly basis.
- At least one quarter before the liquidation period ends, the program manager confers with contractors to assure that all funds will be spent in a timely manner. Contractors provide documentation that aligns with funding codes prior to payment.
- The majority of funds are now obligated and liquidated within a timeframe that allows for the re-obligation of funds, if necessary, within the allowable obligation timeframe.
RE: A-07-11-03163

Appendix

Attachments:
Attachment A, Memo from DHS to KC Regional Office, dated 10/31/2006
Attachment B, Addendum to the CCDF ACF-696 Report for the Quarter Ending 9/30/06, submitted to KC Regional Office, dated 12/13/06
October 31, 2006

TO: Kansas City Regional Office

Attn: Angela Hedges, Financial Operations Specialist

From: Mary Nelson, Administrator, Child and Family Services
      Jan Clausen, Administrator, Fiscal Management

Attached is the FFY 2004 ACF-696 Financial report for the period ending September 30, 2006. Per our discussion via conference call on September 13, 2006 with Linda Lewis and staff in the Kansas City Regional Office, we are requesting your approval of adjustments made on this report:

The adjustments are necessary due to the dissolution of a contractor with whom we had obligated funding for Infant and Toddler and Quality Earmarks. The dissolution of the contractor occurred after the obligation period ended but prior to the end of the liquidation period for FFY 2004.

The Department annually exceeds the 4% minimum required for expenditures under the quality-set-aside. We have identified set-aside expenditures that were both obligated and liquidated within the required timeframes that also meet the requirements of the earmarks for Infant and Toddler and Quality per ACYF-PF-CC-99-05. These expenditures are reflected on lines 1(c) and 1(d). Line 1(b) has been reduced by the total of 1(c) and 1(d) per the chart below. These adjustments fully expend the FFY 2004 earmarks while maintaining expenditures in excess of the required 4% for the quality-set-aside. A corresponding adjustment is made on this report to line 1(g) to align expenditures for direct services with the correct FFY.

<table>
<thead>
<tr>
<th>Adjustment to Earmark</th>
<th>Adjustment from Set-Aside</th>
<th>Amount</th>
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</thead>
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<tr>
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<td>Child Care Wraparound Grants</td>
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<tr>
<td>Infant and Toddler</td>
<td>Child Care Resource and Referral Contracts for Parent Services</td>
<td>$905,915</td>
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Please contact Mary Nelson at 515-281-5521 or Jan Clausen at 515-281-4987 if you have questions or would like additional clarification on the adjustments made to this report. We look forward to your approval.

Cc: Linda Lewis, ACF, Regional Administrator, Region VII
   Betty Lammle, Regional Child Care Program Manager
### FFY 2004 Child Care Targeted Funds

<table>
<thead>
<tr>
<th>Organization</th>
<th>Type of Grant</th>
<th>Start Date</th>
<th>End Date</th>
<th>Amount</th>
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Quality allocation: $1,340,800, Infra/Toddler allocation $992,915
** Funds were obligated by 9-30-03 and liquidated by 9-30-06**
December 13, 2006

Addendum to the CCDF ACF-696 Report
For the quarter ending September 30, 2006

Discretionary Funds – Earmarked Amounts

FFY04
The School-Age Resource and Referral funds were liquidated on September 15, 2005 with the Iowa After School Association, in their capacity as a fiscal agent for the Iowa Department of Human Services. The School Age Resource and Referral earmark funds were directed towards providing support for individuals who care for children during their out-of-school time. Activities include scholarships to attend the state school-age conference, making start-up and replenishment grants available to providers and supporting the delivery of Welcome to School Age Care training through the Child Care Resource and Referral (CCR&R) system.

The Infant and Toddler funds were liquidated on September 15, 2006. The funds supported a portion of the parent referral services for infant and toddler care performed by the CCR&R's.

The Quality earmark funds were liquidated by September 30, 2006. The funds supported a portion of the child care wraparound grants administered by the Department to provide full-day, full-year, high quality child care to low-income children.

FFY05:
The majority of the funds earmarked for School Age Resource and Referral were obligated as of August 28, 2006 with the Iowa After School Association, in their capacity as a fiscal agent for the Iowa Department of Human Services. Funds were also obligated to the Child Care Resource and Referral agencies as of July 1, 2006. These funds will be liquidated by September 30, 2007. The School Age Resource and Referral earmark funds were directed towards providing support for individuals who care for children during their out-of-school time. Activities include scholarships to attend the state school-age conference, making start-up and replenishment grants available to providers and supporting the delivery of Welcome to School Age Care training through the Child Care Resource and Referral (CCR&R) system.

The Infant and Toddler funds were obligated by September 30, 2006 and will be liquidated by September 30, 2007. The funds supported a portion of the parent referral services for infant and toddler care performed by the CCR&R's.

The Quality earmark funds were obligated by September 30, 2006 and will be liquidated by September 30, 2007. The funds supported a portion of the child care wraparound grants administered by the Department to provide full-day, full-year, high quality child care to low-income children.
FFY06:
The funds earmarked for School Age Resource and Referral will be obligated by September 30, 2007 with the Iowa After School Association, in their capacity as a fiscal agent for the Iowa Department of Human Services. These funds will be liquidated by September 30, 2008.

The Infant and Toddler funds were obligated by September 30, 2006 and will be liquidated by September 30th, 2007. The Infant and Toddler earmark funds are directed primarily towards funding of Iowa’s Providers of Infant and Toddler Care (PITC) effort, including infant and toddler specialists located in the CCR&R’s, delivery of the five PITC modules, and training plan bonuses for child care providers; QRS grants to providers to assist them in achieving a level in the QRS system.

The Quality earmark funds were obligated by September 30, 2006 and will be liquidated by September 30, 2007. The Quality funds are directed primarily towards funding of Iowa T.E.A.C.H., a scholarship program which provides funds for scholarships, transportation, release time, and books for both home and center staff; expansion of the statewide coverage of child care home consultants who provide in-home technical assistance and quality improvement to child care home providers; expansion of the parent services available in the Child Care Resource and Referral (CCR&R) agencies; providing resources to child care home providers who access the services of the child care home consultants (TLC and business kits); support for the Child Care Business Practices project, which funds start-up and emergency grants, as well as providing training and technical assistance to child care centers, including the delivery of the National Administrator Credential (NAC) training; support for the Healthy Child Care Iowa partnership, which provides training, resources and technical assistance to child care providers; support for the coordination of the CCR&R system; support to the Early Care, Health and Education Conference, and QRS grants to providers to assist them in achieving a level in the QRS system.