



REPORT TO THE LEGISLATURE

Preliminary

- Department of Early Learning
- Child Care Subsidy Program
- Quality Control Measures for Working Connections Child Care



Washington State Department of
Early Learning

Introduction

The Washington State Department of Early Learning (DEL), in collaboration with the Department of Social and Health Services (DSHS), submits this preliminary report to detail quality control measures in the Working Connections Child Care (WCCC) program.

This preliminary report is required by Substitute Senate Bill (SSB) 5883, Section 615(4)(c), which states:

“[T]he department, in collaboration with the department of social and health services, must submit a preliminary report by December 1, 2017, and a final report by December 1, 2018, to the governor and the appropriate fiscal and policy committees of the legislature on quality control measures for the working connection child care program.

The reports must each include: (i) a detailed narrative of the procurement and implementation of an improved time and attendance system, including a detailed accounting of the costs of procurement and implementation; (ii) a comprehensive description of all processes, including computer algorithms and additional rule development, that the department and the department of social and health services plan to establish prior to and after full implementation of the time and attendance system. At a minimum, processes must be designed to: (A) ensure the department’s auditing efforts are informed by regular and continuous alerts of the potential for overpayments; (B) avoid overpayments to the maximum extent possible and expediently recover overpayments that have occurred; (C) withhold payment from providers when necessary to incentivize receipt of the necessary documentation to complete an audit; (D) establish methods for reducing future payments or establishing repayment plans in order to recover any overpayments; (E) sanction providers, including termination of eligibility, who commit intentional program violations or fail to comply with program requirements, including compliance with any established repayment plans; (F) consider pursuit of prosecution in cases with fraudulent activity; and (iii) a description of the process by which fraud is identified and how fraud investigations are prioritized and expedited.”

This preliminary report highlights existing quality control measures and efforts in reducing overpayments due to unintentional errors. Additionally, this report describes the procurement of an electronic attendance tracking system which is intended to enhance quality control measures already underway for WCCC. DEL has also developed other measures to identify and address program violations in child care subsidy programs to mitigate the potential for fraud.

A companion preliminary report, prepared by DSHS and required under SSB 5883(207)(d)(ii)¹, addresses additional quality control efforts in WCCC participant eligibility determination. Specifically, DSHS' quality control report describes how the agency is maximizing the use of IT systems, enhancing automated changes in procedures and practices, and monitoring high-risk case scenarios.

Additionally, Second Engrossed Second Substitute House Bill (SESSHB) 1661, Section 103² mandates that the newly formed Office of Innovation, Alignment and Accountability (OIAA) within the Department of Child, Youth, and Families (DCYF) coordinate with DEL and DSHS in developing a plan and recommendation for transferring Child Care Subsidy Programs eligibility responsibilities from DSHS to DCYF. This recommendation for DCYF is due to the Governor and appropriate Legislative committees by December 1, 2017.

Beginning July 1, 2018, DCYF and DSHS will annually report to the Governor and appropriate fiscal and policy committees on the status of overpayments to child care providers. This reporting will include a thorough review of overpayments from the prior fiscal year and identify modifications to internal process to reduce recurrence of overpayments.

Background

Working Connections Child Care (WCCC) and Seasonal Child Care³ are collectively referred to as Child Care Subsidy Programs (CCSP). CCSP program rules are set forth in Chapter 170-290 of the Washington Administrative Code (WAC). The goals of CCSP are to assist Washington families with child care costs by providing subsidies for these expenses and promoting continuity of care

¹ Substitute Senate Bill 5883, Section 207 (d)(ii) "The department, within existing appropriations, must ensure quality control measures for the working connections child care program by maximizing the use of information technology systems and the development or modification of the application and standard operating procedures to ensure that cases are:

(A) Appropriately and accurately processed; and (B) Routinely monitored for eligibility in a manner that is similar to processes and systems currently in place for regular monitoring in other public assistance programs. Eligibility criteria routinely monitored must include, at a minimum: (I) Participation in work or other approved activities; (II) Household composition; and (III) Maximum number of subsidized child care hours authorized. The department must submit a preliminary report by December 1, 2017, and a final report by December 1, 2018, to the governor and the appropriate fiscal and policy committees of the legislature detailing the specific actions taken to implement this subsection.

² www.app.leg.wa.gov; Bill Information; HB 1661 – 2017-18.

³ Seasonal Child Care (SCC), Chapter 170-290 WAC Part III, is similar to WCCC, but is a smaller program. Eligibility is limited to families working in agricultural-based industries who are not receiving temporary aid for needy families (TANF), and who reside in Adams, Benton, Chelan, Douglas, Franklin, Grant, Kittitas, Okanogan, Skagit, Walla Walla, Whatcom, or Yakima counties.

for early childhood learning. Child care subsidies assist low-income families by: (1) providing children with a stable, nurturing, high-quality learning environment that support the child's healthy development and school-readiness; and (2) enabling parents to work and pursue employment with the goal of creating financial stability and self-sufficiency. These goals are embodied in the 2014 Reauthorization of the federal funding authority, the Child Care Development Block Grant Act⁴ which has set policies to reduce administrative barriers to obtaining services for families facing the challenges of working to leave poverty while raising young children.

DEL and DSHS administer CCSP, with defined roles. DEL has policy-making responsibilities which include ensuring the state's CCSP comply with federal and state rules and requirements. DEL regularly collaborates with DSHS in policy interpretation by drafting and amending program rules to better direct CCSP service delivery and reflect current practices. DEL also provides DSHS and other stakeholders with program guidance that reflects the policy goals of the federal funding authority. DSHS approves families to receive child care subsidy benefits (eligibility determination), approves child care providers to be paid based on established rates, volumes and types of care (authorization), and makes payments.

Child care providers serving families and children receiving subsidies include licensed child care centers, licensed family child care homes, and license-exempt family, friend, and neighbor (FFN) caregivers. All child care providers serving subsidized families bill DSHS for authorized services by submitting claims to DSHS and are paid directly by DSHS. Currently, providers are required to maintain accurate child care attendance records to support billing; however, providers do not submit these records unless requested by DSHS or DEL for verification and audit purposes, and after payment has been made.

Current Quality Assurance Practices

DSHS

CCSP quality assurance practices are joint responsibilities of both agencies. DSHS is responsible for ensuring that eligibility and authorization determinations are accurate. This includes conducting proper review of an applicant's income and household information to determine whether or not a family qualifies for subsidized child care. Many applicants applying for child care also receive other state benefits such as food, medical, and cash assistance, and the Community Services Division (CSD) uses program integrity and auditing functions in CCSP which have proven effective in these programs. DSHS ensures that staff are properly trained and that automated systems, forms, and letters are updated to reflect changes to CCSP policy and rules.

⁴ 42 USC 9859.

DSHS also administers the payment system, Social Services Payment System (SSPS), used to receive providers' bills and send out payment for services provided to families. Billing issues may result in an underpayment or overpayment to the consumer or providers. DSHS, through the Office of Financial Recovery (OFR), manages the collection efforts for overpayments, including enforcement of unpaid amounts through financial remedies such as wage garnishments. For disputes related to child care subsidy overpayments, consumers and providers may request administrative hearings, which DSHS also administers and coordinates.

DSHS conducts audits and reviews of processes to ensure that eligibility workers are making accurate eligibility determinations and authorizing an appropriate amount of subsidized care consistent with program policy. Audits include:

- A random sample of eligibility determinations; and
- Focused audits which review situations identified by prior audits as prone to error.

During the most recently completed quarter (July-September 2017), DSHS conducted an average of 1,197 audits per month which represents more than two percent of the WCCC caseload. This exceeds the minimum requirement set forth in the DEL-DSHS Service Level Agreement (SLA). Error trends from the most recent audit include incorrect:

- Care authorization
- Co-payment determination
- Income budgeting

In addition, the agency routinely reviews potential overpayment cases identified by staff or algorithm and also audits all of the eligibility work of new employees in training until competency standards are met. When error trends emerge from analysis of audit findings, CSD works with DEL to identify root causes and develop clear and consistent guidance for eligibility workers to maintain program integrity. Potential payment errors are immediately addressed upon discovery in order to review for overpayment. Staff refer situations involving indicators of client or provider fraud to the DSHS Office of Fraud and Accountability (OFA) for investigation.

As noted above, a companion report⁵ to the legislature from DSHS describes additional practice and automation changes, both those recently adopted and in development, to strengthen quality assurance.

DEL

DEL's quality assurance efforts include reviewing DSHS eligibility service delivery policy and processes. This includes DEL review of DSHS staff training curriculum for compliance with Washington Administrative Code (WAC), providing policy clarifications, and auditing child care

⁵ SSB 5883 (207)(1)(C).

provider payments. The Quality Assurance (QA) unit within DEL's Subsidy Team conducts monthly audits of child care provider payments by comparing provider billing information against attendance records and consumer eligibility and authorization information. CCSP providers receiving child care subsidy payments must adhere to program rules and requirements by always maintaining accurate attendance records and submitting these to DEL when requested.

QA audit review is a manual process and includes:

- Ensuring that the provider has submitted proper attendance records supporting the amounts paid to the provider;
- Verifying that child care services billed for are within the eligibility and authorization requirements for the consumer;
- Establishing an overpayment when amounts paid to the provider are unallowable;
- Identifying suspected fraud and preparing referrals to DSHS Office of Fraud and Accountability (OFA); and
- Identifying process improvements or program areas requiring further policy guidance.

QA staff conduct random audits based on month of service, and conduct expanded audits on providers meeting conditions identified as high-risk overpayment thresholds. Random audits occur by using an algorithm to select a proportionate number of provider types (licensed centers, family homes, and license-exempt FFN providers) in a select month of review. The number of audits by provider type is based on the prior year's error rate trends. To mitigate selection bias, DEL established objective thresholds where expanded audits would be representative of all subsidy providers without regard to ethnicity, race, or location.

Expanded audits are identified by provider type and triggered by one of two conditions. To expand an audit, the identified provider must have failed to submit attendance records when requested by QA staff, or surpass the following questionable provider monthly payment thresholds:

- For licensed child care centers, \$500
- For licensed family homes, \$730
- For license-exempt FFN providers, \$180

QA expanded audit requires review of three months of attendance records. QA staff are currently tracking the number of overpayments issued from expanded audits and identifying the causes for these overpayments. DEL plans to share analysis from review of these overpayments in the July 1, 2018 follow-up, full report to the Legislature.

In total, DEL QA audits 250 to 300 providers each month and compares payment information to eligibility and authorization by reviewing up to three months of attendance records. Child care providers issued overpayments are required to repay all unallowable amounts.

Suspected Fraud Referral Process

When QA staff identify potential misrepresentation in billed child care during an expanded audit, attendance records are further analyzed to determine whether a fraud referral is warranted. Analysis includes review for prior overpayment issuance, repeated failure to submit attendance records when requested, and incomplete child care attendance reports. For providers referred to DSHS OFA, QA audit staff do not issue an overpayment and instead forward information needed for criminal fraud investigation. CCSP fraud referrals from DEL are managed by DEL Subsidy Policy staff to ensure uniform program reporting and tracking.

SWSA16 Audit Findings

As part of a federal requirement for CCDF, the State Auditor's Office (SAO) conducts an annual audit of CCSP. The most recent 2016 State of Washington Single Audit (SWSA16) included an adverse audit finding⁶ based on assessing activities allowed against actual CCSP provider payments. This finding identified known questioned costs of \$22,463⁷ associated with unallowable payments. DEL has addressed these costs by issuing overpayments and tracking all repaid amounts.

The SAO stated that inadequate internal controls resulted in improper payments to child care providers. SAO found that overpayments occurred because:

- Child care providers failed to submit attendance records upon request;
- Attendance records were incomplete or illegible and did not support the provider's billed amounts;
- Some attendance records did not include required entries, such as parent signature;
- Providers overbilled for services not allowed by the consumer's eligibility and authorization, such as overtime or weekend care; and
- Providers billed the maximum authorized child care units regardless of actual consumer use, such as attendance records contradicting consumer work schedules.

⁶ See 2016 Statewide Single Audit, Federal Findings and Questions Costs, 2016-021, E144-E163.

⁷ This represents CCDF funds. There are also known questioned cost amount of \$6,980 in state funds. The SAO estimates likely questioned cost amount to be \$107,768, 876 by projecting known questioned costs to the entire population of payments. DEL notes that this extrapolation of questioned costs is based on a limited sample size.

Attendance System

Attendance Records

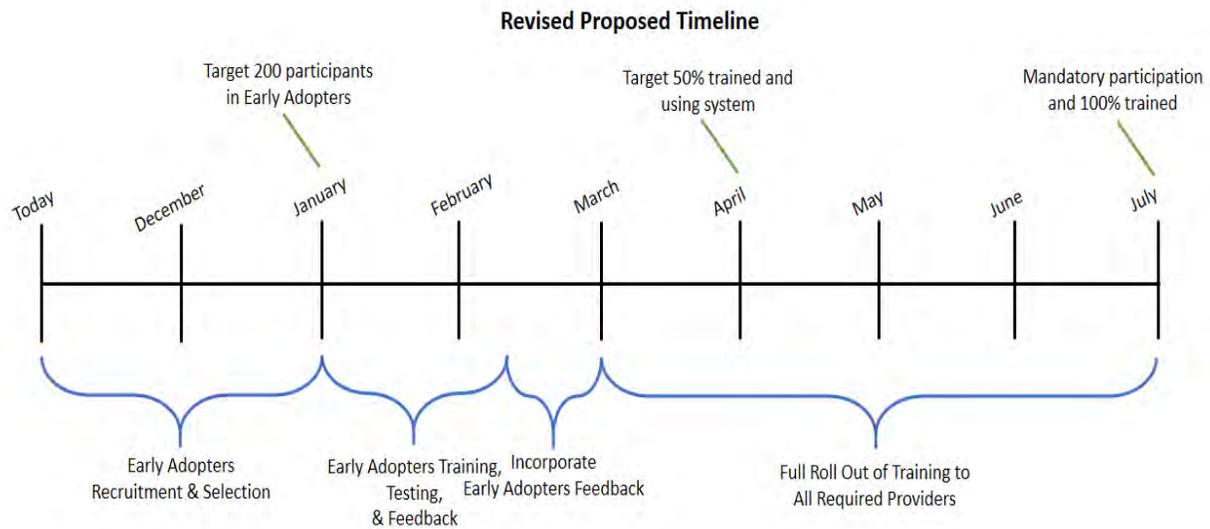
Child care providers receiving subsidy payments for services are required to maintain daily attendance records for five years. Currently, many child care providers use a paper-based system to track attendance records. Manual attendance records inherently contain errors, and during audit review, discrepancies result in overpayments being issued. Such attendance records submitted to DEL and DSHS are also not uniform or consistent among providers, requiring agency staff time to decipher entries. Paper-based records also reflect potential for fraud whereby a provider can submit a falsely-created record of child care services never rendered.

As reflected in SWSA16 audit findings, some provider attendance records submitted are questionable and fail to serve as adequate or accurate documentation of child care services. To address the audit concerns, reduce improper subsidy payments, and mitigate potential fraud, DEL has procured an electronic attendance system to be used by all child care providers who accept subsidy. This new system will track daily attendance, enable accurate, real-time recording of child care, and serve as data capture of subsidy child care usage.

In order to quickly address internal control issues raised by SAO's audit findings, DEL elected to procure a commercial, ready-to-use system. Initial deployment will be limited to capturing attendance records in an electronic device on the DEL procured system.

Subsequent phases of deployment and implementation of DEL's procured system will include: reporting of real-time data regarding attendance; integration of data and child care statistics with other program analytics; reconciliation of attendance and paid amounts with fiscal reports; and interfaces with other DEL approved electronic attendance systems to enhance attendance collection and auditing functionality.

Procurement and Timeline



Beginning September 2016, DEL posted a Request for Information (RFI) and conducted market research into off-the-shelf electronic attendance products. DEL received responses from eight vendors who all submitted information about their systems and allowed DEL to test these products. From October to December 2016, DEL collaborated with volunteer licensed providers, both child care centers and family homes, and the parents they serve, to test the products.

DEL also conducted a statewide provider feedback survey from child care providers. DEL received more than 1,400 responses with feedback and observations of the various systems currently in use by some providers in Washington. We also received input on how providers would prefer to receive training on the new state system. Highlights of the provider survey feedback include:

- Eighty-one percent (81 percent) of child care providers do not currently use a computer-based attendance system;
- Eighty percent (80 percent) of providers currently use the internet for training. Of this amount:
 - Fifty-five percent (55 percent) indicate they prefer to use the internet for training
 - Thirty-three percent (33 percent) of this number indicate they prefer in-person training
- For in-person training, 69 percent of providers prefer travel time within 30 minutes from home; and
- Approximately 26 percent of providers prefer to take training on a weekend day, although there is no clear preference as to which days of the week.

In March 2017, DEL posted a Request for Proposals (RFP) developed from known product requirements, requirements identified in the RFI, and market research. At the conclusion of the 2017 legislative session, the adopted state operating budget included funding for the project, allowing DEL to move to procurement of an electronic system.

By summer 2017, DEL received viable bids from four vendors. DEL scored these proposals and selected three products to undergo usability testing by child care providers at a Department of Enterprise Services facility. Based on total proposal scoring per procurement requirements, including usability test scoring, DEL selected Controltec as its successful vendor.

In August 2017, DEL and Controltec convened a project kick-off meeting to discuss project timelines, demonstrate the product to DEL and DSHS staff, and identify immediate needs.

On September 1, 2017, DEL and Controltec signed a contract to procure the electronic attendance system.

Beginning in December 2016, DEL began sharing information with Service Employees International Union (SEIU) 925⁸ on expected represented provider impacts from the electronic attendance system. Formal bargaining occurred in October 2017, during which time SEIU 925 identified potential provider needs to ensure and promote successful product development. The parties reached an agreement on October 26, 2017. As a result, providers in the bargaining unit who:

- Are selected to become one of 200 Early Adopters and complete required activities (including training, testing, surveys and enrollment in the Managed Education Registry Information Tool [MERIT]) will receive a \$175 financial incentive for participating; and
- Complete training, enroll in MERIT, and apply will have access to a \$200 one-time technology incentive (note, this is limited to 5,000 providers).

In fall 2017, DEL and Controltec configured and tested the electronic attendance system with a goal of implementing a project phase called “Early Adopters” by February 2018. DEL focused recruitment for this phase to ensure that volunteer child care providers are demographically representative of statewide providers. The Early Adopters will test: user training on various devices, such as computers, laptops, tablets and smart phones; user deployment and registration in the system; pre-population of authorized subsidy children in the system; provider ability to run reports on attendance transactions; and ease of use by parents and

⁸ Service Employees International Union (SEIU) Local 925 represents licensed child care family homes and license-exempt Family, Friends, and Neighbor providers. Negotiated bargaining is required for any program changes which impact these providers. SEIU 925 does not represent licensed child care centers.

providers logging attendance transactions with the attendance system in the provider's facility. Volunteers will provide feedback, assisting DEL in troubleshooting identified issues before full product release.

Between March and June 2018, DEL will train remaining providers to ensure successful implementation of the attendance system by July 1, 2018. DSHS and DEL will also train CCSP staff on accessing reports from the new system. Staff will learn how to obtain attendance information for review, audits, and overpayment analysis. DEL and Controltec help-desk staff will also respond to provider and consumer questions about system usage and attendance tracking.

By April 1, 2018, DEL's goal is that 50 percent of all subsidy child care providers will use this state system, or another DEL-approved electronic attendance system. DEL will release an initial list of DEL-approved electronic attendance systems in early 2018. Providers can choose to use a DEL-approved electronic attendance system in lieu of DEL's system. Providers who choose this option must continue to provide attendance records upon request until an interface is built in later phases of this project.

In early 2018, DEL will do further research with third party vendor electronic attendance systems, to determine if these systems can interface with the DEL system. In a later development phase, DEL will create and design interfaces with approved systems. This will allow providers to send electronic attendance records through the DEL interface to support and reconcile provider payment.

By July 1, 2018, DEL anticipates statewide deployment of the initial system to all subsidy child care providers not using another DEL approved electronic attendance system. Through administrative rulemaking, use of this (or another approved) electronic attendance system will become a condition of receipt of subsidy payment for all subsidy providers.

The initial system will deliver at least 85 percent of DEL's required functionality. In the months following initial deployment, DEL and Controltec will implement the remainder of DEL's required functionality, and incorporate user feedback and data on help desk issues to continue improving the system.

Budget

DEL expended \$356,775 in fiscal year (FY) 2017 for procurement costs associated with the time and attendance project, consisting of the following:

- Contracted Project Management services - \$91,135
- Salaries and Benefits of a DEL Project Manager (PM) - \$64,385
- Project Quality Assurance contract - \$59,800

- Vendor Product Usability Testing - \$61,500
- Special Attorney General - \$55,581
- Other project costs - \$24,374

Implementation costs in FY 2018 are estimated at \$5,351,255, consisting of:

- Development and Implementation - \$1,185,922
- Maintenance - \$435,450
- Mobile Device Management - \$50,000
- Special Attorney General - \$40,000
- Organization Change Management - \$500,000
- External Quality Assurance - \$200,000
- User Training - \$150,000
- System Usability Testing - \$100,000
- Survey and Provider Outreach - \$60,000
- Provider Early Adopter Incentive Payments - \$35,000
- One-time Provider Benefit for Technology - \$1,000,000
- System remediation and interface development - \$12,600
- Contingency - \$546,794
- DEL Staffing - \$1,035,488

Estimated costs for FY 2019-2021 total \$7,322,771, including

- One-time costs for:
 - Development and Implementation - \$726,856
 - Organization Change Management - \$250,000
 - External Quality Assurance - \$16,000
- On-going costs for:
 - Maintenance - \$2,415,734
 - Mobile Device Management - \$225,000
 - Contingency - \$726,718
 - DEL/DCYF Staffing – \$2,962,464

Planned Processes

Rulemaking

In order to make electronic attendance usage mandatory, DEL drafted rules requiring compliance by all child care providers receiving CCSP subsidy payments. The timeline for these proposed rules to be effective is staged to coincide with the deployment target date and provider usage goals of partial deployment by April 1 and full deployment by July 1, 2018.

In order to ensure full compliance, DEL is working closely with partners at Child Care Aware, SEIU, School's Out Washington, and Imagine Institute to provide information and training on the new system. DEL is committed to ensuring that messaging and notice is given to all CCSP child care providers about the electronic attendance system. DEL also recognizes there may be a need for further provider training and increased outreach to providers after target deployment dates are reached.

Potential consequences of failing to use the electronic attendance systems, or a DEL-approved third party vendor's system, will likely consist of overpayment issuance. Any QA audit reviews for months of services after July 1, 2018 will rely on electronic attendance data. Any provider failing to have electronic data to support billing will also incur a finding of program violations. Descriptions of program violations and sanctions are described in the latter part of this report. Furthermore, continued failure to use an electronic attendance system may lead to expanded QA audit review, resulting in suspected fraud and referral to OFA.

Automation

The current manual attendance tracking system makes it impossible to automate most cross-checking of provider billing to attendance records. QA processes require manual handling of paper-based records. Requiring electronic attendance will allow DEL and DSHS to automatically reconcile provider payment to recorded attendance as well as to consumer eligibility and authorization information. This will improve the agencies' abilities to: review more provider payments; assist more providers in correcting billing problems; and identify and make ineligible any provider who repeatedly and intentionally fails to comply with program rules.

The most robust automated processes will become available in future phases of the attendance system deployment. Future processes include linking electronic attendance tracking data to the subsidy payment system (SSPS) currently managed by DSHS. These processes will help prevent erroneous payments from being issued in the first place, as well as disallowing payment to providers who do not use electronic attendance. An electronic attendance system could also make possible automated comparisons between many attendance records to payment data, such as:

- Automate reconciliation of provider payments where electronic attendance records indicate a child was not in attendance and the provider billed for a day of attendance (instead of billing for an absent day).
- Automate quality assurance of provider payments for overtime care where attendance records indicate the child was not in care for more than 10 hours.

- Automate quality assurance of provider payments for nonstandard hours bonuses where attendance records do not support this billed service.
- Automate quality assurance of provider payments where attendance records indicate provider exceeded licensed capacity.

Intentional Program Violations and Fraud

In 2016, and in collaboration with DSHS's OFA, DEL developed an agency-wide fraud policy for employees who identify suspected fraud activities by child care providers or families receiving child care subsidies. Training was provided to DEL staff whereby fraud referrals are submitted to DEL Subsidy Policy staff to review, track, and forwarded to OFA for possible investigation. However, some of these referrals did not rise to a justifiable fraud allegation warranting criminal investigation. OFA reviews fraud referrals and pursues investigation if: there are multiple occasions of the provider failing to submit attendance records; questionable provider payments exceed \$750; no prior provider overpayments have been issued on the amounts in question in the suspected fraud; or, multiple discrepancies are prevalent in provider support documentation such as attendance records.

For fraud referrals not pursued by OFA, QA staff issue overpayments. DSHS Office of Financial Recovery (OFR) manages the overpayment notification and collection process. Providers have the right to request an administrative hearing to dispute the overpayment in accordance with [WAC 170-290-0280](#). CCSP relies on the criminal definition of program fraud RCW 74.04.004. As such, review of child care providers' licensing activities and billing practices is limited, and staff cannot readily prove that a provider's action is an intentional misrepresentation. For subsidy overpayments, attendance records which fail to support subsidy billing or a provider's failure to submit attendance records are not definitive in supporting a fraud referral. Often, provider overpayments are caused by administrative errors or intentional or unintentional program violations, all of which do not necessarily rise to a justifiable fraud referral.

To address program violations not rising to fraud, DEL filed new rules with an effective date of December 1, 2017. WAC 170-290-0277 defines provider program violations and suspected fraud, and WAC 170-290-0279 describes program violation sanctions. These rules allow DEL to take progressive corrective action to ensure providers comply with CCSP requirements while also preserving provider rights to hearings. DEL QA staff will be tasked with providing consultation to providers when program violations are identified. Additionally, these rules allow the agencies to impose sanctions on providers who continually fail to comply with program rules and requirements. Sanctions can lead to dismissal from the CCSP and ineligibility as a provider or consumer. The process of tracking, reporting, and imposing sanctions is currently being developed with anticipated full implementation in early 2018.

As with the newly procured electronic time and attendance system, rules for provider program violations require messaging to child care providers and training to CCSP staff at DEL and DSHS. DEL will continue working to promote program compliance and to assist providers in understanding the many CCSP program rules and requirements. These rules further enhance quality control measures by defining and identifying potential causes for provider overpayments and allowing the agencies to directly address concerns with providers.

Conclusion

DEL has undertaken additional quality control measures to improve administration of the CCSP as required by SSB 5883 and described in this preliminary report. By procuring an electronic time and attendance system and further refining quality assurance processes, findings and concerns raised in SWSA16 are actively being addressed and mitigated.