CHILD CARE SUBSIDY PROGRAM OVERPAYMENT REPORT

Washington State Department of
CHILDREN, YOUTH & FAMILIES

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Washington State Department of
CHILDREN, YOUTH & FAMILIES

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Introduction

The Washington State Department of Children, Youth and Families (DCYF) submits this report detailing Child Care Subsidy Programs (CCSP) Overpayment (OP) data and explains OP trends over the past four fiscal years (FY) 2021 – 2024. This report describes DCYF efforts to identify and address the root causes of OP to improve the overall integrity of the CCSP program.

This annual report complies with Engrossed Substitute Senate Bill (ESSB) 5950, Section 229(4)(d), which states:

> "On July 1, 2023 and July 1, 2024, the department, in collaboration with the department of social and health services, must report to the governor and the appropriate fiscal and policy committees of the legislature on the status of overpayments in the working connections child care program. The report must include the following information for the previous fiscal year:
>
> > (i) A summary of the number of overpayments that occurred;
> > (ii) The reason for each overpayment;
> > (iii) The total cost of overpayments;
> > (iv) A comparison to overpayments that occurred in the past two preceding fiscal years; and
> > (v) Any planned modifications to internal processes that will take place in the coming fiscal year to further reduce the occurrence of overpayments."

Background

CCSP includes Working Connections Child Care (WCCC) and Seasonal Child Care.[1] Washington Administrative Code (WAC), Chapter 110-15 sets forth rules governing CCSP. Child care subsidies assist low-income families by:

> (1) Providing children with a stable, nurturing, high-quality learning environment supporting 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.

The federal Child Care and Development Fund (CCDF), reauthorized in 2021, encodes the above goals. The CCDF sets policy to reduce barriers for working families with children, helping them transition from poverty to self-sufficiency.

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[1] Seasonal Child Care (SCC), Chapter 110-15 WAC Part III, is similar to WCCC. Eligibility is limited to families seasonally employed in agricultural work, who are not receiving temporary assistance for needy families (TANF), and who reside in Adams, Benton, Chelan, Douglas, Franklin, Grant, Kittitas, Okanogan, Skagit, Walla Walla, Whatcom, or Yakima counties. SCC was used when WCCC was a capped program.

Overview of the CCSP eligibility processes and systems

Families apply for child care online, by phone through the DCYF contact center, or by paper application delivered by mail, fax, or in person at local DSHS Community Service Offices (CSO). DCYF public benefits specialists (PBS) complete eligibility determinations in the DSHS Barcode electronic system. The Barcode system tracks current and historical eligibility information, manages family communications, and interfaces with the DCYF payment system. DCYF accesses the Barcode system through a service level agreement (SLA) with DSHS. CCSP pays providers through the Social Service Payment System (SSPS). SSPS notifies providers the amount of care authorized, sends provider invoices to claim payment, and sends payment for services claimed by providers. DCYF is responsible for ensuring program integrity of both consumer eligibility and provider payment.

Consumer Quality Assurance (QA) Overview

Consumer QA activities include random and focused CCSP audits. Random audits are audits pulled from all case actions whereas focused are specific actions or case types. In calendar year 2023 DCYF conducted approximately 38k audits or case reviews. DCYF uses audit findings to improve policies and procedures, staff training, and automated system updates. The focus is to improve customer service, increase accuracy of eligibility determinations and reduce payment errors. Identified overpayments are referred to the DSHS Office of Financial Recovery (OFR) for repayment collection. If fraud is suspected, cases are referred to the DSHS Office of Fraud and Accountability (OFA) for investigation and possible prosecution.

Provider QA Overview

Provider QA activities include audits of licensed or certified child care centers, licensed or certified family child care homes, and license-exempt family, friend, and neighbor (FFN) caregivers serving families and children who receive subsidy. In 2023 the CCSP QA unit conducted approximately 2,880 annual audits of child care provider payments by comparing provider billing information against child care provider attendance records. DCYF selects most providers for audit from the SQL Server Reporting Services Provider Report, an automated randomizing system. The DCYF provider auditors also review cases that are referred to them when potential billing issues are identified by licensing or eligibility staff.

Child care providers must adhere to program rules and requirements by keeping accurate attendance records. When requested, providers must send attendance records to DCYF as a condition of providing subsidized care and receiving payments. DCYF administers an electronic attendance system at no cost for providers. Providers also have the option of using one of over 50 approved third-party electronic attendance systems allowing them to track and manage child attendance. Identified overpayments are written and referred for repayment collection to

DSHS OFA. If fraud is suspected, cases are referred to the DSHS Office of Fraud and Accountability (OFA) for investigation and possible prosecution.

Office of Fraud and Accountability (OFA)

DCYF refers potentially fraudulent cases for investigation, which may result in prosecution. DCYF continues to partner with the DSHS OFA to investigate consumer and provider fraud. OFA processes reports of potential fraud submitted to them by the public, DSHS, and DCYF staff. At the conclusion of the investigation, OFA refers substantiated cases of fraud to county prosecutors. Identified overpayments not referred for prosecution are processed by the OFA team or referred to DCYF to complete.

Office of Financial Recovery (OFR)

DCYF partners with the DSHS OFR to manage overpayment collection efforts for overpayments. OFR has authority to recover payments using a variety of efforts including repayment agreements, wage garnishments, and liens to recover overpayments.

Types of Overpayments

A consumer overpayment occurs when:

- Eligibility information is not reported accurately at application;
- Consumers fail to report changes required in WAC 110-15-0031 during the eligibility period; or
- Eligibility staff failed to act on reported information correctly, applied rules erroneously, or input data incorrectly into the eligibility or authorization systems.

A provider overpayment occurs when:

- The provider bills improperly. Examples are:
  - Claiming more care than allowed by program rules or failing to provide attendance records to support their billing;
  - Billing for a fee that is not in their handbook, which is a program violation;
  - Billing for a reimbursement without a receipt to verify payment.
- Licensed family home or licensed or certified child care center providers do not accurately report their non-billable closure days; or
- Staff authorize the incorrect rate, incorrect fee, incorrect copay amount, incorrect start date, or amount of care.

Annual Overpayment Totals FY18-24[2]

The table below displays the total number and value of overpayments written by DCYF for consumers and providers by state fiscal year (FY). These numbers do not reflect the amount

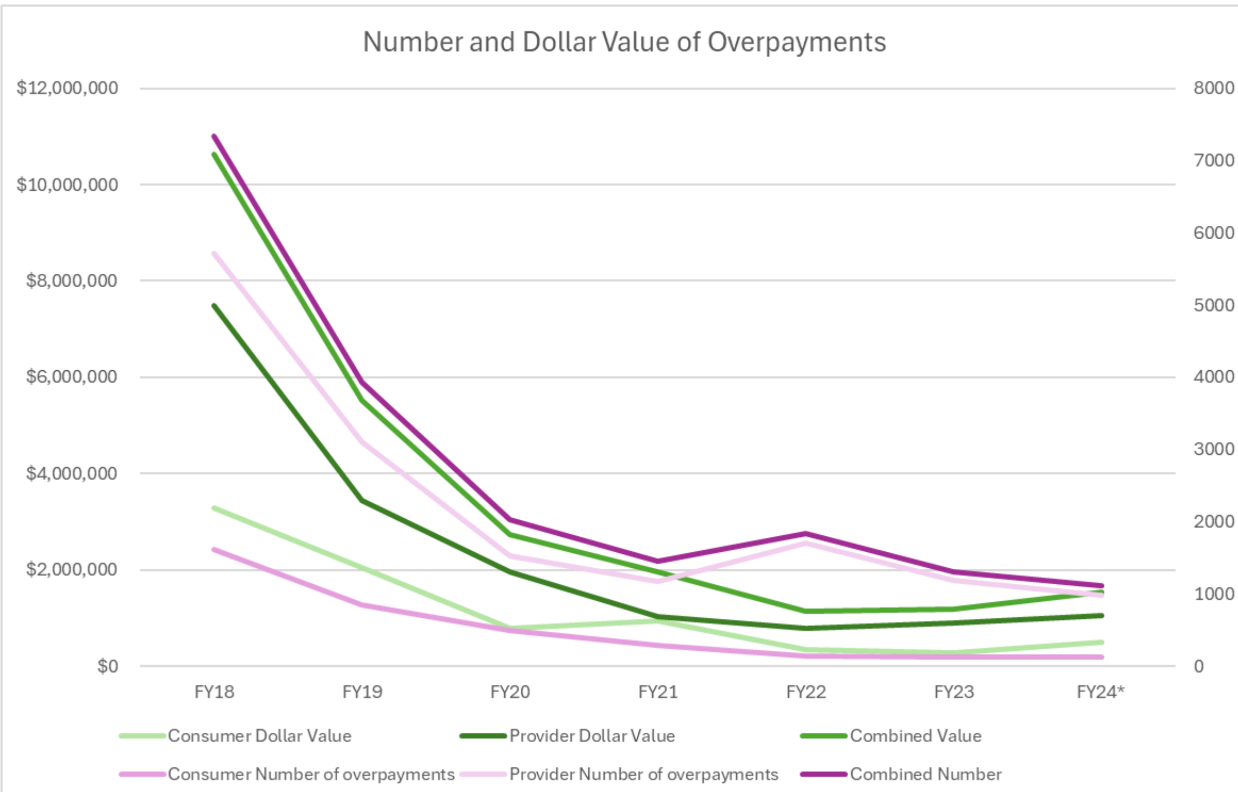
[2] Data for FY24 pulled prior to end of the fiscal year. FY24 Data contains July 1, 2023 – March 31, 2024

recovered, which may be adjusted during an administrative hearing process. QA and program integrity efforts have resulted in an overpayment decrease.

Exhibit 1

FY 2018 – 2024 NUMBER AND DOLLAR VALUE OF OVERPAYMENTS *

* FY24 through 3/31/24, The OFA completes the investigation of potential overpayment fraud for DCYF.



OFA efforts resulted in five criminal convictions of consumers and zero providers for child care fraud in FY24. The total restitution for these five convictions is $88,273. OFA writes overpayments on behalf of DCYF when the case circumstances do not meet the threshold for a criminal prosecution. OFA submits overpayments to OFR for recovery.

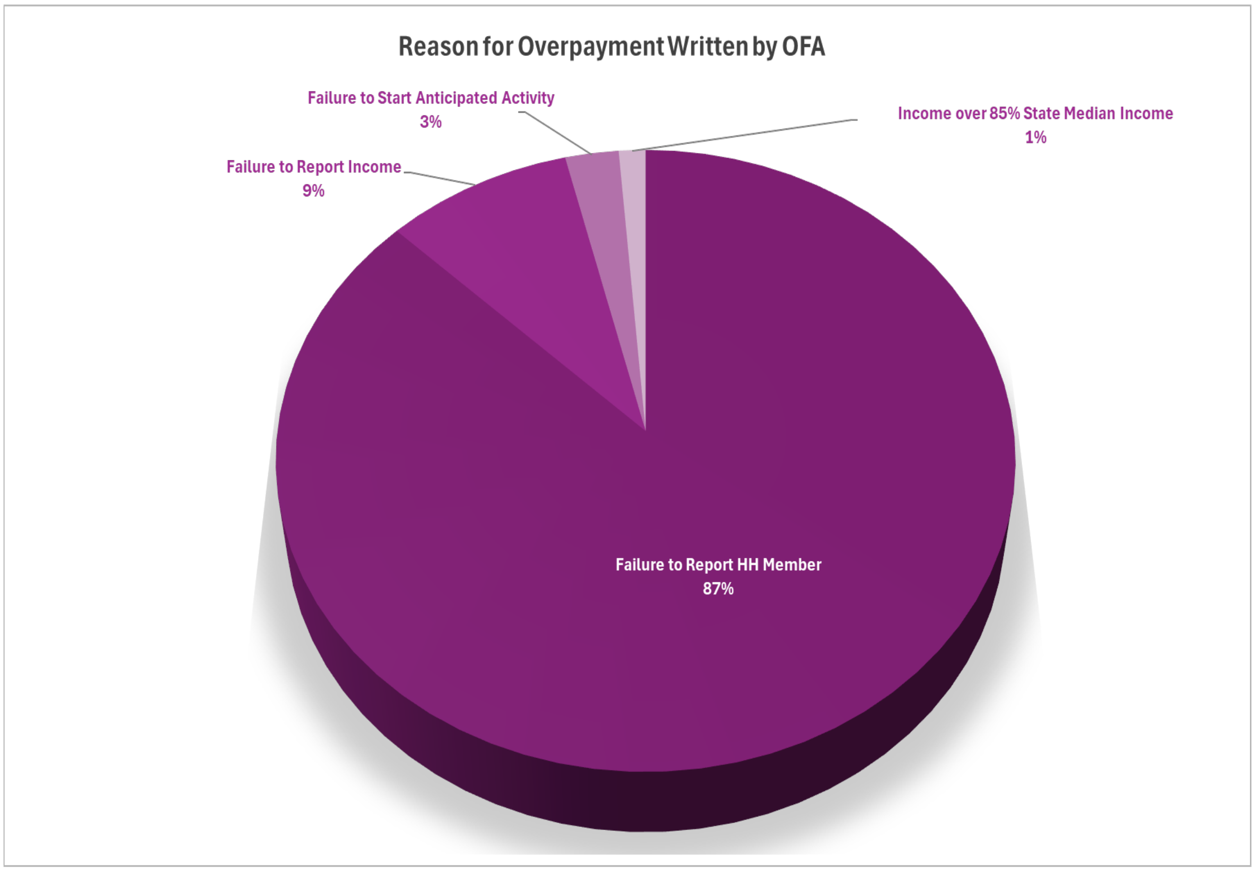
Exhibit 2

NUMBER AND AMOUNT OF OVERPAYMENTS WRITTEN BY OFA, NOT INCLUDED IN EXHIBIT 1

Overpayments written by OFA	Number of cases	Dollar value
FY19	174	$1,911,155
FY20	182	$2,909,267
FY21	159	$2,805,952
FY22	108	$1,724,222
FY23	116	$1,752,512
FY24 (July 1-March 31)	78	$1,292,549

Exhibit 3

REASON FOR OVERPAYMENT WRITTEN BY OFA, NOT INCLUDED IN EXHIBIT 1



Consumer Overpayment: Breakdown by Cause

Of the 1,114 overpayments for FY 2024, DCYF wrote 134 to consumers, accounting for $502,045 of the total dollar amount. This does not include overpayments written by OFA. Analysis of the data resulted in the identification of six reasons for consumer overpayments.

These reasons are: (1) Consumer did not report all household members; (2) Consumer did not report income; (3) Consumer did not provide 60-day verification; (4) Consumer's income goes over 85% of state median income (SMI); (5) Department error; and (6) The consumer fails to start their reported approved activity.

Exhibit 4

CONSUMER OVERPAYMENT AS A PERCENTAGE OF OVERPAYMENTS BY REASON FY24

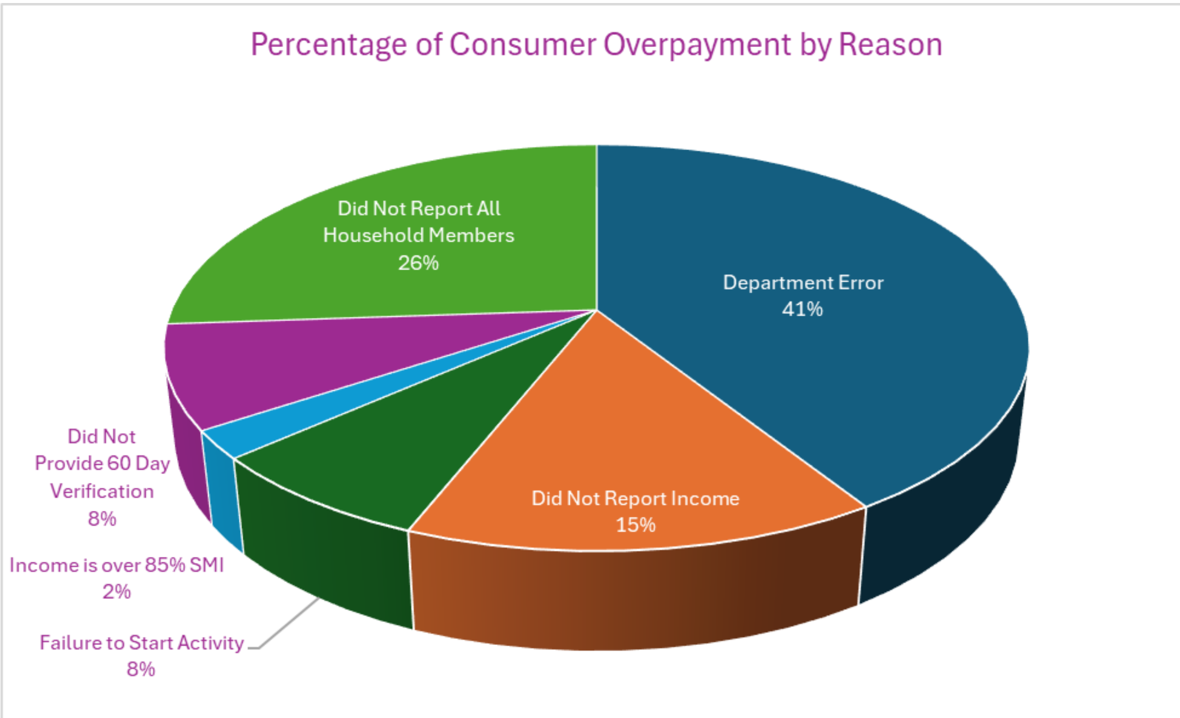


Exhibit 5

CONSUMER OVERPAYMENT AS A PERCENTAGE OF TOTAL DOLLAR AMOUNT BY REASON FY24

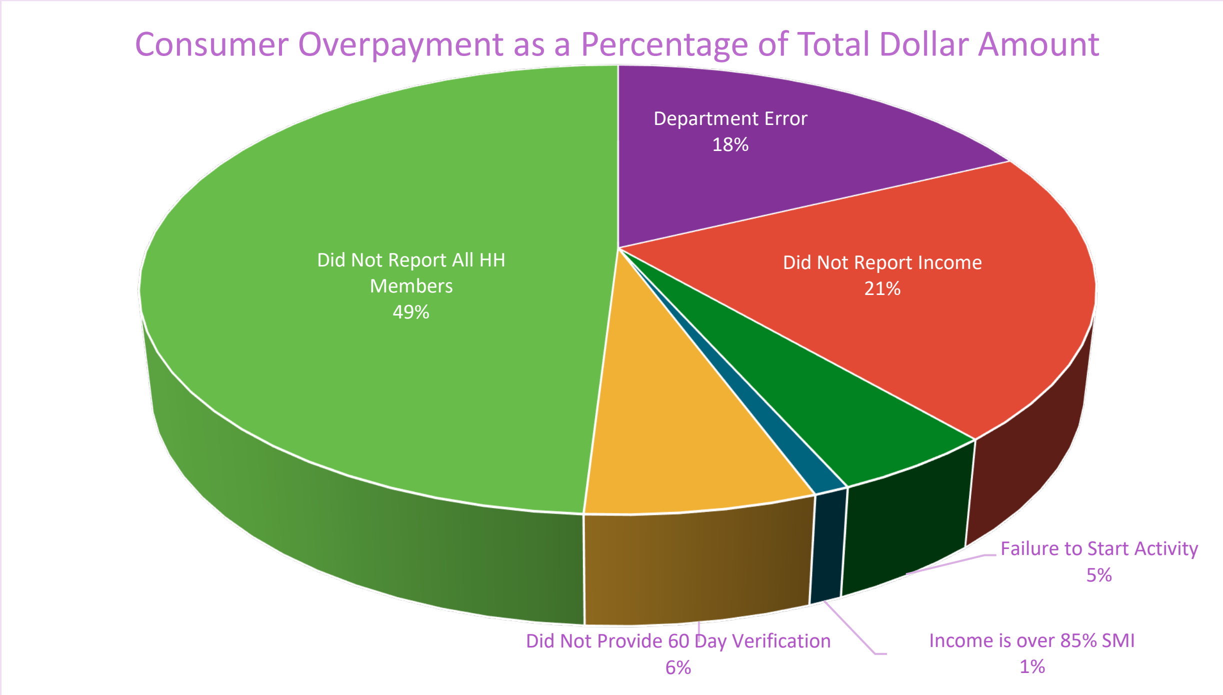
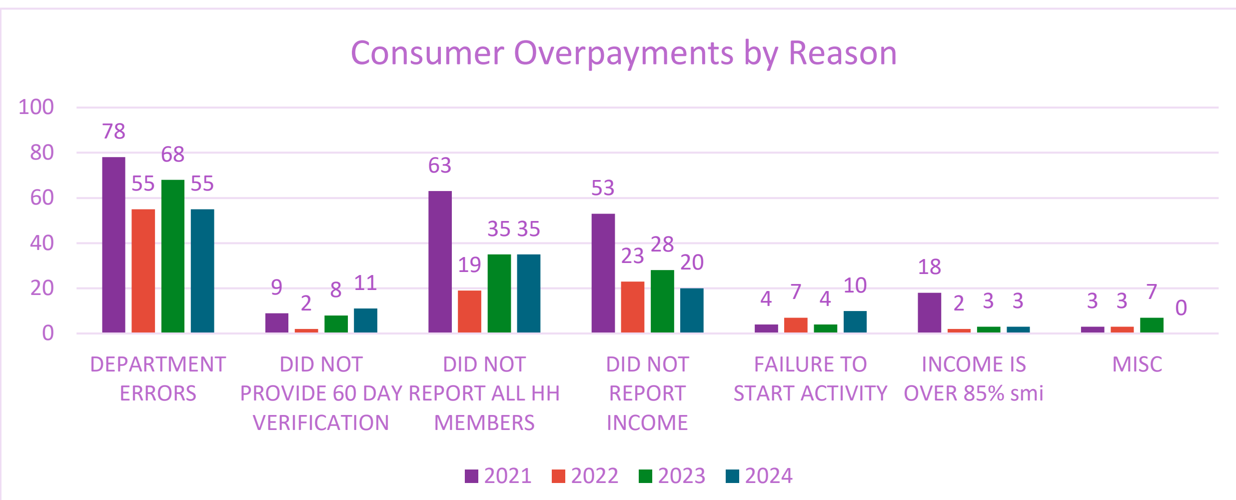


Exhibit 6

CONSUMER OVERPAYMENT COMPARISON BETWEEN FY21, FY22, FY23, & FY24



Reason 1: Consumer did not report all household members

A consumer receives an overpayment when they do not accurately report all household members at the time of application or reapplication. These overpayments may occur when a spouse or co-parent is living in the home but the consumer fails to report this information on their application or reapplication. Eligibility determination considers the other parent's availability, activity, or income. When the other parent is not included in the eligibility calculation, this may result in approving an ineligible family, establishing an incorrect copayment, or over-authorizing the amount of care. The majority of consumers report household composition accurately. However, unreported household members remain the most significant reason for the total number and total dollar amount of consumer overpayments. DCYF continues to balance restrictive measures to verify household composition with the need for timely approvals for families. This is especially important when consumers are starting a new job and need child care to go to work. Delays in approval may result in consumers losing their employment, which creates long term impacts for the family and children and moves families further away from self-sufficiency. DCYF uses information available in DCYF and DSHS systems to confirm household composition. When information is unavailable, DCYF requests additional verification from the consumer before approving benefits. DCYF refers potential fraud to OFA for investigation. As highlighted in exhibit 3, this is the most common reason for referrals to OFA.

Reason 2: Consumer did not report income

A consumer receives an overpayment when they do not report their income accurately at application or reapplication. Examples of unreported income include informal child support agreements or additional employment. Under-reporting income occurs when the consumer reports less income than the actual amount they received. Examples include reporting and verifying a portion of the tips they earn, failing to report a recent pay increase, failure to report additional employment, or failing to report employment to the Employment Security Department and receiving Unemployment Compensation benefits while also earning wages.

The eligibility verification process used by staff to establish household composition also provides more accurate household income determinations. Staff identifies unreported income at application, preventing incorrect payments.

DCYF is implementing guidance provided by the federal Office of Child Care's Family-friendly application process, and the Program Integrity Self-Assessment tool by adopting a policy to utilize wage information provided by employment security for eligibility determinations. This policy change will improve program integrity and payment accuracy.

Reason 3: Consumer did not provide 60-day verification

A consumer receives an overpayment when they do not provide verification to support their self-attestation of new employment and DCYF is unable to obtain verification using its internal systems. Consumers with new employment can self-attest an estimate of income at application when this information is not available from the employer. This allows consumers to receive care so they can begin their new job. Verification of income is required from the consumer within 60 days. Failure to verify income results in closure of the case and an overpayment for any care used. In some cases, the consumer's income is higher than reported at the time of application and an overpayment may be established for the difference in copayment amount.

An automated reminder is mailed to consumers when the system identifies income verification has not been received, resulting in an increased consumer response and fewer overpayments. DCYF will continue to implement new CCDF requirements that allow presumptive eligibility without the need to repay benefits issued during presumptive eligibility periods.

Reason 4: Consumer's income goes over 85% of state median income (SMI)

A consumer receives an overpayment when they do not report going over the maximum income eligibility limit. Consumers remain eligible through the end of their eligibility period as long as their permanent annual income stays below 85% of the SMI. A consumer's failure to report an increase in income that exceeds 85% SMI during their eligibility period results in an overpayment finding. Eligibility thresholds for this past year are listed in Exhibit 7.

Exhibit 7

INCOME ELIGIBILITY TABLE BY HOUSEHOLD SIZE, UPDATED ANNUALLY ON APRIL 1.

Current Income Guidelines (4.1.24)			
Family Size	**Initial eligibility income limit 60% SMI**	**Eligibility limit at re-application 65% SMI**	**Income limit during the 12-month eligibility period 85% SMI**
2	$4,094	$4,435	$69,599
3	$5,057	$5,478	$85,976
4	$6,020	$6,522	$102,353
5	$6,984	$7,566	$118,729
6	$7,947	$8,609	$135,106
7	$8,128	$8,805	$138,176
8	$8,308	$9,001	$141,247
9	$8,489	$9,196	$144,318

Federal rule (CFR § 98.21) prevents DCYF from conducting mid-certification and eligibility look-backs. However, the consumer is required to notify the department if the household income increases above 85% SMI. Consumers receive a notice from DCYF informing them of the requirement to contact the department when the household income exceeds the limit for their household size. A consumer's case is closed with a 10-day notice when they report that their income exceeds 85% SMI.

Reason 5: Department error

A consumer receives an overpayment when they receive benefits, they are not eligible for based on an error made by DCYF. Department errors can lead to an incorrect amount of authorized care or an incorrectly assessed copayment for a consumer. These errors result from an inaccurate data entry, or eligibility determination, or a failure to act on a required change.

Department errors are grouped into four distinct categories:

1) Eligibility overpayments occur when a child receives benefits, they were not eligible for due to being over-age, not living in Washington, or the department authorizes a child at a Licensed Family Home where the parent is employed.

2) Income error overpayments occur when the department calculates the household's income incorrectly leading to an incorrect copayment.

3) Incorrect copayment overpayments occur when the department records an incorrect copayment amount into the authorization system.

4) A multiple provider overpayment is the result of the department incorrectly assigning a copayment to a provider the consumer is not using, or to a provider to whom the consumer is not paying the copayment. The DCYF authorization system requires consumer copayments be assigned to a single provider even when the consumer uses multiple providers. If the consumer stops using the provider assigned to receive the copayment, an overpayment will occur.

The following exhibit provides DCYF errors by category, dollar amount, and number of occurrences.

Exhibit 8

DEPARTMENT ERRORS BY REASON.

DEPARTMENT ERRORS	TOTAL AMOUNT	OCCURRENCES
Multiple providers	$670	3
Eligibility	$72,007	22
Income	$13,686	8
Incorrect copay	$2,408.55	22

The department continues to use a multi-pronged approach to identify the cause of errors and address them through adjustments in policy, procedures, automation, audits, and training. This practice improvement approach reduced the administrative overpayments from 78 occurrences in FY 2021 to only 55 occurrences in FY 2024.

Reason 6: The consumer fails to start their reported approved activity

A consumer may be approved for subsidy 14 days prior to starting an approved activity (i.e., employment or education). A consumer receives an overpayment when they do not begin the approved activity.

Provider Overpayment: Breakdown by Provider type

DCYF issued 980 overpayments to providers for FY 2024 totaling $1,015,730. DCYF has three provider types for child care consumers - Licensed Centers (Centers), Licensed Family Homes (LFH), and Family, Friend, or Neighbors (FFN).

Exhibit 9

PROVIDER OVERPAYMENTS BY PROVIDER TYPE.

PROVIDER TYPE	# of Overpayments	Overpayment Amount
Centers	244	$458,796
LFH	181	$130,124
FFN	555	$426,810
Total 2024*	980	$1,015,730

Provider Overpayment: Breakdown by Reasons

Analysis of the data resulted in the identification of five reasons for provider overpayments. These reasons are: (1) Provider does not provide attendance records; (2) Provider overbilled; (3) Provider fails to provide records for services provided; (4) Department error; and (5) Other.

Exhibit 10

PROVIDER OVERPAYMENTS BY REASON FY24

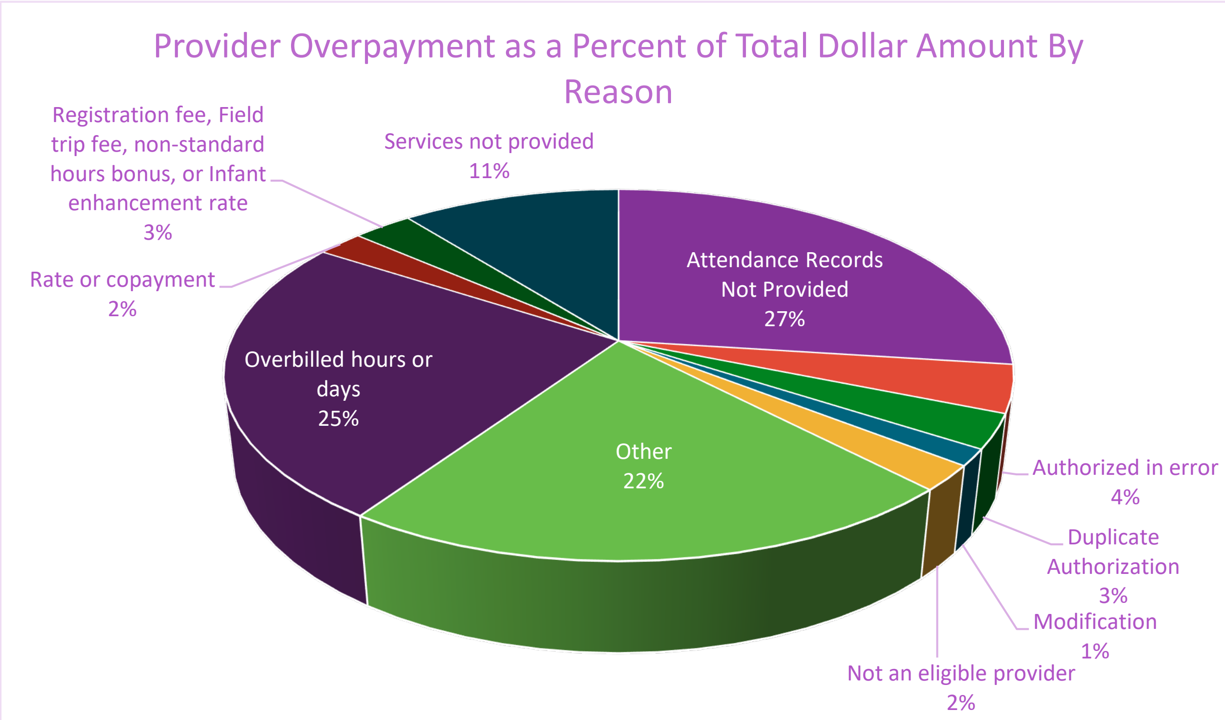
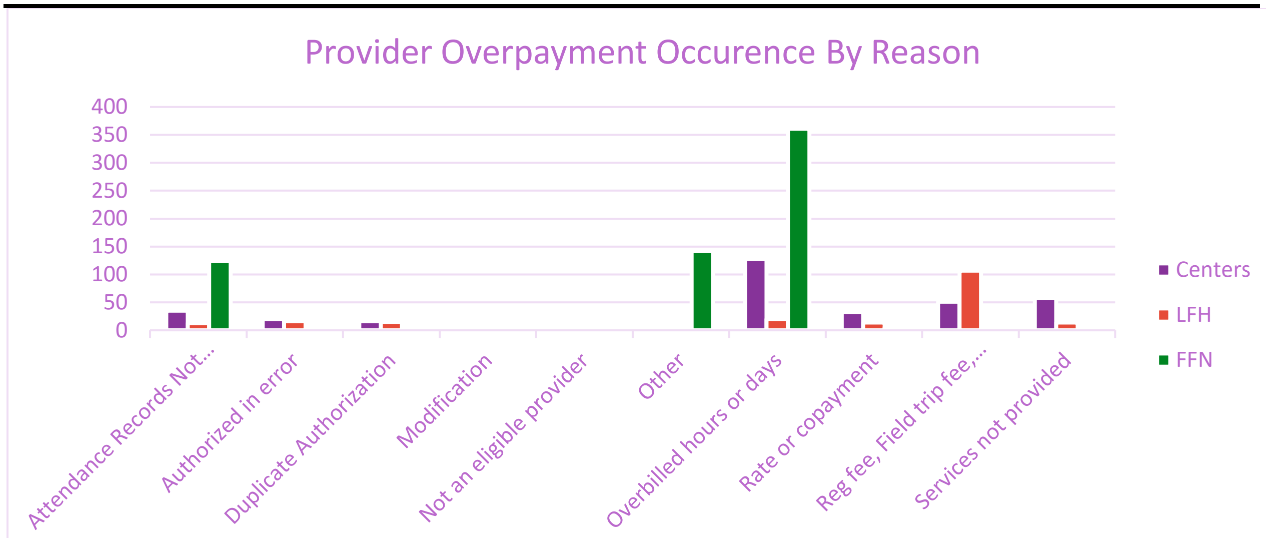


Exhibit 11

PROVIDER OVERPAYMENT OCCURRENCES BY REASON FY24



Reason 1: Provider does not provide attendance records

A provider receives an overpayment for all child care claimed for a period of time if they fail to provide attendance records when requested by the department. DCYF requests attendance records from providers for QA and program integrity processes. Many of these overpayments are modified when a provider submits attendance records through the administrative hearing process.

Reason 2: Provider overbilled

Provider overbilling occurs when:

- Providers bill the maximum authorized amount for a shortened month, or the consumer has a shortened authorization period and the provider is not eligible to bill for the full amount of care authorized. Examples of this include:
    - Providers bill the maximum 23 days per month although operate only Monday through Friday. These providers cannot bill the maximum when there are fewer than 23 weekdays in a month.
    - Provider bills for the authorized 23 full-day units and the child is only expected to attend four days per week. The child's attendance is verified with the provider's scheduled days of attendance and in the electronic attendance records.

The CCSP QA team continues to provide technical assistance to providers that overbill, while pursuing program violations for providers with intentional overpayments.

Reason 3: Provider fails to provide records for services provided

Providers can bill for services in addition to child care base payments including field trip fees, non-standard hours bonuses, and overtime. Providers must have policies that require families who are private pay to pay for these additional services and must provide necessary documentation when requested. The department assesses an overpayment when a provider does not have the required policies, does not provide their handbook, or does not provide necessary receipts.

The department now provides technical assistance to providers who make these errors as part of the overpayment process.

Reason 4: Department error

Errors occur when more care is authorized than a consumer is eligible for receiving. Federal rule 45.CFR 98.68 does not require repayment of CCDF funds unless the overpayment is a result of fraud. DCYF is continuing to explore options to improve policies related to overpayments created by its own administrative error.

Reason 5: Other

Other errors occur when a provider's attendance records are missing signatures, providers have no receipts for reimbursements that require receipts, or when the provider does not have policies charging ancillary and overtime fees for families who are private pay. During the overpayment process, DCYF continues to provide technical assistance for providers who incorrectly claim reimbursements.

Summary

The total number and amount of consumer overpayments in FY 2024 is similar to FY 2023. This is attributed to:

- Continuous improvement of family-friendly rules, policies, and procedures.
- Implementation of the Fair Start for Kids Act.
- Improved eligibility verification processes for approving child care rather than post-eligibility referrals to OFA for an investigation.

The total number and amount of provider overpayments for FY 2024 is down from FY 2023. This is attributed to:

- Simplification of the claiming process for providers decreasing provider unintentional errors.
- Overpayments being modified through the Administrative Hearing Process when providers submit paper records. Paper records are allowed by the administrative law judge supporting payment for services provided.

The CCDF federal rules changed on April 30, 2024, requiring DCYF to pay providers prospectively and based on enrollment. DCYF is exploring ways to implement these new requirements to minimize improper payments. A waiver has been requested while funding to implement prospective payment using the state agency decision making package process.

DCYF remains committed to improving the accuracy of eligibility decisions and provider payments in order to meet our mission to “Protect children and strengthen families so they flourish.” This is reflected in our audit results and the continued decline of overpayments. As we anticipate adjusting to the changing child care landscape, we will continue our program integrity activities. DCYF continues its efforts to strengthen policy, procedure, and training, and to collaborate with SEIU 925 and other advisory partners to simplify processes and ensure clear communication with providers. Implementing the new CCDF requirements will continue to support family access to high quality care by improving payment practices to child care providers, and ensure a full 12-month authorization period for families when a new child is added to the household.