



**REPORT OF
THE
STATE AUDITOR**

**Colorado Child Care Assistance Program
Department of Human Services**

**Performance Audit
November 2008**

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November 24, 2008

Members of the Legislative Audit Committee:

This report contains the results of a performance audit of the Colorado Child Care Assistance Program (CCCAP) administered by the Department of Human Services. The audit was conducted pursuant to Section 26-6.5-110, C.R.S., which requires the State Auditor to conduct a performance audit of the use of moneys from CCCAP. The report presents our findings, conclusions, and recommendations, and the responses of the Department of Human Services.

Sally Symanski

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SALLY SYMANSKI, CPA
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Colorado Child Care Assistance Program Performance Audit, November 2008

Authority, Purpose, and Scope

This performance audit was conducted pursuant to Section 26-6.5-110, C.R.S., which requires the Office of the State Auditor to conduct a performance audit of the use of moneys from the Colorado Child Care Assistance Program (CCCAP). The audit work, performed from January to September 2008, was conducted in accordance with generally accepted government auditing standards.

Our audit focused on the Colorado Department of Human Services' (Department's) supervision of CCCAP services provided by county departments of human/social services. We evaluated the Department's methods for ensuring that counties serve eligible families for the program; examined how the Department ensures that counties pay child care providers appropriately; and assessed the Department's efforts to measure the effectiveness of CCCAP in meeting program goals. Finally, we reviewed CCCAP's funding mechanisms to determine whether the Department is effectively allocating CCCAP moneys in relation to child care needs statewide.

We gratefully acknowledge the assistance and cooperation extended by management and staff at the Department of Human Services and at the county departments of human/social services that we visited as part of the audit.

Overview

Federal welfare reform, which was enacted in 1996, stressed the importance of work and job preparation for ending dependence on government benefits and achieving financial self-sufficiency. Child care subsidy programs, such as CCCAP, help families become financially independent by giving families greater access to affordable child care, which allows parents to more easily hold jobs. Under statute [Sections 26-1-11 and 26-1-201, C.R.S.] the Department supervises CCCAP services administered by the counties. The Department's oversight responsibilities include entering into performance contracts with counties that identify the counties' duties and responsibilities in implementing CCCAP, imposing sanctions upon counties that fail to meet their obligations under the contracts, and setting CCCAP provider rates.

Counties spent about \$86.2 million in Fiscal Year 2008 to provide child care for about 35,100 children. This includes about \$76.8 million in payments to child care providers and about \$9.4 million for county administration. The Department receives federal funds from several sources to pay for CCCAP services, the largest of which is the federal Child Care and Development Fund. For Fiscal Year 2008, the Department spent about \$61.5 million in federal funds on CCCAP. Under

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statute [Section 26-2-804, C.R.S.], each county must provide funds to meet the federal maintenance-of-effort (MOE) spending requirement for CCCAP each year. The counties' collective MOE is currently fixed at about \$9 million per year.

Key Findings

Eligibility

Eligibility criteria and the eligibility verification process are fundamental for ensuring the integrity of public assistance programs. We found that the Department and the counties should strengthen the policies and control procedures for determining participant eligibility:

- **Eligibility criteria.** CCCAP eligibility requirements and practices vary significantly across counties in the areas of maximum family income allowed, eligible activities, participation in child support enforcement, and “grandfathering” CCCAP participants into the program after their income exceeds program limits. For example, in April 2008, counties' maximum income limits ranged from 150 percent to 225 percent of the federal poverty level, or about \$26,400 to \$39,600 per year for a family of three. These wide variations result in families being eligible for services in some counties but not in others. We found that 57 percent of the 2,000 families denied CCCAP service from July 2003 through October 2007 due to income would have been eligible in a neighboring county.
- **Eligibility determination.** Out of the 53 CCCAP files we reviewed in which participants received CCCAP services in Federal Fiscal Year 2007, 30 files (57 percent) contained calculation errors or omissions of required information. None of the errors or omissions in our sample would have changed the eligibility status of the applicant; that is, all of the applicants were eligible for services. However, the errors did result in changes to the amount of parental fees. Problems with the files included incorrect income and parent fee calculations, insufficient documentation of the applicant's income, and inconsistent verification of county residence. We also found that the Department and counties should strengthen their monitoring and follow-up of county eligibility decisions.
- **Eligibility determination overrides.** Out of the 65 files we reviewed from Fiscal Year 2007 in which the county caseworker overrode the denial of an applicant's eligibility in CCCAP's automated system, 45 files (69 percent) did not contain adequate documentation to support the need for an override or evidence of supervisory review. We followed up on the 45 exceptions and found that for 24 cases (37 percent of the 65 files), the county could not provide documentation to support the appropriateness of the override. We also found that two caseworkers in one county were responsible for 22 percent of all overrides in the State in Fiscal Year 2007.

- **Frequency of eligibility redeterminations.** The Department's requirements for counties to redetermine CCCAP eligibility every six months and for participants to report changes in their circumstances (e.g., changes in income) may be costly to administer and overly burdensome to participants. We found that only 3 percent of families were deemed ineligible through these six-month redeterminations during July 2003 through October 2007. We also found that 21 other states redetermine eligibility on an annual basis.

Oversight of County Expenditures

The Department spent more than \$400 million on CCCAP services during Fiscal Years 2004 through 2008. In addition, the counties spent about \$4.8 million on initiatives designed to improve the quality of child care. Federal regulations require that the Department monitor these expenditures and ensure that they are appropriate, comply with federal requirements, and support program goals. We found the Department should better ensure accountability for CCCAP funds by strengthening its oversight of county expenditures:

- **Market rate survey.** We identified significant concerns about the validity of the market rate survey used by the Department to certify to the federal government that the State's CCCAP rates meet federal equal access requirements. The Department does not verify the source data for the survey or ensure that the survey sample adequately represents providers in all counties. We also identified problems with the Department's methodology for analyzing and reporting the results of the market rate survey, such as not reporting age-specific rates that align with age category data collected during the survey or used by providers.
- **Provider Payments.** We found that, in general, counties are not considering families' schedule of eligible activities—that is, the amount of child care needed—when authorizing the amount of CCCAP child care to be provided. In addition, out of the 27 CCCAP providers we contacted anonymously, 3 providers (11 percent) quoted lower rates to us as “private-pay” customers than they are charging the counties. We identified a potential \$1,700 overcharge from one provider. Also, five of nine counties we visited were not complying with Department requirements to review a sample of provider attendance sheets to ensure that providers are only billing the counties for actual days of care. Overall, the Department needs to strengthen its monitoring of county provider payments.
- **County-owned child care centers and slot contracts.** Prowers County has been significantly overcharging the CCCAP program for child care provided at Prowers County's county-owned child care center. We identified overpayments totaling \$111,000 in Fiscal Year 2008 alone as a result of Prowers County's paying its center higher rates for care provided to CCCAP children than the center charged private-pay customers for equivalent care. In addition, the slot contract between Prowers County and its county-owned center guaranteed the center payment for more than 7,600 unneeded units of child care at an

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Colorado Child Care Assistance Program, Department of Human Services
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estimated cost of \$190,000 in Fiscal Year 2008. The Department approved the contract between Prowers County and its child care center.

- **Quality initiatives.** Out of our sample of 72 quality initiative transactions from Fiscal Year 2007 valued at \$577,000, we questioned 14 (19 percent) transactions valued at \$83,000 because the expenditures were unallowable, unreasonable, or not supported by adequate documentation. Questioned costs included entertainment expenses, payment of child care staff's personal rent, and funds subgranted to a non-profit organization for which minimal monitoring occurred. We also identified a \$2.8 million transaction from Denver County for which the County could not provide appropriate supporting documentation. Finally, we found that the Department's policy of allowing counties to use CCCAP allocation funds for quality initiatives does not comply with statute.

Funding and Performance

CCCAP's purpose is to provide financial assistance for child care to help families participate in work or educational activities, thereby achieving self-sufficiency and independence from government assistance. We found that the Department has not taken the lead in setting and measuring CCCAP performance goals or evaluated its funding structure to demonstrate accountability or to ensure consistent delivery of services:

- **Program performance.** We found that CCCAP coverage rates (i.e., the percentage of eligible families participating in the program) declined from 31 percent in Fiscal Year 2004 to 27 percent in Fiscal Year 2005 (the last year for which data are available). In addition, individual county coverage rates varied from 2 percent to 58 percent in Fiscal Year 2005. The Department does not calculate coverage rates and, overall, does not have adequate systems for collecting and analyzing CCCAP performance data to demonstrate accountability, monitor performance, or provide meaningful information for daily management or policy decisions.
- **Funding.** More than half of the counties over- or underspent their CCCAP allocations by at least 20 percent each year during Fiscal Years 2005 through 2008. These patterns appear to result from flaws in the Department's CCCAP allocation model. The Department also relies on significant amounts of Temporary Assistance to Needy Families' (TANF) funding for CCCAP services but does not ensure that TANF funds are allocated to counties in accordance with the State's child care needs.

Our recommendations and responses from the Department of Human Services can be found in the Recommendation Locator and in the body of the report.

RECOMMENDATION LOCATOR
Agency Addressed: Department of Human Services

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
1	24	Standardize Colorado Child Care Assistance Program (CCCAP) eligibility requirements by (a) setting statewide or regional income eligibility limits, (b) mandating education and job training as eligible activities, (c) determining whether “grandfathering” clients is a good policy, (d) considering a mandate on cooperation with child support enforcement, and (e) seeking statutory or regulatory change as necessary to implement statewide standards.	Partially Agree	May 2010
2	29	Improve CCCAP eligibility determinations by (a) clarifying that three months of income documentation are necessary for verifying irregular income, (b) ensuring counties maintain complete documentation to support income and parental fee calculations, (c) developing a standard income and parental fee calculation form, (d) strengthening Department and county monitoring and supervisory systems, and (e) implementing a rule requiring verification of county residence for applicants.	a. Agree b. Agree c. Agree d. Agree e. Agree	a. July 2009 b. July 2009 c. July 2009 d. July 2009 e. April 2009
3	32	Improve controls related to eligibility overrides by (a) developing rules on acceptable reasons for overrides and documentation required to support them, (b) requiring counties to establish supervisory review and approval for overrides, (c) training county staff on override use, (d) building automatic override controls into the CHATS replacement system, and (e) monitoring overrides through system reports and following up on trends and irregularities, and (f) following up on information provided to the Department from our audit on the high rate of overrides within one county.	a. Agree b. Agree c. Agree d. Agree e. Agree f. Agree	a. June 2009 b. July 2009 c. July 2009 d. August 2010 e. April 2009 f. Implemented.
4	36	Determine the most cost-effective policies for redeterminations and reporting changes in circumstances by (a) performing a workload analysis, (b) analyzing data from Denver County’s annual redetermination waiver, (c) evaluating results from the Denver waiver and from part “a” and determining either to require all counties to go to an annual redetermination period or require Denver to return to a six-month redetermination period, and (d) considering setting a minimum threshold for reporting changes in circumstances affecting parental fees.	Agree	December 2009

RECOMMENDATION LOCATOR
Agency Addressed: Department of Human Services

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
5	40	Strengthen the county waiver process by (a) implementing standards and criteria for requesting and approving waivers, (b) implementing reporting standards requiring sufficient evidence to demonstrate results and benefits of the waiver, and (c) maintaining documentation of the waiver process and reviewing and analyzing waiver results.	Agree	July 2009
6	4	Discontinue the practice of requiring background checks for individuals who only care for their relative children.	Agree	January 2009
7	50	Improve the CCCAP market rate survey used to certify rates to the federal government and ensure equal access by (a) developing policies and procedures for ensuring the survey produces accurate, reliable, and useful results, (b) monitoring the market survey process, and (c) reevaluating the county designation formula.	Agree	July 2009
8	53	Ensure that counties properly authorize CCCAP child care by (a) promulgating rules clarifying that authorizations can only be for the amount of child care needed, (b) improving counties' internal control systems, (c) improving monitoring of county operations by revising its case file review process to make it more risk-based and to determine why counties make errors, and (d) requiring counties to submit corrective action plans to address any problems identified in case file reviews.	a. Agree b. Agree c. Agree d. Agree	a. June 2009 b. June 2009 c. June 2009 d. July 2009
9	56	Ensure that counties do not pay CCCAP providers higher rates than those charged to private-pay customers by (a) developing policies and procedures for checking whether providers are charging higher rates to CCCAP than they charge to private-pay customers and (b) requiring counties to follow up with providers at risk of receiving overpayments to determine if recoveries are necessary.	Agree	April 2009

RECOMMENDATION LOCATOR
Agency Addressed: Department of Human Services

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
10	58	Improve reviews of provider attendance records by (a) verifying that counties are conducting the reviews properly, (b) providing guidance to counties on provider sample selection for reviews, and (c) revising regulations to require counties to implement a risk-based approach for reviews.	a. Agree b. Agree c. Agree	a. July 2009 b. April 2009 c. June 2009
11	63	Improve oversight of county-owned child care providers to ensure an arm's-length bargaining relationship and to provide assurance that payments are reasonable and necessary by (a) reviewing and approving negotiated rates, (b) requiring Prowers County to renegotiate their current slot contract with its county-owned child care center to ensure it is necessary and reasonable, and (c) considering increasing audit coverage of Prowers County until its problems have been resolved.	a. Agree b. Agree c. Agree	a. July 2009 b. January 2009 c. July 2009
12	65	Improve controls over county slot contracts by (a) revising the method for measuring slot usage to better reflect the amount of care being provided, (b) establishing methods for paying providers multiple slot rates, and (c) following current policy to review and approve county slot contracts to ensure reasonable and proper rates.	a. Agree b. Agree c. Agree	a. July 2009 b. August 2010 c. January 2009
13	70	Improve oversight of counties' quality initiative spending by (a) instituting regular reviews of a sample of quality initiative transactions to ensure compliance with requirements, (b) auditing Denver County's \$2.8 million transaction identified as a potential questioned cost, (c) requiring counties to institute processes for granting quality initiative funds to providers and reviewing these processes, (d) ensuring adequate guidance is given to counties on allowability of quality initiative expenditures, and (e) clarifying the appropriateness of using quality initiative funds for administrative and other programs' expenses.	a. Agree b. Agree c. Agree d. Agree e. Agree	a. June 2009 b. June 2009 c. April 2009 d. April 2009 e. April 2009

RECOMMENDATION LOCATOR
Agency Addressed: Department of Human Services

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
14	72	Discontinue the practice of allowing counties to use their CCCAP allocation for quality initiative expenditures.	Agree	July 2009
15	79	Develop a system to assess program performance in meeting objectives and demonstrating accountability by (a) developing measurable goals to be included in performance contracts between the Department and counties and (b) formalizing a process for collecting and analyzing performance data and using this analysis to identify and follow up on indicators that objectives are not being met.	Agree	December 2009
16	81	Implement policies and procedures for ensuring that prioritized populations receive priority for services when county waitlists or freezes exist.	Agree	April 2009
17	87	Improve the CCCAP allocation methodology by (a) developing a more accurate, reasonable, and defensible estimate of the population in need, (b) incorporating valid calculations of the 75 th percentile rates into the allocation model, (c) reevaluating the allocation methodology and determining how much should be based on population in need and costs of serving the population, (d) considering incorporating incentives to encourage performance improvement, and (e) evaluating the allocation model on an ongoing basis to ensure it meets the purposes set forth in statute and reduces over- and underexpenditures.	Agree	July 2009
18	90	Ensure the closeout process redistributes funds in accordance with the purposes of the allocation model by (a) implementing a process for determining why counties overspend and (b) establishing criteria for receiving closeout funds and ensuring these criteria prioritize counties with unexpected caseload increases over counties with increased administrative costs.	Agree	June 2010

RECOMMENDATION LOCATOR
Agency Addressed: Department of Human Services

Rec. No.	Page No.	Recommendation Summary	Agency Response	Implementation Date
19	92	Ensure that counties bear an equal proportion of maintenance-of-effort (MOE) payments by basing the MOE on a county's proportionate share of actual CCCAP expenditures.	Disagree	None provided.
20	96	Improving the effectiveness of Temporary Assistance to Needy Families (TANF) funds used in CCCAP by (a) annually determining at the beginning of the fiscal year whether to designate that all or a portion of the TANF funds available for transfer to CCCAP will be transferred to CCCAP, (b) requesting that the General Assembly appropriate to CCCAP any funds designated for use in CCCAP in line with part "a", and (c) allocating TANF funds appropriated for use in CCCAP based on the counties' proportionate CCCAP needs.	Disagree	None provided.

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Overview of the Colorado Child Care Assistance Program

Federal welfare reform, which was enacted in 1996, stressed the importance of work and job preparation for ending dependence on government benefits and achieving financial self-sufficiency. However, the cost, availability, stability, and quality of child care can act as barriers for low-income parents who want to work. As part of welfare reform, Congress established the Child Care and Development Fund (CCDF) to provide block grant moneys that states can use to offer child care services on a sliding-fee scale and to improve the quality and availability of those services. The Colorado Child Care Assistance Program (CCCAP), supervised by the Colorado Department of Human Services (Department) and administered by county departments of human/social services, uses CCDF funds to offer subsidies to low-income families so that these families can more easily access affordable child care, hold jobs, and attain financial independence. In establishing CCCAP, the General Assembly declared [Section 26-2-802(1), C.R.S.] that “the state’s policies in connection with the provision of child care assistance and the effective delivery of such assistance are critical to the ultimate success of any welfare reform program.”

Federal law established several goals for the use of CCDF funds, including:

- To promote parental choice and empower working parents to make their own decisions on the child care that best suits their family’s needs.
- To encourage states to provide consumer education information to help parents make informed choices about child care.
- To assist states in providing child care to parents trying to achieve independence from public assistance.
- To assist states in implementing health, safety, licensing, and registration standards established by each state.

Federal regulations require states to use a “substantial” portion of the block grant funds to provide child care services to low-income working families. States may also spend the block grant funds on activities to improve the quality of child care, such as making grants or loans to child care providers to help the providers meet state and local health and safety requirements, providing comprehensive consumer education to parents, and improving salaries and fringe benefits for child care staff.

Federal Oversight

The U.S. Department of Health and Human Services (DHHS) oversees child care subsidy activities at the federal level and promulgates rules related to CCDF. To receive CCDF funding, states must submit a biennial plan to DHHS that describes how the state will meet certain requirements, such as (1) ensuring that parents in the program are able to choose their own child care providers, (2) providing consumer education information that will promote informed child care choices, and (3) meeting the needs of certain populations, such as families attempting to transition off of public assistance programs and families that are at risk of becoming dependent on these assistance programs. DHHS also requires each state to report annually on the number of children and families served, the cost of the child care services provided, and the extent of the state's consumer education efforts. For Fiscal Year 2008, the Department spent about \$61.5 million in federal funds on CCCAP.

State Responsibilities

The General Assembly has enacted a body of laws to define the Department's supervisory role related to the program, as follows:

- Sections 26-1-111 and 26-1-201, C.R.S., charge the Department with supervising all public assistance programs, including CCCAP.
- Section 26-1-107, C.R.S., authorizes the State Board of Human Services to promulgate regulations governing any program administered or supervised by the Department.
- Section 26-2-715, C.R.S., requires the Department and counties to enter into annual performance contracts that identify the counties' duties and responsibilities in implementing the Colorado Works and CCCAP programs. Statute also allows the Department to impose sanctions upon counties that fail to meet their obligations under the contracts.
- Section 26-2-803, C.R.S., requires the Department to establish CCCAP provider rates. However, statute also allows counties to opt out of these rates and negotiate their own rates with providers.

In addition, federal CCDF regulations require the Department to monitor programs and services paid for with federal funds and ensure that these programs comply with all federal requirements.

The Department's Division of Child Care (Division) primarily oversees CCCAP. The Division approves each county's plan for providing CCCAP services and provides training and technical assistance to counties about the program. In addition, the Division compiles data on the number of CCCAP participants, manages the allocation of CCCAP funds to the counties, and sets CCCAP provider rates. Finally, the Division, in conjunction with the Department's Audit Division, performs case file reviews to determine if counties are complying with applicable federal and state requirements.

County Responsibilities

Under statute [Section 26-1-118, C.R.S.], counties serve as agents of the State and are charged with the administration of public assistance programs like CCCAP in accordance with regulations established by the Department. According to DHHS, Colorado is one of seven states with a county-administered child subsidy program. In accordance with Department regulations, counties carry out the ongoing responsibilities of CCCAP, including:

- Taking initial applications for CCCAP services and determining whether applicants are eligible for the program.
- Redetermining every six months whether families remain eligible for the program.
- Calculating the initial parental fee for CCCAP child care. Federal law generally requires that parents pay for a portion of the child care being subsidized with CCDF funds. The fee amount is based on a percentage of the parent's income and family size. Counties must also adjust the fee when the parent's income changes.
- Establishing appropriate internal controls and separation of duties over their CCCAP programs and reviewing provider sign-in sheets to ensure that payments made to child care providers are appropriate.
- Providing parents with information on all available types of child care providers in the community and making reasonable efforts to promote CCCAP.

Populations Served

To be eligible for CCCAP, a family must have at least one child under the age of 13 and qualify in one of the following categories:

- **Low-Income Child Care (LICC).** LICC serves low-income children with parents involved in an eligible activity, such as work or job training. Statute [Section 26-2-805, C.R.S.] requires counties to serve families that earn less than 130 percent of the federal poverty level (FPL), which equaled \$22,880 for a family of three in 2008. Because of the enactment of House Bill 08-1265, counties may serve families earning up to 85 percent of the State's median income (\$50,194 for a family of three in 2008) as of August 2008. Previously, counties could serve families earning up to 225 percent of the FPL (\$39,600 for a family of three in 2008). In Fiscal Year 2008, about 29,900 children entered CCCAP through LICC.
- **Colorado Works Child Care (CWCC).** Child care is a support service for families participating in or transitioning off Colorado Works. In Fiscal Year 2008, CCCAP served about 5,200 children through CWCC.
- **Child Welfare Child Care.** Foster parents are eligible for CCCAP services, which are paid for through child welfare funding. In Fiscal Year 2008, about 2,000 (5 percent) children served by CCCAP were involved in receiving foster care through the child welfare system.
- **Employment First Child Care.** Parents eligible for food stamps are also eligible for child care under the Employment First program, a federal program designed to ensure that food stamp recipients are participating in activities to improve their employability. Most families that are eligible for Employment First are also eligible for LICC. In Fiscal Year 2008, only four children were served through the Employment First program.

Statute [Section 26-2-806, C.R.S.] clearly states that no family has an entitlement to CCCAP services. Therefore, the aforementioned requirements that counties serve certain populations are all subject to available appropriations from the General Assembly.

Figures on the number of children served in CCCAP from Fiscal Years 2004 through 2008 are included in a table on page 16.

Funding

The Department funds CCCAP through a mixture of state general funds, local funds, and federal funds. Under statute [Section 26-2-804, C.R.S.], each county must provide funds to meet a federal maintenance-of-effort (MOE) spending requirement for CCCAP each year, which is a percentage of each county's CCCAP allocation. For Fiscal Year 2008, the county MOE was about 12 percent. In other words, each

county was responsible for using local funds to pay for about 12 percent of expenses in its CCCAP program.

The major sources of federal funding for CCCAP include:

- **Child Care and Development Fund (CCDF)**, which, as noted previously, provides the major funding for CCCAP. States receive CCDF funds based on the number of children under the age of five in their state and the percentage of children receiving free or reduced school lunches. In Fiscal Year 2008 the Department spent about \$50.1 million in CCDF funds on CCCAP.
- **Title IV-A of the Social Security Act (Temporary Assistance to Needy Families, or TANF)**, which provides financial assistance to low-income families. Federal law allows 20 percent of TANF funds received by a state each year to be transferred to child care services. Once transferred, these funds are subject to CCDF requirements. In Fiscal Year 2008 the Department transferred about \$10.4 million in TANF funds to provide child care services.
- **Title XX of the Social Security Act (Social Services Block Grant)**, which funds services to help families achieve or maintain economic self-sufficiency. In Fiscal Year 2008 the Department spent about \$1.0 million in Title XX funds on CCCAP.

The following table shows total CCCAP expenditures for Fiscal Years 2004 through 2008, broken down by direct child care expenses and county administration expenses. The table also includes the number of children served by CCCAP during the period. Department administration expenses for CCCAP are included in the Department's overall child care administration expenses, which also cover the Department's child care licensing activities. The Department estimated its CCCAP administrative expenses to be about \$131,000 for almost 2 FTE in Fiscal Year 2008.

Department of Human Services Colorado Child Care Assistance Program Expenditures and Children Served ¹ Fiscal Years 2004 Through 2008						
Category	Fiscal Year					Percent Change, FY04-08
	2004	2005	2006	2007	2008	
Direct Child Care Expenses	\$78,400,000	\$73,200,000	\$67,100,000	\$66,100,000	\$76,800,000	-2.0%
County Administration	\$8,500,000	\$8,200,000	\$8,500,000	\$8,300,000	\$9,400,000	10.6%
Total	\$86,900,000	\$81,400,000	\$75,600,000	\$74,400,000	\$86,200,000	-0.8%
Children Served ²	40,600	38,200	35,600	33,900	35,100	-13.5%
Cost per Child	\$2,140	\$2,130	\$2,120	\$2,190	\$2,460	15.0%

Source: Department of Human Services' County Financial Management System and annual CCCAP reports.

¹ Expenditures and children served do not include Child Welfare Child Care and Employment First Child Care, both of which are funded through sources outside CCCAP.

² This number represents the total number of children served during the year, regardless of the length of time served.

As the table shows, overall CCCAP spending and numbers of children served declined significantly from Fiscal Years 2004 through 2007, continuing a trend that started after Fiscal Year 2002. In Fiscal Year 2002, CCCAP spending reached about \$104.1 million, and the number of children served was about 53,300, meaning that spending had declined by about 29 percent by Fiscal Year 2007 and the numbers served had declined by about 36 percent in Fiscal Year 2007. The table shows that spending increased by about 16 percent from Fiscal Year 2007 to Fiscal Year 2008, while the numbers served increased by about 4 percent. The overall cost per child increased about 15 percent from about \$2,140 in Fiscal Year 2004 to about \$2,460 in Fiscal Year 2008. Finally, the table shows that county administrative expenses have increased by almost 11 percent during the period. We will be discussing CCCAP spending and participation trends in more depth in Chapter 3.

Prior Audits

Our office previously reviewed the CCCAP program as part of our evaluation of the Colorado Works program. We released five annual Colorado Works reports from 1999 to 2003, and each report (except 2003) evaluated CCCAP. Although the current audit did not specifically follow up on all findings and recommendations from the previous reports, this audit generally included areas of concern from the earlier reports. Throughout this audit report, we identify those issues where we previously made recommendations.

Audit Scope and Methodology

House Bill 07-1062 required our office to conduct a performance audit of the use of moneys from CCCAP and to release our findings and recommendations by December 30, 2008. The legislation specified that our audit's scope should include, but was not limited to, (1) an assessment of state and county policies and procedures related to CCCAP, (2) the use of TANF funds for child care transfers and reserves, (3) provider payments and reimbursement rates, (4) parental fees, and (5) eligibility.

We reviewed each of the areas required by House Bill 07-1062. To conduct our audit, we visited and interviewed staff at the Department and visited nine counties (Adams, Denver, Eagle, El Paso, Jefferson, Larimer, Mesa, Prowers, and Pueblo) to determine how CCCAP is administered and supervised in the State. In addition to those areas required by statute, we also contracted with Berkeley Policy Associates to evaluate CCCAP's allocation model and to determine the percentage of low-income children and families served by the program.

Finally, our audit did not review CCCAP cases funded through Child Welfare Child Care or Employment First Child Care. Our audit also did not review child care licensing practices or evaluate the quality of child care provided through CCCAP.

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Eligibility

Chapter 1

Many factors influence access to and the integrity of public assistance programs. Two of the most fundamental are the criteria or requirements for eligibility and the eligibility verification process. These factors influence not only the numbers of people who can participate but also the composition of the population served, the range of services to be provided, and achievement of program goals. For non-entitlement programs like the Colorado Child Care Assistance Program (CCCAP), establishing eligibility criteria and verifying participant eligibility take on additional importance because program funding is limited, subject to available appropriations. Consequently, even if an applicant is eligible, access may be denied due to limited resources, available services, or other reasons. Thus, it is critical to establish eligibility criteria that are consistent with program goals and to have sound controls in place to ensure that participants are eligible.

In this chapter we present our findings related to eligibility for the CCCAP program. We identified issues on both the broad statewide and individual county levels, including about \$33,100 in questioned costs. Overall, we found that the Department of Human Services (Department) needs to take a stronger leadership role in supervising CCCAP to provide greater assurance that the program is meeting its goals of promoting self-sufficiency and providing uninterrupted service to participants. Additionally, the Department and the counties need to work together to strengthen the policies and control procedures for determining participant eligibility.

Eligibility Criteria

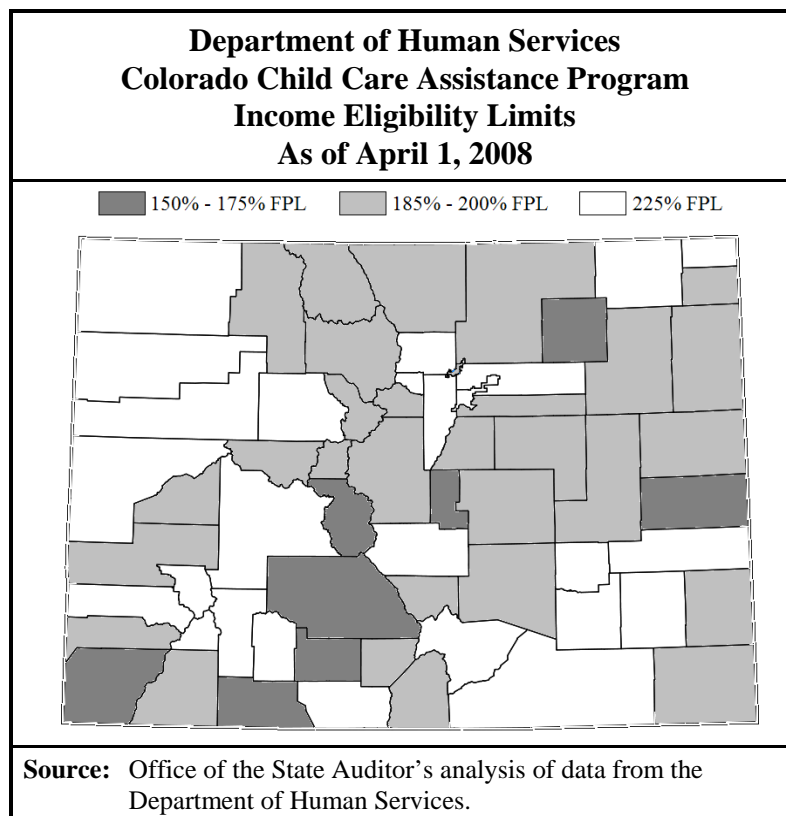
Federal and state statutes mandate who should be served by the CCCAP program. All families must have children under the age of 13 who need child care to qualify for CCCAP. In addition, the parents generally must be working, enrolled in job training or post-secondary education, or receiving Colorado Works services to qualify. Finally, the parents' income must fall below certain limits. Within these general requirements, Colorado's counties have a significant degree of flexibility and autonomy in defining particular eligibility standards. Specifically, counties determine CCCAP eligibility requirements in four main areas: income, eligible activities, child support participation, and "grandfathering" clients that become ineligible. We reviewed the requirements the counties have set in these four areas

and found that the requirements vary significantly across the State and change frequently in an uncoordinated fashion, as we discuss in the following sections.

Income. Statute [Section 26-2-805, C.R.S.] mandates, subject to available appropriations, that counties serve families with incomes at or below 130 percent of the federal poverty level (FPL), or \$22,880 for a family of three in 2008. Additionally, statute allows counties to set their income caps or limits up to the federal limit of 85 percent of Colorado's median income. In 2008 the federal limit for Colorado was equivalent to about 285 percent of the FPL, or \$50,194 for a family of three.

We found that eligibility criteria with regard to income caps vary greatly among counties. For example, in April 2008, counties' income limits ranged from 150 percent to 225 percent of the FPL, or \$26,400 to \$39,600 per year for a family of three. As a result, at the same time some counties denied CCCAP assistance to families with incomes that exceeded \$26,400 per year, other counties provided CCCAP assistance to families with incomes up to \$39,600 per year. We also found that these disparities existed among adjacent counties. For example, in April 2008, Teller County's income limit for a family of three was \$29,920 (170 percent of the FPL). During the same period, the limit in neighboring Fremont County was \$39,600 (225 percent of the FPL)—a difference of \$9,680. In neighboring Park and Douglas Counties income limits were both 200 percent of the FPL, or \$35,200 per year.

The following map illustrates variations in county income eligibility limits across the state as of April 2008.



Eligible activities. Federal law requires that for children to receive child care under CCCAP, their parents must be employed or attending a job training or educational program. According to a representative from the U.S. Department of Health and Human Services, states may choose not to serve families in which the parents are involved in training or education. Statute is silent on the types of activities that qualify a family for CCCAP. Department regulations require that families be involved in an “eligible activity” to qualify for CCCAP but do not define what an eligible activity is. However, Department policy requires Colorado counties to accept employment as an eligible activity for CCCAP eligibility but allows counties the option of denying eligibility to parents who are participating in education or training without also being employed.

As of April 2008, 53 of Colorado's 64 counties allowed education or training as an eligible activity for CCCAP assistance. The remaining 11 counties did not. In these 11 counties, students could be eligible for CCCAP assistance during the time they were at work but not during the time they were in class. The length of time counties allowed parents attending education and training programs to be eligible for CCCAP assistance ranged from 12 to 48 months, with 24 months being the most common period among the counties. In addition to the lack of uniform activity criteria statewide, we found that some of the counties that deny assistance to students are

counties with large state universities. For example, Larimer County, home of Colorado State University, does not allow CCCAP assistance to students during the time they are in class. By contrast, Boulder County, home of the University of Colorado, allows clients to receive CCCAP services while enrolled in college for up to 48 months.

Child support enforcement. Statute [Section 26-2-805(1)(d), C.R.S.] allows counties to require that CCCAP participants apply for child support establishment, modification, and enforcement services. As of April 2008, a majority of counties (59 percent, or 38 counties) require applicants to cooperate with child support enforcement activities as a condition of CCCAP eligibility. The remaining 26 counties do not.

“Grandfathering.” Statute [Section 26-2-805(1)(b)(I), C.R.S.] encourages counties to “grandfather” families into CCCAP for up to six months after they become ineligible as a result of exceeding their county's income eligibility limits. We found that as of April 2008, only eight counties have adopted such a policy. The majority of counties immediately cut off assistance to families in these circumstances. As of August 2008, statute requires counties to allow families to continue receiving CCCAP services for up to six months if the family's income exceeds the county's income limit because the county reduced its income limits after the family began receiving services.

As a result of inconsistent eligibility standards among counties, families have unequal access to CCCAP services. For example, we analyzed the cases of families who were denied CCCAP eligibility from July 2003 to October 2007 because their income was too high and found that 57 percent of the approximately 2,000 families denied service would have been eligible for CCCAP in a neighboring county. We also found during July 2003 through October 2007 that 134 families in which the parents participated in training activities were denied CCCAP eligibility because the counties in which they lived did not recognize training as an eligible activity.

We believe that a lack of uniformity in basic CCCAP eligibility requirements such as income, participation in activities, and cooperation with child support enforcement also reduces the likelihood that program goals will be achieved. Federal regulations state that the goals of child care subsidy programs include providing “child care to parents trying to achieve independence from public assistance” and that the state programs should be designed to “provide uninterrupted service to families and providers to the extent statutorily possible.” These goals are undermined when families face the possibility of losing assistance when they relocate from one county to another or their county of residence tightens its eligibility requirements. We analyzed the list of denied cases from July 2003 to October 2007 and identified 46 cases in which families may have lost their eligibility by relocating across county lines. These families appear to have been denied CCCAP after relocating because

their income was too high under the second county's criteria, even though the family had previously received CCCAP services from the first county.

Similar to other states and to other public assistance programs supervised by the Department, Colorado should standardize CCCAP eligibility criteria. Colorado is the only state that allows counties to set income eligibility limits for their child care subsidy programs, and only two other states have income limits that are not statewide. Virginia sets income limits on a regional basis, and Texas has 28 Workforce Development Boards that set income limits for their regions. Colorado's food stamp and Colorado Works programs have statewide income eligibility limits.

For income eligibility criteria, the Department and counties could choose to implement a single maximum income limit statewide or several sets of limits based on regional differences. Implementing a statewide income eligibility limit may require the Department to seek statutory change. Currently statute does not explicitly give counties the authority to set income eligibility limits for CCCAP, although that authority appears implicit. Specifically, Section 26-2-805(1)(b), C.R.S. states:

Subject to available appropriations and pursuant to rules promulgated by the state department, . . . a county . . . may provide child care assistance for any other family whose income does not exceed eighty-five percent of the state median income for a family of the same size.

This language suggests that the Department could set statewide or regional income eligibility limits through its rule-making process, although it is not clear that approach would meet legislative intent. The Department should clarify its authority to set income eligibility limits and seek statutory change as necessary to introduce statewide or regional income limits for CCCAP.

For eligible activities, the Department should implement regulations requiring that all counties allow education or job training as an eligible activity that qualifies families for CCCAP. The Department should also work with the counties to establish a standard time period (e.g., one or two years) for which families can receive CCCAP services while enrolled in education or job training programs. Post-secondary education and job training programs can offer the skills and education CCCAP participants need to obtain good and stable jobs. By allowing the counties to opt out of allowing education and training as a qualifying CCCAP activity, the Department sends mixed messages about the value of education for achieving self-sufficiency. Department staff report that counties have been given options in this area because the counties need mechanisms for managing their allocations. However, as we will discuss in greater detail in Chapter 3, the Department can take better steps to ensure that the counties' allocations are proportionate to the demand

for CCCAP services in their counties, including demand from those participants who are going to school rather than working.

For child support enforcement, the Department should consider seeking statutory change that would require counties to mandate that CCCAP applicants cooperate with child support enforcement activities as a condition of receiving CCCAP services. Child support enforcement helps to ensure that children receive necessary financial support from both of their parents before the State needs to provide financial assistance.

Finally, the Department should work with counties to standardize “grandfathering” policies at the counties. As noted previously, statute encourages but does not require that clients who have lost eligibility due to increased income into CCCAP be grandfathered into CCCAP by counties for up to six months. Allowing counties to choose whether to grandfather in CCCAP clients introduces unnecessary inequities into the program. The Department and counties should determine if grandfathering is a good statewide policy and, if so, the Department should seek statutory or regulatory change as necessary to implement this policy.

County staff reported that they often change their eligibility limits in response to fluctuations in their budgets and therefore need to retain control over the setting of eligibility requirements to ensure prudent fiscal management. From Fiscal Years 2002 through 2008, we found significant fluctuations in counties' income eligibility limits as well as large swings in the numbers of children and families served through CCCAP. However, we also found that a significant portion of the variation in numbers served occurred among families with incomes below 130 percent of FPL and Colorado Works participants, populations that are always eligible no matter how a county adjusts its eligibility requirements. In other words, the counties may have changed their income limits to reduce the number of families they served with higher incomes and to ensure they stayed within their budgets, but much of the change in the number of families that the counties served occurred among families unaffected by the counties' adjustments in income limits. As a result, it is not clear that counties need to control the setting of eligibility standards to manage their budgets effectively.

Recommendation No. 1:

The Department of Human Services should work with county departments of human/social services to standardize Colorado Child Care Assistance Program (CCCAP) eligibility requirements statewide by:

- a. Setting statewide or regional income eligibility limits.
- b. Requiring counties to allow education and job training as eligible activities for parents to participate in CCCAP.
- c. Determining whether “grandfathering” CCCAP clients into the program for up to six months after their income exceeds eligibility limits is a good policy and making appropriate changes based on this determination.
- d. Considering requiring that all counties mandate that CCCAP applicants cooperate with child support enforcement as a condition of receiving CCCAP services.
- e. Seeking statutory or regulatory change as necessary to implement statewide CCCAP eligibility standards.

Department of Human Services Response:

Partially agree. Implementation date: May 2010.

The Department agrees to work with counties to consider regional or statewide eligibility limits including the use of education and job training as eligible activities. However, in order to determine whether this recommendation will be fully implemented, the Department will convene a committee, composed of state representatives and county representatives to study the impact of this recommendation and how best to make changes to current policy. The study will include the consideration of all parts of the recommendation (a., b., c., and d.), ensuring it will not create a negative fiscal impact at a time when fiscal reductions are already being required. The committee will ensure the accessibility, access and affordability of child care is not negatively impacted, taking into consideration the cost of living, the impact on the number of children being served, unintended consequences, and other factors related to standardization of eligibility requirements. The Department will act on the recommendations of the committee, including a timeline for implementation as well as part "e" of the recommendation—seeking statutory or regulatory change as appropriate.

Eligibility Determination

Accurately establishing families' initial and continuing eligibility for CCCAP is key to ensuring the credibility and success of the program. Questions about program fairness can arise if standards are not consistently applied and correctly calculated. Moreover, the merits of the program can be diminished or overlooked if doubts arise about whether the population being served is truly eligible or in need of assistance. Therefore, as part of our audit, we evaluated whether counties are accurately determining eligibility, including correctly calculating the amount of parental fees to be applied.

Because CCCAP is supervised by the Department but administered by counties, families must apply at counties for CCCAP services. Counties may require families to apply in person at county offices or allow them to send in their applications. Applicants are to provide certain documents to verify (1) income (e.g., pay stubs) and (2) participation in an eligible CCCAP activity (e.g., work or school schedule). County case workers enter information from the application and supporting documentation into the Department's Child Care Automated Tracking System (CHATS). If the family is determined to be eligible, CHATS automatically computes the family's parental fee. Under federal law, families participating in CCCAP and with incomes above 100 percent of the FPL must contribute a portion of their income to the child care costs being subsidized by CCCAP. In Colorado the fee amount varies, generally ranging from 7 to 14 percent of gross income, and is based on household size, income, and the number of children in care.

We reviewed 53 case files from nine different counties for participants receiving CCCAP services in Federal Fiscal Year 2007 to determine if the counties correctly determined income eligibility and parental fees. We identified problems in more than one-half (57 percent) of the files we reviewed. Specifically, we found that 30 of the 53 case files contained exceptions such as calculation errors and omissions of necessary information. In some cases we identified more than one exception in a single case file. It is important to note that we did not find any errors or omissions that resulted in a determination of program eligibility when an applicant or participant should have been denied eligibility. However, the errors did result in miscalculated parental fees. Specifically, our review found that counties assessed seven families' parental fees that were too high by an average of about \$20 per month and two families' fees that were an average of about \$60 per month lower than they should have been.

Overall, the problems we identified in the case files raise concerns about the integrity of the eligibility determination process. As indicated below, we found weaknesses in three main areas:

Income and fee calculations. Correctly calculating and verifying income is essential not only for determining program eligibility but also for establishing the correct parental fee amount. The CCCAP Policy Manual sets out guidelines for calculating income and Department rules mandate the formula for calculating parental fees. We identified eight cases (15 percent) in which county workers incorrectly calculated families' monthly incomes and parental fees. We also identified another case in which a family's income was correctly calculated but its parental fee was not. Errors in calculating income can result in program eligibility and parental fee errors and can cause the State to either overpay or underpay its share of child care costs.

Documentation. We found that 11 of the 53 files (21 percent) did not contain sufficient documentation to verify the applicant's income or parental fee amount. For 6 of the 11 exceptions, the files lacked documentation related to irregular income. The Department's CCCAP manual requires that when an applicant has irregular income, caseworkers are to calculate an average gross monthly income based on documentation from the previous three months. None of the six files contained the requisite three months of pay stubs, handwritten wage statements from employers, or other wage documentation. According to Department staff, families with irregular incomes comprise the majority of CCCAP families. Consequently, documenting the basis for these income determinations is especially important.

For 3 of the 11 exceptions, the files lacked basic information, such as the client's application, that would allow us to confirm that the applicant's income was calculated correctly. For one of the remaining exceptions, the file lacked information required to document the applicant's self-employment income. Finally, the last exception did not contain documentation to explain why the parental fee had been lowered below the amount required under Department policy.

Because of the insufficient documentation, we could not confirm the initial eligibility of the applicants in these cases. We estimated questioned costs in these cases to be about \$5,100.

County residence verification. Department rules require that all CCCAP recipients reside in the county in which they seek and receive assistance. We identified 16 case files (30 percent) in which counties did not verify the recipients' county residency. Verifying county residence is of particular importance for CCCAP given the differences in eligibility requirements among the counties. For example, if an applicant is ineligible based on income in his or her county of residence, they could seek assistance in an adjacent county with lower income thresholds.

Many of the problems we identified in our file review were also identified in the 2005 Error Rate Methodology Pilot Study and the 2008 State Improper Authorization

for Payment Report, both of which the Department completed in collaboration with the U.S. Department of Health and Human Services. The 2005 study found, for example, that 20 percent of the 150 sample cases had income or parental fee calculation errors. The results of the 2008 report were preliminary at the time of our audit; however, the report identified similar problems with the counties' case files. Problems included: (1) a lack of citizenship verification in 25 percent of cases; (2) a failure to assess parental fees in accordance with the Department's schedule in 18 percent of cases; and (3) insufficient documentation for income calculations in 43 percent of cases. The results of these studies and our audit identify a pattern of weaknesses in the CCCAP program that has been ongoing since at least 2005.

There are several reasons for the problems identified during our audit. First, there is a lack of clarity among county staff with regard to calculating irregular income. Most of the files we identified that did not have sufficient income documentation were for families with irregular income. Contrary to Department policy, county workers accepted fewer than the required three months of income documentation, and county staff told us that they understood this practice to be acceptable. The Department needs to reiterate its requirements through training and written policy updates. Developing a standard form for the counties to use in calculating income and parental fees would also be of benefit. Such a standardized tool would provide greater assurance that counties consistently apply and comply with eligibility rules and accurately calculate income and fees.

Second, the Department has not established an adequate system of monitoring and follow-up both at the county and state levels. Quality assurance is vital for consistent application of rules and for the timely correction of problems. As we detail in Chapter 2, the Department began conducting county file reviews on a quarterly basis in August 2006. The Department's practice is to review a few case files and then speak with county staff about any problems found, including those related to eligibility determinations. However, we did not find that the Department has adopted a sufficiently formal or complete process for conducting these reviews. For example, the Department does not identify the reasons problems occur, such as a lack of adequate supervisory review. Neither does the Department require that counties submit corrective plans or follow up to ensure that the counties have taken steps to rectify problems associated with eligibility determinations.

We also found that two of the nine counties we visited do not routinely review their case files to ensure compliance with applicable requirements. Department regulations require that counties establish adequate internal control processes to ensure compliance, such as periodic supervisory review. Monitoring case files is an important method for counties to use as part of their internal control systems. We address the weaknesses in the Department's and the counties' oversight efforts in more detail in Recommendation No. 8 in Chapter 2.

Finally, although the Department has adopted rules related to county residence, it has not adopted corresponding rules, policies, or procedures for verifying residence. The Department should adopt the necessary rules and provide guidelines to counties on acceptable forms of residency documentation such as rent receipts, mortgage statements, and utility bills.

Recommendation No. 2:

The Department of Human Services should improve the accuracy and completeness of eligibility determinations for the Colorado Child Care Assistance Program (CCCAP) made by county departments of human/social services by:

- a. Clarifying to the counties that three months of income documentation are necessary to verify irregular income for CCCAP applicants.
- b. Ensuring that counties maintain complete documentation to support income and parental fee calculations.
- c. Developing a standard income and parent fee calculation form to be used by counties and providing training to implement the tool.
- d. Strengthening the Department's and counties' monitoring and supervisory review systems as outlined in Recommendation No. 8 in this report.
- e. Implementing a rule requiring counties to verify county residency for CCCAP applicants.

Department of Human Services Response:

- a. Agree. Implementation date: July 2009.

The Department will issue an agency letter specific to this topic, will train staff, and will monitor the counties for compliance.

- b. Agree. Implementation date: July 2009.

The Department will issue an agency letter that includes a document for use in calculating income and guidelines for documentation needed to support income and parental fee calculations and for the use of CHATS for parent fee calculation. The agency letter will also stress the need for counties to maintain complete documentation.

- c. Agree. Implementation date: July 2009.

The Department will issue an agency letter that includes a document for use in calculating income including documentation needed, as well as the use of CHATS for parent fee calculation.

- d. Agree. Implementation date: July 2009.

The Department has already improved its monitoring of the counties' CCCAP operations since the audit began through a revision of the county case file review process, which is now a risk-based approach that reviews those counties that manage higher CCCAP caseloads, identifies where errors are most commonly made in the program, and makes changes to internal control systems as identified. Currently the Department performs this monitoring on a quarterly basis. However, the Department is currently pursuing additional staff through the Fiscal Year 2010 budget request process to implement this monitoring on a monthly basis. Appropriation for those staff positions will allow the Department to fully implement this recommendation.

- e. Agree. Implementation date: April 2009.

The Department has already addressed this recommendation in a rule package that will go before the State Board in January for first hearing and become rule in April 2009, dependent upon State Board approval.

Eligibility Determination Overrides

As described previously, eligibility determinations for CCCAP are completed automatically in CHATS, the Department's CCCAP database, based on data entry from county staff. The ability of CHATS to automatically determine eligibility can be a control for preventing fraud and errors. However, CHATS also allows workers to override the system's eligibility determinations. Override capability significantly weakens this system control unless sufficient compensating controls exist to ensure that overrides are utilized appropriately.

There are legitimate reasons for overriding CHATS. For example, if two parents are divorced but each one separately applies and qualifies for the child care subsidy for the same child, CHATS would deem the child to be ineligible for the second parent's subsidy because the child is already tied to an open case. However, under program

policy both parents may qualify to receive CCCAP assistance. Also, if parents are transitioning from Colorado Works Child Care to Low-Income Child Care (LICC), it may take several days for CHATS to close the Colorado Works case. During this transition period, a CHATS override is necessary for LICC assistance to be approved and the subsidy to continue uninterrupted.

We found that neither the Department nor the counties have adopted the necessary controls to ensure that overrides are justified and can only be accomplished with additional scrutiny. Specifically, during Fiscal Year 2007, counties managed about 15,000 LICC CCCAP cases, with about 500 (3 percent) of these cases having an override of eligibility determination at least once during the year. We reviewed a sample of 65 cases with eligibility overrides in Fiscal Year 2007 to determine if the counties documented their overrides sufficiently and performed them for an appropriate reason. We found that 45 (69 percent) of the sampled cases did not have adequate case file documentation to support the need for the override, nor evidence of supervisory review. We followed up on these 45 exceptions to determine if the counties could provide additional documentation to show that the overrides were appropriate. After receiving additional documents from the counties, there were still 24 (37 percent of the 65 cases) cases for which adequate documentation did not exist to support the appropriateness of the override. Because of the lack of documentation to justify the override, we consider these 24 cases to be eligibility errors, meaning that the families should not have received CCCAP services at that time. As we describe in more detail in Chapter 2, services provided to ineligible families result in questioned costs for the services provided that may be disallowed by the federal government. For these 24 cases, we calculated \$28,000 in questioned costs.

We also analyzed the rate of override use by counties in Fiscal Year 2007 and found that one of the 10 largest counties accounted for 27 percent of all overrides in the State. Further, two case workers in this county were, by themselves, responsible for 22 percent of all overrides statewide. The ability of single caseworkers to nullify system controls in the absence of additional oversight is unacceptable. Because this county was not included in our county sample for site visits, we provided this information to the Department for investigation.

The Department was unaware of the problems with overrides until we brought the matter to the Department's attention. Currently the Department does not have a report on cases that have been overridden, which makes it difficult for the Department and counties to track overrides or related trends and follow up on any anomalies such as the one we identified above. Further, CHATS does not contain accurate information on overrides for reporting purposes because CHATS records all Colorado Works and child welfare cases as overrides even though they are not.

According to Department staff, county case workers should be documenting the reasons for overrides. The counties we visited had varying policies for documenting and approving overrides, which ranged from no oversight or documentation to having technicians add notes explaining the override in CHATS. However, Department regulations and the CCCAP policy manual do not require counties to perform supervisory reviews of overrides or maintain any documentation related to overrides. Department staff explained that they have been unable to build in system controls (i.e., supervisory approvals) because CHATS is antiquated and that it would not be cost-effective to update CHATS to handle overrides better.

The lack of adequate controls over CHATS overrides significantly increases the risk of fraud, errors, and irregularities. Until CHATS is replaced, the Department must ensure that manual controls exist to ensure that overrides are appropriate and abuses or errors detected and prevented. Specifically, the Department should require that all overrides be consistent with program requirements, establish guidelines on the documentation needed to support the overrides, and require supervisory review and approval of all overrides at the county level. The Department should also provide training on the proper procedures for performing overrides.

The Department should also ensure that controls over overrides, including supervisory reviews and approvals, are built into CHATS's replacement system, which is currently in development. Shorter time frames for closing a case in the new system would solve the problem of transitioning Colorado Works cases needing overrides. The Department should also ensure that CHATS's replacement records overrides accurately and does not record Colorado Works and child welfare cases as overrides. Finally, the Department should create a report for monitoring overrides and following up on any unusual trends the Department or counties identify.

Without adequate controls over overrides, the Department increases the risk of fraud and abuse in eligibility determinations, potentially resulting in ineligible families' improperly receiving a CCCAP subsidy and disallowances of CCCAP expenditures by the federal government. Strengthening the controls over overrides will help ensure that the automatic eligibility function of CHATS is an effective control for preventing ineligible families from accessing CCCAP services.

Recommendation No. 3:

The Department of Human Services should improve controls related to manual overrides of Colorado Child Care Assistance Program eligibility determinations within CHATS by:

- a. Developing rules governing the acceptable reasons for overrides and documentation required at the counties to support them.
- b. Requiring that the counties establish supervisory review and approval for all overrides.
- c. Ensuring county case managers and supervisors are adequately trained in proper procedures for overrides.
- d. Building automatic supervisory review, approval, and reporting capabilities into the CHATS replacement system.
- e. Monitoring overrides through the use of reports that identify state and county trends and irregularities, and ensuring proper follow-up.
- f. Following up on information provided to the Department from our audit on the high rate of overrides within one county.

Department of Human Services Response:

- a. Agree. Implementation date: June 2009.

The Department will develop rules governing overrides, which will specify the acceptable reasons for overrides and the documentation needed to support the overrides.

- b. Agree. Implementation date: July 2009.

The Department will require counties to have supervisory review and approval of all overrides and to report to the Department in their county CCCAP plans, which will be finalized in June 2009, on their county policy related to this issue.

- c. Agree. Implementation date: July 2009.

The Department will provide training to counties on override procedures.

- d. Agree. Implementation date: August 2010.

The Department is planning on a full replacement of CHATS by August 2010 and will build supervisory review, approval, and reporting capabilities into CHATS's replacement.

- e. Agree. Implementation date: April 2009.

The Department will monitor overrides through the use of reports and ensure proper follow-up of any problems found.

- f. Agree. Implementation date: September 2008.

The Department followed up on the high rate of overrides identified at one county. The high rate of overrides was due to a training issue that has been corrected.

Frequency of Eligibility Redeterminations

In addition to determining initial eligibility for CCCAP, counties are responsible for determining continuing eligibility. This means that families that have been approved for participation in the program must have their eligibility redetermined every six months, as required by Department regulations. Essentially this process involves updating the information upon which the county based the preceding eligibility approval. Department regulations also require that CCCAP participants report all changes in their circumstances, such as wage increases or job losses, to the respective administering counties within 10 days of the changes.

Eligibility redetermination is a standard practice among public assistance programs, including Temporary Assistance for Needy Families (TANF), food stamps, and Medicaid. Redetermining eligibility provides ongoing assurance that only those who meet program requirements are allowed to continue participating and that those who no longer meet these requirements are removed from the program.

As the agency statutorily charged with supervising CCCAP, the Department must balance various management responsibilities. The Department has explicit supervisory responsibility for ensuring that CCCAP operates in a manner consistent with its programmatic goals. At the same time, the Department has an implicit responsibility to ensure that its policies do not create administrative burdens that make service delivery inefficient and create barriers to participation. We reviewed the Department's policies and procedures related to redeterminations and reporting changes in circumstance and found that the Department may have an opportunity to achieve greater balance between these sometimes conflicting responsibilities.

Six-month redetermination cycle. We analyzed CCCAP case data from July 2003 through October 2007. We found that only 3 percent of families were deemed ineligible as a result of their scheduled redeterminations during this four-year period.

We asked eight of the counties we visited to estimate the percentage of time their respective caseworkers spend processing redeterminations. Three counties estimated that their caseworkers spend between 25 and 65 percent of their time on redeterminations. The remaining five counties were unable to provide us with estimates. Regardless, it appears that a significant portion of caseworker time may be spent redetermining eligibility for which few families are found to be no longer eligible.

Changes in circumstances. Department regulations require that participants report all changes in circumstances within 10 days. Often these changes are associated with wage increases or decreases, although according to Department and county staff, CCCAP families regularly face other changes in their households including housing instability and job transitions. Typically, parental fees require adjustment when the participant reports a change in circumstance. For the period July 2003 through October 2007, we found that 26 percent of the parental fee adjustments represented a monthly increase or decrease of \$20 or less for each family. The total dollar value of these increases for the four-year period was \$58,000 (0.02 percent of the four-year allocation). This means that during this period, rather than the Department's paying this \$58,000 to providers, the CCCAP families made the payments in the form of higher parental fees. Considering that county caseworkers made about 31,200 fee adjustments for \$20 or less during this four-year period, each adjustment resulted in savings of about \$1.86 to the State. The total costs associated with the work required of the county workers who made the adjustments is unknown. Finally, we found that from Fiscal Year 2004 through 2007, parental fees were adjusted an average of 3.3 times per family per year. For one-third of these families, the change was for \$10 or less. For 19 families, the parental fee changed once per month for 12 consecutive months.

Because the Department requires that all changes be reported, county workers are perpetually adjusting fees, and CCCAP families are perpetually undergoing the reporting and redetermination processes.

The federal government does not require a specific frequency for eligibility redeterminations. We found that 21 other states redetermine eligibility for their child care assistance programs on an annual basis. The Colorado Works Program also redetermines eligibility on an annual basis. In addition, the federal government does not specifically require families to report all changes in circumstance as a condition of participation in CCDF-funded programs. According to federal guidelines, states may establish a minimum threshold for families to report changes. This suggests that the Department's current policy requiring parents to report all changes may be due for reconsideration. Utah is one state that has set a threshold at which families below a certain income level receiving a child care subsidy do not need to report income changes. Another possible approach would be only to require reporting income changes above a certain percentage of the families' current income. Under this

approach, parents would still be able to report any income change, particularly if the change would result in a lower parental fee.

The Department should assess the potential for streamlining eligibility redetermination and for improving the cost-effectiveness of service delivery. Current requirements for redeterminations and reporting changes in circumstances have been in place since CCCAP was created in 1997, and the Department has not undertaken a comprehensive review of this aspect of the program. Department and county staff believe that the six-month redetermination period is necessary for sound financial management of the program. The Department stated that the six-month cycle reduces the necessity for recoveries resulting from participants' failing to report changes. However, the Department has not established the veracity of this position. In addition, the Department and counties would still pursue recoveries whether redeterminations occur annually or every six months.

It appears there may be some basis upon which the Department can begin an assessment of an alternative approach to performing six-month redeterminations. Specifically, for Fiscal Year 2008 the Department granted Denver County a waiver to adopt an annual redetermination period. The Department should ensure that it captures and analyzes data from Denver County's experience to compare with data related to the six-month redetermination period and determine if the annual redetermination period should be expanded statewide. This could include a workload analysis to determine the time counties spend on performing redeterminations and on adjusting parental fees and comparing those efforts with any financial savings to the State.

Recommendation No. 4:

The Department should determine the most cost-effective Colorado Child Care Assistance Program policies for redeterminations and reporting changes in circumstances by:

- a. Performing an analysis to determine the overall cost-effectiveness of the current redetermination and changes in circumstance policies.
- b. Analyzing the data from Denver County's annual redetermination waiver, such as the number and amount of recoveries, and amount of staff time spent on redeterminations.
- c. Evaluating the results from the Denver waiver and from the analysis in part "a" and determining whether to require all other counties to adopt an annual redetermination period or to require Denver County to return to a six-month redetermination period.

- d. Considering setting a minimum threshold for reporting changes in circumstances that would affect parental fees.

Department of Human Services Response:

Agree. Implementation date: December 2009.

In order to determine a full implementation plan for these recommendations, the Department will convene a committee, composed of state representatives and county representatives, to study the impact of this recommendation and how best to make changes to current policy. The study will include the consideration of the cost-effectiveness of the current redetermination and changes in circumstances policies, the results of the Denver redetermination waiver, the impact on the number of children being served, unintended consequences, and other factors related to this change in policy. The Department will act on the recommendations of the committee, which will include a uniform redetermination period statewide and regulatory change as appropriate.

Waivers

In passing the State Administrative Procedure Act [Section 24-4-101, et seq.], which governs rule-making by state agencies, the General Assembly found that state agencies should not impose regulations unless the agencies find, after considering all possible effects, that the regulation would be in the public interest. Statute [Section 24-4-103(4.5), C.R.S.] requires the agency to prepare an analysis of the proposed regulation and its possible impacts, including a description of the classes of persons who will be affected by the proposed regulation and a comparison of the costs and benefits of the proposed regulation to the probable costs and benefits of inaction. Statute [Section 24-4-103(4)(a), C.R.S.] also requires agencies to hold public hearings at which interested parties may present written or oral arguments for or against the proposed regulation to the agency proposing the regulation.

Although the public rule-making process is intended to ensure rules are fully vetted and provide public benefit, the General Assembly has also found that rules may limit the development of innovative practices. To that end, the General Assembly has provided for waivers of rules in certain instances. In particular, the General Assembly has allowed for waivers of rules related to child care policy, including rules related to CCCAP, since 1997.

Statute [Section 26-6.5-104(1), C.R.S.] currently allows counties, in collaboration with their local Early Childhood Council, to apply for a waiver from any state agency rule that would prevent the councils from implementing projects related to early childhood services. Waiver requests are submitted to the Department, which then works with the Early Childhood Council Advisory Team (Advisory Team) appointed by the Office of the Lieutenant Governor to review each request before submitting it to the Department's Executive Director for final approval.

The purpose and intent of the waiver program has evolved through legislation since first being established by the General Assembly in 1997. Specifically, Senate Bill 97-174 allowed waivers of rules to remove inflexible funding barriers and improve the availability of child care services. Senate Bill 99-226 sought to enhance the Department's ability to identify best practices that would increase the quality and accessibility of child care services statewide. Finally, House Bill 07-1062 centered on removing barriers that would impede the improvement of the quality, accessibility, capacity, and affordability of early childhood services in the State. House Bill 07-1062 also restricted waivers to rules but not laws, which were allowed under previous legislation.

The Department has received about 140 waiver requests since 1997, of which 25 were requests for waivers of CCCAP rules or laws and 115 were related to other programs serving children. Of the 25 CCCAP waiver requests, 23 were approved by the Department. Four approved waivers were eventually expanded statewide through CCCAP rule changes. Since Fiscal Year 2004, the Department has received and approved four waiver requests related to CCCAP. One waiver, originally approved in 2000 and renewed in 2005, allows one county to charge higher parental fees (12 to 28 percent of income) than are charged to CCCAP clients in the rest of the State (7 to 14 percent of income). Another waiver, approved in January 2006, authorized a different county to raise its parental fees up to 22 percent of income; the county did not renew this waiver in 2007. A third waiver, approved in June 2007, allows a third county to redetermine eligibility annually rather than every six months, as required by current Department rules. The Department granted this same county a waiver in January 2008 authorizing parental fees that are lower (2 to 13 percent of income) than the statewide range.

As noted above, agencies cannot enact a regulation unless it passes scrutiny establishing that the regulation benefits the public interest. The procedures for waiving regulations should also ensure that waivers are in the public interest. We reviewed the four CCCAP waiver requests approved since Fiscal Year 2004 and found that, more than 10 years after the enactment of the waiver program, the Department does not have an adequate process for reviewing, approving, and renewing waivers to ensure that they are needed, accomplish the intended results, and are of public benefit. Further, we found that the Department does not have processes to analyze and evaluate waiver

results to identify best practices, direct policy decisions, and effect rule changes to improve CCCAP services. We identified concerns in the following areas:

Waiver applications. We found that the Department has not standardized the information counties must submit to support their waiver applications or developed criteria for evaluating and approving applications. Although the Department has developed a standard waiver application packet that requires counties to explain the rationale for the waiver, the packet does not require applicants to submit data substantiating the need for the waiver, provide support for estimates of fiscal impact, or provide a valid means for measuring and reporting the results of the waiver's implementation. The four applications we reviewed contained only anecdotal information supporting the waiver requests. For one application, the Department requested additional supporting data from the county. The applicant provided a response but did not include the data requested by the Department. Nonetheless, the Department approved the application. Statute [Section 24-4-103(4.5), C.R.S.] requires counties to provide data about the costs and benefits of proposed regulations to demonstrate that the proposed regulation is in the public interest. Similarly, solid data are needed to justify a waiver and measure the waiver's impact. In the absence of sound data, the effectiveness of waivers and their potential for statewide application cannot be determined.

Reporting and follow-up. The Department requires counties to report the results of their waivers; however, we found the reports to be inadequate for determining whether the waivers are successful. For example, in 2005 the Department renewed the parental fee waiver originally approved for one county in 2000 without requiring data to substantiate the waiver results. Further, the information the Department does require counties to report is not sufficient to demonstrate whether the waiver resulted in positive outcomes. For example, the Department required one county to report on monthly caseload trends, changes in eligibility status, and the number of cases closed to demonstrate that an annual redetermination period would improve retention rates compared to a six-month redetermination period. The data the Department requested have a limited relationship to establishing this waiver's success, because factors such as caseload trends can fluctuate for reasons other than the frequency of eligibility redeterminations.

In April 2008 a consultant hired by the Department completed an evaluation of the waiver program's impact as required by statute [Section 26-6.5-108(e), C.R.S.]. The consultant noted that Colorado is the only state that has instituted a regulation waiver program related to early childhood issues such as CCCAP. According to the consultant, the uniqueness of Colorado's waiver program raises the importance of evaluating the waivers. Similar to our review, the evaluation concluded that the Department's system for tracking and reporting waiver results and collecting supporting data could be much stronger and more consistent. The report recommends

that the Department “create more data-focused applications upfront that require clear communication of expected universal policy benefits” and “institute a more regular (quarterly or at least yearly) system of collecting waiver results.” The consultant's findings are consistent with the findings of our audit.

Strengthening the waiver process will provide two main benefits. First, a more rigorous and standardized process for approving, analyzing, and renewing waivers will help ensure that waivers are in the State's best interest. Second, an improved waiver process will allow the Department to make more informed decisions about whether waivers should be expanded statewide or should be eliminated. Over time, a lack of consistent standards for approving and evaluating waivers may result in a variety of active waivers, disparate practices among the counties in the State without apparent justification, and different experiences for program participants. For example, variations in parental fee waivers lead participants with similar incomes to paying different amounts, and neither the counties nor the Department knows whether one parental fee structure is more effective than another. As a result of the difference in parental fees for two of the waivers approved by the Department, a family of four with an income of \$2,297 per month (130 percent of FPL) pays parental fees of \$161 per month in one county and \$322 per month in the other.

The Department needs to strengthen its processes for reviewing and approving waivers in several ways. First, the Department, in consultation with the Advisory Team, should define clear and consistent criteria for reviewing and approving waivers. The Department should also include specific requirements and standards in waiver applications to ensure applicants provide sufficient and reliable data to demonstrate that the waiver is needed. Second, the Department should work with applicants and the Advisory Team to define reporting requirements that will demonstrate the results of the waiver and assist with evaluating whether the waiver should be renewed or expanded. Finally, the Department should ensure that it maintains documentation on approved waivers. The Department should use this information to identify best practices and seek rule revisions, when appropriate, for expansion statewide.

Recommendation No. 5:

The Department of Human Services should strengthen the county waiver process by:

- a. Implementing clear and consistent standards and criteria for requesting and approving waivers, including specific requirements for submitting supporting data to demonstrate why the waiver is needed.

- b. Implementing reporting standards that require counties to provide sufficient evidence demonstrating the results and benefits of the waiver, including any associated advantages and disadvantages.
- c. Maintaining documentation of the waiver process and regularly reviewing and analyzing waiver results to identify best practices, support waiver renewal decisions, and determine whether rules should be revised and waivers expanded statewide.

Department of Human Services Response:

Agree. Implementation date: July 2009.

The Department will work with the Early Childhood Council Advisory Team to enhance the current waiver process by implementing standards and criteria for requesting and approving waivers, implementing reporting standards that require sufficient evidence from counties to demonstrate the results and benefits of the waivers, maintaining sufficient documentation of the waiver process, and regularly reviewing and analyzing waiver results to identify best practices, support waiver renewal decisions, and determine if waivers should be expanded statewide.

Provider Background Checks

In addition to eligibility requirements for families to participate in CCCAP, there are eligibility requirements for provider participation. Among these provider requirements are those related to licensing. Provider licensing was not within the scope of this audit. However, during the audit we identified one issue related to provider licensing that we believe needs to be addressed.

Child care provided through the CCCAP program can be either center-based or home-based, through either licensed or license-exempt providers. As of May 2008, there were about 3,700 CCCAP providers. Of this total, about 2,700 (73 percent) were licensed. The remaining 1,000 providers (about 27 percent) were either specifically exempt from licensing (license-exempt) or caring for children they are related to (relative care). Statute does not require individuals providing relative care to be licensed but also does not specifically exempt these individuals from licensing requirements.

Most states, including Colorado, require licensed child care providers to undergo background checks. Offenses that would cause a Colorado provider to fail a

background check for a child care license include a child abuse conviction or felonies involving unlawful sexual behavior or domestic violence. Colorado is one of 15 states that also requires background checks for certain license-exempt providers. Effective May 2006 the General Assembly began requiring one specific type of license-exempt provider—exempt family child care home providers—to submit to a fingerprint-based criminal background check if the provider participates in the CCCAP program. The background check requirement also applies to all adults living in the provider’s household. Statute [Section 26-6-102(3.7), C.R.S.] defines an “exempt family child care home provider” as a family child care home that is exempt from certain licensing requirements. Statute [Section 26-6-102(4), C.R.S.] further defines a “family child care home” as “a facility for child care in a place of residence of a family or person for the purpose of providing less than twenty-four-hour care for children under the age of eighteen years **who are not related to the head of such home.**” (Emphasis added.) Since the Department implemented the State’s new background check policy, the number of CCCAP license-exempt providers has decreased by about 79 percent, from about 4,700 in July 2006 to about 1,000 in May 2008.

We reviewed the Department’s CCCAP background check policy for license-exempt providers and found that the Department is requiring checks not only for “exempt family child care home providers” but also for individuals providing relative care, such as a grandmother caring only for her grandchildren. Individuals providing relative care do not meet the definition of an “exempt family child care home provider” under the statute cited above. Therefore, these individuals are not subject to fingerprint-based criminal background checks under current statute.

According to Department staff, the General Assembly intended to require background checks not only for “exempt family child care home providers” who care for unrelated children but also for individuals who care only for children related to them. The Department should clarify whether current statute meets this legislative intent by seeking a written legal opinion that determines whether individuals that care only for children related to them are subject to these background checks.

Recommendation No. 6:

The Department should seek a legal opinion to determine whether statute needs to be clarified to grant the Department authority to require background checks for individuals receiving Colorado Child Care Assistance Program funds who care only for children related to them.

Department of Human Services Response:

Agree. Implementation date: January 2009.

The Department agrees to seek a legal opinion to determine whether statute needs to be clarified to grant the Department authority to require background checks for individuals receiving Colorado Child Care Assistance Program funds who only care for children related to them.

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Oversight of County Expenditures

Chapter 2

The Department of Human Services (Department) spent more than \$400 million on Colorado Child Care Assistance Program (CCCAP) services during Fiscal Years 2004 through 2008. This total includes subsidy payments made by county departments of human/social services to child care providers and county administrative costs. In addition, counties spent about \$4.8 million in Fiscal Year 2008 on initiatives designed to improve the quality of child care.

Although counties administer CCCAP services on a day-to-day basis, the Department, as the lead agency for CCCAP, is ultimately responsible for ensuring that CCCAP expenditures are appropriate and support program goals. For example, federal Child Care and Development Fund (CCDF) regulations require that the Department monitor CCCAP services and oversee expenditures made by subrecipients of federal funds, such as the counties, to ensure that CCCAP expenditures comply with federal rules. Further, the federal Office of Management and Budget's (OMB's) *Circular A-133: Audits of States, Local Governments and Non-Profit Organizations* requires the Department to monitor subrecipients to ensure compliance with all federal requirements.

We evaluated the Department's oversight of county CCCAP expenditures related to three areas: provider rates, provider payments, and child care quality initiatives. We reviewed provider rates and payments because they represent the vast majority of CCCAP expenditures (about \$362 million from Fiscal Years 2004 through 2008). We reviewed the child care quality initiatives because spending in this area increased significantly during the time period reviewed. Overall, we found significant weaknesses in the Department's oversight of county expenditures in these areas and identified questioned costs totaling about \$195,700. As a result, there are risks that the Department is not adequately protecting the public resources invested in CCCAP. This chapter describes ways in which the Department can better ensure accountability for these funds.

Market Rate Survey

Counties pay providers different child care rates based on several factors, including the age of the child, the type of provider (e.g., exempt or licensed), and whether the child is in full-time or part-time care. In general, counties contract with providers for child care services through two types of rate arrangements: (1) a “per unit” rate,

which is charged for each child based on full-time or part-time daily attendance; or (2) a monthly child care slot rate, which guarantees payment to the provider for holding a certain number of spaces open for CCCAP participants, even if not all of the slots are used. Statewide, 11 counties had slot contracts worth about \$1.6 million for Fiscal Year 2008.

Statute [Section 26-2-803, C.R.S.] requires the Department to establish CCCAP provider rates for the counties. Statute also allows counties, upon notice to the Department, to opt out of the Department's rates and negotiate their own rates with providers. In negotiating and setting provider rates, counties must meet two requirements. First, under federal and Department regulations counties cannot pay a provider more than a "private-pay" family would pay for equivalent care. Second, under federal law the maximum rates counties choose to pay providers must be high enough to ensure that CCCAP families have access to child care that is equal to the access available to private-pay families. County rates do not have to ensure access to every provider, but they do have to afford CCCAP families access that is comparable to the variety and options available to private-pay families.

Under federal law, states must certify in their state CCDF plan that rates paid to providers are sufficient to ensure equal access for CCCAP children to comparable child care services provided to children not eligible for CCCAP. Under federal regulations, states must provide a summary of facts they relied upon to determine that their payment rates ensure equal access. This information must include showing (1) how families have a choice of a full range (e.g., center, family, and in-home care) of providers, (2) how payment rates are adequate based on a biennial statewide survey; and (3) how parental fees are affordable.

We reviewed data used by the Department to certify that the State's rates ensure equal access. We did not identify any concerns about parental fees or the availability of providers to CCCAP participants that raised doubts about whether CCCAP participants have equal access to child care providers. However, our review of the Department's most recent (2006) market rate survey and methodology found significant flaws that cause the rate information to be unreliable. As a result, we question whether the Department can reasonably certify to the federal government that the State's CCCAP provider rates ensure equal access for participants. We discuss these issues below.

Survey Methodology

Federal regulations require states to conduct biennial statewide surveys of local child care provider rates. The survey results are intended to provide the Department with objective information to set rates for all parts of the State and for different types of care (e.g., infants and school-age children). Federal guidance suggests that states can

achieve equal access if their rates are equal to the 75th percentile of local market rates, which allows a subsidy recipient access to 75 percent of the providers in the market.

As noted previously, statute allows counties, upon notice to the Department, to opt out of using the rates set by the Department. The Department currently does not track which counties have opted out of using the state-set rates; however, all nine counties we visited reported setting their own rates. Even if counties choose to opt out of the state-set rates, counties must still meet the federal requirement that provider rates are set sufficiently high to ensure equal access. To demonstrate to the federal government that the counties' rates ensure equal access, the Department compares the counties' rates to the market rate survey results regardless of whether the county opts out of the state-set rates. The Department's rates can also serve as a reference for the counties when they set their own rates. As a result, it is important that the Department's market rate survey be reliable and accurate.

The Department uses a contractor to conduct the market rate survey. The contractor contracts with local resource and referral agencies to obtain local provider rates for all licensed child care providers and enter them into a database. The contractor extracts and analyzes provider rates from that database, as instructed by the Department, to determine the 75th percentile for categories and groupings the Department has specified. Currently the Department publishes rates for both center-based and home-based care, for four child age categories, within four county "designations." The designations are designed to group counties with similar factors, such as population and household income.

Our review of the 2006 market rate survey identified significant concerns about the validity of the survey, including problems with the Department's methods for ensuring consistent and reliable data collection, analysis, and reporting. As a result, it is unclear that the Department's survey provides a reasonable basis for certifying that the State's rates meet federal equal access requirements. We discuss these issues below.

Data collection. We identified several problems with the conduct of the survey and the quality of the data collected. Specifically, we found that the Department does not require the contractor to retain or verify the source data for the survey. This is important because the contractor must standardize some providers' rates, such as converting full-time monthly rates into full-time weekly rates, to enter them into the database. If the rates entered into the database are not accurate, the 75th percentile calculation may be skewed. We identified some extremely wide ranges within some counties' rate categories that suggested that the rates entered into the database were not accurate. For example, the range for center-based full-time care for two- to five-year-olds was \$36 to \$400 per week in one county and \$17 to \$302 per week in

another. Without source data, the Department cannot confirm the accuracy of these ranges. We also found that the Department has not ensured an adequate representation of providers in all counties. In particular, it is important to obtain rates from 100 percent of providers in small counties with few providers. The Department's contract for the 2006 survey required a sample of 90 percent of licensed providers in the State; the contractor sampled only 80 percent. The Department's contract for its next survey does not require a minimum sample size. Consequently, the Department cannot be sure that the rates collected through the contractor's samples will be a valid representation of the rates within each county.

Analysis and reporting. We also identified problems with the Department's methodology for analyzing and reporting the results of the provider market rate study. First, we found that the Department's designations do not group together counties with similar costs of living. For example, the Department groups rural counties that have very low costs of living with resort counties that have very high costs of living. Specifically, within one designation, we identified one low-cost county whose daily rate at the 75th percentile is \$15.00 and a high-cost county whose daily rate at the 75th percentile is \$51.00 for the same age category. The Department's recommended 75th percentile rate for the counties in this designation for the same age category is \$30.06 per day—too high for one county and too low for the other county. Second, we found that the Department does not report rates that align with the age categories collected during the survey or used by providers. For example, infant rates (0-12 months) are typically higher than toddler rates (12-24 months). The Department reports only one rate for infants and toddlers (0-24 months), even though the contractor collects rate information for both infants and toddlers separately. This results in a recommended rate that is too low for infants and too high for toddlers. Third, we found that the Department's methodology for calculating the 75th percentile within each designation rate is flawed. The Department first calculates the 75th percentile for each county within a designation separately, then averages the results within the designation to determine the 75th percentile for the group. To determine the 75th percentile correctly, the Department should array or rank all provider rates within the designation for that rate category and identify the 75th percentile from the entire pool.

As noted previously, the problems we identified with the Department's market rate survey raise questions about whether the Department can certify to the federal government that Colorado's provider reimbursement rates ensure equal access to child care for CCCAP participants. Additionally, the weaknesses have other negative effects. For example, Senate Bill 08-210 created the Child Care Provider Reimbursement Rate Task Force (Task Force) to study how the State can best adopt minimum provider rates set at the 75th percentile. Since the Department's current 75th percentile rates are not reliable, the Task Force cannot use the rates to determine the costs that the State and counties would incur if they were required to pay

providers minimum rates. In addition, the problematic market rates, which the Department also incorporates into its CCCAP funding allocation model, have an unintended impact on the funding allocations to counties. We discuss problems with the allocation model in detail in Chapter 3.

Finally, counties cannot use the state-set rates as a reference for their own rates if the State's rates are inaccurate and unreliable. During our site visits, four of the nine counties stated that the market rate survey did not provide accurate rates for their counties, and none of the nine counties used the state-set rates. If counties do not find the survey credible and do not use it to determine their own rates, the survey is not accomplishing its intended purpose and is a waste of resources.

Survey Improvements

We identified several ways in which the Department can improve the reliability and accuracy of its market rate survey. First, the Department should create standard policies and procedures for conducting the survey and analyzing/reporting results. The written procedures should address the problems identified in this audit, including appropriate sampling procedures, recommended rate categories, retention and verification of source data, and calculation of the 75th percentile, among others. These procedures should include requiring that a minimum percentage of providers from each county be included in the survey. Both the contract for the last survey and the contract for the next survey provide minimal guidance on requirements in these areas. Written procedures would also assist the Department with monitoring the contract and evaluating the results of the process. Additionally, enlisting county participation to develop the procedures would help ensure the survey is useful to counties.

Second, the Department should provide more formal oversight of the contractor and the survey process by verifying the accuracy of the survey's results and holding the contractor accountable for failure to follow agreed-upon procedures. Reviewing source data, identifying and verifying outliers, implementing minimum accuracy thresholds for data collected, and testing a sample of data for accuracy are steps the Department could take in evaluating the survey results.

Third, the Department should consider incorporating cost-of-living rankings when grouping counties into designation groups. These data, available from the State Demographer within the Department of Local Affairs, classify counties as high-, average-, or low-cost. We analyzed the correlation between the cost-of-living rankings and child care rates paid by individual counties and found a strong relationship. Using these data would also be simpler, more relevant, and less error-prone than the current formula being used.

Recommendation No. 7:

The Department of Human Services, in conjunction with county departments of human/social services, should improve its Colorado Child Care Assistance Program (CCCAP) market rate survey to provide a reasonable basis for certifying rates to the federal government and ensuring equal access to child care for CCCAP participants by:

- a. Developing specific policies and procedures for ensuring that the market rate survey produces accurate, reliable, and useful results and amending the contract for the survey as appropriate.
- b. Formally monitoring the contract and survey process, including verifying the accuracy of the results.
- c. Reevaluating the county designation formula and considering using cost-of-living data to group the counties instead.

Department of Human Services Response:

Agree. Implementation date: July 2009.

The Department has recognized that certain data in the current market rate survey were not reliable. The Department will develop specific policies and procedures to ensure that the market rate survey produces accurate and reliable data. This will include defining in the contract for resource and referral work what data collection methods are to be incorporated prior to the survey. The Department will monitor the contract to compliance of terms as well as accuracy of data collected from the implementation date forward.

This recommendation will be considered in the context of the committee work defined in Recommendation No. 1, as this recommendation relates to county CCCAP allocations and other factors for counties, such as eligibility, also impact the allocation formula. The Department will consider the use of cost of living as a criteria in determining county designation, and move forward with changes as per the committee recommendations.

Provider Payments

Providers bill counties on a monthly basis for care provided to CCCAP children. Several steps exist to ensure that payments made by counties to these providers are accurate and comply with federal and state requirements. First, a county case worker authorizes the days of the week and the number of hours for which CCCAP children can receive care based upon the parents' schedule in eligible activities. For example, counties will only authorize children to receive part-time care if their parents are only working part-time. Second, the provider submits a bill to the county at the end of the month for care provided, which the county then compares to the amount of care authorized for that month to ensure that the provider is not billing for more care than was authorized. The county also verifies that the rate charged by the provider matches the rate listed in the provider's contract. Finally, counties review attendance documentation from randomly selected providers each month to verify that providers are only billing counties for the actual days that units of care were provided.

Since 2003, several federal and state studies have reviewed different parts of the counties' processes for paying CCCAP providers. For example, the Department's internal auditors completed the *Child Care Provider Study* in June 2003, which focused on how to reduce improper payments due to provider billing errors. Federal studies in 2005 and 2008 were also aimed at reducing improper payments. Finally, the Department began performing its own county case file reviews on a quarterly basis in August 2006 to determine if counties are properly determining eligibility and authorizing CCCAP care and to provide training to the counties.

We reviewed the results of all of these studies and found that counties continue to lack adequate controls over the provider payment process and that some of these weaknesses were identified as far back as 2003. Through our review of the studies and our site visits to nine counties, we identified areas for improvement in each of the three payment process steps discussed above: authorizations, billing, and provider attendance documentation. We discuss these in the next three sections.

Authorizations

Once a child is determined eligible for CCCAP, a county case worker authorizes child care for certain days of the week and amounts of time. The authorizations should be based upon the parents' schedules in eligible activities to ensure that children only receive CCCAP services when needed. Over-authorizing care increases the opportunity for fraud or abuse within the program. If counties are not reviewing the parents' schedules closely, the excess amount of authorized care could be used by a parent to receive subsidized child care while not engaged in an eligible activity, or by a provider to bill for that time even if care was not provided.

Additionally, any child care provided under CCCAP that is either not needed or not actually provided is subject to federal recoveries and disallowances.

The 2003 Department study recommended that care only be authorized based on the parent's schedule, so as to reduce the potential for providers to over-bill and be paid for care not actually provided. However, case reviews performed by the Department since August 2006 have found that nearly 38 percent of cases examined did not authorize care based upon the client's need.

Additionally, our analysis of preliminary data from the 2008 federal study, which was being completed at the time of our audit, indicates that steps necessary to ensure care is properly authorized are not being completed by county case workers. For example, only about 36 percent of the files in the study's sample of 271 had documentation of the parent's schedule of eligible activity on the application, redetermination form, or other documents (e.g., official work schedule from employer). Documenting and then verifying the schedule helps ensure that care is authorized based upon the parent's needs. Overall, we concluded that counties have not addressed problems identified in the 2003 study or implemented the study's recommendation to improve authorization practices.

We identified several ways in which the Department can better ensure that counties properly authorize child care for CCCAP participants and limit possible improper payments. First, the Department needs to strengthen its policies related to authorizing child care. For example, despite the 2003 recommendation from the Department's internal auditors, current CCCAP regulations and policies do not explicitly state that child care is to be authorized based upon the parents' schedules. The Department should revise CCCAP rules to require that counties only authorize child care based on the parents' schedules and not overauthorize care.

Second, the Department should work with counties to improve the counties' internal control systems. Strong internal controls ensure that county staff manage their CCCAP cases appropriately. The 2003 Department study recommended that counties complete additional case file reviews, but we found that two of the nine counties that we visited never review case files. At the time of our audit, the Department reported that it will begin requiring counties to complete more standardized monthly case file reviews but had not set a firm date for when those reviews must begin. These reviews should focus not only on the authorization of child care but also on whether staff are properly calculating applicants' income and parental fees, problems we identified in Chapter 1. The Department should also ensure that the counties' own file reviews focus not only on identifying errors but also on determining why these errors occur and implementing corrective action to prevent future mistakes.

Third, the Department should improve its CCCAP monitoring to ensure that counties are meeting applicable requirements. The Department's current quarterly reviews of county case files identify the errors in each file reviewed but do not determine the causes of errors or mandate steps to prevent future mistakes. Without identifying the causes of the counties' errors and requiring corrective action to address these causes, the Department's reviews have minimal value. The Department should also use a risk-based approach to select its quarterly reviews. For example, as of September 2008, the Department has reviewed 16 counties, only two of which are among the 10 largest counties in the State and do not include the two largest counties, Denver and El Paso. To ensure that improper authorizations and possible improper payments are minimized statewide, the Department's case file review schedule should focus primarily on identifying and correcting problems at the counties that manage the most CCCAP cases. Finally, the Department should expand its monitoring to include a review of the counties' internal control systems to ensure that these controls are working effectively. For example, the Department should examine the results of each county's case file reviews to guide the Department's oversight of the counties.

Recommendation No. 8:

The Department of Human Services should ensure that county departments of human/social services properly authorize child care for Colorado Child Care Assistance Program (CCCAP) participants by:

- a. Promulgating rules to clarify that counties shall only authorize the amount of child care needed by CCCAP families based on their schedule of eligible activities.
- b. Working with counties to improve the counties' internal control systems, such as requiring all counties to conduct monthly CCCAP case file reviews that identify errors in their case management and the causes behind those errors and require corrective actions to prevent future errors.
- c. Improving its monitoring of the counties' CCCAP operations by revising its county case file review process to include developing a risk-based approach that reviews those counties that manage larger CCCAP caseloads and determines why counties make errors, such as improperly authorizing CCCAP care or miscalculating an applicant's income, and if counties have adequate CCCAP internal control systems in place.
- d. Requiring that counties submit corrective action plans to address problems identified in part "c" and following up on these plans as appropriate.

Department of Human Services Response:

- a. Agree. Implementation date: June 2009.

The Department will promulgate rules clarifying that counties shall only authorize the amount of child care needed by CCCAP families based on their schedule of eligible activities.

- b. Agree. Implementation date: June 2009.

The Department will work with counties to determine how best to improve internal control systems, including the frequency of case file reviews that identify errors, identifying the causes behind the errors, and steps to be taken to prevent future errors.

- c. Agree. Implementation date: June 2009.

The Department has already improved its monitoring of the counties' CCCAP operations since the audit began through a revision of the county case file review process, which is now a risk-based approach that reviews those counties that manage higher CCCAP caseloads, identifies where errors are most commonly made in the program, and makes changes to internal control systems as identified. Currently the Department performs this monitoring on a quarterly basis. However, the Department is currently pursuing additional staff through the Fiscal Year 2010 budget request process to implement this monitoring on a monthly basis. Appropriation for those staff positions will allow the Department to fully implement this recommendation.

- d. Agree. Implementation date: July 2009.

As noted in part "c," the Department will fully implement monitoring as described above, which includes the counties' providing plans to address identified problems. This implementation is dependent upon the appropriation of staff positions for this purpose.

Provider Billing

Department regulations require that counties establish a fiscal agreement with every provider they use to provide CCCAP services. The fiscal agreement articulates the rights and responsibilities of the provider and the counties, including the rates to be

paid by the county to the provider. On the fiscal agreement, each provider must report the rates they charge “private-pay” families, and each county must list the maximum rates that it will pay to any provider. Counties are then required under Department regulations and federal guidance to pay each provider, under their fiscal agreement, the lesser of the provider's private-pay rate or the county's maximum provider rate. Therefore, counties must ensure that the private-pay rates reported by providers are legitimate, especially if these rates are lower than the county's maximum provider rate.

During one of our county site visits, staff voiced the concern that counties could be paying child care providers more than their private-pay rates because the counties are not verifying the providers' private-pay rates listed on the fiscal agreement. To determine whether providers were reporting their private-pay rates accurately, we anonymously called 27 providers from six counties to ask for their rate for full-time care for a child just over two years old. We identified three providers (11 percent) that quoted lower private-pay rates to us over the phone than they listed in their current fiscal agreements with the counties. In other words, these three providers appear to be charging private-pay customers less than they are charging the counties.

For the three providers identified in our survey, the first provider overcharged the county approximately \$1,700 over the first two months of its current contract (April and May 2008) for care for two year olds, or about 2 percent of the approximately \$70,000 this provider was paid during this period. The \$1,700 overcharge is a questioned cost because it does not comply with federal and state requirements. The second provider was underpaid for the first five months of the current fiscal agreement (January through May 2008), because the county mistakenly paid the provider the wrong rate. However, the rate quoted to us over the phone by the second provider was \$3 per day lower than the rate the provider had listed on its fiscal agreement. No payments had been made to the third provider because the agreement had just begun as we were conducting our survey. However, the risk remains that payments to the third provider will not reflect the lower private-pay rate quoted to us. We notified the counties about these rate discrepancies, and they indicated that they would be following up with the providers.

The Department does not require, and the counties that we visited have not developed, routine processes to verify that the private-pay rates listed by providers on their fiscal agreements are accurate. Without verifying the providers' private-pay rates, counties cannot be sure that the rates charged by providers to counties do not exceed the rates charged by providers to private-pay families. The Department should work with counties to develop rules for verifying providers' private-pay rates. For example, staff could anonymously call a sample of providers monthly to request rates. Staff could also visit a sample of providers monthly to collect current rate

sheets. Counties could incorporate these processes in their monthly review of provider time sheets, which we discuss in the next section.

Recommendation No. 9:

The Department of Human Services should ensure that county departments of human/social services do not pay Colorado Child Care Assistance Program providers higher rates than those charged to private-pay customers by:

- a. Working with the counties to develop policies and procedures for periodically checking whether providers are charging counties higher rates than the providers charge private-pay customers and monitoring implementation of these procedures.
- b. Requiring those counties identified to follow up with the providers at risk of receiving overpayments to determine if recoveries should be made from the providers.

Department of Human Services Response:

Agree. Implementation date: April 2009.

The Department will develop an Agency Letter that directs counties on policies and procedures related to verification of provider market prices to determine if providers are charging the counties higher rates than the private pay sector. This letter will include specific direction to follow up with providers at risk of receiving overpayments to determine if recoveries should be made.

Provider Attendance Sheets

Department regulations require CCCAP providers to maintain attendance records that note the child's time of arrival and departure for each day of care. Regulations also require that these records be signed by the person authorized to drop off or pick up the child, such as the child's parent. Thus, these records document the time, dates, and units of care actually provided to children in CCCAP and can be used by counties to verify provider bills. Previous Department and federal studies found that attendance documentation was not always adequate to support the bills submitted by providers. For example, the Department's 2003 study found that about 17 percent of days of the week billed by providers were not supported by the providers' sign-in

sheets. The study recommended additional review of provider attendance documentation and provider training on proper billing practices. The 2005 federal study concluded that provider errors resulted in an improper payment rate of 12 percent, in part because providers lacked adequate attendance documentation. Finally, the county case file reviews, which the Department began in August 2006, have found that 17 percent of providers did not have adequate attendance documentation for days billed.

Department regulations require counties to “complete at least a random monthly review of sign in/out sheets received from the provider compared to the billing sheets submitted.” These reviews help ensure providers are billing only for care actually provided. We visited nine counties to evaluate their processes for conducting random, monthly reviews of provider sign-in sheets and found wide variations in county practices. Specifically, we requested documentation of each county's reviews for the months of September 2007 and March 2008 and found that only five of the nine counties conducted the random monthly reviews on a regular basis. Of the other four counties, two conducted reviews when workers suspected problems with specific providers, one county had discontinued its reviews, and the final county never reviewed provider attendance sheets.

For the five counties that use a random review process, we also identified a variety of review practices. For example, counties reviewed attendance sheets from as little as 1 percent and as much as 5 percent of all providers submitting bills. In addition, some counties reviewed all types of providers, while other counties only reviewed licensed facilities. Finally, we found that all the counties that had reviewed provider attendance sheets accepted attendance documentation from providers that did not comply with the aforementioned Department regulations. For example, counties accepted provider sign-in sheets that did not list the child's arrival and departure times and/or that lacked a signature from the child's parent or guardian verifying the times that care was used.

We identified several ways in which the Department can help counties to improve their monthly review process. First, the Department should implement procedures to ensure that counties are conducting the monthly reviews in accordance with Department regulations. Currently the Department does not monitor whether counties are reviewing provider attendance records. The Department could include an evaluation of the counties' review process during its county case file reviews, including whether the counties are accepting attendance records from the providers that do not conform to Department regulations. Second, the Department should provide the counties with better guidance on how to select samples for their monthly reviews to ensure more consistent coverage. Current Department regulations do not specify how counties should conduct these reviews. The Department should offer

direction on the number or percent and types of providers that counties should review each month.

Finally, the Department should revise its regulations to require that counties review provider attendance sheets on a risk, rather than random, basis. Risk-based reviews would ensure that counties focus their reviews on those providers most likely to have inadequate attendance documentation or to have a significant impact on the county if billing errors are found. Appropriate risk factors for the Department and counties to consider would include (1) the amount the provider bills to the county and/or the number of children the provider serves, (2) whether or not the county has identified billing discrepancies with the provider previously, and (3) the length of time that the provider has contracted with CCCAP (i.e., providers new to CCCAP warrant more scrutiny). The Department should continue to require that counties include some providers in their reviews on a random basis to ensure that all providers have some chance of being selected.

Recommendation No. 10:

The Department should improve the review of Colorado Child Care Assistance Program provider attendance records by county departments of human/social services by:

- a. Verifying that counties are conducting the reviews in accordance with Department regulations during the Department's monitoring reviews.
- b. Providing guidance to the counties on how to select samples of providers' attendance sheets for the reviews.
- c. Revising Department regulations to require that counties implement a risk-based approach for conducting the reviews. Counties should continue to include a random element to ensure all providers have a chance of being selected.

Department of Human Services Response:

- a. Agree. Implementation date: July 2009.

The Department has already improved its monitoring of the counties' CCCAP operations since the audit began through a revision of the county case file review process, which is now a risk-based approach that reviews those counties that manage higher CCCAP caseloads, identifies where

errors are most commonly made in the program, and makes changes to internal control systems as identified. As a part of the monitoring process, the Department will verify that counties are conducting these reviews in accordance with Department regulations.

- b. Agree. Implementation date: April 2009.

The Department will issue an Agency Letter giving guidance to counties on how to select samples of providers' attendance sheets for the reviews.

- c. Agree. Implementation date: June 2009.

The Department will promulgate rules to require that counties implement a risk-based approach for conducting the reviews. Counties should continue to include a random element to ensure all providers have a chance of being selected.

County-Owned Child Care Centers

Although most counties in Colorado deliver CCCAP child care services primarily through contracts with private child care centers and home providers, at least two counties contract with their own county-owned child care facilities for CCCAP services. Agreements between counties and their county-owned child care centers have the potential for abuse; an inherent conflict-of-interest risk exists, since the county is essentially negotiating rates to pay itself. Department regulations attempt to minimize this risk by requiring that all county expenditures be “necessary and reasonable for proper and efficient performance and administration.” According to these regulations, a cost is reasonable if it is comparable to what the market cost would be and if it has restraints imposed upon it, such as “arm's-length bargaining,” that function to maintain equal bargaining power between the two parties involved.

One of the counties we visited, Prowers County, has a county-owned child care center that cares for CCCAP, Head Start, and private-pay children. Prowers County has had a slot contract with its county-owned center since the center opened in 2001. For Fiscal Year 2008, Prowers County's contract covered 68 CCCAP slots and called for the county to pay the center for child care services totaling about \$470,000 minus parent fees. We reviewed Prowers County's provider rates and its child care slot contracts with the county-owned center and found that Prowers County has been significantly overcharging the CCCAP program for care provided at the center. Specifically, rates charged by this center are not comparable to market rates in the area, and controls do not exist to ensure arm's-length bargaining between the county

and the center, which creates a conflict of interest. We found that Prowers County's county-owned child care center received almost \$2.5 million in CCCAP payments during Fiscal Years 2004 through 2008, more than any other single CCCAP provider in the State. At the same time, the county-owned child care center ranked 17th in the State for the number of units of child care provided to CCCAP children, and the county ranked 49th among Colorado's counties in cost of living. We identified several problems with respect to Prowers County's relationship with its county-owned center, which we describe below.

Rates. We found that Prowers County paid rates to its county-owned child care center that were higher than the rates charged to the center's private-pay families for equivalent care, in violation of both Department and federal regulations. Specifically, since opening the center in 2001, Prowers County has consistently paid \$575 per month, or \$25 per day for 23 days, for each contracted child care slot, regardless of the enrolled child's age or attendance. Over the same time period, the center charged private-pay families \$25 per day for children under three years of age, but only \$20 per day for children over three years old in full-time care, and only \$5 per day for children in after-school care. The Department, which is required by its own policies to review provider slot contracts before the contract start date, approved the slot contract between Prowers County and its county-owned center even though the contract indicated that the majority of the slots were to be paid at rates that were higher than the center's private-pay rates. We calculate that during Fiscal Year 2008, Prowers County made overpayments totaling \$111,000 by paying the \$25 rate for children that were either more than three years old or in after-school care. The \$111,000 overpayment is a questioned cost because the rates charged by Prowers County did not conform to federal regulations prohibiting counties from paying rates to a provider that exceed the providers' private-pay rates. This overpayment represents about 14 percent of Prowers County's entire Fiscal Year 2008 CCCAP expenditures of about \$785,000.

We also found that the rates charged by Prowers County's county-owned child care center are higher than the rates charged by other providers in the area. We surveyed child care centers in neighboring counties with similar costs of living to Prowers County's and found their rates were lower, as shown in the table below.

Department of Human Services Colorado Child Care Assistance Program Rates Charged by Prowers County's County-Owned Child Care Center Compared to Rates Charged in Neighboring Counties August 2008			
Category	Daily rate charged by county-owned center	Average provider daily rate charged in neighboring counties	Excess of Prowers' County rate over neighboring counties' rate
Children less than 3 years old in full-time care	\$25	\$20.08	\$4.92
Children more than 3 years old in full-time care	\$20	\$17.42	\$2.58
Source: Office of the State Auditor's survey of county child care rates.			

As the table shows, Prowers County is paying its county-owned child care center an average of almost \$5 more per day for children under the age of three in full-time care than rates paid in neighboring counties. This is an annual difference of almost \$1,400 per child under the age of three.

Underutilized slots. We found that during Fiscal Year 2004 through 2008, Prowers County contracted for slots it did not need. Specifically, we compared the number of contracted slots to the number of child care units (a full-time unit equals more than five hours of care per day) that Prowers County authorized for CCCAP children and found that the number of authorized child care units only used about two-thirds of the capacity of the contracted slots. This amounts to paying for more than 7,600 units of child care, at an estimated cost of \$190,000, that were not needed for Fiscal Year 2008 alone.

The purpose of a slot contract is to ensure child care availability by paying to hold a certain number of slots at a provider. While it is unreasonable to expect a county to fully utilize each contracted slot every day, the underutilization of slots we found in Prowers County strongly suggests that Prowers County is contracting for too many slots at its county-owned child care center. This underutilization also contributed, in part, to the county-owned center's receiving significantly higher average payments per child per unit of care than other child care centers within Prowers County or statewide. During Fiscal Years 2004 through 2008, the county-owned center received payments averaging \$42.95 per child per authorized unit of care, which is 21 percent higher than the average payment per child per authorized unit made to non-county-owned centers located in Prowers County and 75 percent higher than the average payment per child per authorized unit statewide.

The problems we identified at the Prowers County child care center were due to the Department's weak oversight and failure to ensure arm's-length bargaining between Prowers County and its county-owned child care center. Specifically, the Department lacked adequate monitoring procedures to identify excessive payments or potential conflicts of interest. In December 2005, the Department's Audit Division conducted an audit of the Prowers County Department of Social Services, including the county-owned child care center. Although the Department's audit found that Prowers County was contracting for more slots at the center than were needed, the audit did not identify the problems with the rates and the less-than-arm's-length relationship between Prowers County and the center. Additionally, the Department's procedures did not identify the overpayments made by Prowers County to the center as a result of Prowers County's slot contract.

Overall, we found that the Department's lack of oversight of CCCAP created an environment in which Prowers County was able to (1) pay itself inflated rates, and (2) pay itself for an excessive number of unneeded units of care. The Department should take several actions to improve its oversight of county-owned child care centers in general and the Prowers County child care center in particular. First, the Department should monitor slot contracts between counties and their county-owned child care providers to identify unreasonable provider rates that may result from an absence of arm's-length bargaining. This should include immediately requiring Prowers County to renegotiate its slot contract with its county-owned child care center to ensure that the contract does not pay for more slots than are needed and that the slot rates do not exceed the center's private-pay rates and are reasonable. We discuss additional improvements to slot contracts in more detail in the next section. Second, the Department should review and approve all provider rates negotiated between counties and their county-owned providers to ensure rates are appropriate. Finally, the Department should consider increasing its audit coverage of Prowers County until the issues with the county-owned child care center have been resolved.

The importance of improved oversight by the Department of county-owned child care centers cannot be overstated. The arrangement between Prowers County and its county-owned child care center has resulted in Prowers County's paying its county-owned child care center some of the highest rates in the State. Additionally, these types of arrangements limit the ability of private providers to compete and create the appearance of a government monopoly. If other counties were to emulate practices in Prowers County, CCCAP rates could significantly increase across the State and reduce the number of families that could be served within available funds.

Recommendation No. 11:

The Department of Human Services should improve its oversight of county-owned child care providers to ensure an arm's-length bargaining relationship between counties and their county-owned providers and to provide assurance that Colorado Child Care Assistance Program payments are reasonable and necessary. This should include:

- a. Reviewing and approving all rates negotiated between the county department of human/social services and the county-owned provider.
- b. Requiring Prowers County to immediately renegotiate the current slot contract between Prowers County and its county-owned child care center to ensure that the contracts do not pay for more slots than are needed and that the slot rates do not exceed the center's private-pay rates and are reasonable.
- c. Considering increasing its audit coverage of Prowers County using the Department's Audit Division and current resources until the problems with its county-owned child care center have been resolved.

Department of Human Services Response:

- a. Agree. Implementation date: July 2009.

The Department will issue an Agency Letter on this topic to include the review and approval of all rates between a county department of social/human services and a county-owned provider. Counties will be required to identify county-owned facilities on the county plan submitted to the State.

- b. Agree. Implementation date: January 2009.

The Department has renegotiated the slot contract with Prowers County, which will be finalized for implementation in January 2009.

- c. Agree. Implementation date: July 2009.

The Department agrees to consider increasing audit coverage of Prowers County.

Slot Contracts

During our review of the slot contract between Prowers County and its county-owned child care center (discussed in the previous section), we identified weaknesses in the Department's controls over slot contracts that could have implications for other counties. As noted previously, 11 counties had slot contracts totaling about \$1.6 million during Fiscal Year 2008. Although we did not review the slot contracts in the other 10 counties, the problems we identified in Prowers County present risks that other counties could be paying for more slots than needed or higher rates than appropriate. Specifically, we found inadequate controls in the following areas:

- **Estimates of slot usage.** The Department produces reports on provider slot usage, which counties rely upon to estimate the number of slots needed in their slot contracts. We found that the Department's method for estimating slot usage is flawed and overstates the number of slots counties use. The Department reports slot usage based only on the number of children enrolled at a provider but does not indicate whether children are enrolled in full-time or part-time care. In other words, the Department counts as one slot: (1) a child attending for one day per week, and (2) a child attending for five days per week. To provide better information to counties about slot usage, the Department should consider devising other methods that better reflect the amount of care actually furnished by the provider. For example, the Department could compare the number of contracted slots to the amount of care actually authorized. If the number of contracted slots exceeds the amount of care actually authorized by an unreasonable percentage, then the Department should require the county to reduce the number of slots paid for under the contract. The Department should also establish controls, such as the file reviews discussed earlier in this chapter, to ensure that counties do not overauthorize care to justify the number of contracted slots.
- **Child Care Automated Tracking System (CHATS) limitations.** We found that the Department's automated system, CHATS, has limitations that make accounting for slot contracts difficult for counties. Specifically, counties can only enter one payment rate into CHATS for providers with slot contracts, even if the counties would like to pay different slot rates for the various categories of care (e.g., infant and school-age care). We identified one county that has developed a work-around in CHATS that allows the county to track and pay its providers multiple slot contract rates for different age groups and care categories. Although the county developed this work-around in 2002 and the Department was aware of the county's practice, the Department did not require other counties to adopt this county's method for managing slot contracts with multiple payment rates. The Department should

either require counties with slot contracts to adopt the work-around developed by the county discussed above, or devise another way for counties to manage slot contracts with multiple rates in CHATS. Additionally, the Department should ensure that CHATS's replacement system currently under development has mechanisms to address this issue.

Finally, as stated earlier in this chapter, the Department has not consistently followed its own procedures for reviewing and approving slot contracts. The Department needs to ensure it reviews these contracts to verify that rates do not exceed private-pay rates for the same care. Together, these steps should improve the Department's controls over slot contracts and reduce the risk of slot contract overpayments at other counties.

Recommendation No. 12:

The Department of Human Services should improve controls over county slot contracts under the Colorado Child Care Assistance Program by:

- a. Considering revising its method for measuring slot usage to better reflect the reasonableness of the amount of care being provided.
- b. Establishing methods to ensure that county departments of human/social services can pay providers multiple slot rates until and after the CHATS system is replaced.
- c. Consistently following current Department policy to review and approve county slot contracts to verify that the rates meet federal and state requirements for reasonableness and do not exceed providers' private-pay rates.

Department of Human Services Response:

- a. Agree. Implementation date: July 2009.

The Department agrees to consider other methods for measuring slot usage to ensure the reasonableness of the amount of care being provided.

- b. Agree. Implementation date: August 2010.

The Department will establish methods by April 2009 related to the approval of contract for slots that accommodates multiple rates for

differing ages of children and types of care. CHATS's replacement will include this functionality upon implementation, which is scheduled for August 2010.

- c. Agree. Implementation date: January 2009.

The Department will follow current policy in the review process to approve a contract for slots, which will verify that the rates meet reasonableness requirements and do not exceed providers' private-pay rates.

Quality Initiatives

Federal rules require states to spend at least 4 percent of their CCDF allocation on activities or services that improve the quality and availability of child care in the State. In Fiscal Year 2008, the Department spent about \$4 million at the state level on quality initiatives. In addition to the statewide quality initiatives, Department policy currently allows counties to spend funds transferred from their Colorado Works reserves and/or up to 10 percent of their CCCAP allocation on activities to improve the quality of child care. County expenditures on quality initiatives have steadily increased, from about \$300,000 among 13 counties in Fiscal Year 2004 to about \$4.8 million among 37 counties in Fiscal Year 2008.

Federal regulations describe quality activities as those that (1) provide comprehensive consumer education to parents and the public, (2) increase parental choice, and (3) improve the quality and availability of child care. Department policy further defines acceptable uses of quality initiative funds to include child care capacity building, increasing child care resource and referral services, child care provider grants, provider training and recruitment, and minor remodeling of child care facilities.

Our audit focused on a review of the counties' quality initiative spending to determine if counties used these funds to improve the quality of child care in the State. Overall, we found the Department's oversight of the counties' quality initiative spending is weak. Consequently, county spending did not always comply with applicable federal and state requirements, resulting in questioned costs of about \$83,000. We also found that the Department's policy allowing counties to spend their CCCAP allocation on quality initiatives does not conform with state statute. We discuss these issues in the next two sections.

County Quality Initiative Expenditures

We reviewed a sample of 72 quality initiative expenditures for three counties totaling about \$577,000 in Fiscal Year 2006 through Fiscal Year 2008. The sampled transactions came from the three out of the nine counties we visited that had quality initiative transactions during that year. We identified concerns with questioned costs, lack of consistent grant processes, and administrative expenses. Overall, the Department has not adequately monitored quality initiative expenditures, as described below.

Questioned costs. OMB *Circular A-133* defines questioned costs as those that (1) are unallowable under statutory, regulatory, contractual, or grant requirements; (2) appear unreasonable and do not reflect the actions a prudent person would take in the circumstances; and (3) are not supported by adequate documentation at the time of the audit. Of the 72 transactions we tested, we identified 14 (19 percent) with questioned costs, totaling about \$83,000 (14 percent) of the approximately \$577,000 we tested. The questioned costs we identified fell into several categories, as discussed below, with two transactions falling into multiple categories:

- **Unallowable use of quality initiative funds.** As noted previously, federal regulations and Department policy require that quality initiative funds be used to improve the quality of child care. OMB *Circular A-87: Cost Principles for State, Local, and Indian Tribal Governments* discusses the allowability of selected types of expenditures that apply to all federal funds. We identified seven transactions totaling about \$37,000 that did not appear to meet these requirements. For example, one county spent \$10,000 to send 15 parents to a training conference. According to Department policy, provider training is an allowable quality initiative expense, but training for parents is not. For another transaction, a county paid about \$1,800 for a provider to host an outreach event for parents and children that included dinner, a petting zoo, and a balloon clown. OMB *Circular A-87* prohibits the use of federal funds for entertainment purposes, including amusement and social activities, and for costs associated with these activities, such as meals.
- **Unreasonable and unnecessary transactions.** OMB *Circular A-87* requires that all costs be reasonable and necessary for the operation of the program. We identified six transactions totaling about \$4,400 that were unreasonable and unnecessary. For example, we identified one transaction totaling about \$4,100 in which a provider paid for two months of rent and a security deposit for a staff member's personal apartment. The provider indicated these expenditures were start-up costs for its facility, which is an allowable use of

quality initiative funds. However, we question whether paying a staff member's rent qualifies as a legitimate start-up cost for any child care facility.

- **Inadequate supporting documentation and approvals.** We identified three transactions totaling about \$62,000 that lacked sufficient documentation and approvals. For example, one transaction totaling about \$41,000 transferred funds to a non-profit organization, which then granted the funds out to providers. While the county could provide a list of expenses paid for by the non-profit organization, the county did not have copies of any invoices related to the transactions. As a result, we could not determine if the transactions complied with applicable requirements. Another transaction used about \$1,100 of quality initiative funds to pay a portion of registration, stipend, and hotel costs for parents and administrators to attend a Head Start conference. The total cost for the conference was \$15,000. We could not determine from the documentation how the county calculated the \$1,100 as an appropriate amount to be spent on Head Start expenses.

Lack of formal grant process. We found that one of the three counties for which we tested transactions did not have a formal grant program to distribute quality initiative funds to providers. Rather, the county used quality initiative funds to pay for operating costs at its county-owned child care center without giving other private providers in the county the chance to apply for these funds, giving the appearance of favoritism and impropriety. Although the Department does not specifically require counties to distribute funds to providers through grants, a formal grant process provides greater assurance that all providers have an opportunity to apply for and receive funds. A formal process also provides greater transparency and accountability, reducing the risk of fraud and abuse. We also noted that federal law requires federal agencies to use a grant process when the recipient of the government funds will be carrying out governmental activities, as is the case with county quality initiative spending.

Lack of county monitoring. OMB *Circulars A-87* and *A-133* require recipients of federal funds to monitor entities to which they subgrant any of those funds to ensure compliance with federal laws and regulations. In addition, Department rules require counties to have administrative procedures in place to ensure appropriate internal controls over expenditures. We found that the counties' monitoring of quality initiative spending is deficient. For example, none of the three counties in our sample had a standard process to document that providers actually received and put into place the goods purchased with quality initiative funds, such as playground equipment. While two of the three counties stated that they perform inventory checks on quality initiative expenses, they acknowledged no documentation was kept verifying that the check took place.

Further, one county, Denver County, could not provide supporting documentation for a transaction totaling about \$2.8 million. Specifically, Denver County provided invoices totaling about \$4.2 million but was unable to reconcile these invoices to the \$2.8 million transaction we requested. As a result, we were unable to test the appropriateness of this transaction and consider it to be a potential questioned cost. The Department should follow up with Denver County and conduct a detailed audit of this transaction to determine if Denver County complied with all applicable requirements.

Use of quality initiative funds for administrative expenses. Department policy does not include county administration as an allowable use of quality initiative funds. We found that one county allowed a subrecipient to use 5 percent of the quality initiative funding it received from the county for administrative costs up to \$127,500. In addition, we found one instance in which the same subrecipient subgranted some of these funds to another entity and allowed that entity to also charge 5 percent for administrative costs. We have concerns about allowing subgrantees of the quality initiative funding to use those funds for administrative expenses. For example, we noted that if the county directly administered its quality initiative program rather than subgranting these funds, the county would not charge any administrative costs to quality initiative funds because the county would pay the costs from its CCCAP allocation or other county administration funds. Thus, this county's practice of allowing subrecipients to charge administrative costs against quality initiative grants reduces the funds available for improving the quality of child care in the State.

As noted, federal and state rules require the Department to have an effective monitoring and review process and adequate internal controls to ensure that CCCAP funds are spent appropriately. The Department has not taken an active role in overseeing quality initiative spending and therefore is not fulfilling its responsibility to monitor the spending of these funds. We identified several ways in which the Department could improve its oversight of the counties' quality initiative spending. First, the Department should routinely review a sample of county quality initiative transactions to ensure that funds are being spent in accordance with applicable requirements. Currently the Department does not perform any detailed review of these expenditures. Second, the Department should require counties to establish formal grant processes if they are distributing quality initiative funds to child care providers. These processes should include standard procedures for notifying all providers in the county about the availability of funding, taking applications for funding, using standard criteria for determining which providers will receive funding, and monitoring provider expenditures for compliance with applicable requirements, including verifying that goods bought with these funds are put into service by providers.

Finally, the Department should clarify its guidance on the allowability of certain types of expenditures, stated below. As noted previously, Department policy provides a specific list of uses for county quality initiative spending. The Department has also provided counties with informal written guidance about the allowability of certain types of expenditures. We found this guidance is more general than the Department's policy, in part because it provides a list of allowable activities that includes "any other activities that are consistent with the intent of the [CCDF]." The broadness of the Department's informal guidance weakens assurances that quality initiative funds will be spent appropriately or strategically to meet program goals. The Department should clarify requirements for quality initiative spending by ensuring that counties comply with current Department policy. The Department should also determine whether counties can use quality initiative funds for administrative expenses and for expenses related to other programs, such as Head Start and, if so, what limits should be placed on these expenses.

Without better oversight of county quality initiative spending, the Department cannot ensure that these funds are being used effectively and efficiently to improve the quality of child care in the State. Misuse of these funds could also result in federal recoveries for unallowable costs.

Recommendation No. 13:

The Department of Human Services should improve its oversight of quality initiative spending by county departments of human/social services by:

- a. Instituting a regular review of a sample of quality initiative transactions from all counties to determine if these transactions comply with all applicable requirements.
- b. Auditing the \$2.8 million transaction we identified as a potential questioned cost to ensure that the expenditure was made in accordance with all applicable requirements.
- c. Requiring counties to institute formal grant processes for distributing quality initiative funds to child care providers and reviewing the counties' grant processes to ensure that counties distribute and monitor funds appropriately.
- d. Ensuring that guidance given to counties about the allowability of types of quality initiative expenditures reflects current Department policy and federal requirements.

- e. Clarifying whether administrative expenses and paying for the expenses of other programs like Head Start are appropriate uses of county quality initiative funds and, if so, establishing limits for these expenses.

Department of Human Services Response:

- a. Agree. Implementation date: June 2009.

The Department will institute a regular sample review of documentation and transactions related to quality initiatives, ensuring all federal and state requirements are met on a regular basis.

- b. Agree. Implementation date: June 2009.

The Department's Audit Division will conduct an audit of this \$2.8 million transaction to determine if the expenditure was made in accordance with federal and state requirements.

- c. Agree. Implementation date: April 2009.

The Department will develop an Agency Letter advising counties to establish a formal grant process to apply for funds for quality initiatives. The process will include developing a grant application, review process, and notification process, to be approved by the Department.

- d. - e. Agree. Implementation date: April 2009.

An Agency Letter will be developed, providing direction on types of allowable quality initiative expenses, which will include administrative and other allowable expenses.

County CCCAP Allocation for Quality Initiatives

In June 2007, the Department approved a change in policy allowing counties to use a portion of their CCCAP allocation on quality initiatives. Counties were authorized to use up to an amount equal to their maintenance-of-effort (about 12 percent) of their CCCAP allocation in Fiscal Year 2008 on quality expenditures. In Fiscal Year 2008, 12 counties spent about \$427,000 of their allocation on quality expenditures. For Fiscal Year 2009, the Department has revised this policy to allow counties to spend 10 percent of their CCCAP allocation on quality initiatives.

We found that the Department's policy allowing counties to use their CCCAP allocation for quality initiatives does not comply with statute. Statute [Section 26-2-804(3), C.R.S.] prohibits the use of a county's CCCAP allocation for anything other than "the provision of child care services." CCCAP staff have said that "child care services," as used in the aforementioned statute, could be interpreted to include quality initiatives because the term "child care services" is not specifically defined in statute. However, federal guidance related to CCDF funds defines "child care services" as "care given to an eligible child by an eligible child care provider."

Although we determined that the use of a county's allocation for quality initiatives would not result in federal disallowances, this practice reduces available funds for the provision of direct care subsidies to assist families in achieving self-sufficiency, which is a key goal of CCCAP. Therefore, the Department should discontinue its policy of allowing counties to use their CCCAP allocations for quality initiatives.

Recommendation No. 14:

The Department of Human Services should discontinue its practice of allowing counties to use a portion of their Colorado Child Care Assistance Program allocations for quality initiative expenditures.

Department of Human Services Response:

Agree. Implementation date: July 2009.

The Department will write an Agency Letter disallowing the use of CCCAP allocation for quality initiative expenditures.

Funding and Performance

Chapter 3

As discussed throughout our report, the overall purpose of the Colorado Child Care Assistance Program (CCCAP) is to provide financial assistance for child care to help families participate in work or educational activities, thereby achieving self-sufficiency and independence from government assistance. Additionally, the goals of the federal Child Care Development Fund (CCDF) block grant, which provides a majority of the dollars funding the CCCAP program, are to increase the availability, affordability, and quality of child care services for all families to some degree, and for low-income families in particular.

Colorado's CCCAP program was created in 1997 as part of the major restructuring of the nation's welfare and cash assistance program through the federal Personal Responsibility and Work Opportunity Reconciliation Act of 1996. CCCAP is now over 10 years old and has spent more than \$400 million in public dollars during Fiscal Year 2004 through 2008 on child care services to low-income families. We reviewed the Department of Human Services' (Department's) efforts to oversee the performance and funding of the CCCAP program to inform policy decisions and to determine the State's preparedness for supporting and subsidizing child care in the future. We found that the Department has not taken a leadership role in setting and measuring performance standards for the CCCAP program. Neither has the Department adequately evaluated its funding structure to demonstrate accountability or position the State to provide consistent delivery of child care services to low-income families in the future. We discuss our findings related to both performance and funding in this chapter.

Program Performance

The General Assembly found in 1997 and reaffirmed in 2007 that:

... there is a critical need to increase services for young children and their families, including those families with members who are entering the workforce due to Colorado's reform of the welfare system, making the transition off of welfare, or needing child care assistance to avoid the welfare system [Section 26-6.5-101(1), C.R.S.].

Further, a significant body of research indicates that low-income mothers who receive child care subsidies are more likely than other low-income mothers to work, sustain employment, and earn more. This research, along with the findings of the General Assembly as set forth in statute, points to the importance of ensuring that child care programs make progress in serving families and children eligible for services.

We reviewed the Department's practices for measuring its progress in meeting the child care needs of low-income families and for evaluating its program to improve services to children. We found that the Department has not measured or evaluated the extent to which the CCCAP program is reaching families in need of services. In addition, we found the Department has not implemented regulations to ensure that prioritized populations receive priority for CCCAP services. We discuss these issues in the next two sections.

Performance Measurements

Agencies that administer means-tested programs (i.e., where eligibility is based on income) are responsible both for ensuring that people have appropriate access to assistance and that program integrity is maintained (e.g., only eligible people receive services). We discussed improvements the Department can make related to program integrity in Chapters 1 and 2. For non-entitlement programs like CCCAP, ensuring that eligible populations have sufficient access is challenging because these programs typically do not receive funding to serve all those in need. As a result, agencies administering these programs must make strategic decisions about how to allocate scarce resources and thereby ensure that program objectives are met. The U.S. Government Accountability Office (GAO) has developed standards for achieving program outcomes that are particularly relevant for means-tested programs such as CCCAP. These standards include:

- Establishing and maintaining a culture of accountability that sets a positive and supportive attitude toward achieving management objectives.
- Monitoring program performance over time.
- Recording and communicating relevant, reliable, and useful information to management and others who need it to carry out their internal control and operational responsibilities.

We reviewed the Department's efforts to monitor and use CCCAP performance data to ensure that program objectives are being met. Overall, we found that the Department does not have adequate systems for collecting and analyzing CCCAP performance data to demonstrate accountability, monitor its performance, or provide meaningful information for day-to-day management or policy decisions. As a result,

it is unclear whether CCCAP is meeting the needs of the families it is intended to serve. We discuss these issues below.

Establishing Performance Goals

We interviewed Department staff and reviewed the Department's budget requests to the General Assembly for Fiscal Year 2005 through 2010 to determine whether the Department has established measurable performance goals to assess the success of CCCAP. We found that the Department has not established these types of goals for the program. For example, staff indicated that the Department does not determine whether families using CCCAP are making progress toward self-sufficiency, a key objective of the program. Instead, staff pointed to the Department's compliance with federal requirements and the lack of waiting lists for CCCAP services as important signs of the success of CCCAP.

We also found that the Department's budget requests, which contain performance measures and goals for many of the Department's programs, lacked adequate measures and goals for CCCAP. The only goal we found was in the Fiscal Year 2005 request, which stated that the Department intended to "maximize the number of eligible children participating [in the] Child Care Assistance program within the existing available funding" and specified 53,000 children as its target service population. As the figures in the Overview demonstrate, the Department did not reach this goal. More importantly, the budget requests subsequent to Fiscal Year 2005 did not mention this goal or discuss why the Department did not reach its target of serving 53,000. In its recent requests beginning in Fiscal Year 2006, we found the Department has specified benchmarks for the percentage of families transitioning from Colorado Works to Low Income Child Care (35 percent for Fiscal Year 2010). However, it has not recently set any goals related to the performance of the program as a whole.

Collecting and Analyzing Performance Data

We also reviewed the Department's efforts to collect and analyze CCCAP performance data to determine whether the Department was using available data to assess its performance. We identified ways in which the Department could better use data it already collects as well as new data sources related to performance, as described below.

Existing Data

Federal law requires the Department to submit quarterly and annual reports to the U.S. Department of Health and Human Services (DHHS) about CCCAP. The reports

must include information about the numbers of children and families served, the cost of services provided, the number of providers that received CCCAP funding, and demographic data about those being served (e.g., family income, county of residence, and whether the head of the family is a single parent). To produce these statistics, the Department relies on annual reports generated by its Child Care Automated Tracking System (CHATS). We reviewed the annual reports from CHATS and found that they contained valuable data that the Department could use to evaluate some aspects of the CCCAP program. However, the Department does not use these data to evaluate program performance or determine if improvements in service delivery are needed. For example, the Department has not adequately analyzed caseload trends and determined reasons for fluctuations. In particular, the number of children served by CCCAP has varied greatly in recent years, declining from about 53,300 in Fiscal Year 2002 to about 33,900 in Fiscal Year 2007 (a decrease of about 36 percent) and then rising back to about 35,100 in Fiscal Year 2008 (an increase of about 4 percent). These fluctuations, particularly the decline from Fiscal Years 2002 through 2007, are very concerning because they suggest that families needing CCCAP services were not receiving them. Department staff indicated that the decrease in caseloads partially resulted from counties' tightening their eligibility limits. We found that caseloads during this time declined at all income levels, even those that were unaffected by the changing eligibility limits.

Further, the Department has not used caseload data to identify potential problems with service delivery to very low-income families. As noted in Chapter 1, state law mandates that counties serve families at 130 percent of the federal poverty level (FPL) or lower and allows counties to serve families with incomes up to 85 percent of the State's median income (about 285 percent of FPL in 2008). Based on these criteria, one would expect that county caseloads would be heavily weighted toward families below 130 percent of FPL. The annual reports from CHATS confirm this assumption. For example, for Fiscal Year 2008 about 75 percent of all families served by CCCAP's low-income section (LICC) earned income below 130 percent of FPL. However, we also found that significant variances existed among the counties. For example, the percentage of the caseloads for the 10 largest counties with incomes below 130 percent of FPL ranged from 64 percent to 86 percent. These county-specific numbers should raise concerns for the Department, as the counties serving a smaller percentage of families below 130 percent of FPL may not be meeting state mandates to prioritize this population.

Coverage Rates

In addition to reviewing budget requests and annual reports to identify Department efforts for evaluating performance, we identified other data that could be used by the Department to analyze CCCAP's effectiveness. Coverage rates, which measure the proportion of those eligible that actually participate in a program, are one important

measure that can provide the Department with valuable information about the percentage of low-income families being reached by CCCAP and can help demonstrate accountability within the program. The GAO identified coverage rates as an important management tool for agencies in a March 2005 report on means-tested programs. As noted in the GAO's report, coverage rates provide a basic understanding of the extent to which government programs are serving needy populations. Coverage rates can also provide data that help inform agencies' budgetary and programmatic decisions, help them to manage their programs more effectively, and enable them to provide policymakers with the information they need to make decisions about the future of the program. Finally, coverage rates can be particularly important for non-entitlement programs because these programs typically experience demand that exceeds resources due to limited funding and, therefore, need good information on how to distribute these funds strategically.

We found that the Department has neither developed a method to measure and assess county or statewide child care coverage rates on an ongoing basis nor established any child care coverage targets or goals for assessing program performance. To estimate coverage rates for CCCAP, we contracted with Berkeley Policy Associates (BPA) to review and calculate overall CCCAP coverage rates. We found that Colorado's overall statewide coverage rates appear higher than those found for similar subsidized child care programs in the GAO's report. However, we also found that Colorado's coverage rates are declining and that coverage rates vary significantly among counties.

BPA calculated coverage rates by compiling the number of CCCAP participants in the Low-Income and Colorado Works Child Care programs and dividing this figure by an estimate of the target population in need of CCCAP services in each county and on a statewide basis. To estimate target population in need, BPA used data from the U.S. Census Bureau, including the decennial census and the Small Area Income and Poverty Estimates (SAIPE). These data were used to calculate the number of children in each county under the age of 13 living in families in which the parent(s) work and earn less than 100 percent of the federal poverty level. The most recent years during the audit period for which SAIPE data were available to calculate these estimates were Calendar Years 2004 and 2005. BPA compared these data to CCCAP participation numbers for Fiscal Years 2004 and 2005. (The SAIPE data will be updated next in April 2009.)

Overall, BPA found statewide CCCAP coverage rates of 31 percent in 2004 and 27 percent in 2005. In other words, in these years between about one-third and one-fourth of families that were eligible for the program received CCCAP services. By comparison, the GAO's March 2005 report cited above found national coverage rates for child care subsidy programs to be 18 to 19 percent based on data from 2001. The GAO's report did not include enough details on the data sources used to calculate its

coverage rates for us to reach any conclusions on the comparability of its rates with our coverage rates.

Although coverage rates statewide are around 30 percent, we found that many counties had coverage rates that were significantly higher or lower. Specifically, coverage rates for all counties ranged from 4 percent to 77 percent in Fiscal Year 2004 and from 2 percent to 58 percent in Fiscal Year 2005. The following table shows the coverage rates for both years for the 10 largest counties. Coverage rates for all 64 counties are located in Appendix A.

Department of Human Services Colorado Child Care Assistance Program Coverage Rates ¹ for the 10 Largest Counties² Fiscal Years 2004 and 2005			
County	Fiscal Year 2004	Fiscal Year 2005	Percent Change
Adams	20%	16%	-20%
Arapahoe	30%	26%	-13%
Boulder	24%	23%	-4%
Denver	28%	27%	-4%
El Paso	35%	31%	-11%
Jefferson	26%	24%	-8%
Larimer	42%	38%	-10%
Mesa	58%	47%	-19%
Pueblo	23%	22%	-4%
Weld	31%	28%	-10%
<p>Source: Berkeley Policy Associates' (BPA's) analysis of data from the Department of Human Services and the U.S. Census Bureau.</p> <p>¹ BPA calculated coverage rates by compiling the number of CCCAP participants in the Low-Income and Colorado Works Child Care programs and dividing this figure by an estimate of the target population in need of CCCAP services in each county and on a statewide basis. BPA's estimate was based on U.S. Census Bureau data.</p> <p>² As defined by the Department of Human Services.</p>			

As the table shows, coverage rates in the 10 largest counties also vary widely from 20 percent to 58 percent in Fiscal Year 2004 and from 16 percent to 47 percent in Fiscal Year 2005.

Although the available data to conduct our analysis were limited, our results are still concerning because, depending upon the county, CCCAP may be more or less effective in reaching eligible families. For example, in both years eligible families in Mesa County were about three times as likely to be served than those in Adams County. While legitimate reasons for this disparity may exist, the point is that the Department is not collecting data like these to identify potential performance issues and resolve them. Without these data, the Department is not well-positioned to effectively manage CCCAP and ensure that program objectives are being met.

Program Management

Overall, we concluded that the Department has not shown leadership in directing and evaluating CCCAP to ensure that the program reaches its target population and that objectives related to self-sufficiency are met. Rather, the Department has devolved almost all management aspects of the program to the counties. Department staff indicated that this approach reflects a belief that counties know best how to serve their communities. We agree that counties should have a strong voice in determining how to serve their constituents. However, as we have shown in the discussion above about performance measures and will show later in this chapter when we discuss funding, the Department's reliance on the counties is not necessarily effective in promoting CCCAP goals statewide.

To better manage CCCAP and ensure that program objectives are being met, the Department should work with the counties to develop and implement meaningful performance goals based on data that the Department can reasonably collect and analyze. The Department has established a county-specific performance measure for Colorado Works, which is included in the performance contract that each county signs with the Department. Since this contract covers both Colorado Works and CCCAP, the Department could easily include CCCAP performance goals in the contract for each county as well. Data that the Department should consider collecting and analyzing would include the caseload data already available in its annual reports and the coverage rates we identified. In both cases, the Department would want to analyze not only statewide trends but also county trends and differences among counties to identify potential performance issues that affect the State's overall ability to provide CCCAP services in accordance with federal and state requirements.

Recommendation No. 15:

The Department of Human Services should develop a system to assess the performance of the Colorado Child Care Assistance Program in meeting program objectives and to demonstrate accountability for the program to taxpayers by:

- a. Working with the counties to develop measurable county-specific performance goals, such as minimum coverage rates, to be included in the performance contracts negotiated between the Department and counties.
- b. Formalizing a process for collecting and analyzing performance data, such as caseload and coverage rates, on a statewide and county-specific basis and using this analysis to identify and follow up on indicators that program objectives are not being met. This should include identifying best practices at counties with higher average rates and using these to help less successful counties to improve coverage rates.

Department of Human Services Response:

Agree. Implementation date: December 2009.

- a. This recommendation will be considered in the context of the committee work defined in Recommendation No. 1: The Department will convene a committee, composed of state representatives and county representatives to study the impact of this recommendation and how best to make changes to current policy. The full implementation date will be dependent upon committee recommendations and implementation time lines.
- b. The Department agrees to formalizing a process for collecting and analyzing performance data, such as caseload and coverage rates, on a statewide and county-specific basis and using this analysis to identify and follow up on indicators that indicate program objectives are not being met. The Department will study whether best practices or other factors have led to higher coverage rates in some counties. This study will be held in conjunction with the committee described in Recommendation No. 1. Upon that analysis, the Department will consider the use of the identified best practices or other factors in helping counties with lower coverage rates to improve those rates, if it is found that the practices are translatable into different counties.

Prioritized Populations

Federal law gives priority for federal child care subsidies to two groups: children in families with “very low family incomes” and children with special needs. In its state plan submitted to DHHS, the Department defines families with “very low family incomes” as families with incomes at or below 130 percent of FPL. The Department also defines a special needs child as a “child of a teen parent who is in school to obtain

their high school diploma.” Statute [Section 26-2-805(1), C.R.S.] requires counties to provide CCCAP services to families transitioning from Colorado Works and to serve families with incomes at or below 130 percent of the FPL.

We found that neither the Department nor the counties have policies and procedures in place to ensure that families with very low incomes, with special needs children, or transitioning from Colorado Works receive priority in service. Department and county staff indicated that they did not consider prioritization to be an issue because the counties do not currently have waitlists for CCCAP services. However, waitlists existed in five counties as recently as December 2006, and county staff indicated during our site visits that waitlists may become necessary in the near future if the economy weakens and participation levels rise.

In our November 2002 CCCAP audit, we identified problems concerning prioritization when waiting lists and enrollment freezes were in place and recommended that the Department promulgate rules for ensuring CCCAP services are delivered to prioritized populations. Although the Department agreed with the recommendation, it has not implemented rules that would ensure that prioritized populations receive services when waitlists or enrollment freezes exist. Thus, it is possible that families in the prioritized groups could be denied assistance while others who are not in the prioritized populations receive services. The Department should implement rules ensuring that prioritized populations are actually given priority when county waitlists or enrollment freezes exist. For example, these rules should address how counties will ensure that they serve families at or below 130 percent of the FPL when waitlists or freezes exist.

Recommendation No. 16:

The Department of Human Services should implement policies and procedures for ensuring that priority populations (i.e., families with incomes at or below 130 percent of the federal poverty level or with special needs children and families transitioning from Colorado Works) receive priority for Colorado Child Care Assistance Program services when county waitlists or enrollment freezes exist.

Department of Human Services Response:

Agree. Implementation date: April 2009.

An Agency Letter will be issued directing counties in the implementation of policies and procedures that will ensure that priority populations receive priority for CCCAP services when county wait lists or enrollment freezes exist.

Funding

Funding for the CCCAP program is complex and derives from multiple sources at federal, state, and county levels. As noted in the Overview, a majority of CCCAP funding comes from the federal Child Care and Development Fund (CCDF). CCCAP also relies on state general funds and county maintenance-of-effort (MOE) moneys for funding. The Department allocates CCCAP funds to each county annually based on statutory criteria, such as the number of children and low-income families in each county. In addition to its CCDF funds, the Department can also use up to 20 percent of its federal Temporary Assistance to Needy Families (TANF) funding for CCCAP. At the end of each fiscal year, the Department transfers unused CCCAP funds from underspent counties to those counties that overspent their allocations through its closeout process.

We reviewed the Department's practices for allocating funding for CCCAP, including its closeout process, the calculation of county MOE responsibilities, and the use of TANF funds. We found that the Department is not maximizing available funding to ensure that funds are used to accomplish the purposes set forth in statute for CCCAP. We discuss these issues in the next four sections.

Child Care Allocations

Statute [Section 26-2-804, C.R.S.] requires the Department to allocate CCCAP funds to each county, through block grants, for the provision of child care services. In a broad sense, the statute requires the Department to allocate these funds by considering two primary factors: (1) the eligible population in need of child care, and (2) the cost to provide quality child care to the population served. To accomplish these broad purposes, statute requires the Department's allocation to specifically consider:

- Historical expenditures for CCCAP;
- The number of children in the county under 13 years of age;
- The number of low-income families in the county; and
- Provider rates in the county.

The Department's current allocation model, developed in 2004, distributes CCCAP funds based on three equally weighted components: (1) the number of children under the age of 13; (2) the number of families with children under the age of 12 that receive food stamps; and (3) a "utilization factor." The utilization factor multiplies the counties' previous year's caseload numbers by the counties' regional 75th percentile market provider rate to estimate the cost of serving CCCAP participants. The Department implemented the model in Fiscal Year 2005 and included a "hold harmless" policy for Fiscal Years 2005 through 2007 to protect counties from drastic changes in allocations

that could impact county budgets or their ability to provide services. The “hold harmless” policy expired for the Fiscal Year 2008 allocation.

We reviewed the Department’s allocation model and found that the Department’s methodology does not maximize available funding to ensure counties receive allocations proportional to their population in need and in amounts that cover the costs of serving enrollees, as required by the broad purposes set forth in statute. These practices directly impact the ability of counties to provide and expand delivery of child care services to their target populations. We discuss the weaknesses in the Department’s existing CCCAP allocation factors and suggest how the Department can improve its CCCAP allocation model below.

Current Allocation Factors

We found that the Department’s current allocation factors do not accurately estimate CCCAP’s population in need or the costs to serve that population, as required to meet the broad purposes set forth in statute. Based on the eligibility requirements discussed in Chapter 1, CCCAP’s population in need consists of the number of children in poverty under the age of 13 who live in families in which the parents work or go to school. To represent population in need in the allocation methodology, the Department allocates one-third of the block grant based on the number of children in each county under the age of 13 and one-third of the block grant based on the number of children in each county under the age of 12 living in families that receive food stamps.

We found that neither of the Department’s measures accurately represent population in need for CCAP. Specifically, the Department’s first measure, the number of children in each county under the age of 13, does not reflect CCCAP’s population in need because it does not consider whether the children’s family is low-income or whether the children’s parents work or go to school. The Department’s second measure, the number of children under the age of 12 in families that receive food stamps, also does not consider whether the children’s parents are working or in school, activities that are required for CCCAP but not for food stamps.

Since the Department’s measures for population in need are flawed, the portion of CCCAP funds allocated based on these measures is inconsistent with actual need. As discussed previously in this chapter, we hired a contractor, Berkeley Policy Associates (BPA), to develop estimates of CCCAP’s population in need. BPA’s estimates are based on the number of children under age 13 in low-income families in which the parents work, the basic requirements for CCCAP eligibility. We analyzed how the two-thirds portion of the Department’s allocation model based on CCCAP’s population in need would change if the Department used BPA’s more accurate estimate of population in need. We found that the allocations for 44 (69 percent) of the 64 counties would have increased or decreased by at least 10 percent. For example, one county’s allocation for

the two-thirds portion based on population in need would have decreased from about \$1.8 million to about \$700,000 (a decrease of about 61 percent), while another county's allocation for this factor would have increased from about \$4.8 million to about \$5.3 million (an increase of about 10 percent). These significant variances between allocations based on the Department's measures and allocations based on BPA's measures directly result from the fact that the Department's measures do not align with the basic eligibility requirements of the CCCAP program—to serve children in low-income families with parents that work.

As discussed above, the third factor in the model accounts for current CCCAP utilization by multiplying county caseload numbers by the county's 75th percentile market provider rate to estimate the cost of serving CCCAP participants. We identified concerns in Chapter 2 with the methods used by the Department to calculate these 75th percentile rates. The Department will need to address these concerns, as discussed in Recommendation No. 7, to ensure that this portion of the CCCAP model is distributing funds in proportion to the counties' costs of serving their CCCAP populations in need.

Other Allocation Factors

As discussed above, statute requires the Department to consider certain factors when allocating CCCAP funds. Statute [Section 26-2-804(2), C.R.S.] also allows the Department to consider a range of additional factors when allocating funds to the counties. Factors listed in statute include, but are not limited to, the county's population and Colorado Works caseload; the county unemployment rate from the prior year; the county's performance in meeting obligations under its performance contract with the Department; and indications that the previous fiscal year's allocation was insufficient to meet the county's needs. We found that the Department does not consider any of the optional factors allowed by statute when allocating CCCAP funds at the beginning of the fiscal year.

We identified two other factors that the Department should consider when allocating CCCAP funds. First, the Department should take into account patterns of overspending and underspending by the counties. For example, about half of the counties each year from Fiscal Years 2005 through 2008 overspent or underspent their allocations by more than 20 percent each year, as shown in the following table.

Department of Human Services Colorado Child Care Assistance Program (CCCAP) Number of Counties that Over- and Underspent Their CCCAP Allocations by 20 Percent or More¹ Fiscal Years 2005 through 2008				
	FY 2005	FY 2006	FY 2007	FY 2008
10 Largest Counties				
Number Underspent by 20% or More	0	1	1	0
Number Overspent by 20% or More	3	2	3	4
42 Medium Counties				
Number Underspent by 20% or More	12	16	19	18
Number Overspent by 20% or More	8	4	3	7
12 Smallest Counties				
Number Underspent by 20% or More	9	7	9	8
Number Overspent by 20% or More	1	2	2	1
Totals				
Number Underspent by 20% or More	21	24	29	26
Number Overspent by 20% or More	12	8	8	12
Total Over- or Underspent	33	32	37	38
% of all Counties Over- or Underspent	52%	50%	58%	59%
Source: Office of the State Auditor’s analysis of data from the Department of Human Services ¹ Over- and underexpenditures are based on final allocation amounts for each year, including the “hold harmless” provision.				

The table shows that the 10 largest counties were more likely to overspend their allocations and that the medium and smallest counties were more likely to underspend their allocations. The large numbers of over- and underspent counties strongly suggests that the allocation model does an inadequate job of allocating funds in accordance with counties’ proportionate spending needs.

In reviewing county spending patterns, we also identified several counties that significantly over- or underspent their allocations in multiple years. This indicates that the allocation model was not sufficiently sensitive or responsive to these over- and underexpenditures patterns, since after several years, the model still had not adjusted the allocation to mitigate these patterns. Specifically, we found 9 (14 percent) of 64 counties overspent their allocations each year during Fiscal Years 2005 through 2008. Three of these nine counties received a reduction in their allocations each year, despite their histories of overspending. Conversely, 28 (44 percent) of 64 counties underspent their allocations each year during Fiscal Years 2005 through 2008. In general, these counties’ allocations decreased during the period in response to their underspending, which appears reasonable. However, we identified one county that underspent its allocation by at least 20 percent each year during the period. Despite this county’s

consistent underspending, its allocation nearly tripled from about \$813,000 in Fiscal Year 2004 to about \$2.2 million in Fiscal Year 2008. Later in the chapter we discuss how the Department needs to analyze overexpenditures during its closeout process to determine whether the overexpenditures are related to factors such as increased caseloads.

Second, the Department should also consider county coverage rates (i.e., the number of children served as a percentage of the population of children in need) when allocating CCCAP funds. We found that the Department's current CCCAP allocation model does not account for different coverage rates among the counties. As a result, the model does not ensure that counties use their allocations to serve at least a baseline or minimal percentage of county populations in need. This is due in part to flaws in the allocation model itself and in part to a lack of incentives in the model that require counties to serve a particular proportion of their service population in exchange for funds received. As discussed previously, coverage rates among counties vary significantly statewide, from 2 percent to 58 percent in Fiscal Year 2005. Currently the Department does not track county coverage rates, require counties to serve at least a minimum proportion of their target population, or provide incentives for counties to do so.

Improvements

The Department needs to improve its allocation model to ensure that allocations reflect more accurate and valid estimates of population in need and to ensure that counties meet at least minimum service levels in exchange for funding. Specifically, the Department should discontinue using the population of children under the age of 13 as a factor in the model, since this measure does not account for family income or whether the parents work or go to school. The Department should also reevaluate using the number of children in families that receive food stamps as a factor, since working or going to school is not a requirement for parents to receive food stamps. To better estimate the population in need, the Department should incorporate factors that will allow the Department to identify the population of low-income children who live in families with parent(s) that work, such as the SAIPE data from the U.S. Census we described during our discussion of coverage rates earlier in this chapter.

The Department should also consider providing funding incentives to counties for meeting minimum service levels. The variations in coverage rates found by our contractor are concerning, because they suggest that counties are doing an uneven job of reaching those families in need of CCCAP services. Once the Department improves the allocation model to better reflect the counties' proportionate populations in need, the differences in coverage rates may decrease. Even so, providing incentives to improve coverage rates, or to meet other performance goals, could help ensure that low-income families across the State have similar access to CCCAP services. As noted earlier, statute allows the Department to adjust the county allocations based on a county's

success in meeting performance goals agreed to between the county and the Department.

Additionally, the Department should reevaluate the proportion of the block grant allocated based on population in need and costs of serving enrollees. As noted previously, the current model equally weights three factors (i.e., population of children under 13, number of families with children under the age of 12 that receive food stamps, and past utilization), two of which are based on the population in need and the other of which is based on costs. Our contractor suggested that the Department allocate one-half of the block grant based on targeted population in need and one-half based on costs. The portion based on costs should incorporate valid calculations of the 75th market rates, as discussed earlier in the report.

Whatever allocation method the Department uses, it will need to evaluate the model on an ongoing basis to ensure allocations are appropriate and meet the broad purposes set forth in statute. This evaluation should include analyzing patterns of over- and underspending by the counties and determining whether the allocation model needs to be adjusted to reduce the rate of county over- and underspending.

Recommendation No. 17:

The Department of Human Services should improve its methodology for allocating Colorado Child Care Assistance Program funds to ensure that allocations accomplish the purposes set forth in statute and result in maximizing the use of available funds to serve targeted populations by:

- a. Developing a more accurate, reasonable, and defensible estimate of population in need. The estimate should account for the number of children in low-income families in which the parent(s) are working and should not be based on the Department's current factor that measures the population of all children under the age of 13.
- b. Incorporating valid calculations of the 75th percentile rates, as suggested in Recommendation No. 7, in the cost portion of the allocation model.
- c. Reevaluating the allocation methodology to determine the proportion of the allocation that should be based on the population in need and the portion that should be based on the costs of serving that population.
- d. Considering incorporating funding incentives into the allocation model to encourage lower-performing counties to improve their performance.

- e. Evaluating the allocation model on an ongoing basis to ensure that allocations meet the broad purposes set forth in statute and reduce the rate of over- and underexpenditures. The Department should make adjustments to the model as indicated.

Department of Human Services Response:

Agree. Implementation date: July 2009.

The Department agrees that the methodology for allocating Colorado Child Care Assistance Program funds should be improved. The Department will convene a committee, composed of state representatives and county representatives to study the impact of this recommendation and how best to make changes to current policy. The study will include the consideration of all parts of the recommendation (a., b., c., d. and e.). The study will examine possible allocation factors, such as cost of living, population in need, number of families receiving food stamps, and the SAIPE data from the U.S. Census. The committee will also study ways to evaluate the allocation model on an ongoing basis, analyze unintended consequences, and consider other factors related to improving the allocation model. The methodology agreed upon must not drive workload or fiscal increases. This topic will also be considered in the context of other recommendations in the report that have impacts on the program. The Department will act on the recommendations of the committee, including a timeline for implementation as well as seeking statutory or regulatory change as appropriate.

Closeout Procedures

At the end of each fiscal year, the Department conducts a closeout process to redistribute surplus dollars from counties that underspent their allocations to those counties that overspent their allocations. According to the Department, the purpose of the closeout process is to ensure that the entire CCCAP appropriation is spent and that underspent counties do not hold excess funds in reserve. For Fiscal Year 2008, the Department distributed about \$4.2 million to 23 overspent counties.

Statute does not provide specific guidance to the Department about the CCCAP closeout process. However, it is reasonable to expect that all allocations of CCCAP funds, including reallocations through the closeout process, should meet the overall purpose of the CCCAP block grant allocation—which is to provide funding in proportion to the population in need and in amounts sufficient to cover the costs of serving the enrolled population. Additionally, the Department has a responsibility to use the closeout

process to scrutinize the counties' expenditures and to hold them accountable for exercising responsible management of public CCCAP funds.

We reviewed the Department's method for redistributing surplus funds during CCCAP closeout and found that the Department does not ensure that redistributions are used to accomplish the overall purpose of the CCCAP block grant allocation. Specifically, the Department's closeout procedures lack controls to evaluate the reasons that counties overspend before redistributing funds to them. As a result, counties may receive closeout funds regardless of whether their overspending is a result of increased administrative costs, caseload, or some other reason. For example, we found that 15 (65 percent) of the 23 counties receiving closeout funds in Fiscal Year 2008 spent a higher percentage of their overall expenditures on administration than the rest of the counties. These 15 counties spent about 22 percent of their CCCAP expenditures on administration, compared to about 11 percent for all counties combined. In addition, 12 of these 15 counties spent more on administration in Fiscal Year 2008 than in the previous fiscal year, and 1 of these 12 counties actually served fewer children and paid less money to child care providers. These 15 counties received about \$3 million through the Fiscal Year 2008 closeout process, or about 70 percent of all closeout funds.

We also compared the counties' CCCAP expenditures to their caseload numbers between Fiscal Years 2007 and 2008 and found that, in general, counties that had increased CCCAP expenditures in Fiscal Year 2008 served more children. However, we did identify two counties that increased their CCCAP expenditures by at least \$10,000 from Fiscal Year 2007 to Fiscal Year 2008, in part because of higher administrative costs, yet served fewer children and paid for fewer units of care in Fiscal Year 2008. These two counties received about \$178,000 through the Fiscal Year 2008 closeout process.

Although we recognize there may be legitimate reasons why counties have above-average administration costs or CCCAP expenditures per child, our examples raise questions about the basis for the Department's redistribution of closeout funds. The statutory principles of the CCCAP allocation support a closeout process that would redistribute funds to counties that could demonstrate that their original allocations were insufficient to cover the proportion of their target population served. However, the Department's closeout formula does not consider this factor. Rather, the Department's formula prioritizes funding toward counties that overspend by a relatively smaller percentage of their allocation, as compared to other counties. Although the Department's approach provides an incentive for counties to limit their overspending, it does not take into account that some counties may have more legitimate reasons for overspending, such as an unexpected increase in caseload, than other counties.

Ensuring that the closeout process reinforces the principles of the allocation model is important, because many overspent counties still have funding deficits after the

redistribution is completed. For example, eight counties were not made whole by closeout funds in Fiscal Year 2008. In general, these counties are able to make up these deficits through transfers of federal TANF funding, which we discuss in more detail later in the chapter. However, we did find that three counties in Fiscal Year 2005 had CCCAP deficits totaling about \$449,000 after their TANF transfers. These three counties funded their deficits through county general fund dollars.

The Department should determine the reasons for county overexpenditures and establish criteria for redistributions that align with the overall purposes of the CCCAP block grant allocation. These criteria should ensure that counties which have unexpected caseload increases receive closeout funds before those that have increased administrative costs. We noted that statute [Section 26-5-104(7)(b), C.R.S.] mandates that the Department consider similar criteria when closing out child welfare funds.

Recommendation No. 18:

The Department of Human Services should ensure that the Colorado Child Care Assistance Program (CCCAP) closeout process redistributes funds in accordance with the purposes of the CCCAP allocation model by:

- a. Implementing a process for determining the reasons for county overexpenditures.
- b. Establishing criteria counties must meet before receiving closeout funds, such as prioritizing counties that have unexpected caseload increases over those that have increased administrative costs.

Department of Human Services Response:

Agree. Implementation date: June 2010.

The Department agrees with the broad concept of these recommendations. The Department will convene a committee, composed of state representatives and county representatives to study the impact of this recommendation and how best to make changes to current policy. The study will include the consideration of all parts of the recommendation (a., and b), but will not be limited to unexpected increase in caseload as recommended. The study will examine the current closeout process, develop the criteria to be considered, and create a procedure for determining the spending trends of counties (over- and under-expending). The Department will act on the recommendations of the committee, including a timeline for implementation as well as seeking statutory or regulatory change as appropriate.

County Maintenance of Effort

In accordance with federal regulations for CCDF, the State must contribute a certain level of funding, known as maintenance-of-effort (MOE), to draw down federal CCDF moneys. The State's annual MOE for the CCDF block grant is fixed at about \$9 million per year. The State meets all of its MOE by requiring each county to contribute a proportionate share of the State's MOE contribution. Statute [Section 26-2-804(6), C.R.S.] bases each county's MOE on its "proportionate share of the total county funds set forth in the annual general appropriation act for [CCCAP]."

We reviewed county MOE payments for Fiscal Year 2008 and found that smaller counties are bearing a disproportionately higher share of the State's MOE than larger counties. Specifically, MOE payments for the 10 largest counties averaged about 11 percent of their CCCAP expenditures, while the MOE payments for the other 54 counties averaged 19 percent of their actual expenditures. Depending on the county, MOE payments ranged from about 2 percent to about 96 percent of the individual county's expenditures in Fiscal Year 2008.

The variations in the counties' MOE payment percentages result from the Department's method for calculating each county's MOE responsibility. Specifically, the Department calculates county MOE as an equal percentage of each county's allocation, which in Fiscal Year 2008 was about 12 percent for every county. The Department does not consider whether the county's MOE should be adjusted based on actual expenditures. It is reasonable for the Department to initially assign each county's MOE responsibilities based on the county's CCCAP allocation because expenditure information is not known at the beginning of the fiscal year. However, as stated previously, the Department's CCCAP allocations do not currently correlate well with county expenditures, and many counties over- or underspend their allocations. Since no adjustment for actual expenditures is made, counties that overspend pay a lesser percentage share of the State's MOE, and counties that underspend pay a greater percentage share.

Although the Department's method for calculating county MOE is allowed by statute, other options, such as adjusting the MOE based on actual county expenditures, are also acceptable. As stated previously, statute requires that each county's MOE be based on the county's proportionate share of the State's appropriated CCCAP dollars but does not specify whether that share should be calculated based on a county's CCCAP allocation, expenditures, or some other factor. Therefore, adjusting a county's MOE based on actual expenditures is permissible under statute.

Basing the MOE calculation on expenditures would not only ensure a more equitable MOE distribution but also could provide an incentive for counties to control expenditures, since counties would have to contribute additional county funds for every

dollar of overexpenditures. Calculating MOE based on expenditures would also eliminate the need for counties to trade their CCCAP allocations. Specifically, one county agreed to trade about \$450,000 of its Fiscal Year 2008 allocation to another county if the receiving county agreed to pay the associated MOE. The county selling part of its allocation expected to significantly underspend its allocation, while the county buying the allocation expected to overspend its allocation. Trading CCCAP allocations and MOE responsibilities undermines the intent of the allocation process and prevents the Department from ensuring that CCCAP funding is maximized to serve targeted populations and enrollees. Although we only found one example of allocation trading among counties, the large number of counties that either over- or underspend their allocations increases the risk that other counties would trade their allocations in the future.

Once the Department improves the allocation model, as recommended previously in this chapter, we would expect the disparities between county allocations and expenditures to decrease somewhat. Even so, the Department should revise its method for calculating the counties' MOE so that the MOE is adjusted based on each county's share of CCCAP expenditures. This adjustment could take place during the closeout process, discussed previously in this chapter.

Recommendation No. 19:

The Department of Human Services should ensure that county departments of human/social services bear an equal proportion of maintenance-of-effort (MOE) payments for the Colorado Child Care Assistance Program (CCCAP) by adjusting county MOE based on each county's proportionate share of actual CCCAP expenditures.

Department of Human Services Response:

Disagree. Implementation date: None provided.

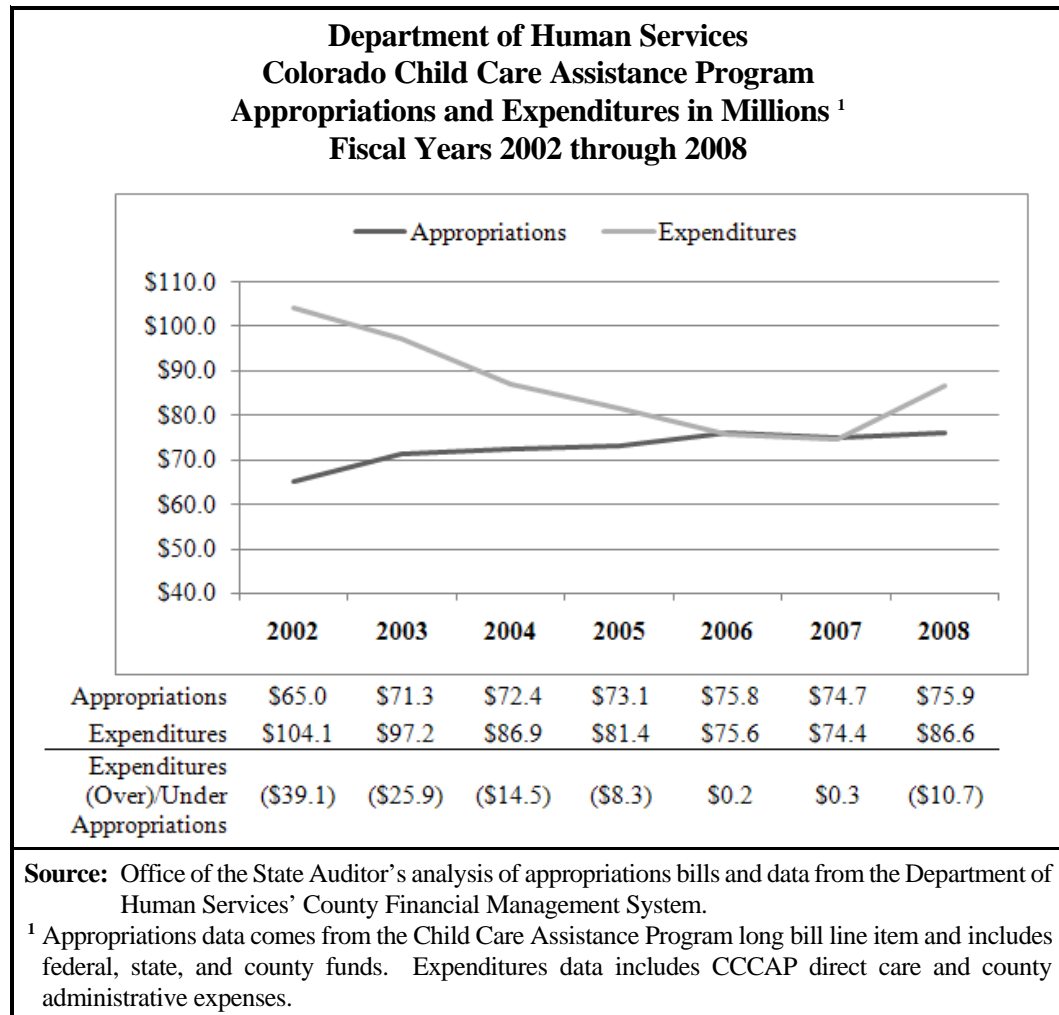
The Department disagrees with this recommendation. This recommendation, if implemented, will create a negative fiscal impact our county partners. Counties operate on a calendar year with State closeout occurring three-fourths (3/4ths) into the county budget cycle, when budgets have already been set. This may create unintended fiscal consequences, and other negative implications associated with shifting the maintenance-of-effort payment practice.

Auditor's Addendum:

The current MOE payment practice already creates a negative fiscal impact for smaller counties which bear a disproportionate share of the State's federal MOE responsibility. The Department's response indicates that it is not sure whether changing the MOE payment practice would be positive or negative. The Department should consider studying this issue further.

TANF Funding for CCCAP

Historically, total statewide expenditures for CCCAP have typically outpaced the funds appropriated by the General Assembly. Specifically, the Department spent more money on CCCAP services than was appropriated in five of the last seven years. As the following table shows, the amount by which CCCAP expenditures exceeded appropriations ranged from about \$8 million in Fiscal Year 2005 to about \$39 million in Fiscal Year 2002. The table also shows that after two relatively “break-even” years in Fiscal Years 2006 and 2007, CCCAP expenditures exceeded appropriations again in Fiscal Year 2008.



When CCCAP expenditures exceed appropriations, the Department covers the difference by drawing from other funding sources, such as Temporary Assistance to Needy Families (TANF) and county-only dollars. TANF funds Colorado Works, but as stated earlier in this report, federal law allows states to transfer up to 20 percent of their TANF allocations for child care programs each year. As a result, TANF funds most CCCAP overexpenditures. During Fiscal Years 2002 through 2005, and also during Fiscal Year 2008, TANF funded, on average, 20 percent of all CCCAP expenditures. Actual TANF funds used for CCCAP during these years ranged from about \$7.5 million in Fiscal Year 2005 to about \$36.4 million in Fiscal Year 2002. CCCAP used about \$10.5 million in TANF funds in Fiscal Year 2008, which equaled about 7 percent of the State's TANF block grant.

Over the long-term, TANF funds are a significant component in the overall funding structure for CCCAP. TANF funds contribute to providing program stability and achieving program goals, such as helping low-income families achieve self-sufficiency

and ensuring that clients receive relatively consistent, uninterrupted services. Further, TANF funds are a significant resource that contributes to both improving the State's coverage rates and the funding available to cover the costs of child care services.

We reviewed the Department's use of TANF dollars to fund CCCAP services to determine whether the Department maximizes the use of these funds to meet the broad purposes of CCCAP set forth in statute: to distribute funds in proportion to the counties' population in need and in accordance with the costs associated with serving them. We found that the Department does not have a comprehensive fund allocation plan for CCCAP that makes strategic use of TANF funds or ensures that TANF funds used for CCCAP are allocated according to each counties' child care needs. Specifically, we found that the Department does not include TANF funds in its initial CCCAP allocation methodology. Instead, the Department has devolved decision-making about the use of TANF funds for CCCAP to the counties. Counties typically transfer TANF funds into CCCAP at the end of the fiscal year to cover their CCCAP overexpenditures. However, some counties reported during our site visits that they consider their available TANF funding when preparing their CCCAP budgets at the beginning of the fiscal year.

Giving counties complete control over when TANF funds are transferred into CCCAP undermines the Department's ability to ensure that statewide CCCAP funding is directed to where it is needed most. This is because county decisions to transfer TANF funds are based on each counties' own needs and available TANF funds, rather than on statewide needs. As a result, the influx of TANF funds into CCCAP skews overall CCCAP spending statewide such that some counties receive a greater proportionate share of total CCCAP dollars than is needed (as determined by the CCCAP model) and vice versa. Specifically, we compared the percentage of the original Fiscal Year 2008 CCCAP allocation that each county received to the percentage of the transferred TANF dollars used by each county in Fiscal Year 2008 and found significant disparities. For example, the county given the largest CCCAP allocation received about 17 percent of the initial CCCAP allocation. This county used about 72 percent of the TANF funds transferred into CCCAP. As a result, this county accounted for about 25 percent of all CCCAP expenditures, not the 17 percent anticipated by CCCAP's allocation model. In contrast, the county given the second largest CCCAP allocation received about 14 percent of the initial CCCAP allocation but used none of the TANF funds transferred into CCCAP. As a result, this county accounted for only about 12 percent of all CCCAP expenditures.

Given the degree to which counties rely on TANF moneys to fund their CCCAP programs, the Department should be more proactive in ensuring that these funds are allocated in alignment with counties' child care needs. Under federal welfare reform, which was enacted in 1996, child care subsidy programs, such as CCCAP, are meant to complement TANF programs like Colorado Works in helping families achieve self-

sufficiency and independence from government assistance. Therefore, the Department's CCCAP and Colorado Works programs should work together and with the counties annually to determine whether a portion of the 20 percent of the State's annual federal TANF allocation available for transfer to CCCAP should be transferred to CCCAP at the beginning of the fiscal year. If the Department decides to make this transfer, it will need to request the General Assembly to appropriate these funds, as authorized under Section 26-2-721(2), C.R.S. The Department should then ensure that the TANF funds appropriated for use in CCCAP are distributed with the rest of the CCCAP allocation in accordance with counties' child care needs. The portion of the 20 percent of the State's TANF allocation not appropriated for use in CCCAP would still be available for counties to transfer at their discretion to CCCAP at the end of the fiscal year through the closeout process.

Recommendation No. 20:

The Department of Human Services should improve the effectiveness of federal Temporary Assistance to Needy Families (TANF) funds used in the Colorado Child Care Assistance Program (CCCAP) by:

- a. Working with county departments of human/social services annually to determine whether to designate at the beginning of the fiscal year that all or a portion of the TANF funds available for transfer to CCCAP will be transferred to CCCAP.
- b. Requesting that the General Assembly appropriate to the CCCAP program any TANF funds designated for use in CCCAP in line with part "a."
- c. Allocating TANF funds appropriated for use in CCCAP at the beginning of the fiscal year based on the counties' proportionate CCCAP population in need and the costs needed to serve them. The Department should improve its allocation methodology as addressed in Recommendation No. 17 in this report.

Department of Human Services Response:

Disagree. Implementation date: None provided.

The Department has considered uses for the Colorado Long-Term Works Reserve in the development and implementation of Senate Bill 08-177, as well as to the full appropriation of the Temporary Assistance to Needy Families (TANF) grant. The Department does not agree to changing those purposes.

Appendix

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Appendix A

Department of Human Services Colorado Child Care Assistance Program County Coverage Rates ¹ Fiscal Years 2004 and 2005					
County	Fiscal Year 2004	Fiscal Year 2005	County	Fiscal Year 2004	Fiscal Year 2005
Adams	20%	16%	Kit Carson	31%	24%
Alamosa	46%	37%	La Plata	41%	35%
Arapahoe	30%	26%	Lake	25%	26%
Archuleta	24%	10%	Larimer	42%	38%
Baca	41%	30%	Las Animas	41%	36%
Bent	46%	29%	Lincoln	35%	29%
Boulder	24%	23%	Logan	54%	39%
Broomfield	²	²	Mesa	58%	47%
Chaffee	31%	22%	Mineral	²	25%
Cheyenne	19%	22%	Moffat	55%	36%
Clear Creek	17%	19%	Montezuma	38%	26%
Conejos	26%	15%	Montrose	52%	45%
Costilla	34%	28%	Morgan	40%	35%
Crowley	77%	45%	Otero	41%	31%
Custer	39%	28%	Ouray	29%	12%
Delta	36%	26%	Park	21%	18%
Denver	28%	27%	Phillips	34%	25%
Dolores	22%	20%	Pitkin	4%	2%
Douglas	12%	17%	Prowers	37%	25%
Eagle	8%	6%	Pueblo	23%	22%
El Paso	35%	31%	Rio Blanco	44%	39%
Elbert	12%	24%	Rio Grande	57%	58%
Fremont	48%	39%	Routt	16%	12%
Garfield	28%	22%	Saguache	24%	16%
Gilpin	24%	33%	San Juan	8%	6%
Grand	22%	16%	San Miguel	12%	3%
Gunnison	16%	17%	Sedgwick	20%	15%
Hinsdale	10%	8%	Summit	27%	32%
Huefano	30%	22%	Teller	34%	32%
Jackson	47%	43%	Washington	32%	22%
Jefferson	26%	24%	Weld	31%	28%
Kiowa	25%	25%	Yuma	24%	22%
Statewide	31%	27%			

Source: Berkeley Policy Associates' (BPA's) analysis of analysis of data from the Department of Human Services and the U.S. Census Bureau.

¹ BPA calculated coverage rates by compiling the number of CCCAP participants in the Low-Income and Colorado Works Child Care programs and dividing this figure by an estimate of the target population in need of CCCAP services in each county and on a statewide basis. BPA's estimate was based on U.S. Census Bureau data.

² Due to limitations in data, we did not calculate these coverage rates.

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