WASHINGTON STATE
Department of
Children, Youth, and Families

CHILD CARE SUBSIDY PROGRAMS

Overpayment Status Report

Submitted October 2018

Children

Youth

Families

www.dcyf.wa.gov

Introduction

The Washington State Department of Children, Youth, and Families (DCYF), in collaboration with the Department of Social and Health Services (DSHS), submits this report to detail the status of overpayments in the Child Care Subsidy Programs (CCSP).

This annual report is required by [Substitute Senate Bill (SSB) 5883](), Section 615(4)(d), which states:

> "Beginning July 1, 2018, and annually thereafter, the department, in collaboration with the department of social and health services, must report to the governor and the appropriate fiscal and policy committees of the legislature on the status of overpayments in the working connections child care program. The report must include the following information for the previous fiscal year:
>
> (A) A summary of the number of overpayments that occurred;
> B) The reason for each overpayment;
> C) The total cost of overpayments;
> (D) A comparison to overpayments that occurred in the past two preceding fiscal years;
> (E) Any planned modifications to internal processes that will take place in the coming fiscal year to further reduce the occurrence of overpayments."

This report details recent overpayment data and explains overpayment trends over the past three years. Additionally, this report describes DCYF and DSHS efforts to address the root causes of overpayments, improving the overall integrity of the CCSP program.

Background

Working Connections Child Care (WCCC) and Seasonal Child Care[1] are jointly referred to as Child Care Subsidy Programs (CCSP). CCSP rules are set forth in Chapter 170-290 of the Washington Administrative Code (WAC). Child care subsidies assist low-income families by: (1) providing children with a stable, nurturing, high-quality learning environment that supports the child's healthy development and school readiness; and (2) enabling parents to work and pursue employment with the goal of creating financial stability and self-sufficiency. These goals are affirmed by the 2014 reauthorization of the federal funding authority, the Child Care and Development Block Grant Act, that has set policies to reduce administrative barriers for working families with children to help transition them into self-sustainability and out of poverty.

DCYF and DSHS jointly administer CCSP, within defined roles. DCYF and DSHS share program integrity responsibilities including quality assurance and fraud prevention responsibilities for providers and consumers.

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

DCYF

DCYF has policy-making responsibilities, which include ensuring Washington's Child Care Subsidy Programs comply with federal and state rules and requirements. DCYF regularly collaborates with DSHS in policy interpretation by drafting and amending program rules to better direct CCSP service delivery to reflect current practices. DCYF also provides DSHS and other stakeholders with program guidance that reflects the policy goals of the federal funding authority.

DCYF's quality assurance efforts include reviewing the DSHS eligibility determination procedures. This includes DCYF review of DSHS staff training curriculum for compliance with WAC, providing policy clarifications, and auditing child care provider payments. The Quality Assurance (QA) unit within DCYF's Subsidy Team conducts monthly audits of child care provider payments by comparing provider billing information against attendance records and consumer eligibility and authorization information. Child care providers providing subsidized care and receiving CCSP payments must adhere to program rules and requirements by keeping accurate attendance records and sending these to DCYF when requested.

DCYF is responsible for ensuring the accuracy of provider billing. Child care providers serving families and children receiving subsidies include licensed or certified child care centers, licensed or certified family child care homes, and license-exempt family, friend, and neighbor (FFN) caregivers. Submission of attendance records is not mandatory, unless DSHS, DCYF or the State Auditor's Office requests them for verification and audit purposes.

DCYF writes overpayments to providers primarily resulting from improper billing practices identified in quality assurance and program integrity efforts.

DSHS

DSHS is responsible for determining consumer eligibility and creating provider authorizations. This includes conducting proper review of an applicant's income and household information to decide whether (and at what level) a family qualifies for subsidized child care. Many applicants requesting child care subsidy also receive other state benefits such as food, medical and cash assistance. The Community Services Division (CSD) uses program integrity and auditing functions in CCSP that have proven effective in these programs.

DSHS quality assurance efforts include properly training staff and updating automated systems, forms and letters to reflect changes to CCSP policy and rules. DSHS also administers the payment system, Social Services Payment System (SSPS), used to receive providers' bills and send out payment for services provided to families. Billing issues may result in an underpayment or overpayment to the consumer or providers. DSHS, through the Office of Financial Recovery (OFR), manages the collection efforts for overpayments, including enforcement of unpaid amounts through financial remedies such as wage garnishments. DSHS works with Health Care Authority who contracts Optum to run specific algorithms to identify incorrect payments. For disputes related to child care subsidy overpayments, consumers and providers may request administrative hearings, which DSHS also administers and coordinates.

DSHS writes overpayments to consumers identified in quality assurance and program integrity efforts. DSHS also writes overpayments to providers resulting from incorrect authorizations identified in quality assurance and program integrity efforts. A significant amount of the overpayments DSHS writes for providers are due to providers not submitting attendance records when requested to support suspected consumer overpayments.

Types of Overpayments

DCYF and DSHS write overpayments to consumers or providers.

Consumer overpayments occur when:

- Information is not reported accurately on the initial application or from failure to report required changes[2] during the eligibility period.
- DSHS fails to act on reported information correctly, applies rules erroneously, or inputs data incorrectly into the eligibility or authorization systems.

Provider overpayments occur when:

- The provider billed improperly, such as claiming more care than was provided, or failing to maintain attendance records that support their billing.
- DSHS authorized the incorrect rate, an incorrect copay amount, incorrect start date or incorrect amount of care.

Recent Overpayment History

During the recession, resource limitations and service delivery priorities resulted in a growing backlog of cases requiring additional review for potential overpayments. DSHS decentralized the overpayment process, streamlined the current potential overpayment review process, and started working on the overpayment backlog beginning in April 2015. This resulted in a temporary increase of overpayments written through fiscal year 2016 and 2017 as the agency worked to eliminate the backlog.

Both departments expect to see a decrease in new overpayments with the establishment of family-friendly, child-focused and provider-friendly federal guidelines issued under the 2014 reauthorization of the Child Care and Development Block Grant (CCDBG). Additionally, the departments implemented the following changes to improve payment accuracy, including:

- Policies and procedures to support the Early Start Act which reduced the number of changes families must report to the department;
- Improved verification rules and procedures;
- Improved process for referring suspected fraud to Office of Fraud and Accountability (OFA);
- DSHS hired dedicated Division of Program Integrity quality assurance staff;
- DSHS implemented increased authorization controls, and;
- Enhanced identification of overpayment root causes to target ongoing subsidy program improvements.

[2] http://apps.leg.wa.gov/wac/default.aspx?cite=170-290-0031

Specific Impact of the Early Start Act

Families receiving CCSP prior to July 2016 faced complex program rules, strict participation requirements and complicated reporting requirements. This resulted in some families being terminated from subsidy, receiving an overpayment or having gaps in their child care, all of which create a financial hardship. The changes implemented under the Early Start Act shifted CCSP goals from a work support program to increasing the focus on the needs of children while maintaining their access to high quality early learning settings. Effective July 1, 2016, families approved for CCSP are no longer required to report most changes in employment, hours, or income. After being determined eligible for the program, families keep their eligibility for twelve months regardless of most changes in parent activities or household circumstances. This allows for continuity of care for the child and stability of payment for the provider. The impact to overpayments is a shift away from evaluating month-to-month changes in family circumstances, to a focus on ensuring that the twelve months of eligibility were set up properly.
The following charts confirm our expectations. The number of new overpayments decreased significantly. The increase in overpayments in 2016 and 2017 was the result of working through the backlog of potential overpayments (Exhibit 1 and 2).

Exhibit 1

Consumer Overpayments: Date Written vs. Date Occurred

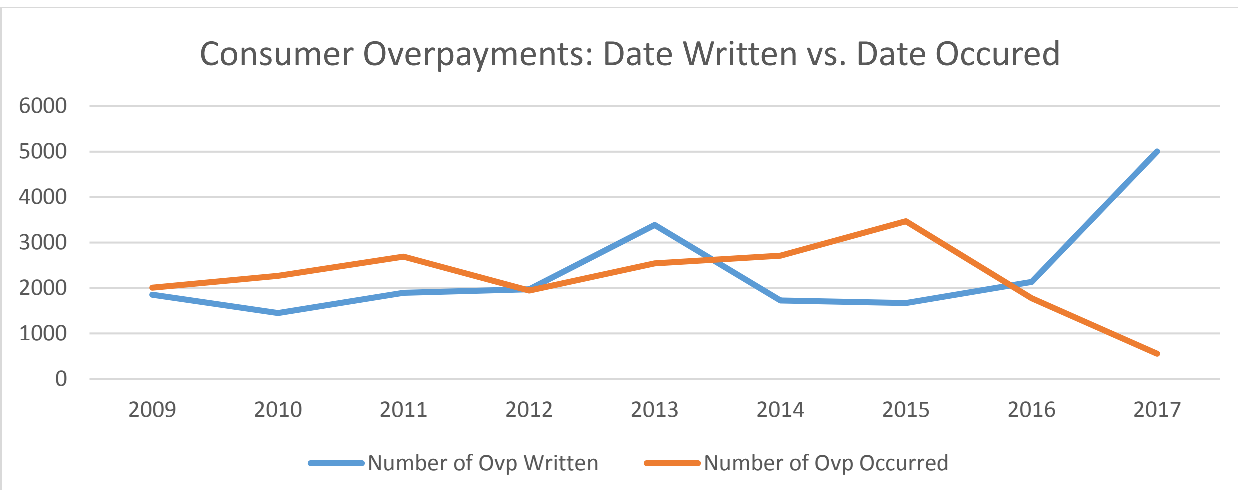
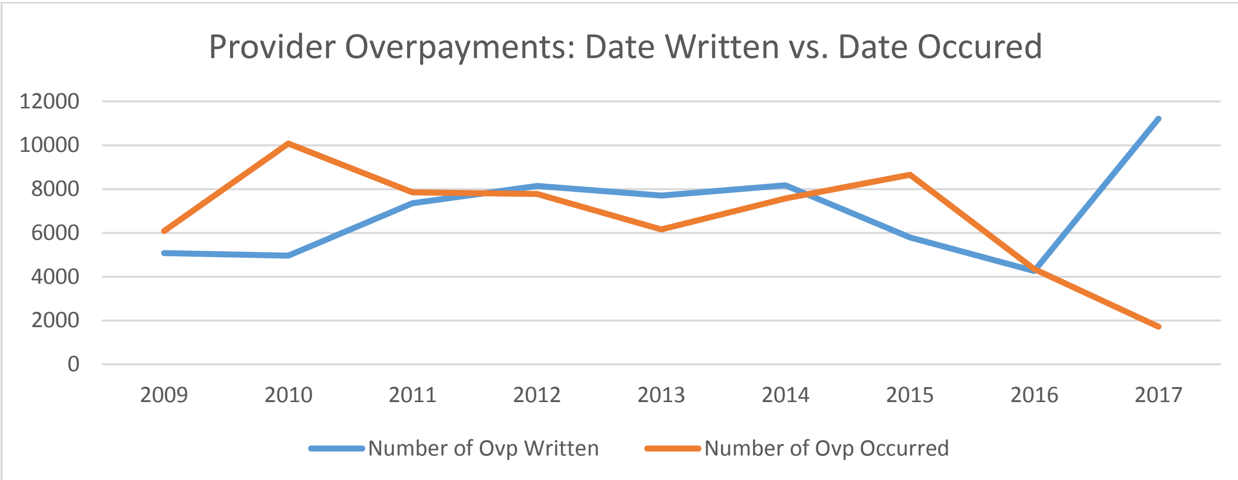


Exhibit 2

Provider Overpayments: Date Written vs. Date Occurred



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Annual Overpayment Totals FY16-FY18[3]

Exhibit 3 displays the total cost of combined overpayments written by DSHS and DCYF for consumers and providers for the previous three fiscal years. The amounts below account for the date the overpayment was written without correlation to the date the overpayment occurred. These amounts may change due to modifications during the hearing process.

Exhibit 3

Number and Amount of Overpayments Written by SFY*

	Consumer Overpayment	Consumer amount	Provider Overpayment	Provider amount	Combined Overpayment	Combined total
SFY16	1,886	$2,093,737	4,191	$2,636,028	6,077	$4,729,766
SFY17	4,877	$7,130,621	8,154	$12,107,341	13,032	$19,237,962
SFY18	1,629	$3,135,541	4,100	$6,702,162	5,729	$9,837,704

*Amounts listed are total amount of the overpayments and not the total amount recovered.

Annual Overpayment Recovery in FY17 and FY18

Exhibit 4 displays the amount of fund recovered by State Fiscal Year for each of the Federal Fiscal Year grants. In SFY 2018, a total of $2,529,990 WCCC expenditures were recovered. Of the $1,885,338 federal funds (TANF and CCDF) recovered, only $68,709 were from the FFY 18 grant year, and could be redrawn from the current federal grant year. An additional $3655, 081 was recovered from FFY 17 expenditures. These funds must be refunded to the correct grant year, but may be drawn down again only if there were allowable expenditures in the last quarter of FFY 17 (July-Sep of SFY 18).

In SFY 2017, a total of $1,335,535 WCCC expenditures were recovered. Of the $1,003,912 federal funds (TANF and CCDF) recovered, only $16,697 were from the FFY 17 grant year, and could be redrawn from the current federal grant year. An additional $371,464 was recovered from FFY 16 expenditures. These funds must be refunded to the correct grant year, but may be drawn down again only if there were allowable expenditures in the last quarter of FFY 16 (July-Sep of SFY 17).

The remaining $1,777,298 in recovered federal funds were for closed grant years, and must be returned to the federal grants with no opportunity to redraw the funds.

Exhibit 4

Funds recovered in SFY 2017 and SFY 2018 by Federal Fiscal Years

		FFY-MOS						
	Cost Allocation Funding Type	**FFY13**	**FFY14**	**FFY15**	**FFY16**	**FFY17**	**FFY18**	**Grand Total**
SFY17	Federal	(16,931)	(188,843)	(409,977)	(371,464)	(16,697)		(1,003,912)
	State	(5,504)	(61,652)	(130,984)	(127,067)	(6,416)		(331,623)
SFY18	Federal	-	-	(243,341)	(918,207)	(655,081)	(68,709)	(1,885,338)
	State			(84,200)	(304,408)	(230,425)	(25,619)	(644,652)
Grand Total		**(22,435)**	**(250,495)**	**(868,501)**	**(1,721,146)**	**(908,619)**	**(94,327)**	**(3,865,525)**

Fiscal Year 2018 Overpayments through March 2018

DCYF and DSHS have written 5,729 overpayments through March of 2018. Of the total 5,729 written, 2,195 of those overpayments occurred in FY18 resulting in a total cost of $1,587,233[4]. The remaining 3,465 overpayments occurred in previous months of service going back to 2011.

Consumer Overpayments Occurring in June 2017 through March 2018: Breakdown by Reasons

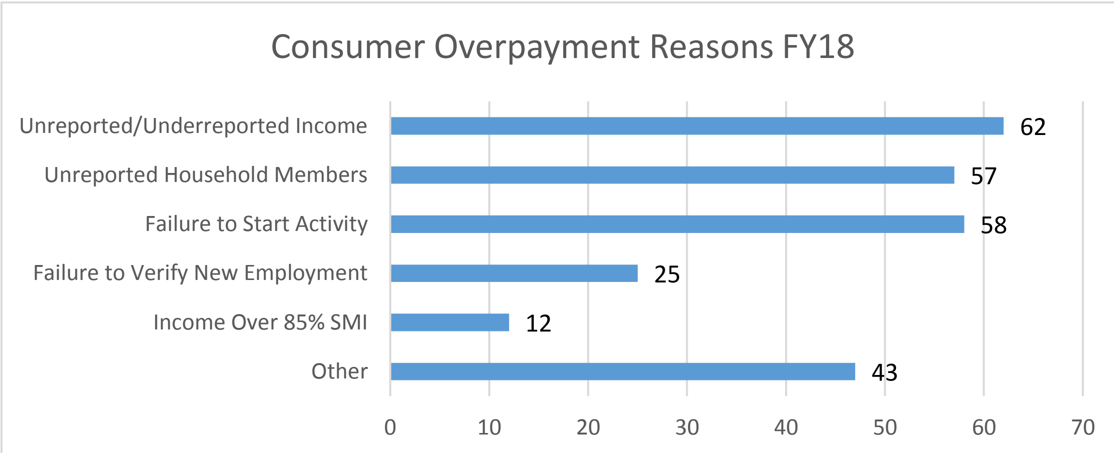
Of the 1,629 consumer overpayments written, 412 occurred in FY18. Through March 2018, the department withdrew 155 of the 412 overpayments written through a review process, leaving 257 overpayments remaining and accounting for $519,890 of the total cost. The 257 consumer overpayments fall into one of six reasons, detailed in Exhibit 5.

[3] Data for FY18 pulled prior to end of the fiscal year. Data contains June 2017 – March 2018

[4] Barcode ad-hoc report "Child care Overpayments within user defined date range" 3/28/18. Cases still have the potential to be modified/reduced through the administrative hearing process.

Exhibit 5

Consumer Overpayment Reasons SFY18



Reason 1: Unreported or Underreported Income

Consumers receive overpayments when they do not report their income accurately at application or reapplication. Overpayments occur when the consumer fails to identify a source of income such as informal child support agreements or an additional or new job. Underreporting income occurs when the consumer reports income at a lesser amount than the actual amount they received, such as reporting and verifying a portion of the tips they earn or failing to report a pay increase.

Reason 2: Unreported Household Members

Consumers receive overpayments when they do not accurately report household members at the time of application or reapplication. These overpayments can occur when a spouse or co-parent is living in the home but the consumer does not report this information on their application or reapplication. Eligibility is determined without considering the other parent's availability, activity or income, sometimes resulting in the approval of an ineligible family, establishing an incorrect copayment or over-authorizing the amount of care.

Reason 3: Failure to Start Activity

Families can apply for subsidy prior to starting an approved activity (for example, employment, an approved WorkFirst activity or education). In some situations, the consumer does not start the activity, resulting in an overpayment.

Reason 4: Failure to Provide Verification of Income for Attested New Employment

Consumers with new employment can self-attest an estimate of income at application when this information is not available from the employer. This allows consumers to receive care while they begin their new job. Verification of income is required within 60 days. Failure to verify income will result in an overpayment. In some cases, the consumer's income is higher than reported at the time of application and an overpayment may be established for the difference in copayment amount when the consumer's actual income was higher than anticipated.

Reason 5: Income Over 85 Percent State Median Income (SMI)

Consumers can earn up to 200 percent of the Federal Poverty Guidelines (FPG) for new applications, or up to 220 percent of the FPG for reapplications (Exhibit 5). Families remain eligible for subsidy for twelve months if their income stays below 85 percent of the state median income (SMI). Failure to report a change that increases the family's income over 85 percent SMI during their eligibility period results in an overpayment.

Exhibit 6

Income Guidelines for SFY 18

Current Income Guidelines

Family Size	Initial eligibility income limit 200 percent Federal Poverty Level	Eligibility limit at re-application 220 percent Federal Poverty Level	Income limit during the 12-month eligibility period 85percent SMI
2	$2,744	$3,018	$4,241
3	$3,464	$3,810	$5,239
4	$4,184	$4,602	$6,237
5	$4,904	$5,394	$7,235
6	$5,624	$6,186	$8,233
7	$6,344	$6,978	$8,420
8	$7,064	$7,770	$8,607
9	$7,784	$8,562	$8,794

Reason 6: Other Reporting Errors

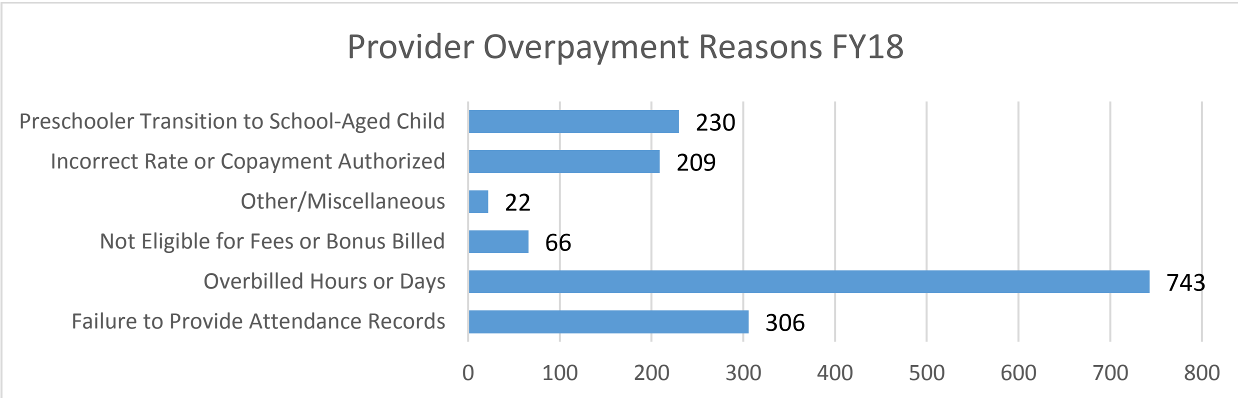
Other reporting failures contribute to overpayments. These include instances when consumers change providers, license exempt providers change locations or a child receives care from a license exempt provider in the consumer's own home.

Provider Overpayments Occurring in June 2017 through March 2018: Breakdown by Reasons

Of the 4,100 provider overpayments written, 1,938 occurred in SFY18. Through March 2018, the department withdrew 362 of the 1,938 overpayments written through a review process, leaving 1,576 overpayments remaining and accounting for $969,684.42 of the total cost. Overpayments issued to providers fall into one of six reasons, detailed in Exhibit 7.

Exhibit 7

Provider Overpayment Reasons SFY18



Reason 1: Overbilled Hours or Days

A provider receives an overpayment when they claim for more units of care than they were eligible for based on their attendance records.

Reason 2: Failure to Provide Attendance Records

A provider receives an overpayment when they fail to provide attendance records to support their billing. DCYF and DSHS request attendance records during several quality assurance and program integrity processes.

Reason 3: Preschooler Transition to School-Aged Child

A provider's authorization needs to change when the child transitions from preschool into kindergarten. This change includes both a decreased rate and usually a decrease in hours. A failure to make these changes results in the provider receiving an overpayment.

Reason 4: Department Authorizes Incorrect Rate or Copayment

A provider receives an overpayment when they receive an authorization and claim at an incorrect rate. A provider can also receive an overpayment when DSHS staff authorize an incorrect copayment.

Reason 5: Not Eligible for Fees or Bonus

A provider receives an overpayment when they claim and are not eligible for the nonstandard hour bonus (NSHB), field trip fees or registration fees.

Reason 6: Other

Provider overpayments identified as "other" include when in-home/relative providers care for children in a location they are not eligible to care for, or when the provider does not have a current background check completed.

Some Consumer and Provider Overpayments Are Reduced Through Review Processes

The departments will modify or rescind an overpayment through one of several processes. These include: the administrative hearing process where new information is made available or an Administrative Law Judge orders a change to the overpayment amount, supervisory review for accuracy and a recent DSHS project team focusing on overpayment accuracy. The DSHS project team rescinded 36 percent of consumer overpayments and 2 percent of provider overpayments written since July 2016. The reduction or elimination of overpayments through these review processes is the result of the department evaluating new information or reconsidering previous information through a more comprehensive and complete review of the overpayment.

Planned Program Integrity Improvements

DSHS and DCYF are implementing improved policies, procedures and systems in the coming year. These improvements should significantly decrease future overpayments. However, the departments anticipate an increase in overpayments in fiscal year 2019 due to the implementation of the electronic attendance system. The implementation of the electronic attendance system will allow the departments increased program integrity. Providers are required to submit their attendance records monthly, allowing DCYF to reconcile the providers' payment claims to their reported attendance. DCYF will also have additional reporting capability to identify potential payment errors and instances of potential fraud. DCYF expects a short-term increase in overpayments with the implementation of these processes, and that increased program integrity will decrease overpayments over time.

Policy Improvements

Washington Administrative Code (WAC) Improvements

The department has implemented changes to WAC to clarify program rules for consumers and providers. Clarifications include calculation of income, verification requirements, subsidy termination and overpayments.

Prior to July 2016, consumers were required to report any time their monthly income increased. Failure to do this led to consumer overpayments. Beginning July 2016, families only need to report when their monthly income exceeds 85 percent SMI. The federal rules for the state's draft Child Care Development Fund (CCDF) 2019-2021 plan require states to develop rules to account for a family's temporary income that exceeds 85 percent SMI. This will further decrease the number of consumer overpayments for failure to report their income.

DCYF continues to work with stakeholders and early learning partners to clarify how to best support children providing subsidized child care. DCYF has proposed changes to chapter 170-290 of the WAC to simplify the rules for both consumers and providers. The department will file these rules in the coming months to take effect by October 1, 2018. The proposed changes increase clarity and consistency for definitions and policies including: eligibility requirements related to citizenship and alien status, exclusions to eligibility, reporting requirements that prevent gaps in coverage, income verification requirements that account for varying income, and appeal rights.

Household Verification at Application

In March 2018, DSHS implemented new rules for verification of the household composition of single parent households as required under SB 5883. Conducting a thorough review of an applicant's application and obtaining the necessary verification prior to approving a provider for subsidy will reduce the number of incorrectly approved households. Prior to this change, the consumer self-attested household information. In cases where the household composition was questionable, DSHS would approve the family for subsidy and then pursue an investigation. If the investigation confirmed that the household reported at the time of application was inaccurate, the department would establish an overpayment. The department expects that this change will reduce the number of overpayments issued for failure to provide accurate household information at the time of application or reapplication.

Intentional Program Violation Rules

Starting July 1, 2018, the DCYF Quality Assurance (QA) team will begin addressing program violations with providers after new program violation rules take effect. DCYF auditors will give technical assistance to providers found in violation of the new rules. Providers who do not change their billing practices after consultation with the QA team will be subject to sanctions, including the discontinuation of state subsidy. The goals of the new policies and consultation process are to increase provider knowledge regarding proper billing practices, address issues found with targeted guidance and prevent ongoing repetitive errors.

2019-2021 CCDF Plan

The state's draft CCDF 2019-2021 plan clarifies the intent of DCYF to focus on supporting families with rules that support families working to achieve self-sufficiency. The new federal guidelines only require the departments to attempt to recoup funds when the department determines that fraud occurred. DCYF and DSHS write overpayments for unintentional and administrative errors as well. The departments continue to align policies with the state's draft CCDF 2019-2021 plan. This continued alignment supports child development with continuity of care for children and the stability of income for providers who care for children receiving subsidy. This also decreases the number of incorrect payments and fewer overpayments.

Procedural Improvements

Family, Friend, and Neighbor (FFN) Provider Approval Process

The FFN application process will transition from DSHS to DCYF this fall, increasing oversight of in-home/relative providers. The increased oversight includes a detailed portable background check, home visiting, and additional health and safety requirements. The transition will strengthen the approval of payments for FFNs by ensuring completion of background checks. Home visiting will ensure that care is performed in allowable locations.

Division of Program Integrity Process Review Panel

DSHS implemented the Program Process Review Panel (PRP) in February 2018. The Division of Program Integrity within DSHS leads a monthly collaborative effort with management and line staff from DCYF and DSHS to identify issues in policy, procedures or system automation that are at the root of recurring errors. The departments anticipate that program and system improvements implemented by this panel will reduce errors and overpayments. Permanent funding is needed for the DSHS staff performing this function to continue beyond June 2019.

Improved School Age Authorization Changes

A system change implemented in 2017 significantly improved the consumer and provider summer change process through automation. However, this process did not automate the rate and authorization change for children transitioning into kindergarten. The Early Start Act does not require families to report this change in school status, resulting in many new school-aged children continuing with incorrect authorization amounts. DSHS has developed a process to update the authorizations for these children beginning in August 2018. This will decrease the number of provider overpayments experienced in FY2019.

System Improvements

Root Cause Analysis of Overpayment Trends

Subsidy overpayments are recorded in DSHS's Barcode system. DSHS submitted a system change request to improve the identification of root causes for overpayments written to consumers. This change will provide timely, reliable and relevant reports that will help with addressing potential areas of weakness in the CCSP program. The reports provide data that influences policy, procedure and system impacts while addressing quality control issues. DCYF QA is developing a similar data request to the Barcode system to improve root cause identification for provider overpayments. More detailed data is needed to continue to improve the system and reduce the overpayments described in this report that affect families and child care providers.

Electronic Attendance System

Effective July 1, 2018, providers authorized to receive child care subsidy funds are required to use either the department's electronic attendance system or a department-approved electronic attendance system. Providers submit their attendance transactions (i.e. sign-in times, sign-out times, absent days) to the department through the system electronically. Approximately 20 percent of overpayments written to providers occur when the provider does not send timely and accurate attendance records. These overpayments and their associated delays will not occur with the electronic attendance system since the department will have real-time access to attendance records that are electronically submitted.

The electronic attendance system will simplify the reconciliation of attendance records to billing records, making it easier for providers to identify the amount of care they are eligible to claim for each month of service they provide care to subsidy children. The department anticipates an increase in billing accuracy as providers become familiar with the new system.

The department anticipates an initial increase in overpayments due to the increased accountability due to the new system. This increased accountability will significantly improve provider payment accuracy decreasing the number of overpayments over time.

Summary

The joint efforts of DCYF and DSHS to improve policies, streamline processes and introduce new technology have already begun to deliver positive outcomes. The number of overpayments written for issues occurring in FY18 has decreased significantly from prior years. The departments expect this trend to continue with a continued decrease in unintentional overpayments and increase in program integrity in FY19 and beyond.