WASHINGTON STATE
Department of
Children, Youth, and Families

Report to the Washington State Legislature

WORKING CONNECTIONS CHILD CARE QUALITY CONTROL MEASURES REPORT

January 2019

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CONTENTS

INTRODUCTION

The Washington State Department of Children, Youth, and Families (DCYF), in collaboration with the Department of Social and Health Services (DSHS), submits this final report detailing the quality control measures in the Working Connections Child Care (WCCC) program. This report shows how DCYF and DSHS continue to prioritize child care access, program integrity, and overpayment reduction in their joint administration of the state's child care subsidy programs. This has led to a decrease in incorrect payments and improved audit findings. This includes the significant decrease in questioned costs in the 2017 State of Washington Single Audit (SWSA17) of $8,814 from the questioned costs of $22,643.00 in SWSA16.

Following the preliminary report completed in December 2017, this is the final report required by Substitute Senate Bill (SSB) 5883, Section 615(4)(c), which requires the submission of:

- A detailed narrative of the procurement and implementation of an improved time and attendance system, including a detailed accounting of the costs of procurement and implementation;
- A comprehensive description of all processes, including computer algorithms and additional rule development, that DCYF and DSHS plan to establish prior to and after full implementation of the time and attendance system. At a minimum, processes must be designed to:
  - Ensure the Department's auditing efforts are informed by regular and continuous alerts of the potential for overpayments;
  - Avoid overpayments to the maximum extent possible and expediently recover overpayments that have occurred;
  - Withhold payment from providers when necessary to incentivize receipt of the necessary documentation to complete an audit;
  - Establish methods for reducing future payments or establishing repayment plans in order to recover any overpayments;
  - Sanction providers, including termination of eligibility, who commit intentional program violations or fail to comply with program requirements, including compliance with any established repayment plans; and
  - Consider pursuit of prosecution in cases with fraudulent activity;
- A description of the process by which fraud is identified and how fraud investigations are prioritized and expedited.

DSHS prepares a companion report as required under SSB 5883(207)(d)(ii). The companion report describes additional quality control efforts in WCCC participant eligibility determinations. Specifically, DSHS' quality control report describes how the agency is maximizing the use of IT systems, enhancing automated changes in procedures and practices, and monitoring high-risk case scenarios.

DCYF also prepares an annual overpayment report as required under SB 5883 section 223 (d) (iii). The first report was recently published and is available on the DCYF reports webpage. The next report is due in July 2019. The overpayment report includes the following information for the previous fiscal year:

- A summary of the number of overpayments that occurred
- The reason for each overpayment
- A comparison to overpayments that occurred in the preceding two fiscal years
- Any planned modifications to internal process that will take place in the coming fiscal year to further reduce the occurrence of overpayments

WORKING CONNECTIONS CHILD CARE QUALITY CONTROL MEASURES

The information in the annual overpayment report is used to prioritize DCYF's quality control activities. This includes the reason for the overpayments in state fiscal year 18, summarized in Table 1. The total number of overpayments written by calendar year are shown in Table 2 for consumer overpayments and Table 3 for provider overpayments. The general trend shows an increase in overpayments written by calendar year while DSHS has worked through a backlog of potential overpayments. These overpayments were written for past years, showing a decrease in the occurrence of overpayments in recent years. For additional detail see the 2018 Annual Overpayment Report.

Table 1: Overpayment Reasons for SFY 2018 by Type

Client Overpayments	Provider Overpayments
1) Unreported or underreported income (62) 2) Unreported household members (57) 3) Failure to start activity (58) 4) Failure to provide verification (25) 5) Income over 85% state median income (12) 6) Other (did not fall under the above categories) (43)	1) Overbilled hours or days (743) 2) Failure to provide attendance records (306) 3) Preschooler transition to school-aged child (230) 4) Department authorizes incorrect rate or copayment (209) 5) Not eligible for fees or bonus (66) 6) Other (did not fall under the above categories) (22)

Table 2: Consumer Overpayments: Date Written vs. Date Occurred

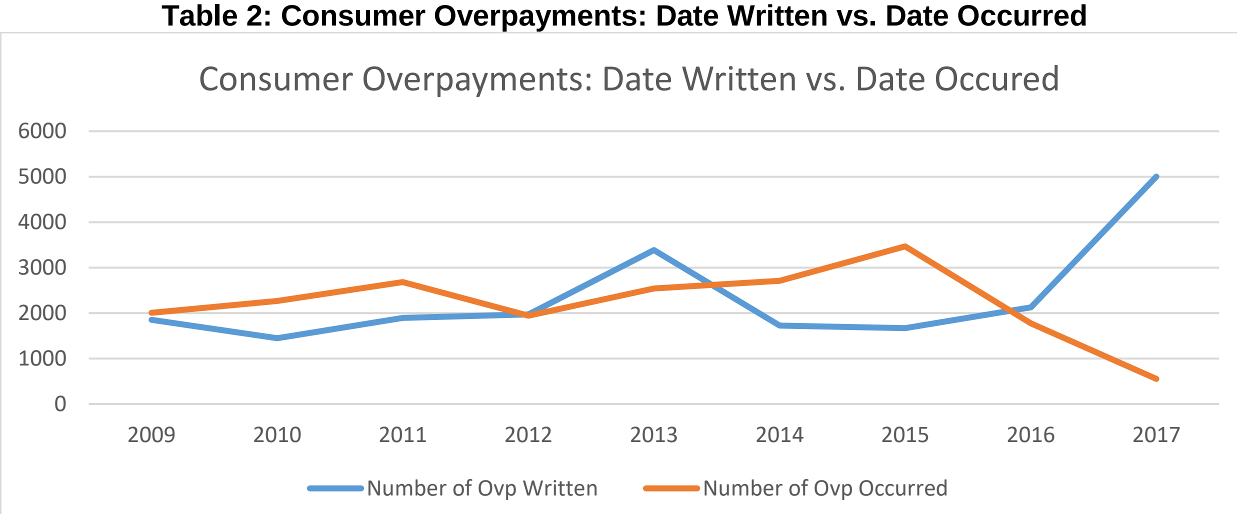
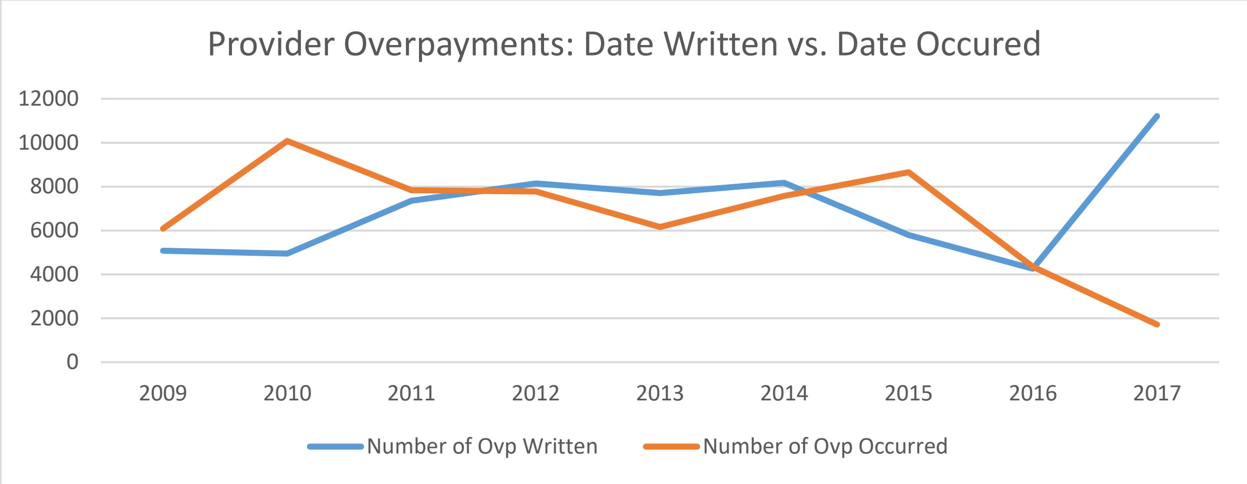


Table 3: Provider Overpayments: Date Written vs. Date Occurred



BACKGROUND

Working Connections Child Care (WCCC) and Seasonal Child Care[1] are collectively referred to as Child Care Subsidy Programs (CCSP). The goals of CCSP are to assist low-income Washington families with child care costs to support financial stability and self-sufficiency and to promote continuity of care for early childhood learning.

DCYF and DSHS jointly administer CCSP with defined roles. DCYF is responsible for establishing policy and compliance with federal and state requirements. DSHS determines eligibility and authorizes payments to providers based on established rates, and the amount and type of care provided. DCYF and DSHS share responsibility for program integrity as outlined in the Quality Assurance Practices section below.

DCYF and DSHS continue to prioritize child care access, program integrity, and overpayment reduction in their joint administration of CCSP.

DCYF and DSHS are in the process of implementing House Bill 2816, which mandates the transfer of CCSP eligibility responsibilities from DSHS to DCYF, effective July 1, 2019. The move to consolidate all child care subsidy functions into one agency will:

- Centralize policy, training, billing, implementation and audit functions in one agency;
- Support increased fiscal integrity to address persistent federal audit risks, which potentially expose DCYF to large federal fines and repayments; and
- Simplify and streamline subsidy rules and processes, which is essential to providing continuity of care for children and funding reliability for families and providers.

EARLY START ACT IMPACT

Polices enacted under the Early Start Act have created stability for families receiving subsidy by improving the continuity of child care. Additionally, shifting to 12-month eligibility and simplified

[1] Seasonal Child Care (SCC), Chapter 110-1570-290 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.

reporting requirements for families has resulted in decreased audit findings. Prior to the Early Start Act, families were required to report every income change, including reduction in hours, and unreported changes would lead to inaccurate calculations of the hours of required care and co-payments. Simplifying eligibility for 12 months requires fewer change reports leading to improved payment accuracy.

QUALITY ASSURANCE PRACTICES

CCSP quality assurance practices are the joint responsibility of both agencies until the transition of WCCC under HB 2816 is completed in July 2019.

DSHS

DSHS is responsible for determining eligibility and authorizing payments. This includes conducting a review of an applicant's income and household information. Many applicants for CCSP receive other benefits such as SNAP/basic food assistance, medical, and/or cash assistance. DSHS utilizes program integrity and audit functions that have proven effective with these public assistance and medical programs to assist with CCSP. DSHS ensures staff are trained and the automated systems, forms, and letters are updated timely to reflect changes to CCSP policy and rules.

When there is an overpayment to a provider, the DSHS Office of Financial Recovery (OFR) manages the collection efforts, including enforcement of unpaid amounts through financial remedies that include developing a payment plan or wage garnishment. For disputes related to overpayments, consumers and providers may request administrative hearings, which DSHS also administers and coordinates.

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

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

As established in the DCYF-DSHS Service Level Agreement, DSHS is required to audit at least one percent (1%) of the caseload to identify potential errors in eligibility determinations and authorizations. From July through September 2018, DSHS conducted an average of 1,608 audits per month, representing more than 3.5 percent of the WCCC caseload. DSHS addressed errors by establishing an overpayment or underpayment as appropriate. Error trends from the most recent audit include:

- 71 of the 4,824 cases had the incorrect amount of care authorized
- 76 of the 4,824 cases had the incorrect copay established
- 103 of the 4,824 cases had the incorrect amount of household income budgeted

DSHS routinely reviews potential overpayment cases identified by staff or algorithm and audits eligibility work of new employees until competency standards are met. When audit findings show error trends, DSHS' Community Services Division (CSD) works with DCYF to identify root causes and develop clear and consistent guidance for eligibility workers to maintain program integrity. Potential payment errors are immediately addressed upon discovery in order to prevent an unnecessary overpayment. DSHS staff refer situations indicating potential client fraud to the DSHS Office of Fraud and Accountability (OFA) for investigation and potential provider fraud is referred to the DCYF Quality Assurance team. The DCYF QA team that is responsible for auditing providers reviews the provider payments and refers potential fraud cases to OFA.

Beginning in March 2018 the Division of Program Integrity within ESA implemented a child care process review panel based on a highly successful and established model that has been used for the Basic Food/SNAP programs. This third party audit team audits of all aspects of eligibility determinations and authorizations. This team's findings mirror the DSHS audit results. This team identified inconsistencies between the automation, procedure, and policy for the single parent verification requirement implemented March 1, 2018 through a focused audit on the implementation of this policy.

The companion report to the legislature from DSHS describes additional practice and automation changes, both those recently adopted and in development, to strengthen quality assurance.

DCYF

DCYF's quality assurance efforts begin with the program oversight, including rule and policy development and approval of DSHS procedures. DCYF is responsible for quality assurance efforts relating to provider payment accuracy. The agency has a team of six staff who conduct random audits of licensed centers, licensed family homes and license-exempt family, friend and neighbor providers. The Quality Assurance (QA) team also conducts focused audits of potential billing issues identified by DSHS, the Social Service Payment System (SSPS) team, and risk reports.

The DCYF QA team audit process detailed in the 2017 preliminary report has continued in 2018, with one significant change. This team now provides technical assistance to providers when they identify billing issues. DCYF anticipates that technical assistance will prevent future billing errors and overpayments and provide support for correcting rule violations. This practice started in November 2018. The DCYF QA team will increase the number of focused audits completed in 2019 with the development of risk reports in Phase 2 of the implementation of the Electronic Attendance System. The team will begin auditing December time and attendance records and billing claims in April. This new process will include samples of risk reports.

ELECTRONIC ATTENDANCE SYSTEM

The most significant issue facing program integrity and payment accuracy in CCSP is the ability to gather accurate attendance records to support provider payments. Providers routinely receive overpayment notices for improper or lack of required attendance records for children in their care. The inability to provide attendance records for children receiving subsidy is the primary reason for continued State Auditor's Office (SAO) audit findings, risk of federal penalties, and provider overpayments. The electronic attendance system supports providers by simplifying the attendance documentation and submission process. With the implementation of the required electronic attendance system, DCYF anticipates a decrease over the next several years in overpayments that occur because a provider does not have attendance records.

DCYF implemented the first version of rules requiring the use of electronic attendance in July 1, 2018. These rules are currently being updated to align with the timeline agreed to in the grievance settlement with SEIU 925, representing licensed family homes and in-home/relative providers. The implementation of the electronic attendance system is being rolled out in three phases, and is currently in the first phase. Phase 1 includes the rollout of the system and rule changes directing providers to use DCYF's (or a DCYF-approved) electronic attendance system. Phase 2 will begin in early 2019 and will incorporate improved functionality of the system and report development for DCYF and providers. Phase 3 will allow third-party systems to import data into the state's attendance system allowing increased reporting capability for all providers receiving subsidy. Phase 3 is at least 18-24 months out from the second phase and is a required step before the agency can consider linking attendance and billing. Linking third-party systems to the Department's electronic attendance system is required to develop the necessary database to collect, store, and communicate attendance data to SSPS for payment.

Phase 1

DCYF implemented Phase 1 of the electronic attendance project in 2018. All licensed providers were required to use an electronic attendance system to log all transactions by December 2018 as a condition of continuing to serve children receiving subsidy. Starting October 1, 2018, new licensed providers were required to begin using an electronic attendance system within 90 days of their first subsidy authorization. DCYF has worked with partners and contractors to provide training and one-on-one technical assistance to meet recent implementation milestones.

<u>Family Home and Child Care Center Provider Milestones</u>

- September 2018 Milestone
  - Beginnning Oct 1, 2018, DCYF required providers to complete training on the state electronic attendance system or adopt an approved electronic attendance system.
  - DCYF provided outreach and technical assistance to providers to meet this milestone.
  - DSHS provided advance notice to families with options to connect to eligible providers.
  - At the end of September, subsidy payments were closed for 67 providers, 132 families, and 204 children for lack of attendance system participation.
- November 2018 Milestone
  - Providers were required to have logged at least one transaction by November 30 in order to continue serving subsidy-eligible children.
  - DCYF offered outreach and technical assistance to help providers meet this milestone.
  - DSHS sent two notices to families whose providers had not met this milestone.
    - The notices included a soft notice at the beginning of November and a formal closure notice mid-November.
    - These notices included options to connect with other eligible providers.
  - As of November 2, 103 licensed centers and 108 family homes had not logged a single transaction, and therefore had payment authorizations closed.
- December 2018 Milestone
  - Effective December 1, licensed providers must log all child check-in and check-out activity in an approved electronic attendance system.
  - DCYF will complete audits of licensed providers for payments beginning in December under electronic attendance rules. Providers who fail an audit will be subject to program violation rules currently in development with SEIU.

<u>Family, Friend, and Neighbor Milestones</u>

Following authorization to receive subsidy, Family, Friend and Neighbor (FFN) providers have 90 days to begin using an electronic attendance system, while existing FFN providers will have until November 30, 2019 to adopt the use of an electronic attendance system. This requirement aligns with the implementation of new federal portable background check and health and safety requirements for FFN providers.

Ninety-four percent of licensed providers met the November milestone. Table 4 provides the number of providers using the DCYF electronic attendance system or a third party system as of October 18, 2018. The number of children by provider type and system is also provided.

Table 4: System Adoption as of Oct. 18, 2018

Provider Type	Using DCYF System	Using Approved Third-Party System	Total Providers Receiving WCCC and SCC
Centers	788 (16,162 children)	597 (14,721 children)	1,488 (approximately 31,000 children)
Family Homes	1,607 (9,936 children)	204 (2,193 children)	1,842 (approximately 12,250 children)
Family, Friend, and Neighbors	840 (2,332 children)	16 (122 children)	4,435 (approximately 8,500 children)

Phase 2

Phase 2 of the electronic attendance project has two areas of focus. The first is to improve the usability of the system and the second is to develop a robust reporting system. DCYF has convened an electronic attendance technical workgroup to assist with system recommendations and discuss improvements. The workgroup includes representation from SEIU 925 and licensed center providers. Planned improvements for phase 2 include:

- Simplifying logging of overnight care hours for providers;
- Allowing offline activity (with upload upon reconnection to internet); and
- Adding parent confirmation of provider edits.

DCYF is developing reports and algorithms to assist with program integrity as part of phase 2. Initial planning includes reports to:

- Compare hours of care provided with payment claims ;
- Compare hours of care to overtime claims; and
- Identify high risk cases for focused audits.

Currently subsidy payments are authorized based on half-day or full-day rates, allowing half-day rates to be combined to allow for full-day care as needed. Under an arbitration settlement with SEIU 925, outlined in article 11.B of the 2019-2021 CBA tentative agreement, DCYF must create by July 2019 a partial-day payment rate for licensed family home providers caring for school-age children and other children who have a break in care during the day. This rate is 75 percent of the full-day rate, requiring a change in the way DCYF authorizes subsidy. DCYF is researching potential authorization strategies to implement a partial-day payment rate, simplify the authorization and claiming processes, and improve subsidy payment accuracy. These policy decisions will influence the development of reports and algorithms to identify potential fraud in phase 2.

DCYF has access to attendance data for all providers using the state's electronic attendance system. In October 2018, a sample review of attendance records from early adopters of the state's electronic attendance system showed attendance records matching providers' claims. A summary of the budget for development and implementation of the electronic attendance system can be found in Table 5.

ELECTRONIC ATTENDANCE SYSTEM BUDGET

Table 5: Electronic Attendance Budget Detail

FY17 System Start-up Expenditures	Costs
FTE Salary and Benefits	$109.432
DEL Project Management (PM) Salaries and Benefits	92,087
Project Quality Assurance Contract	59,800
Goods and Services	205.946
Travel	2,400
Capital Outlay – Equipment	6,000
SUBTOTAL (FY17 System Start-up Expenditures)	**$475,665**
FY18 Implementation Expenditures	**Costs**
Development, Implementation, Maintenance	$1,621,372
External Quality Assurance Contract	137,800
User Training Contracts	120,375
Salaries & Benefits	687,064
Goods & Services	6,059,757
Travel	6,500
Capital Outlays – Equipment	0
SUBTOTAL (FY2018 Implementation Expenditures)	**$8,632,868**
Estimated Expenditures for FY2019-2021	**Costs**
Development, Implementation, Maintenance	$1,589,332
External Quality Assurance Contract	87,000
User Training Contracts	664,799
Salaries & Benefits	674,217
Goods & Services	172,079
Travel	6,500
Capital Outlays – Equipment	0
SUBTOTAL (FY2019 Implementation Costs (YTD))	**$3,193,927**
Estimated Expenditures for FY2020-2021	**Costs**
Maintenance	$1,593,578
Staffing	1,348,434
Goods & Services	344,158
Travel	13,000
SUBTOTAL (Estimated FY2020 and FY2021 Costs)	**$3,299,170**

POLICY AND PROCEDURAL EFFORTS TO IMPROVE PROGRAM INTEGRITY

PROGRAM VIOLATIONS

DCYF continues to improve and implement rules for provider and consumer program violations. Program violations fall into two categories, intentional and unintentional. Provider program violations occur when a provider submits an incorrect claim for payment. Consumer program violations occur when a consumer provides incorrect information to DSHS at the time of application, reapplication, or when reporting changes.

PROVIDER PROGRAM VIOLATIONS

In 2018, DCYF filed Washington Administrative (WAC) Code rules to more clearly define fraud and program violations, as well as describe penalties that include provider ineligibility for providers convicted of fraud.

DCYF and SEIU 925 have begun the negotiated rule making process to improve WAC 110-15-0277 and 110-15-0279 by better defining program violations and penalties for continued program violations. Child care centers and other stakeholders will have opportunity to comment on the rules through the public comment process. DCYF will continue to provide technical assistance to providers who have billing errors; providers with repeated billing errors after being offered technical assistance will become ineligible to participate in the CCSP. DCYF plans to implement these rule changes beginning in July 2019.

CONSUMER PROGRAM VIOLATIONS

DCYF is consulting with the DSHS Office of Fraud and Accountability (OFA) and the Federal Office of Child Care to develop rules for client program violations. Implementing program violation rules for client program violations is a national focus. The Office of Child Care recently announced that they extended a contract with the National Center on Subsidy Innovation and Accountability to Walter R. McDonald & Associates, Inc. to provide technical assistance to states and territories around key subsidy administration components, improper payments work and accountability measures. Initial rules regarding consumers convicted of fraud are expected to be included in WAC updates in July 2019.

SUSPECTED FRAUD REFERRAL PROCESS

OFA investigates suspected fraud for many programs, including CCSP. OFA has prioritized investigating child care-based referrals received from the public, DSHS and DCYF. To support this prioritization, DSHS and DCYF have improved the referral process, with DSHS now referring potential billing issues to the DCYF QA team. This team reviews cases and refers potential fraud claims to OFA. Cases that do not appear to be fraudulent are included in the audit process as “focused audits”. These audits will follow the normal QA audit process and will be expanded in scope or referred to OFA if the findings from the audit warrant additional review.

OVERPAYMENTS

The Annual Overpayment Report shows that the number of overpayments has decreased significantly under policies created through the Early Start Act. The total number of overpayments written in FY2018 is 6,458 for $9,807,779. This is down from 15,724 for $21,332,343 in FY2017. DSHS and DCYF are continuing to work through administrative hearings from the backlogged overpayments established prior to the Early Start Act policy changes. The historical overpayment backlog is being processed by OFR and providers, including members of SEIU 925, have noticed an increase in collections. In 2018, DCYF, DSHS and SEIU 925 discussed many opportunities to improve the overpayment process during contract negotiations.

A workgroup comprised of the DCYF, DSHS, and SEIU 925 has met twice to discuss the overpayment process, from assessment to collection. The workgroup has three additional meetings in 2019 and expects to make procedural recommendations on how to decrease the number of overpayments by March 31, 2019. The Department will solicit feedback on these recommendations from stakeholders, including licensed center providers.

ADDITIONAL EFFORTS TO IMPROVE PROGRAM INTEGRITY

DCYF is taking additional steps to improve payment accuracy and program integrity. In 2018, DCYF:

- Worked with DSHS to automate the preschool-to-school-age rate change, a leading cause of overpayments in FY2018;
- Proposed simplified and clarified program rules, policies and processes;
- Updated and merged the DCYF and DSHS Child Care Policy Manuals;
- Engaged stakeholders to update and improve subsidy billing guides; and
- Continued regular engagement with DSHS to make improvements based on SAO audit findings and recommendations.

CONCLUSION

DCYF and DSHS are exploring options to simplify the authorization and billing process to allow a seamless transition while implementing the changes required under the 2019-2021 CBA with SEIU 925. DCYF and DSHS expect that further simplification of authorization and billing process will lead to improved payment accuracy, decreased overpayments, and improved program integrity.

DCYF and DSHS remain committed to improving the integrity of the programs we administer, including CCSP. The two agencies continue to work on multiple projects with stakeholders in an effort to improve access and program integrity, and to reduce overpayments. These efforts include further development of the electronic attendance system, supporting the overpayment workgroup, simplifying policy, using algorithms that can automatically identify payment errors, and consolidating eligibility determinations under DCYF.