Department of Health and Human Services

OFFICE OF INSPECTOR GENERAL

NEBRASKA IMPROPERLY CLAIMED SOME CHILD CARE AND DEVELOPMENT TARGETED FUNDS

Inquiries about this report may be addressed to the Office of Public Affairs at Public.Affairs@oig.hhs.gov.

Gloria L. Jarmon
Deputy Inspector General

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A-07-12-03175

Office of Inspector General

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EXECUTIVE SUMMARY

Nebraska claimed $2.9 million of unallowable Child Care and Development targeted funds for fiscal years 2004 through 2008.

WHY WE DID THIS REVIEW

The Child Care and Development Fund (CCDF) provides discretionary funding for three targeted funds known as Infant and Toddler, Quality, and School Age Resource and Referral funds. These targeted funds are used for activities that improve the availability, quality, and affordability of childcare and to support the administration of these activities. The funds are 100 percent federally funded. Previous Office of Inspector General reviews found that one State did not always comply with Federal requirements when claiming targeted funds for reimbursement.

The objective of this review was to determine whether the Nebraska Department of Health and Human Services (State agency) complied with Federal requirements for the use of CCDF targeted funds for Federal reimbursement for Federal fiscal years (FY) 2004 through 2008.

BACKGROUND

Under the CCDF program, States have considerable latitude in administering and implementing their childcare programs. Each State must develop, and submit to the Administration for Children and Families (ACF) for approval, a State plan that identifies the purposes for which CCDF funds will be expended for two grant periods (i.e., 2 FYs). Program requirements state that a State agency has 2 FYs to obligate CCDF funds and a third FY to liquidate those funds. The State plan must also designate a lead agency responsible for administering childcare programs. In addition, States are required to report expenditures of targeted funds on the quarterly Child Care and Development ACF-696 Financial Report (ACF-696 report), which is a cumulative report for the FY.

In Nebraska, the State agency is the lead agency. As the lead agency, the State agency is required to oversee the expenditure of funds by contractors, grantees, and other agencies of the Nebraska State government to ensure that the funds are expended in accordance with Federal requirements.

The State agency claimed CCDF targeted funds totaling $8,324,922 on its ACF-696 reports for FYs 2004 through 2008. Of this amount, we reviewed $4,419,072 of targeted fund expenditures claimed by the State agency and did not review $3,905,850 of targeted fund expenditures that the State agency disbursed to the Nebraska Department of Education.

WHAT WE FOUND

Of the $4,419,072 of targeted funds that we reviewed, the State agency did not comply with Federal requirements for the use of $2,965,913 in CCDF targeted funds for FYs 2004 through

2008. Specifically, the State agency (1) improperly obligated $1,954,940 of targeted funds after the obligation period had ended, (2) improperly claimed $974,413 of expenditures that were not for targeted funds activities, and (3) did not refund to the Federal Government $36,560 of targeted funds that either were returned by the grantee after the obligation period had ended or remained unliquidated after the liquidation period ended. For the remaining $1,453,159 of CCDF targeted funds that we reviewed, the State agency obligated and liquidated the funds in accordance with Federal requirements.

The State agency did not have policies and procedures in place to direct adequate oversight of the obligation and liquidation of the targeted funds. In the absence of necessary policies and procedures, the State agency could not correctly identify which expenditures would be allowable for a particular FY.

WHAT WE RECOMMEND

We recommend that the State agency:

- refund to the Federal Government $1,954,940 for targeted funds that were not properly obligated,

- refund to the Federal Government $974,413 for expenditures that were not for targeted funds activities,

- refund to the Federal Government $36,560 for targeted funds that were returned by the grantee after the obligation period had ended or were not properly liquidated, and

- develop policies and procedures to monitor the obligation and liquidation of CCDF targeted funds to ensure that expenditures are properly obligated and liquidated.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency concurred with our third recommendation to refund $36,560 to the Federal Government. The State agency also described actions that it had taken to address our fourth recommendation.

The State agency concurred with our finding that it had not properly obligated $1,954,940 in targeted funds; however, the State agency did not fully agree with our recommendation to refund those funds. The State agency stated, "[t]he [questioned] costs that were outside one period of availability would be allowable in the following grant period." As a corrective action, the State agency proposed amending Federal reports to properly report the expenditures that were actually incurred during the obligation period. Regarding our second recommendation, the State agency stated that it "is in the process of verifying if these expenditures were truly unallowable."

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing the State agency's comments, we maintain that our findings and recommendations are valid. As the State recognized by concurring with our first finding, these CCDF funds must be obligated in the FY in which the funds were awarded or in the succeeding FY (45 CFR § 98.60(d)(1)). Because the funds in this case were obligated after the period of availability, Federal regulations require that any funds not obligated during the specified period must revert to the Federal Government (45 CFR § 98.60(d)(7)). Therefore, the State's proposed solution is not consistent with Federal regulations, and the funds in question must be returned.

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INTRODUCTION

WHY WE DID THIS REVIEW

The Child Care and Development Fund (CCDF) provides discretionary funding for three targeted funds, administered at the Federal level by the U.S. Department of Health and Human Services, Administration for Children and Families (ACF), and known as Infant and Toddler, Quality, and School Age Resource and Referral funds. These targeted funds are used for activities that improve the availability, quality, and affordability of childcare and to support the administration of these activities. The funds are 100 percent federally funded. Previous Office of Inspector General reviews found that one State did not always comply with Federal requirements when claiming targeted funds for reimbursement.[1]

OBJECTIVE

The objective of this review was to determine whether the Nebraska Department of Health and Human Services (State agency) complied with Federal requirements for the use of CCDF targeted funds for Federal reimbursement for Federal fiscal years (FY) 2004 through 2008.

BACKGROUND

Under the CCDF program, States have considerable latitude in implementing and administering their childcare programs. Each State must develop, and submit to ACF for approval, a State plan that identifies the purposes for which CCDF funds will be expended for two grant periods (i.e., 2 FYs). Program requirements state that a State agency has 2 FYs to obligate CCDF funds and a third FY to liquidate those funds. The following table shows the obligation and liquidation periods for each FY covered by our review.

Table 1: Obligation and Liquidation Periods

FY	Obligation Period Start Date	Obligation Period End Date	Liquidation Period End Date
2004	10/1/2003	9/30/2005	9/30/2006
2005	10/1/2004	9/30/2006	9/30/2007
2006	10/1/2005	9/30/2007	9/30/2008
2007	10/1/2006	9/30/2008	9/30/2009
2008	10/1/2007	9/30/2009	9/30/2010

The State plan must also designate a lead agency responsible for administering childcare programs. In addition, States are required to report expenditures of targeted funds on the quarterly Child Care and Development ACF-696 Financial Report (ACF-696 report), which is a cumulative report for the FY.

[1] *Review of Unexpended Infant and Toddler Targeted Funds and Quality Targeted Funds Claimed by the Iowa Department of Human Services for Fiscal Years 1998–2003* (A-07-07-00231, issued August 21, 2008); *Iowa Improperly Claimed Some Child Care and Development Targeted Funds* (A-07-11-03163, issued March 26, 2012).

In Nebraska, the State agency is the lead agency. As the lead agency, the State agency is required to oversee the expenditure of funds by contractors, grantees, and other agencies of the Nebraska State government, to ensure that the funds are expended in accordance with Federal requirements. The State agency entered into contracts with the entities that would expend the funds; for each such contract, the funds were considered obligated with the execution (that is, the signing) of the contract.

HOW WE CONDUCTED THIS REVIEW

The State agency claimed CCDF targeted funds totaling $8,324,922 on its ACF-696 reports for FYs 2004 through 2008.[2] Of the $8,324,922, we reviewed $4,419,072 of targeted fund expenditures claimed by the State agency; we did not review $3,905,850 of targeted fund expenditures that the State agency disbursed to the Nebraska Department of Education.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix A contains details of our audit scope and methodology, and Appendix B contains details on the Federal and State requirements related to CCDF targeted funds.

FINDINGS

Of the $4,419,072 of targeted funds that we reviewed, the State agency did not comply with Federal requirements for the use of $2,965,913 in CCDF targeted funds for FYs 2004 through 2008. Specifically, the State agency (1) improperly obligated $1,954,940 of targeted funds after the obligation period had ended, (2) improperly claimed $974,413 of expenditures that were not for targeted funds activities, and (3) did not refund to the Federal Government $36,560 of targeted funds that either were returned by the grantee after the obligation period had ended or remained unliquidated after the liquidation period ended. For the remaining $1,453,159 of CCDF targeted funds that we reviewed, the State agency obligated and liquidated the funds in accordance with Federal requirements.

The State agency did not have policies and procedures in place to direct adequate oversight of the obligation and liquidation of the targeted funds. In the absence of necessary policies and procedures, the State agency could not correctly identify which expenditures would be allowable for a particular FY.

[2] The 3-year obligation and liquidation cycle described above creates an inherent delay in terms of when those funds can be regarded as closed for adjustment and then subject to audit.

STATE AGENCY IMPROPERLY OBLIGATED TARGETED FUNDS

Federal regulations specify that CCDF funds must be obligated[3] in the FY in which the funds were awarded or in the succeeding FY and that any funds not obligated during this period will revert to the Federal Government (45 CFR §§ 98.60(d)(1) and 98.60(d)(7)).

Contrary to these Federal requirements, the State agency improperly obligated $1,954,940 in targeted funds. The State agency entered into contracts with contractors, grantees, and other agencies of the Nebraska State government that would expend the funds; for each such contract, the funds were considered obligated with the execution of the contract. The State agency did not, however, always obligate targeted funds within the required timeframe for each FY in our audit period. Therefore, the State agency claimed $1,954,940 of targeted funds for FYs 2004 through 2008 that were unallowable because the contracts with which those funds were associated were not executed until after the 2-year obligation period had passed; accordingly, these funds were improperly obligated (Table 2). For example, for FY 2007, the State agency used a contract signed on August 21, 2009, to obligate $5,100 of targeted funds. However, the 2-year obligation period for the FY 2007 targeted funds ended on September 30, 2008. Therefore, the funds were obligated after the obligation period had ended.

Table 2: Improperly Obligated Targeted Funds

FY	Improperly Obligated
2004	$362,159
2005	548,032
2006	443,000
2007	267,336
2008	334,413
Total	**$1,954,940**

STATE AGENCY IMPROPERLY CLAIMED NONTARGETED FUND EXPENDITURES

The State agency must describe how it will use the targeted funds, and the targeted funds must be used to improve the quality of childcare (quality activities).[4] The State agency identified these activities in the ACF-approved CCDF State plan. The CCDF State plan required Infant and Toddler targeted funds to be used to pay daycare centers and individual daycare providers for infant childcare (birth to 18 months) at enhanced rates that were higher than the base rates for childcare services.

[3] The determination of whether funds have been obligated and liquidated will be based on State or local law; if there is no applicable State or local definition, the Federal definitions of obligations and outlays (expenditures at 45 CFR § 92.3) apply. We are unaware of any State or local laws that define these terms.

[4] 45 CFR § 98.16(h).

Contrary to Federal regulations and the approved CCDF State plan, the State agency claimed $974,413 in expenditures that were not for targeted fund activities. Specifically, the State agency claimed $952,714 in Infant and Toddler targeted funds for expenditures that were not for quality activities for infants and toddlers. These claims were for childcare services coded with a Special Needs service code and not an Infant or Toddler service code.[5] Furthermore, the State agency was unable to identify the specific direct childcare services for which it had paid from the Infant and Toddler targeted fund; therefore, the State agency was unable to support that the direct childcare services were for infant childcare (birth to 18 months) as required by the CCDF State plan.

In addition, the State agency incorrectly claimed $21,699 of Medicaid payments that it made to diabetic clinics. The invoices for these expenditures had identified them as Medicaid expenditures, but State agency personnel incorrectly coded these payments to the CCDF targeted funds when inputting them in the State agency's accounting system.

STATE AGENCY DID NOT REFUND RETURNED OR IMPROPERLY LIQUIDATED TARGETED FUNDS

CCDF funds must be obligated in the FY in which the funds were awarded or in the succeeding FY, and any funds not obligated during this period will revert to the Federal Government. In addition, any funds not liquidated within 1 year of the end of the obligation period will revert to the Federal Government (45 CFR §§ 98.60(d)(1) and 98.60(d)(7)). Furthermore, funds that are properly obligated and liquidated but are subsequently returned to the grantee within the original obligation period can be reobligated and liquidated (45 CFR § 98.60(g)(1)). If such funds are received by the grantee after the applicable obligation period, they must be returned to the Federal Government (45 CFR § 98.60(g)(2)).

Contrary to these requirements, the State agency did not return $36,560 in targeted funds to the Federal Government. This included funds returned by the contractors, grantees, and other agencies of the Nebraska State government after the obligation period had ended and payments that the State agency made to contractors, grantees, and other agencies after the end of the liquidation period. It also included funds that the State agency did not timely liquidate.

The grantees returned to the State agency $30,516 in unexpended grant funds relating to FYs 2004 through 2008 targeted funds after their respective obligation periods had ended. Although the funds were initially obligated and liquidated properly, these unused funds could not be reobligated because the obligation period had expired. For example, a grantee returned $4,900 of FY 2006 targeted funds to the State agency on October 30, 2008. The State agency then reobligated the $4,900. Because the obligation period had ended on September 30, 2007, these funds were not eligible to be reobligated.

Furthermore, the grantees returned to the State agency $944 in unexpended grant funds relating to FY 2008 after the State agency submitted the final ACF-696 report to ACF (after the

[5] The State agency's *Child Care Provider Handbook* identifies five service codes: Infant, Toddler, Preschool, School Age, and Special Needs. The Special Needs code indicates that services have been provided to children aged 18 or younger with special needs.

liquidation period had ended). In addition, the State agency did not expend (that is, liquidate) $5,100 in FY 2008 targeted funds until after the liquidation period had ended.

STATE AGENCY DID NOT HAVE POLICIES AND PROCEDURES IN PLACE

The State agency did not have policies and procedures in place to direct adequate monitoring of the obligation and liquidation of the targeted funds. In the absence of necessary policies and procedures, the State agency could not correctly identify which expenditures would be allowable for a particular FY.

Better monitoring would have revealed that the targeted funds were not being obligated and liquidated according to the timeframes specified in Federal requirements.

RECOMMENDATIONS

We recommend that the State agency:

- refund to the Federal Government $1,954,940 for targeted funds that were not properly obligated,
- refund to the Federal Government $974,413 for expenditures that were not for targeted funds activities,
- refund to the Federal Government $36,560 for targeted funds that were returned by the grantee after the obligation period had ended or were not properly liquidated, and
- develop policies and procedures to monitor the obligation and liquidation of CCDF targeted funds to ensure that expenditures are properly obligated and liquidated.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency concurred with our third recommendation to refund $36,560 to the Federal Government. The State agency also described actions that it had taken to address our fourth recommendation.

The State agency concurred with our finding that it had not properly obligated $1,954,940 in targeted funds; however, the State agency did not fully agree with our recommendation to refund those funds. The State agency stated, "[t]he [questioned] costs that were outside one period of availability would be allowable in the following grant period." As a corrective action, the State agency proposed amending Federal reports to properly report the expenditures that were actually incurred during the obligation period. Regarding our second recommendation, the State agency stated that it "is in the process of verifying if these expenditures were truly unallowable."

The State agency's comments appear in their entirety as Appendix C.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing the State agency's comments, we maintain that our findings and recommendations are valid. As the State recognized by concurring with our first finding, these CCDF funds must be obligated in the FY in which the funds were awarded or in the succeeding FY (45 CFR § 98.60(d)(1)). Because the funds in this case were obligated after the period of availability, Federal regulations require that any funds not obligated during the specified period must revert to the Federal Government (45 CFR § 98.60(d)(7)). Therefore, the State's proposed solution is not consistent with Federal regulations, and the funds in question must be returned.

APPENDIX A: AUDIT SCOPE AND METHODOLOGY

SCOPE

Of the $8,324,922 claimed by the State agency for targeted funds reimbursement for FYs 2004 through 2008, we reviewed $4,419,072 of the targeted fund expenditures claimed by the State agency; we did not review $3,905,850 of targeted fund expenditures that the State agency disbursed to the Nebraska Department of Education. We did not perform a detailed review of the State agency's internal controls because our objective did not require us to do so. We limited our review to the controls related to the obligation and liquidation of the targeted funds.

We conducted fieldwork at the State agency in Lincoln, Nebraska, from December 2011 through March 2012.

METHODOLOGY

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and program guidance, as well as State laws and the approved Nebraska CCDF State plans;
- reviewed the ACF-696 reports for FYs 2004 through 2008 to determine the amount of targeted funds that the State agency claimed;
- interviewed State agency staff responsible for preparing the ACF-696 reports to obtain an understanding of how the reports were prepared, how the targeted funds were reported, and what documentation was maintained to support expenditures on the reports;
- reviewed the State agency's contracts with contractors, grantees, and other agencies of the Nebraska State government to determine the dates on which the contracts were signed in relation to the obligation requirements of the targeted funds for FYs 2004 through 2008;
- reviewed the State agency's payment dates to contractors, grantees, and other agencies of the Nebraska State government in relation to liquidation requirements of the targeted funds for FYs 2004 through 2008;
- reviewed the State agency's documentation used to prepare the ACF-696 reports;
- reviewed accounting documentation maintained by the State agency in relation to expenditure of the Infant and Toddler targeted funds for direct childcare services;
- reviewed documentation submitted by contractors to the State agency in support of the expenditure of targeted funds; and
- discussed the results of our review with State agency officials on August 8, 2012.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX B: FEDERAL REQUIREMENTS RELATED TO CHILD CARE AND DEVELOPMENT FUND TARGETED FUNDS

FUND OBLIGATION REGULATIONS

Federal regulations (45 CFR § 98.60(d)(1)) state: "Discretionary Fund allotments shall be obligated in the fiscal year in which funds are awarded or in the succeeding fiscal year. Unliquidated obligations as of the end of the succeeding fiscal year shall be liquidated within one year."

Federal regulations (45 CFR § 98.60(d)(7)) state that "[a]ny funds not obligated during the obligation period specified in paragraph (d) of this section will revert to the Federal government. Any funds not liquidated by the end of the applicable liquidation period specified in paragraph (d) of this section will also revert to the Federal government."

Federal regulations (45 CFR § 98.60(g)) require that funds that are properly obligated and liquidated but are subsequently returned to the grantee within the original obligation period, "(1) if received by the Lead Agency during the applicable obligation period … be used for activities specified in the Lead Agency's approved plan and must be obligated by the end of the obligation period; or (2) if received after the end of the applicable obligation period … be returned to the Federal government."

ACTIVITY REGULATIONS

Federal regulations (45 CFR § 98.16(h)) require that the approved CCDF State plan include "[a] description of the activities to provide comprehensive consumer education, to increase parental choice, and to improve the quality and availability of child care, pursuant to [45 CFR] § 98.51."

Federal regulations (45 CFR §§ 98.51(a) and (b)) require that no less than 4 percent of the aggregate funds be spent on activities to improve the quality of childcare and that the Lead Agency describe in the CCDF State plan the activities it will fund under the quality activities (which includes the targeted funds).[6]

Relevant passages from the State agency's CCDF State plan for FYs 2004–2005 state:

> First Connections is a training project designed to provide those caring for infants and toddlers, especially in rural and remote areas, with technology-based options for extending their knowledge of child development and effective ways of working with very young children, including those with disabilities ….
>
> Early Head Start/Child Care Initiative: The [Nebraska] Department of Health and Human Services funds projects to Early Head Start Programs to provide professional development and other support to home-based and center-based child care providers to provide quality infant toddler child care and to promote an infant

[6] Quality activities include the targeted funds, which are in addition to the 4-percent minimum.

> and toddler curriculum that can be used by home-based and center-based child care settings ….
>
> Infant Rates: The state subsidy paid for infant care will remain higher than rates paid for other age groups to address that lower staff/child ratios make infant care more costly than that provided to older children ….
>
> Early Childhood Mental Health Initiative: The Nebraska Department of Health and Human Services and the Nebraska Department of Education are requesting proposals from collaborative networks to develop integrated systems of care for young children (birth through 3 years of age) with behavioral/emotional issues ….

The CCDF State plan for FYs 2006–2007 retained the above guidelines and added the following: "Early Childhood Mental Health Consultation Pilot: The Early Childhood Training Center, along with three community-based mental health agencies and a community-based early childhood program is piloting a model of mental health consultation in infant/toddler and preschool classrooms, (birth to three years of age)."

The CCDF State plan for FYs 2008–2009 retained all of the above guidelines and added the following: "Professional Development System: The Early Childhood Training Center and the 10 Professional Development Network/Regional Training Coalitions carry out the primary functions of our Professional Development System."

APPENDIX C: STATE AGENCY COMMENTS

Department of Health & Human Services
DHHS
N E B R A S K A

State of Nebraska
Dave Heineman, Governor

February 22, 2013

Report Number: A-07-12-03175

Mr. Patrick J. Cogley
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Inspector General
601 East 12th Street, Room 0429
Kansas City, MO 64106

Dear Mr. Cogley,

This letter is in regards to your draft report entitled *Nebraska Improperly Claimed Some Child Care and Development Targeted Funds*. At this time, we would like to provide the following responses to your recommendations.

Recommendation 1: *Refund to the Federal Government $1,954,940 for targeted funds that were not properly obligated.*

The Department concurs with your finding but does not fully agree with the recommendation. The costs that were outside one period of availability would be allowable in the following grant period. As a corrective action, the Department would, to the extent possible, amend the federal reports filed during the 2004 – 2008 grant periods to properly report the expenditures that were actually incurred during the obligation period.

Recommendation 2: *Refund to the Federal Government $974,413 for expenditures that were not targeted funds activities.*

At this time, the Department is in the process of verifying if these expenditures were truly unallowable. If the Department agrees with the finding, then the Department will verify whether or not there were expenditures incurred during this time that were allowable targeted funds activities and those expenditures would be reallocated to this grant.

Recommendation 3: *Refund to the Federal Government $36,560 for targeted funds that were returned after the obligation period had ended or were not properly liquidated.*

The Department concurs with your finding and will refund the questioned cost to the Administration for Children and Families

Recommendation 4: *Develop policies and procedures to monitor the obligation and liquidation of CCDF targeted funds to ensure that expenditures are properly obligated and liquidated.*

The Department has developed policies and procedures regarding the proper obligation and liquidation of CCDF targeted funds since the conclusion of the 2008 grant year. These procedures are continuously reviewed and enhanced as needed to ensure compliance with federal laws and regulations. The program and finance grant managers will meet each month to

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review any expenditures applied to a grant during the liquidation period to assure that the items were properly applied.

If you have any questions or comments regarding our responses, please contact me at 402-471-9213 or kevin.r.nelson@nebraska.gov.

Sincerely,

Kevin R Nelson, CPA

Kevin R. Nelson, CPA
Internal Auditor, Nebraska Department
Of Health and Human Services

Cc: Thomas Pristow, Director of Children and Family Services
Nebraska Department of Health and Human Services
Jill Schreck, Deputy Director; Economic Assistance
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