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Acting State Comptroller

July 16, 2014

Jennifer Velez, Esq.
Commissioner
Department of Human Services
222 South Warren Street
PO Box 700
Trenton, New Jersey 08625-0700

Re: Follow-Up Report F-09

Dear Commissioner Velez:

Pursuant to the State Comptroller's authority as set forth in *N.J.S.A. 52:15C-1 et seq.*, we have followed up on the actions taken by the Department of Human Services (DHS), Division of Family Development (DFD) officials to implement the recommendations in our audit report, *Oversight of the New Jersey Child Care Assistance Program* (Report PA-14), issued on January 25, 2012. Our findings and conclusions are set forth below.

Background, Scope and Objective

Our initial audit report found that controls and procedures for determining Child Care Assistance Program (CCAP) eligibility were lacking, allowing ineligible participants to gain entry into the program and resulting in significant overpayments to child care providers.

The objective of our follow-up engagement was to determine if DFD has implemented the 12 recommendations contained in our initial audit report.

Summary Conclusion

We found that DFD officials have made significant progress in implementing the recommendations set forth in our initial audit report. Of the 12 prior audit recommendations, 11 recommendations have been implemented and 1 has not been implemented.

Status of Initial Audit Recommendations

Recommendation 1

Strengthen income verification procedures by requiring applicants to submit their income tax return, if one exists, as part of the income verification process.

Status: Not Implemented

DFD still does not require an income tax return as part of its income verification process for all participants. DFD only requires an income tax return for participants who are self-employed or as a temporary form of income verification when applicants do not have their most recent pay stubs.

Recommendation 2

Investigate the instances of underreported income exceptions noted in this report and take further action as appropriate.

Status: Implemented

Our initial audit identified 210 cases as having underreported income. Our follow up found that all of the 210 cases have either been terminated or remain active based on a redetermination of income completed by DFD within the past year.

Recommendation 3

Do not accept applications that do not include the child's Social Security number.

Status: Implemented

DFD provided us with a list of approximately 24,000 CCAP participants who were active from January 2012 to December 2013. All of the listed participants included a Social Security number.

Recommendation 4

Utilize the quarterly exception reports provided by the third-party vendor to identify ineligible participants and remove those participants from the program. Recoup any misspent funds.

Status: Implemented

DFD's primary source of identifying and recovering misspent funds from ineligible participants are quarterly exception reports. However, our initial audit found that DFD was not utilizing these reports. As of March 13, 2012, DFD began using the quarterly exception reports and has since recovered approximately \$207,000 from ineligible participants.

Recommendation 5

Strengthen monitoring and training of caseworkers such that all required documents necessary to demonstrate a family's eligibility for CCAP are obtained and maintained.

Status: Implemented

DFD has provided the Child Care Resource and Referral (CCR&R) agencies with written instructions clarifying its policy related to eligibility verification and the proper documentation that is required to be obtained. DFD has also conducted various trainings and meetings with DFD's own staff, in addition to providing technical assistance to the CCR&Rs. Since 2012, DFD has also conducted two case file reviews as well as monitoring visits.

During our follow-up engagement, we tested eligibility for a random sample of case files at the Camden, Hudson and Ocean CCR&Rs for 20 CCAP participants at each county. Overall, our testing found that the documents necessary to demonstrate a family's eligibility for child care assistance were being obtained and maintained by DFD.

Recommendation 6

Conduct periodic audits of a random sample of CCAP participants' files to verify their eligibility for the program.

Status: Implemented

Since the issuance of our initial audit report, DFD conducted two case file reviews of a sample totaling 153 active CCAP participant case files during the period of October 2011 to September 2012. These reviews took place during August 2012 and May 2013.

Recommendation 7

Consider converting to electronic case files so that all required documents can be scanned into DFD databases and be more easily organized, maintained and monitored.

Status: Implemented

Following our initial audit, DFD had planned to implement a new database system called Consolidated Assistance Support System (CASS). However, to date, CASS has not been implemented statewide. DFD also plans to launch the Document Imaging Management System, or DIMS. This system will electronically store case files and all required documents that are scanned into the system. According to DFD officials, DIMS is currently in pilot.

Recommendation 8

Communicate with and train CCR&Rs to use proper methods to calculate attendance and make necessary payment adjustments.

Status: Implemented

DFD created a new electronic time and attendance system called eChildCare (ECC), which requires parents to swipe their children in and out of child care daily with an assigned card. This system was fully implemented on July 1, 2012. DFD provided training pertaining to the ECC system, as well as attendance and payment calculations, to the CCR&Rs, parents and providers.

During our follow-up engagement, we tested attendance at the Camden, Hudson and Ocean CCR&Rs for a random sample of 20 CCAP participants at each county. Our testing found that attendance was being reported accurately with no occurrences of overpayments.

Recommendation 9

Monitor CCR&Rs' removal of participants no longer attending the program and termination of payments to providers for such participants.

Status: Implemented

The new ECC system facilitates the process of removing inactive participants, and terminating payments to providers for such participants. During our follow-up engagement, we tested a random sample of 30 participants that were recently terminated from the Camden, Hudson and Ocean CCR&Rs. Our testing found that all of the participants were terminated appropriately and no overpayments occurred as a result.

Recommendation 10

Consider converting to an electronic format of attendance record submission and calculations to reduce the risk of calculation errors and overpayments to providers.

Status: Implemented

As indicated concerning Recommendation 8, on July 1, 2012, DFD converted to the new ECC electronic time and attendance system.

Recommendation 11

Increase the number of case files tested during monitoring visits to obtain a more accurate view of how policies and procedures are being applied.

Status: Implemented

Our initial audit found that during one monitoring visit by DFD, it reviewed only six case files. For the follow up, DFD provided us with the results of the two most recent monitoring visits for the Camden, Hudson and Ocean CCR&Rs. The first series of monitoring visits occurred between February 2013 and March of 2013. During these visits, DFD reviewed 38 CCAP case files at the Hudson CCR&R and 20 each at the Camden and Ocean CCR&Rs. During the second series of monitoring visits, occurring between September 2013 and October 2013, DFD reviewed 10 CCAP case files at each of the three CCR&Rs.

Recommendation 12

Consider having the DHS Office of Auditing perform programmatic audits of the areas discussed in this report, such as program eligibility, attendance and subsidy payments.

Status: Implemented

In its most recent audit plan submission to DHS' Office of Auditing for Fiscal Year 2014, DFD requested a number of provider-based audits as a direct result of our initial audit report. However, due to limited resources at the Office of Auditing, as well as the Office's risk assessment process, those requested audits are unlikely to be completed during Fiscal Year 2014.

Reporting Requirements

We provided a draft copy of this report to DHS and DFD officials for their review and comment. Their comments were considered in preparing our final report and are attached as Appendix A.

We thank the management and staff of DHS and DFD for the courtesies and cooperation extended to our auditors during this engagement.

Very truly yours,



William P. Challice, CIA, CFE, CGFM
Director, Audit Division

- c. Jeanette Page-Hawkins, Director of Division of Family Development
- Thomas Mattaliano, Assistant Director
- Margaret Milliner, Assistant Director
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June 13, 2014

William P. Challice, CIA, CFE, CGFM
Director, Audit Division
Office of the State Comptroller
20 West State Street – 12th Floor
Box 024
Trenton, New Jersey 08625-0024

Dear Mr. Challice:

The Department of Human Services (DHS) appreciates the opportunity to comment on the follow-up to implement the recommendations in the audit report, Oversight of the New Jersey Child Care Assistance Program (Report PA-14), issued on January 25, 2012. DHS is proud of the work it has accomplished over the past several years to modernize the child care system. In the main, the conclusions of the follow-up report from the Comptroller's Office demonstrate the fruition of this work.

Regarding the recommendation of the Audit: *Strengthen income verification procedures by requiring applicants to first submit their income tax return, if one exists, as part of the income verification process.*

The Department of Human Services' Division of Family Development's (DHS/DFD) current policy requires the last four consecutive weeks' pay stubs to be submitted with the application to determine the most accurate present wage and income. If paystubs are not available, the applicant may submit in the interim the most recent income tax return.

Paystubs are the most common document used by states (i.e. Indiana, Maine, Louisiana, Florida, Delaware, and Arizona, to name a few), administering the federally funded child care program to determine families current wage and income.

Pay stubs are considered the best method to evaluate **current** work activity, providing a greater level of accurate information to determine if families meet the child care eligibility criteria such as hours of employment and 200% of the Federal Poverty Index (FPL) income limit.

William P. Chalice
June 13, 2014
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Tax returns are a snapshot of the **PRIOR** year and are filed after the year ends. They do not necessarily reflect the current work situation. For example, the 2013 tax year (1/1/13 – 12/31/13) returns are due in April 2014. Tax returns will summarize the entire year income, but do not provide details of the present period earnings or work hours, or explain gaps in work history (unemployment, disability etc.).

As an example - a client submitting an application in May 2014 will have current pay stubs to reflect actual current work history compared to a tax return from last year (as many as 15 months ago) where they may have worked full-time all year last year and are now unemployed, laid off or on disability. In another example, the client has gone from working full-time last year to part-time employment in recent months (after tax year ends). This is not specified in the tax return. Some income received in a prior year as reported on the tax return (i.e. annuity or pension distribution), might be considered as one-time income and not be considered as income in current year for eligibility determination.

In addition to pay stubs, the Work Number and Income and Eligibility Verification system (IEVS) are used to minimize improper payments and to ensure only eligible families obtain child care services.

Based upon this information, DHS/DFD plans to continue with its present policy and practice of utilizing pay stubs to determine child care eligibility. Thank you for your continued effort in supporting the department to implement an efficient and effective child care program.

Sincerely,



Jennifer Velez
Commissioner

JV:14