Annual Overpayment Status Report For The Working Connections Child Care Program

August 2019

Washington State Department of
CHILDREN, YOUTH & FAMILIES

Washington State Department of
CHILDREN, YOUTH & FAMILIES

Contents

Introduction

The Washington State Department of Children, Youth, and Families (DCYF), in collaboration with the Washington State 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 complies with 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:
>
> i. A summary of the number of overpayments that occurred;
> ii. The reason for each overpayment;
> iii. The total cost of overpayments;
> iv. A comparison to overpayments that occurred in the past two preceding fiscal years;
> v. 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.

Background

Working Connections Child Care (WCCC) and Seasonal Child Care (SCC)[1] are jointly referred to as Child Care Subsidy Programs (CCSP). CCSP rules are set forth in Chapter 110-15 (formerly 170-290) of the Washington Administrative Code (WAC). Child care subsidies assist families with low incomes by providing children with a stable, nurturing, high-quality learning environment that supports the child's healthy development and school readiness and enabling parents to work and pursue employment with the goal of creating financial stability and self-sufficiency. These goals were reaffirmed by the 2018 reauthorization of the federal Child Care and Development Block Grant Act (CCDBG), which established policies to reduce administrative barriers for working families with children in order to help transition them into self-sustainability and out of poverty.

Until July 1, 2019, DCYF and DSHS jointly administered CCSP within defined roles. DCYF and DSHS shared responsibilities for program integrity, including quality assurance and fraud prevention for providers and consumers. Per legislative direction, all child care subsidy responsibilities and staff at DSHS transferred to DCYF on July 1, 2019. This will be the final report prepared jointly by the two agencies. The following descriptions of DCYF and DSHS roles are reflective of the pre-July 2019 coordinating structure.

[1] Seasonal Child Care (SCC), Chapter 110-15 WAC Part III, is similar to WCCC, but is a smaller program. Eligibility is limited to families seasonally employed in agriculturally related work 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.

Agency Responsibilities

Department of Children, Youth, and Families (DCYF)

DCYF is responsible for policy-making in CCSP, which includes ensuring Washington's CCSP complies 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 CCDBG.

Since 2018, DCYF has administered an electronic attendance system that allows providers to document child attendance and meet the electronic attendance requirement for providers who accept child care subsidy. DCYF also administers the child care payment system, known as the Social Service Payment System (SSPS), which is used to notify providers of the amount of care authorized, to send provider invoices for payment claims and to send payment for services that are claimed by providers.

DCYF's quality assurance efforts include reviewing the DSHS eligibility determination procedures, reviewing the DSHS staff training curriculum for compliance with WAC and 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. Child care providers must adhere to program rules and requirements by keeping accurate attendance records and sending these to DCYF when requested as a condition of providing subsidized care and receiving CCSP payments.

DCYF is responsible for ensuring the accuracy of provider billing. Child care providers serving families and children qualifying for subsidies include licensed or certified child care centers, 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.

Department of Social and Health Services (DSHS)

DSHS is responsible for determining consumer eligibility and creating provider authorizations. This includes conducting a review of an applicant's income and household information to decide whether a family qualifies for some level of 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 other programs.

DSHS quality assurance efforts include properly training staff and promptly updating automated systems, forms and letters to reflect changes to CCSP policy and rules.

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. For disputes related to child care subsidy overpayments, consumers and providers may request administrative hearings, which DSHS also administers and coordinates with the Office of Administrative Hearings (OAH).

Types of Overpayments

DCYF and DSHS process overpayments to consumers or providers for a variety of reasons. DCYF writes overpayments to ***providers*** primarily resulting from improper billing practices identified in quality assurance and program integrity efforts. 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.

Consumer overpayments occur when:

- Information is not reported accurately at application;
- Consumers fail to report changes required in WAC 110-15-0031 during the eligibility period; or
- 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 bills improperly, such as claiming more care than allowed by program rules, or failing to maintain attendance records that support their billing.
- DSHS authorized the incorrect rate, an incorrect copay amount, an incorrect start date or an incorrect number of hours of care.

Overpayment Data and Summary Explanations

Annual Overpayment Totals

The table below displays the total cost of combined overpayments written by DSHS and DCYF for consumers and providers for the previous three fiscal years. These amounts may change due to modifications during the hearing process.

Exhibit 1

Number and Amount of Overpayments (OP) Written by State Fiscal Year (SFY)*						
	Consumer OPs	Consumer Amount	Provider OPs	Provider Amount	Combined OPs	Combined Totals
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
SFY19	816	$2,066,527	2,807	$3,422,812	3,623	$5,489,339
*Amounts listed are the total amount of the overpayments and not the total amount recovered.						

The agencies continue to see a significant decrease in the number of overpayments that occur, which translates into a large decrease in the number of funds owed to the agencies.

Annual Overpayment Recovery

Exhibit 2 displays the number of funds recovered by state fiscal year (SFY) for each of the federal fiscal year (FFY) grants. As of April 2019, a total of $2,517,550 WCCC expenditures were recovered for overpayments from the federal fiscal years 2015 - 2019. Of the $1,807,849 federal funds (TANF and Child Care Development Fund [CCDF]) recovered in SFY19, only $40,586 were from the FFY18 or FFY19 grant year and could be redrawn from the current federal grant year. An additional $426,091 was recovered from FFY18 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 FFY19 (July - September of SFY19).

In SFY18, a total of $3,493,583 WCCC expenditures were recovered. Of the $2,596,102 federal funds (TANF and CCDF) recovered, only $180,212 were from the FFY18 grant year and could be redrawn from the current federal grant year. An additional $914,716 was recovered from FFY17 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 FFY17 (July - September of SFY17).

The remaining $2,842,346 in recovered federal funds in SFY18 and SFY19 were for closed grant years, with $457,141 for FFY15, $1,840,126 for FFY16, and $545,079 for FFY17. These funds must be returned to the federal grants with no opportunity to redraw the funds.

Exhibit 2

Funds Recovered in SFY18 and SFY19 by Federal Fiscal Years

		FFY15	FFY16	FFY17	FFY18	FFY19	Grand Total
SFY18	Federal	(313,369)	(1,187,805)	(914,716)	(180,212)	N/A	(2,596,102)
	State	(108,333)	(410,628)	(316,220)	(62,300)	N/A	(897,481)
SFY19	Federal	(143,772)	(652,321)	(545,079)	(426,091)	(40,586)	(1,807,849)
	State	(56,440)	(256,080)	(213,980)	(167,269)	(15,933)	(709,701)
Total		(621,914)	(2,506,835)	(1,989,994)	(835,872)	(56,519)	(6,011,133)

Consumer Overpayments

Breakdown by Reasons

Of the 3,623 overpayments for SFY19, DSHS wrote 816 to consumers, which accounts for $2,066,527 of the total cost. The consumer overpayment root causes are broken down into eight reasons.

Exhibit 3

Consumer Overpayments by Reason, SFY19

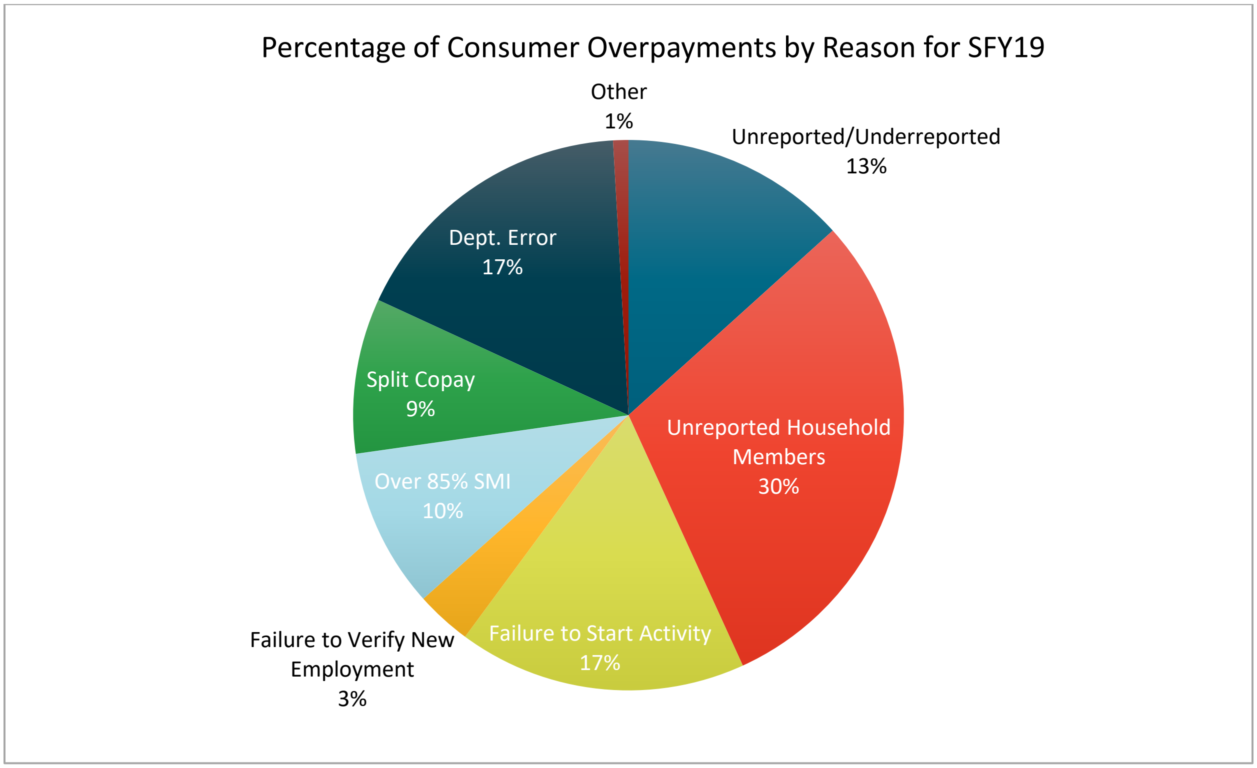
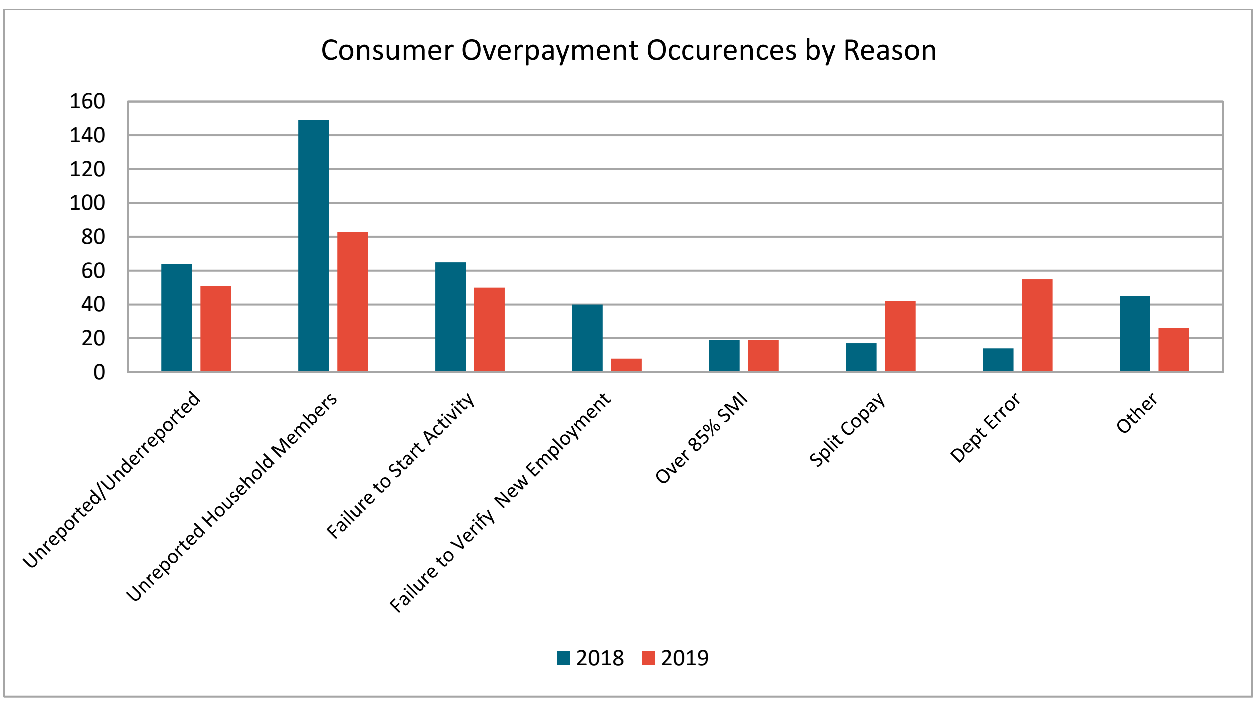


Exhibit 4

Consumer Overpayments Comparison Between SFY18 and SFY19



Reason 1: Unreported Household Members

A consumer receives an overpayment 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 fails to report this information on their application or reapplication. Eligibility is determined without considering the other parent's availability, activity or income, sometimes resulting in approving an ineligible family, establishing an incorrect copayment or over-authorizing the amount of care.

Unreported household member related overpayments decreased by 56 percent between SFY18 and SFY19. However, this remains the most common reason for consumer overpayments. This also contributes to the highest dollar amount of any consumer overpayment category.

DSHS performed a focused audit following the implementation of the single parent verification policies in August 2018 and found that the implementation procedures did not align with policy, limiting the impact of the new policy. The policy is intended to verify the location of the absent parent, reducing the number of cases approved when the absent parent is living in the household. DSHS and DCYF worked together to update policies and procedures in November 2018 to improve the effectiveness of the single parent declaration policies. DSHS plans to complete a focused audit in May 2019 to confirm the effectiveness of the new policies and procedures. The information gained from this audit will inform corrective actions to increase program integrity. These will be reported in the December 2019 Program Integrity Report.

Reason 2: Failure to Start Activity

A consumer receives an overpayment when they do not engage in an activity as expected. A consumer may be approved for subsidy prior to starting an approved activity such as employment, an approved WorkFirst activity or education. In some situations, the consumer does not start the activity, resulting in an overpayment. This category saw a modest decrease from SFY18 to SFY19.

The majority of these overpayments are due to consumers not starting an approved WorkFirst activity. DCYF and DSHS agreed that all child care subsidy cases approved for pending TANF applicants would be funded with TANF funds exclusively. Toward this end, DCYF implemented updated rules in April 2019 allowing payment of care for these 14 days during a TANF application's pending status. The child care subsidy authorization will close with advanced notice and with no overpayment if the consumer is not approved for TANF or fails to engage in a WorkFirst activity. Overpayments may be established, however, for those cases when the consumer provides inaccurate information at application.

Reason 3: Split Copayments

A consumer receives an overpayment for split copayments when the consumer does not pay the total required copayment. Consumers may have their copayment requirement split among providers. This happens when a consumer uses multiple providers within the month and when the copay requirement is greater than the amount of care used at a single provider. Overpayments result when the consumer does not pay the full copayment, resulting in the state paying for more care than the consumer is eligible.

DCYF is exploring ways to address this through procedure, including requiring a copayment to be assigned to the youngest child or to the child with the highest cost of care in cases where children in a family attend different providers.

Reason 4: Unreported or Underreported Income

A consumer receives an overpayment when they do not report their income accurately at application or reapplication. Unreported income occurs when the consumer fails to identify a source of income, such as informal child support agreements or a new job. Underreporting income occurs when the consumer reports less income than the actual amount they received, such as reporting and verifying a portion of the tips they earn or failing to report a recent pay increase. The number of overpayments from 2018 to 2019 in this category decreased slightly.

DCYF and DSHS implemented new verification rules in April 2019 allowing eligibility staff to ask for additional information when verification is questionable. This rule also allows eligibility staff to deny an application when a consumer's income cannot be verified. This improves DSHS' ability to verify consumer eligibility criteria. This varies from prior verification rules in which questionable cases were approved and referred to OFA for investigation.

DCYF continues to research policies to simplify income determination as part of the overall approach to improve program integrity and payment accuracy.

Reason 5: Department Errors

A consumer receives an overpayment when they receive benefits they are not eligible to receive based on an error made by DSHS. This happens when DSHS makes incorrect eligibility determinations or does not act on required changes timely. Department errors can lead to an incorrect amount of authorized care or copayment.

DSHS has used a multi-pronged approach to identify the root cause of department errors and address them through improvements in policy, procedures, automation or training. By partnering with DCYF, DSHS continues to prioritize work that impacts eligibility determinations, and in the spring of 2019 reached a milestone of working on all changes on the same day they are reported.

Reason 6: Income More Than 85 Percent of State Median Income

A consumer receives an overpayment when they do not report going over the maximum income limit. Consumers can earn up to 200 percent of the Federal Poverty Level (FPL) for new applications, or up to 220 percent of the FPL for reapplications (Exhibit 5). Consumers remain eligible for subsidy for 12 months as long as their income stays below 85 percent of the state median income (SMI). Failure to report an increase of income that exceeds 85 percent SMI during their eligibility period results in an overpayment.

Exhibit 5

Income Eligibility Table by Household Size, Updated Annually April 1

Current Monthly Income Guidelines			
Family Size	Initial Eligibility Income Limit 200% FPL	Eligibility Limit at Re-Application 220% FPL	Income Limit During the 12-Month Eligibility Period 85% SMI
2	$2,818	$3,100	$4,420
3	$3,556	$3,912	$5,460
4	$4,292	$4,721	$6,500
5	$5,028	$5,531	$7,540
6	$5,766	$6,343	$8,580
7	$6,502	$7,152	$8,775
8	$7,238	$7,962	$8,970
9	$7,976	$8,774	$9,165

Effective October 1, 2019, DCYF is implementing a policy allowing for temporary increases in consumer income to go above 85 percent. This aligns with the state's CCDF plan and 45 CFR 98.21(c). This change is expected to reduce the number of overpayments as a result of a family exceeding the income limit due to temporary increases. Temporary increases include seasonal increases in hours or months that may have an extra paycheck when consumers are paid weekly or bi-weekly.

Reason 7: Failure to Provide Verification of Income for Self-Attested New Employment

A consumer receives an overpayment when they do not provide verification that supports their self-attestation of 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 after being approved for subsidy. Failure to verify income results in closure of subsidy authorization and an overpayment for any care used. 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.

This category saw a dramatic decrease in overpayments. DSHS recently added an auto-reminder notice that is mailed to consumers that had not verified their new employment prior to the 60-day cut-off.

Reason 8: Other Reporting Errors

A consumer may receive an overpayment for other reasons. Overpayments falling into the "other" category include instances when consumers do not report other changes, such as a change in providers.

DCYF updated several rules effective April 2019 to clearly outline the reporting requirement timeframes and change effective dates when new information must be reported and verified. DCYF also updated the consumer rights and responsibilities guidelines to include the mandatory reporting of a change in child care provider within five days.

Provider Overpayments

Breakdown by Reasons

DCYF and DSHS issued 2,807 overpayments to providers for FY19 totaling $2,085,451. The provider overpayment root causes are broken down into six reasons.

Exhibit 7

Provider Overpayment by Reasons SFY19

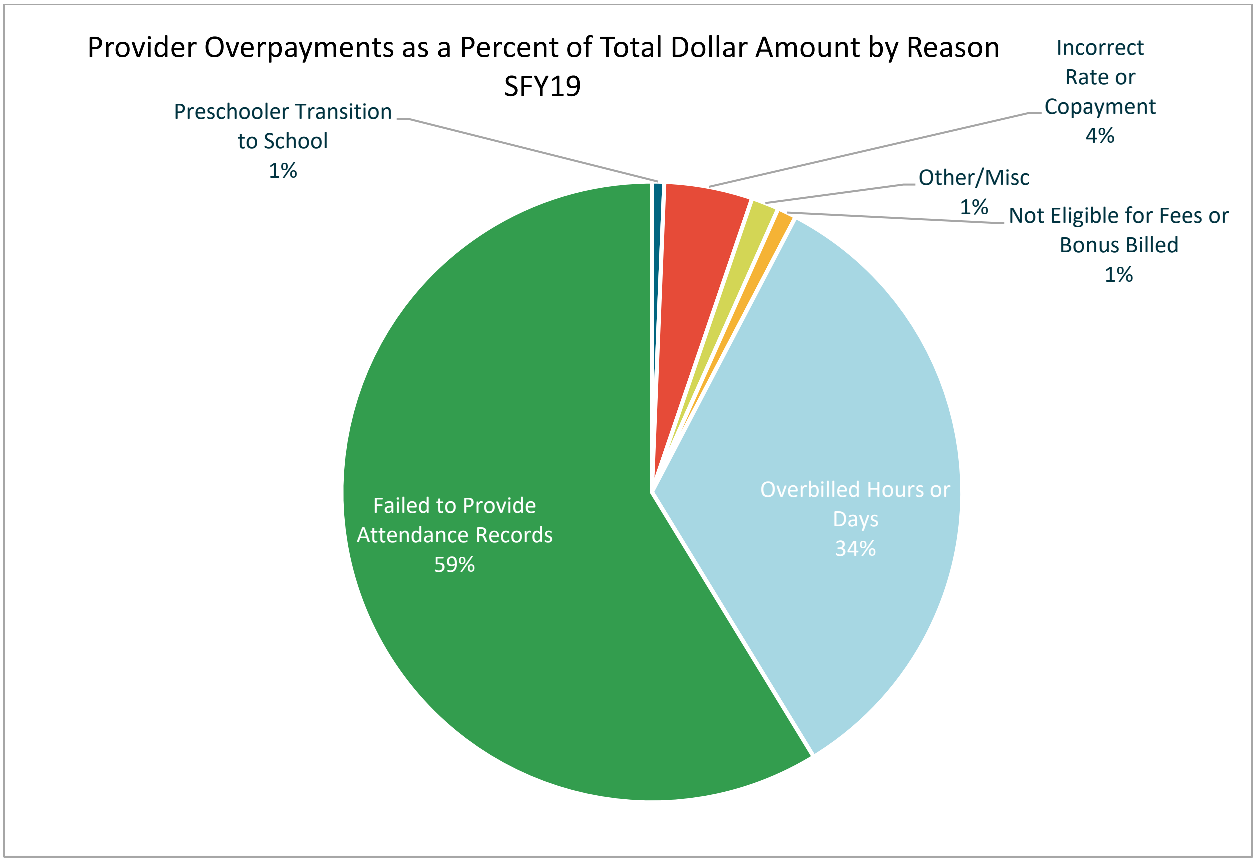
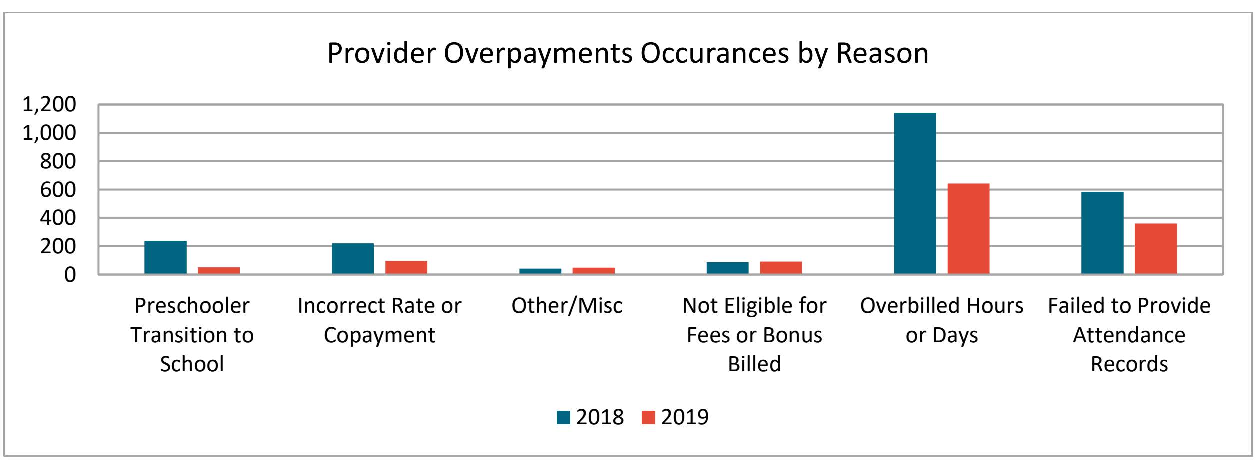


Exhibit 8

Provider Overpayment Occurrences by Reason SFY19



Reason 1: Failure to Provide Requested Attendance Records

A provider receives an overpayment for all child care claimed for a period of time in which they fail to provide requested attendance records to the department when requested. DCYF and DSHS request attendance records from providers during several quality assurance and program integrity processes. There was a significant decrease in the number of overpayments due to no attendance records in SFY19. This category still contributes the highest dollar amount of overpayments and is second in terms of the total number of overpayments. Many of these overpayments end up being modified or reduced when a provider submits attendance records through the administrative hearing process.

There are two key reasons for the decrease in overpayments due to lack of attendance records. The first is improved processes developed in conjunction with Service Employees International Union (SEIU) 925. Improvements include increased communication with providers when DCYF requests records. The second reason for improved participation is the implementation of the electronic attendance requirement. As of November 2018, all existing licensed providers are required to use DCYF's electronic attendance system or an approved third party system. November payments will begin to be audited in April 2019. Family, Friend and Neighbor (FFN) providers are required to use an electronic attendance system beginning in November 2019, which will continue to decrease the number of overpayments due to lack of attendance records through the next fiscal year. New licensed or certified providers and FFN providers received an extension through August 2019 to meet the electronic attendance requirement. Existing FFN providers received an extension through November 2019.

Reason 2: Overbilled Units or Days

A provider receives an overpayment when they claim more units of care than they were eligible to provide based on their attendance records. There was a significant decrease in overpayments due to overbilling in FY19, though this category contributes the highest number of overpayments and the second highest in terms of dollar amount in FY19.

Decreases in this category are attributed to the technical assistance provided by the DCYF Quality Assurance Team, billing discussions during electronic attendance training, ongoing work on decreasing overpayments with SEIU 925 and increased accountability required under the electronic attendance system requirements.

DCYF continues to explore ways to improve provider claim accuracy. Beginning July 1, 2019, all licensed family home and FFN providers are required to attend a billing training by June 30, 2021. DCYF will also finalize updated billing guides for all providers in the summer of 2019. For providers with consistent billing issues, DCYF will implement an improved process which will include technical assistance. Continued incorrect billing after that will result in the disqualification from the subsidy program. DCYF continues to explore ways to simplify the provider billing process with the implementation of services required under the 2018 collective bargaining agreement and potential legislative solutions.

Reason 3: Incorrect Rate or Copayment Authorized

A provider may receive an overpayment when they are paid at an incorrect rate or authorized an incorrect copayment. Overpayments for this category decreased significantly from FY18 to FY19 primarily due to a lack of rate changes in SFY19. DCYF increased center rates in February 2019, and again in July 2019. Licensed family home and FFN rates also increased in July 2019. DCYF has updated procedures and communication with providers during rate changes to decrease the number of incorrect rates authorized. Providers are also able to adjust their rates when claiming online or by mail if they received a rate increase incorrectly.

Reason 4: Not Eligible for Fees or Bonus

A provider receives an overpayment when they claim and are not eligible for the Non-Standard Hours Bonus, field trip fees or registration fees. The overpayment numbers, for this reason, saw virtually no change between SFY18 and SFY19. These overpayments are typically found in the process of reviewing attendance records, self-reported by a provider or in reports from a consumer not using services that may initiate an audit of a provider. DCYF continues to audit fees as part of their quality assurance process.

Reason 5: Preschool Child Transitioning to School-Aged Child

A provider receives an overpayment when they are paid at a higher rate authorized for a younger age group. The most significant cause is when a child enters kindergarten as this is not dependent on a child's age in months similar to other age groups. In SFY18, this process was a manual process that led to a high number of overpayments. DSHS implemented an automated process for SFY19 that significantly decreased the number of incorrect authorizations. This process was further improved for SFY20 to further decrease the number of instances of incorrect rate.

Reason 6: Other

A provider may receive an overpayment for a variety of other reasons indicated under the "other" category, including when FFN providers provide care in an unapproved location or are not eligible to provide care at all. The number of "other" overpayments increased in SFY19, primarily due to the transition to the new FFN requirements. This transition led to the increased identification of improper care locations and incorrect relationship coding resulting in an increase of overpayments.

Summary

The total number and amount of overpayments in SFY19 is down from SFY18. This is attributed to:

- Continuous improvement of policy and procedure.
- Increased program integrity observed with the electronic attendance project.
- Increased program integrity observed with the new FFN approval process.
- Overpayment Workgroup with DCYF, DSHS and SEIU 925, which improved communications with providers and agency procedures.
- Resolution of the potential overpayment backlog and assignment of overpayments for past billing issues.

DCYF will continue to work in these areas in the coming year with an increased focus on policy and procedure improvements during the transition of DSHS subsidy functions to DCYF. DCYF will continue to review and implement recommendations from the Overpayment Workgroup throughout the coming year. Additionally, DCYF will be engaged in a number of legislative assignments to review and provide reports on ways to reduce the subsidy cliff effect, improve access to child care and improve payment accuracy. DCYF will use these opportunities to continue to amend policies to simplify and improve the accuracy of eligibility determinations and provider claims.