

Office of Child Care Services

Background

The Office of Child Care Services (Office) is authorized by Section 3 of Chapter 28A of the Massachusetts General Laws. The primary mission of the Office is to ensure that, in the absence or inability of parents to provide proper care, the Commonwealth will provide substitute residential care and protection for every child. Chapter 43 of the Acts of 1997 authorized the Office to be the lead agency to administer day care services within the jurisdiction of the Executive Office of Health and Human Services (EOHHS) and to communicate with other state agencies providing similar or related services outside of EOHHS.

The Office establishes standards for, and monitors, child care programs throughout the Commonwealth. Licenses are issued and renewed, through its five regional offices, to over 17,000 providers of child care centers, nursery schools, private kindergartens, family day care homes, school age child care programs, preschool programs, residential and temporary shelter facilities for children, and foster care and adoption placement agencies. In addition, the Office administers a primary prevention program and the Children's Trust Fund to provide statewide child abuse and neglect prevention services.

In fiscal year 1998, the Office administered \$202 million. Federal funds amounted to approximately \$67 million.

The federal funding to the Office is detailed in the accompanying Schedule of Expenditures of Federal Awards. The Office's major program was:

CFDA # Federal Program Description

93.596 Child Care Mandatory & Matching Funds of the Child Care & Development Fund

Findings on Reportable Conditions

Finding Number 44: Need to Eliminate Appearance of Conflict of Interest

The Office of Child Care Services (Office) needs to ensure that policies and procedures are in place to eliminate the appearance of a conflict of interest when Child Care Resource and Referral Agencies (CCRA) select providers and submit bills for payment. The Office administers all state subsidized child care contracts and vouchers under The Executive Office of Health and Human Services and, as such, contracted with 13 CCRAs to act as Management Companies. The CCRAs determine client eligibility to

receive child care services, issue vouchers to clients to receive services and approve providers' bills for services for payment by the Office. The providers supply the CCRAs with the supporting documentation. The CCRAs then submit the documentation to OCCS for reimbursement.

A parent subsidiary relationship exists for nine of the CCRAs. In effect the CCRAs are issuing vouchers and verifying billing information for the providers who are subsidiaries of the same parent corporation (the CCRA's parent company).

The Office had no controls in place to ensure that CCRAs did not give preference to providers of its parent when issuing vouchers for child care services or that the provider's bills will be objectively reviewed. Therefore, the potential exists that the CCRA could give preference in the selection of providers and in reviewing billing information of a provider that is also a subsidiary of the same parent company.

During the course of our audit, Office personnel explained that it has developed a requirement in its Request for Response for fiscal year 1999 that would require the bidder to propose safeguards to mitigate a potential conflict. (*Department of Health and Human Services – Child Care Mandatory and Matching Funds of the Child Care and Development Fund 93.596*)

Recommendation:

The Office should ensure that policies and procedures are implemented at the CCRAs to alleviate the appearance of a conflict of interest. Also, the Office should incorporate into its monitoring checklist procedures to ensure that CCRAs eliminate any conflict of interest.

Department corrective action plan:

The Office developed a requirement in the Request for Response (RFR) issued in fiscal year 1998 that required CRRs who also operate child care programs to disclose this matter and to describe safeguards that are in place to avoid the potential for conflict of interest. All CRRs received full points for this evaluation criteria.

In addition, the Office will require that CRRs develop a certification/disclosure form which states that parents were given three child care choices and were not forced in any way to use one of the CRRs affiliated child care providers. This form will be included in every referral package that is sent to parents in those cases in which a parent is referred to an affiliated child care program. When a parent chooses to use the affiliated child care program they will be required to sign this certification/disclosure form and bring it with them to the child care program. As an additional check in the system, child care providers who are part of an affiliated CRR will ask parents at the point of intake if they were referred by a CRR. If yes, they will ask the parents for the certification/disclosure form at that time. If the parent does not have it, they will be asked to complete another one. The child care provider will then submit this form to the CRR who in turn will be required to keep it in their files.

The Office anticipates that monitoring of CRRs to ensure compliance with this requirement will begin in March of 1999.

Joanne McMahan, Director of Procurement and Contracting for the Office, will be responsible for ensuring that the corrective measures outlined above are carried out.

Finding Number 45: MMARS Revenue Reports and Bank Statements Not Reconciled

The Office of Child Care Services (Office) did not reconcile the Massachusetts Management Accounting and Reporting System (MMARS) reports with its department records and did not compare deposit slips with bank statements. There are five regional offices that handle all licensing functions. When a provider applies for a license to run a program, an application is completed and an application fee is collected by the regional office.

The regional office manager deposits the license application fees and submits a copy of the deposit slip to the central office weekly. The central office records the total in a cash book and inputs information into MMARS

The Office's June 1998 Internal Control Guide, Section 3.1.1 Revenue/Cash Receipts Processing states:

each month, OCCS receives bank statements for all accounts. These statements shall be compared to the MMARS 466C report, the deposit slips and the cash book to ensure appropriate reconciliation. Any errors are immediately corrected in accordance with procedures outlined in the MMARS policy and procedures manual.

The Office did not compare the bank statements with the MMARS 466C report, the deposit slips and the cash book to ensure appropriate reconciliation. Office personnel stated that the reason that the reports and statements were not reconciled was that no one was assigned this responsibility. As a result, there is no assurance that revenue reported on MMARS is accurate or that all deposits were credited to the bank account.

As of June 30, 1998, revenues reported on MMARS 466C report (Cash Received by State vs. Cash Reported by Department) amounted to \$777,317. This amount differed from the Office's internal reports by \$8,207 to \$61,860. Office personnel were unable to explain the variances and stated that reconciliations were performed up to November 1997 but not since. (*Department of Health and Human Services – Child Care Mandatory and Matching Funds of the Child Care and Development Fund 93.596*)

Recommendation:

The Office should assign the responsibility to perform a monthly reconciliation between the weekly

deposit slips received from the regional offices and the bank statement as outlined in its internal control guide; as well as, compare the bank statements with the MMARS reports and its cash book.

Department corrective action plan:

The Office will conduct an the Office Internal Control Guide training session for pertinent agency personnel to ensure that established Revenue/Cash Receipts Processing procedures and the Commonwealth's MMARS Report 466C are being reviewed.

The Office has scheduled the reconciliation of fiscal year 1998 revenues to be completed by December 31, 1998. Bank statements will be compared to deposit slips and MMARS Report 466C to ensure appropriate reconciliation.

To ensure Revenues are reconciled, the office has initiated a monthly reconciliation to be conducted by the Central Office Administration and Finance Unit and sent to the Office Assistant Commissioner for Administration and Finance by the tenth day of each month.

Richard Steele, Director of Accounting for Office will be the person responsible for carrying out this plan.

Findings on Compliance with Rules and Regulations

Finding Number 46: Monitoring of Subrecipients Needs Improvement

The Office of Child Care Services (Office) needs to improve its onsite monitoring of subrecipients to insure that funds are being spent in accordance with contract requirements and that they are adhering to regulations. Furthermore, the Office needs to document the site visits. The Office policy requires on-site program reviews as part of the child care contract-monitoring process. Further, contracts require specific compliance elements that must be met. This review is conducted to determine compliance with the terms and conditions of their contracts and to evaluate the quality of record keeping practices. The Office has adopted a "Child Care Resource Agency Monitoring Tool" (monitoring tool) to be utilized in this process. During our review it was determined that the monitoring tool was not being used effectively or completely.

While the Office has available a monitoring tool, the on-site reviews were limited to certain "Eligibility" requirements, rather than also focusing on other areas which include compliance with general contract requirements, verification of internal control procedures for reporting on performance and procedures to alleviate the appearance of conflict of interest. The Office officials focused on eligibility reviews at CCRA's because Chapter 43, Section 239(d) of the Acts of 1997 required the Office to perform post-audit reviews of income eligibility determinations. Notwithstanding this requirement, the Office still needs to monitor CCRA's for other factors.

Also, the Office reviewers did not document the site visits performed. Site reviewers issued only one report during fiscal year 1998 and did not maintain any documents to evidence when and how the site visits were conducted. Without evidence of the reviews, the Office cannot document that it is fulfilling its monitoring obligation.

By not monitoring the Office cannot ensure that the CCRA's complied with all aspects of contract requirements or that records are being maintained as required. (*Department of Health and Human Services - Child Care Mandatory and Matching Funds of the Child Care and Development Fund 93.596*)

Recommendation:

The Office should monitor CCRA's for compliance with the terms and conditions of the contracts, evaluate the quality of CCRA recordkeeping practices and document the site visits. Additionally, the Office should comply with its formal reporting policy which includes a mechanism for follow up action with specified timeframes for resolution.

Department corrective action plan:

Annually, as required by the Commonwealth's Prequalification/Requalification and Audit Resolution Policies, the Office will review A-133 audits of contracted providers receiving more than \$300,000 in federal funding and will develop a formal Corrective Action Plan with those providers for whom findings were identified.

The Office plans to monitor all contracted providers to ensure that they are in compliance with the Commonwealth Terms and Conditions for Human and Social Services and to determine if they are meeting any specific conditions placed on their contract award. For those contracted providers receiving less than \$300,000 in federal funding, the Office will monitor compliance with federal requirements.

The Office will develop a formal monitoring tool, which will outline in detail the specific policies and procedures that we will use to monitor contracted providers in all of the areas described above. Monitoring activities will include formal on-site visits to contracted provider agencies, as well as more informal methods such as reviewing providers' monthly utilization and billing information. The Office will document through working papers all monitoring activities that it conducts, and a formal monitoring report will be issued to the contracted provider. The Office will develop formal Corrective Action Plans (CAPS) with contracted providers who have findings. Contracted providers will be required to outline in these CAPS the specific steps that will be taken to fix the identified problems(s) and a timeline for when the problems(s) will be corrected.

The Office will develop a comprehensive monitoring tool during January and February 1999. As part of this tool, the Office will develop a risk assessment tool for each provider in order to help us better focus our monitoring efforts. This tool will look at, among other things, the level of funding that the provider receives, their prequalification status, as well as any audit findings identified through the

Prequalification/Requalification process. The Office anticipates that the formal monitoring of contracted providers will begin in March of 1999.

Joanne McMahan, Director of Procurement and Contracting for the Office, will be responsible for ensuring that the corrective measures outlined above are carried out.

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