



# National Child Care Information Center

*A service of the Child Care Bureau*



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## **STATE EFFORTS RELATED to CHILD CARE SUBSIDY OVERPAYMENT or FRAUD**

The following are a sample of resources and publications with information on how States handle child care subsidy overpayment or fraud.

■ “Fraud and Overpayments: How States are Handling Prevention and Enforcement” (August 6, 2003), is a presentation delivered at the 2003 State Child Care Administrators Meeting by Nancy Guy, **North Carolina** Department of Health and Human Services; Peter Palermino, **Connecticut** Department of Social Services; and Terrie Hare, **Ohio** Department of Job and Family Services. The presenters define fraud, discuss its impact on the subsidy program, and identify methods of detection, penalties, and preventative measures. For more information, contact Nancy Guy, Subsidy Section Chief, at 919-662-4561.

■ “Child Care Subsidy Program Fraud Activities” (August 1, 2003), by the **Connecticut** Department of Social Services (DSS), summarizes efforts of the Client Fraud and Investigation unit and DSS child care staff to identify and investigate potential cases of child care fraud. For more information, contact Peter Palermino, Child Care Program Manager, at 860-424-5006.

■ *The Working Connections Child Care (WCCC) Manual* (October 2002), by the Division of Child Care and Early Learning in the Economic Services Administration of the Department of Social and Health Services, provides administrative rules and procedures for staff to determine initial and ongoing eligibility for families applying for and receiving Working Connections Child Care assistance in **Washington** State. The manual defines fraud and describes how to refer a suspected incident for fraud investigation. It states:

### Overpayments – Section C: Fraud

#### Division of Fraud Investigations (DFI) And The Fraud Early Detection Program (FRED)

1. The Division of Fraud Investigations (DFI) is in the position of investigating overpayment cases for evidence of fraud. These DFI investigations can result in fraud charges being brought against those consumers involved in the fraudulent activity. This is dependent upon the case record evidence provided to DFI and the findings of DFI’s investigation.

2. The Fraud Early Detection program (FRED) is under the direction of the Division of Fraud Investigation and provides criminal investigators when activities are required that go beyond the scope of the child care worker’s authority. The purpose of FRED is to:

- a. Provide a cost effective measure for reduction of errors;
  - b. Save benefit funds for families requiring assistance; and
  - c. Reduce investigation and prosecution of recipients by resolving questionable circumstances prior to the authorization of benefits.
3. FRED investigators assist the department in the following ways:
- a. Obtain information requested by the child care worker (the worker should use locally established procedures for contacting the Fred investigator);
  - b. Use interviews with clients and third parties (called collateral contacts) to resolve questions or inconsistencies;
  - c. Report findings to the child care worker;
  - d. Make recommendations regarding criminal prosecution; and
  - e. Participate in Fair Hearings, if necessary.

This resource is available on the Web at

<http://www1.dshs.wa.gov/esa/wccc/Sections/OPTOC.HTM>.

■ “Chapter 23: Fraudulent Misrepresentation and Overpayments,” (2002) in the *Child Care Subsidy Service Policy Manual*, by the **North Carolina** Department of Health and Human Services, describes the responsibility of both the State and the local purchasing agencies (LPA) to assure proper administration of State and Federal funds that pay for child care services for children and to take steps to prevent and deter fraudulent misrepresentation. The chapter describes the factors that help identify whether a recipient or a child care provider may be receiving services or payments for which she/he is not eligible. The steps to correct an underpayment/overpayment also are described in this chapter. Inadvertent errors are distinguished from fraudulent acts, and required documentation and procedures for requesting a sanction are outlined. This resource is available on the Web at

<http://info.dhhs.state.nc.us/olm/manuals/dcd/ccs/man/index.htm#TopOfPage>.

■ The *Regulations of Connecticut State Agencies* was amended in January 2001 by adding sections 17b-749-01 to 17b-749-23 which define the requirements for Care4Kids, Connecticut’s child care subsidy program. “Section 17b-749-20. Benefit Errors” specifies the rules regarding underpayment, overpayment, and fraud cases. “Section 17b-749-20. Benefit Errors” includes the following subsections:

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| (a) Underpayments and Overpayments         | (e) Responsibility for Repayment              |
| (b) Administrative Errors                  | (f) Notice of Overpayment                     |
| (c) Errors Caused by Parents and Providers | (g) Methods of repayment                      |
| (d) Calculating the Error                  | (h) Disqualification Penalties in Fraud Cases |

This resource is available on the Web at

<http://www.dss.state.ct.us/ccare/care4kids/UniformTempl.htm>.

- “POC Provider Fraud and Recoupment” (Issued May 29, 2001), a **Maryland** Department of Human Resources FIA Action Transmittal (Control #01-45) affecting the Purchase of Child Care program, states:

Payment is denied to any provider who has committed fraud against the Department. The determination of fraud is based on a determination by the Inspector General’s Office, a law enforcement agency or an adjudication by a reviewing tribunal and the initiation of recoupment procedures by the local department. Providers who commit fraud cannot receive any Purchase of Care (POC) payments for 12 months from the date payment was denied for committing fraud even if they make full restitution to the local department within the 12 month period. If the repayment period exceeds 12 months, providers cannot receive payment until they make full restitution to the local department. Any child care center, family child care home or informal provider who is denied payment for committing fraud can appeal to the Office of Administrative Appeals.

This resource is available on the Web at <http://www.law.umaryland.edu/edocs/dhr/0145.pdf>.

- “Data Matching and Fraud Reduction: Techniques to Reduce Fraud” in the *Selected Topics in Child Care Information Systems Technology* online document, by the Child Care Information System Technical Assistance Project (CCISTAP), describes techniques used by State administrators to help identify suspected program violations and reduce the incidence of fraud. The document describes the following techniques:

The first method, **investigation with punitive measures**, focuses on the treatment of perpetrators once they are caught. The method relies on good detective work or a mistake on the part of those committing the fraud to expose errant individuals. The punishment or banning of these individuals from a program is used as the means to eliminate existing fraud and deter new incidents. A drawback of this method is that less emphasis is placed on preventing fraud before it happens. Moreover, if sanctions issued under this system are weak or unevenly applied, or if investigations yield few convictions, the incentive to violate program rules for personal gain still exists.

Another method, **field monitoring**, is directed at catching violators through scheduled and unannounced inspections and audits. Certainly, field monitoring will act as a deterrent by catching some program violations. However, budget and staffing constraints may limit the number and frequency of inspections. Once again, those with the inclination to commit program violations are likely to continue to do so until they are caught. Once they are caught, only that particular instance of fraud is terminated.

The third method, which we call “**electronic monitoring**,” relies on the use of security features in automated child care systems to prevent occurrences of fraud by eliminating loopholes in sensitive processes. These techniques can focus on internal and external system security, as well as the development of specialized

tools to monitor and prevent fraud. The exact nature of these techniques will depend on the capabilities of the automated system and on the creativity of the program staff who devise the checks. This method is categorically preventative: ideally, the system will catch all instances of any violation it is programmed to catch. All flagged events can be investigated and the incidence of program violations reduced. However, a drawback to this electronic monitoring is that an agency must identify types of fraud prospectively and devise an automated means of detecting them.

This resource is available on the Web at

<http://www.acf.hhs.gov/programs/ccb/ta/techttopics/match.htm>.

■ *Assessing Error Penalties in Child Care Subsidy Management Contracts: A Summary of State Policies* (July 1999), by Louise Stoney, states:

**Florida** contracts with central agencies, which are overseen by the Florida Children's Forum, to administer child care subsidies. They do go out and monitor the agencies and review case files. If they find administrative errors, they cite the agency and require that the contract agency put policies in place to remedy the situation. If they find client errors, they require the contract agency to attempt to reclaim funds from the client. But they do not hold the contract agency responsible for client errors. (page 2)

**Pennsylvania** contracts with Child Care Information Service Agencies to administer subsidies. They originally negotiated contracts with these agencies, but because of problems with payment lags, they converted the contracts to grants. The former contracts included a penalty clause. The current grants do not. The Department would like to reinsert the penalty clause in the grant language, but this is not typical for grants so they have to work with the legal department in order to do so.

The former contract did, however, include a penalty clause which stated that Contractors would be charged with errors if "an ineligible family is being served or the documentation in the contractor's file does not support the contractor's decision on eligibility, regardless if the family is eligible or not." The contract further stated that if it was discovered through a random sample that the number of ineligible cases exceeded 5%, the contractor's administrative budget would be reduced by the same percent as the error rate, after a permitted error rate of 5%. The penalty was a maximum of 5% for contractors whose administrative expenditures were \$250,000 or less and a maximum of 10% for contractors whose administrative expenditures were greater than \$250,000. (page 4)

For additional information, contact Louse Stoney, Stoney Associates, at 518-674-5635 or e-mail [lstone95@aol.org](mailto:lstone95@aol.org).

■ *North Carolina Legislation 1999*, (1999) prepared by the Institute of Government at the University of North Carolina, summarizes legislation enacted by the **North Carolina** Legislature during its 1999 session. It includes a section on “Child Care Subsidy Fraud: Criminal Penalties and Incentive Payments” in Chapter 23:

S.L. 1999-279 (H 304) enacts a new statute, G.S. [General Statutes] 110-107, establishing criminal penalties with respect to the fraudulent receipt of child care subsidy payments. Under the new law, parents (or other beneficiaries of child care subsidies) and child care providers are guilty of fraud if they obtain, attempt to obtain, or assist another person in obtaining or attempting to obtain a child care subsidy payment by making a false statement or failing to disclose a material fact with the intent to deceive. The offense is a Class 1 misdemeanor if the amount of the subsidy is \$1,000 or less and a Class I felony if the amount is more than \$1,000. These criminal penalties apply with respect to offenses committed on or after December 1, 1999.

S.L. 1999-279 also enacts G.S. 110-108, which allows a local purchasing agency (including a county agency administering child care subsidy funding) to retain all fraud and overpayment claims collected by the agency, to use 75 percent of these funds to provide additional child care subsidies, and to use 25 percent of the funds to improve program integrity.

This resource is available on the Web at

<http://www.iog.unc.edu/pubs/nclegis/nclegis99/Chfin23.htm>.

■ *Child Care Eligibility Policy and Procedures Manual* (1999), by the Arkansas Department of Human Services (DHS), provides administrative rules and procedures regarding the investigation and determination of fraud claims. The manual defines fraud and describes how to refer a suspected incident to the DHS Fraud Unit for investigation. It states:

Fraud is defined as an attempt by an individual or a child care provider to receive services or payments to which he/she is not entitled by willfully making a false statement, misrepresentation, or impersonation. Fraud may occur through the deliberate misrepresentation of facts or by presenting false information regarding the household’s situation.

Fraud for disqualification purposes will be determined to exist when one of the following occur:

- a federal or state court finds that the client/provider committed fraud in applying for or receiving child care services or payments;
- the client/provider is found through an administrative disqualification hearing to have committed an intentional program violation;
- the client/provider agrees to be disqualified by signing a waiver of hearing and disqualification agreement (DCC-601).

This resource is available on the Web at <http://www.state.ar.us/childcare/ccpolicyman.pdf>.

■ “Chapter 1: Section 10.0.0: Benefit Recovery,” in the *Child Day Care Manual*, by the **Wisconsin** Department of Workforce Development, Division of Workforce solutions, describes the process of program integrity, client fraud and intentional program violations, overpayments and fraud referrals. This resource is available on the Web at [http://www.dwd.state.wi.us/dws/programs/childcare/wishares/pdf/daycare\\_manual\\_ch1.pdf](http://www.dwd.state.wi.us/dws/programs/childcare/wishares/pdf/daycare_manual_ch1.pdf).

The National Child Care Information Center does not endorse any organization, publication, or resource.

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