

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**GENERALLY ALL OF THE TARGETED  
FUNDS COSTS CLAIMED BY COLORADO  
UNDER THE CHILD CARE AND  
DEVELOPMENT FUND PROGRAM FOR  
FISCAL YEARS 2008 THROUGH 2010  
WERE PROPER**

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Regional Inspector General  
for Audit Services**

**December 2014  
A-07-13-03194**

# *Office of Inspector General*

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## **OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS**

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

## EXECUTIVE SUMMARY

*Colorado properly claimed most of its Child Care and Development targeted funds for fiscal years 2008 through 2010. Of the \$10.5 million of targeted funds that we reviewed, Colorado did not comply with requirements for the use of \$4,500.*

### 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 some States did not always comply with Federal requirements when claiming targeted funds for reimbursement.

The objective of this review was to determine whether the Colorado Department of Human Services (State agency) complied with Federal requirements for the use of CCDF targeted funds for Federal reimbursement for Federal fiscal years (FYs) 2008 through 2010.

### BACKGROUND

Under the CCDF program, States have considerable latitude in administering and implementing 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 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 Colorado, 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 Colorado State government to ensure that the funds are expended in accordance with Federal requirements.

The State agency claimed CCDF targeted funds totaling \$10,554,939 on its ACF-696 reports for FYs 2008 through 2010. We reviewed all of the targeted fund expenditures claimed by the State agency for this timeframe.

### WHAT WE FOUND

Of the \$10,554,939 of targeted funds that we reviewed, the State agency complied with Federal requirements for the use of \$10,550,396 in CCDF targeted funds for FYs 2008 through 2010.

However, the State agency did not comply with Federal requirements for the use of \$4,543 in CCDF targeted funds. Specifically, the State agency did not maintain sufficient documentation to support these expenditures.

Although the State agency claimed the majority of the CCDF targeted funds we audited in accordance with Federal requirements, it did not have policies and procedures in place to help ensure that it properly maintained documentation to support the expenditure of the targeted funds. In the absence of necessary policies and procedures, the State agency could not provide supporting documentation for all of its targeted funds expenditures.

## **WHAT WE RECOMMEND**

We recommend that the State agency:

- refund to the Federal Government \$4,543 for CCDF targeted funds for which supporting documentation was not properly maintained and
- develop and implement policies and procedures to help ensure that supporting documentation is maintained for all CCDF targeted funds.

## **STATE AGENCY COMMENTS**

In written comments on our draft report, the State agency agreed with all of our recommendations and described corrective actions that it had taken or planned to take.

**TABLE OF CONTENTS**

INTRODUCTION ..... 1

    Why We Did This Review ..... 1

    Objective ..... 1

    Background ..... 1

    How We Conducted This Review ..... 2

FINDING ..... 2

    State Agency Claimed Targeted Funds Expenditures Without  
    Maintaining the Supporting Documentation ..... 2

    State Agency Did Not Have Policies and Procedures in Place ..... 3

RECOMMENDATIONS ..... 3

STATE AGENCY COMMENTS AND OFFICE OF  
INSPECTOR GENERAL RESPONSE ..... 3

APPENDIXES

    A: Related Office of Inspector General Reports ..... 4

    B: Audit Scope and Methodology ..... 5

    C: Federal Requirements Related to Child Care  
    and Development Fund Targeted Funds ..... 6

    D: State Agency Comments ..... 7

## 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 some States did not always comply with Federal requirements when claiming targeted funds for reimbursement. Appendix A contains a list of Office of Inspector General reports related to targeted funds.

### OBJECTIVE

Our objective was to determine whether the Colorado Department of Human Services (State agency) complied with Federal requirements for the use of CCDF targeted funds for Federal reimbursement for Federal fiscal years (FYs) 2008 through 2010.

### 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**

<b>FY</b>	<b>Obligation Period Start Date</b>	<b>Obligation Period End Date</b>	<b>Liquidation Period End Date</b>
2008	10/1/2007	9/30/2009	9/30/2010
2009	10/1/2008	9/30/2010	9/30/2011
2010	10/1/2009	9/30/2011	9/30/2012

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 Colorado, 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 Colorado State government to ensure that the funds are expended in accordance with Federal

requirements. The State agency contracts with these entities and considers the funds obligated when the contracts are signed.

## **HOW WE CONDUCTED THIS REVIEW**

The State agency claimed CCDF targeted funds totaling \$10,554,939 on its ACF-696 reports for FYs 2008 through 2010.<sup>1</sup> We reviewed all of the targeted fund expenditures claimed by the State agency for this timeframe.

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

## **FINDING**

Of the \$10,554,939 of targeted funds that we reviewed, the State agency complied with Federal requirements for the use of \$10,550,396 in CCDF targeted funds for FYs 2008 through 2010. However, the State agency did not comply with Federal requirements for the use of \$4,543 in CCDF targeted funds. Specifically, the State agency did not maintain sufficient documentation to support these expenditures.

Although the State agency claimed the majority of the CCDF targeted funds we audited in accordance with Federal requirements, it did not have policies and procedures in place to help ensure that it properly maintained documentation to support the expenditure of the targeted funds. In the absence of necessary policies and procedures, the State agency could not provide supporting documentation for all of its targeted funds expenditures.

### **STATE AGENCY CLAIMED TARGETED FUNDS EXPENDITURES WITHOUT MAINTAINING THE SUPPORTING DOCUMENTATION**

Federal regulations (Appendix C) require that the State agency make appropriate records available for review and that those records be maintained for a period of 3 years after submitting the final ACF-696 report.

Contrary to Federal regulations, the State agency did not maintain the required supporting documentation, such as paid invoices, for \$4,543 in targeted fund expenditures. Specifically, the State agency claimed \$2,385 for FY 2008 and \$2,158 for FY 2010 in unsupported Quality Expansion targeted funds expenditures.

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<sup>1</sup> 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 DID NOT HAVE POLICIES AND PROCEDURES IN PLACE**

Although the State agency claimed the majority of the CCDF targeted funds we audited in accordance with Federal requirements, it did not have policies and procedures in place to help ensure that it maintained, for the 3-year time period mandated by Federal regulations, all of the supporting documentation for the targeted funds expenditures. In the absence of necessary policies and procedures, the State agency could not provide supporting documentation for all of its targeted funds expenditures.

With policies and procedures in place, the State agency would have maintained the required documentation to support all of the targeted funds expenditures as required by Federal regulations.

## **RECOMMENDATIONS**

We recommend that the State agency:

- refund to the Federal Government \$4,543 for CCDF targeted funds for which supporting documentation was not properly maintained and
- develop and implement policies and procedures to help ensure that supporting documentation is maintained for all CCDF targeted funds.

## **STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE**

In written comments on our draft report, the State agency agreed with all of our recommendations and described corrective actions that it had taken or planned to take. With respect to our first recommendation, the State agency said that it needed guidance for the procedure it should follow to reimburse the \$4,543.

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

Our transmittal of this final report to the State agency includes contact information for the Action Official at ACF. The State agency can coordinate with ACF to clarify the procedure for processing this reimbursement.

**APPENDIX A: RELATED OFFICE OF INSPECTOR GENERAL REPORTS**

<b>Report Title</b>	<b>Report Number</b>	<b>Date Issued</b>
<i>Texas Improperly Claimed Some Child Care and Development Targeted Funds</i>	A-07-13-00038	8/28/14
<i>South Carolina Properly Obligated and Liquidated Targeted Funds Under the Child Care and Development Fund Program</i>	A-04-13-01021	4/25/14
<i>Arizona Improperly Claimed Some Child Care and Development Targeted Funds</i>	A-09-12-01004	4/2/14
<i>Virginia Properly Obligated and Liquidated Most Targeted Funds Under the Child Care and Development Fund Program</i>	A-03-12-00251	10/17/13
<i>Louisiana Improperly Claimed Some Child Care and Development Fund Targeted Funds</i>	A-06-12-00057	9/30/13
<i>Michigan Properly Obligated and Liquidated Targeted Funds Under the Child Care and Development Fund Program</i>	A-05-12-00062	4/26/14
<i>Nebraska Improperly Claimed Some Child Care and Development Targeted Funds</i>	A-07-12-03175	4/30/13
<i>Ohio Properly Obligated and Liquidated Targeted Funds Under the Child Care and Development Fund Program</i>	A-05-12-00061	4/26/13
<i>Connecticut Properly Obligated and Liquidated Targeted Funds Under the Child Care and Development Fund Program</i>	A-01-12-02505	2/21/13
<i>Iowa Improperly Claimed Some Child Care and Development Targeted Funds</i>	A-07-11-03163	3/28/12
<i>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</i>	A-07-07-00231	8/21/08

## **APPENDIX B: AUDIT SCOPE AND METHODOLOGY**

### **SCOPE**

We reviewed all of the \$10,550,396 claimed by the State agency for targeted funds reimbursement for FYs 2008 through 2010. 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 Denver, Colorado, in August 2013 and performed followup audit work at our field offices from August 2013 through August 2014.

### **METHODOLOGY**

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and program guidance, as well as State laws and the approved Colorado CCDF State plans;
- reviewed the State agency's ACF-696 reports for FYs 2008 through 2010 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 payment dates to contractors, grantees, and other agencies of the Colorado State government in relation to liquidation requirements of the targeted funds for FYs 2008 through 2010;
- reviewed the State agency's documentation used to prepare the ACF-696 reports;
- reviewed documentation retained by the State agency in support of the expenditures of targeted funds; and
- discussed the results of our review with State agency officials on September 3, 2014.

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 C: FEDERAL REQUIREMENTS RELATED TO CHILD CARE  
AND DEVELOPMENT FUND TARGETED FUNDS**

Federal regulation (45 CFR § 98.90(c)) requires that "... a Lead Agency shall make appropriate books, documents, papers, manuals, instructions, and records available to the Secretary, or any duly authorized representatives, for examination or copying on or off the premises of the appropriate entity, including subgrantees and contractors, upon reasonable request."

Federal regulations (45 CFR § 98.90(d) and 45 CFR § 98.90(e)) require Lead Agencies to "(d)(1) ... retain all CCDF records, as specified in paragraph (c) of this section, and any other records of Lead Agencies and subgrantees that are needed to substantiate compliance with CCDF requirements.... (e) ... for three years from the day the Lead Agency or subgrantee submits the Financial Reports required by the Secretary."

## APPENDIX D: STATE AGENCY COMMENTS



**COLORADO**  
Office of Early Childhood  
Division of Early Care & Learning

David A. Collins  
Director

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Regional Inspector General for Audit Services  
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RE: A-07-13-03194 - Written Comments to OIG Recommendations

Date Mr. Cogley,

This letter serves to provide written comments to the OIG recommendations for the targeted funds audit associated with Report Number A-07-13-0314. In that report, two recommendations are made. Below, each recommendation is repeated, and followed with the comments of our office.

### Recommendation #1

Refund to the Federal Government \$4,543 for CCDF targeted funds for which supporting documentation was not properly maintained.

### Comment #1

We agree with this recommendation and will reimburse the Federal Government in the amount of \$4,543.00. We have identified the coding and funding stream for this reimbursement and are in need of guidance as to who and how the reimbursement should be delivered.

### Recommendation #2

Develop and implement policies and procedures to help ensure that supporting documentation is maintained for all CCDF targeted funds.

### Comment #2

We agree with this recommendation. We believe the primary cause of documentation errors resulted from confusing document retention language in our contracts with the organizations that carry out work with the targeted funds, as we previously referred to federal regulation, rather than simply stating in our contracts in plain language the retention requirements. All contracts administered following this audit will contain specific and clear language requiring document retention for at least seven (7) years. Further, we also learned with this audit that our Departments accounting system can be significantly different than the accounting systems of the entities that receive targeted funds from our office. We have worked with those entities whose systems do not align easily with ours to develop new, more

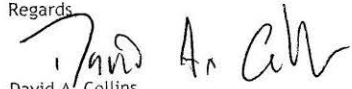
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John W. Hickenlooper, Governor | Reggie Bicha, Executive Director



cohesive account coding and documentation to assure more fluid access to records necessary to validate the expense of targeted funds.

Please feel free to contact me with any questions or concerns.

Regards,



David A. Collins  
Director  
Division of Early Care and Learning

CC: Mary Anne Snyder  
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