		Department of Early Learning	**Agency 357**

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Audit Report	Finding Number	Finding and Corrective Action Plan	
2016 F	020	Finding:	The Department of Early Learning and the Department of Social and Health Services did not have adequate internal controls over and did not comply with requirements to identify and detect fraud in the Child Care and Development Fund program.
		Corrective Action:	The Department of Early Learning (DEL) and the Department of Social and Health Services (DSHS) have taken the following actions: • As of January 2016, DEL implemented formal procedures for agency staff when potential fraud is suspected and reported to DSHS Office of Fraud and Accountability (OFA). A formal policy was also subsequently developed to address other overpayment issues not related to fraud findings. • DEL delivered fraud training, in collaboration with the DSHS OFA, to audit and licensing staff. The training took place in April and June 2016, and covered procedures for referring cases to the Subsidy Policy and Audit Manager, or designee, who makes the final decision to refer to OFA for action. • Conducted targeted training for licensing regional administrators to review recent referrals and identify best practices in recognizing and reporting suspected fraud. • Actively engaged in partnership with OFA to ensure more timely response and review of cases referred for investigation. DEL has also taken the following actions: • Developed and provided specific training to Subsidy Quality Assurance staff on identifying intentional program violations and suspected fraud. Training also included expanding review of provider attendance records in cases of program violations and suspected fraud to support investigation. • Recruited a Subsidy Policy Analyst responsible for developing an agency-wide fraud detection and referral system including risk-based fraud detection methods and case development. A process has been developed which ensures all incidents of suspected child care subsidy fraud are referred to OFA, as required. • Updated program rules such as reducing authorizations to Family, Friends and Neighbor providers under the 110-hour rule. • Developed rules and guidelines specifying consequences for attendance record deficiencies and other intentional program violations. • Employed a risk-based approach to audit providers billing and payments by assigning audit caseloads on a regional basis so that Subsidy Quality Assurance staff can foster better working relationships with providers to ensure compliance. • In July 2017, the Legislature required DEL to adopt rules to define intentional program violations and progressive sanctions. To meet this budget proviso requirement, rules have been drafted, filed, and will become effective on December 8, 2017. • Refined the formal policy and procedures to incorporate the newly adopted rules.

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Audit Report	Finding Number	Finding and Corrective Action Plan
2016 F	020 (cont'd)	By March 1, 2018, DEL will begin sanctioning providers who repeatedly and intentionally violate program rules. DEL will continue to: • Provide statewide fraud trainings as needed and provide targeted training to licensing regional administrators on a quarterly basis. • Improve communication with DSHS and collaborated efforts to ensure accurate eligibility determination and authorization. • Finalize the procurement of an electronic time and attendance reporting system that will maintain electronic copies of records and potentially reduce provider errors. This system is expected to go live in February 2018 and will enable DEL to perform data analysis and audit of all payments to significantly increase fraud detection and referral. • Request additional funding from the Legislature to replace the 40-year-old mainframe-based authorization and payment processing system, the Social Services Payment System. The new payment system will be capable of providing a robust provider interface and creating a rules engine solution that validates authorizations with attendance and billing data. Once these projects are complete, the combined systems will be able to generate accurate invoices and payments to providers. DSHS has also taken the following actions: • The aged-out fraud referral cases that were identified in the audit were requests for current eligibility issues known as Fraud Early Detection (FRED) cases. Under the current system, referrals are assigned priority based upon an approved algorithm for fraud. These FRED cases are time sensitive and, if not completed timely, will be sent back to financial services workers. As of October 2017, OFA worked with the Economic Service Administration and designed the Intentional Overpayment Investigations (IOI) Priority Tool. The tool was implemented in Barcode and allows for appropriate adjustments to be made to the algorithm to include FRED cases, • Continued to follow up on open criminal fraud cases beyond the audit period since many child care fraud cases involve lengthy investigations. OFA shifted personnel resources within DSHS to work on the IOI backlog of cases received since 2016. The special project resulted in a significant decrease of backlog from 4,000 to 1,700 cases and $5.5 million in overpayments completed. • Performed cleanup of data contained in the DSHS's current case management system, and completed substantial upgrades and improved the functionality of the system. By December 2017, the strategic partnership with the developer will be extended for another two years. • OFA has been investigating all of the anticipated monthly DEL provider fraud referrals as resources permit without aging out the cases. DSHS will continue to review and improve its referral process.

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Audit Report	Finding Number	Finding and Corrective Action Plan	
2016 F	020 (cont'd)		• DSHS's Office of Financial Recovery is implementing a new case management system which will improve both the tracking and collection of fraud referrals by program types. The new system is expected to go live in January 2018. The conditions noted in this finding were previously reported in finding 2015-025.
		Completion Date:	Corrective action is expected to be complete by March 2018
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