

**Department of Public Health & Social Services'
Child Care Development Fund Program**

**Performance Audit
October 2000 to February 2001**

**OPA Report No. 02-05
November 2002**



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EXECUTIVE SUMMARY

OPA Report No. 02-05
November 2002

Department of Public Health & Social Services Performance Audit of the Child Care Development Fund October 1, 2000 through February 28, 2001

In February 2001, the Department of Public Health & Social Services (DPHSS) suspended the child care assistance services of the Child Care Development Fund (CCDF), a 100% federally funded program, because the program ran out of money. P.L. 26-001 mandated the Office of the Public Auditor to perform an audit of this program; created the Guam Child Care Fund for the sole purpose of providing locally funded child care services while the federal program was suspended; and appropriated \$4.3 million to the local child care fund. However, none of the \$4.3 million appropriation was ever transferred to DPHSS and the local child care services were not provided until the federally funded program was resumed in October 2001.

The scope of our audit was limited to the five-month period ending February 28, 2001, and covered only the Child Care Development Fund. Our audit disclosed instances of non-compliance with eligibility requirements and grant conditions. However, the instances appeared to be isolated and not indicative of systemic errors that could have contributed significantly to the funding depletion. We found that in the months preceding the funding exhaustion, DPHSS had not been provided with timely and accurate reporting information from the Department of Administration (DOA). During our audit we did not find any evidence that DPHSS management was monitoring grant expenditures when DOA did not provide DPHSS with updated financial reports.

We have concluded that the lack of appropriate management oversight and expenditure control of the child care program contributed significantly to the premature depletion of the federally funded Child Care Development Fund in February 2001.

During fiscal years 1996 to 1998 child care expenditures were \$2,779,457 compared to grant awards received of \$5,967,654, resulting in un-obligated sums of \$3,188,197. For fiscal year 1999, expenditures jumped to \$3,935,704 exceeding the combined four-year period by 25% and exceeding the grant award of \$2,162,983 by \$1,772,771. The 1999 expenditures were absorbed by the carryover of un-obligated funds leaving \$1,415,476 to carryover into 2000; however, \$142,309 from grant year 1996 lapsed at the end of FY 1999 leaving a net carryover of \$1,273,167 for fiscal year 2000.

In FY 2000, expenditures increased another 20% over 1999 to \$4,731,349 exceeding the grant award of \$2,588,708 by \$2,142,641. These expenditures exhausted the carryover amounts and borrowed against future grant funds to the tune of \$899,474. In addition, another \$295,398 from grant year 1997 lapsed bringing the negative carryover or advance borrowings to \$1,194,872.

In 2001, with a negative carryover of \$1,194,872 and expenditures of \$3,025,389, the grant award of \$3,810,250 was insufficient to cover current year expenditures, so the program was then suspended in February 2001.

We believe that had an adequate system of monitoring and expenditure control been in place, DPHSS would have recognized the impending problem created by ever increasing annual expenditures exceeding grant awards as early as October 1998. However, DPHSS did not react to the imminent depletion of federal funds and did not take corrective action during the next 15 months until the program was suspended in February 2001.

Prior to 1999, CCDF program administrators utilized the poverty guidelines of the 48 contiguous states, the approved scale with the lowest income levels. Effective October 1998, DPHSS adopted the poverty guidelines for the state of Hawaii, among the highest in the country, thus allowing more families to become eligible to participate in the program. The Director of DPHSS stated that this action of increasing the eligibility pool was taken to avoid the return of unspent funds back to the federal government. In total \$648,164 of federal grants was returned.

The Department of Administration (DOA) is responsible for processing and reporting CCDF expenditures and reports and other federal programs. In late 1999, DOA abandoned their AS400 based financial management system and implemented the Oracle-based financial management system. The Oracle system was implemented without running parallel data with the AS400. From that time forward CCDF program staff stated that they were unable to receive timely and accurate expenditure reports and other financial information. This lack of financial information created a hardship for nearly all government agencies including DPHSS. CCDF staff began manually tracking expenditure levels for purposes of reconciling with DOA financial reports when the DOA reports became available. However, DPHSS management did not avail themselves of the manual internally generated expenditure reports to monitor overall grant spending.

In October 2001, Public Health re-opened the program. For the five months ending February 2002, CCDF had served a total of 919 families or 1,739 children compared to 3,453 families or 6,038 children for the five months ending in February 2001.

We have made a variety of recommendations pertaining to the findings of our review. However, the principal recommendation is that DPHSS management must be proactive in monitoring monthly, quarterly, semi annual and annual grant expenditure levels to ensure that the program does not run out of funds prematurely and that funds not utilized are not returned to the federal government.

In a letter dated November 7, 2002, the Director of DPHSS generally concurred with our findings and recommendations with the exception of the questioned costs, with which DPHSS disagreed.



Doris Flores Brooks, CPA
Public Auditor

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Introduction

The Child Care and Development Fund (CCDF) is administered by the Guam Department of Public Health and Social Services (DPHSS) through the Division of Public Welfare, Work Programs Section. Funding is provided by the United States Department of Health and Human Services (USDHHS) to increase the availability, affordability, and quality of child care services for low-income families where the parents are working, or attending training or educational programs.

In February 2001, the DPHSS Director notified the USDHHS that the child care assistance services would be suspended effective March 1, 2001. The letter indicated that the funding level was only able to provide child care assistance to families through February 2001. The amount of the child care assistance expenditures as of February 2001 was \$2,614,166. At that pace, the program was projected to incur \$6,273,998 in child care assistance expenditures by the end of fiscal year 2001.

In March 2001, Public Law (PL) 26-001 was passed requiring the Public Auditor to initiate a “full audit” of the CCDF.¹ After several correspondences by the Office of the Public Auditor (OPA) with Senator Edward B. Calvo² to clarify the terminology “full audit”, this audit was classified as a program performance audit.

Additionally, through PL 26-001 the Legislature initiated the creation of the Guam Child Care Fund for the sole purpose of providing child care services by the DPHSS. The DPHSS shall institute the Program and use the same payment rates, eligibility and priority criteria and standards set by CCDF to extend the benefits of the program to current CCDF program recipients.³ The Governor was then directed to identify and transfer not more than \$4,300,000 from the General Fund appropriations within the Executive Branch to the Guam Child Care Fund for FY 2001. The Child Care Fund shall dissolve on December 31, 2001 and all unexpended and unencumbered funds shall revert to the General Fund. However, such transfer from the General Fund was not received by the DPHSS.

Jurisdiction to Audit

The Public Auditor is required to annually audit “all the transactions and accounts of all departments, offices, corporations, authorities, and agencies in all of the branches of the Government of Guam.”⁴ The Public Auditor shall also perform other audits as required by law.⁵ The Public Auditor has the duty to “communicate directly with any person or with any department, officer or person having official relations with the office

¹ PL 26-001 Chapter V § 12 (f)

² 26th Legislature Committee Chairman on Public Works, Health and Human Services.

³ PL 26-001 Chapter V § 13 (b)

⁴ 1 GCA § 1908

⁵ 1 GCA § 1909(e)

in any matter relating to the expenditures of government funds and property or to the settlement thereof.”⁶

Background Information

Guam Department of Public Health and Social Services

The Department of Public Health and Social Services is a line agency of the Government of Guam. It was established by PL 7-101⁷ to provide leadership and direction in environmental health, consumer protection, communicable disease control, vital statistics, Medicaid, MIP, public assistance, foster care, elderly programs and food stamps.⁸

The Division of Public Welfare (one of the five divisions within DPHSS), Work Programs Section, has the responsibility of overseeing the CCDF. The goal of this division is to promote positive social conditions that contribute toward the attainment of the highest and social well being for the economically and socially disadvantaged populations within Guam.

The DPHSS is managed by a Director whose duties include (1) administering public welfare, (2) complying with all Federal methods and standard administration requirements, and (3) appointing personnel and their duties.⁹

Child Care Development Fund

The objectives of the CCDF are “to (1) assist low-income families with child care, (2) allow maximum flexibility in developing child care programs and policies that best suit the needs of children and parents, (3) promote parental choice to empower working parents to make their own decisions on the child care that best suit their family’s needs, (4) provide consumer education information to help parents make informed choices about child care, (5) provide child care to parents trying to achieve independence from public assistance, and (6) implement the health, safety, licensing, and registration standards established in government regulations.”¹⁰

The CCDF program is 100% federally funded through an annual allocation by the Administration for Children and Families (ACF) of the USDHHS. States and territories are eligible to receive grant funds after approval by the ACF of a required plan. The CCDF grant fund is then made available to eligible applicants through certificates, grants or contracts.

⁶ 1 GCA § 1909(c)

⁷ Amended by PL 10-91, now codified as 5 GCA § 3111

⁸ DPHSS website at www.admin.gov.gu/pubhealth

⁹ 10 GCA §§ 2101~4

¹⁰ CFDA 93.575 at <http://cfda.gov/>

Child care assistance certificates are available only to individual families. Grants or contracts are available to child care providers meeting the standards and requirements to increase the availability, affordability, and quality of child care. Grants or contracts are awarded in whole or in part from the applications submitted based on the results of a merit review and the availability of funds.

Beneficiary eligibility requirements for child care assistance are children under age 13 (or up to age 19 if mentally or physically incapable of self-care or under court supervision) residing with a family whose income does not exceed 85% of the prescribed State Median Income, and whose parents are working or attending a job training or education program; or children in need of, or are receiving protective services. For fiscal year 2002, the annual State Median Income was \$8,590¹¹. Once eligible, parents may select the type of child care service most suitable to their family needs, and shall make their own arrangements with the child care provider.¹² Services available on Guam include full or half day enrollment in the following:

- Family or group day care
- Center-based care
- In-home care
- Care by relative or friend or neighbor
- “Wrap-Around” Program
- Campus child care

The number of children who received assistance from CCDF in Guam ranged from a low of 240 in 1996 to a high of 4,500 in 2001 (refer to **Graph 1**¹³). The corresponding number of families of the children served during these years ranged from 150 and 2,450.

The three different classifications of child care participants are:

- (1) Regular CCDF cases: a family is not receiving any type of federal assistance program but are eligible to participate because of their low-income status. Eligibility of participants is re-assessed every six months.
- (2) Job Opportunities and Basic Skills (JOBS) Program cases: a family is receiving Temporary Assistance for Needy Families (TANF)¹⁴ or welfare assistance and Food Stamps. Eligibility of participants is re-assessed every six months.
- (3) Transitional Child Care (TCC) cases: a family was receiving welfare assistance but were terminated because of employment and/or child support payments. Eligibility of participants is valid for twelve months.

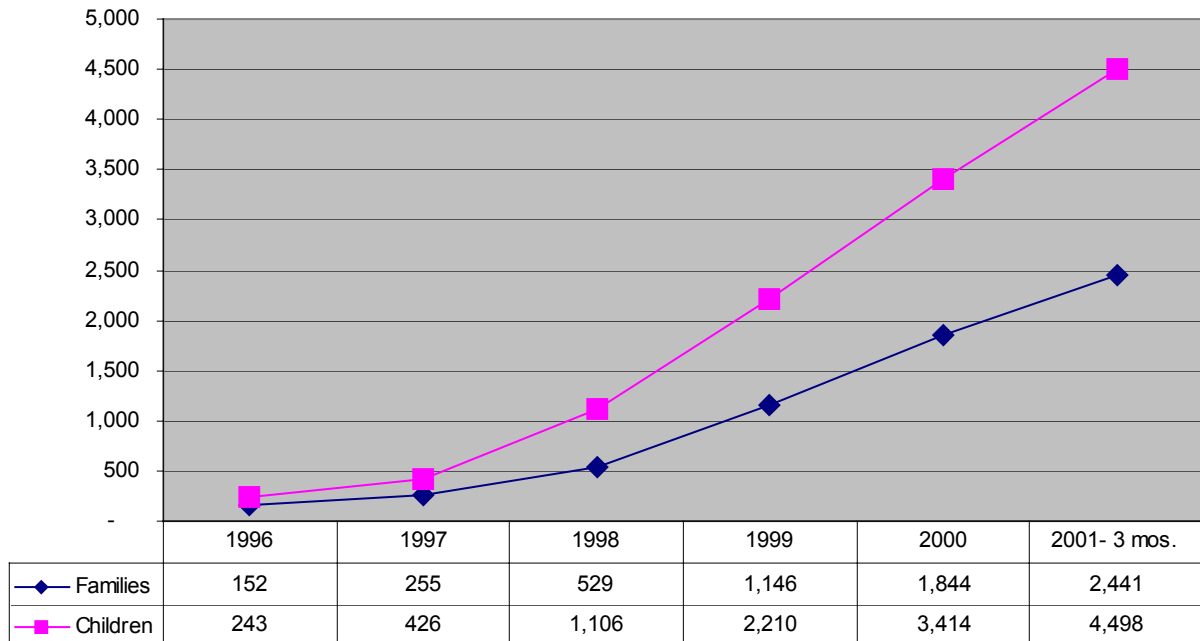
¹¹ Refer to Appendix B.

¹² Child Care Development Fund Manual § 2001

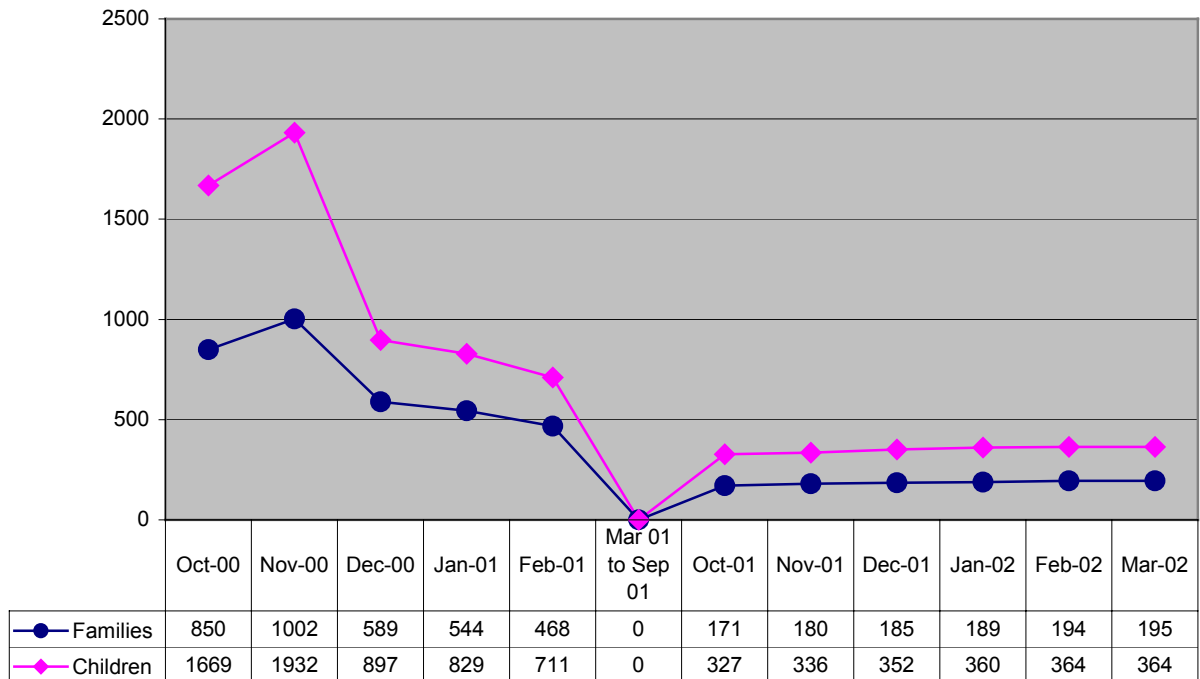
¹³ 1996 to 2000 were obtained from annual report; 2001 represents cumulative amount from October to December 2000.

¹⁴ TANF (Temporary Assistance for Needy Families) is also a federal program administered by DPHSS. The objective of the TANF is to assist needy families with children so that children can be cared for in their own homes; to reduce dependency by promoting job preparation, work, and marriage; to reduce and prevent out-of-wedlock pregnancies; and to encourage the formation and maintenance of two-parent families.

Graph 1: Trend of Families and Children Served



Graph 2: Families and Children Served, Oct 00 - Mar 02



Office of Management and Budget (OMB) Circular A-133

The Compliance Supplement to OMB Circular A-133-*Audits of States, Local Government and Non-Profit Organizations*, established the non-Federal entity's responsibilities for managing Federal assistance programs¹⁵ and the external auditor's responsibility with respect to the scope of audit¹⁶. The OMB Circular A-133 Compliance Supplement was used as a basis for the compliance testing over eligibility and grant terms and conditions.

Objectives

Based on the circumstances surrounding the legislation for this audit, we determined that the audit purpose was essentially to find out why the Child Care Development Fund prematurely depleted its allocation of federal money. In order to accomplish this, we designed our audit with the objective of answering the following questions:

- A. Was the depletion of funds caused by the disbursement of benefits to ineligible persons?
- B. Was the depletion of funds caused by a failure of the DPHSS to follow grant requirements and conditions?
- C. Was the depletion of funds caused by the lack of timely financial information available from the Department of Administration?
- D. Was the depletion of funds caused by lack of appropriate management oversight of the program?

Our audit also included an evaluation of internal controls with regards to measuring, reporting and monitoring the program's results and effectiveness.

Scope and Methodology

The scope of the audit was limited to the activities and transactions of the Child Care Development Fund during the five-month period October 2000 to February 2001. The methodology included examining and analyzing the program operations; testing a non-statistical sample of transactions for compliance with applicable laws, regulations and grant terms and conditions; interviewing program staff and management; evaluating management controls over the program. The results of the tests performed cannot be extrapolated to the population of all program transactions.

The conclusions drawn in this report are limited to the Child Care Development Fund. Our audit did not cover other areas of operation of the Department of Public Health and Social Services.

¹⁵ OMB Circular A-133 §_.300

¹⁶ OMB Circular A-133 §_.500

Our audit was conducted in accordance with the generally accepted government auditing standards applicable to performance audits. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances.

As part of the audit, we obtained an understanding of and evaluated the internal controls related to the program operations of CCDF to the extent that we considered necessary to accomplish the audit objectives.

Overall Conclusion

Our audit evidence indicates that the lack of sufficient management monitoring and control over program expenditures significantly contributed to the premature depletion of funds in the Child Care Development Fund program. Our audit also found that the lack of availability of timely financial information contributed to the depletion of program funds. Finally, our audit evidence indicates that disbursements made to ineligible persons and the failure to follow grant terms and conditions did not significantly contribute to the premature depletion of funds in the Child Care Development Fund program, although certain instances of noncompliance were noted.

Prior Audit Coverage

Grant terms and conditions of the CCDF grant award stipulate that the expenditures of the program are subject to an annual audit as required by the Single Audit Act of 1984 (PL 98-502) and the OMB Circular A-133. As reflected in **Graph 3**, the Single Audit Report for the Government of Guam first reflected CCDF Federal expenditures in FY 1994. For fiscal years 1994 to 1997, the CCDF was not audited. In January 2001, the CPA firm of J. Scott Magliari & Company was awarded the contract to audit the CCDF for FY's 1994-1997. The audit for those fiscal years is currently ongoing.

Another CPA firm, Deloitte and Touche, performed the Single Audit of the Government of Guam for fiscal years 1998, 1999 and 2000. During these years the CCDF was selected as a major program and was subjected to detailed compliance testing. A summary of the findings and questioned costs tested in accordance with the applicable OMB Circular A-133 Compliance Requirements is presented in **Table 1**.

Table 1: Summary of findings and questioned cost for prior year audits

Compliance Requirement	Number of Findings, Questioned Cost (\$)		
	1998	1999	2000
Activities Allowed or Unallowed	None	None	None
Allowable Cost/Cost Principles	None	None	None
Cash Management	None	None	None
Davis-Bacon Act	None	None	None
Eligibility	3, \$0	2, \$0	2, \$0
Equipment & Real Property Management	None	None	None
Matching, Level of Effort, Earmarking	1, \$129,996	1, \$61,812	None
Period of Availability of Federal Funds	1, \$0	1, \$125,516	1, \$54,561
Procurement, Suspension & Debarment	None	None	None
Program Income	None	None	None
Real Property Acquisition & Relocation Asst.	None	None	None
Reporting	2, \$0	2, \$0	1, \$0
Subrecipient Monitoring	1, \$0	1, \$0	1, \$0
Special Tests and Provisions	None	1, \$0	None

As a matter of full disclosure, it should be noted that the Audit Engagement-in-Charge of the Single Audit of the Government of Guam of Deloitte and Touche is the spouse of the OPA Audit Manager.

Subsequent Events

Shortly after February 2001, DPHSS discontinued the issuance of child care assistance services for the remainder of the fiscal year. The program staff remained to perform administrative and operational work for the CCDF and other federal programs being serviced under the Department of Public Welfare. During FY 2002, the child care assistance was re-opened to participants of the program as of February 2001 and to TANF participants. The eligibility requirements during FY 2002 were also revised to impose a more stringent requirement to ensure only applicants with high need for assistance qualify. For the five months ending February 2002, CCDF served a cumulative of 919 families or 1,739 children compared to 3,453 families or 6,038 children for the five months ending in February 2001.

Findings, Recommendations and Conclusions

Objective A: Was the depletion of funds caused by the disbursement of benefits to ineligible persons?

In order to determine if benefits were being disbursed to ineligible persons, we tested DPHSS compliance with eligibility requirements of the State Plan governing operation of the Child Care Development Fund. The findings from these tests are as follows:

Finding 1: Ineligible provider due to the lack of child care provider license or health certificate.

Criteria: In accordance with the OMB Circular A-133 Compliance Supplement eligibility requirements and the Guam DPHSS CCDF Plan 2000-2001 Part 7, child care providers are required to obtain a license or health certificate.

Condition: For 5 out of 99 case files tested (or 5%), the provider's health certificate for the following cases expired during the time of service:

Case no.	Eligible Children	Expiry Date	Assistance received from 10/00~2/01	Questioned cost
70-01414	4	9/24/00	\$ 5,400	\$ 5,400
70-00464	4	1/24/01	5,650	450
70-00752	4	2/9/01	3,460	0
30-48033	4	No health certificate found in file	5,060	5,060
70-01268	3	11/25/99	3,375	3,375
		Total	\$ 17,885	\$ 14,285

Cause: There appears to be insufficient internal review to ensure that providers meet the eligibility requirements of OMB Circular A-133 Compliance Supplement and the CCDF Plan.

Effect: Grantee is in noncompliance of OMB Circular A-133 Compliance Supplement eligibility requirements and the DPHSS CCDF Plan 2000-2001 Part 7. Additionally, costs amounting to \$14, 965 appear to be questioned costs.

Recommendation: An option for maintaining compliance with OMB Circular A-133 Compliance Supplement eligibility requirements and the Guam DPHSS CCDF Plan would be the creation of a listing of all individual child care providers showing the effective period of a provider's license or health certificate. The listing could act as a tickler file indicating when CCDF files should be reviewed to ensure an updated certificate has been received. Further, CCDF should require child care providers to automatically send a copy of their renewed license upon expiration.

Another option is to suspend payments for child care assistance and referrals to participating child care providers that do not provide an updated license or health certificate.

Finding 2: Possible ineligible participants

Criteria: In accordance with OMB Circular A-133 Compliance Supplement eligibility requirements and CCDF Plan 2000-2001 Part 3, child care services shall be available island-wide, to eligible families with children under age 13 needing child care assistance

so parents can attend a job training or education program, or to maintain employment. As part of the eligibility determination, Eligibility Specialist evaluate the Child care Plan and attendance for employment, education or training to identify the hours needed for child care services.¹⁷

As indicated in the CCDF Manual §2001, parents or adult caretakers are provided the opportunity to select the preferred child care services most suitable to their family needs and to make their own arrangements with a child care provider. However, the cost is allocated between the family and the CCDF depending on the gross income and family unit size. The cost sharing structure (CCDF Manual §2008.11~.12) in FY 2001 follows:

1. If gross income is less than 100%, CCDF pays all costs.
2. If gross income is between 100% and 150%, CCDF pays 75% of the total cost.
3. If gross income is between 150% and 185%, CCDF pays 25% of the total cost.
4. If gross income is greater than 185%, the family pays all costs.

Refer to the income guideline in **Appendix B**.

Condition: Out of 99 case files tested, the findings listed below indicate possible ineligible participants:

1. The employment verification document reviewed for case no. 70-01609 indicated that the participant ceased to work on October 8, 2000. There was no other documentation to indicate that the participant was actively looking for a job, or attending a job training or education program subsequent to October 8, 2000. Thus, the documentation indicated the participant was ineligible to receive child care assistance beginning November 2000; however, the participant continued to receive child care assistance benefits totaling \$4,400 for the four month period from November 2000 to February 2001 - the program suspension date. See detail of the \$4,440.00 questioned costs below:

Service Month	Actual Payment	Eligible Amount	Questioned Cost
Oct-00	\$ 1,110	\$ 1,110	\$ 0
Nov-00	1,110	0	1,110
Dec-00	1,110	0	1,110
Jan-01	1,110	0	1,110
Feb-01	1,110	0	1,110
TOTAL	\$ 5,550	\$ 1,110	\$ 4,440

2. Case no. 30-42346 has 6 children participating in the CCDF program. During the certification period of December 2000 to March 2001, three children were four years of age and below and thus, were eligible to attend a child care center on a full time basis. The three other children were school-aged between the ages of six and ten

¹⁷ CCDF Manual § 2002.65 (2)

were not eligible to receive child care assistance on a full time basis. However, the child care plan indicated that the older three children received full time coverage at a child care center. We did not find any documentation on file showing the three older children between age six and ten required special aid or care. It appears that \$450 of the total \$2,925 child care costs was not eligible expenditures. The details of these questioned costs follow:

Service Month	Actual Payment(i)	Eligible Amount(ii)	Questioned Cost
Dec-00	\$ 975	\$ 975	\$ 0
Jan-01	975	750	225
Feb-01	975	750	225
TOTAL	\$ 2,925	\$ 2,250	\$ 450

(i) Full time rate \$325/child x 3 children = \$975.

(ii) Part-time rate \$250 x 3 children = \$750.

3. The participant for case no. 30-47395 has five children covered under the child care assistance program; three children are above seven years of age and are attending school. The participant attended job training from only 8am to 2pm, thus the child care payment for the three children attending school was not reasonable as the file appears to indicate that the parent was available to supervise the children subsequent to the end of the school day.

Service Month	Actual Payment(iii)	Eligible Amount(iv)	Questioned Cost
Oct-00	\$ 600	\$ 0	\$ 600
Nov-00	600	0	600
Dec-00	645	0	645
Jan-01	600	0	600
Feb-01	600	0	600
TOTAL	\$ 3,045	\$ 0	\$ 3,045

Cause: There appears to be insufficient internal review procedures to ensure compliance with DPHSS policies and procedures in the following areas:

1. Notification by participants and providing CCDF program administrators with documentation relating to change in income status.
2. Verification of child care assistance calculations performed by the eligibility specialists.
3. Verification that school-aged children are actually attending school.

Effect: \$7,935 of cost is questioned due to apparent ineligible participation in the program.

Recommendation: CCDF program administrators should strengthen internal review procedures to enforce CCDF Manual Section 2002.65(3) that requires participant responsibility for reporting income and providing verification of job training or education program as a condition to receive child care assistance. Any change in the participant status should be reported in a timely manner. Participants who do not comply should be promptly terminated from the program.

Additionally, CCDF program administrators should strengthen internal review procedures to ensure that eligibility specialists are thorough in calculating child care assistance of an applicant and that calculations are reviewed by a second person or a supervisor.

Finding 3: Lack of due diligence in verifying status of dependents claimed

Criteria: In accordance with OMB Circular A-133 Compliance Supplement eligibility requirements and Section 2002.65(1) of the CCDF Manual, documents which are required for verification of eligibility include, but are not limited to employment check stubs for the last two months, employment verifications, tax statements, child support statements/stubs, pensions, VA (veteran's payments), stipends, school grant statements, training/school verification and class schedules, job/education training forms, any other statement from the household.

Condition: In each of the 99 case files tested, we found that tax statements were not present.

Cause: Upon inquiry from program staff, we learned that tax return statements are not required by DPHSS policies and procedures to verify the validity of dependency information provided by applicants. Tax statements were only required from self-employed applicants to verify annual income for purposes of calculating eligibility amounts. The current practice of verifying the dependency status of a child is to obtain and review the birth certificate of the child and a certification from a village mayor that the child resides at the home of the applicant. It appears the policies and procedures do not properly reflect the requirements contained in the CCDF Manual.

Effect: Ineligible dependents may be participating in the program.

Recommendation: The process of verifying the dependency status of minors against a Mayor's Certificate of residency is not adequate. We recommend that the CCDF Program Administrations Applicants be required to submit copies of their income tax returns for the last two years upon applying for child care assistance. Eligible participants should submit copies of subsequent income tax returns in order to determine continuing eligibility. Any changes in the participant status should be reported in a timely manner. Participants who do not comply should be promptly terminated from the program.

Conclusion

Although we noted certain instances of noncompliance, such instances appeared to be isolated. With the above findings, we did not see a pattern of errors that were consistent across our testing sample. Therefore, we conclude that the lack of compliance with eligibility requirements did not significantly contribute to the depletion in CCDF program funding.

Objective B: Was the depletion in funds caused by a failure of the DPHSS to follow grant requirements and conditions?

In order to determine if the funding depletion was caused by a failure of the Department of Public Health and Social Services to follow grant requirements and conditions, we reviewed the state plan submitted by DPHSS and approved by the USDHSS. We performed tests of compliance with the plan. The results of those tests derived the following findings:

Finding 4: Forged check payments

Criteria: OMB Circular A-123 Management Accountability and Control recommends that policies and procedures be implemented to ensure federal resources are protected from fraud.

Condition: During our testing of the CCDF files, we found two instances in which child care participants did not receive the allotted child care assistance within the expected time frame. In each instance, the participants contacted DPHSS and made inquiries about their checks. Department of Administration (DOA) researched the issue and discovered that two checks totaling \$2,450 in the participant's names had cleared the bank and were processed with allegedly forged endorsements. Details of these checks are as follows:

Fund Account Name	General Fund	General Fund
Original Check No.	33098	29779
Original Amount	\$2,150	\$300
Original Check Issue Date	2/26/2001	1/18/2001
Reason for Possible Forged Endorsement	Check was mailed to previous child care provider's address	Unknown
Amount Recovered by DOA	\$2,150	\$300
New Check No. Issued	39196	39199
New Check Amount Issued	\$2,150	\$300
New Check Issue Date	5/14/2001	5/16/2001

Further inquiries with a General Accounting Supervisor at the DOA revealed that other instances of forged check endorsements were related to welfare checks disbursed from the Government of Guam General Fund checking account. Based on the Forged Claimant Control listing provided by DOA, forged endorsements involving DOA General Fund disbursements from March 5, 1999 through September 10, 2001 totaled \$63,903.75.

Cause: In one instance, the CCDF mailing list had not been updated to reflect the participant's current mailing address. CCDF staff indicated that the error was related to data conversion to a new financial management system at DOA.

For welfare checks with forged endorsements, the DOA General Accounting Supervisor indicated that these checks were cashed through small convenient stores who were not aware of the possible fraudulent activity being committed.

Effect: Although DOA, as the check-disbursing agency for child care assistance checks, recovered the amounts of forged endorsements, there is the potential that this type of incident may recur if the proper authorities such as the Attorney General's Office do not take action to curb this type of fraudulent activity.

Recommendation: DPHSS should develop policies to ensure their participant database is regularly updated with current participant information. We recommend that the Attorney General's Office investigate the forged endorsements to determine if prosecution is warranted.

Finding 5: Insufficient Internal Control

Criteria: In accordance with OMB Circular A-133 Compliance Supplement eligibility requirements and the CCDF Plan 2000-2001 §4.1, disposition of an application must not exceed ten (10) calendar days following date of application.

In accordance with OMB Circular A-133 Compliance Supplement eligibility requirements and 7 CFR 3015, all programmatic records such as applications and review determinations should be documented on file for the three years immediately preceding the application to substantiate program transactions.

In accordance with OMB Circular A-133 Compliance Supplement matching, level of effort, and earmarking requirements and the terms and conditions of the grant award, the grantee may not spend more than five percent (5%) of total CCDF awards expended on administrative costs.

In accordance with the OMB Circular A-133 Compliance Supplement procurement, suspension and debarment requirements and the fiscal year 2001 grant terms and conditions no. 9, projects funded wholly or in part with Federal money shall clearly state (1) the percentage of the total costs of the program or project financed with Federal money, (2) the dollar amount of Federal funds for the project or program, and (3) the

percentage and the dollar amount of the total costs of the program or project that will be financed by non-government sources.

In accordance with OMB Circular A-133 Compliance Supplement reporting requirements, Quarterly Financial Cash Transaction Reports PMS 272 and Financial Reports ACF 696 are due 45 and 30 days, respectively, after the end of a reporting quarter.

In accordance with the OMB Circular A-133 Compliance Supplement eligibility requirements and the CCDF State Plan 2000-2001 Part 3, child care services shall be available island-wide to eligible families with children under age 13 needing child care assistance so parents can attend a job training or education program, or to maintain employment.

Condition:

Applicants were not apprised of the disposition within the required 10-day timeframe.

Out of 99 individual case files tested, the disposition of 15 (or 15%) cases exceeded 10 days. Details of the untimely disposition follow:

	Case no.	Application date	Disposition day	Days beyond
1	70-00053	11/18/2000	12/18/2000	20
2	70-00071	10/03/2000	12/20/2000	68
3	70-00373	11/23/2000	12/15/2000	12
4	70-00778	01/17/2001	01/30/2001	3
5	70-00915	10/05/2000	12/16/2000	62
6	70-01141	06/21/2000	07/19/2000	18
7	70-01716	10/19/2000	12/5/2000	37
8	70-00668	11/9/2000	12/4/2000	15
9	70-01107	8/25/2000	10/23/2000	48
10	70-01617	8/28/2000	10/23/2000	46
11	70-01486	8/7/2000	11/9/2000	84
12	70-01725	11/21/2000	12/5/2000	4
13	70-01715	10/19/2000	11/22/2000	24

Missing programmatic documents

The Work Participation Referral Form¹⁸ was not found in the files reviewed for case numbers 30-71251 and 30-49913.

¹⁸ The Work Participation Referral Form is an inter-departmental record utilized by DPHSS to refer TANF participants to the child care program. Such form indicates eligibility of participant and applicant documents were complete.

Additionally, the following documents were not found in the case files reviewed:

1. Attendant calendar for certificate period February 2001 to July 2001 for case no. 30-71251.
2. Reasons for terminating case no. 70-01288.

Noncompliance with the Earmarking requirement

The scope of our testing was from October 2000 through February 2001. Reports for the CCDF program are submitted to the grantor on a quarterly basis. Thus, for purposes of testing the earmarked amounts, we obtained expenditure information for the period October 2000 through March 2001 and tested the matching, level of effort, and earmarking requirements for the six (6) months ended March 31, 2001.

The DPHSS did not meet the administrative earmark requirement for the six months ending March 31, 2001. The maximum allowable earmark for administrative costs is 5% of the benefits expended during the period. For the period ending March 31, 2001, the amount of benefits expended was \$2,575,393. Therefore, the maximum allowable expenditures under the Administrative Earmark were \$128,770 (5% of \$2,575,393). The actual expenditures during the period totaled \$162,949. Thus, expenditures under the Administrative Earmark exceeded the maximum allowable amount by \$34,179.

No indication of federal funding in purchases

Fourteen (14) purchase orders were issued by the Work Programs Section for the CCDF during fiscal year 2001. However, all the purchase orders were issued after March 2001 due to (1) a delay in receiving grant funds allocated for contracts, (2) a delay in establishing the Federal grant accounts by DOA, and (3) a vacancy in the position that processes the purchase orders. For purposes of testing compliance with the grant terms and conditions, we examined the purchase orders for the percentage of federal funds paying each order. Thirteen (13) out of fourteen (14) purchase orders and requisitions issued by the WPS for CCDF program did not specify the percentage of the total cost financed by Federal money.

Untimely Reporting

The ACF 696 reports tested were submitted 15 to 25 days after the respective due dates, as follows:

Quarter ending	Due Date	Date Submitted	Days Late
12-31-00	1-30-2001	2-24-2001	25
3-31-01	4-30-2001	5-15-2001	15

Lack of Age Requirement Policy

We found that the applicant for case no. 70-01714 was denied child care assistance because of noncompliance with the age requirement. We were advised by DPHSS staff that an informal policy had been adopted requiring an applicant to be at least 18 years of age – the legal age on Guam. The staff was unable to provide any written documentation of the policy.

There was no documentation (i.e., driver's license, birth certificate or passport) or note of applicant birth date in the files to indicate the applicant did not meet the age requirement. Inquiry with the CCDF Eligibility Specialist Supervisor revealed that age of the applicant was verified during the initial interview; however, a copy of birth certificate, passport or driver's license was not made to show proof of age. Additionally, since the applicant was a minor, CCDF requested the applicant to obtain a court document as proof of emancipation from parents; however, the applicant did not submit the required court document.

Cause: It appears that DPHSS is not immediately issuing notices of denial in instances in which required documentation is missing or the nature of the application is too complex to be completed within the time frame allowed.

There appears to be insufficient internal reviews to ensure proper documents are retained in case files.

It appears that there is insufficient monitoring of administrative costs to ensure compliance with grant terms and conditions and earmarking requirements set by OMB Circular A-133.

The CCDF Program Coordinator was not aware of the grant conditions requiring program or project documentation to clearly state the percentage and amount funded by the Federal government. Thus, the DPHSS purchasing department was also not aware of the requirement.

The Government of Guam's Department of Administration is the responsible reporting entity. However, DPHSS also plays a role in the reporting process. DPHSS staff attribute the inability to file on a timely basis to the inaccessibility to and unreliability of data from the DOA financial management system as well as the correspondence time between DPHSS and DOA to ensure report contents are accurate.

Effect: Grantee is in noncompliance with OMB Circular A-133 Compliance Supplement eligibility requirements and the CCDF Plan 2000-2001 §4.1.

Grantee is in noncompliance with the federal records retention requirements.

The expenditures utilized to test the earmarking requirement were, as of March 2001, yielding noncompliance with the earmarking requirement. Additionally, given the limited

federal funding resources that CCDF has to work with during FY 2001, CCDF is using \$34,179 of the grant funds towards administrative costs rather than child care assistance as of February 2001.

The grantee is in noncompliance with OMB Circular A-133 Compliance Supplement procurement, suspension and debarment requirement and the grant award terms and conditions.

These reports are not utilized by DOA to request reimbursements for expenditures; however these reports are required by the Federal agency as a condition for receiving grant funds. Thus, untimely submission of reports may affect future requests for Federal assistance funding by the Government of Guam.

Persons are being denied access to program benefits without proper written justification.

Recommendation: The DPHSS should modify their procedures to immediately issue letters of denial in response to all applications for which a determination cannot be made within the ten-day time frame allowed. The letters should describe the reasons why the application cannot be processed in a timely manner and advise the appropriate steps to be taken to remedy the situation. This will ensure that applicants are aware of their case status at all times. This will also enable applicants to assist DPHSS in identification of missing required documents.

The grantee should establish and implement internal record keeping controls to ensure that programmatic records are maintained on file for at least three years in accordance with federal law.

To ensure compliance with OMB Circular A-133 Compliance Supplement matching, level of effort, and earmarking requirements and grant award terms and conditions, CCDF administrators should monitor the amount spent on administrative expenses to ensure (1) administrative costs are limited to 5% of CCDF expenditures and (2) administrative expenditures are allowable under the CCDF program.

We recommend that CCDF program administrators include a section in the CCDF Manual to address the need to identify funding sources for items procured with the CCDF grant. We further recommend that management review with procurement personnel all other terms and conditions that impact the procurement process.

We recommend that DOA and DPHSS evaluate which agency would be better able to prepare the report/s required by the cognizant Federal agency, taking into consideration technical aspects required by the report. In the interim, DOA as the responsible reporting entity should consider establishing a calendar for report submission to the Federal Government and distributing such schedule to all responsible individuals. The status of reports should be reviewed by the respective supervisors and periodic reminders as to report due dates should be issued.

The CCDF Administrators should develop a written policy defining the age requirement for child care assistance applicants. The policy should include a requirement that a copy of a driver's license, birth certificate or passport be maintained on file as documentation for proof of applicant benefit qualification. The CCDF should also consider exceptions for applicants who are below age 18 but emancipated from parents and are either attending a job training or education program or who are employed on a full-time basis.

Conclusion

Although the findings described above are substantial in number, they appear to be individually isolated incidents. We did not see a pattern of errors that were consistent across our testing sample. Therefore, it appears the lack of compliance with grant terms and conditions did not contribute significantly to the shortfall in funding of the Child Care Development Fund.

Objective C: Was the depletion of funds caused by the lack of timely financial information available from the Department of Administration?

Lack of timely financial reporting information

The Child Care Development Fund program is administered by the DPHSS, however, the Department of Administration manages the grant funds. DOA is responsible for receiving the grant funds, providing custodial services over the funds, processing payment requests, and providing cash management reports to the federal government.

In late 1999, DOA abandoned the BACIS-AS 400 based legacy system that was believed to be non-Year 2000 compliant, and implemented an Oracle-based financial management system. BACIS was replaced without running the old and new computer programs on a parallel basis, a customary procedure with significant financial management system changes. CCDF program staff indicated to us that they were unable to receive timely financial information from DOA regarding program expenditures during the first five months of FY01.

During our audit, the OPA requested some financial information from DOA and experienced similar difficulties. Specifically, we found information obtained from DOA to be inaccurate. Upon follow-up with a DOA staff member, we were advised that FY01 information was being manually entered into the system and the data would be constantly changing until all transactions were finally entered. By July of 2001, nine months into the fiscal year, we were still unable to get accurate information for any period of FY01.

Differences in financial information provided to the OPA

Additionally, we were unable to obtain accurate data for prior years from the Department of Administration during FY01. As an example, we obtained CCDF expenditure data for Fiscal years 1996 and 1997 in conjunction with the analysis performed under **Un-obligated and Overspent Grant Funds** on page 23. We compared data provided by DOA to data contained in the Single Audit Report and found the following discrepancies in expenditure amounts:

	1996	1997
Per DOA	454,369	790,847
Per Single Audit Report	314,527	849,473
Variance	139,842	(58,626)

We inquired from DOA as to the variances in amount, however, the OPA has not been provided with a response.

The variances appear to be significant and therefore, we concur with the DPHSS assertion that data from DOA was either unavailable or unreliable during FY01. Based upon our inquiries of program staff it appears the CCDF staff and management were highly dependent on the information received from DOA.

Conclusion

Based on the audit procedures performed, it appears the lack of information available from the Department of Administration contributed to the premature depletion in funding of the Child Care Development Fund.

Objective D: Was the depletion of funds caused by lack of appropriate management oversight of the program?

Lack of Trend Analysis

Internal control is an integral component of an organization. It comprises of the organization, policies, and procedures used to reasonably ensure that (1) programs achieve their intended results; (2) resources are used consistent with agency mission, (3) programs and resources are protected from waste, fraud and mismanagement, (4) laws and regulations are followed, and (5) reliable and timely information is obtained, maintained, reported and used for decision making.¹⁹

General management control standards that should govern programs and operations include:

¹⁹ OMB Circular No. A-123, Management Accountability and Control

1. Compliance with applicable laws and regulations.
2. Reasonable assurance and safeguards of assets against waste, loss, unauthorized use and misappropriation.
3. Integrity to support Standards of Ethical Conduct, competence to accomplish assigned duties and positive attitude to encourage open communication.
4. Delegation of authority and appropriate organizational structure should be established to effectively carry out program responsibilities.
5. Separation of duties and supervision. Authorizing, processing, recording, and reviewing responsibilities should be separated among individuals.
6. Access to resources should be limited to authorized individuals and accountability should be assigned to all employees.
7. Transactions should be promptly recorded, properly classified and accounted to prepare for timely and reliable information. Documentation for transactions, controls and other significant events should be clear and readily available.
8. Audit findings and other deficiencies should be promptly brought to management's attention for evaluation and actions.

Government Auditing Standards states "management is responsible for establishing effective management controls." "Management controls include the processes for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance."

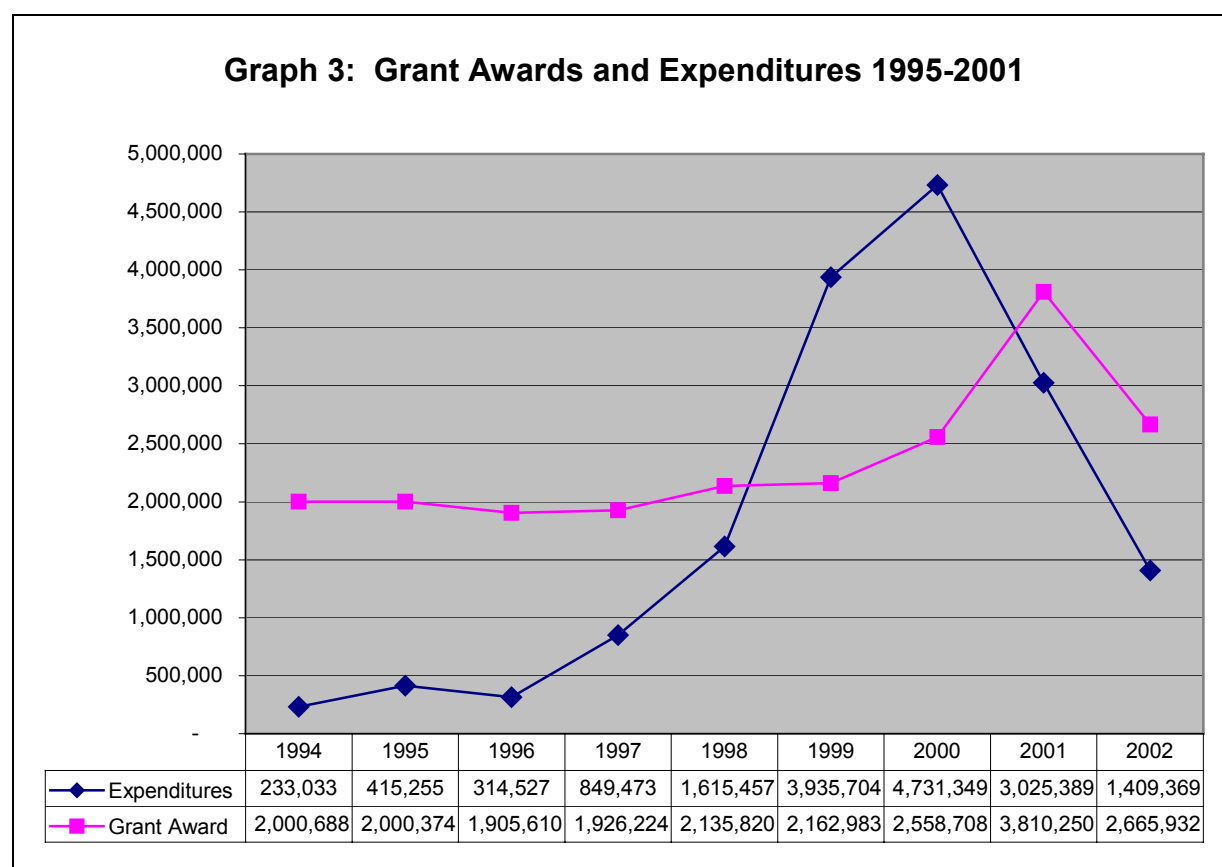
The OPA reviewed the Schedule of Federal Expenditures in the Single Audit for the Government of Guam from 1991 to 2001, and noted that Government of Guam first incurred CCDF expenditures in FY 1994. **Graph 3**²⁰ summarizes the CCDF grant awards received by DPHSS and the corresponding expenditures from 1994 to 2001. From the graph it can be noted that grant awards steadily increased during the period presented.

Under the OMB Circular A-133 Compliance Supplement, DPHSS is required to utilize the entire amount of the Child Care Development Fund grant within three years from the date of award. As reflected in **Graph 3** the annual amount of benefits disbursed were less than the amount of the grant award for Fiscal Years 1995-98. In each of these years, the difference between the grant award and the amount of benefits paid was carried over for expenditure in subsequent years. Thus, the amount of funds available for application against current year expenditures increased during each of these years. However, benefit payments were steadily increasing during the four year period. In the fiscal year ended September 30, 1999, the CCDF expenditures increased from \$1,615,457 in 1998 to \$3,935,704 (an increase of \$2,320,247 or 144%). This was the first year in which benefits paid in a fiscal year exceeded the amount of the grant award

²⁰ Grant award amounts for FY 1994 to 2002 were obtained from the Division of Public Welfare Section. Expenditure amounts for FY 1994 to 2000 were obtained from the Single Audit Report for the Government of Guam issued by Deloitte and Touche; expenditure amounts for FY 2001 and 2002 represent unaudited financial figures obtained from DOA. Expenditures in 1994 and 1995 comprise cumulative expenditure amounts for CFDA nos. 93.037 and 93.575. The identifying fund name for both CFDA is "Payment to States for Child Care Assistance."

for the corresponding fiscal year. Thus, the level of Grant Awards from prior years decreased by \$1,682,721 during the year (Benefits Disbursed - \$3,935,704 minus Grant Award - \$2,252,983 = \$1,682,721). In FY00, the amount of benefits disbursed exceeded the grant award by \$2,172,641 (Benefits Paid - \$4,731,349 minus Grant Award - \$2,558,708 = \$2,172,641). In FY01, with \$872,965 in prior grant awards available to be carried forward, \$2,785,347²¹ was expended by the end of February 2001 and the program was suspended.

We believe that if an adequate system of management controls had been in place, DPHSS would have recognized the problem created by annual program expenditure levels exceeding annual grant award amounts before the close of FY99. If the warning signs had been recognized at that point, it would have given DPHSS more than one year to make adjustments to the program to avoid a major depletion of the amount of funding available. However, it appears that DPHSS did not recognize the impending depletion and did not act to correct the situation.



²¹ Represents child care assistance obligations and expenditures until February 2001. Does not include administrative cost (i.e. salaries, contractual services, rent, supplies, capital outlay, etc.) from March 2001 to September 2001.

Poverty Level Guidelines Modified

In order to receive funds under the Child Care Development Fund program, a state government must submit a state plan for review and approval from the USDHHS. One of the components of a state plan is a poverty guideline. The poverty guideline establishes the income levels for which benefits may be provided under the program. Of the three guidelines approved by the USDHHS, Alaska has the highest income scale, Hawaii has the second highest income scale, and the 48 contiguous states & DC have the lowest. (See **Appendix B** for tables of poverty guidelines from fiscal year 1995 through 2002.)

Prior to fiscal year 1999, DPHSS proposed a modification to the poverty guideline in use in Guam with such change to take effect October 1, 1998. Prior to FY99, CCDF utilized the poverty guideline for the 48 contiguous states and District of Columbia – the approved scale with the lowest income levels. The poverty *guideline*²² for the state of Hawaii was adopted for benefit disbursements for Fiscal Year 1999. The effect of this change was to increase the level of income that could be earned by a recipient while receiving full benefits. During our entrance conference with DPHSS, the Director indicated to us that the poverty guideline had been changed to avoid the return of unspent funds back to the federal government as had happened in the past. The result of the action was to increase the number of families eligible to participate in the program. The revised poverty guideline remained in effect until the program ran out of federal funds.

In summary, as discussed above, the amount of benefits disbursed on an annual basis was rapidly increasing during FY98. At a time when DPHSS should have been looking for opportunities to curb the growth of program expenditures, DPHSS took an action to increase the pool of eligible participants and further stimulate expenditure growth.

Based on the above conditions, it appears the adoption of the Hawaii poverty guideline was an inappropriate action on the part of DPHSS management in light of the increasing utilization of program benefits.

Alternative Data Sources not Sought

Program staff advised us that in fiscal year 2000 they began manually tracking program participation and expenditure levels for purposes of reconciling with DOA data when financial reports were received. Although this data that could have alerted management to the impending funding depletion was available, it was not utilized for that purpose. Program staff advised us that the manual data was not provided to management and management did not request such data. We did not find any evidence that any alternative data collection sources were sought.

²² The poverty guidelines, issued each year in the Federal Register by the US DHHS, are simplification of the poverty thresholds for administrative purposes – for instance, determining the financial eligibility for certain federal programs. <http://aspe.os.dhhs.gov/>

In light of the difficulties in obtaining timely and accurate financial information from DPHSS, it was incumbent on management to attempt to obtain financial information from any source available.

Unobligated and Overspent Grant Funds

The lack of management control over program expenditures is further substantiated by the amount of unobligated and overspent funds in fiscal years 1996 to 2001. Additional analysis performed in relation to **Graph 3** indicates that CCDF incurred un-obligated or overspent grant awards for fiscal years 1996 to 2001 (refer to **Tables 2.1** and **2.2**). The analysis indicates that CCDF incurred over-expenditures of grant awards for fiscal years 1998 and 2000 in the amounts of \$103,677 and \$250,027, respectively. For grant years 1996, 1997, and 1999, CCDF funds in the amounts of \$142,309, \$295,398, and \$120,456 lapsed because they had not been obligated within the allowable time frame. Cumulatively, CCDF incurred over-expenditures and un-obligated funds in the amounts of \$353,704 and \$558,164, respectively. This amount had to be repaid by other DPHSS funds.

We recognize that the periodic return of un-obligated funds for a program of this type cannot be avoided, however, the over-expenditure of grant funds is a violation of the grant terms and conditions and is indicative of a lack of management control over program expenditures.

Table 2.1: Breakdown of Expenditures - Fiscal Years 1996 - 2001²³

Grant yr	Fiscal year						Total
	1996 ²⁴	1997 ²⁵	1998	1999	2000	2001	
1994	\$ 139,842	\$ 64,511					\$ 204,353
1995	115,373	648,092	\$ 3,764				767,229
1996	199,154	78,244	1,360,387	\$ 125,516			1,763,301
1997			169,127	1,407,137	\$ 54,561		1,630,825
1998			82,179	1,976,387	117,565	\$ 63,366	2,239,497
1999				426,664	1,592,122	23,741	2,042,527
2000					2,808,779	(44)	2,808,735
2001					158,322	2,938,326	3,096,648
Total	\$454,369	\$790,847	\$ 1,615,457	\$ 3,935,704	\$ 4,731,349	\$ 3,025,389	\$ 14,553,115

²³ Breakdown of expenditures for 1996 and 1997 were provided by the Department of Administration; during these fiscal years, the CCDF was not selected as a major program and thus not subjected to detailed audit. Deloitte and Touche provided information for 1998 to 2001, representing audited figures.

²⁴ Refer to "Difference in financial information provided to OPA" finding in page 19.

²⁵ Refer to "Difference in financial information provided to OPA" finding in page 19.

Table 2.2: Analysis of Un-obligated (or Available for Future Expenses) and Overspent Child Care Funds

	A	B	C=A – B	
	Grant award	Total Expenditures	Un-obligated or Available	Overspent
1996	\$ 1,905,610	\$ 1,763,301	\$ 142,309	
1997	1,926,224	1,630,825	295,398	
1998	2,135,820	2,239,497		\$ 103,677
1999	2,162,983	2,042,527	120,456	
2000	2,558,708	2,808,735		250,027
2001	3,810,250	3,096,648	713,602	
Total	\$ 14,499,595	\$ 13,581,533	\$ 1,271,766	\$ 353,704

Table 2.3: Analysis of Grant Lapses and Carryovers

	A=D-E	B	C	D=A+B-C	E
Fiscal Year	Grant Carryover from Prior Years	Current Year Grant Award	Current Year Expenditures	Available For Future Years	Amount Lapsed ²⁶ (column C, Table 2.2)
1996	-	\$ 1,905,610	314,527	1,591,083	
1997	\$ 1,591,083	1,926,224	849,473	2,667,834	
1998	2,667,834	2,135,820	1,615,457	3,188,197	
1999	3,188,197	2,162,983	3,935,704	1,415,476	142,309
2000	1,273,167	2,558,708	4,731,349	(899,474)	295,398
2001	(1,194,872)	3,810,250	3,025,389	(410,011)	-
Total		14,499,595	14,471,899		437,707

Conclusion

Based on the above findings, it appears that the lack of management monitoring and control over program expenditures contributed significantly to the funding depletion experienced by the Child Care Development Fund.

Summary of Recommendations

We recommend the following actions be taken by the Department of Public Health and Social Services:

1. Based on findings discussed in **Objective D**, we recommend the Administrators of DPHSS and CCDF familiarize themselves with and receive training on the importance of internal controls and management controls in agency and program management. Examples of resource materials for internal control and management control are OMB Circular A-123, Management Accountability and Control and Standards for Internal Control in the Federal Government.

²⁶ Grant funds can be utilized until the third year from receipt of funds; thus, funds received in 1996 lapsed in 1999, etc. Refer to item 4, Period of Availability of Federal funds, in Appendix A.

2. The CCDF State Plan 2000-2001 requires child care providers to obtain a license or health certificate. Based on **Finding 1**, CCDF Administrators should strengthen internal review procedures to ensure that child care providers are in compliance with the OMB Circular A-133 Compliance Supplement eligibility requirements and the CCDF State Plan. An option for improving compliance would be the creation of a listing of all individual child care providers showing the effective period of a provider's license or health certificate. The listing could act as a tickler file indicating when CCDF files should be reviewed to ensure an updated certificate has been received. Further, CCDF should require child care providers to automatically send a copy of their renewed license upon expiration.

Another option is to suspend payments for child care assistance and referrals to participating child care providers that do not provide an updated license or health certificate.

3. Child care assistance is available only to low-income families where parents are working, or attending training or education program. Based on **Finding 2**, CCDF program administrators should strengthen internal review procedures to enforce CCDF Manual Section 2002.65(3) that requires participant responsibility for reporting income and providing verification of job training or education program as a condition to receive child care assistance. Any change in the participant status should be reported in a timely manner. Participants who do not comply should be promptly terminated from the program.

Additionally, CCDF program administrators should strengthen internal review procedures to ensure that eligibility specialists are thorough in calculating child care assistance of an applicant and that calculations are verified by a second person.

4. Based on **Finding 3**, the process of verifying the dependency status of minors against a Mayor's Certificate of residency is not adequate. We recommend that the CCDF program administrators require all applicants to submit a copy of their tax return for the last two years upon applying for child care assistance. Eligible participants should submit a copy of subsequent tax returns in order to determine continuing eligibility.
5. Based on **Finding 4**, DPHSS should have policies in place to ensure their participant database is regularly updated with current participant information. DPHSS should coordinate with DOA to perform thorough reviews of data each time a system change affecting the CCDF is implemented.
6. Based on **Finding 5**, DPHSS should modify their procedures to immediately issue letters of denial in response to all applications for which a determination cannot be made within the ten-day time frame allowed. The letters should describe the reasons why the application cannot be processed on a timely basis and advise the appropriate steps that must be taken to remedy the situation. This will ensure that

applicants are aware of the status of their cases at all times. This will also enable applicants and DPHSS in the identification of missing required documents.

7. OMB Circular A-133 Compliance Supplement eligibility requirements and 7 CFR 3015 require documentation of program transactions. Based on **Finding 5**, CCDF Administrators should establish and implement internal record keeping controls to ensure that programmatic records are maintained on file for at least three years in accordance with federal law.
8. To ensure compliance with OMB Circular A-133 Compliance Supplement matching, level of effort, and earmarking requirements and the grant award terms and conditions (refer to **Finding 5**), we recommend that CCDF Administrators monitor the amount spent on administrative expenses to ensure (1) administrative costs are limited to 5% of CCDF expenditures and (2) administrative expenditures are costs allowable under the CCDF program.
9. Based on **Finding 5**, we recommend CCDF program administrators include a section in the CCDF Manual to address the need to identify funding sources for items procured with the CCDF grant. We further recommend that management review with procurement personnel all other terms and conditions that impact the procurement process.
10. Based on **Finding 5**, we recommend that DOA and DPHSS evaluate which agency would best prepare the report/s required by the cognizant Federal agency, taking into consideration the technical aspects required by the report. Currently, DOA as the responsible reporting entity should consider establishing a calendar for report submission to the Federal Government and distributing such schedule to all responsible individuals. The status of reports should be reviewed by the respective supervisors and periodic reminders as to report due dates should be issued.
11. Based on **Finding 5**, CCDF Administrators should develop a written policy defining the age requirement for child care assistance applicants. The policy should include a requirement that a copy of a driver's license, birth certificate or passport be maintained on file as documentation for proof of applicant benefit qualification. The CCDF should also consider exceptions for applicants who are below age 18 but emancipated from parents and are either attending a job training or education program or who are employed on a full-time basis.

We recommend the following actions be taken by the Department of Administration:

1. Refer to DPHSS **Recommendation 10** above.
2. As discussed in **Objective C**, the Oracle-based financial system was not fully functional resulting in problems in generating timely and accurate financial reports. In the event DOA plans to implement a new financial management system, we

recommend DOA develop a contingency plan to ensure the financial accounting process is not interrupted and financial reports are prepared timely and accurately

We recommend the following actions be taken by the Attorney General's Office:

1. Based on **Finding 4**, fraudulent activities (i.e. forged check endorsements) encountered by DOA should be referred to the Attorney General's Office. As the proper agency that can address the fraudulent activities, the Attorney General's Office should investigate and take proper action against persons committing alleged fraudulent activities involving Federal or Local funds.

Management Response

The draft report was provided to the Director of the Department of Public Health and Social Services. The Director's response is attached as **Appendix C** of this report. The Director generally concurred with the findings of the report and the recommendations associated with it. In some instances he indicated that steps had already been taken to rectify the condition. In other instances, personnel were pledged to correct the situation. In response to Findings 1, 2, and 5, the Director disagreed with certain aspects of our findings including the calculation of questioned costs. OPA staff performed subsequent research and in some instances the report was modified to incorporate the Director's comments and corrections, as appropriate.

Limitations of the Report

The period of our audit was a 5-month period from October 1, 2000 through February 28, 2001. The report was conducted in accordance with generally accepted government auditing standards as they relate to performance audits.

This report does not provide conclusions involving legal determinations. This report contains only evidentiary conclusions based on documentation available for our review. This report has been released to the Governor of Guam, the Legislative Speaker, and members of the 26th Guam Legislature, the Director of DPHSS, the CCDF Program Administrators, and the U.S. Department of Interior, Office of Inspector General, the Director of Department of Administration and the Attorney General. This report is a matter of public record and its distribution is not limited.

The audit was coordinated with the DPHSS Work Programs Section and the Department of Administration. The cooperation of the management and staff of these agencies is gratefully acknowledged.

OFFICE OF THE PUBLIC AUDITOR

A handwritten signature in dark ink, appearing to read 'Dor Brooks'.

DORIS FLORES BROOKS, CPA
Public Auditor

OPA Report No. 02-05
November 2002

Appendix A - Description of the applicable OMB Circular A-133 Compliance Supplement Requirements

1. Activities Allowed or Unallowed: Funds may be used for child care services in the form of certificates, grants or contracts; for activities that improve the quality or availability of child care services, consumer education and parental choice; for minor remodeling (i.e. renovation or repair) of child care facilities; for any other activity that the State deems appropriate to promoting parental choice; providing child care to parents trying to achieve independence from public assistance.
2. Eligibility: Federal requirements for individual eligibility requires children to be under age 13 (or up to age 19, if incapable of self care or under court supervision), who reside with a family whose income does not exceed 85 percent of State/territorial/tribal median income for a family of the same size, and reside with a parent(s) who is working or attending a job-training or education program; or are in need of, or are receiving, protective services.
3. Matching, Level of Effort, Earmarking: Grant awards for Guam do not require Matching and the Level of Effort of Federal funds. Earmarking is divided into three parts: Administrative Earmark, Quality Earmark and Specific Earmark. Administrative earmark requires states/territories not to spend more than five (5%) of total CCDF awards expended on administrative costs. Quality earmark requires states/territories to spend a minimum of four (4%) percent of the total CCDF expenditures on quality and availability activities. Specific earmarks during 2001 required Guam to spend a minimum of \$36,426 for School Age – Resource & Referral, \$328,962 for Quality Expansion and \$190,513 for Infant Toddler for a total of \$555,901.
4. Period of Availability of Federal Funds: As a discretionary fund, CCDF grant awards must be obligated by the end of the succeeding fiscal year after award, and expended by the end of the third fiscal year after award.
5. Procurement, Suspension and Debarment: Guam is required to use the same policies and procedures used for procurement from non-Federal funds but is required by the Federal government to include clauses stipulated in the grant terms and conditions.
6. Reporting: The SF 272, Federal Cash Transactions Report is due 45 days after the end of the quarter and the ACF-696, Child Care and Development Fund Financial Report is due within 30 days after the end of the quarter.
7. Subrecipient Monitoring: Monitoring activities may take various forms, such as reviewing reports submitted by the subrecipient, performing site visits to the subrecipient to review financial and programmatic records and observe operations, arranging for agreed upon procedures engagements (as eligibility determinations,

reviewing subrecipient program specific audit results and evaluating audit findings and the corrective action plan) for certain aspects of subrecipient activities.

8. Special Tests and Provisions: The specific requirements are unique to each Federal program and are found in the laws, regulations, and the provisions of contract or grant terms and conditions.

Appendix B – U.S. Poverty Guidelines and Tiers of Payment Utilized by the CCDF in Guam

Table B.1: US Poverty Guideline Utilized by Guam CCDF, FY 1998 ~ 2002

	FY98	FY99	FY00	FY01	FY02
family size	48 contiguous states and D.C.	Hawaii	Hawaii	Hawaii	48 contiguous states and D.C.
1	7,890	9,260	9,490	9,590	8,590
2	10,610	12,480	12,730	12,930	11,610
3	13,330	15,700	15,970	16,270	14,630
4	16,050	18,920	19,210	19,610	17,650
5	18,770	22,140	22,450	22,950	20,670
6	21,490	25,360	25,690	26,290	23,690
7	24,210	28,580	28,930	29,630	26,710
8	26,930	31,800	32,170	32,970	29,730
for each additional person, add	2,720	3,220	3,240	3,340	3,020

Table B.2: FY 1998 Gross Monthly Income Eligibility Table, Utilizing Poverty Guideline adopted by the 48 Contiguous States and D.C.

size of family unit		median monthly income	185% of median monthly income
	100% CCDF		
		90% CCDF, 10% family	
1	0	658	1,128
2	0	884	1,611
3	0	1,111	2,094
4	0	1,338	2,577
5	0	1,564	3,060
6	0	1,791	3,544
7	0	2,018	4,027
8	0	2,244	4,510
*	0	227	483

Table B.3: FY 1999 Gross Monthly Income Eligibility Table, Utilizing Poverty Guideline adopted by Hawaii

size of family unit		median monthly income	185% of median monthly income
	100% CCDF		
		90% CCDF, 10% family	
1	0	772	1,428
2	0	1,040	1,924
3	0	1,308	2,420
4	0	1,577	2,917
5	0	1,845	3,413
6	0	2,113	3,909
7	0	2,382	4,407
8	0	2,650	4,903
*	0	268	496

Table B.4: FY 2000 Gross Monthly Income Eligibility Table, Utilizing Poverty Guideline adopted by Hawaii

size of family unit		median monthly income	185% of median monthly income
	100% CCDF		
		90% CCDF, 10% family	
1	0	791	1,463
2	0	1,061	1,961
3	0	1,331	2,463
4	0	1,601	2,963
5	0	1,871	3,463
6	0	2,141	3,963
7	0	2,411	4,463
8	0	2,681	4,963
*	0	270	500

Table B.5: FY 2001 Gross Monthly Income Eligibility Table, Utilizing Poverty Guideline adopted by Hawaii

size of family unit		median monthly income	150% of median monthly income	185% of median monthly income
	100% CCDF			
		75% CCDF, 25% family		
			50% CCDF, 50% family	
1	0	799	1,199	1,478
2	0	1,078	1,616	1,993
3	0	1,356	2,034	2,508
4	0	1,634	2,451	3,023
5	0	1,913	2,869	3,538
6	0	2,191	3,286	4,053
7	0	2,486	3,729	4,599
8	0	2,748	4,121	5,083
*	0	278	418	515

Table B.5: FY 2002 Gross Monthly Income Eligibility Table, Utilizing Poverty Guideline adopted from the 48 Contiguous States and D.C.

size of family unit		median monthly income	150% of median monthly income
	90% CCDF, 10% family		
		50% CCDF, 50% family	
1	0	716	1,074
2	0	968	1,451
3	0	1,219	1,829
4	0	1,471	2,206
5	0	1,723	2,584
6	0	1,974	2,961
7	0	2,226	3,339
8	0	2,478	3,716
*	0	252	378

Appendix C – Responses

GOVERNMENT OF GUAM



Carl T.C. Gutierrez
GOVERNOR

Madeleine Z. Bordallo
LIEUTENANT GOVERNOR

DEPARTMENT OF PUBLIC HEALTH & SOCIAL SERVICES
(DIPATTAMENTON SALUT PUPBLEKO YAN SETBISION SUSIAT)

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Dennis G. Rodriguez
DIRECTOR

Joe R. San Agustin
DEPUTY DIRECTOR

NOV 07 2002

Memorandum

To: Public Auditor

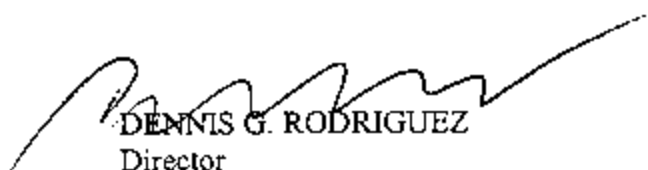
From: Director, Department of Public Health and Social Services

Subject: Response to Child Care and Development Fund
Draft Report, OPA No. 02-06

Received by Office of the
Public Auditor
11/07/02
4:10 PM

Hafa Adai! Transmitted herewith is the Division of Public Welfare's response to the Child Care and Development Fund Draft Report covering the period October 2000 to February 2001 performance audit.

For any additional information, you may contact me at 735-7102 or Ms. Diana B. Calvo, Chief Human Services Administrator, at 735-7274.


DENNIS G. RODRIGUEZ
Director

Attachments

cc: Controller, DOA
BBMR

**CHILD CARE AND DEVELOPMENT FUND
OCTOBER 2000 TO FEBRUARY 2001 PERFORMANCE AUDIT
OPA REPORT NO. 02-06**

DPHSS RESPONSE TO DRAFT REPORT – RECEIVED 10/21/02

AUDIT OBJECTIVE	DESCRIPTION OF FINDINGS	RESPONSE
<p style="text-align: center;">A</p> <p>Was the depletion of funds caused by the disbursement of benefits to ineligible persons?</p>	<p>Finding 1: Ineligible provider due to lack of child care provider license or health certificate</p> <p>Finding 2: Possible ineligible participants</p> <p>Finding 3: Lack of due diligence in verifying status of dependents claimed</p>	<p>Agree: Provider Registry not updated timely to easily monitor and track provider status.</p> <p>Case 70-00464: Disagree on questioned cost. Overpaid home provider a total of \$450 only for February 2001 and not total \$1,130. Case is combined licensed & license-exempt provider.</p> <ol style="list-style-type: none"> Case No. 70-01609: Disagree. Case re-certified from September 2000 to February 2001 on 10/4/00; however, DPHSS received report that client ceased work on 10/8/00. No documentation on file of action taken, but Certificate Issuance was informed not to release certificate effective October 2000. No overpayment made because no payment was made during these period. Case No. 30-42346: Agree. However, school-aged children were allowed full time care for December due to Christmas Break. Questioned cost should be reduced to \$450.00 <p>Disagree. Listed documents in Section 2002.65(1) are examples of verification documents that DPHSS may request from an applicant.</p> <p>A tax statement may not be present in verifying the validity of dependency information provided by applicants. Tax statement is one source of verifying the household composition (status of dependents claimed). Other sources include a statement from the village mayor, lease agreement, or GHURA contract) as per CCDF Manual, Section 2002.64.</p>

AUDIT OBJECTIVE	DESCRIPTION OF FINDINGS	RESPONSE
<p>A</p> <p>Was the depletion of funds caused by the disbursement of benefits to ineligible persons?</p> <p>(Continued)</p>	<p>Finding 3: Lack of due diligence in verifying status of dependents claimed</p>	<p>Disagree. Listed documents in Section 2002.65(1) are examples of verification documents that DPHSS may request from an applicant. A tax statement may not be present in verifying the validity of dependency information provided by applicants. Tax statement is one source of verifying the household composition (status of dependents claimed). Other sources include a statement from the village mayor, lease agreement, or GHURA contract) as per CCDF Manual, Section 2002.64.</p> <p><u>Corrective Action:</u></p> <ul style="list-style-type: none"> Program Coordinator I will maintain Provider Registry to ensure child care providers are in compliance with requirements, and refer those that do not meet the requirements for suspension or denial of payments. Eligibility Specialists (ES) will enforce participant responsibility to report changes in their household circumstances and ensure dispositions are done accurately according to current procedures and in a timely manner. Effective 10/1/01, ES required participants to submit tax returns for all new and reopen CCDF cases. ES Supervisor will conduct 100% supervisory case reviews on all new and reopen cases.

AUDIT OBJECTIVE	DESCRIPTION OF FINDINGS	RESPONSE
<p>B</p> <p>Was the depletion of funds caused by a failure of the DPHSS to follow grant requirements and conditions?</p>	<p>Finding 4: Forged check payments</p> <p>Finding 5: Insufficient internal control</p>	<p>No response.</p> <p>Disagree on citation, untimely disposition for Case No. 70-01450 - application date was 12/13/00; and Case No. 70-01651 - application date was 9/28/00, disposition day was 10/6/00. Case No. 70-01725 days beyond should be 14 days -- application date was 11/21/00. Note that disposition is within 10 calendar days from date of application.</p> <p>Disagree on citation, missing document(s) for Case No. 30-32306 - AHRD verification of employment indicates client is under their program from 10/30/00 to 2/6/01; and Case No. 30-42346 - we do not request birth certificates for JOBS clients since we can verify that information through the AGUPA system.</p>

AUDIT OBJECTIVE	DESCRIPTION OF FINDINGS	RESPONSE																
B Was the depletion of funds caused by a failure of the DPHSS to follow grant requirements and conditions? (Continued)	Finding 5: Insufficient internal control	<p>Disagree on citation, "Noncompliance with the earmarking requirement". OPA needs to re-revisit figures. Administrative cost is limited to 5% of funds expended from each allotment. The grantee may not spend more than five percent of total CCDF awards on administrative costs. For the period ending March 31, 2001, the amount of expenditures are as follows:</p> <table><tr><th>Grant Award</th><th>Total Expenditures</th><th>Administrative Cost Expenditures</th><th>Percentage</th></tr><tr><td>FY 2001</td><td>\$1,864,650</td><td>\$66,192</td><td>4%</td></tr><tr><td>FY 2000</td><td>\$2,733,208</td><td>\$82,045</td><td>3%</td></tr><tr><td>FY 1999</td><td>\$2,475,538</td><td>\$135,675</td><td>5%</td></tr></table> <p>There is no indication that the expenditures under the Administrative earmark exceeded the maximum allowable amount per grant period.</p> <p><u>Corrective Action:</u></p> <ul style="list-style-type: none">• DPHSS has been utilizing Tribal Tracker system to capture current participant data. The ES will ensure that all cases are entered into the Tribal Tracker as part of case disposition.• The ES Supervisor will conduct supervisory case reviews for all new and reopen cases.• Record keeping procedures has been established to ensure files are maintained in accordance with federal and local laws.• Administrative Assistant has been trained on procurement process to ensure funding sources are identified in all transactions.• DPHSS has established a Microsoft Excel format to track financial transactions that would allow easier access for tracking and monitoring.	Grant Award	Total Expenditures	Administrative Cost Expenditures	Percentage	FY 2001	\$1,864,650	\$66,192	4%	FY 2000	\$2,733,208	\$82,045	3%	FY 1999	\$2,475,538	\$135,675	5%
Grant Award	Total Expenditures	Administrative Cost Expenditures	Percentage															
FY 2001	\$1,864,650	\$66,192	4%															
FY 2000	\$2,733,208	\$82,045	3%															
FY 1999	\$2,475,538	\$135,675	5%															

AUDIT OBJECTIVE	DESCRIPTION OF FINDINGS	RESPONSE
<p>C</p> <p>Was the depletion of funds caused by the lack of timely financial information available from the Department of Administration?</p>	<p>Lack of timely financial reporting information</p> <p>Differences in financial information provided to the OPA</p>	<p>Agree. However, for CCDF ACF-696 report, DPHSS has been the responsible reporting entity. DPHSS prepares the report using DOA documents as a source, causing the reports to be delayed in submitting to the federal agency.</p> <p>DPHSS did not have direct access to DOA Oracle System on a daily basis to monitor and track financial information. Accessing the system required staff to be physically at DOA, and often times, had to compete with other agencies for a work station. In addition, utilizing the system required numerous training in generating financial reports that were not even consistent. Reconciliation was a nightmare.</p> <p>Agree. DOA Oracle System was not able to provide accurate financial information.</p> <p><u>Corrective Action:</u></p> <ul style="list-style-type: none"> Effective FY 2002, DOA has reverted back to the AS400 system wherein DPHSS has direct access to the financial management system on a daily basis. The Chief of the Division of Public Welfare, DPHSS, ensures that reports are to be prepared timely and accurately. A calendar for the submission of reports to the Federal Government have been established and provided to responsible individuals within the department.

AUDIT OBJECTIVE	DESCRIPTION OF FINDINGS	RESPONSE
<p>D</p> <p>Was the depletion of funds caused by lack of appropriate management oversight of the program?</p>	<p>Lack of trend analysis</p> <p>Poverty level guidelines modified</p> <p>Alternative data sources not sought</p>	<p>Agree. DPHSS had been manually generating certificates and processing direct payments and ledgers using a Microsoft Office Excel program. The overwhelming transactions have made it difficult to maintain an accurate information system. A database this size allowed for a high error rate in that security to the data is very limited; staff at times over wrote existing data that causes for timely researching, re-inputting, and reorganizing.</p> <p>Presented Graph 1, years 1996 through 2000 are unduplicated counts; illustration for year 2001 should also reflect unduplicated count, which is 1,459 number of families and 2,636 number of children served.</p> <p>Agree.</p> <p>Disagree. Manual data was not readily available for management's review. DPHSS begun manual tracking, but due to inconsistency in persons handling the ledgers, entries have been incomplete and/or have been overridden. There was no complete record compiled on all transactions. There was no reliable computer system to capture the transactions.</p>

AUDIT OBJECTIVE	DESCRIPTION OF FINDINGS	RESPONSE
<p>D</p> <p>Was the depletion of funds caused by lack of appropriate management oversight of the program?</p> <p>(Continued)</p>	<p>Unobligated and overspent grant funds</p>	<p>Agree. Unobligated grant funds had been reverted back to the federal granting agency.</p> <p>Child care assistance program have been greatly utilized during this period. Staff efforts were focused on issuance of certificates and processing of requests for payment; not realizing the problem on our PC-based tracking system to capture all certificates to eligible families and payments processed. DOA also encountered problems on the implementation of the new financial management system. We were not able to reconcile financial transaction records.</p> <p>Presented Table 2.2 indicated a grant award of \$2,252,983 for year 1999; 1999 grant award was \$2,162,983. Grant award for fiscal year 2001 was \$3,810,250. See attached letters dated July 1, 1999 and July 1, 2001.</p> <p><u>Corrective Action:</u></p> <ul style="list-style-type: none"> • Overspent grant funds had been covered by other DPHSS programs. • DPHSS has established and implemented a Microsoft Excel format (ledger) to compile financial transactions that would allow easier access for tracking and monitoring. • Effective FY 2002, DOA has reverted back to the AS400 system wherein DPHSS has direct access to the financial management system on a daily basis. • DPHSS will explore capability of a file merge (reconciliation program) between certificates issued and certificates remitted back to program for payment.

jlc:11/6/02