

**ATTACHMENT 3**  
**STATE IMPROPER AUTHORIZATIONS FOR PAYMENT REPORT AND**  
**INSTRUCTIONS (ACF-402)**

**PART I. PROGRAM ASSURANCES AND CERTIFICATIONS**

The Lead Agency, named below, assures and certifies that:

1. The data collection process, including sample selection and case record reviews, adhered to all requirements of the "Measuring Improper Authorizations for Payment in the Child Care Program" instructions and regulations at 45 CFR 98 Subpart K.
2. The reviews were not conducted by persons who make or approve the eligibility determinations or are under the supervision of persons responsible for eligibility determinations.
3. All reviewers have been trained to ensure that the review process is consistent with State policies and that there is consistency within the State in interpretation of what is an error.
4. The State agrees to retain *Record Review Worksheets, Data Entry Forms, the State Improper Authorizations for Payment Report* and any revisions, and any other records pertinent to the case reviews and submission of error rate reports for five years from the date of submission of the *State Improper Authorizations for Payment Report* or final revision submitted, whichever date is later.
5. The State understands that this information, including the sampled case records and calculations are subject to Federal review.

<b>Submission Date:</b>	_____
<b>Name:</b>	<b>Camille Maben</b>
<b>Signature:</b>	_____
<b>Title:</b>	<b>Director, Child Development Division</b>
<b>State:</b>	<b>California</b>
<b>State Agency:</b>	<b>Department of Education</b>
<b>Phone Number:</b>	<b>916-323-1326</b>
<b>E-mail:</b>	<b>cmaben@cde.ca.gov</b>
<b>Fiscal Year:</b>	<b>Federal Fiscal Year 2010</b>



**11.** States indicate the number of replacement cases used each month of the 12 month review period and reason for each replacement. If there are more than three replacement cases in a single month, and there are more than three reasons, the State places an asterisk after the name of the month and includes the additional information below the table.

<b>Month</b>	<b>Reason(s) for Replacement Cases (please list)</b>	<b># Times Reason Used</b>
<b>October</b>	The agency's database software reported the child as continuing to receive services for the review month when in fact services were terminated in a previous month.	2
	The contracted center ceased to exist because the Department could not apportion funds during the state's budget impasse. The center's executives could not be located to obtain the file because their whereabouts are unknown.	1
<b>November</b>		
<b>December</b>	The agency's database software reported the child as continuing to receive services for the review month when in fact services were terminated in a previous month.	1
<b>January</b>		
<b>February</b>		
<b>March</b>		
<b>April</b>	The agency's database software reported the child as continuing to receive services for the review month when in fact services were terminated in a previous month.	1
<b>May</b>	The agency's database software reported the child as continuing to receive services for the review month when in fact services were terminated in a previous month.	1
<b>June</b>		
<b>July</b>	The agency's database software reported the child as continuing to receive services for the review month when in fact services were terminated in a previous month.	3
<b>August</b>	The agency's database software reported the child as continuing to receive services for the review month when in fact services were terminated in a previous month.	2
<b>September</b>	The agency's database software reported the child as continuing to receive services for the review month when in fact services were terminated in a previous month.	2

**Item #**

12B

In addition to the State assurance and certification that the improper payments data collection process adhered to all requirements, describe lessons learned from, or improvements made in, implementation of the error rate review process during the current review cycle.

States do not re-state the fieldwork preparation plan, but provide a summary of any improvements made or lessons learned during implementation of the error rate review process.

The California Department of Education (CDE) found that utilizing existing personnel from the Alternative Payment and Center-Based Monitoring Units to perform case file reviews for the federal review was effective because staff is already familiar with the state policies and procedures for determining child care subsidy eligibility and authorization. File reviews were always done by more than one staff person to promote inter-rater reliability. During the review process, CDE learned that it was necessary to have a debrief meeting with the teams on a weekly basis to ensure accuracy and consistency as well as to discuss any issues that may have arisen throughout the week. In addition, all files were subjected to secondary and tertiary reviews by managers of both units, above.

Since the last federal review, California refined its agency-by-agency review process by focusing on those agencies at greatest risk for errors and providing those agencies with intense technical assistance until their error rate was within a tolerable range. California has also begun taking adverse action relative to those agencies that cannot reduce their error rates to target levels within time periods specified by the lead agency. We believe both approaches, when applied at the agency level, have been effective in reducing our overall state error rate.

**Item #**

13B

Of the cases with an improper authorization for payment provide:

- (1) The **percentage of cases** with improper authorization errors due to missing or insufficient documentation (#5 divided by #3 above)
- (2) The **number of cases** with improper authorization errors due to missing or insufficient documentation and **examples** of the two most common occurrences.

(Example—Thirty cases with an improper authorization for payment had errors due to **missing or insufficient documentation**, of which 20 were due to income errors, such as missing pay stubs, and 10 were due to hours of care needed, such as missing work schedules.)

- (3) The **number of cases** with improper authorization errors due to causes **other** than missing or insufficient documentation and **examples** of the two most common occurrences.

(Example—Fifteen of the cases with an improper authorization for payment

had errors due to **other** causes, of which eight were due to calculation errors, such as failing to add all amounts of gross income and seven were due to misapplication of policy, such as granting eligibility to a family that had income over-scale.

Of the 31 cases containing improper authorizations for payment, 14 cases were improperly authorized due to missing or insufficient documentation. These 14 files represented 5 percent of the 276 total files in the sample. These 14 files also represent 45 percent of all files containing improper authorizations for payment. Of the 14 files, 4 contained errors in adequately documenting the need for services (for example, parents' job seeking timeline expired and there was no documentation in the file supporting the parent's subsequent need for services). An additional 4 were due to missing or insufficient documentation on the Application for Services. Examples include the absence of the Application for Services, or a missing parent signature, or the child receiving services was not listed on the Application for Services.

Seventeen (17) cases with an improper authorization for payment had errors due to causes other than missing or insufficient documentation, of which 14 were due to income errors, such as failing to add all gross income or treating bi-weekly pay stubs as semi-monthly. The income miscalculations caused errors in assessing the appropriate co-payment for the family.

**Item #**

14B Describe the implementation actions and the timeline planned to correct each type of improper authorization for payment error identified in Item 13B in order to reach the targeted reductions identified in Item 18B. Describe the method(s) that will be used between review cycles to measure progress in reducing improper payments.

Based on the analysis of the 2010 federal review data, California will estimate which agencies are most at risk of producing a file containing an improper authorization for payment in the next federal review. The CDE will direct their two operating teams (Alternative Payment and Center Based Monitoring Units) as well as the local agency's assigned consultant to provide targeted technical assistance to those agencies with the goal of reducing errors.

The causes of errors found within the review included:

- Inadequate documentation of the need for services
- Incomplete applications for services
- Miscalculations of family income used to determine co-payment

In addition to the current process for technical assistance, agencies that have an estimated error rate above 10 percent are required to complete and implement an error rate reduction plan (ERRP). The ERRP allows state reviewers the opportunity to work specifically and directly with the local agency to reduce the error rate.

The CDE will also work with stakeholders to simplify our calculation of family co-payment. Mistaken family co-payments currently comprise half of our estimated improper authorizations

for payment. CDE believes that the complexity of the current calculation and the frequency of recalculations produce high error rates in co-payment determination.

The CDE is also in the process of finalizing a Review Manual and Resource Guide that will allow local agencies to duplicate our error rate reviews. CDE will attempt to promulgate regulations requiring local agencies to utilize this manual and report estimated error rates.

**Item #**

15B What is the amount of actual improper payments the State expects to recover as a result of the review? Base this amount on the total amount of improper over authorizations for payment for the review period, found in 4B.

Include in State responses how many cases the State already has referred for investigation/further action to recover these funds, as well as any other actions being taken to date. Quality control staff and State fraud teams can provide past data upon which to base expected recovery data.

California notes that the estimate in this report is an estimate of over-authorizations, not actual payments, and that none of the over-authorizations were attributable to fraud. Therefore, we do not believe that there is adequate basis for recovery. We also note that the average over-authorization is less than \$299 (just over \$9,000 in total improper over-authorizations), and believe that the cost of recovery - including staff time to investigate whether an improper payment occurred, staff time to construct a billing, and staff time to address any agency appeals - would be greater than the amount recovered.

At this time, given the relatively insignificant amount of funds identified as improper authorizations for payment during this review, the CDE believes that its resources will be more effectively expended on practices that will improve future error rates. We currently estimate that we will recover \$0 of over-authorizations.

**Item #**

16B Describe the information systems and other infrastructure that assist the State in identifying and reducing improper authorizations and improper payments. If the Lead Agency does not have these tools, describe actions to be taken to acquire the necessary information systems and other infrastructure.

States provide a brief overview of the ways in which automation is used to prevent improper authorizations and improper payments and to support identification and recovery efforts. (For example, a State child care information system that is integrated with the child support information system will prevent eligibility determinations that do not consider child support income.)

It is necessary to distinguish between the welfare-to-work (voucher) programs and contracted centers. The voucher programs provide cash benefits, which are more likely to result in client fraud than the service-only benefits provided by contracted centers.

In the voucher programs, clients are generally referred from local county welfare departments, which utilize extensive data-matching systems to identify client fraud. Therefore, clients in the voucher programs undergo a systemic data-matching process in order to receive cash aid prior to enrollment in the programs administered by the CDE.

The CDE does not have the capacity to perform data checks on clients whose services are reimbursed through child care and development funds. In order to provide this level of data-matching, the CDE would require federal authorization to collect social security numbers. All data matches available to the CDE are based on client social security numbers.

As noted above, contracted centers are less vulnerable to client fraud because they provide a service rather than a cash reimbursement. Funds are distributed directly to contractors to provide services. The CDE believes that a strong deterrent to contractor malfeasance by contracted centers is the requisite, annual independent audits that are reviewed by the CDE.

As discussed in Item 14B, the CDE has two teams working full-time reviewing files, identifying errors and improper authorizations, and providing program assistance to improve administrative accuracy. Agency specific error rate estimates have been successful in identifying issues that impact future statewide estimates and reducing the incidence of errors.

**Item #**

17B Detail the actions the State is currently taking or plans to take in the future to ensure that the Lead Agency and eligibility workers will be accountable for reducing improper authorizations and improper payments. Describe any Federal or State statutory or regulatory barriers which may limit the State's corrective action in reducing and recovering improper payments.

Include in the response to this question actions such as use of performance measures to address accuracy of eligibility determination.

The CDE currently has a system in place for taking adverse action against agencies that perform poorly. If, after the extensive technical assistance discussed previously, agencies continue to produce significant errors, the CDE's existing system will determine whether to discontinue funding to deficient agencies.

California believes that the federal regulatory language regarding disallowed funds, as defined in the preamble to 45 CFR Part 98, provides a regulatory impediment toward establishing ongoing recovery of improper payments. Current federal policies provide no incentive for states to identify improper payments when the immediate result of such efforts is the loss of funding.

**Item #**

18B Provide the error rate data and targets set in the previous cycle and data and targets set for the next cycle for: percentage of cases with an error; percentage of cases with an improper authorization for payment; percentage of improper authorizations for payment; average amount of improper authorizations for payment; and estimated annual amount of improper authorizations for payment. Enter the data and targets into the table provided. It is expected that State targets will show continual improvement.

Data for the previous reporting cycle are contained in Items #6-10 of the previous *State Improper Authorizations for Payment Report* submitted by States. The targets are contained in Item #18A of that report.

<b>Error Measures</b>	<b>Previous Cycle Data</b>	<b>Previous Cycle Target</b>	<b>Current Cycle Data</b>	<b>Target for Next Cycle</b>
Percentage of cases with an error	<b>34%</b>	<b>30%</b>	<b>17.00%</b>	<b>10%</b>
Percentage of cases with an improper authorization for payment	<b>25%</b>	<b>19%</b>	<b>11.23%</b>	<b>5%</b>
Percentage of improper authorizations for payment	<b>16%</b>	<b>11%</b>	<b>5.70%</b>	<b>3%</b>
Average amount of improper authorizations for payment	<b>\$369.37</b>	<b>\$350</b>	<b>\$298.88</b>	<b>\$250</b>
Estimated annual amount of improper authorizations for payment	<b>\$196,333,147</b>	<b>\$100,938,065</b>	<b>\$16,007,135</b>	<b>\$8,424,808</b>

California does not report on annual authorizations for payment, and is unable to capture this information in its automated system. Therefore, the CDE is using **Option A – Calculating a Payments to Authorizations Percentage from the Sample**, as identified in the *Technical Assistance Document: ACF-402, Item #10*. This methodology was applied to derive the response entered in Part I, Question 10. The following methodology was used:

<b>Formula for Deriving Estimated Annual Amount of Improper Payments</b>	
Total Authorizations	\$158,484.30
Total Payments	\$149,682,.98
Percent of Difference (assume same percentage)	<b>94%</b>
Amount of Payment for Direct Services	\$536,539,257
Apply Pooling Factor of 49.2%	\$263,977,314
Estimated Annual Amt of Auth for Pymt	\$280,826,930
<b>Estimated Annual Amt of Auth for Pymt X Error Rate (6%)</b>	<b>\$16,007,135</b>

Because the CDE has no way of knowing how much direct service costs or the percentage of authorizations to payments may change in the upcoming three years, we held both of these items constant, and applied an error rate percentage of 11 percent (our targeted goal) to the same figures used to obtain the estimated annual amount of improper authorizations for payment.

Formula for Deriving Target Annual Estimates	
N/A	
N/A	
Percent of Difference (assume same percentage)	<b>94%</b>
Amount of Payment for Direct Services	\$536,539,257
Apply Pooling Factor of 49.2%	\$263,977,314
Estimated Annual Amt of Auth for Pymt	\$280,826,930
<b>Estimated Annual Amt of Auth for Pymt X Error Rate (3%)</b>	<b>\$8,424,808</b>

**Item #**

19B Describe if the State met targets set in the previous cycle and, if not, provide an explanation of why the State did not meet its targets.

States indicate if the data for the current cycle, reported in Item #18B, met the targets established in the previous cycle. States explain why any targets were not met. (For example, a State may have exceeded the target reduction in percentage of improper authorizations for payment for the review period, but the percentage of cases with errors increased. The errors that were made included new areas needing corrective action or errors due to migration to a new automated system).

During the last reporting cycle the CDE set targets that were reasonable to accomplish in the time allotted. California is pleased to say that all of the previous cycle's targets were met. In the previous report, the CDE set a target rate of 30 percent for the percentage of cases with an error; during this review cycle, California decreased this estimate to 17 percent which is 13 percent lower than the anticipated target. The estimated percentage of cases with improper authorizations for payment is 11 percent, 8 percent less than the target of 19 percent. Finally, the estimated percentage of improper authorizations for payment is 6 percent, 10 percent less than the previous cycle's estimated percentage (16 percent) and far less than the target rate of 11 percent. This decrease in estimated improper authorizations for payments means that in California improper authorizations for payment have decreased by 62.5 percent.

**Item #**

20B Discuss causes of errors and improper authorizations for payment identified in the previous cycle and actions that were taken to correct those causes in order to reduce error rates.

If targets for the current cycle were met, States identify the causes of errors in the previous cycle and the responses that were effective in helping to meet the target. (For example, if manual miscalculation of eligible hours of subsidized child care was a major cause of error in the prior cycle, an effective response might have been a switch to automated calculation of eligible hours.)

In the previous cycle California had 68 files containing improper authorization for payments, 46 files were improperly authorized due to missing or insufficient information and 22 files were improperly authorized for reasons other than missing or insufficient information.

Examples of improper authorizations for payments due to missing or insufficient documentation by frequency of occurrence:

- **Provider Rates:** In some cases, there were no provider rates in the file at all; in other cases, the file did not contain either the legally required provider rate sheet, or other required provider documentation.
- **Presumptive Eligibility:** Errors that are assessed when a family is authorized for service prior to receiving corroborating documentation in the areas of need and eligibility.
- **Eligibility:** The file lacked verification of vocational training.
- **Need Documentation Not Updated:** The family's need was not updated and the authorized care was not modified to reflect the family's changed circumstances.

Examples of improper authorizations for payments for reasons other than missing or insufficient documentation:

**Incorrect Calculation of Authorization:** This category addresses errors in the calculation of the appropriate authorization for payment. File errors in this area indicate a payment was authorized that exceeds the limits set by the State based on the Regional Market Rate Survey of 2006. This type of error occurs in instances such as:

- Incorrect selection of age category
- Selection of authorized reimbursement that is not consistent with applicable state regulation
- Selection of an authorized reimbursement that is not consistent with the family's documented need for care

Based on these types of errors, state reviewers focused their attention on conducting reviews or re-reviews of local agencies deemed high risk and large agencies that have a greater probability of contributing files to the federal sample. On-going training and technical assistance was provided to those agencies, in addition to working on error rate reduction plans, to address the types and causes of errors found in the previous federal review. The training and technical assistance consisted of providing CDE staff as presenters at state trainings and/or conferences, individualized trainings, shadowing of case workers in high risk agencies, and regular review of family files.

Based on the re-reviews of local agencies to date, the CDE has seen a marked decrease in the estimated error rates for individual local agencies. Several local agencies whose performance did not meet the CDE standards elected to cease operating child development programs through funding provided by the CDE. Those local agencies have been replaced by other, high-performing agencies.