

CHILDREN, YOUTH & FAMILIES DEPARTMENT

Audit of Child Care

April 22, 2004



Report to
The LEGISLATIVE FINANCE COMMITTEE

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State of New Mexico
LEGISLATIVE FINANCE COMMITTEE

325 Don Gaspar • Suite 101, Santa Fe, New Mexico 87501
(505) 986-4550 Fax: (505) 986-4545

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April 22, 2004

Ms. Mary-Dale Bolson, Secretary
Children, Youth & Families Department
1120 Paseo De Peralta, PERA Building
Santa Fe, New Mexico 87501

Dear Ms. Bolson:

On behalf of Legislative Finance Committee (LFC), we are pleased to transmit this report of the Child Care Program. We believe this report addresses the issues the LFC asked us to examine and hope that you will benefit from our efforts.

With assistance from your staff, the audit team examined documents and analyzed data in preparation of this report. Its contents were discussed with our staff at an exit conference held April 12, 2004

We appreciate the department's cooperation and assistance.

Sincerely,

A handwritten signature in cursive script that reads "David Abbey".

David Abbey
Director

DA:LL/yr:lg

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EXECUTIVE SUMMARY

The objective of this audit was to determine the adequacy of Children, Youth and Families Department (CYFD) monitoring and oversight efforts for the child care program to answer the following questions:

- Ascertain cost of program at varying levels of eligibility guidelines.
- Review child care goals, including early childhood education.
- Determine if the handling of complaints is adequate and equitable.
- Determine if requirements, oversight and inspection of licensed and registered childcare facilities are adequate.

The \$77.4 million allocated to provider payments in FY05 will be insufficient.

FY05 cost estimates indicate that the \$77.4 million allocated for provider payments will be insufficient to maintain eligibility at the 150 percent federal poverty level (FPL). Since increased child care use does not generate increased federal funding, wait lists are likely in FY05.

CYFD has changed eligibility based upon available funding.

Due to a funding shortfall, eligibility was reduced from 200 to 100 percent FPL as of August 2001. In May 2003, FPL was increased to 130 percent FPL and to 150 percent FPL as of August 2003 due to increased state funding and a \$3.1 million non-recurring federal grant. Historically, eligibility has been adjusted based upon available funding and average cost rather than a comprehensive cost analysis. This methodology is not adequate to assist in the appropriate selection of a sustainable FPL.

New Mexico is funding childcare at higher income levels than many other states. Funding has increased child care services at a time when 32 other states decreased services.

Potential costs raise concerns about what should be the state's funding priorities.

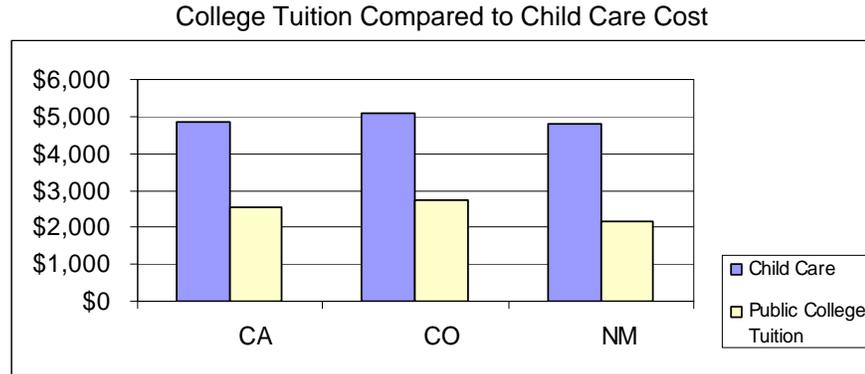
The potential costs of child care raise concerns about what should be the state's funding priorities. Limited funds impair the state's ability to improve service quality to facilitate a child's readiness to learn. Thus legislators are forced to make choices between increasing the number of participants, developing new program initiatives or providing/improving quality of early childhood education. However, the Urban Institute reports that "early childhood education programs...tend to be significantly more expensive than child care, covering fewer children with a given level of funding".

Child care is more expensive than public college tuition.

Performance measures have not been aligned with program goals.

Other states have replicated Head Start standards in existing child care facilities and provided financial incentives for the development of new facilities.

According to a 2002 NCSL report, the price of enrolling a 4-year-old in full-time preschool is higher than the price of public college tuition:



Source: LFC auditor compilation.

Note: child care cost data includes the total average cost of both public (including parental co-pays) and private payors.

Other common child care concerns among the states are the shortage of qualified teachers, high staff turnover, and low wages and benefits.

CYFD is just beginning to clarify goals for the child care program. Consequently, performance measures have not been aligned with program goals nor coordinated with other agencies. For example, CYFD's has emphasized expanding the number of children receiving service to support parents participating in the workforce. However, there are no performance measures reporting the results of this effort.

Initiatives considered by other states include:

- Financial incentives for development of child care facilities and/or other purposes related to child care;
- Replicating Head Start standards in existing child care facilities and/or requiring providers to coordinate with Head Start programs;
- Grants for quality improvement;
- School districts contracting with community based organizations to administer a universal pre-kindergarten program;
- Sales tax exemptions to provide full-day, evening and weekend child care;
- Loan guarantee fund for providers serving lower income families in communities with the greatest need;

Reporting of physical abuse complaints to police was not documented by caseworkers.

Providers owe CYFD more than \$1.2 million for over-payments.

Most overpayments are caused by absences not being reported to CYFD.

Physical access to some computers is not restricted.

- Tax credits for start-up costs of new providers in geographical locations with the greatest need for additional childcare services; and/or
- Creation of a single state agency to administer/coordinate all early childhood funds, programs and services.

CYFD responds timely to program complaints. However, file documentation requires improvement. Five physical abuse complaints self-reported by child care providers in Region 1 (Albuquerque office) were reviewed, but no evidence could be found to indicate that they were reported to police as required. In Region 2 (Santa Fe office), three complaints were not immediately reported to law enforcement officials.

Provider inspection and licensing is performed in compliance with program requirements. However, CYFD only requires an annual inspection of provider facilities which is usually performed just before a facility's license comes up for renewal. There is minimal follow-up on deficiencies in Region 2 to ensure corrective action unless there are complaints.

Child care providers owe CYFD more than \$1.2 million for over-payments dating back to June 1995. One national provider owes more than \$40,000 for its 14 New Mexico facilities. CYFD does not aggressively pursue collection.

The Family Automated Client Tracking System (FACTS) can generate multiple payments to the same provider for the same child for the same service period. Such payments can be appropriate when multiple providers are used; however, some are not. Some errors are the result of caseworkers not closing a former placement when a child changes providers. Most payment errors are the result of parents and providers not reporting absences. However, it would be cost prohibitive for CYFD to review attendance reports for all children; additional staff would be required. Also FACTS is not programmed to calculate co-pays. Staff are calculating co-pays manually.

Physical access to desktop computers and stand alone databases, including those used to perform criminal background checks, is not restricted during business hours. A February 2004 federal audit of the FACTS application system also identified eligibility, re-determination and accounts receivable functions that do not comply with system automation requirements. The disaster recovery plan does not consider events which may occur in the data center.

<p><i>Include comprehensive multi-year cost analysis with annual budget request.</i></p>	<p>Recommendations:</p> <p>Prepare comprehensive multi-year cost analysis prior to expanding eligibility. Modify FPL and program eligibility as necessary considering available funding. Avoid institution of waiting lists. Include cost projections with annual budget request.</p>
<p><i>Align performance measures with program goals. Identify costs of each.</i></p>	<p>Identify key program goals and align performance measures with those goals. Identify costs of each goal. Include a measure which reports the success of the child care program in supporting parents participating in the workforce. Coordinate cross-cutting goals and measures with other agencies.</p>
<p><i>Program FACTS to require caseworkers to specifically authorize multiple payments.</i></p>	<p>Prioritize resources to allow staff to improve monitoring of facilities and follow-up of recurring complaints. Increase inspection of facilities with recurring problems to ensure the safety and health of children receiving services. Perform surprise inspections.</p>
<p><i>Program FACTS to require caseworkers to specifically authorize multiple payments.</i></p>	<p>Program FACTS system controls to require system users (caseworkers) to review and authorize multiple payments during service periods with the same dates prior to payments being generated.</p>
<p><i>Program FACTS to require caseworkers to specifically authorize multiple payments.</i></p>	<p>Program FACTS to generate a report which indicates caseworkers responsible for overpayments and provide additional training to them. Also program FACTS to calculate and document monthly co-pays.</p>
<p><i>Program FACTS to require caseworkers to specifically authorize multiple payments.</i></p>	<p>Require providers to positively report monthly attendance to caseworkers. Randomly select a sample to review to ensure the accuracy of payments.</p>
<p><i>Actively pursue collection of overpayments.</i></p>	<p>Actively pursue collection of overpayments, including withholding amounts from current payments and interception through tax refunds. Impose additional penalties on providers who make no attempt to repay.</p>
<p><i>Provide security for all databases.</i></p>	<p>Provide appropriate security for standalone databases and physical access to desktop computers. Keep computer rooms locked at all times and restrict access to authorized users only. Implement a business continuity plan that identifies functions essential for business survival.</p>

BACKGROUND INFORMATION

The Children, Youth & Families Department (CYFD) administers the state's child care program and has the authority to promulgate rules and regulations under the state plan. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) eliminated federal childcare entitlements and consolidated the major sources of federal childcare subsidies for low-income children into a single block grant to states, the Child Care and Development Fund (CCDF). PRWORA provides increased flexibility in targeting childcare dollars; however, it repealed the open-ended federal entitlement to families for Title IV-A childcare, placing a cap on the level of federal childcare funds that a state may access. Thus, increased childcare use no longer generates increased federal funding. States may also elect to have other childcare programs which have no federal funding components.

Three of the four programs consolidated into the CCDF block grant previously existed under Title IV-A of the Social Security Act: the AFDC Child Care Program, now the temporary assistance to needy families program (TANF), the Transitional Child Care Program, and At-Risk Child Care. The fourth consolidated subsidy was the Child Care and Development Block Grant (CCDBG) which had provided federal childcare funds for states to assist low-income families, as well as for activities to improve the overall quality and supply of childcare for all families. CCDBG has an upper income eligibility limit of 85 percent of the state median income.

PRWORA allows states to transfer up to 30 percent of TANF funding from cash assistance to childcare. CCDF has three funding categories:

1. Mandatory funds - Each state's entitlement with no matching requirements.
2. Matching funds - Available to states that maintain spending equal to their prior Title IV-A childcare match. New Mexico is required to maintain spending of \$3.45 million. Childcare expenditures above that level are matched by federal dollars up to the state's allocated share of these funds. Maximum allocation is based on the proportion of the state's children under age 13.
3. Discretionary funds - Distributed to states according to the prior rules governing the distribution of CCDBG funds, which were based on the proportion of children under five years old, the number of children receiving free or reduced price school lunches, and the state's average per capita income.

CCDF is generally limited to families with children under age 13, although states may assist families with children up to age 19 who have special needs or are receiving protective services. CCDF requires that:

- not less than seventy percent (70%) of the mandatory and matching funds be used to meet childcare needs of TANF families receiving assistance under part A, Title IV of the *Social Security Act* who are transitioning off of such assistance, or who are at risk of becoming dependent on such assistance;

- no less than four percent (4%) of funds shall be used for activities to improve the quality of childcare;
- no more than five percent (5%) of funds may be used for administrative activities; and
- states must expend an amount of non-federal funds for childcare activities in the state that is at least equal to the state's share of expenditures for fiscal year 1994 or 1995.

Federal law and the state plan establish the following priority for childcare services:

- 1A Clients receiving TANF benefits;
- 1B Families at risk of becoming dependent on TANF;
- 2 Clients transitioning off TANF (eligible for childcare assistance for 12-months following their TANF case closure);
- 3 Clients participating in the education and training program; and
- 4 Clients eligible under the current 150 percent of poverty rule and clients previously eligible under the old 200 percent of poverty rule.

Appropriations for provider payments in FY05 is as follows:

Table 1-FY05 Childcare Funding

Source	Amount
CCDB	\$ 31,320,000
TANF transfer to CCDBG	32,535,300
Direct TANF child care spending	0
State matching funds	12,679,200
Other state funds	900,000
Total	\$ 77,434,500

Source: CYFD budget documents.

Eligible services can be centered-based, group home childcare, family childcare or in-home childcare. Regulations for registration and licensing of each type of childcare facility vary with regard to requirements, monitoring and inspection.

Authority for Review. The Legislative Finance Committee (LFC) has the statutory authority under section 2-5-3 NMSA 1978 to examine laws governing the finances and operations of departments, agencies and institutions of New Mexico and all of its political subdivisions, the effects of laws on the proper functioning of these governmental units and the policies and costs. LFC is also authorized to make recommendations for change to the Legislature. In furtherance of its statutory responsibility, the LFC may conduct inquiries into specific transactions affecting the operating policies and cost of governmental units and their compliance with state law.

Objectives. The objectives of this audit are to:

- Ascertain cost of program at varying levels of eligibility guidelines.
- Review childcare goals, including early childhood education.
- Determine if the handling of complaints is adequate and equitable.
- Determine if requirements, oversight and inspection of licensed and registered childcare facilities are adequate.

Procedures. Procedures included, but were not limited to:

- Review of laws and regulations.
- Analysis of FACTS database.
- Review of program documents, including complaint investigation, provider files, and recipient data.
- Meeting with program staff, and
- Review of national data, reports of other states, etc.

Audit Team Members. The audit team members were:

Manu Patel, Deputy Director Performance Audit

La Vonne Cornett, Senior Performance Auditor

Edward Paz, CISA

Alicia Ortiz, Performance Auditor

Scott Roybal, Performance Auditor

Susan Fleischman, Performance Auditor

Exit Conference. The contents of this report were discussed with Secretary Mary-Dale Bolson, division director Marg Ellison and other department staff on April 13, 2004.

Report Distribution. This report is intended for the information of the Office of the Governor, the Children, Youth and Families Department, the Department of Finance and Administration, the Office of the State Auditor, and the Legislative Finance Committee. This restriction is not intended to limit distribution of this report which is a matter of public record.



Manu Patel

Deputy Director for Performance Audit

FINDINGS and RECOMMENDATIONS

Service Level and Program Costs. New Mexico is currently funding 13 percent of the state's child care assistance needs at 150 percent of the federal poverty level (FPL). Governor Richardson wants to increase eligibility to 200 percent FPL. However, LFC cost estimates indicate that there is insufficient funding to maintain the FPL at 150 percent without instituting wait lists. Historically, CYFD has revised eligibility (FPL) in accordance with available funding and estimated participation.

New Mexico is currently estimated to be funding 13 percent of the state's child care needs at approximately 23,600 children. The National Council of State Legislatures (NCSL) reports a national average of 14 percent of eligible children. New Mexico has increased eligibility from 100 to 150 percent of the federal poverty level for child care assistance at a time when 32 other states have reduced assistance by reducing income eligibility limits, increasing co-payments, reducing provider payments, and instituting waiting lists. The inability of states to rely upon unspent temporary assistance to needy families program (TANF) funds from prior years and increased provider costs are the major causes. Congress also cut federal funding for child care by decreasing discretionary funding by .65 percent.

Parents are eligible for child care subsidy up to age 13 unless a child's medical condition or protective service needs require continued care in which case the subsidy can be extended until age 19. For year 2000, the latest year for which census data is available, 106,510 (25.7%) New Mexico children under age 14 lived in families with income below 100 percent FPL. [Note: United States Census Bureau population data does not exactly match the age 13 cutoff so the reported child care population cannot precisely be compared.] Approximately 54 percent of New Mexico children live in families with income below 200 percent FPL.

Due to a funding shortfall, eligibility was reduced from 200 percent FPL to 100 percent FPL as of August 1, 2001 and remained at 100 percent until May 1, 2003 when it was increased to 130 percent FPL as a result of increased funding. Eligibility increased to 150 percent FPL as of August 1, 2003 when a \$3.1 million non-recurring federal grant was awarded. In FY05, legislative appropriations will replace the \$3.1 million. CYFD revises eligibility (FPL) in accordance with available funding and estimated participation at various FPLs. Although CYFD uses its child care "roadmap" to analyze participation, CYFD revises eligibility (FPL) in accordance with available funding and estimated participation at various FPLs. This methodology is not adequate to assist in the appropriate selection of an FPL. For example, estimated monthly cost is listed as \$257 even though actual costs for prior months is higher. Thus the estimated cost is unrealistic. Better strategic planning is needed to stabilize the program.

Table 2 indicates the estimated number of eligible New Mexico children at different FPLs in comparison to the actual number/percentages of children served in fiscal years 2001 through the first eight months of 2004.

Table 2 - Children served at various FPLs

State Fiscal Year	Period	Eligible Population	Number Served (Monthly Average)	Percent of Eligible Population Served
FY01 200% FPL	12 months (July 2000-June 2001)	228,294	22,475	9.8%
FY02* 200% FPL	One month (July 2001)	231,097	22,737	9.8%
100% FPL	11 months (Aug 2001-June 2002)	109,142	23,186	21.2%
FY03 100% FPL	10 months (July 2002-April 2003)	110,482	22,076	20.0%
130% FPL	Two months (May 2003-June 2003)	151,426	22,103	14.6%
FY04 130% FPL	One month (July 2003)	153,286	21,664	14.1%
150% FPL	Seven months (Aug 2003-Feb 2004)	180,741	23,641	13.0%

Sources: Calculated from U.S. Census Bureau, CYFD Child Care Road Map and Child and Development Fund Annual Report (FFY02) data.

CYFD reports that 100 percent of currently eligible families who have applied for child care assistance receive it. Table 2 indicates that all eligible New Mexico families do not apply for CYFD assistance. It is unclear why all eligible families do not apply. CYFD staff suggest that it may be that many parents receive child care services from family members and/or that they are unaware of the availability of financial assistance. Native Americans can receive services from other programs. (National literature also reports lack of application by eligible persons in other states with similar reasons given.) CYFD has prepared a pamphlet which is distributed in public locations to assist in notifying potentially eligible persons as to the availability of child care assistance. In addition, all TANF recipients are informed of the program by the Human Services Department. However, each additional participant has a significant cost.

Exhibits A-1 and A-2 are provided for informational purposes only; they indicate current monthly payment amounts to providers by type of service and recent income eligibility requirements for applicants. New Mexico has subsidized day care services as follows:

Table 3-State's share of child care services per child

	FY03	FY02	FY01
Provider cost	\$67.98 million	\$68.84 million	\$59.49 million
Average number of children served	22,080	23,149	22,475
Average annual cost per child	\$ 3,079	\$ 2,974	\$ 2,647

Source: Compiled from CYFD data.

Data for the first eight months of FY04 suggests that the current annual cost of care per child is \$3,292. Although providers have not received a general rate increase since FY02, providers who implemented AIM HIGH (quality program enhancements) have received monthly rate increases of \$25 to \$100 per child. Thus, the average annual cost continued to increase in FY03 and FY04. CYFD estimates that AIM HIGH enhancements will cost an additional \$773,000 in FY05.

AIM HIGH was planned in 1999 and enhancements were first funded in 2000. AIM HIGH attempts to improve the quality of child care services through early childhood training and technical assistance programs (TTAPS) to family child care homes, centers and school-age programs. AIM HIGH has five levels:

- Level One -Administrative Policies and Procedures
- Level Two -Environment and Curriculum
- Level Three -Staff Development
- Level Four -Child/Staff Ratios
- Level Five -Accreditation

For Table 4, historical data was used to estimate annual child care cost of \$3,400 in FY05 and to estimate participation percentages at various FPLs. U.S. Census data for annual population growth was adjusted by 1.288 percent consistent with University of New Mexico (UNM) Bureau of Business Economic Research (BBER) methodology. It appears that the \$77.4 million FY05 allocation for provider payments will be insufficient unless wait lists are instituted, a significant number of current participants drop off, FPL is reduced and/or the cost per child is reduced.

Table 4-FY05 Cost Estimate by Federal Poverty Level

FPL	Estimated Number Eligible Children	Estimated Participation Percentage	Estimated Number Children to Receive Services	Estimated Average Annual Cost Per Child	Total Estimated Cost
200%	239,716	10.5	25,170	\$3,400	\$ 85,578,000
150%	182,959	13.0	23,785	\$3,400	\$ 80,869,000
130%	155,169	15.0	23,275	\$3,400	\$ 79,135,000
100%	113,213	18.0	20,378	\$3,400	\$ 69,285,200

Source: LFC auditor estimates.

Using the same methodology as for FY05, provider payments were adjusted to \$3,600 per child in FY06 and estimated costs are as follows:

Table 5-FY06 Cost Estimate by Federal Poverty Level

FPL	Estimated Number Eligible Children	Estimated Participation Percentage	Estimated Number Children to Receive Services	Estimated Average Annual Cost Per Child	Total Estimated Cost
200%	242,660	10.5	25,479	\$3,600	\$ 91,724,400
150%	185,207	13.2	24,447	\$3,600	\$ 88,009,200
130%	157,074	15.2	23,875	\$3,600	\$ 85,950,000
100%	114,603	18.2	20,857	\$3,600	\$ 75,085,200

Source: LFC auditor estimates.

Exhibit B contains additional estimates of costs using other assumptions including no fee increase for providers. However, in general, the \$77.4 million allocated for FY05 provider payments appears to be insufficient at 130 percent FPL and above. A concern which has not been

considered in these estimates is the possibility of a reduced TANF transfer by the Human Services Department in the future.

Recommendations:

Perform comprehensive analysis to ensure adequacy of available recurring funding prior to increasing FPL eligibility levels. Annually prepare a comprehensive multi-year cost analysis using different assumptions such as provider costs, FPL, participation percentage, and population growth. Present analysis with annual budget request.

Do not increase eligibility without sufficient consideration of long-term funding. Avoid waiting lists.

Department Responses:

CYFD will perform comprehensive analyses on funding needs prior to raising FPL eligibility levels. CYFD has an established process for analyzing child care assistance expenditures monthly and projecting annual expenditures in all program categories. The analysis is based on historical expenditures and growth in the program categories. Comparing the number of potentially eligible families to the actual number served has not been a reliable indicator for projecting future growth. When program changes are made, such as increasing rates for accredited providers and AIM HIGH participants, projected costs are calculated into the monthly and annual expenditures and projected expenditures for several subsequent years. CYFD will prepare a comprehensive analysis using different assumptions such as provider costs, FPL, participation percentage and population trends with projected expenditures based on current eligibility levels as an addendum to the annual budget request.

Participation in the child care assistance program fluctuates. When eligibility levels are changed, it takes some time for families to enroll and/or dis-enroll off the program. In August 2001, the eligibility level was reduced to 100% FPL to avoid a waiting list. Families lost their assistance benefit when they received small raises to increase their income, and they were placed on a contact list. When the eligibility level was increased to 130% in March 2003, and again to 150% in July 2003, families on the contact list were able to return or stay on the program with a higher income, thereby increasing their chances for self-sufficiency. The trade off between increasing child care eligibility versus initiating a waiting list is challenging. Based on current projections at 150% FPL, initiation of a waiting list will be necessary in State Fiscal Year 2005. Many child care and family advocates have encouraged the development of a waiting list over the past three years. Based on this finding, CYFD will develop a five-year plan that considers long term funding trends. CYFD monitors forecasts that could result in reductions in federal TANF transfer funds and the re-authorization of TANF funds transferred to Child Care Development Fund.

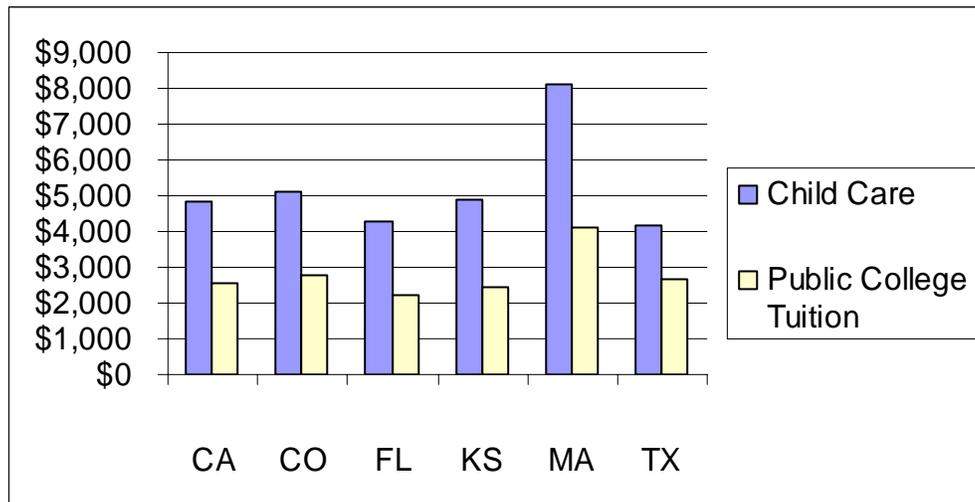
Funding Priorities and Program Goals. The potential costs of child care raise concerns about what should be the state’s funding priorities. Limited funds and the difficulty in finding qualified teachers impair the state’s ability to improve service quality such as adding early childhood educational components to enhance a child’s readiness to learn. The National Council of State Legislatures (NCSL) recommends layering/blending funding sources to maximize resources.

The potential costs of assisting all families with eligible children raises concerns about what should be the state’s funding priorities. According to a 2003 NCSL paper *Financing Early Care and Education*, there are numerous policy choices for lawmakers to consider including:

- Focusing on increasing the number of children who participate.
- Focusing on a specific component such as coordination of programs addressing quality or management of supply and availability.
- Focusing on a specific system such as a child care subsidy system, pre-kindergarten or supplementing Head Start and other early childhood development programs. And,
- Focusing on policy choices within specific categories such as a pre-kindergarten program.

Limited funds result in states making tradeoffs. According to the NCSL, in “nearly every State in the nation, the price of enrolling a 4-year-old in full-time preschool is higher than the price of public college tuition...Families can spend between \$3,000 and \$13,000 per year for each child they enroll in full-time care”. The Children’s Defense Fund reported in a 2000 paper, *The High Cost of Child Care Puts Quality Care Out of Reach for Many Families*, that New Mexico center based child care for a four-year-old in an urban area averages \$4,801 compared to \$2,180 for tuition at a four-year public college. NCSL compares other state costs as follows:

Figure 1. Child Care Costs Compared to College Tuition in Six States



Source: Danielle Ewen, Children’s Defense Fund.

CYFD has most recently emphasized increasing the number of children served. (Exhibit C indicates the cost and numbers of children served by the child care program in counties around the state.) Two performance measures which CYFD reports quarterly in the updated Strategic Plan are the “Available Licensed and Registered Child Care Slot Capacity” and “Child Care Assistance

Clients Served". The thinking is that increasing the number of children provided services will support New Mexicans to participate in the work force and/or pursue educational opportunities which will improve their success in the labor market. The FY05 budget includes an outcome measure which will report the increase in the percent of movement through levels one through five of the AIM HIGH quality initiatives to the child care program. However, current performance measures do not report the success of the childcare program in supporting parents to participate in the workforce. For example, a meaningful measure would report the success of the child care assistance program in supporting TANF recipients who transition into and length of time they remain in the workforce.

Development of childcare services, facilities and providers in geographical locations of greatest need is not a current priority of the child care program. Consequently, CYFD does not track the need for services in rural areas and consequently does not know the cost of such development.

In November 2003, CYFD and the Child Development Board (CDB) reported to the Legislative Education Study Committee (LESC) in response to House Joint Memorial 12 and Senate Joint Memorial 2 (2003 Legislature) to study the alignment of early care education programs in New Mexico and delineate procedures to establish a framework for a comprehensive system of preschool programs. Efforts to ensure quality child care programs were reported to go back thirty years. The following components were recommended for the Alignment Implementation Plan:

- Leadership structure in which the Children's Cabinet served as the oversight authority with the CDB to serve as the early childhood committee of the cabinet.
- A year-long planning initiative to create a state early childhood education plan to align systems and agree on professional standards.
- A long-term plan to create sustainable infrastructure for system alignment; and
- Funding to support implementation efforts including staffing, printing and planning events (\$150,000) and scholarships for early childhood teachers (\$500,000).

The \$650,000 was not funded. Instead, CYFD allocated \$30,000 from the Child Care and Development Fund (CCDF) and the departments of Health and Public Education have each provided \$25,000. Each agency is also contracting separately with the University of New Mexico (UNM) Center for Family and Community toward the shared work plan to develop a framework to align early childhood education systems statewide. UNM has begun to meet with stakeholders to review services, eligibility criteria and other variables. CYFD plans to allocate \$100,000 per annum from the CCDF for the TEACH program which provides scholarships for early childhood teachers.

CYFD has also undertaken two other initiatives. First there are ten vendor agreements establishing pilot projects in Bernalillo and Dona Ana counties to provide a 45 hour course and a monitoring form to home based providers and a 16 hour course to registered relative providers (Dona Ana only). A second initiative will train monitors in the 45 and 16 hour courses which will be modified based on feedback from the pilot projects. The use of contracts like these is a strategy used in California and other states to enhance program development

Concerns common to New Mexico and other states are the shortage of qualified teachers, high staff turnover, low wages and benefits, and minimal involvement from the private sector. Child care fees based upon market rate surveys are also a limiting factor in the development of high-quality services. Market rate surveys provide data as to what parents can afford or are willing to pay for child care, not what it cost for high-quality services.

An August 2003 paper *Integrating Early Education Standard in Child Care* prepared by the Center for Law and Social Policy states that “child care has become the new opportunity to promote education and overall child development.” However, the cost of retaining quality/skilled personnel is high. In previous audits of the Public Education Department, the LFC has reported difficulty of public schools to find certified teachers and the cost of finding them. It is likely that child care facilities would experience similar difficulties. A 1998 Urban Institute report *Child Care Assistance under Welfare Reform: Early Responses by the States* indicates that “Early childhood education programs, with their emphasis on developmentally appropriate care...tend to be significantly more expensive than child care, covering fewer children with a given level of funding.”

Although the Head Start program targets families with incomes at or below the poverty level and children with special needs, federal law allows states to coordinate Head Start funding with other state and federal child care block grant, Head Start, state and federal education funds, parental fees, private sector/business contributions, and other sources to provide early childhood education to provide a single, cohesive program. (In New Mexico, there are three Head Start programs, federal, migrant and tribal reporting to two federal agencies.) For example, funds can be blended whereby agencies/programs (education, HEAD Start, social services, etc.) participate in a portion of the daily unit cost per child. Such cross system/agency coordination would provide:

- Systemic child care-preschool or Head Start partnerships.
- Policies that allow early care and education programs to prepare a single budget that includes multiple funding sources which results in a single audit trail providing accountability.
- Common funding standards and monitoring practices across all programs.
- Coordinated/consolidated requests for proposals, reporting, and other administrative and funding policies.

Other strategies proposed by NCSL are “portable” support and direct institutional support to early care and education providers to increase the quality of child care. Portable support ties funding to a specific child or family and follows them to whatever program is selected. Direct institutional support sustains the development of educational programs and building of new facilities.

NCSL and other organizations report the following initiatives adopted or considered by other states:

- Financial incentives for development of child care services for young children under the age of three and provision of free pre-kindergarten for at-risk three and four year olds.
- Targeted technical assistance such as grants to nonprofit child care programs to supplement the cost of purchasing computers or supplementing the salary of educators.

- Assistance directed specifically at family child care providers without financial resources such as transportation, recruitment, and training. For example, resource vans that visit family child care homes and distribute training materials and supplies.
- Replicating Head Start standards in existing child care center facilities.
- Requiring providers to coordinate with preschool and Head Start programs, particularly pre-kindergarten programs, and/or expansion of Head Start to full-day, full-year.
- Quality improvement grants.
- School readiness initiatives. Many New York school districts contract with community based agencies to house or administer the universal pre-kindergarten program that requires them to identify family needs and available programs.
- Georgia offers financial awards up to \$8,000 to pre-kindergarten providers who meet additional program standards.
- Sales and use tax exemptions for tax-exempt organizations to provide full-day child care services or additional evening, weekend and/or drop-in services.
- Sales tax exemption on purchase of education materials by child care providers.
- Eliminating the 12th grade and re-directing funding to pre-school programs.
- Creation of a loan guarantee fund for providers who serve lower-income families in communities with the greatest need.
- Tax credits for start-up costs for employer sponsored child care, including credits for employers who allow part-time or flexible employee work schedules.
- Personal income tax child care credits for the working poor.
- Voluntary tax check-off for preschool and child care.
- Financial incentives to establish a career (“training”) ladder for child care workers or stipends paid directly to credentialed teachers and directors working with regulated child care programs.
- Legislation which makes fully paid health care coverage available to providers who serve a minimum percentage of low-income children.
- Requirement for licensed child care centers to comply with a state standard for age-appropriate curriculum to promote reading preparation.
- Financial incentives for start-up costs of new providers in geographical locations with the greatest need for additional childcare services.
- Developer surcharges and impact fees to support the development of child care services.
- Creation of a single state agency to administer or coordinate all early childhood funds, programs and services, and
- Special rates for rural child care providers in counties with minimal services.

CYFD is currently in the process of clarifying the goals of the child care program. However, each enhancement to the child care program carries a significant cost. Therefore New Mexico will need to identify the cost of each enhancement and select from among different alternatives.

Recommendations:

Identify key child care program goals and establish priority. Identify cost of each. Then consider appropriate strategies to achieve those goals in order of priority. Develop a plan for layering/blending existing funding to maximize child care services and early education

opportunities. Specifically identify cost of each goal, including the cost to develop child care facilities in areas of greatest need. Present plan to the 2005 Legislature and with annual budget request thereafter.

Develop and report performance measures which align with key program goals. Rather than lowering FPL to increase participation to utilize available funding, consider enhancements to current services such as early childhood development and/or other services with the best cost-benefit ratio; also consider expanding outreach efforts at lower FPLs. Since TANF is a significant component of child care funding, ensure that measures report the effect of child care on TANF participants and those transitioning off of TANF.

Department Responses:

The key program goal of the child care assistance program is to provide low income families access to safe and stable child care while they are working or attending school in order to assist them in achieving self-sufficiency. Other key program goals include: improving the quality of child care; respecting family choice around type of child care; preparing children for school success; and maintaining self-sufficiency of families leaving child care assistance.

CYFD has identified several strategies to improve quality child care and to design a system for quality early childhood programs. Listed below are some of the approaches that CYFD is actively pursuing:

- Increasing AIM HIGH rates to encourage child care providers to improve the quality of their services.
- Implementing a pilot project to increase the number of monitoring visits to non-participating registered homes and using a child care review checklist to assess regulation compliance and appropriate child development activities. This pilot project will be implemented with registered providers statewide.
- Developing and piloting an 18-hour training course for registered providers
- Establishing a Child Care Facility Loan Fund. CYFD is partnering with New Mexico Finance Authority to develop priorities and criteria for loans to improve child care facilities.
- Five pilot projects are underway to assist selected child care providers to develop “Head Start” models in their facilities. CYFD is partnering with federal Head Start grantees on these pilot projects.

The Children’s Cabinet has identified service quality in early child hood programs as a major priority. In conjunction with the Children’s Cabinet, CYFD is working with the Public Education Department and the Department of Health to develop an “Early Learning Plan” that establishes program standards for child care and other early care programs; learning outcomes for children entering Kindergarten; and a workforce development plan to increase the number of teachers capable of delivering such programming. CYFD’s direction in this administration is consistent with the NCSL recommendation to layer and blend funding.

In New Mexico, there are many examples of local programs that achieved blended funding for child care programs with an early education component. For example, the Hobbs Head Start

Program provides “wrap around services” using child care assistance funds in combination with federal funds for a partial day Head Start program.

This “Early Learning Plan” including the above listed elements, with projected costs, will be submitted to the Legislative Education Subcommittee and the Children’s Cabinet by October 1, 2004.

CYFD has engaged in the process of developing performance measures that will align with key program goals. These performance measures include: the number of children in quality child care programs as measured by AIM HIGH participation; the number of families receiving assistance who are working as well as the number of families leaving the program due to higher incomes, and who are able to maintain self-sufficiency after leaving the program. CYFD has developed new performance indicators, including a performance measure relating to the percent of families (TANF, TANF transitional and families at 100% FPL) maintaining self-sufficiency after leaving the child care assistance program. CYFD will work with the Income Support Division of the Human Services Department to track the TANF families.

CYFD will consider enhancements to current services such as early childhood development programs and other services. There are tradeoffs related to improvements in service quality. Without additional funding, fewer children will receive child care assistance.

The annual cost of quality child care programs is higher than annual state tuitions. Improving child care and aligning early childhood programs will require increased investment to promote early education and child development.

Investigation of Complaints. CYFD responds timely to program complaints. However, file documentation requires improvement. Five physical abuse complaints self-reported by child care providers in Region 1 (Albuquerque office) were reviewed, but no evidence could be found to indicate that they were reported to police. In Region 2 (Santa Fe office), three complaints were not immediately reported to law enforcement officials. Case file documentation indicates that the complaints had been closed suggesting that they had been appropriately resolved. Region 2 also needs to prioritize staff assignments to ensure better follow-up and actual resolution of substantiated complaints.

A review of 62 complaints in Region 1 (Albuquerque) and Region 2 (Santa Fe) found that CYFD’s initial investigation of complaints is appropriately substantiated or dismissed as unsubstantiated. Complaints are usually investigated timely; however, both regions need to improve file documentation.

Table 6-Summary of Complaints Reviewed

	Region 1	Region 2
Number complaints reviewed by auditors	30	32
Instances of missing/poor documentation	1	25
Number complaints where required timeframe for initiating investigation was exceeded	2	3
Number complaints where required timeframe for completing written reports was exceeded	3	10
Number of complaints lacking evidence of provider notification	2	0
Inconsistent dates on documents/spreadsheet	0	5

Source: LFC auditors’ work papers.

CYFD protocol requires that complaints be investigated and a report be written within two calendar weeks. However, Region 1 staff use a 12-working day time frame even though protocol does not permit supervisors to extend response time without the approval of the regional field manager. In some instances the date an investigation was completed could not be confirmed.

In Region 1, five P1b (physical abuse) complaints self-reported by child care providers were reviewed. CYFD protocol requires CYFD to report such incidents to local law enforcement. However, no evidence could be found to indicate that they were reported to police. In Region 2, three complaints were not immediately reported to law enforcement officials. A box on the intake form should be checked by the investigator to indicate that police were notified. However, they were not checked. Case file documentation indicates that the complaints had been closed suggesting that they had been appropriately resolved. The form would be better designed if it clearly provided space to indicate the date, time, phone number and officer notified.

There is also very little follow-up in Region 2 to ensure that valid complaints are resolved by providers. Staff who investigate complaints are also responsible for licensing and facility inspections. Because of heavy workload, limited staff and lack of prioritization, CYFD assumes that providers will perform corrective action. Follow-up is only performed when additional complaints are received. For example a large child care center routinely has substantiated complaints about the ratio of staff to children.

Although Region 1 caseworkers carry a heavier workload, they also have clerical support for filing and other duties which Santa Fe caseworkers do not have. Also when staff is on leave for extended periods, there is no one available in Santa Fe other than the other caseworker to pick up the absent person's workload.

Region 2 has two staff who work on complaints, provider inspections and licensing. During the period of review, one person had just returned from an extended period of leave. At the end of each month, each region records complaints which have been investigated in an Excel spreadsheet even though CYFD protocol requires weekly entry. Management does not use the spreadsheets to monitor the status of complaints as they come in nor is the data used to assess the nature and type of recurring complaints. It would be difficult for management to use the spreadsheet for this purpose since data is not entered timely. As a result, the data is of limited usefulness except as a typed summary of how each complaint was resolved.

Recommendations:

Identify best operation practices of each region and implement in other regional offices. Provide Region 2 with clerical staff to assist complaints/licensing and eligibility staff. Prioritize resources to allow staff to perform follow-up monitoring on facilities with recurring complaints to ensure the safety of children in their care.

Ensure that CYFD protocol for self-reported physical abuse complaints is followed by all regions and that documentation is complete for each complaint. Modify intake form to clearly indicate when and who notified police.

Require staff to enter complaints in Excel as they are received. Log in each complaint with a control number as received. Require management to use data to monitor the status of complaint resolution and evaluate the nature, type and frequency of recurring complaints to ensure timely and appropriate resolution. Focus monitoring and training efforts on recurring problem areas.

Department Responses:

On April 2, 2004, Child Care Licensing Procedures were implemented statewide, using the best practices of all the regional offices. Training on the procedures for all licensing staff is scheduled on May 19-20, 2004. This training will reduce disparities in procedures and documentation in licensing regions. Management will use a complaint log as an information tool to determine appropriateness and timeliness of response. Family Services has begun to explore options for providing additional clerical support to Region 2. Private investigators are under contract with CYFD to conduct investigations on incidents and complaints. Staff in Licensing Region 2 will utilize these investigators to relieve the surveyors' workload and direct their resources to surveys and follow-ups. A Regulation Compliance Tool (RCT) is being piloted to compile information on the number and types of deficiencies cited during annual surveys and on the follow-up on these deficiencies. The RCT will be fully implemented by August 2004. Four new surveyors will be hired over the next several months to assist with the surveyors' workloads. Employees will be evaluated on their ability to conduct timely surveys and follow-ups on all deficiencies.

Licensing complaints and incidents are investigated according to the Licensing Complaint Protocol (LCP) (Revised July 14, 2003). The LCP provides guidance to the licensing staff on prioritizing investigations of complaints and incidents in child care facilities. The complaint protocol requires that staff use "working days" as a time frame for initiating the investigations. The protocol also requires the development of a report on the outcome of the investigation two weeks after the conclusion of the investigation. Through more frequent supervisory visits and review of case files by the Licensing Supervisors, the Regional Operation Manager will address the issue of missing or incomplete documentation and the requirement of staff to contact law enforcement or Statewide Central Intake to report suspected abuse.

Management will use the Licensing Complaint Log as a tool by reviewing and analyzing the results monthly, addressing problems as they arise and through interim reviews on the Employee Development and Appraisal tool as needed. The new Regulation Compliance Tool will be used to compile information on the number and types of deficiencies cited during annual surveys and on the follow-up on these deficiencies. Training on this tool will be conducted at the training scheduled in May for all licensing staff. Management will be able to use this tool to monitor each licensing surveyors' follow-up activities and to ensure that appropriate follow-ups on deficiencies are conducted.

Provider Licensing and Inspection. Provider licensing and inspection is timely. However, staff assignments should be prioritized to allow for “surprise” (unscheduled) inspections. There is also minimal follow-up on deficiencies in the Region 2 (Santa Fe) office.

Eligible child care services can be center-based, group home, family or in-home. Regulations for registration and licensing of each type of facility vary with regard to licensing, inspection and monitoring. Currently, provider facilities are required to be inspected at least once annually.

Documentation contained in CYFD provider files appears to be complete and contains the required minimum documentation. However, CYFD inspections are not a surprise to providers because they are usually performed just before the annual license renewal. There is virtually no monitoring the other 11 months of the year unless there is a complaint against the facility. There is also minimal follow-up on deficiencies by the Region 2 (Santa Fe) office due to there being only two staff who handle complaints, licensing and inspection.

Recommendations:

Prioritize resources to return to the practice of biannual inspections of providers with at least one inspection being a “surprise” to providers. For providers with recurring instances of non-compliance, increase the frequency of unannounced inspections to ensure the health and safety of children receiving services.

Department Response:

It is more effective for staff to revisit centers with corrective action plans than to visit exemplary centers semi-annually. Surveyors currently are able to spread their annual surveys throughout the year to maintain annual inspections. Management will address the issue of “surprise” or “unannounced” visits to providers with Region 2 Licensing staff.

FACTS Database. The Family Automated Client Tracking System (FACTS) database is set up to generate payments automatically and can generate multiple payments for the same child for the same service period. Although such payments are not always erroneous, many are incorrect. Most payment errors are the result of parents and providers not reporting absences.

The FACTS payment system is set up to automatically generate monthly payments to providers and adjustments are made only on an exception basis. Although a child is allowed 10 monthly consecutive absences without provider penalty (reduction of payment amount) to allow for chronic illness or family emergency, payments are reduced for short-term absences such as one day. To reduce an automatic payment, a provider or guardian of a recipient must contact a CYFD caseworker. [Note: ten absences may be overly generous considering that 22 days is usually the maximum number of days per month that a parent may use child care services. However, the benefit of this is that the child will not forfeit his or her slot with the provider if there is an extended illness or family emergency.]

CYFD relies upon the provider and parents to notify the department when there is a change in eligibility which would affect co-pays and/or payments for services. Unless the child is on the

food nutrition program, CYFD receives no other report of daily attendance. However, for CYFD to review all attendance reports of all children who receive child care assistance might be cost prohibitive because CYFD would require additional staff.

It is also possible for FACTS to generate multiple payments for the same child for the same service period. Such payments can be appropriate when multiple providers are used; however, most are not. For example, payment errors can occur when a child changes providers in the middle of a month. A caseworker may open a new placement without closing the old placement which will result in overlapping payments.

FACTS is not used to calculate participant co-pays which would be a timesaver and reduce errors. Caseworkers manually calculate co-pays using the “Case Summary/Gross Income Computation Form”. Caseworkers often use an existing form to calculate changes rather than prepare a new one with a new date. Several changes may also occur during a placement period which compounds tracking problems; participant files do not contain adequate documentation to determine that all co-pays were properly calculated for specific service (payment) periods. Further, co-payment amounts entered in FACTS sometimes differed from hard copy documentation which could result in the state share being inaccurate.

CYFD staff complain that the Family Automated Client Tracking System (FACTS) database is cumbersome and difficult to use requiring weeks or months of use to become proficient. There are several different screens, not all screens are used, and data is duplicated on some screens but requires separate data entry.

Hard copy documentation in 40 client files (30 out of the Santa Fe office and 10 out of the Albuquerque office) was reviewed to test eligibility, proper payment amounts and calculation of proper co-payments. Required hard copy documentation was incomplete or missing as follows:

Table 7 – Documentation Problems

	Santa Fe	Albuquerque	Total
Copy of application not in client file	6 (20%)	0	6
Copy of placement data not in client file	2 (7%)	2 (20%)	4
Service category not indicated in client file	5 (17%)	0	5
Income & other documentation missing from client files	7 instances (4 clients)	0	7
Verification of financial aid missing	23 (77%)	0	23
No documentation that income support data checks performed	45 placements (12 clients)	0	45
Data missing or incomplete for in-home care providers	8 (27%)	5 (50%)	13
FACTS contains old data for a previous placement and is not updated for subsequent placements	10 (33%)	2 (20%)	12

Source: Auditor’s work papers.

A determination could not be made on whether eligibility data such as financial assets which is not applicable for many recipients is being properly entered into the FACTS eligibility screen. Co-payment amounts for more than one child are often combined and entered as one amount in FACTS which makes it difficult to verify data for one child. This is problematic because

caseworkers also review and approve their own work. Also placement dates as indicated in FACTS usually did not match dates in hard copy files.

A 2003 audit performed by the Colorado Department of Human Services found similar documentation problems in the Colorado child care program and raised concerns about the number of compensated absences allowed. It was recommended that Colorado's database separately detail paid absences from actual attendance.

FACTS generates a monthly exception report prior to issuing checks which lists possible duplicate payments. Included in the list are all checks which will exceed \$450 and payments for one day of services only. For the months of November and December 2003, the exception report listed 1,167 and 1,399 proposed payments. Less than five percent (approximately \$52,600 monthly) were found to be erroneous. CYFD spends approximately four days every month reviewing the listing to weed out erroneous payments. Many errors are the result of parents or providers failing to report absences on a timely basis.

CYFD established a group of employees (known as the "TIGER" team) in calendar year 2000 which made recommendations to improve FACTS. For example, the team recommended programming FACTS to generate a report which indicates caseworkers responsible for overpayments. Such a report could indicate problems with specific caseworkers who may not be aware of their errors and/or lack of understanding of FACTS. Some of the team's recommendations have not been implemented because the protective services program also uses FACTS and any changes made which would benefit child care would not necessarily be appropriate for protective services.

Recommendations:

Estimate the annual cost of the ten allowed monthly absences. Then consider reducing the allowed number monthly absences which would increase funds available for other uses. Consider recording data as to the number of compensated absences by child.

Identify specific child care assistance recipients who should be re-certified for eligibility on a quarterly basis. This will prevent some clients from delaying reports of changes in income, employment, education and training activities.

Require caseworkers to prepare a new "Case Summary/Gross Income Computation Form" for each change in co-payment. Forms should be dated and applicable documentation attached and filed in chronological order in recipient's case file. Program FACTS to calculate co-pays, and determine eligibility and service type. Ensure that hard copy and/or electronic file documentation includes all co-pay information to provide a proper audit trail.

Require providers to positively report monthly attendance to caseworkers. Randomly select a sample to review to ensure there are not more than the allowed number of absences.

Program FACTS to require caseworkers to review and specifically authorize multiple payments to multiple providers during service periods with the same dates prior to payments being generated. This will reduce the number of possible exceptions on the monthly exception listing which are

reviewed. (The “Tiger Team” also made a similar recommendation to improve edits in FACTS to prevent duplicate payment.)

Periodically remind caseworkers of hard copy documentation requirements. Management should perform random reviews of case files. Retain hard copy documentation when data has been entered in FACTS to ensure adequacy of the audit trail. Update data in FACTS as needed. Have caseworkers perform supervisory review for each other, rather than for themselves.

Identify ways to make FACTS more user-friendly. For example, a system manual could emphasize the essential screens and data entry requirements. Access to screens could be limited to only those that a worker requires. Eliminate data fields which are not used. Link together FACTS screens that require the same data to minimize duplicate data entry.

Program FACTS to generate a report which indicates which caseworker is responsible for the overpayment. Also program FACTS to report recipients of financial assistance who cause overpayments. Training efforts could be increased for specific workers and recipients. Consider how system controls recommended by the TIGER Team can be implemented for the child care program.

Department Responses:

In our current system, we do not count daily attendance. We purchase child care on a monthly basis. We are, therefore, unable to calculate the cost requested. Currently, the Child Care Assistance regulations allow for absences of ten consecutively scheduled days before the provider or client are required to report the absence. This provision encourages stable child care placement. Young children experience childhood illnesses, such as flu, strep throat, colds, ear infections, etc. that can often keep the child legitimately out of child care for several weeks. Stability of child care placement has been associated with a better sense of self-esteem and security for the child, and a positive effect on child development.

At their discretion, caseworkers can require quarterly recertification for clients who change jobs frequently or whose school schedules change quarterly. Currently, it is estimated that nearly half of the families on assistance are recertified more frequently than the six months allowed for renewal. The caseloads have dramatically increased over the past several years. The Child Care Program has grown from 17,000 clients in SFY1999 to 24,000 in the current State Fiscal Year with the same staffing levels for the same time period.

It is critical that FACTS data and hard copy file data are complete and accurate. Supervisors will address the issue of preparing new “Case Summary/Gross Income Computation Forms for each change in co-payment, and ensure that forms are dated, applicable documentation attached and filed in chronological order in the recipients case file. Compliance issues in the Santa Fe and Albuquerque office are being addressed by management. The Assistance Supervisor will conduct a complete case review for the employees in the Santa Fe child care assistance office. The results of this review will be reported back to the Regional Operations Manager and the Bureau Chief, who will determine if further actions are necessary. These issues will be addressed through re-training, coaching and mentoring. In July 2004, current and new child care assistance workers will be trained using the newly developed Child Care Assistance Training Manual. The training will

include proper documentation and forms that will be completed during an initial application for child care assistance and during re-certifications. The new Employee Development Appraisal will be utilized to set standards for the caseworkers.

The sampling for the audit was restricted to records in Santa Fe and a small number in Albuquerque. CYFD does not think these findings reflect a comprehensive picture of activities throughout the state.

A program enhancement to FACTS related to calculation of co-payments is being considered.

The benefits of a positive report of monthly attendance to caseworks do not outweigh the costs and resource needed. The current system helps to maintain a stable child care arrangement. The system corresponds with how private pay families pay for their child care as they must pay for the arranged number of days with the provider, including absences to ensure that the provider maintains a slot of the child.

A FACTS change request is currently being developed to create a “tickler” or “edit screen” to alert caseworkers to multiple providers payments for the same child. This change request will be submitted to CYFD’s Information Systems Services (ISS) by the end of the month. ISS will then prioritize the change request.

Case Reviews are conducted monthly on three files for each worker. The Management Team has determined that there should be at least 10% of the caseworkers files selected for case reviews. Furthermore, the case reviews method will be modified to concentrate on the most important items, such as income eligibility documentation; proper placement documentation, type and service categories noted, and documentation of ISD screen checks. The training scheduled for July on the Child Care Assistance training manual will emphasize these areas for improvement.

For child care caseworkers, the training scheduled on the Child Care Assistance Training Manual will include the screens that are used for child care case work.

A new procedure is being developed to implement supervisor review of overpayments with the reason(s) for overpayment documented on a spreadsheet for each Region. This procedure will identify whether the overpayment was caused by worker error (by specific caseworker), client or provider failure to report non-attendance and fraud. This new procedure will be implemented June 1, 2004.

Overpayments to Providers. Child care providers owe CYFD more than \$1.2 million dollars for over-payments dating back to June 1995. One national provider owes more than \$40,000 for its 14 New Mexico child care centers.

As of December 10, 2003 child care providers owed CYFD \$1.2 million dollars for overpayments dating back to June 1995. One national provider owes more than \$40,000 for 60 overpayments to its 14 New Mexico child care centers. CYFD refers receivables to a collection agency which retains approximately 21 percent of amounts collected. The balance is paid to CYFD. However, actual collections are much less than the amounts referred. For the 18 month period ended December 2003, CYFD referred \$586,525 for collection; the contractor collected \$145,095 (25

percent) and retained fees of \$30,349. Most overpayments are caused by parents and providers not reporting absences to caseworkers.

CYFD has chosen not to pursue collection aggressively for fear that some providers will cease operations. However, provider contracts clearly specify that they are required to voluntarily reimburse CYFD for overpayments. Delay in collection may result in loss of those funds. CYFD legal staff has interpreted section 37-1-4 NMSA 1978 as limiting collection efforts to four years. However, Article IV, Section 32 of the State Constitution does not allow for remission of debts due to the state.

Three other western states were contacted to ascertain their collection policies. All three actively pursue collection of over payment. Arizona recoups overpayments from contracted providers by withholding funds from subsequent payments and collects from parents as appropriate. Colorado intercepted more than \$60,000 in overpayments from recipient's tax returns last year and also withholds funds from subsequent payments to providers. Utah aggressively pursues collection through letters and subpoenas; parents owing the state who make no attempt at reimbursement are deemed not eligible for future services.

Recommendations:

Reconsider the unwritten policy to not aggressively pursue overpayments to providers, especially when funding is limited. Enforce contract provisions. Recoupments could be made in small monthly amounts through reduction of regular monthly payment. Obtain recoupments prior to expiration of the statute of limitations, if applicable. Impose penalties on providers who make no attempt at reimbursement.

Obtain an opinion from the Attorney General as to the applicability of section 37-1-4 NMSA 1978 to CYFD collection of overpayments.

Department Responses:

CYFD has taken an aggressive approach to pursuing overpayments to providers and clients over the past three months. CYFD will refer all overpayments to the collection agency. CYFD is addressing overpayments for the top thirty debtors, and will be researching these debtors to tie child attendance to the overpayments. Thus far, out of over \$50,000 in overpayments researched, \$22,422 has been recouped. CYFD will research what other states are doing on the concept of reducing regular monthly payments for recoupment purposes and interception of tax returns.

CYFD will conduct research this issue and seek an opinion from the Attorney General's Office.

Child Care Cash Receipts Procedures. CYFD procedures for recording and depositing cash receipts for registration and licensing of child care providers does not ensure these receipts are processed in a timely and efficient manner.

Observation of the cash receipts process for registration and licensing fees of child care providers identified a lack of controls to ensure receipts are processed and deposited in a reliable and timely manner. Receipts are stored overnight in an unlocked desk drawer located in a high traffic area.

Some receipts were more than one week old. Section 6-10-3 NMSA 1978 requires public funds to be deposited within 24 hours of receipt.

Recommendation:

Implement procedures to standardize the process for depositing cash receipts to ensure deposits comply with state law. Receipts can be temporarily posted to a suspense account and copies of checks made until they can be properly identified if necessary.

Department Response:

Family Services will immediately develop procedures to ensure cash receipts are deposited in accordance with CYFD procedures and state law.

Stand Alone Databases. Stand alone databases utilized to manage child care program data exposes CYFD to risks not present in the more secure FACTS database.

CYFD's child care program has developed stand alone custom databases to automate the provider registration process. Weaknesses associated with these databases include:

- Duplication of data input is required for child care provider licensing and registration. For example, common provider information is not shared with a stand alone nutrition program database;
- Lack of security to ensure unauthorized access, modification or deletion; and
- Non-utilization of auditing features to track modifications and deletions.

Lack of security, audit and control over stand alone databases such as Microsoft Access and Lotus Approach exposes CYFD to excessive risks that threaten data integrity and the confidentiality of client and provider information. Lack of integration with the FACTS application and other stand alone databases increases duplication of effort and the potential for data input errors.

Recommendation:

Implement application development policies and procedures to ensure that stand alone custom developed databases provide the same level of integration, security and control as the FACTS application system. Encourage data architecture standards to share common database elements such as client and provider information. Implement network level security to restrict access to only authorized users. Have management review access control lists on a recurring basis to confirm access rights are appropriate.

When designing future computer systems for the child care program, consider all program needs and design a single integrated system that eliminates the use of standalone databases.

Department Response:

As fiscal resources are available, Family Services will add functionality to FACTS to reduce the need for stand-alone databases.

FACTS Eligibility Functions. A recent federal audit of the FACTS application system identified eligibility functions that do not comply with system automation requirements.

The U.S. Health and Human Services Department's Administration for Children and Families (ACF) performed a follow-up compliance assessment of the FACTS system in February 2004. The original assessment performed in 1998 identified ninety findings of non-compliance with federal system automation requirements. The February 2004 audit identified five findings that continue to represent non-compliance. Four of the five findings are related to eligibility and determination processes. The FACTS application is expected to automatically determine and support participant eligibility in order to meet federal automation requirements. Although ACF findings are intended to support specific federal child welfare program requirements and not specifically the child care program, these findings are being highlighted because they relate to a common application utilized by the child care program. The following are findings that continue to represent non-compliance:

- Eligibility - FACTS does not calculate Aid to Families with Dependent Children-related eligibility in an automated fashion. Secondary eligibility workers manually review each file for title IV-E eligibility.
- Eligibility - While the FACTS system captures information related to a provider's license status, the actual determination of whether the placement facility is eligible for title IV-E payments is a manual process. Furthermore, if the status of the provider's license changes after the placement is initiated, the system is unable to calculate the affect the change has on title IV-E eligibility.
- Eligibility - While the eligibility decision is recorded on the system, the expected level of automation does not support the actual determination.
- Re-determinations - The system tracks re-determinations; however, the eligibility worker does the actual calculations and the results are recorded in the system.
- Accounts receivable - The accounts receivable (overpayments) and resource tracking process are not supported through the FACTS system or through an automated interface to the Joint Accounting System.
- Ten additional findings remain in conditional compliance status pending an update to responses to reflect current system functionality or enhancements which the state has or will implement.

CYFD indicates in a March 2004 Advanced Planning Document to the U.S. Department of Health and Human Services (DHHS) that two software releases are scheduled to be completed by December 31, 2004 to address all outstanding findings.

Recommendation:

Monitor the status of FACTS application software releases to ensure modifications are implemented timely and operate effectively to meet federal requirements.

Department Response:

This section is primarily referring to the State Automated Child Welfare Information System (SACWIS) requirements for Protective Services. However, CYFD agrees that re-determinations related to child care functions can be improved. Recently, Family Services developed a prototype software application that automates eligibility and co-payment functionality with the intent to use this application as a model for future incorporation into FACTS.

Physical Access to Computers. Physical access to desktop computers utilized to perform background checks with the FBI and the Department of Public Safety is not restricted during business hours. User IDs are shared and passwords to log on to these computers are not changed on a routine basis.

Physical observation of the background check process for potential child care providers and staff identified weaknesses that could result in unauthorized access and disclosure of background check information. Computers utilized to process background checks are housed in a dedicated room that is physically secured by a locked door; only authorized users are issued keys to the secured room. However, we observed that the room remains unlocked during normal working hours.

Also noted was two users responsible for performing background checks utilize a shared user ID and password to access two dedicated computers. The password for the shared ID is not changed on a routine basis and is only changed when those with knowledge of the password leave CYFD.

Lack of reliable physical security over sensitive computers combined with the use of shared IDs and passwords places these computers at risk of unauthorized access to sensitive information and systems. Unauthorized access jeopardizes the integrity of systems which could ultimately make them unreliable or unavailable. Unauthorized access can also result in disclosure of sensitive data which could result in possible legal ramifications and negatively impact CYFD's image. Sharing user IDs weakens user accountability and impacts CYFD's ability to track user activities.

Recommendations:

Lock computer rooms at all times and ensure that keys to these rooms are logged and restricted to authorized users only. Management should monitor procedures to periodically inventory the location of all keys.

Discontinue the use of shared user IDs. Enforce user password standards that require passwords that are difficult to guess and must be changed frequently. Reinforce to users that their passwords are confidential.

Department Response:

Family Services will keep the computer room locked at all times and keys to the computer room will be distributed to Background Check Staff only.

Family Services will work with the NM Department of Public Safety to address the use of shared user ID's and passwords on the dedicated computers used to obtain Federal Criminal Histories on direct care providers.

IT Recovery Plan. CYFD's FY05 Information Technology Plan for disaster recovery capabilities supports a recovery of critical information in the event of a hardware and/or software failure. However, if a disaster occurs in the data center, CYFD will not be able to respond effectively.

CYFD has developed and tested a disaster recovery plan for the FACTS system. The plan contains detail documentation of backup procedures which contribute to CYFD's ability to restore the FACTS database and application system in the event of a disaster or major service interruption. Additionally, CYFD has two maintenance contracts with Hewlett-Packard and Sybase Inc. that provide for a four-hour response time in the event of a major service interruption. Testing of the disaster recovery procedures has resulted in successful restoration of the Sybase server from a backup during a planned outage.

However, the disaster recovery plan is one component of an overall strategy to ensure that CYFD can continue operations in the event of an emergency that renders the data center or a business location unavailable for an extended period of time. In addition to an application disaster recovery plan, CYFD should implement a business continuity planning program that identifies functions essential for business survival and focuses specific recovery plans on key business processes required to serve constituents and remain "open for business". Implementing a business continuity program not only helps establish contingency plans but also encourages management to evaluate all of its key business and technology processes which can lead to improvements in everyday operations. Business continuity planning can be coordinated at an enterprise level to share resources and subject matter expertise.

Recommendation:

Supplement the FACTS disaster recovery plan with a business continuity planning program to develop strategies and plans for crisis management, risk and threat assessment, business impact analysis, disaster recovery and business recovery.

Department Response:

CYFD has developed an action plan for hardware and software security that includes an update and test of the disaster recovery plan and includes a replicated production server at remote

location. The action plan is contingent on funding and the statewide Information Technology consolidation effort.

Help Desk. CYFD's information technology help desk can enhance customer service by updating automated mechanisms for tracking, escalating and resolving computer user trouble incidents.

Although, the information technology bureau has implemented measures to ensure quality customer care, CYFD can enhance the level of care through additional automated mechanisms. The following can be the benefits of automation efforts:

- Capabilities for automatically escalating critical problem tickets to a higher level of support if a problem is not solved within a defined period of time.
- A mechanism to assist the original help desk support specialist who initially handled a call monitors tickets to ensure end-to-end support is provided in a timely manner.
- A resolution knowledgebase that contains solutions to recurring problems.
- An asset management system that maintains inventories of user hardware and software configurations to assist help desk specialist troubleshoot user problems.
- User surveys to obtain feedback on service image perceived by customers.

Automating help desk practices can help improve customer care and contain costs by solving user problems more efficiently and effectively. CYFD's FY05 IT Plan documented a desire to upgrade its help desk application software. Other state agencies also appear to have similar needs to automate their help desks.

Recommendation:

Continue to document plans for automating help desk practices. Consider leading or coordinating a multi-agency initiative to automate help desk processes to enable technology and process sharing across multiple agencies.

Department Response:

CYFD prepared a Service Desk Enterprise Solution document. The business of the Department is vital to the citizens of New Mexico. CYFD will continue to seek funding to implement the Service Desk Enterprise Solution.

CYFD Monthly Provider Fee Schedule

Exhibit A-1

Child Care Centers								
	Full Time		Part Time 1		Part Time 2		Part Time 3	
	Metro	Rural	Metro	Rural	Metro	Rural	Metro	Rural
Infant	\$467.84	\$352.60	\$350.88	\$264.45	\$233.92	\$176.30	\$116.96	\$88.15
Toddler	\$417.19	\$345.00	\$312.89	\$258.75	\$208.60	\$172.50	\$104.30	\$86.25
Pre-School	\$386.48	\$322.50	\$289.86	\$241.88	\$193.24	\$161.25	\$96.62	\$80.63
School Age	\$337.11	\$311.75	\$252.83	\$233.81	\$168.56	\$155.88	\$84.28	\$77.94
Licensed Group Homes (Capacity: 7-12)								
	Full Time		Part Time 1		Part Time 2		Part Time 3	
	Metro	Rural	Metro	Rural	Metro	Rural	Metro	Rural
Infant	\$370.48	\$324.38	\$277.86	\$243.29	\$185.24	\$162.19	\$92.62	\$81.10
Toddler	\$335.40	\$320.00	\$251.55	\$240.00	\$167.70	\$160.00	\$83.85	\$80.00
Pre-School	\$329.55	\$315.00	\$247.16	\$236.25	\$164.78	\$157.50	\$82.39	\$78.75
School Age	\$325.00	\$305.00	\$243.75	\$228.75	\$162.50	\$152.50	\$81.25	\$76.25
Licensed Family Homes (Capacity: 6 or less)								
	Full Time		Part Time 1		Part Time 2		Part Time 3	
	Metro	Rural	Metro	Rural	Metro	Rural	Metro	Rural
Infant	\$365.20	\$320.00	\$273.90	\$240.00	\$182.60	\$160.00	\$91.30	\$80.00
Toddler	\$325.08	\$315.00	\$243.81	\$236.25	\$162.54	\$157.50	\$81.27	\$78.75
Pre-School	\$324.17	\$310.00	\$243.13	\$232.50	\$162.09	\$155.00	\$81.04	\$77.50
School Age	\$319.28	\$300.00	\$239.46	\$225.00	\$159.64	\$150.00	\$79.82	\$75.00
Registered Homes and In-Home Child Care								
	Full Time		Part Time 1		Part Time 2		Part Time 3	
	Metro	Rural	Metro	Rural	Metro	Rural	Metro	Rural
Infant	\$278.74	\$258.00	\$209.06	\$193.50	\$139.37	\$129.00	\$69.69	\$64.50
Toddler	\$264.00	\$217.69	\$198.00	\$163.27	\$132.00	\$108.85	\$66.00	\$54.42
Pre-School	\$242.00	\$220.00	\$181.50	\$165.00	\$121.00	\$110.00	\$60.50	\$55.00
School Age	\$242.00	\$198.00	\$181.50	\$148.50	\$121.00	\$99.00	\$60.50	\$49.50

Source: CYFD. "Full time" means child requires care 30 or more hours per week. "Part time 1" means child requires 20 to 29 hours of care per week. "Part time 2" means child requires six to 19 hours of care per week. "Part time 3" means child requires less than six hours of care per week.

Exhibit A-2

Monthly Income Eligibility Guidelines for Child Care Assistance

House hold Size	April 1998 to April 1999 200% FPL	April 1999 to April 2000 200% FPL	April 2001 to July 2001 200% FPL	July 2001 to April 2002 100% FPL	April 2002 to January 2003 100% FPL	January 2003 to April 2003 130% FPL	April 2003 to August 2003 130% FPL	August 2003 to April 2004 150% FPL
2	\$1,768.00	\$1,843.00	\$1,935.00	\$967.50	\$995.00	\$1,293.50	\$1,313.00	\$1,515.00
3	\$2,222.00	\$2,313.00	\$2,438.34	\$1,219.17	\$1,251.67	\$1,627.17	\$1,653.17	\$1,907.50
4	\$2,675.00	\$2,783.00	\$2,941.66	\$1,470.83	\$1,508.33	\$1,960.83	\$1,993.33	\$2,300.00
5	\$3,128.00	\$3,253.00	\$3,445.00	\$1,722.50	\$1,765.00	\$2,294.50	\$2,333.50	\$2,692.50
6	\$3,582.00	\$3,723.00	\$3,948.34	\$1,974.17	\$2,021.67	\$2,628.17	\$2,673.67	\$3,085.00
7	\$4,035.00	\$4,193.00	\$4,451.66	\$2,225.83	\$2,278.33	\$2,961.83	\$3,013.83	\$3,477.50
8	\$4,488.00	\$4,663.00	\$4,955.00	\$2,477.50	\$2,535.00	\$3,295.50	\$3,354.00	\$3,870.00
9	\$4,942.00	\$5,133.00	\$5,458.34	\$2,729.17	\$2,797.67	\$3,636.97	\$3,694.17	\$4,262.50
10	\$5,395.00	\$5,603.00	\$5,961.66	\$2,980.83	\$3,048.33	\$3,962.83	\$4,034.33	\$4,655.00
	Note: For each additional household member add \$453.00	Note: For each additional household member add \$470.00	Note: For each additional household member add \$503.33	Note: For each additional household member add \$251.67	Note: For each additional household member add \$256.67	Note: For each additional household member add \$333.67	Note: For each additional household member add \$340.17	Note: For each additional household member add \$392.50

Source: CYFD.

FY05 Child Care Cost Estimates Using Different Assumptions

			Estimated	Estimated	Estimated	Estimated	Estimated	
			Number	Participant	Participant	Cost Per	Provider	
			Eligibles	Percentage	Percentage	Child	Cost	
200% FPL	July 2004-	June 2005	239,716	14.0%	33,560	\$3,292	\$110,479,520	
			239,716	14.0%	33,560	\$3,400	\$114,104,000	
				239,716	10.5%	25,170	\$3,292	\$82,859,640
				239,716	10.5%	25,170	\$3,400	\$85,578,000
				239,716	9.5%	22,773	\$3,292	\$74,968,716
				239,716	9.5%	22,773	\$3,400	\$77,428,200
150% FPL	July 2004-	June 2005	182,959	14.0%	25,614	\$3,292	\$84,321,288	
			182,959	14.0%	25,614	\$3,400	\$87,087,600	
				182,959	13.0%	23,785	\$3,292	\$78,300,220
				182,959	13.0%	23,785	\$3,400	\$80,869,000
				182,959	12.9%	23,602	\$3,292	\$77,697,784
				182,959	12.9%	23,602	\$3,400	\$80,246,800
130% FPL	July 2004-	June 2005	155,169	15.0%	23,275	\$3,292	\$76,621,300	
			155,169	15.0%	23,275	\$3,400	\$79,135,000	
				155,169	14.6%	22,655	\$3,292	\$74,580,260
				155,169	14.6%	22,655	\$3,400	\$77,027,000
100% FPL	July 2004-	June 2005	113,213	20.0%	22,643	\$3,292	\$74,540,756	
			113,213	20.0%	22,643	\$3,400	\$76,986,200	
				113,213	19.0%	21,510	\$3,292	\$70,810,920
				113,213	19.0%	21,510	\$3,400	\$73,134,000
				113,213	18.0%	20,378	\$3,292	\$67,084,376
				113,213	18.0%	20,378	\$3,400	\$69,285,200
FY05 Budget for Provider Payments							<u>\$77,434,500</u>	

**Children, Youth and Families Department
Registered and Licensed Child Care Capacity by County**

County	Grand Total Capacity Registered and Licensed*	Number of Children 0 - 12 years of age Receiving Child Care Assistance**	Percent of Children Served Compared to Total Capacity*	SFY2003 Child Care Payments
Bernalillo	22,928	6,779	29.57%	\$22,238,691
Catron	41	7	17.07%	\$10,534
Chaves	3,378	1,129	33.42%	\$2,723,299
Cibola	836	345	41.27%	\$923,686
Colfax	379	71	18.73%	\$213,649
Curry	2,263	795	35.13%	\$1,973,727
De Baca	32	14	43.75%	\$41,844
Dona Ana	14,677	5,549	37.81%	\$16,912,269
Eddy	2,478	737	29.74%	\$1,914,208
Grant	1,658	570	34.38%	\$1,416,705
Guadalupe	317	58	18.30%	\$109,967
Harding	4	0	0.00%	\$0
Hidalgo	244	65	26.64%	\$156,846
Lea	2,124	708	33.33%	\$1,794,418
Lincoln	510	135	26.47%	\$376,305
Los Alamos	860	16	1.86%	\$52,182
Luna	1,908	401	21.02%	\$923,310
McKinley	2,203	540	24.51%	\$1,287,718
Mora	192	43	22.40%	\$102,200
Otero	2,036	833	40.91%	\$2,161,285
Out of State	0	0	0.00%	-\$1,623
Quay	413	46	11.14%	\$90,470
Rio Arriba	1,622	288	17.76%	\$575,243
Roosevelt	774	272	35.14%	\$881,713
San Juan	2,378	617	25.95%	\$1,857,569
San Miguel	1,243	457	36.77%	\$1,312,719
Sandoval	2,423	880	36.32%	\$2,761,476
Santa Fe	3,679	560	15.22%	\$1,811,962
Sierra	407	102	25.06%	\$334,629
Socorro	898	90	10.02%	\$205,284
Taos	940	209	22.23%	\$424,744
Torrance	480	162	33.75%	\$415,260
Union	91	15	16.48%	\$20,890
Valencia	2,325	651	28.00%	\$1,955,958
Grand Total	76,741	23,144	30.16%	\$67,979,137

