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**Department of Early Learning (DEL)**

**Agency: 357**

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**Audit Report:** 2014 F

**Finding Number:** 014

**Finding:** The Department of Early Learning did not have adequate internal controls to ensure subrecipients that spend \$500,000 or more in federal dollars obtain required audits.

**Resolution:** The Department continues to strengthen the subrecipient monitoring policies and procedures for identifying grantees who may meet the threshold for federal audit requirements. To address the finding, the Department is working on adding additional functionality in the Integrated Contract Information System to assist in tracking subrecipients of federal funds who require a federal audit. In addition, the Department will also contact grantees whose level of funding from the Department falls under the threshold requiring an audit but may receive federal funds from other sources. The Department will establish a process for communicating audit report due dates to subreceptients. All communications will be tracked by program staff and the federal grants manager in the finance division.

The Department will provide training to all grants program staff and finance staff on the policies and procedures for subrecipient federal audit compliance. Any new requirements will be properly communicated with applicable agency staff. The Department's federal grants manager is responsible for federal audit compliance and will provide quarterly reports to the internal control officer updating the status of the federal audit compliance and tracking, staff training, and any policy and procedure changes.

**Completion Date:** Corrective action is expected to be complete by April 2016.

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**Department of Early Learning (DEL)**

**Agency: 357**

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**Audit Report:** 2014 F

**Finding Number:** 015

**Finding:** The Department of Early Learning does not have adequate internal controls to ensure reports required by the Federal Funding Accountability and Transparency Act are filed accurately for the Race to the Top-Early Learning Challenge and Affordable Care Act Maternal, Infant, and Early Childhood Home Visiting programs.

**Resolution:** The Department continues to strengthen internal policies and procedures to ensure compliance with the Federal Funding Accountability and Transparency Act (FFATA) reporting requirements. These policies and procedures include grant specific reporting requirements and internal controls to ensure accuracy of the data and include a secondary review of all reports before submission. The Department established a detailed written procedure to assist employees with FFATA reporting.

Starting in January 2015, the Department updated the FFATA reporting process to include maintaining monthly Integrated Contract Information System (ICIS) reports of contracts and a PDF copy of the FFATA report filed for each grant. These monthly ICIS reports show all federal contracts including any changes such as amendments to the contracts, dollar amounts of the changes, and any new contracts. These change reports are then reconciled to the previous month's ICIS report to ensure any required changes are captured in FFATA.

The Department also assigned an additional employee to serve as FFATA reporting backup and implemented a review process by the comptroller before any reports are released in the system to ensure information is reported accurately. The Department maintains a checklist of all federal grants to ensure each grant is reported properly each month. In addition, the updated policies and procedures were added to the fiscal division monthly policy review process to ensure they are reviewed and updated when federal changes are made or at least annually.

**Completion Date:** February 2015, subject to audit follow-up

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**Status of Audit Resolution**

December 2015

**Department of Early Learning (DEL)****Agency: 357****Audit Report:** 2014 F**Finding Number:** 023**Finding:** The Department of Early Learning does not have adequate internal controls over payments to child care providers for the Child Care and Development Fund program.**Resolution:** The Department of Early Learning (Department) and the Department of Social and Health Services (DSHS) continue to make consistent progress in actively auditing and recovering overpayments. The Department currently audits randomly selected attendance records within four months of the end of the payment month.

In January 2012, the Working Connection Child Care (WCCC) subsidy audit team was created within the Department to meet federal internal control requirements of the WCCC subsidy program. The team started with four Quality Assurance (QA) specialists and one lead worker. In December 2013, the team hired three new QA specialists. From February 2014 through May 2014, the Department had two QA specialists dedicated to the Federal Improper Payment Audit.

In 2012, the Washington State Legislature required the Department in coordination with DSHS to contract with an independent consultant to evaluate and recommend the optimum system for the eligibility determination process. The evaluation was required to include an analysis of Lean management processes that, if adopted, could improve the cost effectiveness and delivery of eligibility determination.

The Department contracted with the Aclara Group to provide an evaluation of the Child Care Subsidy Programs (CCSP) and develop recommendations for business process improvements. Aclara's final report was completed on October 31, 2012. The report identified 29 recommendations for improvement that span policy, business processes, and information technology supports. The Department is taking a structured project approach to address the report recommendations. The proposed project structure fosters a close partnership between the Department and DSHS to streamline and simplify CCSP policies and processes. The Department and DSHS formed 14 interagency workgroups to analyze these recommendations and implement those that would improve the program. This project was completed in July 2015.

Starting in July 2014, the Department collaborated with DSHS on an interagency and interdivision Lean Six Sigma process improvement effort to address the high rate of overpayments the Department is currently experiencing. The effort includes mapping multiple related work processes to identify variables that may contribute to overpayments and identifying improvements that can be made to these processes that could help lower the rate of overpayments. As of July 2015, the Department completed Lean process maps for all subsidy audit work processes and identifying areas for improvement. Work is ongoing in many areas to implement improvements.

In November 2014, the Department and DSHS formed a WCCC reframe workgroup designed to address the recent reauthorization of the Child Care Development Fund grant.

## Status of Audit Resolution

December 2015

Part of the scope of this work is to conduct a comprehensive analysis of billing and other child care provider requirements that have the potential to cause confusion or otherwise increase the risk of improper billing. The workgroup continues to collaborate on this analysis on an ongoing basis. The Department will continue to audit records up to twelve months old in cases where providers back bill for a prior period. If the Department reviewed only very recent records as requested by the auditor, the population of records to review would be incomplete and providers could submit invoices for time periods that wouldn't be subject to audit, which would create a significant risk factor that could increase fraud. Also, the statute of limitations is three years for establishing an overpayment and the Department's reviews have historically been made within this timeframe

In February 2015, the Department and DSHS formed a Child Care Audit Committee designed to address internal and external audit issues, and improve internal controls over client eligibility and direct payments to child care providers. This group continues to meet and collaborate on process improvements.

In the most recent required Child Care Development Fund Program State Improper Payment Report submitted in July 2014, the Department reported that, of 276 cases sampled, nine cases (3.3 percent of the total) had an improper payment error (overpayment or underpayment). The national improper payment error rate for this same period was 5.7 percent, so the Department is well below this national average. The federal government requires a corrective action plan for states exceeding 10 percent.

**Completion Date:** Corrective action is expected to be complete by December 2016.

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**Department of Early Learning (DEL)**

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**Agency: 357**

**Audit Report:** 2014 F

**Finding Number:** 024

**Finding:** The Department of Early Learning does not have adequate controls to ensure it draws Child Care and Development Fund program federal funds in accordance with the Cash Management Improvement Act.

**Resolution:** The Department concurs with this finding. To address the weaknesses noted in the finding, the Department has taken the following steps to ensure draws of federal funds are in accordance with the Cash Management Improvement Act:

- Documented the cash draw reporting procedures for grants.
- Created a shared calendar for the finance staff noting all draw due dates.
- Provided cross training to other finance staff.
- Established internal policies and procedures.

These policies and procedures include internal controls over draws including reviewing the accuracy of data and dual reviews before submission to the comptroller for approval.

**Completion Date:** May 2015, subject to audit follow-up

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**Department of Early Learning (DEL)**

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**Agency: 357**

**Audit Report:** 2014 F

**Finding Number:** 025

**Finding:** The Department of Early Learning does not have sufficient internal controls to ensure reports required by the Federal Funding Accountability and Transparency Act for the Child Care and Development Fund program are filed accurately.

**Resolution:** The findings of this audit clarified that transfers of federal awards to another component of the same awardee do not constitute a subrecipient or vendor relationship. Since this condition was raised by the auditor, the Department is no longer reporting the Department of Social and Health Services as a subrecipient.

The Department continues to strengthen internal policies and procedures to ensure compliance with the Federal Funding Accountability and Transparency Act reporting requirements. These policies and procedures include internal controls over proper reporting, reviewing the accuracy of the data, and dual reviews of all reports before submission.

**Completion Date:** December 2014, subject to audit follow-up

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