



STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

Child and Adult Care Food Program

Neighborhood Child Care, Inc.

An Operational Review by the:

**Fraud, Waste and Abuse
Prevention Division**



STATE OF OHIO
OFFICE OF THE AUDITOR

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Ohio Department of Education
Susan Tave Zelman, Superintendent
25 South Front Street
Columbus, Ohio 43215

Dear Superintendent Zelman:

This report discusses the results of our review of Neighborhood Child Care, Inc., a sponsor in the Child and Adult Care Food Program, for the period of October 1, 2000 through April 30, 2001. It also discusses the results of our visits to 150 family day care homes who participate in the food care program and are administered by the sponsor. The review was conducted in cooperation with the U.S. Department of Agriculture's Office of Inspector General, the Office of Child Nutrition Services in the Ohio Department of Education, the Cuyahoga County Divisions of Investigation and Day Care Certification.

Copies of this report are also being sent to the other audit participants. I would like to commend the participants for their cooperation and efforts. If you have any questions or concerns, please contact Johnnie L. Butts, Jr., Chief of the Fraud, Waste and Abuse Prevention Division at (614) 466-3212.

Yours truly,

Jim Petro
AUDITOR OF STATE

August 23, 2001

EXECUTIVE SUMMARY

The U.S. Department of Agriculture's Child and Adult Care Food Program (CACFP) was implemented in 1968 to provide nutritious meals to children of working parents in low income areas. The CACFP is funded by the U.S. Department of Agriculture and administered in Ohio by the Department of Education through "sponsoring organizations", which are public or private entities that act as a liaison between the state agency and care providers. Program expenditures totaled \$48.4 million in Ohio during federal fiscal year 2000 (October 1, 1999 through September 30, 2000), including expenditures for administrative expenses.

In August 1999, the U.S. Department of Agriculture's Office of Inspector General (USDA-OIG) reported on national abuses occurring in the CACFP as part of a Presidential Initiative called "Operation Kiddie Care". Results of the initiative showed that 37 of 49 sponsors in 23 states were "seriously deficient" in program administration, including a failure to maintain adequate records, submission of false information to the administering state agency, a history of administrative or financial mismanagement, and failure to monitor and train providers.

With the advent of welfare reform, funds allocated for child care have grown significantly in an effort to assist working parents. About \$298 million was expended on child care in Ohio during state fiscal year 2000, up from about \$186 million expended in fiscal year 1998. And, that is in addition to CACFP expenditures. As the funding and demand for child care increases, there is also an increasing need to devote resources to assuring the quality and safety of the child care environment. County Departments of Job and Family Services, which are responsible for monitoring child care in family day care homes, face serious challenges in monitoring child care providers who can and often do care for children in three shifts, 7 days a week, 24 hours a day. Cuyahoga County child care staff told us that such providers may realize up to \$100,000 a year in child care earnings.

This report discusses our review of Neighborhood Child Care, Inc.(NCC), a family day care sponsor located in Cleveland, Ohio. The review was a cooperative effort between the USDA-OIG, the Auditor of State(AOS), the Child Nutrition Services Office in the Ohio Department of Education(ODE), and Cuyahoga County. Our objective was to review NCC's administration of the CACFP program to (1) identify any program irregularities and (2) provide information to NCC, ODE and Cuyahoga County so that appropriate action could be taken to correct any deficiencies.

Results of Visits to Family Day Care Providers

As part our review, AOS and USDA-OIG teams attempted to visit 150 of the sponsor's 231 active home care providers during a 5-day period beginning May 7. Providers' May reimbursement claims were also reviewed following the providers' submission of the claims in June. We identified deficiencies in 101 of the homes. The deficiencies ranged from relatively minor

administrative violations to possible fraud. Results of the audit teams' visits were forwarded to the sponsor and the Cuyahoga County Department of Health and Nutrition for follow up action. The sponsor is responsible for the provider's compliance with CACFP program requirements. The county is responsible for certifying the eligibility of family day care homes to receive public funding for child care.

Many of the homes we visited were providing safe child care in accordance with arrangements made with the county and the sponsor. However, some were not, prompting the sponsor and the county to take these actions following our visits:

- ▶ *The county is investigating two providers for fraud and expects to terminate their certifications. One provider allegedly subcontracted with a person who had a criminal record to take care of children during a night shift. The other provider allegedly relied on a third party to care for children while she worked at a local grocery store. The county estimates that about \$39,700 in child care payments will be subject to recovery following resolution of their charges. The money to be recovered includes about \$34,700 from the two providers who relied on an uncertified care giver, and \$5,000 from a parent who falsely received child care funds while not working.*
- ▶ *The county revoked another provider's certification because a household member had a criminal record.*
- ▶ *The sponsor terminated three providers from the CACFP (including one of the providers expected to be indicted for fraud by the county) because of a previous history of administrative violations involving reimbursement claims.*
- ▶ *As of August 15, 2001, the sponsor had suspended 16 providers from the CACFP for 30 days and disallowed meal claims for another 29 providers because meal and attendance records were not current for specific days in the month of May.*

Results of Review of Sponsor Activities

In addition to our home visits, we reviewed NCC's administration of the CACFP and their claims to the Ohio Department of Education for reimbursement of administrative costs. The sponsor oversees provider participation in the CACFP and receives an administrative rate based on the number of providers who submit a monthly claim for reimbursement. The sponsor's responsibilities include processing provider applications for program participation, training the providers, monitoring their compliance with program rules, and processing and distributing their claims for reimbursement. From October 2000 through February 2001, NCC received \$58,746 for processing \$294,892 in meal claims, and as of March 2001 oversaw the activities of 231 providers.

We reviewed NCC's activities for the period October 2000 through April 2001 and identified the following issues where the sponsor was not in compliance with program rules.

- ▶ *Although it appeared that the sponsor was performing the required three visits per year to its providers for purposes of monitoring their activity, we believe the results of our visits show that the quality of the monitoring could be improved. Over half of our visits identified situations that should have been identified and resolved by prior NCC monitoring, but had not. Moreover, we also saw evidence that on at least one occasion, a failure to properly document conditions observed during monitoring visits had hampered efforts to successfully terminate a provider.*
- ▶ *Neighborhood Child Care used \$1,982.73 in CACFP funds to award staff bonuses, but did not obtain the required prior approval from ODE. In addition, the sponsor incurred \$282.58 in late fees and finance charges because it did not pay some bills timely, and inappropriately included these fees and charges as costs to be reimbursed by ODE. According to ODE, NCC will not have to pay back the unallowed expenses because the formula for reimbursing the sponsor had already resulted in a reimbursement lower than NCC's reported expenses less the unallowed amount.*
- ▶ *NCC's Board of Directors is responsible for overseeing the sponsor's activities, providing fiscal guidance, and serving as an arbitrator of disciplinary action proposed by the sponsor against its provider members. However, the current Board is primarily made up of former and current home care providers, which represents a potential conflict of interest, and is in violation of program requirements. ODE advised the Board in November 2000 to expand its membership to meet the requirements of arms-length governance and plans to evaluate the Board's composition in October 2001 prior to approving NCC's application for fiscal year 2002.*
- ▶ *Because of an error in its expensing software, Neighborhood Child Care mis-calculated expenses from October 2000 to April 2001, resulting in administrative costs being understated by a total of \$13,336.57. NCC has corrected the error, and ODE advised us that other cost factors offset the need for any reimbursement to NCC for past understatements of expenses.*

Recommendations

Based on our review of NCC records and policies, we are making the following recommendations:

- ▶ *Neighborhood Child Care should reassess the process it uses to monitor providers with the goal of improving the quality of monitoring and properly documenting the results of monitoring visits. Further, to help ensure independence, we suggest the NCC consider rotating its monitors so that monitors are not paired with specific providers for long periods of time.*

- ▶ *NCC's Board of Directors should implement the directions provided by ODE regarding composition of the Board. The Board should also play a more active role in the fiscal and policy matters involving NCC.*

Other Matters for Consideration

In performing our review, we noted that ODE does not maintain current and readily accessible information on the level of program activity by sponsors and their providers. In particular, we noted that current and readily accessible information was lacking on payments to individual sponsors and providers, current addresses of family day care providers, results of sponsor and provider reviews conducted by the ODE, and complaint filed against sponsors and providers. The inaccessibility of this type of information prevents ODE from properly overseeing the activities of CACFP sponsors, a deficiency noted in the AOS' State Single Audit of the program for State Fiscal Year 2000.¹ When we brought this matter to the attention of ODE officials in the Office of Child Nutrition Services, we were advised that a new computer system (the Claims Reimbursement and Reporting System) being implemented in the next year would improve the accessibility and timeliness of provider data. Because ODE's administration of the CACFP was outside the scope of this audit, we did not review ODE's implementation of the new computer system or the full range of data that would be available.

Because of the similarity of their missions, i.e. ensuring effective child care, both Cuyahoga County and NCC pointed out to us the criticality of close coordination in monitoring provider activity. For example, because a provider's participation in CACFP is usually predicated on obtaining and maintaining a valid certification to operate a child care facility, CACFP sponsors depend heavily on learning of any county sanctions that might affect a provider's certification. Similarly, a county needs to be advised of any adverse conditions observed by monitoring visits conducted by sponsors. Officials from NCC and Cuyahoga County told us that coordination between both parties had improved greatly over the last year, however, both also noted that improvements were possible, particularly in the timeliness with which information passed between them. We encourage NCC, Starting Point (the clearinghouse for information passed to CACFP sponsors in the Cleveland area), and Cuyahoga County Department of Health and Nutrition to continue working on ways to improve information flows.

¹State Single Audit for the year ending June 30, 2000; pages 130 and 131.

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ABBREVIATIONS USED IN THIS REPORT

AOS	Auditor of State
CACFP	Child and Adult Care Food Program
FWAP	Fraud, Waste and Abuse Prevention (Division)
NCC	Neighborhood Child Care
ODE	Ohio Department of Education
USDA-OIG	United States Department of Agriculture-Office of Inspector General

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BACKGROUND

The U.S. Department of Agriculture's Child and Adult Care Food Program (CACFP) was implemented in 1968 to provide nutritious meals to children of working parents in low income areas. In 1989, the program was expanded to include older adults as well as children.

The CACFP is administered at the federal level by the Food and Nutrition Service and through its seven regional offices. The regional offices are responsible for authorizing state agencies to administer the CACFP through sponsoring non-profit organizations at the local level. In Ohio, the Department of Education administers the CACFP through its Office of Child Nutrition Services.

Food and Nutrition Service regional offices, through state agencies and sponsoring organizations, provide reimbursement to day care facilities ("providers") participating in the program for meals that meet specified nutritional requirements. Sponsoring organizations are public or private entities which act as a liaison between the state agency and the providers, and are ultimately responsible for administering program operations. Each sponsor submits a monthly consolidated claim to the state agency after reviewing and approving each provider's meal count record. Sponsors are also responsible for training the providers and monitoring their meal service operations to ensure compliance with program requirements. For performing these functions, the sponsor receives reimbursement for administrative costs based on the number of homes under their sponsorship. The larger the number of homes a sponsor administers, the greater its reimbursement for administrative costs.

Providers who participate in the CACFP must be public, private nonprofit, or for-profit facilities. They include child care centers, family day care homes, homeless shelters, and adult day care centers. A home is a day care facility located in a private residence. A child care center is operated by a public or private organization, and primarily serves pre-school children. Homes and centers must be licensed by a State or local licensing authority. In Ohio, the Ohio Department of Job and Family Services is responsible for licensing or certifying child care facilities not operated by school districts, while the Ohio Department of Education (ODE) licenses child care facilities operated by local boards of education and Head Start programs.

CACFP reimbursement to providers is based on the number of meals provided to eligible recipients. To be eligible for reimbursement, meals must meet certain nutritional requirements, and providers must keep records on meal counts and menus.

Table 1 shows the level of activity in the CACFP for federal fiscal year 2000.

Table 1: CACFP Activity in Fiscal Year 2000

	Total Meals Served (millions)	Average Daily Participation (thousands)	Meal Reimbursement Costs (millions) ^a
U.S.	1,670	2,694	\$1,500
Ohio	50.4	81	\$43.4

^a Does not include administrative costs

Source: U.S. Department of Agriculture

As of March 2001, ODE reported that CACFP participation in Ohio included 759 sponsors who administered the programs for 5,997 providers. Table 2 shows a breakdown by type of provider.

Table 2: CACFP Sponsors and Providers in Ohio as of March 2001

Type of Provider	Number of Participating Sponsors	Number of Participating Providers	Payments Made in State Fiscal Year 2000
Child and Adult Care Centers and Title XX (for profit)*	736	1,825	\$32,993,995
Family Day Care Homes	23	4,172	\$15,436,553
Total	759	5,997	\$48,430,548**

* Separate numbers were not available for Child and Adult Care Centers and Title XX providers

** Includes administrative costs

Source: Ohio Department of Education

Operation Kiddie Care

In August 1999, the U.S. Department of Agriculture's Office of Inspector General (USDA-OIG) reported on National Program Abuses occurring in the CACFP as part of a Presidential Initiative called "Operation Kiddie Care".² The initiative involved audits and investigations of 49 CACFP sponsors in 23 states, including two sponsors in Ohio. The USDA-OIG reported that 37 of the 49

² Presidential Initiative: Operation Kiddie Care; National Report on Program Abuses; Office of Inspector General; U.S. Department of Agriculture; Audit Report No. 27601-7-SF

sponsors met criteria for being “seriously deficient” in program administration, which included failure to maintain adequate records, submission of false information to the administering state agency, a history of administrative or financial mismanagement, and failure to monitor and train providers. The report recommended that Agriculture’s Food and Nutrition Services develop improved guidance and to tighten program controls. It also resulted in the initiation of 31 fraud investigations of sponsor activities.

Growth in Child Care Funding Poses Monitoring Challenges

With the advent of welfare reform, funds allocated for child care have grown significantly in an effort to assist working parents. About \$298 million was expended on child care in Ohio during state fiscal year 2000, up from about \$186 million expended in fiscal year 1998. And, that is in addition to the \$43.4 million expended in federal fiscal year 2000 for the CACFP. As the funding and demand for child care increases, there is also an increasing need to devote resources to assuring the quality and safety of the child care environment.

Prior audit work in Ohio suggests a need to improve the monitoring of child care services. For example, the Auditor’s State Single Audit Report for Fiscal Year 2000 reported that the Ohio Department of Education conducted reviews of about 14 percent of its sponsoring organizations, child care centers, out-side school care centers, and adult day care centers in 2000, although there is a federal requirement that one third of these organizations are to reviewed annually.³ Similarly, a March 2001 report by the Ohio Department of Job and Family Services made several proposals to improve the quality of child care, including initiatives regarding the licensing and monitoring of child care providers. County Departments of Job and Family Services, which are responsible for monitoring child care in resident homes, face serious challenges in monitoring child care providers who can and often do care for children in three shifts, 7 days a week, 24 hours a day. Cuyahoga County child care staff told us that such providers may realize up to \$100,000 a year in child care earnings.

OBJECTIVES, SCOPE AND METHODOLOGY

This report discusses our review of Neighborhood Child Care, Inc.(NCC), a family day care sponsor located in Cleveland, Ohio. The review was a cooperative effort between the United States Department of Agriculture-Office of Inspector General (USDA-OIG), the Auditor of State(AOS), the Ohio Department of Education, and Cuyahoga County. Our objective was to review NCC’s administration of the CACFP program to (1) identify any program irregularities and (2) provide information to NCC, ODE and Cuyahoga County so that appropriate action could be taken to correct any deficiencies.

ODE’s Office of Child Nutrition Services assisted in selecting and reviewing the operations of NCC,

³ Single Audit Report for Fiscal Year 2000, Auditor of State of Ohio, p. 130-131.

while the Division of Investigation in the Cuyahoga County Department of Health and Nutrition and the Division of Daycare Certification in the Cuyahoga County Department of Work and Training followed up on the results of our visits to providers.

We selected NCC for audit because it is one of the largest sponsors in Ohio of family day home participants in the CACFP. In Operation Kiddie Care, the USDA-OIG identified a disproportionate share of abuses with family day home providers. The amount of reimbursement received by NCC over the last three years are shown in Table 3.

Table 3: Neighborhood Child Care Participation in the CACFP

Federal Fiscal Year	Claimed Meals Costs	Administrative Costs	Total Costs
1999	\$476,150	\$95,900	\$572,050
2000	\$629,700	\$129,735	\$759,435
2001 (Oct through Feb)	\$294,892	\$58,746	\$353,638

Source: The Ohio Department of Education, Child Nutrition Services Division.

Our review encompassed claims filed for administrative and meal reimbursements filed by NCC for the period October 1, 2000 through April 30, 2001. We also obtained other historical data and reviewed provider claims submitted to the sponsor for May 2001.

To accomplish our audit objectives we:

- ▶ Reviewed Federal and State regulations, policies and procedures relating to the CACFP
- ▶ Reviewed prior audits of CACFP administration
- ▶ Discussed CACFP administration with managers of ODE's Child Nutrition Services and obtained historical data concerning the program and financial activity.
- ▶ Interviewed NCC's management staff, reviewed documentation concerning the sponsor's policies and procedures, and reviewed claims for reimbursement of administrative cost for October 1, 2000 through April 30, 2001.
- ▶ Conducted unannounced visits to 150 of 195 provider homes which had submitted claims for meal reimbursements in February 2001. The homes visited were those which had submitted the highest claims for reimbursement and/or whose claims activity suggested a need for closer scrutiny. Our unannounced home visits were conducted over a 5-day period beginning May 7, 2001. Audit teams who conducted the visits included both AOS and USDA-OIG representatives.

During our visits, we

- ▶ Interviewed providers and other persons present,
 - ▶ Reviewed their attendance records, meal counts, menus, and certification to operate as a day care home.
 - ▶ Documented the general conditions of the home and identified any health or safety concerns.
- ▶ Provided the results of our home visits to appropriate parties for follow up action. Providers in noncompliance with CACFP rules were relayed to the sponsor for corrective actions. Providers found to have safety or other certification concerns were relayed to the Cuyahoga County Divisions of Investigation and Day Care Certification (who are responsible for investigating potential instances of fraud and for certifying the qualifications of Cuyahoga day care homes to provide child care services). Our report includes a summary of any actions (disallowances, suspensions, terminations, or fraud investigations) taken by these parties.

Our audit work was performed from April 2001 through July 2001 and was conducted in accordance with government auditing standards.

A draft of this report was sent to ODE, USDA-OIG, NCC, the Cuyahoga County Department of Health and Nutrition, and the Cuyahoga County Department of Work and Training on July 25, 2001 to afford these agencies an opportunity to review the draft and offer comments. Their comments were incorporated into the final report where appropriate.

RESULTS

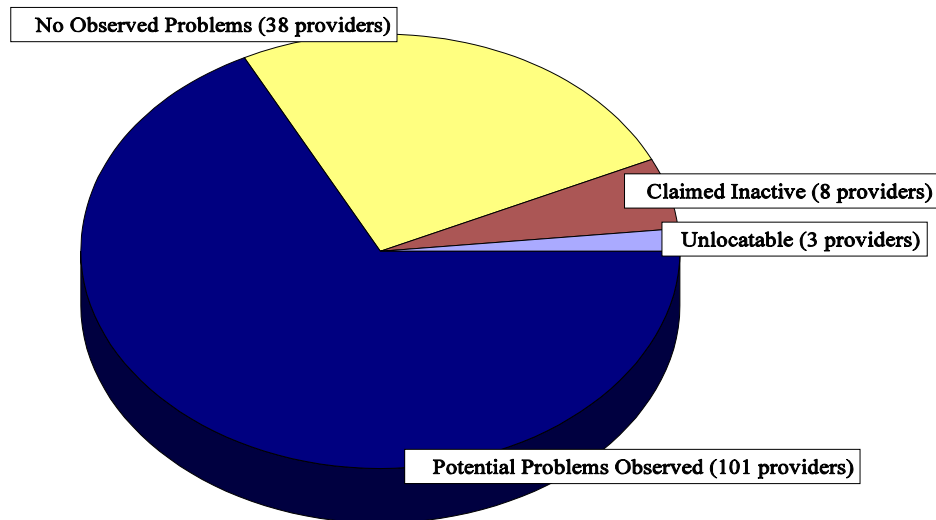
Our results fall into three areas: (1) the results of our visits to 150 provider homes; (2) the results of our review of the sponsor's claims for reimbursements; and (3) other observations that affect the administration of the CACFP in Ohio. Each of these areas are discussed below.

TWO THIRDS OF THE PROVIDER HOMES HAD DEFICIENCIES OF VARYING SEVERITY

Out of 150 provider homes selected for visit, we were unable to locate three providers⁴ and another eight providers told us they had dropped out of the CACFP by the time of our visit, so we did not enter the home. Audit teams were able to enter the remaining 139 homes to review the provider's records or observe the condition of the homes. Of the 139 homes that were reviewed, we identified deficiencies ranging from relatively minor administrative violations to possible fraud in 101 of the homes. These deficiencies resulted in a number of administrative sanctions and disallowances against the providers by the sponsor and Cuyahoga County. Figure 1 shows the overall results of our home visits. See Appendix 1 for a summary of the deficiencies found.

⁴ Using addresses supplied by the sponsor and the county, teams made three attempts to visit each home, plus a phone call if no one answered the door.

Figure 1: Results of AOS Visits to 150 Child Care Homes



Source: May 2001 visits conducted by AOS and USDA-OIG personnel

Three Providers Could Not Be Located

According to CACFP program rules, providers must open their home for unannounced inspections if present. Also, providers are only allowed to claim meals and provide child care at the address on file at the county and sponsor, unless specific arrangements are otherwise made in advance, e.g. to take children on a picnic. We were unable to contact three of the 150 providers on our list, and thus we question whether the providers were caring for children in accordance with their agreement, and whether the sponsor should have been reimbursing the providers' claims for meal reimbursements.

- ▶ Provider A was not home or did not answer the door during three visit attempts made over a two-day period. Calls to the provider received busy signals. Subsequently, we noted that the Provider submitted claims for serving meals to 6 children for the two days of our attempted visits. The sponsor had not determined an appropriate response regarding this provider.
- ▶ The occupant of the home at Provider B's address of record told us that the provider had moved and gave us a new address. Attempts to visit and call the provider at the new address were unsuccessful. The provider subsequently submitted claims for serving meals to 3 children during the days of our attempted visits. Cuyahoga County revoked this provider's certification after we relayed our visit results to them.

- ▶ The address of record for Provider C proved to be a nonexistent site due to an incorrect entry in the sponsor's data base. Attempts to locate the provider at the "corrected" address revealed a residence that appeared to be unoccupied and phone messages left with the provider's answering service were not returned. This provider subsequently resigned from the CACFP following our visit and did not submit a claim for meal allowances during the days of our attempted visits.

Eight Providers Claimed to be Inactive

During the review our teams encountered eight providers who stated that they were inactive or no longer participants in the CACFP. One provider's license had in fact been suspended due to an in home abuse investigation by Cuyahoga County, which had occurred subsequent to our selection of homes to be visited. The sponsor verified this provider was inactive pending final investigations by the county.

Seven other providers claimed they were inactive in the program for various reasons, although two providers subsequently submitted claims to the sponsor for meals served subsequent to the dates of our visit. One of these providers submitted claims for meals served starting May 9 for the rest of the month, following our visit on May 7. The other provider submitted claims for meals starting May 10 for the rest of the month, following our visit on May 8. Because the providers told us they were not active in the program, we did not review their records or inspect the premises. And, because they did not submit claims for the dates of our visit, there was no basis for any disallowances or sanctions.

Visits to 139 Homes Resulted in Disallowances and Sanctions

Those providers found to be noncompliant with CACFP guidelines were relayed to the sponsor for corrective actions through ODE. At the 139 provider homes that were visited, we identified 101 providers that had deficiencies of varying degrees of severity. These deficiencies varied from health and safety violations to not properly documenting the meals served to children. While most of the homes appeared relatively clean and free of apparent danger, teams observed the following conditions at some homes.

- ▶ An open box of ammunition shells in the children's play area. The same home had exposed wires in the kitchen area.
- ▶ A fenced-in swimming pool with an open gate near where young children played. The same home also had an overflowing diaper pail inside the home, missing or outdated medical supplies, pet food strewn on the floor, and other general clutter. In addition, although the provider was scheduled to provide full-time child care services, several visits were required to the home over a two-day period before the provider was found home.
- ▶ A provider who claimed to be caring for 21 children in three shifts covering 21 hours of the day.
- ▶ Overpowering pet urine smells in several homes.

- ▶ Broken glass and tin roofing material in a yard where young children played.
- ▶ A child sleeping on a bed where an adult was also ironing clothes with a hot iron. The same home also had a circulating fan positioned precariously over a sleeping child.

Sponsor Followed Up on Provider Referrals

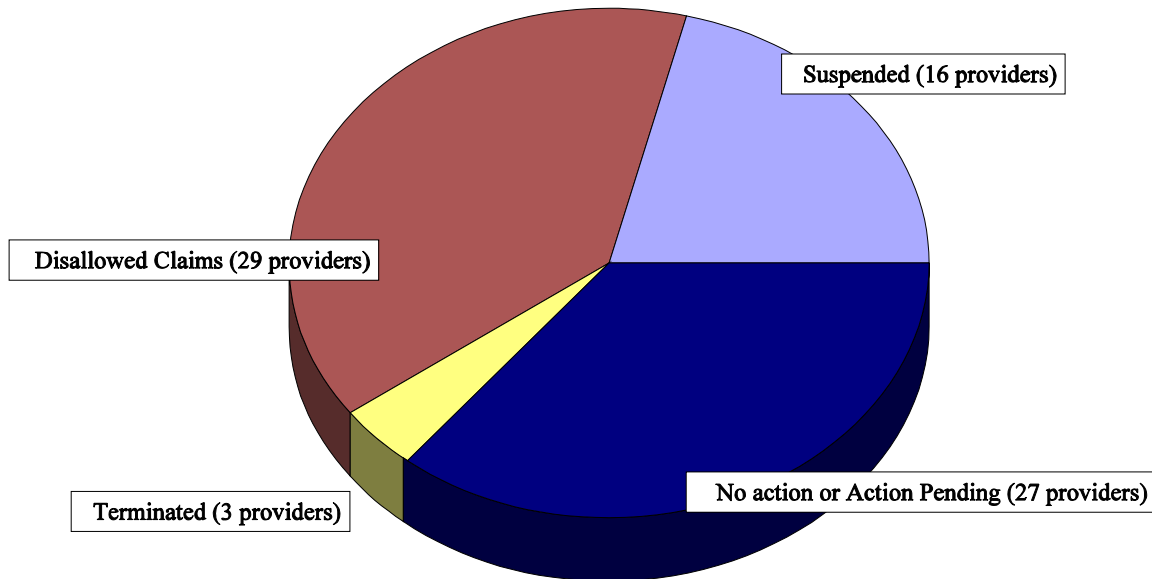
Providers are eligible to claim reimbursement for up to 6 meals⁵ each day. The CACFP requires that providers document what was served at each meal, the names of the children receiving the meals, and prepare meals that meet USDA nutritional requirements. ODE and USDA-OIG staff advised us that providers who do not timely document counts and menus are more likely to file inaccurate or fraudulent claims at the end of each month.

In all, we identified 75 providers who were potentially subject to follow up action by the sponsor. Depending on the severity of the deficiency noted, a sponsor may take one of several alternative actions when a provider fails to maintain proper documentation. It may disallow the claims for meals if providers have incomplete or missing documentation at the time of a visit, or if a provider does not serve meals that meet USDA nutritional requirements. Or, it may suspend a provider for 30 days and disallow all claims for reimbursement during that period if providers have not documented menus and meal counts for three or more days. Or finally, it may terminate a provider who has repeatedly been in noncompliance with program requirements, despite repeated warnings and remedial training.

Figure 2 shows the actions taken by the sponsor as of August 15, 2001 in response to our visit results.

⁵ *Breakfast, morning snack, lunch, afternoon snack, dinner, and evening snack.*

Figure 2: Sponsor Response to AOS Visit Results



Note: These actions are subject to change as NCC makes additional adjustments and responds to provider appeals.

Source: Neighborhood Child Care report on response to AOS visit results

Cuyahoga County Followed Up on Referrals

When preparing for the CACFP audit, we discussed the objectives of our review with the Cuyahoga County Divisions of Investigation and Day Care Certification. The Division of Investigation investigates cases of suspected fraud. The Division of Day Care Certification is responsible for certifying the types of day care homes in our review (called Type B providers) and for periodically visiting the homes to ensure they remain compliant with county requirements. In the process of reviewing the 150 provider homes for CACFP compliance, our teams also observed the home surroundings for sanitary, safety, and/or hazardous conditions. We agreed to refer any potential issues of this nature to the county for their consideration and follow up. Our observations resulted in 72 providers being referred to Cuyahoga County for various combinations of concerns.

In response to our referrals, the county performed follow up provider visits during which they found that many of the conditions observed during our visits had been corrected by the providers. Therefore, no follow up action was required. County officials also explained that our concern with

providers not displaying a current county certification in their homes resulted from a computer malfunction that had prevented them from sending providers current certifications. During our audit, the county corrected this malfunction and mailed current certificates to the providers. However, one provider's certificate was revoked because a household member had a criminal record.

Two other providers are being investigated for suspected criminal activity. Both providers were relying on persons who had not been properly certified to care for children. One provider allegedly subcontracted with a person who had a criminal record to take care of children during a night shift. The other provider allegedly relied on a third party to care for children while she worked at a local grocery store. The county estimates that about \$39,700 in child care payments will be subject to recovery following resolution of their charges. The money to be recovered includes about \$34,700 from the two providers who relied on an uncertified care giver, and \$5,000 from a parent who falsely received child care funds while not working.

NCC'S ADMINISTRATION OF CACFP COULD IMPROVE

In addition to our home visits, we reviewed NCC's administration of the CACFP and their claims to the Ohio Department of Education for reimbursement of administrative costs. The sponsor oversees provider participation in the CACFP and receives an administrative rate based on the number of providers submitting a monthly claim for reimbursement. The sponsor's responsibilities include processing provider applications for program participation, training the providers, monitoring their compliance with program rules, and processing and distributing their claims for reimbursement. NCC received \$58,746 for processing \$294,892 in meal claims during federal fiscal year 2000, and as of March 2001 oversaw the activities of 231 providers.

Quality of Provider Monitoring by NCC Needs to Improve

The goal of the monitoring program under CACFP is to ensure that providers are compliant in the areas of nutritional meal distribution, record keeping, and daycare certification. It is the responsibility of the monitors to address any non-compliance in these areas by discussing them with the providers and working to make sure they do not occur in the future. When providers fail to comply with program rules, the sponsor can disallow meal claims, suspend providers from participation in CACFP, or in extreme situations, terminate them from the program. During the review of the 150 providers selected, we saw evidence that NCC monitoring was inadequate. Although it appeared that NCC was performing the required three monitoring visits a year to each of its providers, we believe there are opportunities to improve the quality of the monitoring.

During our visits we observed numerous providers who violated program rules concerning program certification and record keeping standards. For example, providers are required to display a current copy of their certification to provide child in a visible location. A current certification is also a requirement for participation in CACFP. During our home visits, we identified 15 home providers who appeared to be operating with expired certificate licenses, and 9 other provider certificates that did not match the address at which the provider was providing care. The providers operating without current certification had been visited by monitors and no corrective action had been taken, although payments are not to be distributed until new certification is verified. We subsequently determined that most of these providers did in fact have current certifications but had not received current copies

because of a computer malfunction at the county. This was corrected on the county level, and certifications were mailed to the providers

We also determined that 33 out of the 139 successfully visited providers were lacking proper meal and attendance records. Some providers had filled out their records prior to the meal being served, or filled them out during our visit. Providers are required to maintain up-to-date records including menus for meals served and attendance for the children being served. Menu and attendance records are to be kept daily. Once again, these are conditions that should have been identified and corrected during NCC monitor visits.

Moreover, NCC monitors did not always fill out visit forms completely. We saw evidence that on at least one occasion, a failure to properly document conditions observed during a monitoring visit hampered NCC's efforts to successfully terminate a provider found in violation of CACFP regulations.

NCC Inappropriately Used Funds

We found that the sponsor, Neighborhood Child Care Incorporated, inappropriately used USDA funding to award bonuses to its employees as well as pay finance and interest charges to institutions that provide office supplies, equipment, and services necessary for the day to day operation of the administrative office. The bonuses were issued as a year end award at the end of fiscal year 2000 while the finance and interest charges were paid sporadically over the period of October 1998 to May of 2001.

The Ohio Child and Adult Care Food Program's Family Day Care Sponsor's Manual 2001 defines allowable administrative costs as costs incurred by an institution as necessary and reasonable for planning, organizing and managing a food service under the program, and allowed by the state agency financial management instruction. Further, the manual states "bonuses to staff or others and gifts are examples of non-allowable personnel costs for the CACFP."

In October 2000, Neighborhood Child Care paid out \$6,762.92 in bonuses, of which \$1,982.73 was expensed to the CACFP. Bonuses were paid as a "fiscal year end bonus" because of "money left over" according to the sponsor. The bonuses were paid out to 13 employees. Twelve of the bonuses were partially paid from USDA funds, while the remaining employee bonus was paid using other program funds available to NCC.

ODE managers in the Child Nutrition Services Division subsequently told us that sponsor bonuses may be allowable if a sponsor obtains prior approval. However, prior approval had not been obtained in this instance.

The Sponsors Manual 2001 lists as a "typical unallowable cost(s): Interest and other financial costs: interest or professional fees paid on loans, bond discounts, financing and refinancing operations, and legal professional fees".

Neighborhood Child Care paid \$599.91 in late payment fees and finance charges for the period of October 1998 to May 2001, of which \$282.58 was allocated to the CACFP. Typically, the fees were

assessed because of past due balances and late payments.

According to ODE, NCC will not have to pay back the unallowed expenses because the formula for reimbursing the sponsor had already resulted in a reimbursement lower than NCC's reported expenses less the unallowed amount.

NCC's Incorrect Calculation Resulted in Understated Expenses

Between October 2000 and April 2001, NCC's claims for administrative expenses were understated as submitted for reimbursement to ODE. This problem occurred because of an error in a spreadsheet used to calculate the total administrative dollars to be claimed for a particular month.

Neighborhood Child Care utilizes a spreadsheet file to calculate the administrative expenses it claims each month. In general, the sheet shows salaries, travel, occupancy, contracted services, supplies, training, and equipment and the corresponding costs of each for that particular month. The sheet then uses formulas to calculate the total expenses associated with each operating area, as well as a total for all expenses. The total figure and the totals for each area are then transferred to the Ohio Child and Adult Care Food Program Claim for Reimbursement.

For the seven months of claims we reviewed, we determined that the expenses were under reported by a total of \$13,336.57 because of several errors in the expense spreadsheet. First, an error in the formula used to total employee salaries resulted in the last few employees' salaries on the spreadsheet list being excluded from the total salary calculation. In addition, payroll taxes were erroneously excluded from the calculation of total salary and benefits. Finally, in the April, March, February, and January claims the formula calculating total travel dollars excluded the bottom entry.

We advised NCC of the spreadsheet error and they submitted revised claims to ODE. After reviewing the revised claims, ODE advised us that other cost factors offset the need for any reimbursement to NCC for the understatement of expenses.

Lack of Independence and Effective Oversight by NCC's Board of Directors

Our evaluation of the current Board of Directors for Neighborhood Child Care resulted in the finding that the Board was deficient in the areas of arms-length governance, policy setting and fiscal guidance. We based this conclusion on the Ohio Attorney General's Guide for Board Members and prior audits findings by ODE.

The Ohio Attorney General's Guide for Board Members is The Duty of Loyalty which states "The duty of loyalty requires that the interest of the charity, and, as a consequence, the interest of the public, take precedence over the board member's personal interests." With the exception of two Vice Presidents, the current Board of Trustees is primarily made up of former and current providers with Neighborhood Child Care. One of the primary checks and balances of a CACFP family day care program is an independent and broad-based governing board. With the majority of the Board of Directors being made up of providers, we believe there is a high risk of a conflict of interest in matters involving provider oversight.

ODE officials told us they were aware of this issue and had advised the NCC of the need to change its composition in a November 2000 letter. The Executive Director of NCC told us that the Board would be addressing this issue in its August meeting.

NCC By Laws state that their Board of Directors approves policy and financial matters. Our review of the Board meeting minutes also determined that the Board of Directors is not involved in policy setting and fiscal guidance for NCC. Minutes from Board meetings indicated that most of the Board's time was occupied by hearing appeals from providers regarding disciplinary actions taken by NCC. According to the Guide for Board Members manual issued by the Ohio Attorney General's Office, Board members are responsible for assuring the financial accountability of a charity. Procedures should be established to keep the organization fiscally sound and ensure that it operates in a fiscally responsible manner. Care must be taken for the proper use of restricted funds. Board members should oversee the executive director and determine that the agency purposes are fulfilled without waste.

Recommendations to NCC

Based our review of NCC records and policies, we are making the following recommendation to NCC:

- ▶ Neighborhood Child Care should reassess the process it uses to monitor providers with the goal of improving the quality of monitoring and properly documenting the results of monitoring visits. Further, to help ensure independence, we suggest the NCC consider rotating its monitors so that monitors are not paired with specific providers for long periods of time.
- ▶ NCC's Board of Directors should implement the directions provided by ODE regarding composition of the Board. The Board should also play a more active role in the fiscal and policy matters involving NCC.

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APPENDIX 1

SUMMARY OF PROVIDER DEFICIENCIES

Type of Deficiency Found	Number of Providers
Provider Not Located	3
Provider Claimed to be Inactive	8
Meal Count and/or Menus Not Current	33
Meal Count and/or Menus Not Available	39
Current Certificate Not Displayed	15
Incorrect Address on Displayed Certificate	9
Fire Evacuation Plans and/or Drills Not Documented	20
Smoke Detectors Inoperable	11
Other Safety and/or Sanitation Concerns	22

Note: The total number of deficiencies is greater than 150 because some providers had more than one deficiency.

Source: Results of visits conducted by AOS and USDA-OIG teams to 150 provider homes during May 2001.

APPENDIX 2

**SUMMARY OF SANCTIONS TAKEN BY NEIGHBORHOOD CHILD CARE
AND CUYAHOGA COUNTY**

Sanction	Number of Providers
NCC- Meal Reimbursements Disallowed	29
NCC- Suspended from CACFP	16
NCC- Terminated from CACFP	3
Cuyahoga County-Being Investigated for Fraud	2
Cuyahoga County-Certification Terminated or In Process	3
Cuyahoga County- Social Service Investigation Pending	1
Cuyahoga County- Group Size Violation Documented	1
Total*	55

*** Note: Some providers are included twice in the total because sanctions occurred by both NCC and the.**

Source of Data: Neighborhood Child Care, Inc.; Cuyahoga County Department of Health and Nutrition; and Cuyahoga Department of Work and Training. Data is current as of August 15, 2001.



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NEIGHBORHOOD CHILD CARE

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
AUGUST 23, 2001**