



State of New Jersey

OFFICE OF THE STATE COMPTROLLER
P.O. Box 024
TRENTON, NJ 08625-0024

CHRIS CHRISTIE
Governor
KIM GUADAGNO
Lt. Governor

A. MATTHEW BOXER
State Comptroller

January 25, 2012

Contact: Pete McAleer
609-633-2377

State Comptroller Audit Finds State-Funded Child Care Program Rife with Overpayments, Ineligible Participants

An audit released today by the Office of the State Comptroller (OSC) found the state has significantly overpaid state-funded child care providers and failed to remove ineligible participants from the state's child care assistance program.

The \$124 million program, jointly funded by the state and the federal government and administered by the state Division of Family Development (DFD), is designed to assist working families with low incomes in paying for child care. DFD contracts with child care centers as well as child care referral agencies that handle eligibility determinations and the payments to the child care providers.

The audit found that the state overpaid child care providers for one out of every six children sampled in the audit, indicating that total program overpayments could amount to millions of dollars. The audit found the overpayments were made for a variety of reasons, from overstated attendance figures to simple math errors.

The OSC audit also compared income information set forth on program applications to state tax returns and found that 15 percent of the program participants sampled in the audit actually are ineligible for state child care assistance based on their true income. For example, one family receiving state funds through the program reported an annual income of \$18,200 on their application while reporting an income of \$94,075 on their tax return.

The 15 percent ineligibility finding indicates that there could be more than 4,000 ineligible children receiving the child care assistance statewide. Meanwhile, approximately 8,000 children are on the program's waiting list.

To be eligible for the child care assistance program, parents must work full-time or attend school full-time (or a combination of both) and earn no more than 200 percent of the Federal Poverty Index. For a family of three that would mean they could earn no more than \$37,060 a year.

DFD pays \$421,000 a year for a private vendor to provide quarterly wage reports that identify participants whose income exceeds the limits for this and other DFD programs. However, OSC's audit found DFD does not actually utilize those quarterly reports. OSC auditors reviewed one of the reports and quickly identified 36 child care program participants who are not eligible for the program. DFD had neither identified these individuals nor taken any steps to exclude them from the program.

"Basic steps are not being taken that would protect the integrity of the state's child care assistance program," State Comptroller Matthew Boxer said. "Ineligible recipients of state assistance could be weeded out simply by requiring applicants to produce their income tax return, or by taking ten minutes to review a report that the state pays a private vendor to generate. Instead, struggling families that the program was designed to help are kept on a waiting list while those who lie on their application receive state assistance for which they do not qualify."

The audit also found that:

- The parents/guardians of a total of 224 participants out of 478 sampled reported less income on their 2010 child care assistance application than they reported on their 2010 state income tax return. Underreporting income not only enables ineligible participants to enroll in the program but also allows eligible participants to receive subsidy payments that are greater than those to which they are actually entitled.
- For 10 percent of the state subsidies paid to sampled child care providers, the providers were not able to produce to OSC required documentation establishing that the children in question were actually in attendance at the facility. If that finding holds true for the entire program population, the state could be paying more than \$6 million annually in subsidy payments not supported by attendance documentation.
- At one of the child care agencies the audit reviewed, state payments in the amount of \$66,957 were made for a total of 214 children who were absent the entire month for which the payments were made.
- Program caseworkers at the referral agencies entered the Social Security number "999-99-9999" into the DFD database for 71 children in the program. This calls into question whether the children actually have Social Security numbers, which are required to establish citizenship or permanent residency

and obtain entry into the program. In federal fiscal years 2010 and 2011, the state paid \$335,253 in subsidies for these 71 children.

- OSC also identified 3,795 additional children participating in other DFD programs with similar requirements who had “999-99-9999” entered as their Social Security number. In federal fiscal years 2010 and 2011, cumulative payments made for these children totaled \$13.9 million.
- OSC’s review of the files of 629 current program participants found 5 percent of the files could not be located by the responsible agency. Of the files that were located, 72 percent did not contain required proof of New Jersey residency and 7 percent reflected improper annual income calculations. In one case, the annual income had been calculated at \$38,000 when, in fact, the pay stubs the applicant had provided reflected an annual income of approximately \$63,000, rendering the applicant ineligible for the program.
- Ten percent of the files reviewed contained no documentation of family income at all, yet, contrary to program requirements, the applicants were still deemed eligible for the program.

The audit makes 12 recommendations to address the deficiencies identified. Those recommendations include recouping misspent funds and requiring applicants to submit their income tax returns as part of the application process.

In their response to the audit, DFD officials said they have been realigning their policies and procedures in order to strengthen their internal controls and monitoring efforts. For example, they reported that they already have begun to implement an electronic time and attendance system that will address findings in the audit.