

# SCHEDULE OF FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

## State of Washington July 1, 2024 through June 30, 2025

**2025-025 The Department of Children, Youth, and Families did not have adequate internal controls to ensure payments to child care providers paid with Temporary Assistance for Needy Families funds were allowable and properly supported.**

<b>Assistance Listing Number and Title:</b>	93.558 Temporary Assistance for Needy Families
<b>Federal Grantor Name:</b>	U.S. Department of Health and Human Services
<b>Federal Award/Contract Number:</b>	2401WATANF; 2501WATANF
<b>Pass-through Entity Name:</b>	None
<b>Pass-through Award/Contract Number:</b>	None
<b>Applicable Compliance Component:</b>	Activities Allowed or Unallowed Allowable Costs/Cost Principles
<b>Known Questioned Cost Amount:</b>	\$2,296
<b>Prior Year Audit Finding:</b>	Yes, Finding 2024-042

### ***Background***

The Department of Social and Health Services (DSHS), Community Services Division, administers the Temporary Assistance for Needy Families (TANF) grant that provides temporary cash assistance for families in need. To receive TANF benefits, participants must be engaged in activities listed in the Individual Responsibility Plan through the WorkFirst program, unless the TANF benefits are received only on behalf of a child. TANF grant funds are also used to pay clients' child care costs to meet one of the program's primary purposes of helping clients obtain employment.

Washington has established the Working Connections Child Care (WCCC) program to help eligible working families pay for child care. The Department of Children, Youth, and Families (the Department) administers the program. The Department is responsible for establishing policies and procedures for licensing child care providers and paying them for allowable child care services. DSHS reimburses the Department for child care services it provides to TANF eligible clients under an agreement between the two agencies. In fiscal year 2025, DSHS paid \$67,701,321 in TANF funds for child care services.

There are three types of child care providers: licensed centers, licensed family homes, and licensed exempt providers referred to as Family, Friends, and Neighbor (FFN) providers. The Department uses the Social Service Payment System (SSPS) to process the payments it makes to child care providers. The system allocates payments to various funding sources based on the client's eligibility. These funding sources include multiple federal programs, multiple CCDF federal grant awards, and state funding. The Department uploads the SSPS payment data into the state's accounting system at a summary level based on the various funding sources.

DSHS worked with the Department to set up coding in the Payment Allocating Model system that looks at the client-level information and then assigns the correct TANF source of funds. Once the source of funds is identified, that information is sent to SSPS for allocation assignment. The Department prepares electronic reports that include details to ensure proper support for funds allocated to TANF funding sources and sends DSHS a monthly bill. There is always a need to transfer the funding sources for some payments throughout the year to manage federal and state funding properly.

Both the CCDF and TANF block grants fund some payments the Department makes for child care. While the two federal programs are separate, the requirements and policies for child care payments in Washington are consolidated under the WCCC program. Federal regulations require grant fund expenditures to be adequately supported to show that they have been used in accordance with program requirements.

#### *Authorizations for child care*

To be authorized for child care services, parents must be determined to be eligible based on their income, residency and demonstrated need based on approved activities. Once parents are determined to be eligible, the Department authorizes the amount of care based on the hours a parent participates in approved activities. For licensed centers, the service levels are generally either 23 full-day units (up to 10 hours a day) or 30 half-day units (up to five hours a day), or 46 half-day units during the months of June, July and August, when authorizing care for households with more than 110 hours of activity. Care is authorized based on need when approvable activities are less than 110 hours. When more than 10 hours a day of care is needed, the Department may authorize additional care for overtime. For licensed family homes, providers are authorized monthly units of care either as full-time, part-time, full-time partial-day, or part-time partial-day. FFN providers are paid by the hour, and authorizations are made for either part-time care (up to 110 hours a month) or full-time care (up to 230 hours a month). When more than 10 hours a day of care is needed, the Department may authorize additional care for overtime.

### *Attendance records*

Child care providers must maintain attendance records to support their billing. All child care providers must use the Department's electronic attendance recordkeeping system, a Department-approved electronic attendance recordkeeping system or receive an exception to rule to allow for paper attendance records. The attendance record requirement is the same for all providers. How the provider claims for payment varies depending on the provider type:

- Licensed center providers claim eligible units per month.
- Licensed family home providers claim eligible monthly unit(s).
- FFN providers claim eligible hours per month.

To ensure payments are allowable and accurate, the Department conducts data analysis and audits payments. The Department's subsidy audit unit, which is composed of six provider auditors, reviews payments each month using both random sections and focused referrals. The subsidy audit unit receives focused referrals from other divisions and programs within the Department. Department staff prepare audit request letters and mail them to providers who have 45 days to respond with records. The provider auditors review the records to determine whether the payments are properly supported.

Federal regulations require the state to establish and maintain effective internal controls that ensure compliance with program requirements. These controls include understanding program requirements and monitoring the effectiveness of established controls.

In prior audits, we reported the Department did not have adequate internal controls over and did not comply with requirements to ensure payments to child care providers paid with TANF funds were allowable and properly supported. The prior finding numbers were 2024-042, 2023-051, 2022-035 and 2021-028.

### ***Description of Condition***

The Department did not have adequate internal controls to ensure payments to child care providers paid with TANF funds were allowable and properly supported.

We used a statistical sampling method to randomly select and examine 59 out of a total population of 397,102 monthly payments for child care. Our sample included child care payments from each of the three provider types: licensed centers, licensed family homes and FFNs. With assistance from the Department, we requested attendance records, provider handbooks and other required receipts from providers that supported the payments. We reviewed each provider's records to determine if the payments were allowed by federal and state regulations, Department policies and supported by adequate documentation.

We found three payments funded by the TANF grant that were noncompliant. The Department improperly paid \$2,296 in federal TANF funds to these three providers.

The reasons the overpayments occurred were:

- Two providers did not submit attendance records in response to our request
- One provider overbilled for services that were not supported by attendance records

While the Department has written procedures over its post-payment audit process, the procedures need improvement. The Department has a Child Care Subsidy Programs Integrity Plan that was most recently updated in February 2024. In the plan, the Department stated the frequency of billing and attendance audits is 240 per month. Program staff said that their goal was to complete these audits within four to six months after the month of service. We reviewed the results of the Department audits that occurred during the audit period which were:

- The Department completed 2,228 audits during the year.
- The Department's post-payment audits were not timely. Most of the audits took place between six months and a year after the month of service.
- For four months of the year, the Department reviewed about 100 audits per month, instead of 240 in its plan.
- The Department identified overpayments in 1,493 of the 2,228 (67%) post-payment audits it completed during the year.
- In total, the Department itself identified \$2,185,753 in provider overpayments, or 22% of the payments it audited. The Department said these overpayments were submitted to the Department of Social and Health Services, Office of Financial Recovery (OFR), for collections. Providers are allowed due process via administrative hearing following this formal notification.

The Department also has a written Quality Control Provider Audit Procedure. This procedure states that six audit staff are to select both random and focused, or risk-based providers to audit. However, the procedures do not describe the specific methods or factors used by staff to make these selections.

We consider these internal control deficiencies to be a significant deficiency, which did not lead to material noncompliance.

### *Cause of Condition*

The Department does not review supporting documentation to verify a payment request is allowable and supported before payment. Payment authorizations establish a maximum for what providers may bill without further approval, but this does not prevent providers from billing for unallowable days, hours or services. The Department said adequate resources are not available to review documentation before payments are made. Until SSPS is connected to attendance reporting systems, providers must maintain attendance records and submit supporting documentation when it is requested.

The Department's post-payment audits consistently identify provider overpayments, which is a detective control. However, management has not implemented internal controls that sufficiently prevent overpayments. The Department said the reason only 100 audits were performed for four months of the year was due to a lack of staffing resources.

### *Effect of Condition and Questioned Costs*

By not having adequate internal controls in place, the Department increases its risk of making improper payments for child care services.

We used a statistical sampling method to randomly select the payments examined in the audit. Based on the results of our testing, we estimate the total likely questioned costs paid with federal TANF funds to be \$9,878,930.

Our sampling methodology meets statistical sampling criteria under generally accepted auditing standards in AU-C 530.05. It is important to note that the sampling technique we used is intended to support our audit conclusions by determining if expenditures complied with program requirements in all material respects. Accordingly, we used an acceptance sampling formula designed to provide a high level of assurance, with a 95% confidence of whether exceptions exceeded our materiality threshold. Our audit report and finding reflects this conclusion. However, the likely questioned cost projections are a point estimate and only represent our "best estimate of total questioned costs" as required by 2 CFR 200.516(a)(3).

We question costs when we find an agency has not complied with grant regulations or when it does not have adequate documentation to support its expenditures.

## ***Recommendations***

We recommend the Department strengthen its internal controls over payments it makes to child care providers. Specifically, the Department should:

- Update its written procedures to better describe its post-payment audit process. This should include a description of how staff select random and focused providers to audit.
- Provide additional resources to fully execute its Child Care Subsidy Program Integrity Plan. Based on its own audits and the results of our statistical sampling in this audit, the Department should consider expanding its audit effort until it is able to implement pre-payment controls.
- Link its payment and attendance reporting systems to prevent making payments that lack required supporting documentation.

The Department should also:

- Follow up with the providers that did not respond to requests for records during this audit.
- Consult with the grantor to discuss whether the known questioned costs identified in this audit should be repaid.

## ***Department's Response***

*The Department agrees with the three exceptions identified by the State Auditor's Office (SAO) as part of their testing of attendance records and documentation from providers. In February 2026, overpayments were written for the exceptions identified by SAO and submitted for recovery to the Department of Social and Health Services, Office of Financial Recovery (OFR).*

*The Department requires additional funding to increase the number of monthly provider audits completed, or to fund an information technology solution and system linkage between the payment and all of the electronic attendance systems used by providers. Even with data system connections the Department will need significant resources to increase the number of payments reviewed. The Department's current oversight is limited to the audit capacity of its six quality-assurance (QA) auditors for approximately 397,102 monthly child care payments as noted by SAO.*

*The Department employs automated system controls in the Social Services Payments System (SSPS) to limit provider authorizations to the maximum amount of care a child is eligible to receive and claim. The detective internal controls, post-payment audits, implemented by the Department are designed to detect errors and assure prompt correction of these errors. The QA auditors are identifying billing and electronic attendance system errors, identifying program weaknesses to be proactive to prevent future errors, analyzing data to update provider training materials and policies/procedures, and providing technical assistance to providers to reduce billing errors. Providers have reported appreciation of direct communication with the QA auditors through the technical assistance process.*

## *Quality-Assurance Audits*

- ***SAO Description of Condition:*** *The Department's post-payment audits were not timely. Most of the audits took place between six months and a year after the month of service.*
  - *Department Response: The Child Care Subsidy Programs Integrity Plan was updated 7/1/2025 but was not considered for this audit because it was outside the audit period being tested by SAO.*
  - *Department Response: Child care providers are allowed to claim for payments up to 3 months following the month of service. In addition, a provider has 45 days to provide records to the Department for the month of service being requested. Based on these legal requirements the Department has revised the Child Care Subsidy Programs Integrity Plan to reflect a more accurate goal of 6-12 months for audit completion.*
- ***SAO Description of Condition:*** *For four months of the year, the Department reviewed about 100 audits per month instead of 240 in its plan.*
  - *Department Response: During the time period outlined above the Department had one vacant position. The remaining five QA auditors processed and completed 100 monthly audits. In addition to reviewing documents for compliance, the QA auditors also work with providers daily to provide technical assistance by reviewing billing rules to help the providers comply with Department billing policies. These activities are focused on educating providers about child care subsidy rules to assist with reduction of billing errors in the future.*
  - *Department Response: As noted above, the Department requires additional funding to increase the number of monthly provider audits completed, or to fund an information technology solution and system linkage between the payment and all of the electronic attendance systems used by providers.*

- **SAO Description of Condition:** *The Department identified overpayments in 1,493 of the 2,228 (67%) post-payment audits it completed during the year.*
  - *Department Response: Billing errors identified during the QA audit period included not providing attendance records, missing signatures, general billing mistakes, and incorrectly using an electronic attendance system. As part of the administrative hearings process, a provider may request a hearing from Department of Social and Health Services (DSHS). At these hearings the providers may submit attendance records or receipts that were not previously provided to the Department and have the overpayments reduced or removed completely.*
  - *Department Response: Since 2018, the Department has supplemented random audits with focused audits. The Department is in process of increasing monthly focused audits received from referrals or providers identified with an Intentional Program Violation (IPV). The remaining audit capacity incorporates random audits to meet the monthly target and ensure unbiased program oversight.*
- **SAO Description of Condition:** *In total, the Department itself identified \$2,185,753 in provider overpayments, or 22% of the payments it audited.*
  - *Department Response: When overpayments are identified the Department writes an overpayment letter and provides it to the DSHS Office of Financial Recovery (OFR). OFR then sends the letter to the provider for recovery. Providers are allowed due process via administrative hearing following this formal notification.*
  - *Department Response: In fiscal year 2025, OFR recovered provider overpayments in the amount of \$2,426,515.27. This amount may be inclusive of overpayments from previous fiscal years.*

*As to the auditor's specific recommendations, the Department provides the following additional information:*

- **SAO Recommendation:** *Update its written procedures to better describe its post-payment audit process. This should include a description of how staff select random and risk-based providers to audit.*
  - *Department Response: The Department is in the process of updating and improving quality assurance audit procedures. The current procedures provide an outline and high-level overview while the specific details are completed by the quality control specialists and their supervisor. The procedures state that the six QA auditors are assigned both random and focused providers to audit. Random audits are determined by the use of a random number generator. QA auditors also perform focused audits based on referrals from licensing, OFR, or program staff. However,*

*the procedures do not describe the specific methods or factors used by the Department to make the selections. The updated procedures will provide detail on how cases are selected and assigned for the monthly audit totals. This update is in addition to the Child Care Subsidy Programs Integrity Plan which outlines the program integrity efforts.*

- **SAO Recommendation:** *Provide additional resources to fully execute its Child Care Subsidy Program Integrity Plan. Based on its own audits and the results of our statistical sampling in this audit, the Department should consider expanding its audit effort until it is able to implement pre-payment controls.*
  - *Department Response: The Department agrees this would increase provider payment integrity. The Department will need investment to increase the number of staff who audit provider payments or significant investment in an information technology platform that allows a pre-payment review of all payments. The Department also recognizes that electronic attendance systems require manual input for tracking and is not a preventative internal control by itself.*
- **SAO Recommendation:** *Link its payment and attendance reporting systems to prevent making payments that lack required supporting documentation.*
  - *Department Response: The Department agrees this would increase provider payment integrity. The Department will need investment to increase the number of staff who audit provider payments or significant investment in an information technology platform that allows a pre-payment review of all payments. The Department also recognizes that electronic attendance systems require manual input for tracking and is not a preventative internal control by itself.*
- **SAO Recommendation:** *Follow up with the providers that did not respond to requests for records during this audit.*
  - *Department Response: In February 2026, the Department processed overpayments for the exceptions identified by SAO and submitted the overpayments to DSHS OFR for recovery.*
- **SAO Recommendation:** *Consult with the grantor to discuss whether the known questioned costs identified in this audit should be repaid.*
  - *Department Response: When the Department of Health and Human Services (HHS) issues a management decision letter for the fiscal year 2025 finding, the Department will work with HHS and follow the audit resolution process.*

## *Auditor's Remarks*

We thank the Department for its cooperation and assistance throughout the audit. We will review the status of the Department's corrective action during our next audit.

## *Applicable Laws and Regulations*

Title 45 *U.S. Code of Federal Regulations* (CFR) Part 75, section 303, Internal Controls, describes the requirements for auditees to maintain internal controls over federal programs and comply with federal program requirements.

45 CFR Part 75, section 403, Factors affecting allowability of costs, establishes requirements for the collection of unallowable costs.

Title 45 CFR Part 75, section 516, Audit findings, establishes reporting requirements for audit findings.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 935, Compliance Audits, paragraph 11.

Washington Administrative Code (WAC) 110-15-0034 Providers Responsibilities. Child care providers who accept child care subsidies must do the following:

1. Licensed or certified child care providers who accept child care subsidies must comply with all child care licensing or certification requirements contained in this chapter, chapter 43.216 RCW and chapters 110-06, 110-300, 110-300D, 110-300E, and 110-301 WAC.
2. In-home/relative child care providers must comply with the requirements contained in this chapter, chapter 43.216 RCW, and chapters 110-06 and 110-16 WAC.
3. In-home/relative child care providers must not submit an invoice for more than six children for the same hours of care.
4. All child care providers must use DCYF's electronic attendance recordkeeping system or a DCYF-approved electronic attendance recordkeeping system as required by WAC 110-15-0126. Providers must limit attendance system access to authorized individuals and for authorized purposes, and maintain physical and environmental security controls.
  - a. Providers using DCYF's electronic recordkeeping system must submit monthly attendance records prior to claiming payment. Providers using a DCYF-approved electronic recordkeeping system must finalize attendance records prior to claiming payment
  - b. Providers must not edit attendance records after making a claim for payment

5. All child care providers must complete and maintain accurate daily attendance records. If requested by DCYF or the state auditor, the provider must provide to the requesting agency the following records:
  - a. Attendance records must be provided to DCYF within 45 calendar days of the date of a written request from either department; and
  - b. Attendance records must be provided to the state auditor's office within 30 calendar days from the date of a written request
6. Pursuant to WAC 110-15-0268, the attendance records delivered to DCYF may be used to determine whether a provider overpayment has been made and may result in the establishment of an overpayment and in an immediate suspension of the provider's subsidy payment.
7. All child care providers must maintain and provide receipts for billed field trip/quality enhancement fees as follows. If requested by DCYF, the provider must provide the following receipts for billed field trip/quality enhancement fees:
  - a. Receipts from the previous 12 months must be available immediately for review upon request by DCYF;
  - b. Receipts for one to five years old must be provided within 28 days of the date of a written request from either department.
8. All child care providers must:
  - a. Retain all records required by this chapter for a minimum of five years
  - b. Provide to the department records from the previous 12 months immediately upon the department's written request
  - c. Provide to the department any records between 12 months and five years old within two weeks of the department's written request
9. All child care providers must collect copayments directly from the consumer or the consumer's third-party payor, and report to DCYF if the consumer has not paid a copayment to the provider within the previous 60 days
10. All child care providers must follow the billing procedures required by DCYF

## Washington Administrative Code (WAC) 110-15-0190 WCCC benefit Calculations

1. DCYF determines the amount of care consumers may receive at application or reapplication. Once the care is authorized, the amount will not be reduced during the eligibility period unless
  - a. Consumers request reductions;
  - b. The care is for school-aged children
  - c. The authorization was for additional care needed for less than the entire length of the authorization period
  - d. The care was authorized by child protective services (CPS) or child welfare services (CWS) and is part of children's case plans under WAC 110-15-4510
  - e. Incorrect information was given at application or reapplication
2. For parents age 21 years or younger who are attending high school or working towards completing a high school equivalency certificate, DCYF will authorize care based only on their student activity schedules.
3. To determine the amount of weekly hours of care needed, DCYF reviews the child care scheduled with providers, and:
  - a. Consumers' participation in approved activities and the number of hours their children attend school, including home school, which will reduce the amount of care needed; or
  - b. The days and times that approved activities overlap in a two parent or guardian household, and only authorize care during those overlapping times. Consumers are eligible for full-time care if overlapping care totals 110 hours in one month
  - c. Parents or guardians in two parent or guardian households who are not able to care for their children under WAC 110-15-0020 are considered by DCYF to be unavailable for care, regardless of their schedules

4. Licensed or certified center child care is authorized as follows:
  - a. Full-time monthly unit of care, equal to 22 full day units, is authorized when:
    - i. WCCC or SCC consumers participate in approved activities at least 110 hours per month or full-time care is determined to be appropriate and included in a CPS or CWS case plan; and
    - ii. Their children have scheduled care with a single provider at least 110 hours per month
  - b. Part-time monthly unit of care, equal to the actual anticipated full- and half-day units of care needed averaged over a 12-month period, is authorized when the care scheduled with providers is less than 110 hours per month
  - c. Part-time partial-day monthly unit is authorized when school-age children attend care in a licensed family home and meets the criteria in subsection (5) of this section
5. Licensed family home child care is authorized as the following monthly units of care:
6. Additional monthly units of care may be authorized when:
  - a. Consumers request an authorization for additional care;
  - b. The need for care is verified;
  - c. The care is needed to supplement an existing monthly unit for unexpected care needed for an approved activity limited to the time frame needed, not to exceed three months;
  - d. For actual anticipated overtime when the overtime is included when determining eligibility for child care; or
  - e. For sleep time
7. Full-time partial-day monthly unit. A single partial-day monthly unit equal to 17 partial days and five full days is authorized for school-age children attending a licensed family home child care when consumers have at least 110 hours of approved activity per month, and their children are:
  - a. Authorized for care with only one provider;
  - b. Scheduled for care of 110 hours or more in July and August;
  - c. In care less than five hours on a typical school day; and
  - d. Need care before and after school.

8. When determining part-time care for families using licensed providers when their activity or amount of care needed is less than 110 hours per month:
  - a. A full-day unit is calculated for each day of care of at least five hours;
  - b. A half-day unit will be calculated for each day of care that is less than five hours; and
  - c. A partial-day unit is calculated for each day of care in a licensed family home when:
    - i. Their children are in care before and after school; and
    - ii. The total care for the day is less than five hours.
9. Full-time care for families using in-home/relative providers is authorized when consumers participate in approved activities at least 110 hours per month:
  - a. Two hundred thirty hours of care are authorized when their children are in care five or more hours per day;
  - b. One hundred fifteen hours of care is authorized when their children are in care less than five hours per day;
  - c. One hundred fifteen hours of care is authorized during the school year for school-aged children who are in care less than five hours per day and their providers are authorized for contingency hours each month, up to a maximum of 230 hours;
  - d. Two hundred thirty hours of care is authorized during the school year for school-aged children who are in care five or more hours in a day; and
  - e. Supervisor approval is required for hours of care than exceed 230 hours per month
10. Care cannot exceed 16 hours per day, per child
11. When determining part-time care for families using in-home/relative providers:
  - a. Under the provisions of subsection (2) of this section, DCYF authorizes the number of hours of care needed per month when the activity is less than 110 hours per month; and
  - b. The total number of authorized hours and contingency hours claimed cannot exceed 230 hours per month.
12. DCYF determines the allocation of hours or units for families with multiple providers based upon the information received from the parents or guardians

13. DCYF may authorize more than the state rate and up to the provider's private pay rate if:

- a. The parent or guardian is a WorkFirst participant; and
- b. Appropriate child care, at the state rate, is not available within a reasonable distance from the approved activity site. "Appropriate" means licensed or certified child care under WAC 110-15-0125, or an approved in-home/relative provider under WAC 110-16-0010. "Reasonable distance" is determined by comparing distances other local families must travel to access appropriate child care.

14. Other feeds DCYF may authorize to a provider are:

- a. Registration fees;
- b. Field trip fees;
- c. Nonstandard hours bonus;
- d. Overtime care to licensed providers when care is expected to exceed 10 hours in a day when consumers are eligible and authorized; and
- e. Special needs rates for a child