2016-001   The Department of Early Learning did not establish adequate internal controls to ensure Needs-Based Grants recipients were eligible and used grant funds only for allowable purposes.

Background

The Department of Early Learning works to improve the readiness and overall success levels of young school-age children by offering voluntary, comprehensive, high-quality early learning programs and support to families and early learning professionals.

Early Achievers is a program designed to enhance the quality of early learning in Washington. As part of the program's support for early learning professionals, the Department offers Needs-Based Grants to qualifying facilities to help them overcome barriers that may be preventing them from achieving a higher quality rating. Facilities participating in Early Achievers that meet eligibility requirements may be granted up to $500 for in-home childcare facilities and $1,000 for childcare centers.

Once program staff approve a Needs-Based Grant application, an email with the approved recipients and grant amount is sent to the agency's fiscal unit to inform them that the payment is authorized.

Needs-Based Grant funds can only be used for purchasing classroom materials, substitute time, professional and curriculum development, instructional materials, supplies or equipment to improve program quality. Recipients must retain receipts for seven years to show how they used the grant funds. When providers sign their grant application, they attest that they acknowledge this requirement.

The Department awarded $772,367 in Needs-Based Grants in fiscal year 2016.

Description of Condition

We found the Department did not perform any monitoring of recipients to ensure grant funds were used only for allowable purposes.

We examined 59 Needs-Based Grant payments, totaling $41,867, to determine if they were allowable and issued in accordance with the Department's requirements. In addition, we evaluated the Department's policies and procedures to determine if they were adequate to ensure grant funds were used only for allowable expenditures.

We found:

- Two payments, totaling $2,000, were made to ineligible child care centers.

- One in-home provider was improperly granted an additional $500 because it was misclassified as a child care center.

Cause of Condition

The Department said it did not perform monitoring of grant recipients due to a lack of staffing.

Two improper payments occurred because the grant applications were not retained by the Department. One improper payment was not adequately reviewed prior to approval.

Effect of Condition

The lack of monitoring increases the risk of misuse or abuse of public funds occurring without detection. In addition, by not establishing adequate internal controls, the Department risks issuing Needs-Based Grants to ineligible recipients.

Recommendation

We recommend the Department:

- Monitor grant recipients to ensure grant funds are used only for allowable purposes.

- Strengthen its internal controls to ensure grant funds are issued in accordance with Department requirements and state law

- Perform reconciliations of approved grant amounts and payments to detect improper payments

Department's Response

The Department concurs with the three exceptions that were identified by the State Auditor's Office around the Needs-Based Grants program. The Needs-Based Grants program was established late in State Fiscal Year 2015. Since this time the Department has worked to develop and strengthen internal controls and processes around the program.

The Department has performed the following actions to further strengthen internal controls:

- *Established written policies and procedures for staff to follow to determine eligibility around grants.*

- *Updated the grants application that strengthened the language around allowable uses and the requirement for proper retention of records by recipients.*

- *Implemented a dual approval process to ensure that applicants are eligible, have not already received a grant, and that they are receiving the proper grant amount.*

- *Strengthened reconciliations by the Department's Fiscal team to the financial system of record to help ensure that payments are to the proper provider and are not duplicate payments prior to grants being released.*

- *Strengthened the reconciliation process between payments processed by Fiscal and the grants database.*

The Department has hired additional staff for the Needs-Based Grant unit to assist with building internal controls and to perform monitoring of recipients to ensure grant funds are used for allowable purposes. The Needs-Based Grant program is working on a process and procedure for requesting and auditing records based on an audit sample that is representative of the population of program recipients.

Auditor's Remarks

We appreciate the Department's commitment to improve its internal controls. We will follow-up in our next scheduled audit to determine if the Department's corrective actions have resolved the matter.

Applicable Laws and Regulations

RCW 43.215.101 - Early achievers program—Participation of culturally diverse and low-income center and family home child care providers states in part:

> (1)(a) The department shall, in collaboration with tribal governments and community and statewide partners, implement a protocol to maximize and encourage participation in the early achievers program for culturally diverse and low-income center and family home child care providers. Amounts appropriated for

the encouragement of culturally diverse and low-income center and family home child care provider participation shall be appropriated separately from the other funds appropriated for the department, are the only funds that may be used for the protocol, and may not be used for any other purposes. Funds appropriated for the protocol shall be considered an ongoing program for purposes of future departmental budget requests.

(b) During the first thirty months of implementation of the early achievers program the department shall prioritize the resources authorized in this section to assist providers rating at a level 2 in the early achievers program to help them reach a level 3 rating wherever access to subsidized care is at risk.

(2) The protocol should address barriers to early achievers program participation and include at a minimum the following:

(a) The creation of a substitute pool;

(b) The development of needs-based grants for providers at level 2 in the early achievers program to assist with purchasing curriculum development, instructional materials, supplies, and equipment to improve program quality. Priority for the needs-based grants shall be given to culturally diverse and low-income providers;

(c) The development of materials and assessments in a timely manner, and to the extent feasible, in the provider and family home languages; and

(d) The development of flexibility in technical assistance and coaching structures to provide differentiated types and amounts of support to providers based on individual need and cultural context.

The Office of Financial Management's *State Administrative and Accounting Manual* (SAAM), states in part:

Section 20.15.30.a. Who is responsible for internal control?

The **agency head or authorized designee** is ultimately responsible for identifying risks and establishing, maintaining, and reviewing the agency's system of internal control. If the agency head delegates this responsibility, the designated person should have sufficient authority to carry out these responsibilities. Normally,

this person is a senior agency manager who does not serve in the internal audit function.

Section 20.15.40.c. Control Activities

Control activities help ensure risk responses are effectively carried out and include policies and procedures, manual and automated tools, approvals, authorizations, verifications, reconciliations, security over assets, and segregation of duties. These activities occur across an agency, at all levels and in all functions, and are designed to help prevent or reduce the risk that agency objectives will not be achieved.

Managers set up control activities to provide reasonable assurance that the agency and business unit objectives are met. An example of a control activity is something as simple as listing tasks assigned to staff members and then periodically checking the list to verify that assignments are completed on time. Refer to Section 20.25 for further discussion of control activities.

Section 20.15.40.e. Monitoring

Things change and, by monitoring the risks and the effectiveness of control measures on a regular basis, an agency can react dynamically to changing conditions.

Monitoring evaluates the effectiveness of an agency's internal controls and is designed to ensure that internal controls continue to operate effectively. Monitoring is effective when it leads to the identification and correction of control weaknesses *before* they **materially** affect the achievement of the agency's objectives.

An agency's internal control is most effective when there is proper monitoring, results are prioritized and communicated, and weaknesses are corrected and followed up on as necessary.

There are two types of monitoring: ongoing and periodic. Ongoing monitoring occurs in the course of operations. It includes tasks such as supervisory reviews of reconciliations, reports, and processes. Periodic monitoring includes tasks such as periodic internal audit sampling and annual reviews of high-risk business processes. Internal control deficiencies uncovered by monitoring should be reported to higher levels of management.

Section 85.32.20.c. Expenditure Authorization

Agency heads or authorized designees are responsible for authorizing all expenditures/expenses.

Section 85.32.30.a. Payment Processing Documentation

At a minimum, payment processing documentation should include evidence of authorization for purchase, receipt of goods or services, and approval for payment. Agencies may utilize paper or electronic forms.

Early Achievers Participant Operating Guidelines, July 2014, Chapter V. Early Achievers Supports and Incentives, f. Family Home Child Care Needs-Based Grants states in part:

i. Grant eligibility

In order to be eligible, family home child care providers must meet the following criteria:

- Enrolled in the Tier 1 food program; or

- Live within a school district that serves at 20% low income children based on OSPI data; and

- Receive a recommendation from a Technical Assistance Specialist or Coach.

ii. Distribution of grant funds

- Needs-based grant awards will be distributed to the facility between 30 to 60 days from the date that a facility's grant application submission is approved by DEL.

iii. Allowable uses

- To purchase items such as books, science materials, and gross motor equipment

- Substitute time

- Other items identified by the Technical Assistance Specialist or Coach

- All expenditures must be approved by the Technical Assistance Specialist or the Coach

iv. Restrictions

In addition to the requirements outlined above about allowed fund usage, award funds may not be used to purchase items considered to be:

- Capital Improvements: From the Child Care and Development Fund: "No funds shall be expended for the purchase or improvement of land, or for the purchase, construction, or permanent improvement of any building or facility. However, funds may be expended for minor remodeling, and for upgrading child care facilities to assure providers meet State and local child care standards, including applicable health and safety requirements."

- Religious Activities: From the Child Care and Development Fund: "Funds provided under grants or contracts to providers may not be expended for any sectarian purpose or activity, including sectarian worship or instruction."

- Gift Cards: Grant funds should not be used to purchase monetary equivalents such as gift cards, gift certificates, traveler's checks, money orders, or the like.

Facilities that receive a Needs-Based Grant are required to keep their receipts.