

Letter Report

**Wisconsin Shares  
Child Care Subsidy Program**

*June 2009*



**Legislative Audit Bureau**

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**STATE OF WISCONSIN**  
Legislative Audit Bureau

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June 12, 2009

Janice Mueller  
State Auditor

Senator Kathleen Vinehout and  
Representative Peter Barca, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Dear Senator Vinehout and Representative Barca:

We have completed a review of Wisconsin Shares, the State's child care subsidy program, which is administered by the Department of Children and Families (DCF). This review is the first phase of a comprehensive evaluation of the program as approved by the Joint Legislative Audit Committee. The second phase, an evaluation of the effectiveness of child care regulation, will be completed later this year.

From fiscal year (FY) 2004-05 through FY 2007-08, program expenditures increased from \$312.3 million to \$354.5 million, or by 13.5 percent. They are projected to total \$371.2 million in FY 2008-09.

To independently assess the accuracy and documentation supporting eligibility decisions, we reviewed the case files of 400 randomly chosen program participants who received benefits during 2008. We found periods of ineligibility, a lack of appropriate documentation, and other problems in the files of 43 participants, or 10.8 percent of our sample. Extrapolating from this statistically valid sample, we estimate that \$16.7 to \$18.5 million in improper subsidy payments were made in 2008 as a result of the problems we identified. We include a recommendation for DCF to strengthen its eligibility and wage verification processes.

We also requested daily child attendance records for one month—October 2008—from 50 child care providers for whom our analyses indicated potential program violations. Five providers did not submit records to us. Among the 45 that did, we found numerous problems. For example, 21 providers were paid for care they either did not provide or were not authorized to provide. Because of errors or potentially fraudulent reporting in the sample of 50 providers we analyzed, we estimate that approximately \$4.0 million in improper subsidy payments were made to these providers in 2008.

We also identified a significant problem with program rules that allow providers to care for one another's children, thereby creating child care "rings." DCF policies also allow providers to hire the parents of children for whom they receive subsidy payments. We found five instances of providers caring for one another's children. These providers received \$109,700 in subsidy payments in 2008 and early 2009. In addition, we found that in a single month, 12 of the 45 providers whose records we reviewed employed a total of 93 participants and received \$167,000 in subsidy payments for caring for these participants' children. Such situations significantly increase the likelihood for fraud or abuse to occur, and we include a recommendation for the Legislature to consider statutory changes to the program rules under which they are allowed.

We appreciate the courtesy and cooperation extended to us by DCF, the Department of Workforce Development, and the county agencies we contacted during our review.

Sincerely,

A handwritten signature in cursive script that reads "Janice Mueller".

Janice Mueller  
State Auditor

JM/KW/ss



## **WISCONSIN SHARES CHILD CARE SUBSIDY PROGRAM**

The Wisconsin Shares program assists low-income working families and Wisconsin Works (W-2) participants in paying for child care. Since July 1, 2008, the Department of Children and Families (DCF) has been responsible for administering the program. DCF directly regulates licensed family providers, who may care for up to eight children, and licensed group providers, which are typically larger entities that may care for nine or more children. DCF also establishes the requirements for oversight of certified providers, who may care for no more than six children, by county and tribal agencies. Previously, the Department of Health and Family Services and the Department of Workforce Development (DWD) shared responsibility for these functions. DCF contracts with county and tribal agencies to determine participants' eligibility for Wisconsin Shares and other public assistance programs.

Federal and state funds are used to pay for child care subsidies and the program's administrative costs. In fiscal year (FY) 2007-08, program expenditures totaled \$354.5 million, including \$339.2 million for subsidy payments to providers. Federal revenue, including the Child Care Development Block Grant and Temporary Assistance for Needy Families (TANF), funded \$216.5 million in program costs. State general purpose revenue (GPR), which must match TANF funds, and segregated revenue totaled \$138.0 million.

A January 2009 account in the *Milwaukee Journal Sentinel* questioned some participants' eligibility, reported incidents of potentially fraudulent or improper subsidy payments to providers, and publicized apparent violations of regulatory standards. In February 2009, the Joint Legislative Audit Committee approved a comprehensive audit of the Wisconsin Shares program.

For this report, we reviewed selected aspects of program administration, including:

- demographic information for all Wisconsin Shares participants in December 2008;
- eligibility determinations for a random sample of 400 participants who received child care subsidies in 2008;
- wage records for 400 participants in a database maintained by DWD;
- daily attendance records maintained by a judgment sample of 45 child care providers to support their claims for subsidy payments under the program; and
- policies and procedures intended to ensure the program operates within federal and state requirements.

We also interviewed county staff, including county caseworkers responsible for determining eligibility for program participation and staff who perform program integrity operations in seven counties that represented almost two-thirds of the Wisconsin Shares caseload: Brown, Dane, Eau Claire, Kenosha, Milwaukee, Racine, and Rock.

Our review was coordinated with an audit of Milwaukee County's program integrity efforts performed concurrently by the Milwaukee County Department of Audit. We appreciate the Department's professionalism and willingness to work with us to ensure that our mutual audit issues were addressed in an efficient and effective manner.

We will release a second report evaluating provider regulation and the effectiveness of current enforcement and quality-improvement efforts later this year.

## Program Expenditures and Participants

As shown in Table 1, expenditures for the program have increased substantially, from \$312.3 million in FY 2004-05 to a projected \$371.2 million in FY 2008-09. The increase is largely the result of the number of participating children increasing from 52,341 in FY 2004-05 to an estimated 59,873 in FY 2008-09.

Table 1

### Wisconsin Shares Expenditures<sup>1</sup> (in millions)

	Expenditures	Percentage Change
FY 2004-05	\$312.3	–
FY 2005-06	324.9	4.0%
FY 2006-07	338.2	4.1
FY 2007-08	354.5	4.8
FY 2008-09 (estimated)	371.2	4.7

<sup>1</sup> Excludes child care licensing expenditures.

Table 2 shows the sources of revenue associated with program expenditures. While total program expenditures increased by 13.5 percent from FY 2004-05 through FY 2007-08, those funded with GPR increased by 45.1 percent, in part because additional funds were needed to cover unanticipated shortfalls in recent years.

Table 2

### Revenue Sources for Wisconsin Shares (in millions)

	FY 2004-05	FY 2005-06	FY 2006-07	FY 2007-08	Percentage Change
Federal Revenue	\$202.7	\$194.4	\$206.9	\$216.5	6.8%
GPR	89.8	104.4	113.3	130.3	45.1
Segregated Revenue <sup>1</sup>	19.8	26.1	18.0	7.7	(61.1)
<b>Total</b>	<b>\$312.3</b>	<b>\$324.9</b>	<b>\$338.2</b>	<b>\$354.5</b>	<b>13.5</b>

<sup>1</sup> Includes revenues from child support transfer payments and inter/intra agency support.

As shown in Table 3, the majority of participants in December 2008 were single women between the ages of 21 and 30. Most were white and most had one or two children.

Table 3  
**Profile of Wisconsin Shares Participants**  
 December 2008

Description	Number	Percentage of Total	Description	Number	Percentage of Total
<b>Age</b>			<b>Level of Education</b>		
Under 17	131	0.4%	Grade 8 or Less	1,498	4.2%
17 to 20	2,267	6.3	Some High School	11,859	33.2
21 to 30	21,418	60.0	High School Graduation <sup>1</sup>	13,597	38.1
31 to 40	9,323	26.1	Some Post-Secondary	4,914	13.7
41 to 50	2,124	5.9	Bachelor's or Advanced Degree	466	1.3
51 and Over	453	1.3	Unknown	3,382	9.5
<b>Total</b>	<b>35,716</b>	<b>100.0%</b>	<b>Total</b>	<b>35,716</b>	<b>100.0%</b>
<b>Gender</b>			<b>Assistance Group Size</b>		
Female	31,630	88.6%	2 Persons	10,936	30.6%
Male	4,086	11.4	3 Persons	10,702	30.0
<b>Total</b>	<b>35,716</b>	<b>100.0%</b>	4 Persons	7,363	20.6
<b>Race/Ethnicity</b>			<b>Reported Monthly Income<sup>2</sup></b>		
White	17,318	48.5%	\$0 to \$999	8,554	24.0%
African American	12,993	36.4	\$1,000 to \$1,999	16,618	46.5
Hispanic/Latino	2,733	7.6	\$2,000 to \$4,999	10,505	29.4
Asian	608	1.7	\$5,000 or More	39	0.1
American Indian	525	1.5	<b>Total</b>	<b>35,716</b>	<b>100.0%</b>
Multiracial <sup>3</sup>	290	0.8	<b>Support Services</b>		
Pacific Islander	115	0.3	Medical Assistance	32,633	91.4%
Unknown	1,134	3.2	Food Stamps	23,728	66.4
<b>Total</b>	<b>35,716</b>	<b>100.0%</b>	W-2	3,043	8.5
<b>Household Status</b>			<b>Household Status</b>		
1 Parent	28,770	80.5%			
2 Parents	6,879	19.3			
Other <sup>4</sup>	67	0.2			
<b>Total</b>	<b>35,716</b>	<b>100.0%</b>			

<sup>1</sup> Includes those who graduated from high school and those who have completed the equivalent of a high school degree program.

<sup>2</sup> Monthly income reported at the most recent eligibility determination, which according to program rules must be completed at least once every six months.

<sup>3</sup> Includes those who reported more than one race.

<sup>4</sup> Includes households with multiple generations.

Table 4 is a profile of the children whose care was subsidized by the program in December 2008. Those 6 years old and older, who are required by s. 118.15, Wis. Stats., to be enrolled in school, represented 34.5 percent of children served. The majority of participating children received up to 160 hours of subsidized child care during the month shown. Children under the age of 6 who are not enrolled in school and whose parents are working full-time could reasonably be expected to need somewhat more than 160 hours of care in a month.

Table 4

**Profile of Children Enrolled in Wisconsin Shares  
December 2008**

Description	Number	Percentage of Total
<b>Age</b>		
6 Months or Younger	1,226	2.1%
7 to 11 Months	3,072	5.1
1 to 2 Years	14,799	24.7
3 to 5 Years	20,097	33.6
6 to 12 Years	20,499	34.2
13 Years and Older	170	0.3
<b>Total</b>	<b>59,863</b>	<b>100.0%</b>
<b>Hours in Care<sup>1</sup></b>		
0 to 80	25,242	42.2%
81 to 160	26,631	44.5
161 to 200	6,603	11.0
201 or More	1,387	2.3
<b>Total</b>	<b>59,863</b>	<b>100.0%</b>

<sup>1</sup> Reflects hours of care reported by providers in that month for each child.



## Types of Child Care Providers

In December 2008, 5,748 providers were eligible to receive subsidies under the Wisconsin Shares program. As shown in Table 5, most were licensed group and licensed family providers, whose subsidy payments in that month totaled \$23.8 million, or 90.7 percent of total subsidy payments. Approximately one-third of providers receiving subsidies in December 2008 were certified providers whose subsidy payments were smaller primarily because certified providers are limited to caring for fewer children and are subsidized at lower hourly rates.

Table 5

**Wisconsin Shares Subsidy Payments by Provider Type**  
December 2008

Type of Provider	Number of Providers	Subsidy Payments to Providers
<b>Licensed Providers</b>		
Group	1,810	\$18,162,900
Family	1,966	5,635,400
<b>Subtotal</b>	<b>3,776</b>	<b>23,798,300</b>
<b>Certified Providers</b>		
Regular	1,384	1,786,700
Others <sup>1</sup>	152	392,000
Provisional <sup>2</sup>	436	264,500
<b>Subtotal</b>	<b>1,972</b>	<b>2,443,200</b>
<b>Total</b>	<b>5,748</b>	<b>\$26,241,500</b>

<sup>1</sup> Includes school-based providers and other organizations that provide programming only for school-age children.

<sup>2</sup> Includes providers that meet all certification criteria but cannot become certified until they have completed additional courses related to the child care profession.

Table 6 shows staffing ratios and the maximum number of children who may be cared for by licensed and certified providers.

Table 6

**Staffing Ratios by Provider Type**

Type of Provider	Required Provider-to-Child Ratio	Maximum Number of Children
Licensed Group	Varies from 1:4 for infants to 1:18 for children 6 years and older	Depends on facility capacity
Licensed Family	Varies from 1:6 to 1:8, depending on ages of children	8
Regular Certified	Varies from 1:4 to 1:6, depending on ages of children	6
Provisionally Certified	Varies from 1:4 to 1:6, depending on ages of children	6

Subsidy rates in Wisconsin were last changed in 2006 and are based on provider type, county of residence, and the ages of the children receiving care. Appendix 1 shows the maximum hourly subsidy rate by provider type for counties and tribes.

In addition, participants are required to make co-payments to providers. Section 49.155(5), Wis. Stats., requires DCF to determine the co-payment amounts, which vary according to the size and income of the family, as well as the number of children in care. For example, a family of one parent and two children with a monthly income of \$2,713 was assessed a co-payment of \$77 per week in 2008. Participants are also responsible for any additional provider charges that exceed the subsidy paid by the State. Statewide data are not collected on either co-payments or additional provider charges paid by program participants. Anecdotal information suggests that many providers do not require participants to actually make co-payments, in part because of the additional administrative burden or because participants are unable to pay.

**Subsidy Payment Process**

To receive subsidies, providers are required by administrative rule to prepare daily attendance records showing the date and time of arrival and departure for each child. Providers are reimbursed by check or electronic deposit, typically on a biweekly basis. In rare instances, DCF may provide parents with vouchers that can be used to purchase child care services from providers in the Wisconsin Shares program. As required by DCF 201.04(2)(d), Wis. Adm. Code, licensed providers—which may care for larger numbers of children and therefore need to plan for meals and staffing needs in advance—are generally reimbursed based on the hours of care authorized for participants’ children each week, and not on whether the children actually

receive care. In contrast, certified providers, who are authorized to care for fewer children and presumably have more flexibility in planning, are paid based on the hours of care actually provided to each child as recorded on their daily attendance records.

DCF estimates that 71.0 percent of providers submit paper attendance records to county agencies showing daily hours of attendance. County staff then record the hours of care submitted for each child each week in an electronic database. The remaining 29.0 percent of providers submit weekly totals for each child to the same database through a secured Web site maintained by DCF. Before they are allowed access to the Web site, Milwaukee County providers must take a county-administered training course. Providers in other counties may request technical assistance as needed.

Table 7 shows December 2008 subsidy payments by provider location. As would be expected, the largest share of Wisconsin Shares subsidy payments was made to providers in Milwaukee County, which includes 48.8 percent of the children receiving subsidized care and where providers receive the highest child care subsidy rates.

Table 7

**Subsidy Payments to Providers  
December 2008**

Provider Location	Number of Children	Percentage of Total	Subsidy Payments to Providers	Percentage of Total
Milwaukee County	29,200	48.8%	\$15,450,300	58.9%
Dane County	3,752	6.3	1,894,500	7.2
Racine County	2,565	4.3	1,010,300	3.9
Kenosha County	2,382	4.0	999,200	3.8
Brown County	1,614	2.7	661,900	2.5
Waukesha County	1,405	2.3	704,800	2.7
Rock County	1,290	2.2	423,500	1.6
Winnebago County	1,079	1.8	416,300	1.6
La Crosse County	964	1.6	296,600	1.1
Outagamie County	932	1.6	373,400	1.4
Eau Claire County	920	1.5	331,000	1.3
Other Counties	13,760	22.9	3,679,700	14.0
<b>Total</b>	<b>59,863</b>	<b>100.0%</b>	<b>\$26,241,500</b>	<b>100.0%</b>

## **Program Eligibility Requirements**

We reviewed program eligibility requirements in detail because of concerns of fraud or abuse by participants who received benefits based on incorrect or unverified eligibility documentation. Section 49.155(1m), Wis. Stats., establishes three types of information that must be verified by county and tribal caseworkers before eligibility is determined:

- family status;
- employment or other authorized activity; and
- family income.

In order to be eligible for the program, an individual must be the custodial parent of at least one child who is under the age of 13 or have a child under the age of 19 who has special needs. Participants must also be residents of Wisconsin. To prove residency, applicants provide documents such as a driver's license or a state identification card. Participants must cooperate with efforts to establish paternity for any minor child and to obtain child support.

In addition, participants must be employed, including self-employed, or engaged in other authorized activities, which include participating in W-2 or an employment and skills training program such as Food Stamp Employment and Training, or attending high school if under the age of 20. Caseworkers verify employment using information such as pay stubs for the two most recent pay periods; standard employment verification forms completed by employers to confirm employment, wages, and work schedules; or letters provided by employers or participants, which are typically used to verify recently gained employment.

DCF policies require self-employed participants to submit copies of their most recent individual income tax returns. If income tax information is unavailable, participants must instead submit a monthly self-employment verification form, which includes self-reported monthly gross income, business-related expenses, and net income.

A participating family's gross monthly income must not exceed certain levels. For example, a new applicant's family must be at or below 185.0 percent of the federal poverty level, which in 2008 was \$2,713 per month, or \$32,556 per year, for a family of three. Participants may remain eligible if their incomes increase, as long as income remains below 200.0 percent of the federal poverty level. The income limits are somewhat more generous for foster parents, relatives who receive court-ordered Kinship Care benefits, or court-appointed guardians who participate in Milwaukee County's Subsidized Guardianship program. In these cases, the child's biological or adoptive family income at eligibility must be at or below 200.0 percent of the federal poverty level and must not exceed that level for program eligibility to continue.

If caseworkers believe additional scrutiny of applicants' documentation is warranted at the time eligibility is being determined, they can submit documentation for in-depth reviews called front-end verifications. Program policies issued by DCF recommend that county agencies create a list of circumstances under which eligibility information should be submitted for front-end verifications, such as:

- questionable or contradictory documentation of earned or unearned income;
- financial or family relationships between the applicant and the child care provider or employer;
- conflicting documentation of proof of Wisconsin residency, such as if an applicant has no job, job offer, or relatives in the area;
- concerns that the father of the children is living in the household but paternity has not been established, and his income has not been included in determining eligibility; and
- any previous Wisconsin Shares program violations committed by the applicant.

Five of the seven counties we visited—Brown, Dane, Eau Claire, Racine, and Rock—employ a total of 12 staff to conduct front-end verifications. However, each county conducts verifications for different reasons. For example, Dane County conducts verifications only for cases in which participants report having recently moved to the county from another state, while Eau Claire County has created a list of circumstances under which caseworkers submit a case for verification. Kenosha County refers front-end verifications to a private contractor.

Counties are required by DCF 201.04(3)(b), Wis. Adm. Code, to reassess a participant’s eligibility every six months, and DCF 201.04(2m), Wis. Adm. Code, requires participants to report changes that affect their eligibility, such as changes in employment, income, or family status, to their caseworkers within ten days. Six-month reviews may occur by telephone and do not require a face-to-face interview with a caseworker. However, for all six-month reviews, participants must submit employment information, such as pay stubs from the most recent 30 days, to document that they are still employed.

## **Participant Case File Review**

To independently assess the documentation required of Wisconsin Shares participants and the degree to which caseworkers make eligibility decisions correctly, we analyzed a statistically valid random sample of the case files of 400 participants who received program services in 2008. Our analysis focused on participants’ most recent six-month period of eligibility. Appendix 2 contains information on the characteristics of the 400 participants whose files we selected for review. In general, the characteristics of the participants we selected were similar to the characteristics of all participants, as would be expected from a sample selected at random.

All documentation used by a caseworker to determine eligibility must be recorded in DCF’s electronic case files, which store eligibility documents digitally. Paper eligibility files are no longer maintained for this program. We reviewed the type and quality of documentation available to support each participant’s residency and found that, in general, caseworkers properly verified residency documents. Most participants in our sample were born in Wisconsin. However, 39 of the 400 participants became Wisconsin residents since 2000, including 17 from surrounding states.

In addition, we reviewed the documentation used by caseworkers to verify participants' employment status, the number of children needing authorized care, and whether the amounts authorized were consistent with participants' work schedules. We also compared wage information reported by participants and maintained in DCF's electronic case files with wage information contained in a database maintained by DWD. Appendix 3 shows the types of employers reported in the case files for our sample.

In the 400 case files we examined, we found periods of ineligibility, a lack of appropriate documentation to verify employment, and other problems related to 43 participants, or 10.8 percent of our sample, including:

- 7 participants who were not eligible for the program at the time their eligibility was reviewed and approved, and whose children received \$34,800 in subsidized child care during the six-month period we reviewed;
- 21 participants who were eligible for benefits at the time of their review but subsequently became ineligible, typically because they left employment, and whose children received \$30,900 in subsidized child care during their period of ineligibility;
- 4 participants who were not eligible during all or most of the six-month period we reviewed because there was no record of their employment or income in DWD's wage database, and whose children received \$10,300 in subsidized child care during that period;
- 9 participants whose documentation to support self-employment was accepted by DCF although we believe it to be inadequate, and whose children received \$29,400 in subsidized child care during the six-month period we reviewed; and
- 2 participants whose case files were missing information or contained contradictory information that prevented us from making a determination regarding their eligibility, and whose children received \$12,100 in subsidized child care during the six-month period we reviewed.

We took a cautious approach in assessing the accuracy of eligibility decisions. For example, even though caseworkers are required by DCF to digitize eligibility documentation such as pay stubs, we considered information to be adequately verified if the caseworker's notes indicated that such documentation was provided, even in cases for which the electronic file contained no documents.

Extrapolating from our statistically valid sample, we estimate that \$16.7 to \$18.5 million in improper subsidy payments were made to providers for the children of approximately 7,300 participants in 2008. This estimate assumes that the problems we identified, excluding the two participants for whom we could not make an eligibility determination, were present in similar proportions for all participants during the entire year.

## **Ineligible Participants**

One of the seven participants who was mistakenly determined by caseworkers to be eligible for child care benefits was not eligible because another person in the home was available to provide care. The remaining six were not legally employed:

- four were undocumented immigrants, two of whom were known by caseworkers to be using either an alias or an invalid Social Security number to obtain and retain employment; and
- two were illegally employed because they were paid less than allowed under Wisconsin's minimum wage law.

It should be noted that DCF believes caseworkers correctly determined eligibility for the six participants who were not legally employed, because in early 2008 program policies did not explicitly require that a participant's employment comply with federal and state labor laws, including minimum wage laws.

## **Subsequent Ineligibility**

In 16 of the 21 cases involving participants who became ineligible during the six months after they were correctly found to be eligible, the participants did not inform their caseworkers within ten days that their eligibility status had changed. Four of the remaining participants reported the end of their employment or a change in income within ten days, but caseworkers did not immediately end their benefits. The fifth remaining participant improperly received \$3,300 in benefits because the caseworker erred in calculating a period of unemployment. Other payments to providers on behalf of the 21 participants we identified include:

- \$10,200 paid during a 133-day period in which the participant was no longer employed;
- \$2,160 paid during an 84-day period in which the participant was no longer employed; and
- \$2,120 paid during a 56-day period in which the participant was no longer employed.

## **Participants with No Recorded Wages**

The absence of wage or employment information in DWD's wage database is a concern because it suggests that the four participants we identified supplied incorrect employment information to their caseworkers. However, it is also possible that employers had not yet reported information to DWD as required.

Staff in all of the counties we visited have access to information from a private vendor to verify questionable employment or income information submitted by an applicant or participant. The

vendor, TALX, Inc., contracts with employers to obtain payroll information, which is routinely updated when new paychecks are issued. In addition, caseworkers in all counties may choose to independently verify employment information by conducting an electronic match with DWD's three employment databases:

- a database that maintains quarterly wage data, which most public and private employers are required to report to DWD;
- a database that includes the names of newly hired employees as reported by employers within 20 days of when each employee starts work; and
- a database that includes the names of individuals receiving unemployment insurance benefits.

More could be done to verify employment because we found documentation that caseworkers used DWD's databases for only 4 of the 400 participants in our sample. We were unable to determine the frequency with which caseworkers used TALX, Inc., to verify employment information because neither counties nor DCF track caseworkers' contact with the vendor.

### **Inadequate Documentation of Self-Employment**

Electronic case files for the nine participants in our sample whose self-employment we question included neither copies of income tax returns showing business income and expenses nor receipts or the other documents that DCF allows participants to submit to validate self-employment. In addition, we did not find any evidence to suggest that caseworkers had taken additional steps to verify these participants' self-employment. Without additional documentation and verification, DCF's practice of allowing participants to complete a form attesting to their self-employment is an insufficient control in preventing the possibility of fraud and abuse.

#### **Recommendation**

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*We recommend the Department of Children and Families:*

- *require applicants to provide documentation supporting claims of self-employment before their eligibility for child care subsidies is determined;*
- *provide immediate additional training to county and tribal staff on the resources available to them for verifying employment information and on the importance of consistently recording eligibility-related information in participants' electronic case files; and*
- *report back to the Joint Legislative Audit Committee by December 1, 2009, on the status of improvements to the eligibility determination and wage verification processes.*



## **Concerns with Provider Attendance Records**

DCF or county staff are required to conduct reviews of daily child attendance records as part of their regularly required checks of providers' operating licenses or certifications, or because of concerns such as allegations of potentially fraudulent activity. Providers are required to maintain daily attendance records for up to three years and, upon request, must provide them to DCF, county regulators, or vendors with which counties contract. Under DCF 201.04(5)(b), Wis. Adm. Code, DCF and county agencies may recover subsidies paid to providers if attendance records are missing or if they contain incomplete or inadequate information to support a subsidy payment.

To independently analyze the completeness and accuracy of daily attendance records, we sent letters to 50 providers requesting their records for October 2008. DCF posted an announcement on the Web site used to enter attendance information, indicating that providers were to comply with our request. The providers we selected for review either had received higher-than-average subsidy payments, were authorized to care for relatively large numbers of children at their facilities, or provided subsidized care to the children of a large number of their employees.

We asked providers to submit their attendance records for our review within seven business days of our request. Five business days after our initial letter, we sent a reminder to those that had not done so or contacted us to make other arrangements. In total, we received records from 45 providers. Five providers did not submit any records, which appears to indicate that they either did not have the required attendance records or did not wish to submit them for our review. In October 2008, these five providers received a total of \$142,000 in subsidy payments.

We identified two principal concerns with the daily attendance records we reviewed. First, some providers were paid for caring for more children or providing more hours of care than could be supported by their records or is allowed by law. Second, some records appear to have been fabricated or altered or to lack the care and accuracy that is required under program rules.

In October 2008, the 45 providers whose records we analyzed were paid a total of \$1.1 million. We compared what was recorded on these providers' daily paper attendance records with information contained in the electronic database maintained by DCF that records the number of hours of care provided to each child and is used to pay providers. As shown in Table 8, we found \$7,900 in excess payments made to 21 providers in one month.

Table 8

**Excess Wisconsin Shares Subsidy Payments to Providers<sup>1</sup>**  
 October 2008

Reason for Excess Payment	Number of Providers <sup>2</sup>	Amount of Improper Subsidy
Provider was paid for caring for more children than was allowed under certification or license	3	\$2,600
More hours of care were paid for than were recorded in the provider's attendance records	14	2,500
Provider was paid for caring for children who did not appear in the provider's attendance records	7	2,400
Provider was paid for more hours of care than was authorized	5	400
<b>Total</b>		<b>\$7,900</b>

<sup>1</sup> Includes the findings in a sample of records for 45 providers.

<sup>2</sup> Includes a total of 21 providers; some providers appear in multiple categories.

We estimate that excess payments to these 21 providers would have totaled at least \$94,800 in 2008 if similar problems with their records occurred for every month of that year. Six of the 21 providers used the DCF Web site to submit attendance information, while 15 submitted paper attendance records from which county staff entered data. Consequently, some of the errors we identified may have been made by county workers rather than providers.

In addition, the October 2008 daily attendance records of at least 22 of the 45 providers appear to have been fabricated or altered or are simply inaccurate. For example:

- Eight providers reported identical sign-in and sign-out times every day a child was in care, rather than actual daily arrival and departure times as required under administrative rules. One provider did so for 14 of the 26 children for whom care was provided. The eight providers received \$105,200 in subsidized payments in October 2008.
- Six providers reported perfect attendance during the entire month for all 157 children in their care, including one provider caring for 81 children. National studies suggest that most children are in attendance for approximately 85.0 percent of their scheduled child care hours, and DCF policies indicate that "unusually high attendance may indicate inaccurate or fraudulent reporting by the provider." The paper records for six providers did not support the perfect attendance for which payment was received. These six providers received \$74,800 in subsidized payments in October 2008.

- Six providers appear to have altered the arrival and departure times of children in their care, either to increase their payments or to avoid violating limits on the amount of care a certified provider may provide to all children in care, which is 16 hours in a 24-hour period. One of these providers reported 31 instances of providing exactly 16 hours of care to a given child in a 24-hour period. These six providers received \$28,900 in subsidy payments in October 2008.
- Two providers reported caring for several children from the same home at different hours over more than a 12-hour period each day. One of these providers reported caring for three children from the same household on weekends, although the children were never in care at the same time and the hours of reported care extended from 6:00 a.m. to 10:00 p.m. These two providers received \$12,700 in subsidy payments in October 2008.

Finally, we are concerned about the extent of payments to providers for night care, which administrative rules define as care that occurs between the hours of 9:00 p.m. and 5:00 a.m. Of the 45 providers whose records we reviewed, 41 were paid for providing night care in October 2008. This is a concern for several reasons, including that DCF and county staff indicated they do not make regulatory visits outside of standard business hours, which limits their ability to verify that care is actually being provided. We also identified instances in which providers were paid for providing night care to the children of participants who do not appear to have been working at night. For example, payments of \$1,600 were made in October 2008 for night care provided to two children of a self-employed beautician.

Because of errors or potentially fraudulent reporting in the sample of 50 providers we analyzed, we estimate that approximately \$4.0 million in improper subsidy payments were made to these providers in 2008.

### **Recommendation**

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*We recommend the Department of Children and Families:*

- *review the October 2008 attendance records maintained by the five providers that did not respond to our information request and ensure their records support the Wisconsin Shares subsidy payments received;*
- *develop procedures to better review and enforce provider compliance with child care laws and policies; and*
- *report to the Joint Legislative Audit Committee by December 1, 2009, on its progress in improving provider and participant compliance with program requirements.*

## Child Care “Rings” and Other Issues

Media reports in early 2009 identified four instances in Racine County in which child care providers operating out of their own homes were also Wisconsin Shares participants. In these cases, the participants received subsidy payments as providers caring for one another’s children, although in some cases the children remained at home with their parents.

DCF does not maintain a database from which it can identify participants who are also either certified or licensed child care providers under the Wisconsin Shares program. To help identify instances in which participants are also providers who are exchanging children, we compared the street addresses of all participants and all program providers in 2008. Through this comparison and other analytical steps, we found five examples of providers exchanging children, including:

- two participants in Dane County who were certified providers and received a total of \$42,700 in subsidy payments from January 2008 through May 2009 involving seven of their own children;
- two participants in Milwaukee County who were certified providers and received a total of \$23,200 in subsidy payments from November 2008 through May 2009 involving six of their own children;
- two participants in Milwaukee County who were certified providers and received a total of \$20,000 in subsidy payments from January 2008 through May 2009 involving five of their own children;
- three participants in Dane County who were certified providers and received a total of \$18,200 in subsidy payments from January 2008 through September 2008 involving ten of their own children; and
- two participants in Milwaukee County who received a total of \$5,600 in subsidy payments from January 2008 through April 2008 involving three of their own children. One was a certified provider and one a licensed provider.

While Wisconsin Shares helps ensure that low-income working families have adequate access to child care so that they can obtain and retain employment, it currently also allows subsidy payments to be the primary source of self-employment income that is used to determine eligibility for program benefits. By choosing to operate certified or licensed child care programs in their own homes, participants may provide care to the maximum number of children allowed within their regulatory status and simultaneously send their own children to other providers for subsidized care. Not only does this practice unnecessarily subsidize the care of children whose parents are certified or licensed providers, it increases the opportunity for fraud or abuse to occur between two or more providers who report caring for one another’s children, but in fact do not do so.

We have referred the 11 providers we identified to law enforcement for further investigation.

### Recommendation

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*We recommend the Legislature consider statutory changes to restrict subsidized child care for the children of licensed or certified child care providers in the Wisconsin Shares program.*

A related issue involves licensed and certified providers receiving subsidies for the children of employees who are program participants. Allowing providers to employ participants can allow participants to obtain legitimate employment. However, allowing employers to receive subsidy payments for providing care to a large number of their employees' children creates a significant opportunity for fraud or abuse.

Our review of 45 providers' daily attendance records found 12 licensed providers that employed a total of 93 participants and, in the month of October 2008, received \$167,000 in subsidies for the care of their employees' 291 children. The three providers who received the largest payments for children of employees were in Milwaukee County:

- one provider received \$53,400 in subsidies for the care of 29 employees' 89 children, who represented 80.9 percent of all children in that provider's care that month;
- one provider received \$44,400 in subsidies for the care of 18 employees' 69 children, who represented 75.0 percent of all children in that provider's care that month; and
- one provider received \$18,100 in subsidies for the care of 10 employees' 30 children, who represented 96.8 percent of all children in that provider's care that month.

Program integrity staff in each of the seven counties we visited expressed concerns that providers do not always report attendance accurately, including reporting that children received care on days they were not in the provider's care. Since 2006, the agencies administering the program have also been aware of some providers, particularly in Milwaukee County, offering employment or enrollment incentives, such as rebates of up to \$1,000 or home appliances. 2009 Assembly Substitute Amendment 1 to Assembly Bill 75, the Governor's 2009-2011 biennial budget proposal as amended by the Joint Committee on Finance, prohibits licensed providers from receiving subsidy payments for care provided to their employees' children when those children represent more than 40 percent of the children under care. However, before payments are discontinued, providers have six weeks to reduce the percentage of employees' children to 40 percent or less. The substitute amendment prohibits all certified providers from receiving subsidy payments for care provided to their employees' children.

#### **Recommendation**

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*We recommend the Department of Children and Families report to the Joint Legislative Audit Committee by December 1, 2009, on the value of subsidies paid for the care of the children of participants who are employed by child care providers.*

### **Program Integrity Efforts**

County and DCF program integrity staff, including contractors they may employ, identify and recover subsidy payment errors and investigate allegations of fraud in public assistance programs, including the child care subsidy program. The seven counties we visited employ a

total of 16 staff to investigate fraud, but counties focus most of their program integrity activities on identifying subsidy payment errors, which may be caused by:

- participants or providers reporting incorrect information or failing to provide information;
- administrative or computer errors; or
- intentionally fraudulent program violations by participants or providers who willfully report false information or withhold information in order to receive benefits.

In 2008, counties identified a total of \$5.0 million in payment errors, of which \$3.3 million was required to be repaid by 1,059 participants because they failed to provide information that affected their eligibility. An additional \$1.7 million was required to be repaid by 1,071 providers, including \$1.1 million that resulted from the providers being paid for more hours of care than were actually provided. DCF reported that \$2.3 million in subsidy payments were recovered in 2008, including \$1.4 million from providers and \$0.9 million from participants.

In the seven counties we visited, county program integrity staff stated that they require repayment when it is readily apparent that an error occurred, but that there is often little financial incentive to pursue fraud investigations to find additional subsidy payment errors and determine whether the provider or participant intentionally committed a violation. In part, this is because developing evidence to prove that a violation was intentional can be time-consuming, and even if a provider or participant is found to have committed an intentional violation, the county agency has no authority to assess additional financial penalties.

2007 Wisconsin Act 20, the 2007-09 Biennial Budget Act, permitted county agencies to create programs to investigate potential fraud and to retain a percentage of recoveries during the first two months of a fraud investigation program's operation. DCF staff were not aware of any counties that received a percentage of amounts recovered, and county staff with whom we spoke were unaware of the provisions in Act 20.

State and federal law allow counties to retain 15.0 percent of recoveries from the Food Stamp and Medical Assistance programs. 2009 Assembly Substitute Amendment 1 to Assembly Bill 75, the Governor's 2009-2011 biennial budget proposal as amended by the Joint Committee on Finance, would modify current law to allow county agencies to retain all subsidy payments recovered through a fraud investigation but would require counties to use those funds only for cash assistance payments to W-2 participants.

## **Future Considerations**

Effective program integrity efforts begin with the collection of accurate participant information and with careful decision-making by caseworkers at the time of eligibility determination. Providers must also be regulated to ensure they meet all licensing and certification requirements and that they submit accurate and complete attendance information to support

subsidy payments. While several changes to improve program integrity have been enacted by the Legislature and implemented by DCF, others—including the allocation of additional program integrity resources and priorities for future program improvement efforts—remain under legislative consideration as part of current budget deliberations.

Information concerning the availability of program services and the concentration of providers and participants in various counties may be useful as the Legislature considers proposals to improve program integrity. Although the seven counties we visited during the course of our review represented almost two-thirds of the Wisconsin Shares caseload, the number of participants and providers varied widely by county, as shown in Table 9, and 41.0 percent of participants and 30.9 percent of providers are in Milwaukee County. As shown in Appendix 4, Milwaukee County providers are concentrated in the City of Milwaukee. The second phase of our work will focus on provider regulation in Milwaukee and other urban areas where program services are concentrated.

Table 9

**Wisconsin Shares Participants and Providers  
December 2008**

County	Number of Participants	Number of Providers
Milwaukee	14,636	1,776
Dane	2,551	477
Kenosha	1,493	207
Racine	1,450	294
Brown	1,103	110
Rock	835	140
Eau Claire	691	113
Other Counties	12,957	2,631
<b>Total</b>	<b>35,716</b>	<b>5,748</b>

Improving program effectiveness and oversight will also be affected by the State’s takeover of administration of all Milwaukee County public assistance programs, including Wisconsin Shares. In response to a recent federal lawsuit that alleged high error rates and poor performance, as well as the requirements of 2009 Wisconsin Act 15, the State will fully assume responsibility for these functions by January 2010.

As authorized by 2009 Wisconsin Act 2, DCF is currently in the process of hiring 5.0 full-time equivalent (FTE) program integrity staff. Current program staffing includes approximately 1.0 FTE program integrity position, and time will be required to train the new staff in developing priorities and methods for ensuring compliance with program requirements.

In addition, the program's significant growth makes efforts to improve program effectiveness more challenging. For the past several years, Wisconsin Shares program expenditures have exceeded budgeted amounts. For example, 2007 Wisconsin Act 226 included an additional \$18.6 million to offset an unanticipated shortfall in FY 2007-08; 2009 Wisconsin Act 2 included an additional \$20.4 million for FY 2008-09; and 2009 Assembly Substitute Amendment 1 to Assembly Bill 75, the Governor's biennial budget proposal as amended by the Joint Committee on Finance, includes an additional \$36.0 million for the 2009-2011 biennium.

Given the growth in Wisconsin Shares expenditures in recent years and the amount of improper subsidy payments we identified, we believe that a progress report by DCF could assist the Legislature's program oversight. In addition, timely information on the activities of DCF program integrity staff may be useful in assessing the effectiveness of policy changes enacted by DCF and the Legislature to prevent fraud and abuse.

### **☑ Recommendation**

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*We recommend the Department of Children and Families report to the Joint Legislative Audit Committee by December 1, 2009, on:*

- *the activities of the program integrity staff authorized in 2009 Wisconsin Act 2; and*
- *the status of efforts to better control program costs and identify and address fraud and abuse.*

■ ■ ■ ■



Appendix 1

**Maximum Hourly Subsidy Rates for Wisconsin Shares Providers**  
2006 through 2009

Provider Location	Licensed Group Providers	Licensed Family Providers	Certified Providers	Provisionally Certified Providers
<b>Counties</b>				
Adams	\$2.80	\$3.14	\$2.36	\$1.57
Ashland	4.16	3.74	2.81	1.87
Barron	3.46	3.29	2.46	1.64
Bayfield	3.94	3.57	2.68	1.79
Brown	5.91	4.09	3.06	2.04
Buffalo	3.93	3.54	2.65	1.77
Burnett	3.94	3.60	2.70	1.80
Calumet	5.19	4.29	3.21	2.14
Chippewa	4.63	3.74	2.81	1.87
Clark	3.46	3.18	2.39	1.59
Columbia	4.63	3.74	2.81	1.87
Crawford	4.50	3.74	2.81	1.87
Dane	6.63	5.43	4.07	2.71
Dodge	4.63	3.86	2.89	1.93
Door	4.63	3.74	2.81	1.87
Douglas	4.71	4.29	3.21	2.14
Dunn	4.14	3.74	2.81	1.87
Eau Claire	5.24	4.71	3.54	2.36
Florence	4.37	4.37	3.28	2.19
Fond du Lac	4.87	3.93	2.95	1.96
Forest	3.14	4.50	3.38	2.25
Grant	3.69	3.46	2.59	1.73
Green	4.89	3.74	2.81	1.87
Green Lake	4.59	3.74	2.81	1.87
Iowa	3.94	3.57	2.68	1.79
Iron	3.85	3.86	2.89	1.93
Jackson	4.40	3.18	2.39	1.59
Jefferson	5.19	4.29	3.21	2.14
Juneau	3.94	3.54	2.65	1.77
Kenosha	6.32	5.43	4.07	2.71
Kewaunee	3.94	3.39	2.55	1.70
La Crosse	4.87	4.09	3.06	2.04
Lafayette	3.46	3.57	2.68	1.79
Langlade	4.63	3.74	2.81	1.87
Lincoln	4.28	3.86	2.89	1.93
Manitowoc	4.71	4.24	3.18	2.12
Marathon	5.40	4.29	3.21	2.14
Marinette	3.93	3.74	2.81	1.87
Marquette	3.94	3.57	2.68	1.79

Provider Location	Licensed Group Providers	Licensed Family Providers	Certified Providers	Provisionally Certified Providers
Menominee	\$3.93	\$3.57	\$2.68	\$1.79
Milwaukee	6.63	5.43	4.07	2.71
Monroe	4.15	3.74	2.81	1.87
Oconto	4.11	3.57	2.68	1.79
Oneida	4.63	3.86	2.89	1.93
Outagamie	5.40	4.29	3.21	2.14
Ozaukee	5.60	4.37	3.28	2.19
Pepin	3.94	3.57	2.68	1.79
Pierce	4.63	3.74	2.81	1.87
Polk	3.94	3.57	2.68	1.79
Portage	5.40	4.29	3.21	2.14
Price	3.61	3.57	2.68	1.79
Racine	6.13	5.19	3.89	2.59
Richland	4.59	3.74	2.81	1.87
Rock	5.50	4.60	3.45	2.30
Rusk	3.77	3.54	2.65	1.77
Sauk	5.03	4.29	3.21	2.14
Sawyer	3.61	3.57	2.68	1.79
Shawano	3.94	3.57	2.68	1.79
Sheboygan	5.40	4.29	3.21	2.14
St. Croix	5.01	3.99	2.99	1.99
Taylor	3.61	3.14	2.36	1.57
Trempealeau	3.77	3.57	2.68	1.79
Vernon	3.94	3.14	2.36	1.57
Vilas	5.14	3.57	2.68	1.79
Walworth	5.03	4.29	3.21	2.14
Washburn	3.94	3.57	2.68	1.79
Washington	5.40	4.29	3.21	2.14
Waukesha	6.63	5.43	4.07	2.71
Waupaca	4.24	3.46	2.59	1.73
Waushara	3.94	3.57	2.68	1.79
Winnebago	6.44	4.71	3.54	2.36
Wood	4.40	3.93	2.95	1.96
<b>Tribal Areas</b>				
Bad River	4.16	3.74	2.81	1.87
Lac Courte Oreilles	3.61	3.57	2.68	1.79
Lac du Flambeau	5.14	3.57	2.68	1.79
Oneida	5.91	4.09	3.06	2.04
Red Cliff	3.94	3.57	2.68	1.79
Sokaogon	3.14	4.50	3.38	2.25
Stockbridge-Munsee	3.94	3.57	2.68	1.79

Appendix 2

**Profile of Wisconsin Shares Participants in Our Case File Review  
2008**

Description	Number	Percentage of Total	Description	Number	Percentage of Total
<b>Age</b>			<b>Level of Education</b>		
Under 17	1	0.3%	Grade 8 or Less	10	2.5%
17 to 20	18	4.5	Some High School	136	34.0
21 to 30	243	60.7	High School Graduation <sup>1</sup>	150	37.5
31 to 40	101	25.2	Some Post-Secondary	68	17.0
41 to 50	30	7.5	Unknown	36	9.0
51 and Over	7	1.8	<b>Total</b>	<b>400</b>	<b>100.0%</b>
<b>Total</b>	<b>400</b>	<b>100.0%</b>	<b>Assistance Group Size</b>		
<b>Gender</b>			2 Persons	141	35.2%
Female	367	91.7%	3 Persons	133	33.3
Male	33	8.3	4 Persons	66	16.5
<b>Total</b>	<b>400</b>	<b>100.0%</b>	5 Persons	32	8.0
<b>Race/Ethnicity</b>			6 or More Persons	28	7.0
White	196	49.0%	<b>Total</b>	<b>400</b>	<b>100.0%</b>
African American	152	38.0	<b>Reported Monthly Income<sup>2</sup></b>		
Hispanic/Latino	28	7.0	\$0 to \$999	105	26.2
Unknown	11	2.7	\$1,000 to \$1,999	196	49.0
Asian	7	1.8	\$2,000 to \$4,999	95	23.8
American Indian	3	0.7	\$5,000 or More	4	1.0
Multiracial <sup>3</sup>	2	0.5	<b>Total</b>	<b>400</b>	<b>100.0%</b>
Pacific Islander	1	0.3	<b>Support Services</b>		
<b>Total</b>	<b>400</b>	<b>100.0%</b>	Medical Assistance	363	90.8%
<b>Household Status</b>			Food Stamps	263	65.8
1 Parent	358	89.5%	W-2	42	10.5
2 Parents	41	10.2			
Other <sup>4</sup>	1	0.3			
<b>Total</b>	<b>400</b>	<b>100.0%</b>			

<sup>1</sup> Includes those who graduated from high school and those who have completed the equivalent of a high school degree program.

<sup>2</sup> Monthly income reported at the most recent eligibility determination, which according to program rules must be completed at least once every six months.

<sup>3</sup> Includes those who reported more than one race.

<sup>4</sup> Includes households with multiple generations.



### Appendix 3

## **Employers Reported by Wisconsin Shares Participants in Our Case File Review**

Type of Employer	Number of Participants <sup>1</sup>
Health Service Providers	90
Retail Services	74
Eating and Drinking Establishments	54
Child Care Providers	44
State, Tribal, Local Governments	23
Finance or Insurance	22
Manufacturing	19
Temporary Staffing Agencies	18
Religious Establishment or Nonprofit	18
Self-Employment	15
Transportation Services <sup>2</sup>	11
Construction	9
Other <sup>3</sup>	27

<sup>1</sup> Some participants held multiple jobs simultaneously or switched jobs during the period reviewed.

<sup>2</sup> Includes bus companies and parking providers.

<sup>3</sup> Includes cleaning services, educational services, salons, security companies, and other types of employers.



## Appendix 4

### Subsidized Child Care Providers in Milwaukee County

Appendix 4 shows the approximate location of 1,701 Milwaukee County child care providers that received subsidy payments in December 2008. Available information did not allow us to map an additional 75 providers. The greatest concentration of providers is in the City of Milwaukee, where the largest number of providers within a single two-by-two mile area was 231. While 25 two-by-two mile areas contain 5 or fewer providers, 7 areas contain more than 100 providers.

**Child Care Providers in Milwaukee County Receiving Program Subsidies  
December 2008**

