TO: Chair and Members
Audit and Administration Committee

WARD(S) AFFECTED: CITY WIDE

COMMITTEE DATE: March 24, 2010

SUBJECT/REPORT NO:
Follow Up of Audit Report 2008-08 - Child Care Fee Subsidies (AUD10013) (City Wide)

SUBMITTED BY:
Ann Pekaruk
City Manager's Office

PREPARED BY:
Ann Pekaruk 905-546-2424 x4469

SIGNATURE:

RECOMMENDATION:
That Report AUD10013 respecting the follow up of Audit Report 2008-08, Child Care Fee Subsidies, be received.

EXECUTIVE SUMMARY
Audit Report 2008-08, Child Care Fee Subsidies, was originally issued in December, 2008 and management action plans with implementation timelines were included in the Report. In February, 2010, Internal Audit conducted a follow up exercise to determine that appropriate and timely actions had been taken. Regarding the implementation of the seventeen (17) recommendations made in the original Report and Addendum, seven (7) have been completed, one (1) is in progress, five (5) have been initiated, and four (4) remain incomplete.

Alternatives for Consideration – Not Applicable
FINANCIAL / STAFFING / LEGAL IMPLICATIONS (for Recommendation(s) only)

Financial: None.
Staffing: None.
Legal: None.

HISTORICAL BACKGROUND (Chronology of events)

Audit Report 2008-08, Child Care Fee Subsidies, was originally issued in December, 2008. The Report indicated seventeen (17) recommendations identifying areas for improvement with respect to financial, operational and administrative controls.

It is normal practice for Internal Audit to conduct follow up reviews within a 12-18 month period following issuance of the original report in order to determine whether action plans committed to by department management have been implemented. In February, 2010, Internal Audit followed up the Report to confirm appropriate and timely actions had been taken.

POLICY IMPLICATIONS

Day Care Nurseries Act

RELEVANT CONSULTATION

The results of the follow up were provided to management and staff responsible for the administration of child care fee subsidies in Social Development and Early Childhood Services, Community Services Department.

ANALYSIS / RATIONALE FOR RECOMMENDATION

(include Performance Measurement/Benchmarking Data, if applicable)

The report attached as Appendix “A” to Report AUD10012 contains the first three columns as originally reported in Audit Report 2008-08 along with an added fourth column indicating Internal Audit’s follow up comments. Five (5) items in the Addendum have also been followed up with the appropriate detail provided.

Seven (7) of the seventeen (17) recommendations have been implemented. They are: the independent review of the per diem rate calculation prior to submission to the Program Manager; the defining of qualification thresholds for the assessment of service contract applications, the independent review of such assessments and detailed communication for unsuccessful applicants; the development of a form letter to be sent to ineligible applicants detailing the appeal process; the finalization of procedures for child placements from the waiting list; and improvements in the filing system for efficient management of clients’ paper files.
One (1) recommendation regarding the configuration and resetting of passwords for OCCMS access is in progress.

Five (5) recommendations have been initiated with minimal progress. They include: the initial development of a new template for the formula for calculating per diem rates expected to be finalized by the second quarter of 2010; the submission of service providers’ annual financial statements, operating budgets and requests for rate reviews will be completed and enforced by the Child Care Program Analyst position which is expected to be filled by March, 2010; and the segregation of duties between review and approval of child care providers’ invoices and adjustments and child placement and case management expected after March, 2010.

Four (4) recommendations remain incomplete. They are: the review and comparison of financial statements to submitted provider budgets and annual submission of insurance certificates remain incomplete as they will become the responsibility of the Child Care Program Analyst noted above; the regular communication between the Child Care Subsidy Program Office and the OW Recovery Office concerning subsidy overpayments and recoveries has not improved; and no progress has been made in tracking and enforcing grandparenting provisions of the Day Care Nurseries Act.

**ALTERNATIVES FOR CONSIDERATION:**
(include Financial, Staffing, Legal and Policy Implications and pros and cons for each alternative)

Not applicable.

**CORPORATE STRATEGIC PLAN (Linkage to Desired End Results)**


**Financial Sustainability**
- Delivery of municipal services and management capital assets/liabilities in a sustainable, innovative and cost effective manner

**APPENDICES / SCHEDULES**

Appendix “A” to Report AUD10013.

:dt
### CITY OF HAMILTON
### INTERNAL AUDIT REPORT 2008-08
### CHILD CARE FEE SUBSIDIES
### FOLLOW UP

<table>
<thead>
<tr>
<th>#</th>
<th>OBSERVATIONS OF EXISTING SYSTEM</th>
<th>RECOMMENDATION FOR STRENGTHENING SYSTEM</th>
<th>MANAGEMENT ACTION PLAN</th>
<th>FOLLOW UP (FEBRUARY 2010)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td><strong>Calculation of Per Diems</strong></td>
<td>That the formula for calculating per diem rates be revised and formalized to incorporate a consistent weighting mechanism that recognizes the higher cost of care for younger age groups.</td>
<td>Agreed. Staff are currently revising formulas. Policies and procedures are being updated with an expected completion date of Q.2 2009.</td>
<td>In Q.3 2009, a report on the completion of Phase II, in which resourcing issues for recommendations implementation were identified, was submitted to the Emergency and Community Services Committee.</td>
</tr>
<tr>
<td></td>
<td>Subsidies paid to child care providers are based on per diem rates determined using an established formula that incorporates each provider’s expenditure projections as well as the provider’s licensed capacity for each age group. As such, per diem rates are different for each provider as they are based on each provider’s specific circumstances.</td>
<td>That the calculation of per diem rates be independently reviewed for accuracy prior to the approval of the new rates by the Program Manager.</td>
<td>Agreed. Effective September 2008, a second review of per diem rates has been implemented as an interim measure until the recommendations from the Business Process Review (BPR) are reviewed and new business processes are implemented. Expected completion date of the BPR is Q.1 2009.</td>
<td>Initiated. The formula for calculating per diem rates has not been revised to incorporate a standardized weighting mechanism. However, although staff still make discretionary adjustments to the formula, a new template that is under development includes space for staff to document the nature, extent and the rationale for any discretionary adjustments made. The revised template is expected to be finalized in the second quarter of 2010.</td>
</tr>
<tr>
<td></td>
<td>When calculating per diems, staff often make discretionary adjustments to the formula in an attempt to allocate costs away from infant and toddler categories to pre-school and school age groups. The actual cost of care for younger age groups generally exceeds maximum per diems paid by the City. Therefore, staff consider the adjustments to be a ‘weighting mechanism’ to compensate providers for the high cost of infant and toddler care. However, when making the adjustments, staff do not include notes that provide the rationale for the adjustments.</td>
<td></td>
<td>Completed. The per diem rate calculation is peer reviewed by another Supervisor before being submitted to the Program Manager for approval (since second quarter of 2009).</td>
<td></td>
</tr>
<tr>
<td></td>
<td>While the necessity for the formula to recognize the higher cost of care for younger age groups can be appreciated, the lack of a consistent methodology and the extensive reliance on individual staff discretion could undermine the integrity of the calculation. In addition, because the calculation is not independently reviewed, errors and resulting overpayments may not be detected in a timely manner.</td>
<td></td>
<td>The error in the per diem calculation that resulted in an underpayment to one provider has since been corrected. A retroactive payment has been made to the provider for the full extent of the accumulated underpayment.</td>
<td></td>
</tr>
</tbody>
</table>
## Submission of Documents

The service agreement signed with child care providers requires each provider to submit annual financial statements to the City within four months of the child care provider’s year end. In addition, the provider is required to purchase general commercial liability and automobile liability insurance and submit certificates of insurance as proof of coverage to the City annually.

About 50% of providers sampled have never submitted financial statements or last submitted in 2005. For those providers that have been submitting regularly, there is no indication that the financial statements are reviewed by staff and compared to the provider’s operating budgets. A comprehensive review of financial statements serves as a vital control mechanism when assessing the reasonableness of the provider’s budget on which per diem rates are based as well as an indicator of financial sustainability.

None of the providers sampled had valid insurance certificates on file. Some insurance certificates showed expiry dates as far back as December 2000. There is no indication of staff follow up for providers that are not in compliance with the above requirements.

### Observations of Existing System

<table>
<thead>
<tr>
<th>#</th>
<th>Observations of Existing System</th>
<th>Recommendation for Strengthening System</th>
<th>Management Action Plan</th>
<th>Follow Up (February 2010)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.</td>
<td>Submission of Documents</td>
<td>That management enforce the requirement for the annual submission of financial statements.</td>
<td>Agreed. The program does not have the capacity at the present time to consistently enforce this requirement. These three recommendations will be integrated into the new business processes forthcoming as a result of the BPR recommendations expected to be completed Q1 2009. Implementation of this recommendation will be dependent upon resources.</td>
<td>Initiated. The Child Care Program Analyst position was created following a re-organization of the work unit in 2009. The Child Care Program Analyst’s responsibilities as noted in the job description will include the enforcement of the requirement for providers to submit financial statements every year. This position is not expected to be filled until March 1, 2010.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>That, once received, financial statements be reviewed and compared to submitted provider operating budgets.</td>
<td>Agreed. See above. Implementation is expected Q4 2009.</td>
<td>Not Completed. See above response. Once they begin to be received, it is expected that the financial statements will be reviewed by the Child Care Program Analysts.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>That management enforce the requirement for an annual submission of insurance certificates.</td>
<td>Agreed. See above. Implementation is expected Q2 2009.</td>
<td>Not Completed. See above responses. When the Child Care Program Analysts assume their responsibilities on March 1, 2010, they will also be responsible for ensuring that child care providers submit insurance certificates on an annual basis.</td>
</tr>
</tbody>
</table>
## Appendices

### Observations of Existing System

<table>
<thead>
<tr>
<th>#</th>
<th>RECOMMENDATION FOR STRENGTHENING SYSTEM</th>
<th>MANAGEMENT ACTION PLAN</th>
<th>FOLLOW UP (FEBRUARY 2010)</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.</td>
<td><strong>Evaluation of Applications for a Service Contract</strong>&lt;br&gt;While a document exists that provides guidelines to child care providers on how a business plan and functional plan are developed, there are no specific criteria for evaluating a child care provider's application. Much reliance is placed on staff's personal knowledge and subjective assessment. Without a clear decision model that defines qualification thresholds, decisions to approve or decline applications may lack transparency and consistency. In addition, staff's decisions are not always comprehensively reviewed and confirmed by a senior official.</td>
<td>That a decision model that clearly defines qualification thresholds for assessing service contract applications be developed and implemented. That the evaluation of a child care provider's application be reviewed by a peer before the finalization of a decision to approve or decline. Evidence of such peer review should be documented. That, unsuccessful service provider applicants be provided with a written notification, signed by the Program Manager, outlining the reasons why the application was declined.</td>
<td>Agreed. This task will be identified as part of the Child Care System’s 2009 work plan with an estimated completion date Q.2 2009. Agreed. The program does not have the capacity at the present time to implement a peer review of provider applications. This recommendation will be integrated into the new business processes forthcoming as a result of the BPR recommendations. Implementation of this recommendation will be Q.3 2009. Agreed. A form letter has been created. It was ready for implementation October, 2008.</td>
</tr>
<tr>
<td>4.</td>
<td><strong>Segregation of Duties</strong>&lt;br&gt;Responsibilities assigned to Subsidy Eligibility Workers (SEW) do not provide for an adequate separation of incompatible duties. SEW's perform duties that include intake screening, income testing, case management, the authorization of invoice adjustments and approval of payments to child care providers. In addition, except for the approval of invoice adjustments, work performed by SEW's generally does not receive peer or supervisory review. The Business Process Review carried out by management in 2007 identified the separation of pre-screening, intake, case management and invoice approval processes as a major impediment to efficiency, teamwork and good customer service. While the need to pursue greater efficiencies and customer service is acknowledged, it is also vital to ensure that streamlined processes are designed to prevent and detect errors and irregularities in a timely manner.</td>
<td>That consideration be given to re-assigning responsibilities for reviewing/approving child care providers' invoices and adjustments to a member of staff not directly involved with child placement and case management.</td>
<td>Agreed. The program does not have the capacity at the present time. This recommendation will be integrated into the new business processes forthcoming as a result of the BPR recommendations. Implementation of this recommendation Q.2 2009.</td>
</tr>
<tr>
<td>#</td>
<td>OBSERVATIONS OF EXISTING SYSTEM</td>
<td>RECOMMENDATION FOR STRENGTHENING SYSTEM</td>
<td>MANAGEMENT ACTION PLAN</td>
</tr>
<tr>
<td>----</td>
<td>-----------------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>5.</td>
<td>Subsidy Overpayments. Occasionally, parents continue to receive child care fee subsidies when they are no longer eligible. Usually such overpayments arise from the failure of the recipient to notify the Child Care Subsidy Program Office of a change in family income or other information impacting eligibility. When detected, such cases are referred to the Ontario Works (OW) Recovery Office which assumes responsibility for recovering the funds. As at July, 2008, there were 92 cases of overpayments totalling approximately $52,000. A review of a sample of such cases indicated that overpayments are not adequately tracked in the OCCMS system. Amounts recorded as owing in OCCMS differ from amounts noted in the Recovery Office's records (SDMT system), mostly as a result of repayments made by the clients. Three of the ten overpayments in the sample were not even noted in the SDMT system of the Recovery Office. There does not appear to be any communication between SEW's and the Recovery Office regarding amounts recovered, possibly leading to inaccurate balances owing.</td>
<td>That the Child Care Subsidy Program Office obtain repayment information from the OW Recovery Office on a regular basis. The balances owing should be updated accordingly in OCCMS.</td>
<td>Agreed. The existing process is time consuming for staff. Although all policies and procedures are currently being updated as part of the Business Process Review, further consultation is required with Finance and Administration, Ontario Works Overpayment Recovery, other municipalities etc. in order to develop a more efficient process. This task will be identified as part of the Child Care System’s 2009 work plan with an estimated completion time in Q.3 2009.</td>
</tr>
<tr>
<td>6.</td>
<td>Appeal Process. Clients that have been interviewed and have been assessed to be ineligible for a fee subsidy do not receive written notification from the City advising them of the basis of the decision. In addition, the applicants do not receive a letter outlining the process for appealing the decision. Rather, communication is done verbally at the time of the application interview. The Day Nurseries Act requires the Consolidated Municipal Service Manager to advise unsuccessful applicants about the appeal process. Without a written communication to the applicant, it is difficult to demonstrate that the City is in compliance with this requirement. This issue was previously raised in a review carried out by the Province for 2005.</td>
<td>That unsuccessful fee subsidy applicants be provided with a letter outlining the basis of subsidization ineligibility as well as the process for appeals.</td>
<td>Agreed. An OCCMS form letter advising all unsuccessful fee subsidy applicants of their ineligibility including the process for appeals has been created. Implementation October, 2008.</td>
</tr>
</tbody>
</table>
# Observations of Existing System

## Grandparenting Provisions

Section 66.7 of the Day Care Nurseries Act (the Act) has provisions which ensure that those parents who were recipients of fee subsidies before the introduction of the income test on January 1, 2007 will not be financially prejudiced since the inception of the new testing. Through its grandparenting provisions, parents continue to contribute the lower rates until the child enters grade 1 (i.e. six years old).

However, if a parent’s adjusted income increases by 20% or more in a year over the adjusted income as determined in the first year the parent applied for assistance under the needs testing, grandparenting will not apply from the current year onward and the parent will pay for child care in the amount determined by the formula for the income test.

In a sample of ten clients who were subsidy recipients prior to the January 1, 2007 inception of income testing, Internal Audit found two recipients for whom the 20% income increase regulation should have applied, thus eliminating the grandparenting coverage. These clients should have been contributing at the higher rate determined by the income testing methodology prescribed in the Act.

## Recommendation for Strengthening System

That the 20% increase in income rule as stipulated in the grandparenting provision of the Act be applied to all appropriate subsidy recipients. Changes in the required contributions as a result of these calculations should be implemented immediately.

## Management Action Plan

Agreed. City of Hamilton staff received information of this change in a policy directive from the Province on December 21, 2006 with an implementation date of January 1, 2007. The Province identified 2007 as a transitional year which included ongoing questions and answers from municipalities and the Province. Interpretation of this policy change was complex and the Province fully anticipated inconsistencies in application during the transition year. Clarification of this policy was reviewed with all staff during the October team meeting with the expectation that this policy be followed immediately as the situation arises (i.e. when a client reports significant changes and/or during the client’s annual review).

## Follow Up (February 2010)

Not Completed. No progress has been made to track grandparented applicants. A review of a sample of files indicated that several families whose income had increased by 20% or more since the income test was first introduced, were still being grandparented and were continuing to receive subsidy rates equivalent to those that they would have received under the needs test.
1. **Frequency of Per Diem Reviews**  
Per Diem rates paid to child care providers are reviewed at the request of the provider and upon receipt of the provider’s budget. Therefore, providers who submit updated budgets on a regular basis are paid per diem rates that estimate their current operating costs. There are several providers whose rates were noted to be significantly lower than the average because the rates were last reviewed in the year 2000. As the providers have not submitted operating budgets and financial statements in eight years, the determination of whether the per diem rates reflect the providers’ actual cost of care could not be ascertained. It is also unclear whether the procedure for rate reviews is communicated to child care providers.

Uniform per diem rates paid to private home day care providers were last set in 2005 and have not been adjusted for inflation.

**It is recommended:**  
That, for the purpose of comparing actual expenditures to budget, child care providers be required to submit operating budgets on an annual basis, regardless of whether a rate review is being requested.

**Management Response:**  
Agreed. However, the program does not have capacity at the present time to implement this recommendation. As a result of the BPR process, the recommendation will be integrated into the new business processes, provided there are sufficient resources to do so. It is important to note that all service providers were notified of the rate review in 2005. Upon further investigation, it was noted that some OCCMS fields were not updated to reflect actual rate reviews for some centres.

**Follow Up Comment:**  
Initiated. As a result of the re-organization, when the Child Care Program Analysts assume their duties in March 2010, the responsibilities will include the enforcement of a requirement for providers to submit operating budgets together with the historical financial statements for the purpose of comparison. In addition, new requirements regarding the frequency of per diem reviews are being developed and once finalized, will be presented to providers, requiring them to apply for per diem reviews more frequently.

That management consider the best means of communicating with child care providers regarding the procedure for applying for rate reviews.

**Management Response:**  
Agreed. Numerous mechanisms are already in place regarding ongoing communication with all child care providers. The development of an ‘Access to Service’ component of the new program delivery model is one of the activities currently underway as part of the Business Process Review. One of the new service model’s goals is to increase communication and access to our services.

**Follow Up Comment:**  
Initiated. The new Child Care Program Analyst positions, to be staffed from March 2010 onward, are to be the main point of contact with providers regarding per diem rate reviews. Information sessions to explain new requirements and other emerging issues will be held with providers on a regular basis. As the referred to positions had not started their duties, it was not possible to verify that operations were being carried out as expected or as per the job description.
ADDENDUM

2. **OCCMS Access Security**

Passwords to access OCCMS, the software used for the administration of child care fee subsidies, have not been changed in several years. OCCMS is not programmed to periodically prompt users for password changes. Also, the child care unit does not maintain a log that tracks the frequency of password changes.

In addition, the system does not have a pre-set password configuration that enhances password security. For example, the password structure could be designed to be alpha numeric, with a minimum number of characters and a mandatory combination of upper and lower case characters.

While the ultimate responsibility for OCCMS rests with the Province of Ontario, the City, along with other extensive users, should lobby the Province for security and utility enhancements to the system.

*It is recommended:*
That staff in the Social Development and Early Childhood Services Division of the Community Services Department continue to lobby the Province for an enhancement to OCCMS' access security.

*Management Response:*
Agreed. A request was submitted to the OCCMS user group on September 24, 2004. To date, this request has not been approved. We will continue to lobby the user group for this enhancement. In November, 2008, a policy for the local system administrator to manually reset the passwords on a quarterly basis will be implemented.

*Follow Up Comment:*
In Progress. Security settings have been re-configured within the OCCMS system to allow the system to automatically prompt users for a password change every sixty (60) days. However, a pre-set password configuration such as noted in the original observation has not been addressed.

3. **Wait List Management Strategy**

Due to the demand for fee subsidies outweighing the available funding, a wait list was implemented in June, 2008. The Wait List Management Strategy categorizes child care fee subsidy applicants into 3 major priorities based on a mix of reason for service and income criteria. As of August 2008, over 460 applicants had been placed on the waiting list. Placement of children from the waiting list is on a first-come-first-served basis whenever spaces become available. However, the Wait List Management Strategy does not provide details regarding the determination of availability of child care spaces and subsequent placement.

*It is recommended:*
That management establish written procedures for placements from the waiting list, including a metric for determining availability of child care spaces in order to trigger active placements from the waiting list.

*Management Response:*
Agreed. The Wait List Management Strategy is separate from this process as it is the policy for determining the ranking of children on the wait list which is a modified first come first served basis. The Wait List Management Strategy is used to determine the order children will be removed from the wait list, not when they will be removed from the wait list.

The process used to determine the availability of child care spaces is part of routine caseload/budget management and is based on the analysis of the fee subsidy budget to the existing and projected year end expenditures. This calculation is carried out on a monthly basis by Management and takes into account a range of influencing factors. Program policies and procedures are currently being updated as part of the Business Process Review with the specific section on removing children from the wait list to be completed by December, 2008.

*Follow Up Comment:*
Completed. Procedures for placements from the waiting list have been finalized and are being implemented. Every month, caseload statistics are reviewed to determine the current caseload, year-to-date expenditures and available remaining budget funds. Other considerations made when placing children from the waitlist include the priority ranking, the maintenance of a targeted monthly caseload depending on the time of the year and managing the caseload such that
ADDENDUM

the program operates within its annual budget. Even with such detailed calculations and subsequent placement, the waiting list stood at 887 children as at December 31, 2009.

4. Filing
While electronic client files in OCCMS are considered primary storage, much of the clients’ hard copy documentation (Notice of Assessments, Parent Agreements) are still stored as paper files. There does not appear to be an efficient system of maintaining paper files as several files selected for testing could not be easily located and some could not be found at all. Terminated and active clients’ files are filed together with no indexing to distinguish active files from those that are inactive.

Files contain personal application information. Loss of this information increases the risk of unauthorized use. The lack of a good filing system can have an impact on the efficiency of the operations.

It is recommended:
That a filing system be developed to ensure efficient management of clients’ paper files and prevent loss of valuable information.

Management Response:
Agreed. Improvements have been implemented since the audit including the separation of terminated files from active files. Staff now use hard copy sign out cards in order to keep track of all files.

Follow Up Comment:
Completed. The filing system appears to have improved. Files requested by Internal Audit were easily retrieved by the Program Secretary in a timely manner.