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**OFFICE OF THE  
NEW YORK STATE COMPTROLLER**

**DIVISION OF STATE  
GOVERNMENT ACCOUNTABILITY**

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**OFFICE OF CHILDREN AND  
FAMILY SERVICES**

**USE OF FUNDS TO CREATE  
AND PRESERVE CHILD  
CARE SLOTS IN NEW YORK  
CITY**

**Report 2006-S-33**

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## AUDIT OBJECTIVES

The objectives of our audit were to determine whether contracts awarded by the Office of Children and Family Services (OCFS) resulted in the creation and preservation of long-term child care center slots in the areas of New York City where they are most needed, and if contract funds were used in accordance with contract terms.

## AUDIT RESULTS - SUMMARY

Based on the results of our audit we conclude that the OCFS contracts are substantially not achieving the goal of creating and preserving child care slots in New York City, are generally not serving the locations in New York City that have been identified as most in need of child care and are being significantly misspent for fraudulent purposes.

OCFS enters multi-year contracts with grantees which specify contract objectives and how funds will be spent. For the period May 15, 1999 through August 31, 2006, OCFS awarded 205 contracts totaling \$10.7 million for child care slots in New York City. These contracts are categorized as Start-up, Expansion, and Health and Safety. Start-up contracts create slots in new child care centers. Expansion contracts create additional slots in existing centers. Health and Safety contracts assist grantees in promoting health and safety of children at their child care center, enable grantees to make improvements that otherwise may not be possible and are intended to help preserve existing slots. [Page 4]

One of our audit tests covered 34 Start-up and Expansion contracts totaling about \$2.3 million during the period May 15, 1999 through July 15, 2002. We selected this time period covering awards from at least five years ago because OCFS officials agreed that

after five years it was reasonable to expect grantees to have created and preserved slots that they were contracted to provide. [Page 5]

Under the contracts these grantees were obligated to create an additional 1,545 child care slots. However, we found that as of May 24, 2007, the grantees had failed to create 724 (47 percent) of the 1,545 new slots. In fact, for 17 of the 34 contracts, grantees failed to create any new slots. We estimated that the resultant contract overpayment for the failure to create contracted slots totaled \$861,995 of the \$1.8 million paid. [Page 5]

In addition, we found that for the 34 contracts, grantees failed to preserve 330 of the 1,888 slots that should have been preserved. Therefore, instead of attaining 2,612 New York City child care slots (1,067 slots preserved plus 1,545 slots to be created), the result was a shortfall of 1,054 child care slots (330 slots not preserved plus 724 slots not created). [Pages 5-6]

Another audit test covered a sample of 11 grantees that received 13 Health and Safety contracts between February 1, 2000 and August 15, 2001. The contracts had an award value of \$128,448 and at the time of the awards the grantees accounted for 916 slots. Our audit showed that as of May 15, 2007, 394 of the 916 slots had been lost rather than preserved through contract funds. [Page 6]

A third audit test pertained to 55 contracts for which grantees were paid \$2.9 million from December 10, 1999 through January 17, 2007. While we found that for 16 contracts the grantees spent funds in accordance with contract terms, we also found that for the remaining 39 contracts the grantees misspent \$1,576,228 of contract funds because expenses were not in accordance with contract terms and generally appeared fraudulent (See Exhibit A). We found

grantees used various methods to defraud the State. [Page 7]

These methods included altering and fabricating documents to create the appearance of legitimate expenses chargeable to contracts; using invoices as support for charges to contracts when, in fact, such invoices were for canceled or returned items where no expense was incurred; diverting monies intended for legitimate contract purposes to cover personal items; and colluding among grantees to share invoices and otherwise conspire to defraud the State. [Page 7]

For example, one of the grantees explained to us that she obtained blank invoices from vendors, filled them in with falsified items and charges, and also created fictitious canceled checks in order to obtain inappropriate contract reimbursements totaling \$40,000. Having obtained contract funds to reimburse these fictitious expenses, she confessed to us that she used contract money for her own personal expenses, including paying for her cell phone, credit card bills, airline tickets and other purchases. [Page 8]

Similarly, another grantee received \$95,000 to create 30 slots. However, the grantee never opened the child care center, but did establish a checking account for it. When we reviewed the checking account bank statements for May 2004, we saw a deposit of \$14,082, which is the amount of a check from OCFS, and two disbursements totaling \$14,000 to transfer funds from that account to the grantee's personal checking account. [Page 9]

In 2004, OCFS funded a needs assessment that identified the top 10 New York City communities with the highest need for child

care services. While there is no requirement to create slots in any specific location, OCFS officials agreed that the slots should be created and preserved in communities where services are most needed. We found that from January 1, 2004 through May 1, 2006, only 5 of the 18 contracts awarded to create slots in New York City were within these 10 communities. [Pages 6-7]

We concluded that the misuse of contract funds and the underachievement of contract objectives by grantees may have been substantially minimized if OCFS had provided effective program outreach, contract proposal evaluation and contract oversight. Specifically, OCFS is not fostering the submission of child care proposals where slots are needed. Further, OCFS lacked adequate procedures for employees to follow when reviewing contract requests for reimbursement, did not ensure that employees had sufficient knowledge and skills to properly monitor contract compliance, and did not require that staff perform necessary follow-up and corrective actions when there were indications that grantees were not adhering to contract terms. These conclusions have added significance because this is not the first time that we have reviewed an OCFS program pertaining to child care contracts and found that a lack of effective monitoring contributed to ineffective results and misuse of funds. [Pages 9-12]

We recommend OCFS seek the recovery of \$2,196,789 (\$861,995 for slots not created, plus \$1,576,228 for misspent funds, less \$241,434 for items covered in both samples). In addition, we referred matters in this report to the Office of the State Comptroller's Investigations Unit for review and referral to law enforcement agencies for possible criminal prosecution.

Our report contains nine recommendations to improve OCFS' controls over contracts to create and preserve long-term child care slots in the areas of New York City where they are most needed. OCFS officials indicated our recommendations are wholeheartedly accepted and go a long way toward assuring that past abuses are not repeated. They also indicated considerable progress has been made in addressing them.

This report, dated July 2, 2008, is available on our website at: <http://www.osc.state.ny.us>. Add or update your mailing list address by contacting us at: (518) 474-3271 or Office of the State Comptroller  
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## BACKGROUND

The Federal Child Care and Development Block Grant Act created the Child Care and Development Fund (Fund) to assist low-income families receiving public assistance, and those transitioning from public assistance, in obtaining child care so they can work or attend training and/or education. A goal of the Fund is to increase the availability, affordability, and quality of child care services for all. In State fiscal year 2006, the State received almost \$314 million from the Fund.

The Office of Children and Family Services (OCFS) uses the Fund in several ways, including to: provide a range of resources to help low-income parents with their child care needs and provide contracts to those who want to create or preserve child care center slots (slots). Each slot represents space for a child. However, a slot can be used by more than one child (i.e., one child can use the slot in the morning and another in the afternoon).

Individuals or businesses seeking funds for child care slots must provide OCFS with contract proposals. OCFS evaluates and ranks these proposals to determine which ones to approve considering available funding. Once OCFS approves a proposal, OCFS and the grantee enter into a multi-year contract which specifies how grantees are to spend contract funds to accomplish the objectives of the approved proposal. Then, OCFS advances a portion of the funds to the grantee. To continue to receive funds, the grantee must demonstrate to OCFS that they spent the advanced contract funds in accordance with contract terms. If grantees do not spend funds as outlined in their contracts (e.g., to create slots), or if the grantees fail to remain licensed during the contract period, OCFS can require grantees to repay all or a portion of the contract funds.

Among the OCFS contract categories are Start-up, Expansion, and Health and Safety. Start-up contracts create slots in new child care centers. Expansion contracts create additional slots in existing child care centers. Health and Safety contracts assist grantees in promoting the health and safety of children at their child care center, enable grantees to make improvements that otherwise may not be possible, and are intended to help preserve existing child care slots. Such contracts accounted for the award of 205 contracts in New York City from May 15, 1999 through August 31, 2006. These contracts have a combined value of \$10.7 million.

Our audit covered the period from May 15, 1999 through May 24, 2007, and only focused on contracts with grantees in New York City.

## AUDIT FINDINGS AND RECOMMENDATIONS

From our examination of a sample of 34 contracts for Start-up and Expansion

contracts, we found that OCFS overpaid \$861,995 to grantees because the grantees created 724 fewer slots than their Start-up and Expansion contracts obligated them to create. In addition, we found that the slots that grantees did create were often not located in the areas of New York City where the greatest need for child care slots had been identified. Furthermore, when we examined a sample of 13 contracts for Health and Safety contracts, we identified that, rather than preserving slots, the grantees experienced a net loss of 394 slots. In addition, from a separate analysis of 55 contract files, we concluded grantees misspent \$1,576,228 of contracts funds because expenses were not in accordance with contract terms and generally appeared fraudulent.

We attribute these conditions, in part, to ineffective oversight of the contracts by OCFS. We recommend that OCFS seek recoveries from grantees who failed to create required slots or who otherwise misused contract funds. Furthermore, we make recommendations for improving program outreach, contract proposal evaluations and contract oversight.

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### *Creation and Preservation of Slots*

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#### Creation of Slots

To determine if New York City grantees created the child care slots they were contracted to create, we reviewed 34 Start-up and Expansion contracts that OCFS awarded to New York City grantees from May 15, 1999 through July 15, 2002. We selected a time period covering contracts awarded at least five years ago because OCFS agreed that after five years it was reasonable to expect grantees to have sustained the contracted number of slots. The award amount for these 34 contracts totaled \$2.3 million. At the time

of our audit, \$1.8 million of the \$2.3 million had been paid to grantees for the creation of 1,545 slots.

Our audit showed that as of May 24, 2007, grantees failed to create 724 (47 percent) of the 1,545 slots that they were paid to create. We calculated that the resulting overpayment to grantees totaled \$861,995 which should be recovered by OCFS. The following illustrates our findings:

- For 17 of the 34 contracts, grantees received \$749,581 of contract payments to create 624 child care slots, but created none of the contracted slots and were not entitled to any contract payments;
- For 15 of the 34 contracts, grantees received \$928,238 of contract payments to create 792 child care slots, but created only a net of 714 slots (shortfall of 78). For 6 of the 15 contracts, grantees were not entitled to \$97,843 of the contract payments; and
- For 2 of the 34 contracts, grantees (who have since ceased operations) received \$147,879 of contract payments to create 129 child care slots, but created only 107 slots (shortfall of 22). For one of the two contracts the grantee was not entitled to \$14,571 of the contract payments.

Because grantees created only 821 of the contractually required 1,545 slots, we recommend that OCFS recover \$861,995. As discussed later in this report, we found that four of the grantees included in this sample also misappropriated contract funds thereby defrauding the State. The funds for these four grantees totaled \$241,434.

We met with OCFS officials and explained to them the basis we used to compute our recommended recovery. We calculated the cost per slot by dividing the contract value by the number of contracted slots. We then applied this cost per slot to each contract that had a shortfall of slots. OCFS officials indicated that there may be alternative methodologies for calculating a disallowance and are exploring such alternatives.

### Preservation of Slots

One of OCFS's objectives when awarding multi-year contracts for Start-up and Expansion contracts is to ensure that grantees continue to preserve their child care slots. For the previously discussed sample of 34 contracts, we determined that there should have been a total of 1,888 preserved slots. This includes the 821 newly created slots discussed previously as well as 1,067 slots that already existed. However, we determined that, as of May 24, 2007, only 1,558 slots actually existed; a shortfall of 330 slots. When this shortfall in preserving 330 slots is added to the previously discussed failure to create 724 funded slots, the result is a total program shortfall of 1,054 slots to care for children.

OCFS officials commented that one of the ways they attempt to preserve day care slots is by awarding Health and Safety contracts. Officials explained, for example, that such contracts may enable a child care center to install proper kitchen equipment to keep food fresh and thereby avoid a closure based on findings from Department of Health inspections.

To determine whether Health and Safety contract funding preserved child care slots, we examined 13 Health and Safety contracts that OCFS awarded to 11 grantees from February 1, 2000 through August 15, 2001.

At the time of the contract awards, the 11 grantees were licensed to have 916 slots. The 13 contracts had an award value of \$128,448 of which grantees had expended \$105,735 at the time of our audit. We found that, as of May 15, 2007, one grantee preserved their 63 slots and one grantee increased its number of slots by 50; from 159 to 209. However, five of the remaining nine grantees accounted for a loss of 412 slots because they ceased operating. While the four remaining grantees stayed in operation, they decreased their number of slots by 32; from 282 to 250. Consequently, despite Health and Safety contracts, the 11 grantees experienced a reduction of 394 slots; from 916 slots to 522 slots.

### Location of Slots

OCFS provides subsidies to help pay for child care costs incurred by eligible low-income families. Many of these families receive public assistance funded by the Temporary Assistance for Needy Families (TANF) Federal block grant, which requires at least 50 percent of the State's TANF participants to engage in a work activity (e.g., education, employment). Failure to achieve the State's mandatory participation rate could result in a TANF block grant reduction to the State of between \$24 million and \$120 million. Since a majority of TANF recipients are single mothers with children who need child care services, it is important that the State help increase child care availability and preserve existing slots in locations where they are most needed. While there is no requirement to create slots in any specific location, OCFS officials agreed with us that the slots should be created and preserved in communities where services are most needed.

In 2004, OCFS funded a needs assessment by the New York City Child Care Resource and Referral Consortium comprised of five New

York City-area agencies (Child Care, Inc., the Chinese-American Planning Council, the Day Care Council of New York, the Child Development Support Corporation and the Committee for Hispanic Children and Families). The assessment found there was a shortage of child care in New York City and identified the top 10 communities with the highest need for child care services for children between 6 weeks and 13 years old.

We reviewed a list of contracts awarded by OCFS after the release of this needs assessment to determine if these communities benefited from Start-up and Expansion contracts. We found that, from January 1, 2004 through May 1, 2006, only 5 of the 18 contracts awarded to create slots in New York City were within these 10 communities. The following table shows the 10 top ranked communities in need of child care slots and the extent to which they received Start-up or Expansion contracts during this period.

Rank	Borough	Community	Contracts Awarded
1	Brooklyn	Cypress Hills	0
2	Brooklyn	Broadway	1
3	Brooklyn	Borough Park	0
4	Brooklyn	Brownsville	2
5	Brooklyn	Ditmas Park	0
6	Queens	Flushing Meadows	0
7	Brooklyn	Williamsburg	1
8	Bronx	Williamsbridge	1
9	Bronx	Morrisania	0
10	Brooklyn	Canarsie	0

OCFS officials acknowledged that contract funding may be disproportionately distributed, in part, due to the quantity and quality of the proposals submitted from New York City. A shortage of slots in these communities potentially hinders the ability of TANF and low-income families to successfully transition from public assistance.

### *Use of Contract Funds*

To determine if grantees expended funds in accordance with contract terms, we examined 51 of the 58 contracts awarded from January 1, 2003 through November 15, 2004. (We excluded six contracts because grantees did not actually receive funding and we excluded one contract because the grantee returned contract funds.) In addition to these 51 contracts, we added four contracts from our previous sample pertaining to creation of slots because the prior sample caused us to question the appropriateness of their expenses. Accordingly, there were 55 contracts included in our examination of contract expenses.

From December 10, 1999 through January 17, 2007, OCFS paid \$2.9 million in contract funds for the 55 contracts. While we found that for 16 contracts the grantees spent funds in accordance with contract terms, we also found that for the remaining 39 contracts the grantees misspent \$1,576,228 of contract funds because expenses were not in accordance with contract terms and generally appeared fraudulent (See Exhibit A). We found grantees used various methods to defraud the State.

#### Potentially Fraudulent Expenditures

To verify expenses for the 55 contracts, we visited child care centers to interview the contract recipient or their designee regarding the use of contract funds and to examine documentation supporting disbursements charged to the contracts. We also contacted vendors to confirm that they provided goods and services claimed by the grantees and that they billed these items at the same amounts that the grantees charged to the contracts.

We found widespread evidence that the contract funds had not been spent in accordance with contract terms and instead had been misappropriated to defraud the State. This defrauding was accomplished through a variety of methods including altering and fabricating documents to create the appearance of legitimate expenses chargeable to contracts; using invoices as support for charges to contracts when, in fact, such invoices were for canceled or returned items where no expense was incurred; diverting monies intended for legitimate contract purposes to cover personal items; and colluding among grantees to share invoices and otherwise conspire to defraud the State. We referred these matters to the Office of the State Comptroller's Investigations Unit for review and referral to law enforcement agencies for possible criminal prosecution.

#### Altering and Fabricating Documents

Fabricating and altering documents to create the appearance of legitimate expenses is one way that OCFS grantees defrauded the State. For example, high quality, fictitious invoices were created using personal computers, and white out and handwritten changes were used to alter and inflate valid invoices. They also inserted various vendor letterheads onto given invoices to create multiple charges and support for essentially the same items/expenses.

For example, Grantee AL explained to us that she obtained blank invoices from vendors, filled them in with falsified items and charges, and also created fictitious canceled checks in order to obtain inappropriate contract reimbursements totaling \$40,000. Having obtained contract funds to reimburse these fictitious expenses, she admitted that she used contract money for her own personal expenses, including paying for her cell phone, credit card bills, airline tickets and other

purchases. She further explained that she fabricated a child care license that would support the contract intent to create child care slots.

The following are other examples of grantee expenses that OCFS reimbursed based on altered or fabricated documents:

- \$27,000 for construction work for Grantee R. The Grantee glued a vendor logo onto an invoice of \$27,000 and marked it "PAID IN FULL" in order to obtain contract reimbursement for alleged construction work. However, we could not locate the vendor nor verify that any construction work was performed. The grantee claimed she paid the vendor in cash and the original invoice had been destroyed so another invoice had to be "reconstructed";
- \$20,000 for a fire suppressions system for Grantee V. The grantee fabricated documents totaling \$20,000. In fact, only a \$600 invoice for the testing of a fire suppression system was valid according to the vendor; and
- \$10,500 for the installation of a platform landing and steps for Grantee E. We contacted the vendor who confirmed that no work had been done and that the invoice used by the grantee to support this work was invalid.

#### Canceling and Returning Orders

We found that grantees ordered goods or services, obtained invoices for these orders, cancelled the orders, and then submitted the invoices to OCFS and obtained reimbursement from OCFS for the entire invoice amount. In other instances, grantees

returned purchased items, but submitted the entire original invoices to OCFS. For example, we contacted the vendors for invoices submitted by Grantee AQ and found that \$15,556 of the \$20,666 in invoices submitted were for cancelled and returned orders. One cancelled order totaling \$4,353 was for appliances, digital cameras, printers, a TV, and DVD player. Another invoice for \$9,015 was for computers that were purchased and the vendor confirmed were later returned.

OCFS reimbursed grantees for additional cancelled orders and returned items such as:

- \$6,293 to Grantee E for playground improvements. We contacted the vendor and found the grantee canceled these improvements; and
- \$1,622 to Grantee AC for child care supplies. The vendor stated that the grantee returned the items. When we met with the grantee, she confirmed that she returned the items.

#### Diverting Funds for Personal or Unrelated Child Care Use

OCFS reimbursed grantees for items unrelated to child care or not authorized by the contracts. For example, grantees were reimbursed for personal items such as a massager, hair color, deodorant, men's socks, a shower curtain, lamp oil and utility bills.

Other examples where OCFS reimbursed grantees for personal or unrelated child care expenditures included:

- \$95,000 to Grantee V to create 30 slots. However, the grantee never opened the child care center, but did establish a checking account for it. When we reviewed the checking

account bank statements for May 2004, we saw a deposit of \$14,082, which is the amount of a check from OCFS, and two disbursements totaling \$14,000 to transfer funds from that account to the grantee's personal checking account;

- \$46,300 to Grantee AI to create 30 slots, but none were created. Instead, we found the grantee used the funds to pay for other programs administered by the grantee. For example, the grantee submitted an invoice to OCFS for \$7,845 for a new kitchen, including a dishwasher, freezer, sink, and table. During our site visit, we found these items were being used on a daily basis by the grantee's other businesses; and
- \$10,400 to Grantee R for rent and a security deposit that the grantee paid to herself. The grantee created an invoice and OCFS paid the money to the grantee even though the expenditures were not in the approved contract budget.

#### Colluding with Other Grantees

Our review of contract files and interviews with program participants identified collusion among Grantees I, K, and R to inappropriately obtain contract funds. The grantees acknowledged that they worked together to complete their contract documentation. We found they shared invoices, altered and fabricated invoices, and used invoices for canceled and/or returned items.

For instance, when we contacted three of Grantee R's vendors to confirm they sold the items to the grantee; they informed us that the invoices belong to Grantee K. These invoices totaled \$3,149. Similarly, we concluded that

Grantees I and R received reimbursement for the same invoice.

We recommend that OCFS seek recovery of the \$1,576,228 of inappropriate contract expenditures that we identified during our examination of the 55 contract files. In addition, we recommend that OCFS review the expenditures of the remaining contracts let to New York City grantees during our audit period to determine if similar recoveries are in order and to identify additional potential grantees that should be referred to law enforcement for criminal investigation.

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### *Contract Administration*

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We concluded that the misuse of contract funds and the under achievement of contracts objectives by grantees may have been avoided or substantially minimized if OCFS had provided effective program outreach, contract proposal evaluation and contract oversight. Specifically, OCFS is not fostering the submission of child care proposals where slots are most needed. OCFS lacked adequate procedures for employees to follow when reviewing contract requests for reimbursement, did not ensure that employees had sufficient knowledge and skills to properly monitor contract compliance, and did not require that staff perform necessary follow up and corrective actions when there were indications that grantees were not adhering to contract terms.

These conclusions have added significance because this is not the first time that we have reviewed an OCFS program pertaining to child care contracts and found that a lack of effective monitoring contributed to ineffective results and misuse of funds. Our prior audit report (Life Safety and Fiscal Issues Related to Legally Exempt Child Care, Report Number 2002-S-38, issued July 1, 2004) had

similar conclusions based on our findings that 31 of 70 grantees audited did not provide contractually required child care services. At the time, OCFS officials acknowledged that adequate systems of control were needed to monitor contract payments and a greater focus was needed on fraud detection, and advised us they had taken steps to address those needs.

Based on the results of this audit, it is clear that OCFS officials need to take additional aggressive actions to reasonably ensure that the contracts they administer result in their expected outcomes and that the associated funds are used for only their intended purpose.

### Program Outreach

We found that OCFS is neither proactively working with existing center operators nor seeking out new center operators to foster the submission of child care proposals. To increase the number of child care proposals in the communities with the greatest need, OCFS should work with child care centers currently operating in these communities to expand their existing capacity or to open another center. OCFS also could educate individuals and businesses on the need for child care and the availability of capital to assist them in opening a child care center.

### Evaluating Contract Proposals

When contract proposals were submitted, OCFS employees evaluated their quality using various categories (e.g., budget, target population, etc.). Bonus points were awarded based upon specified criteria (e.g., being located in an economic development zone). We reviewed how OCFS evaluates proposals and found that OCFS makes award decisions based on evaluation scores and that OCFS trains proposal evaluators on how to evaluate proposals. However, this training has not

resulted in consistent evaluations or in only awarding contracts that should be funded. For example:

- Two proposals totaling \$180,000 were funded even though they failed the evaluation process. OCFS could not explain why they were funded. We found that both of these grantees did not comply with contract terms;
- One proposal for \$95,000 was funded even though it was never evaluated. We found that the grantee did not fulfill the contract terms;
- One proposal for \$88,000 was funded even though two evaluators gave the proposal widely different scores. One evaluator failed it and concluded that the proposal was not viable and another awarded it a nearly perfect score. Although a third review should have been performed because of the significant variance in scores, it was not. We found the grantee did not fulfill the contract terms; and
- Two proposals totaling \$147,937 were funded even though they failed the evaluation process until bonus points were awarded. We later identified indications of potential fraud.

We also found that OCFS does not consider a grantee's past contract performance when evaluating contract proposals. For example, Grantee O created just 28 of the 225 required slots under its first contract, yet it received a second contract for \$200,000 to create additional slots.

OCFS needs to develop a written evaluation process that results in funding viable proposals.

## OCFS Monitoring

OCFS employees responsible for monitoring contracts have no procedures to confirm the propriety of expenses and ensure slots are created, nor have they been adequately trained. Further, OCFS employees rarely visit facilities to confirm grantees adhere to contract terms. We uncovered many of the potential frauds when we went out to conduct field site visits and were able to observe money was not spent for its intended purposes.

OCFS employees primarily do "desk reviews" of the documentation grantees submit for reimbursement. However, this process does not work and there are no procedures or checklists to tell reviewers what to look for when reviewing documentation. If OCFS employees had verified that invoices met contract terms and made site visits to grantee locations, they would have seen that funds were not being spent appropriately (e.g., items were not purchased, improvements were not made). In addition, some of the invoices and files we reviewed contained obvious indications of potential fraud that staff reviewing the documents should have identified such as mathematical errors, missing support documentation, duplicate invoices, and many of the other problems we mention in this report.

For example, Grantee B was reimbursed for multiple invoices totaling \$82,130 for expenses incurred as long as seven months before OCFS awarded a contract.

Further, in another file, we found a freight slip that stated the weight of the freight as 6,264 pounds. However, an OCFS employee had misinterpreted this slip as meaning that the weight was a billable item, and reimbursed Grantee AD an additional \$6,264.

Our review of OCFS' practices also found:

- OCFS encourages grantees to request extensions of time on contracts when they are unable to spend contract funds within the first year, as required, instead of following up on the cause. Of the 55 contracts we reviewed, 22 received extensions, including 15 that we identified as potentially fraudulent; and
- When items purchased by grantees do not appear in the contract budget, they should be disallowed. OCFS employees, however, often suggest that grantees submit a budget modification so the items can be included and the grantee can be reimbursed.

As of May 6, 2004, OCFS started paying new child care grantees based on achievement of contracted benchmarks rather than the process we reviewed of reimbursing grantees for expenses incurred. However, OCFS has not developed controls to confirm documents used to substantiate the benchmarks are authentic and to verify benchmarks are achieved. In fact, some of these benchmarks, such as obtaining a license to operate, are documents that OCFS should have been able to identify as potentially fraudulent under the original process, but did not.

The new benchmark system does not address the deficiencies noted in this report. Under the old process, grantees self-reported their contract expenditures to OCFS. Under the new benchmark system, which we did not audit, grantees continue to self-report their benchmark achievements. Both systems rely entirely on the integrity of grantees since OCFS has not established controls to confirm grantee assertions. Therefore, the submission of false claims are likely to continue, OCFS

will likely continue to pay for undelivered services, and the probability that potential fraud will continue to occur is high.

In light of the severity of our findings, in March 2007, we met with OCFS officials to advise them of the potential fraud we uncovered during our audit. We provided them with examples of our findings and how we identified them. More importantly, we discussed several recommendations that OCFS could immediately implement to begin to detect these issues on their own and prevent further waste of taxpayer dollars.

#### **Recommendations**

1. Recover the \$2,196,789 we identified in this report from grantees: \$861,995 paid to grantees that never opened child care centers or did not create the required number of slots, and \$1,576,228 from grantees we identified in this report that did not adhere to contract terms, less \$241,434 for the four grantees included in both samples. To the extent OCFS identifies an alternative methodology for those grantees that had a shortfall of slots adjust the recommended recovery accordingly.
2. Verify funds are being used to create and preserve slots, as required.
3. Audit the remaining New York City child care contracts awarded to create or preserve slots that were not included in this audit. Take appropriate action when it is determined that funds are not being spent within contract terms.
4. Periodically audit future contracts. Take appropriate action when it is determined that funds are not being spent within contract terms.

5. Foster the submission of qualified proposals from areas with the greatest need for child care by working with child care centers currently operating in these communities. In addition, educate individuals and businesses on the need for child care and the availability of capital to assist them in opening a center in the communities with the greatest child care needs. As appropriate, award contracts accordingly.
6. Develop a written evaluation process that results in funding viable proposals.
7. Train employees to effectively monitor and review contracts. Such training should result in employees being able to review documentation and identify mathematical inconsistencies, completeness of contract documentation, signs of alterations in submitted documents and duplicate submissions.
8. Reimburse grantees only after reviewing and verifying documentation submitted with reimbursement requests. The verification should include that products and/or services were purchased or delivered, expenditures were in accordance with contract terms, vendor existed, and submitted documentation was authentic. Site visits should also be used as part of the verification process.
9. Develop written procedures to consistently review and evaluate the need for contract extensions and budget modifications. Only grant contract extensions and budget modifications when the grantee has documented the extenuating circumstances and the OCFS has verified that they are warranted.

## AUDIT SCOPE AND METHODOLOGY

We conducted our audit in accordance with generally accepted government auditing standards. We audited OCFS to determine whether contracts awarded by OCFS resulted in the creation and preservation of long-term child care center slots in the areas where they are most needed, and if contracts funds were used in accordance with contract terms. We audited OCFS contract award and monitoring practices for the period from May 15, 1999 through May 24, 2007.

To accomplish our objectives, we reviewed applicable laws, contracts, and OCFS proposal evaluations and contract files. We interviewed OCFS officials, grantees, and vendors, and conducted site visits to child care centers. We contacted vendors that grantees claimed they purchased items or services from to confirm that items or services were provided and vendors received reported payments. We also obtained support documentation from grantees and licensing information from OCFS and the New York City Department of Health and Mental Hygiene.

Our audit sampling included 39 contracts to 34 grantees who obtained Start-up and Expansion contract awards totaling about \$2.6 million during the period May 15, 1999 through July 15, 2002. Four grantees were awarded five contracts totaling \$265,000 but either never requested money or repaid their contract. We evaluated the remaining 34 contracts awarded to 32 grantees to determine if child care slots funded by the contracts were being created as required. We also sampled 11 grantees that received 13 Health and Safety contracts valued at \$128,448 between February 1, 2000 and August 15, 2001. We evaluated this sample to determine if child care slots were being preserved as a result of the contracts. Another audit sampled

covered 55 contracts to 49 grantees who were paid \$2.9 million of contract funds from December 10, 1999 through January 17, 2007. We evaluated this sample to determine whether contract expenditures complied with contract terms and conditions.

In addition to being the State Auditor, the Comptroller performs certain other constitutionally and statutorily mandated duties as the chief fiscal officer of New York State. These include operating the State's accounting system; preparing the State's financial statements; and approving State contracts, refunds, and other payments. In addition, the Comptroller appoints members to certain boards, commissions and public authorities, some of whom have minority voting rights. These duties may be considered management functions for purposes of evaluating organizational independence under generally accepted government auditing standards. In our opinion, these functions do not affect our ability to conduct independent audits of program performance.

#### **AUTHORITY**

The audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law.

#### **REPORTING REQUIREMENTS**

We provided a draft copy of this report to OCFS officials for their review and comment. Their comments were considered in preparing this draft report. OCFS officials indicated our recommendations are wholeheartedly accepted and go a long way toward assuring that past abuses are not repeated. They also indicated considerable progress has been made to address our recommendations. A complete copy of the OCFS' response is included as Appendix A.

Within 90 days of the final release of this report, as required by Section 170 of the Executive Law, the Commissioner of OCFS shall report to the Governor, the State Comptroller, and the leaders of the legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

#### **CONTRIBUTORS TO THE REPORT**

Major contributors to this report include William Challice, Richard Sturm, Donald Geary, Randy Partridge, Taryn Davila-Webster, Michele Krill, Joseph Robilotto, Rachel Schwendinger, Vicki Wilkins, and Sue Gold.

Exhibit A

Grantee	Borough	Amount Awarded	Amount Paid	Recommended Recovery
A	Queens	\$150,000	\$135,467	\$135,467
B	Bronx	100,000	100,000	82,130
C	Queens	100,000	100,000	0
D	Queens	100,000	100,000	0
E	Bronx	100,000	100,000	100,000
F	Bronx	100,000	25,000	25,000
G	New York	100,000	100,000	49,912
H	Bronx	100,000	84,050	20,964
I	Brooklyn	100,000	97,836	64,878
J	Queens	100,000	53,580	53,580
K	Brooklyn	100,000	90,000	90,000
L	Queens	100,000	25,000	25,000
M	Queens	100,000	39,667	39,667
N	Bronx	100,000	100,000	0
O	Bronx	100,000	65,241	52,796
P	Brooklyn	100,000	99,921	0
Q	Queens	99,999	66,200	26,201
R	Brooklyn	99,937	99,937	63,747
S	Bronx	99,100	89,190	19,820
T	New York	96,273	91,059	3,499
U	New York	96,000	24,000	0
V	Brooklyn	95,000	95,000	95,000
W	New York	94,000	73,385	45,327
X	Bronx	90,000	83,999	3,871
Y	Queens	88,000	88,000	34,222
Z	New York	80,000	20,000	20,000
AA	Brooklyn	80,000	36,032	36,032
AB	New York	75,000	64,650	0
AC	Brooklyn	75,000	34,778	34,778

<b>Grantee</b>	<b>Borough</b>	<b>Amount Awarded</b>	<b>Amount Paid</b>	<b>Recommended Recovery</b>
<b>AD</b>	<b>Brooklyn</b>	<b>74,000</b>	<b>42,686</b>	<b>42,686</b>
<b>AE</b>	<b>New York</b>	<b>73,334</b>	<b>66,042</b>	<b>66,042</b>
<b>AF</b>	<b>New York</b>	<b>70,000</b>	<b>59,093</b>	<b>59,093</b>
<b>AG</b>	<b>Brooklyn</b>	<b>58,864</b>	<b>58,864</b>	<b>58,864</b>
<b>AH</b>	<b>Brooklyn</b>	<b>52,000</b>	<b>36,333</b>	<b>24,571</b>
<b>AI</b>	<b>Queens</b>	<b>51,380</b>	<b>46,300</b>	<b>46,300</b>
<b>AJ</b>	<b>New York</b>	<b>50,000</b>	<b>43,738</b>	<b>2,694</b>
<b>AK</b>	<b>New York</b>	<b>48,000</b>	<b>12,000</b>	<b>12,000</b>
<b>AL</b>	<b>Brooklyn</b>	<b>40,000</b>	<b>40,000</b>	<b>40,000</b>
<b>AM</b>	<b>Brooklyn</b>	<b>25,000</b>	<b>22,251</b>	<b>22,251</b>
<b>AN</b>	<b>New York</b>	<b>25,000</b>	<b>6,250</b>	<b>6,250</b>
<b>AO</b>	<b>Bronx</b>	<b>25,000</b>	<b>24,114</b>	<b>24,114</b>
<b>AP</b>	<b>New York</b>	<b>24,981</b>	<b>24,199</b>	<b>0</b>
<b>AQ</b>	<b>Brooklyn</b>	<b>23,000</b>	<b>20,666</b>	<b>20,666</b>
<b>AR</b>	<b>Bronx</b>	<b>18,334</b>	<b>4,583</b>	<b>4,583</b>
<b>AS</b>	<b>Brooklyn</b>	<b>54,860</b>	<b>54,860</b>	<b>0</b>
<b>AT</b>	<b>Brooklyn</b>	<b>49,778</b>	<b>49,778</b>	<b>10,723</b>
<b>AU</b>	<b>New York</b>	<b>15,000</b>	<b>13,500</b>	<b>0</b>
<b>AV</b>	<b>Queens</b>	<b>15,000</b>	<b>15,000</b>	<b>0</b>
<b>AW</b>	<b>Queens</b>	<b>15,000</b>	<b>15,000</b>	<b>0</b>
<b>AX</b>	<b>Bronx</b>	<b>15,000</b>	<b>13,500</b>	<b>0</b>
<b>AY</b>	<b>Queens</b>	<b>15,000</b>	<b>13,500</b>	<b>13,500</b>
<b>AZ</b>	<b>Bronx</b>	<b>15,000</b>	<b>15,000</b>	<b>0</b>
<b>BA</b>	<b>Queens</b>	<b>15,000</b>	<b>15,000</b>	<b>0</b>
<b>BB</b>	<b>Queens</b>	<b>15,000</b>	<b>15,000</b>	<b>0</b>
<b>BC</b>	<b>Brooklyn</b>	<b>15,000</b>	<b>13,500</b>	<b>0</b>
	<b>Totals</b>	<b>\$3,716,840</b>	<b>\$2,922,749</b>	<b>\$1,576,228</b>

## APPENDIX A - AUDITEE RESPONSE



New York State  
Office of  
Children & Family  
Services

[www.ocfs.state.ny.us](http://www.ocfs.state.ny.us)

David A. Paterson  
Governor

Gladys Carrión, Esq.  
Commissioner

Capital View Office Park  
52 Washington Street  
Rensselaer, NY 12144



An Equal Opportunity Employer

May 6, 2008

The Honorable Thomas DiNapoli  
New York State Comptroller  
Office of the State Comptroller  
110 State Street  
Albany, NY 12236-0001

Re: OSC Audits 2006-S-33 and 2006-S-80

Dear Comptroller DiNapoli:

Attached please find the response to the recommendations presented in the draft audit report received from the Office of the State Comptroller (OSC) on April 17, 2008. This report, by prior agreement between the Office of Children and Family Services (OCFS) and OSC, combines findings from two audits undertaken by OSC; audit 2006-S-33 Expansion and Preservation of Day Care Slots in New York City and audit 2006-S-80 Day Care Funding (in New York City).

First, let me thank you and your staff for your help on the 2006 Day Care Funding Audits. The findings provided my staff and me with the guidance we needed when I accepted the position of Commissioner of the Office of Children and Family Services in January 2007, with the goal of assuring that the tax dollars allocated to support children and their families in New York State are spent as effectively and efficiently - and honestly - as possible.

Moreover, the recommendations, which have been wholeheartedly accepted by my staff, will go a long way toward assuring that past abuses are not repeated under my watch.

As you know, quality child care is critical in the lives of our children and the overall health of the State, so among my first actions at the helm of the agency was to create a separate Child Care Services Division and to conduct a national search to recruit a Deputy Commissioner. I am extremely pleased to let you know that we were fortunate enough to identify and hire a nationally known expert in this field to lead this important new Division. Dr. Janice Molnar has the expertise, energy, and management ability to produce meaningful program and management changes and improvements.

In addition, we also have provided this new Deputy Commissioner with top managers from other divisions to develop and execute a transparent Request for Proposal (RFP) process that better manages and monitors new and ongoing contracts, including increasing the number of agency audits of day care contracts across the State. The establishment of a strong and permanent organization will serve to provide the foundation for innovation and

continuous improvement. We will be glad to share some of our child care initiatives with you and your staff.

Upon receipt of the preliminary findings and early reports from your Office, OCFS convened a senior level task force consisting of top staff from the Executive, Administration, Legal, and Child Care divisions, to immediately assess program weaknesses and build new controls. The task force was charged with developing immediate problem resolutions and business process improvements.

Because of these efforts, significant actions and improvements have occurred including:

#### **PROGRAM AND GRANT MANAGEMENT PRACTICES**

OCFS has implemented a number of actions to improve program and grant management responsibilities. Significant activities include:

- Future day care start-up awards were frozen pending the review of work processes and internal controls.
- A pilot project between the child care and contract management units was developed with the objective to test new approaches to contract management. Staffing practices within our units were also assessed. The agency immediately stopped the use of non-state employees for contract management support.
- OCFS has also decreased the workload per staff person ratio. At the time of the audit, each contract manager had over 200 contracts while today each staff person has approximately 40 contracts, which is more manageable and contributes to improved monitoring.
- OCFS has begun the process of recovering monies from grantees as warranted. Some contract agencies have been referred by OSC to the responsible District Attorney's Office for possible prosecution, while additional grantees are being considered for referral. At the request of OSC, OCFS has not communicated with those grantees. We will continue to cooperate with these requests.
- As recommended in the audit findings, OCFS has greatly improved communication with New York City Department of Health and Mental Hygiene (NYC DOHMH) licensing staff and OCFS' regional office licensors. As part of the review process, licensors verify that sites meet all applicable codes and regulations. Issuance of a license is used to verify that new or additional slots have been created.
- OCFS can now access the NYC Buildings Department's website to verify Certificates of Occupancy. OCFS requires a lease to cover the term of the contract to improve the program's chance of staying open for at least the minimum requirement of two years or one full licensing period. Contract agencies are now required to keep copies of all bids, quotes, and agreements on file in the program area for possible future auditing purposes.

### **RFP BUSINESS PRACTICES**

OCFS has introduced changes in how RFPs are developed and how contracts are managed and monitored. Specific changes and actions include:

- OCFS utilizes a procurement process and procedure that is consistent with the OSC requirements and the State Finance Law. All procurements establish requirements and a parallel evaluation methodology. This methodology is what supports the Procurement Record that is submitted to OSC for approval prior to the execution of contracts made pursuant to a respective RFP.
- Throughout the period following the 1999 RFP, OCFS has continued to work to strengthen and refine the Agency procurement process, both directly related to Child Care program particulars and the entire RFP process. Our purpose is to keep aligned with changes in the State Finance Law and OSC directives related to vendor responsibility. This includes, but is not limited to, the issuance of an RFP Template required for program usage in topical training sessions.

### **FRAUD DETECTION, AUDITS, AND MONITORING**

In response to concerns that additional contracts were at risk of improper practices or poor outcomes, OCFS initiated a series of additional audits to support accountability and risk prevention. Specific activities included:

- OCFS immediately contracted with the auditing firm of Padilla and Company, LLP to conduct audits of contract grants and day care providers in New York City. To date, 7 audits have been implemented.
- OCFS will conduct additional audits in New York City. Several strategies will be used to complete these audits on a continuing basis involving both audit contractors (such as Padilla) and OCFS Audit and Quality Control (AQC) staff. We project the start-up of 15 new audits in the current fiscal year.
- Additionally, OCFS has developed an in-house computer tracking system in a secure shared file to keep track of communication between OCFS and the contract agencies. This system also gives staff the opportunity to do periodic desk audits of contracts. The resulting audit reports are reviewed for approval by OCFS and, as warranted, appropriate actions, including recouping of overpayments, will be taken.
- Further, AQC is conducting 13 audits of day care grantees in areas outside of New York City and more audits of this nature will be scheduled. Audit reports will be produced and the results will be used as part of the ongoing monitoring of contract agencies. As warranted, appropriate actions, including recouping of overpayments, will be taken.

### **TRAINING AND PROFESSIONAL DEVELOPMENT TO PREVENT FRAUD AND MAXIMIZE PROGRAM EFFECTIVENESS**

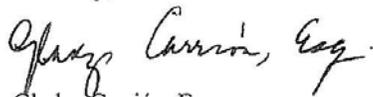
To support staff development and continuous improvement in the areas of program oversight and fraud prevention, a number of new activities were implemented including:

- The OCFS' Bureau of Training is in the process of designing training to be given to OCFS' program, contract, budget, and audit staff on effective monitoring of Day Care Contracts. The training will be held on a routine basis and updated to reflect new audit findings or recommendations from external agencies.
- In addition to this training, OCFS has been working closely with the trainers from OSC to conduct training of over 100 OCFS staff in the areas of "Fraud Detection Prevention", "Fraud Red Flags", "Contract Monitoring", and "Grant and Local Aid Monitoring." This training will begin in May 2008.
- OCFS has forged collaboration with the **New York State Welfare Fraud Investigation Association (NYWFIA)** and has invested in its upcoming annual conference in June 2008 in an effort to increase the knowledge base of staff within OCFS and in the counties. OCFS is sponsoring scholarships for 20 OCFS staff as well as 58 county staff across New York State for the NYWFIA conference.
- OCFS Division of Child Care Services staff are providing information sharing sessions throughout the state of New York, including New York City, in order to reach out to communities with the highest need and to increase the quality of the applications. These sessions are also addressing the need for accountability in the areas of recordkeeping and documentation.
- OCFS will also be providing Bidders Conferences following the issuance of new RFPs in the near future. OCFS has reached out to State legislators, local Child Care Councils, and the NYC DOHMH for their assistance in securing qualified proposals from high need areas across the state through the application process.

The availability of quality, safe and community-based child care is a critical need to all New Yorkers. With the changes and improvements noted above and our program plans for new quality innovations, we are confident that significant gains will be realized in the coming years. We appreciate the assistance of your staff and look forward to cooperative relations and engagements.

Again, thank you for your continued support to ensure the best care and services for the children and families in New York State.

Sincerely,



Gladys Carrión, Esq.

enclosure

cc: Jerry Barber, Assistant Comptroller  
Donald Geary, Audit Manager  
Randy Partridge, Audit Supervisor  
William T. Gettman, Executive Deputy Commissioner  
Tom Tipple, Deputy Commissioner  
Kevin W. Mahar, Director Audit and Quality Control

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## OSC AUDIT 2006-S-33 DRAFT REPORT

### **OSC Recommendation #1**

Recover the \$2,196,789 we identified in this report from grantees: \$861,995 paid to grantees that never opened child care centers or did not create the required number of slots, and \$1,576,228 from grantees we identified in the report that did not adhere to the contract terms, less \$241,434 for the four grantees included in both samples. To the extent that OCFS identifies an alternative methodology for those grantees that had a shortfall of slots and adjust the recommended recovery accordingly.

### **OCFS Response to Recommendation #1**

OCFS has begun the process of recovering monies from grantees as warranted. There is a potential difference in recommended amounts of recovery due to several factors. These factors include resolving the methodology utilized for the computation of costs associated with slot creation. Another contributing factor is that several grantees have not exhausted their due process rights or fully responded to the audit findings. Some contract agencies have been referred by OSC to the responsible District Attorney's Office for possible prosecution; while additional grantees are being considered for referral. At the request of OSC, OCFS has not communicated with those grantees. We will aggressively pursue recoupment.

### **OSC Recommendation #2**

Verify funds are being used to create and preserve slots, as required.

### **OCFS Response to Recommendation #2**

Grants are awarded to create new programs, increase the number of slots at existing programs and help a program maintain a safe environment for the children in care, which might help preserve slots. Steps have been taken to improve the verification of documentation used to create and preserve slots.

As recommended in the audit findings, OCFS has greatly improved communication with New York City Department of Health and Mental Hygiene (NYC DOHMH) licensing staff and OCFS regional office licensors. As part of the review process, licensors verify that sites meet all applicable codes and regulations. Issuance of a license is used to verify that new or additional slots have been created.

OCFS can now access the NYC Buildings Department's website to verify Certificates of Occupancy. OCFS requires a lease to cover the term of the contract to improve the program's chance of staying open for at least the minimum requirement of two years or one full licensing period. Contract agencies are required to keep copies of all bids, quotes and agreements on file in the program area for possible future auditing purposes.

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OCFS has also decreased the workload per staff person ratio. At the time of the audit, each contract manager had over 200 contracts while today each staff person has approximately 40 contracts, which is more manageable and contributes to improved monitoring. A more manageable staff workload ratio will allow for greater monitoring and oversight. Last, OCFS will audit a number of new contracts to verify slot creation.

**OSC Recommendation #3**

Audit the remaining NYC child care contracts awarded to create or preserve slots that were not included in this audit. Take appropriate action when it is determined that funds are not being spent in contract terms.

**OCFS Response to Recommendation #3**

OCFS has contracted with the auditing firm of Padilla and Company, LLP to conduct audits of contract grants and day care providers in New York City. Additionally, OCFS has developed an in-house computer tracking system in a secure shared file to keep track of communication between OCFS and the contract agencies. This system also gives staff the opportunity to do periodic desk audits of contracts. The resulting audit reports are reviewed for approval by OCFS and, as warranted, appropriate actions, including recouping of overpayments, will be taken.

OCFS immediately contracted with the auditing firm of Padilla and Company, LLP to conduct audits of contract grants and day care providers in New York City. To date, 7 audits have been implemented.

OCFS will conduct additional audits in New York City. Several strategies will be used to complete these audits on a continuing basis involving both audit contractors (such as Padilla, LLP) and OCFS AQC staff. We project the start-up of 15 new audits in the current fiscal year.

**OSC Recommendation #4**

Periodically audit future contracts. Take appropriate actions when it is determined that funds are not being spent within contract terms.

**OCFS Response to Recommendation #4**

OCFS will conduct periodic audits of future contracts in New York City. Several strategies will be employed to complete these audits on a continuing basis involving both audit contractors (such as Padilla) and OCFS Audit and Quality Control (AQC) staff.

Additionally, OCFS has developed an in-house computer tracking system in a secure shared file to keep track of communication between OCFS and the contract agencies. This system also gives staff the opportunity to do periodic desk audits of contracts.

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Further, AQC currently has 13 audits of upstate day care grantees underway. The total grant amount exceeds one million dollars for these contracts. These audits are being conducted in areas outside of New York City and more audits will be scheduled. Audit reports will be used as part of the ongoing monitoring of contract agencies. As warranted, appropriate actions, including recouping of overpayments, will be taken.

**OSC's Recommendation #5**

Foster the submission of qualified proposals from areas with the greatest need for child care by working with child care centers currently operating in their communities. In addition, educate individuals and businesses in the need for child care and availability of capital to assist them in opening a center in the communities with the greatest child care needs. As appropriate, award contracts accordingly.

**OCFS Response to Recommendation #5**

OCFS Division of Child Care Services (DCCS) staff are providing information sharing sessions throughout the state of New York, including New York City, in order to reach out to communities with the highest need and to increase the quality of the applications. These sessions are also addressing the need for accountability in the areas of recordkeeping and documentation. OCFS will also be providing Bidders Conferences following the issuance of new Request for Proposals (RFPs) in the near future. OCFS has reached out to State legislators, local Child Care Councils, and the NYC DOHMH for their assistance in securing qualified proposals from high need areas across the state through the application process.

It is noteworthy that OCFS has received over 100 applications in the period 2004-2006 from areas identified as having the greatest child care needs by the New York City Child Care Resource and Referral consortium. OCFS is firmly committed to supporting the development of applications from high need areas and will continue to support this objective. Further, OCFS is equally committed to awarding contracts in these areas.

**OSC Recommendation # 6**

Develop a written evaluation process that results in funding viable proposals.

**OCFS Response to Recommendation # 6**

OCFS addressed this issue by revising the 2003 RFP. The new RFP strengthens the evaluation process results and funds the most viable proposals. The evaluation review form is reviewed by OCFS staff from the Division of Child Care Services, regional offices, Bureau of Contract Management (BCM), and OCFS Legal Affairs as well as NYC DOHMH, ACS and HRA staff as part of the RFP development process. This evaluation review form is used to verify that each proposal/application is scored equitably. Programs that address funding

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priorities are able to receive additional points. A two year post start-up budget is required helping OCFS determine if the program will be able to effectively operate past the initial start-up or expansion period. Feedback from reviewers and other OCFS staff is taken into consideration when developing or amending the evaluation tool. A training session is conducted for all reviewers emphasizing how to review the various categories of proposals. Home Office staff are also available to answer and assist should problems be encountered while reviewing proposals. Review teams meet and discuss their scores in an attempt to resolve large discrepancies. OCFS Home Office staff assist the reviewers and respond to their questions/concerns during the technical review process. Programs achieving an acceptable score in the technical review phase may then be given a budget review to verify that funds being requested are for start-up or expansion purposes.

**Recommendation #7**

Train employees to effectively monitor and review contracts. Such training should result in employees being able to review documentation and identify mathematical inconsistencies, completeness of contract documentation, signs of alterations on submitted documents and duplicate submissions.

**OCFS Response to Recommendation # 7**

In response to this recommendation, OCFS DCCS has reached out to OCFS AQC and BCM units to provide training to DCCS program development staff on how to better monitor and review contracts and submission of fund requests. Both units are in the process of developing training programs to include identifying mathematical errors/inconsistencies, looking for signs of alterations in submitted documents, and avoiding payment when a duplicate submission is made. Further, site visit protocols are being developed to inform program development staff on what to look for during site visits. Additional training on monitoring and fraud detection issues, using OSC's trainers, is under development. This training will be made available to over 100 OCFS staff.

**Recommendation #8**

Reimburse grantees only after reviewing and verifying documentation submitted with reimbursement requests. The verification should include that products and/or services were purchased or delivered, expenditures were in accordance with contract terms, the vendor existed and the submitted documentation was authentic. Site visits should also be used as a part of this verification process.

**OCFS Response to Recommendation #8**

OCFS requires that each start-up and expansion contract site must be visited at least once during the development stage. Detailed reviews of contract compliance and payment histories are conducted. Program staff have developed an in-house computer tracking system in a secured shared file to keep track of communication between OCFS and the contract agency. There is also a computerized system used by BCM for tracking payments on all contracts (the

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Contract Management System). These two systems provide contract managers with additional tools to identify potential problem programs.

To support staff development and continuous improvement in the areas of program oversight and fraud prevention, a number of new activities were implemented including:

- The OCFS Bureau of Training is in the process of designing training to be given to OCFS program, contract, budget, and audit staff on effective monitoring of Day Care Contracts. The training will be held on a routine basis and updated to reflect new audit findings or recommendations from external agencies.
- In addition to this training, OCFS has been working closely with the trainers from OSC to conduct training of over 100 OCFS staff in the areas of "Fraud Detection Prevention", "Fraud Red Flags", "Contract Monitoring", and "Grant and Local Aid Monitoring." This training will begin in May 2008.
- OCFS has forged collaboration with the New York State Welfare Fraud Investigation Association (NYWFIA) and has invested in its upcoming annual conference in June 2008 in an effort to increase the knowledge base of staff within OCFS and in the counties. OCFS is sponsoring scholarships for 20 OCFS staff as well as 58 county staff across New York State for the NYWFIA conference.

**OSC Recommendation #9**

Develop written procedures to consistently review and evaluate the need for contract extensions and budget modifications. Only grant contract extensions and budget modifications when the grantee has documented the extenuating circumstances and the OCFS has verified that they are warranted.

**OCFS Response to Recommendation #9**

OCFS has instituted a higher standard of documentation from programs before no cost extensions or budget modifications are considered. Only in well-documented and justifiable circumstances will OCFS submit no cost extensions or budget modifications to OSC for review and approval.