

## Why GAO Did This Study

Through the Child Care and Development Fund (CCDF), the U.S. Department of Health and Human Services (HHS) subsidizes child care for low-income families whose parents work or attend education or training programs. In fiscal year 2009, the CCDF budget was \$7 billion. States are responsible for determining program priorities and overseeing funds. Providers—who range from child care centers to relatives—bill the state for caring for approved children. Unregulated relatives represent 12 percent of providers in the CCDF program. In response to program fraud and abuse, GAO (1) proactively tested selected states' fraud prevention controls, (2) examined closed case studies of fraud and abuse, and (3) interviewed parents waitlisted for child care about the effect of this lack of assistance on their families.

To do this, GAO investigators posed as parents and unregulated relative providers in 10 scenarios in five states with no waiting lists that each received more than \$100 million in CCDF funding for fiscal year 2009. These states did not require fingerprint criminal history checks or site visits. For case studies of past program fraud, GAO reviewed criminal court records and interviewed agency officials. GAO spoke with parents on waiting lists in six states for their perspectives on the effect of being unable to obtain childcare. Results cannot be projected beyond these states or unregulated relative providers.

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## CHILD CARE AND DEVELOPMENT FUND

### Undercover Tests Show Five State Programs Are Vulnerable to Fraud and Abuse

## What GAO Found

The five states GAO tested lacked controls over child care assistance application and billing processes for unregulated relative providers, leaving the program vulnerable to fraud and abuse. Posing as fictitious parents and relative providers, GAO successfully billed for \$11,702 in child care assistance for fictitious children and parents. In most cases, states approved GAO's fictitious parents who used Social Security numbers of deceased individuals and claimed to work at nonexistent companies. One state also approved a fictitious child care provider with a deceased person's Social Security number, creating the possibility that a criminal using a stolen identity could obtain federal subsidies to care for children. In two other states, GAO successfully billed for hours exceeding those authorized without submitting proof of additional hours worked. One state successfully prevented both fictitious applicants from being accepted, but had weak payment controls.

GAO identified five recent closed criminal cases in which parents and providers defrauded the CCDF program. These cases involved parents falsifying eligibility documentation, providers billing states for fictitious children, and collusion between parents and providers to obtain payment for services that were never provided.

#### Examples of Fraud in Child Care Assistance Programs: Closed Criminal Cases from 2007-2009

Amount	State	Case Details
\$122,615	Oregon	<ul style="list-style-type: none"> <li>• Claiming to be separated, a married couple living together qualified separately for child care assistance using two fictitious providers.</li> <li>• Husband used fake IDs to cash checks paid to fictitious providers.</li> <li>• Husband sentenced to 8 years in prison, wife sentenced to 3.5 years.</li> </ul>
\$361,000	Wisconsin	<ul style="list-style-type: none"> <li>• Two providers gave parents fraudulent documentation to help them qualify for child care assistance, then offered them free housing in exchange for enrolling their children at the providers' facility.</li> <li>• One provider sentenced to 5 years in prison, other provider sentenced to 30 days.</li> </ul>
\$150,310	Indiana	<ul style="list-style-type: none"> <li>• Two providers fraudulently billed the state for hours during which child care could not have been provided.</li> <li>• One provider failed to disclose that a twice-convicted felon lived in the day care home and interacted with the children.</li> <li>• Two providers were sentenced to 2 years in prison.</li> </ul>

Source: GAO.

Fraudulent payments reduce program funds available for eligible parents who depend on child care assistance to maintain employment or attend education programs. In some states, waiting lists are 1 to 2 years long. Parents on waiting lists said that without child care, they contend with multiple hardships—facing financial difficulties, quitting their job or education program, and worrying about negative effects on their children's development.

In response, many of the states tested noted that they have plans to implement new controls, but expressed concern about associated cost and legal implications. HHS officials commented they have recently taken actions to address issues of CCDF integrity, including issuing program guidance on verification procedures and conducting conference calls on program integrity.