Strengthening Stabilization Grant Integrity with Internal Controls

Overview

The American Rescue Plan (ARP) Act of 2021 was signed on March 11, 2021 and included $23.975 billion in child care stabilization funding. Within the law, the federal government allocated funds to states, territories, and Tribes to award subgrants to eligible qualified child care providers to support the child care sector during and after the COVID-19 public health emergency.

This brief and the Child Care Stabilization Grantee Internal Controls Self-Assessment were developed to guide Lead Agencies when reviewing and evaluating their internal controls and fraud prevention strategies related to the child care stabilization grant. Considerations are provided for a Lead Agency's control environment, control activities, information and communications, improper payments, and fraud prevention. Proactive activities such as internal reviews and evaluation of the current internal controls systems lay a foundation for agencies as they begin to develop their policies, processes, and internal controls specific to the ARP Act stabilization grant program.

Policy and Process Analysis

Development of a new program is an opportunity for Lead Agencies to analyze their policies and processes and discuss programs and options. This can include review and evaluation of all potential alternatives before deciding on the best solution.

Conducting a policy or process analysis prior to implementation can assist in ensuring the agency maintains integrity within the stabilization grant. Internal and external discussions can also provide leverage in creating effective and efficient stabilization grant policies and processes. When establishing a policy or process agenda, Lead Agencies may consider implementing the following activities as part of their analysis:

- Identify current processes, challenges, and needs related to stabilization grant implementation.
- Hold internal and external discussions with staff, stakeholders, providers, and Tribal leadership. Discussions can assist an agency in understanding current processes, challenges, and needs.
- Establish criteria to evaluate stabilization grant policies and procedures.
- Identify possible policies and procedures and alternatives that will meet the stabilization grant objectives of the Lead Agency.
- Evaluate policies and procedures against the stabilization grant requirements and the Lead Agency's administrative and operational capabilities.
- Implement, monitor, and re-evaluate the policies and procedures.

Control Environment

The Lead Agency's control environment includes how leadership, management, and supervisors view and react to ethical values, standards, and codes of conduct. The Lead Agency controls its environment and

ultimately sets the tone, which should include clear expectations at implementation and beyond. Below are a few control environment examples to consider:

- Conduct program integrity and accountability training for staff and providers on the agency's policies, processes, and federal requirements. Include information on adverse action activities for fraud, waste, and abuse.
- Consider including stabilization grant policies and procedures in desk manuals or online in addition to designing e-learning modules for as-needed training opportunities.
- Establish a conflict resolution methodology that does not allow staff to process provider applications of family and friends. The agency should require each staff member working on the stabilization grant to sign a document indicating they understand and will adhere to the policy.
- Delegate roles and responsibilities to staff to provide oversight of the stabilization grant internal control activities. Responsibilities should include timelines for remediation in response to internal control deficiencies and internal control effectiveness reporting.
- Outline and communicate stabilization grant program performance measurements prior to program implementation. By doing so the Lead Agency can gain insight on which internal control activities will work best for the Lead Agency.

Control Activities

Control activities include the Lead Agency's information systems, internal policies, and procedures implemented to respond to stabilization grant risk areas. Control activities should be designed specific to the stabilization grant program objectives. Effective control activities are relevant to the risk areas and allow timely response. Below are few control activities considerations:

- Incorporate a separate second-level review process for stabilization grant provider eligibility determinations and payments. Second-level reviews can either validate or invalidate the recorded transactions. The review also provides insight to whether stabilization grant policies and processes are being followed.
- Develop stabilization grant staff job duties and staffing structure to ensure proper oversight, segregation of duties, and checks and balances.
- Develop a side-by-side comparison tool for internal assessment of the Lead Agency's activities or policies to ensure compliance with Tribal, federal, and state requirements.
- Monitor checks and balances to ensure accuracy and adherence to procedures and program policies.
- Establish fiscal controls and accounting procedures for tracing stabilization grant funds.
- Monitor or review budgets and expenditures for subgrantees to ensure compliance with policy and procedure.

Information and Communication

Information received by a Lead Agency both internally and externally can support program integrity efforts and internal controls. Lead Agencies should clearly communicate the information needed to obtain quality results. Below are a few information and communications considerations:

- Develop partnerships with other agencies through a memorandum of understanding to share data related to providers. A sample memorandum of understanding and guidance can be found in the resource "Sample Inter-Agency Data Sharing Memorandum of Understanding."

- Review data shared from other programs to ensure the information is sufficient in meeting stabilization grant program objectives and goals.

- Use information systems, including data mining and automations, to support the Lead Agency's program integrity efforts and reduce errors. This may include licensing or other systems to confirm information entered on the provider subgrant application. For example, licensing data can verify a provider license status, address, child count, health, and safety compliance, etc.

- Leverage administrative data to conduct accurate and appropriate risk assessments through data mining and data analytics. With this information, the Lead Agency can define red flag reports and system alerts specific to subgrant processing.

- Develop trainings and communications specific to the intended audience that include program requirements and processes for the stabilization subgrants. For example, training for providers may include discussion about allowable stabilization subgrant expenses. Agency staff training may include discussion about allowable expenses and amounts and processing timelines.

Improper Payments and Fraud Prevention

Program administrative and operational changes may increase potential risk areas within a Lead Agency's program. Specific internal controls to reduce improper payments and potential fraud, waste, and abuse should be developed prior to distribution of provider subgrants. Below are a few improper payments and fraud prevention activity considerations:

- Implement a review system that monitors subgrant payments to determine whether costs are reasonable and allowable according to the ARP Act and Office of Child Care program guidance.

- Use risk analysis tools (i.e., Pareto diagram) to provide a data analysis of errors and improper payments.

- Implement procedures for processing suspected fraud claims and recovering fraudulently obtained stabilization grant funds.

Child Care Stabilization Grantee Internal Controls Self-Assessment Instrument

Appendix A contains three assessment sections for Lead Agencies to use in assessing how well their stabilization grant policy and procedure meets regulatory requirements. Each section contains a list of program elements and considerations that grantees may use when reviewing their child care stabilization grant program and the degree to which their internal controls may be effective.

- Section I: Provider Application and Eligibility Elements: Use this section to evaluate current or potential activities against defined criteria for provider application processes and eligibility determinations.

- Section II: Provider Payment Elements: In this section, the Lead Agency will have an opportunity to explore accountability strategies for payment practices, improper payment review and recovery, and error reduction.

- Section III: Prevention Elements: Take a deeper dive into current internal controls to assure they are relevant and timely to prevent fraud, waste, and abuse.

The Lead Agency may use the following approach for assessing each element:

- For each Consideration, discuss and identify the level of implementation (Yes, Mostly, Some, No) and add a brief description explaining the response selected.

- Use the Evaluation Results Findings text box to document any strengths, weaknesses, or areas of concern.

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- Use the Evaluation Results Mitigation and Action Steps text box to identify action steps for addressing any significant findings.
- Assign a Priority Level for completing any mitigation or action steps.
- Select whether Follow Up is needed.

The suggested priority ratings for the assessment are Low, Medium, and High. For example, grantees may rate elements for which the program has significant weaknesses as a High priority. A Medium priority rating suggests that the program meets most of the considerations adequately but there are weaknesses or deficiencies that require corrective action. A Low priority rating indicates the program meets most or all the considerations. Grantees can use the ratings to prioritize action steps or establish a baseline score.

Summary

Understanding the essential parts of an internal control system can assist agencies in understanding what internal control activities will work best for their specific risk areas. Lead Agencies are encouraged to contact their regional office if technical assistance is needed to support their program integrity efforts.

Resource Section

- GAO-14-704G, Standards for Internal Control in the Federal Government
  https://www.gao.gov/assets/gao-14-704g.pdf
- Tribal CCDF Guide to Financial Management, Grants Administration, and Program Accountability
  https://www.acf.hhs.gov/occ/policy-guidance/tribal-ccdf-guide-financial-management-grants-administration-and-program