

93.558	TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF)
93.575	CHILD CARE AND DEVELOPMENT FUND, DISCRETIONARY (CCDF)
93.596	CHILD CARE AND DEVELOPMENT FUND, MANDATORY / MATCH (CCDF)
93.658	FOSTER CARE TITLE IV-E
N/A	SMART START (STATE FUNDS)
N/A	STATE APPROPRIATIONS

State Project/Program: **SUBSIDIZED CHILD CARE PROGRAM**

U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Federal Authorization: 45 Code of Federal Register (CFR) 96, 97, 98, 99, 1355 and 1356: Social Security Administration Section 418 [42 U.S.C.618]; Catalog of Federal Domestic Assistance (CFDA) 93.575, 93.596, 93.658, 93.667, 93.558; 2 CFR, Part 225; 2 CFR, Part 200, Subpart F; NC General Statute (NCGS) 159-34; Title IV-A of the Social Security Act, as amended by the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) (PL 104-193), and subsequent amendments thereto, and codified at 42 United States Code (USC) 601-619; and Temporary Assistance for Needy Families (TANF) Administration for Children and Families (ACF) Policy Announcement (PA) 97-1.

State Authorization: North Carolina General Statutes (NCGS) 110, North Carolina Session Law 2016-94 and 2017-57, North Carolina Session Law 2017-57, 10A North Carolina Administrative Code (NCAC) 10, NCGS 159-34, NCGS 143C-6-23, and NCGS 143B-168.15 (g)

**N. C. Department of Health and Human Services
Division of Child Development and Early Education**

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N. C. DHHS Confirmation Reports:

SFY 2019 audit confirmation reports for payments made to Counties, Local Management Entities (LMEs), Managed Care Organizations (MCO's), Boards of Education, Councils of Government, District Health Departments and DHHS Grant Subrecipients will be available by mid-October at the following web address: <https://www.ncdhhs.gov/about/administrative-offices/office-controller/audit-confirmation-reports>. At this site, click on the link entitled "Audit Confirmation Reports (State Fiscal Year 2018-2019)". Additionally, audit confirmation reports for Nongovernmental entities receiving financial assistance from the DHHS are found at the same website except select "Non-Governmental Audit Confirmation Reports (State Fiscal Years 2017-2019)".

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The Auditor should **not** consider the Supplement to be “safe harbor” for identifying audit procedures to apply in a particular engagement, but the Auditor should be prepared to justify departures from the suggested procedures. The Auditor **can** consider the Supplement a “safe harbor” for identification of compliance requirements to be tested if the Auditor performs reasonable procedures to ensure that the requirements in the Supplement are current. The grantor agency may elect to review audit working papers to determine that audit tests are adequate.

This compliance supplement should be used in conjunction with the OMB 2019 Compliance Supplement which will be issued in the summer. This includes “Part 3 - Compliance Requirements,” for the types that apply, “Part 6 - Internal Control,” and “Part 4 - Agency Program” requirements for the Child Care Development Fund Cluster program. The OMB Compliance Supplement is Section A of the State Compliance Supplement.

Subsidized Child Care Program is a split-eligibility program and the benefit payments are not to be reported on the Schedule of Expenditures of Federal and State Awards (refer to IV. Other Information below). The responsibility of the auditor of the State for auditing eligibility does not relieve the auditor of the other entity (e.g., County) from responsibility for meeting those internal control and compliance audit objectives for eligibility that apply to the other entity’s responsibilities. An exception occurs when the auditor of the other entity confirms with the auditor of the State that certain procedures are not necessary (OMB Compliance Supplement, Part 3, E. Eligibility, Split Eligibility Determination Functions).

I. PROGRAM OBJECTIVES

Using state and federal funds, North Carolina provides subsidized child care assistance to a large number of low income and other needy families through a State-supervised, locally-administered program. Parents may choose the type of provider which best fits their circumstances. The amount the State pays for each child depends on the family’s situation, the family’s income, the cost of the care provided, and the type of public funds from which the payment is made.

The Child Care Development Fund (CCDF) is used to assist low income families by (1) providing child care to parents trying to achieve independence from public assistance who are employed or in education activities and (2) promoting parental choice to empower working parents to make their own decisions on the child care that best suits their family’s needs. The Temporary Assistance for Needy Families (TANF) Program is a Federal block grant program that provides financial assistance to families who meet poverty income guidelines and offers supportive services to help families achieve self-sufficiency. North Carolina’s TANF Program is known as the Work First Program. Work First focuses on employment and economic self-sufficiency, requiring parents to become employed or engaged in job search and/or job training activities. Federal regulations allow States to transfer up to 30% of its TANF funding for a fiscal year to the CCDF or Social Services Block Grant (SSBG) program. North Carolina transfers TANF funds to the CCDF program for use for subsidized child care assistance services. State funds are used to provide child care to families (1) to maintain or seek employment; (2) to attend school or job training activities that lead to employment; (3) to support child protective services (CPS); (4) to meet the developmental needs of children; and (5) to support child welfare services (CWS). The Federal IV-E Foster Care funds are used to provide child care to children who receive out-of-home care for foster parents who are employed until the children are (1) safely returned home, (2) placed permanently with adoptive families or (3) placed in other planned arrangements of permanency. Further details are available on-line and can be accessed at the following web sites:

<http://info.dhhs.state.nc.us/olm/manuals/DCD/ccs/man/>

<https://www2.ncdhhs.gov/info/olm/manuals/dcd/ccs/adm/index.htm>

<https://economicbenefits.nc.gov/>

In addition, funds from the Smart Start Early Childhood Initiative can be used to pay for child care subsidy services. Decisions about the amount of and specific use of the Smart Start funds are made by the local Partnership for Children.

North Carolina Families Accessing Services through Technology (NC FAST) is a statewide case management and payment system. NC FAST will impact several areas of the Subsidized Child Care Assistance Program. NC FAST was implemented in five phases across the state. As of July 1, 2017, four pilot counties were receiving payment through NC FAST. An additional 13 counties were added in the June 2017 service month paid in July 2017. The next 3 phases were implemented in July, August, and November 2017. As of November 2017, all counties in North Carolina were active in NC FAST. When a county became active in NC FAST, new procedures were used. These will be indicated throughout this document.

II. PROGRAM PROCEDURES

The North Carolina Department of Health and Human Services (DHHS) is the parent agency of the Division of Child Development and Early Education (DCDEE). DCDEE regulates early childhood services for all children in North Carolina and oversees the subsidized child care assistance and Pre-Kindergarten programs. This section describes the circumstances which make a family eligible for child care assistance and the types of providers eligible to receive public funds, then summarizes the requirements of each of the funding sources. It is important to note that different funding sources are combined by DCDEE at the State level in a way that makes most of the differences among funding sources transparent at the county level. Program specifics follow:

A. Eligible Children

Subsidized child care assistance may be provided to children for one or more of the following reasons:

1. the child's parents, foster parents, or other adults responsible for the care of the child are working, or are attempting to find work.
2. the child is receiving child protective services and needs child care to remain in his/her own home.
3. the child's parents, foster parents, or other adults responsible for the care of the child are in school or in a job training program.
4. the child is developmentally delayed, or is at risk of being developmentally delayed.
5. the family needs child care to prevent foster care placement, to reunify families or achieve other permanent placement, or to aid families in crisis.

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NOTE: Local Smart Start Partnerships have the option to use Smart Start funds to purchase child care services to support the need for extended education beyond the established timeframe in which non-smart start funds can be expended.

Parents (or the adult responsible for the care of the child) must apply for child care services except in the situation in which care is needed to support child protective services. Parents usually apply for child care services at the county department of social services (DSS). In some counties, the DSS has contracted with another agency to handle the Subsidized Child Care Assistance Program, such as a child care resource and referral agency. These contractors are called Local Purchasing Agencies. (LPA)

If the county DSS or LPA does not have sufficient funding to serve all families who apply for subsidized child care assistance, the agency establishes priorities for services. The CCDF requires the state to prioritize the vulnerable populations of children with special needs and those experiencing homelessness, therefore, these populations are prioritized in all counties. Additional examples of prioritization are, an agency may choose to give priority to families receiving Work First or families who are employed or those who need child care to support child protective services over the other reasons listed above.

If the parent is eligible for child care services, the county DSS or other LPA issues a Child Care Voucher to the parent for each child. The voucher indicates that the child is eligible for a subsidized child care assistance payment (for a period of time not to exceed twelve months from the date of the application) and notifies the provider of the hours care is needed and whether the parent is responsible for paying a parent fee. The parent uses the voucher to select the provider of his/her choice. NC FAST issues vouchers electronically through the Provider Portal. The DSS or LPA will continue to print a voucher for parental signature. [Subsidized Child Care Services Manual: Chapter 9 and Administrative Letter #01-17]

Children who are citizens of the United States and whose parents are not legal residents may be provided child care subsidy assistance. In addition, children with developmental needs and children who need child care to support child protective services or foster care services may receive services regardless of the citizenship or residency status of their families. [Subsidized Child Care Services Manual: Chapter 4 and Administrative Letter #5-17]

B. Family Income

Individuals who need child care assistance must qualify on the basis of income eligibility except for certain situations in which the service is available without regard to income.

Child care services are available without regard to income in the following situations:

1. for children who need child care assistance to support child protective services.
2. for children who need child care assistance and meet eligibility criteria for child welfare services.
3. for children receiving foster care services who are in the custody of a county DSS and have been placed either with an adult other than their parents or in a licensed foster home.

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Child care services shall be provided to all other eligible individuals with regard to income. Income eligibility depends on the number of persons in the family and the amount of the gross monthly income. The maximum income eligibility limit is 200% of the Federal Poverty Level (FPL) for children 0-5 and for children with special needs; and up to 133% FPL for children 6 and older. The parental fee percentages are 10% for families when the child is enrolled in the same child care arrangement and care averages 32 or more hours a week. When the child is enrolled in the same child care arrangement and care averages 1-31 hours a week, the parental fee is multiplied by .75.

At the time of redetermination, the family income shall be compared to 85% State Median Income (SMI). If income is at or below 85% SMI but exceeds the Federal Poverty Levels (133% for school age children or 200% for preschool age children and children with special needs), the family is given a phase out period of 3 months during which child care subsidy services continue with adjustment of the parental fee. Effective November 1, 2018, this phase out period will change to 12 months.

PERCENTAGES FOR SUBSIDIZED CHILD CARE SERVICES EFFECTIVE

April 1, 2017

200% Federal Poverty Level (All children ages 0-5, and All special needs children)

Fee Percentage	10%				
Family Size	1	2	3	4	5
Maximum Gross Monthly Income	\$2,010	\$2,707	\$3,403	\$4,100	\$4,797

Fee Percentage	10%						
Family Size	6	7	8	9	10	11	12
Maximum Gross Monthly Income	\$5,493	\$6,190	\$6,887	\$7,583	\$8,280	\$8,977	\$9,673

133% Federal Poverty Level (All children ages 6-12, No special needs)

Fee Percentage	10%				
Family Size	1	2	3	4	5
Maximum Gross Monthly Income	\$1,337	\$1,800	\$2,263	\$2,727	\$3,190

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Fee Percentage	10%						
Family Size	6	7	8	9	10	11	12
Maximum Gross Monthly Income	\$3,653	\$4,116	\$4,580	\$5,043	\$5,506	\$5,969	\$6,433

85% State Median Income (All children)

Fee Percentage	10%				
Family Size	1	2	3	4	5
Maximum Gross Monthly Income	\$2,578	\$3,372	\$4,165	\$4,958	\$5,752

Fee Percentage	10%						
Family Size	6	7	8	9	10	11	12
Maximum Gross Monthly Income	\$6,545	\$6,694	\$6,843	\$6,991	\$7,140	\$7,289	\$7,438

[Subsidized Child Care Services Manual: Chapters 7 and 8]

C. Eligible Providers

Parents may choose their provider from a variety of types of providers including licensed centers, licensed homes, and religious-sponsored programs. Families with young children who are eligible for Head Start and certain other preschool programs may receive subsidized child care assistance during the parts of the day and year when these programs do not operate. Federal regulations require that, all providers must meet some type of health and safety standards and agree to comply with the standards for the receipt of public funds. The provider will enroll through the NC FAST Provider Portal. The Provider Agreement includes payment policies such as the requirement to submit accurate attendance monthly through the Provider

Portal. Additional requirements include allowing parental access, accepting and electronically signing the Child Care Vouchers, and responding to changes based on the Child Care Action Notices that are sent through the Provider Portal. Providers eligible to receive public funds must be licensed at a 3 to 5 star level or operating with a Notice of Compliance, or a family child care home in the first six months of operation or a child care center with a temporary license, or an out-of-state provider. Providers with a 1 or 2 star rated license are unable to receive public funds. In all situations, the provider must be operating legally. (NCGS 110, 10A NCAC 10)

Subsidized child care funding is also available to North Carolina Pre-Kindergarten (PreK) Programs for eligible children for wraparound care that may be offered by the PreK providers. [Subsidized Child Care Services Manual: Chapter 9 and 19 and Administrative Letter #01-17]

D. Payment Rates

The payment rate structure is based on county market rates. The market rates vary by the age of the child and the type of provider. Market rates are calculated by DCDEE for each county, age group, and type of care (centers and regulated homes). Child care centers and homes can receive higher payments based on their level of star rated license earned.

The payment rate for certain centers and homes meeting minimum licensing standards is the rate charged to private paying parents or the one star market rate, whichever is lower. This policy applies to family child care homes in the first six months of operation or child care centers with temporary licenses, or out-of-state providers.

Centers and homes whose 3-5 star rated license is effective after 9/1/00 can receive the rate charged to private paying parents or the applicable market rate, whichever is lower. In addition, a local partnership has the option to use Smart Start funds to increase the payment rate for children birth through age 5 by making an enhancement payment.

Rates for Certified Developmental Day Programs

Subsidy payment rates for centers that are certified developmental day programs will be established by a cost study conducted by the DHHS Controller's Office. The Subsidy payment amount is the net cost for these centers. These rates are reflected on the Approval Notice for each center. The payment rate for Child Care Centers certified as Development Day Facilities which have not completed a cost study is the private pay rate or the applicable Market Rate, whichever is lower. [Subsidized Child Care Services Manual: Chapter 21]

Rates for Children With Special Needs Who Are Not in Certified Developmental Day Programs

The LPA may pay a supplemental payment above the provider's approved rate for an individual child with special needs who is being mainstreamed into a family child care home or center which serves primarily typically developing children, if additional costs are incurred. This supplemental payment for children with special needs must be documented. All forms must be in the child's record. [Subsidized Child Care Services Manual: Chapter 21]

Transportation Rates and Registration Fees

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Local partnerships for children have the option to use Smart Start funds to pay transportation and facility registration fees.

Market Rates

The market rates currently in effect were implemented in October 2018. The October 2018 can be viewed on DCDEE's website at <https://ncchildcare.ncdhhs.gov/Home/DCDEE-Sections/Subsidy-Services/Market-Rates>.

Funding Sources

Each county receives an annual allocation of State and federal funding from DCDEE for subsidized child care assistance. The amount of funding allocated to each county is determined by a formula described in State legislation. At intervals throughout the year, the allocation of funds may be adjusted when a need for more or less funding is identified. The allocation includes a combination of the following funding sources:

Federal Child Care and Development Fund (CCDF): The CCDF funds designated for subsidy services may be used to pay for child care for children of low income parents who are working, seeking employment, or who are in school or in job-related programs. In addition, a portion of the CCDF funds must be used for activities to improve the quality and availability of child care and include initiatives such as inclusion of children with special needs, expansion of before/after-school child care services, and resource and referral services. These quality activities are referenced in the Compliance Supplement 93.575, CCDBG, CCDF, Child Care Quality and Availability. Some of the CCDF funds require maintenance/level of effort or State match, but these requirements are met at the State level and are transparent at the county level. (CFDA # 93.575 and CFDA # 93.596)

Temporary Assistance for Needy Families (TANF): Federal TANF funds may be utilized to pay for the cost of child care for families who are working. The Administration for Children and Families (ACF), a component of the U. S. Department of Health and Human Services (US DHHS) administers the TANF program on behalf of the Federal Government. States, through a grant award process, may be eligible for TANF funding, which has significant flexibility. North Carolina's Work First Program provides time-limited assistance to needy families with children so that the children may be cared for in appropriate child care settings. (CFDA # 93.558 TANF-ACF-PA-97-1, January 31, 1997)

State Child Care Funds: State child care funds are appropriated annually by the General Assembly and are used to care for a child for any of the reasons listed in **Section II Program Procedures, Part A, under Eligible Children** (NCGS 143C-6-23).

State Smart Start Child Care Funds:

State Smart Start Funds are **not** included in mix of funds allocated by the formula mandated by legislation. State legislation requires Smart Start local partnerships for children to use not less than 30% of their Smart Start allocation for direct services to expand subsidies. Many of the partnerships allocate some or all of their subsidy requirement to their local Department of Social Services or other local purchasing agency. Each partnership determines its own eligibility criteria for these funds. Counties have used these funds in a variety of ways, such as to serve populations that are not eligible for the State child care subsidy assistance program, to expand income eligibility, and to increase payment rates to providers who meet higher

licensing or accreditation standards. Smart Start expenditures are available on the Child Payment Reimbursement Report in Client Services Data Warehouse (CSDW). The local agency should be able to document when Smart Start funds are used outside of DCDEE's policy. (G. S. 143B-168.15g)

Federal Title IV-E Foster Care Funds: The Title IV-E funds designated for subsidy services may be used to pay for child care for children in foster care whose foster parents are working (CFDA # 93.658, 42 U.S.C. 672, 674, and 675; 45 CFR 1356.60).

III. COMPLIANCE REQUIREMENTS

NOTE: Certain administrative costs for this program are reported on the DSS-1571 report. For this reason, see the “Cross-Cutting Section D, Division of Social Services Supplement” for the State’s General Compliance Requirement.

This part specifies the compliance requirements related to subsidized child care assistance that must be considered of all Federal and State monies received by the local agency through DCDEE.

The compliance requirements are also for funds distributed through a contractual agreement with nongovernmental recipients requiring an audit in accordance with 2 CFR, Part 200, Subpart F and/or NCGS 143C-6-23, and further explained in Audit Advisory Number 2 issued by the Office of the State Auditor. Agreements entered into by child care providers who participate in the subsidized child care program may be referred to in this document as Child Care Provider Agreements.

The procedures described in this audit compliance supplement are to be used by local auditors to test the compliance aspects of the child care program administered by DCDEE or contracted by either the county DSS or DCDEE. These are not the only procedures an auditor may use and are not included here as mandatory procedures. Auditors may use any procedure that they choose to decide the extent of reviews and tests performed and to determine such things as adequacy, timeliness, etc., as long as it supports his or her comments regarding compliance or noncompliance with the specified requirements for the items tested.

Auditors should examine more closely agencies where key direct and administrative staff positions are not filled with technically or professionally trained staff for those positions, and/or where staff has limited experience. Auditors should investigate more closely agencies whose reporting reflects significant discrepancies or omissions. SSBG (CFDA # 93.667) is exempt from the provisions of the 2 CFR, Part 215.

NOTE: The **Subsidized Child Care Services Manual**, revised October 2002 and subsequent Administrative Letters, as well as the Integrated Eligibility Manual contain the policies which apply during the SFY July 2017 - June 2018.

A. ACTIVITIES ALLOWED OR UNALLOWED

1. Allowable Services

The Subsidized Child Care Assistance Program provides financial assistance to help parents pay for child care services. A description of the services allowed are as follows:

“Child care services means the provision of protection, care and developmental experiences to children ages birth to 18 years, for a portion of a day but less than 24 hours, in the child’s own home, in the home of a caregiver, or in a child care center. Each type of care arrangement shall meet all state and federal standards applicable to such arrangements. Services include providing information to families and the community about what constitutes a good child care experience and assisting eligible families as needed in the cost of purchasing the child care service consistent with State policies”. [10A NCAC 0103 10.0903]

NOTE: Local partnerships for children have the option to use Smart Start funds to pay for transportation and facility registration fees.

An LPA (e.g., DSS or contractor) may either contract for the provision of services or provide the services directly.

2. Allowable Provider Arrangements

Arrangements serving subsidized children must be legally operating and approved by the State for participation. Allowable providers include the following:

- a. Licensed Center:** A center which has been issued a 3-5star license or Notice of Compliance by DCDEE to provide child care services. Child care centers with a temporary license can also receive payment at the 1 star level. Also, child care centers that have had a location or ownership change will be paid at the previous star rating for first six months.
- b. Licensed Family Child Care Home (FCCH):** A home which is issued a 3-5 star license or Notice of Compliance by DCDEE to provide child care services. During the first 6 months of operation, FCCHs can receive payment at the 1 star level.
- c. Summer Day Camp:** A seasonal recreational program which operates for less than 4 consecutive months a year. In order to receive subsidy funds, the program must be licensed.
- d. Religious-sponsored Program:** A program that operates under a religious charter and that receives a Notice of Compliance in accordance with North Carolina G. S. 110-106.
- e. Out-of-state provider:** A provider operating legally in another state which provides care for a child(ren) due to extenuating circumstances, such as (a) a child in custody of a DSS and living in another state with a relative or (b) a parent who commutes to an employment location which is in another state and requests child care near the employment location.

DCDEE approves the out-of-state providers based upon information submitted by the provider.

All child care providers must be enrolled in the Subsidized Child Care Assistance Program before they receive their first payment for services rendered. Providers now enroll through the NC FAST Provider Portal and the DCD-0451 is no longer necessary. [Application for Enrollment to Be a Provider of Subsidized Child Care (DCD-0451)]

Compliance Requirement - Child care services must be provided only in child care arrangements which have been approved by the State for participation in the Subsidized Child Care Assistance Program. The provider must review and sign the Child Care Provider Agreement (DCD-0452) once per calendar year. In NC FAST, enrollment is completed through the Provider Portal. The provider enrollment process is to determine if the provider selected by the parent is operating legally and to collect rate information from the provider in order to determine the allowable subsidy payment rates. In addition, the issuance of an Approval Notice by the Division or NC FAST is required for all providers except out-of-state providers. County staff access an electronic copy of the Approval Notice in NC FAST.

Compliance Requirement – All providers participating in the Subsidized Child Care Assistance Program must electronically sign the Provider Agreement in the Provider Portal to demonstrate that the provider has read the Agreement and understands the requirements and payment policies. Having a copy of the Agreement on file in the provider's facility is not a condition of payment.

B. ALLOWABLE COSTS/COST PRINCIPLES

As a State agency of the North Carolina DHHS, DCDEE has adopted Federal allowable cost principles in 2 CFR Part 200, Subpart E for the determination of allowable costs. All grantees that expend State funds (including federal funds passed through the N. C. Department of Health and Human Services) are required to comply with the cost principles described in the N. C. Administrative Code at 09 NCAC 03M .0201 which requires expenditures to adhere to cost principles outlined in 2 CFR Part 200.

E. ELIGIBILITY

The objective is to ascertain if the agency has correctly determined and documented recipient eligibility. It must be determined that all documents necessary for the determination of eligibility are being completed adequately and the required information is being used in the recipient's eligibility determination. Further details are provided in Section N – Special Tests and Provisions.

To be eligible for child care services, a family must meet both the need and income eligibility criteria.

1. Need Test

Child care is viewed as a supportive service for children and families; it often allows family members to accomplish their personal goals which are directly related to their need for child care. If funds and resources are available, LPAs **must** provide child care services for the following:

- a.** Children whose parents, foster parents, or other adults responsible for the care of the child need child care in order **to maintain or seek employment**.
- b.** Children who need child care assistance **to support child protective services (CPS)** in order to remain in their own home.

- c. Children whose parents, foster parents, or other adults responsible for the care of the child need child care **to attend school or job training activities that lead to employment.**
- d. **To meet the developmental needs of children** whose emotional, cognitive, social or physical development is delayed or at risk of delay.
- e. **To support child welfare services (CWS)** for families who need child care assistance to prevent or remedy problems that may result in the neglect or abuse of children, to prevent foster care placement, to support family reunification, and to help families in crisis.

Other eligibility criteria may be established by local Smart Start partnerships for children. In order to provide services for reasons other than those listed above, the criteria must be described in the Memorandum of Understanding agreement between the LPA and the local partnership or other written documents (e.g., copy of Smart Start plan).

Compliance Requirement – All children must need care for one of the reasons specified above. Verification of income for cases which require income eligibility and all documentation on the need for child care should be in in NC FAST for all families and children receiving assistance. The recipient record should also document the need by citing the responsible adult's hours of school and/or work, or information to support CPS, CWS, or developmental needs. [Subsidized Child Care Services Manual: Chapter 5]

2. Income Test

Individuals who need child care services must qualify on the basis of income eligibility except for certain situations in which the service is available without regard to income. (See Section II. B above.)

Child care services are available **without regard to income** in the following situations:

- a. For children who need child care services **to support child protective services** as long as the family continues to receive child protective services and the child remains in his/her own home.
- b. For children who need child care services and meet eligibility criteria **for child welfare services**, in an effort to prevent foster care, reunite the family, and help families in crisis.
- c. For children receiving **foster care services** who are in the custody of a county department of social services and have been placed either with an adult other than their parents or in a licensed foster home.

Child care services shall be provided to all other individuals with regard to income, provided the gross income does not exceed the State's maximum income eligibility limit for the number of persons in that income unit. At redetermination of eligibility, if the family's income is between the State income limits and 85% of State Median Income, the family will continue to receive care for a graduated phase out period of 3 months. Effective November 1, 2018, this graduated phase out period will change to 12 months.

Compliance Requirement – Children who are determined eligible for child care to support the employment of parents, training to enable the parent to become employed, and developmental needs must be determined eligible based on income. This must be verified by acceptable forms of income verification such as but not limited to check stubs, written statement from or telephone call to employers, award letters (Social Security, Veteran's Administration Benefits, etc.), or business records and/or tax records for self-employment. A written statement describing the source document that was reviewed to verify income or a copy of the source document is maintained in the child care record. In NC FAST, the Verification Method Hierarchy will be 1) using online verification (OVS), 2) other methods only if there is a discrepancy or if electronic verification is not available, and 3) verifications that reasonably establish eligibility. [Subsidized Child Care Services Manual: Chapter 7 & Integrated Eligibility Manual (IEM) 4050.3]

3. Other Tests

If child care services are demonstrated to be allowable based on need and income criteria, the following requirements must be met:

a. Residency

The applicant requesting child care must be a **resident of North Carolina**.

Exception: The residency requirement **does not** apply in some situations:

- (1) Child protective services cases under the terms of interstate compacts; or
- (2) In response to court orders.

b. Citizenship

One of the following citizenship criteria must be met:

- (1) Child is a U.S. Citizen; or
- (2) Child is a legal U.S. Non-Citizen (residing in the U.S. legally) and need and income criteria are met; or
- (3) Non-citizen children who are not legal U.S. residents may receive services in the following instances, if all other eligibility criteria are met:
 - (a) If the child needs child care to support child protective services or the child is receiving foster care services; or
 - (b) If the child needs child care to support his/her developmental needs.

c. Age

Child care services may be provided to children **through age 17**. However, requests for services for children ages 13 through 17 must be carefully evaluated to determine the need for care. Some examples of instances in which services for teenagers may be provided include the following: the teen has a special need; is under court-ordered

supervision; is receiving child protective services or foster care services; or the child would be left in an unsafe situation if care is not provided.

When the reason selection of Special Needs in NC FAST is used to reflect that a child has special needs, documentation of the special need must exist in the case record and special needs evidence must be keyed into NC FAST. The acceptable forms of documentation include the Referral for Child Care-Children with Special Needs form (DCD-0093), or the current Service Delivery Page of the Individualized Family Service Plan (IFSP), Individualized Education Program (IEP), 504 plan, or Person Centered Plan (PCP). [Subsidized Child Care Services Manual: Chapter 6; 10A NCAC 10 .0910]

Compliance Requirement – Children authorized for payment must be determined eligible by the LPA for the entire period for which the provider is paid. Recipient files may be checked to determine that proper documents are located there, with proper signatures and due dates. The electronic application in NC FAST or the Application for Child Care Services (DCD-0456), when needed, and eligibility documentation must be current every twelve months and on file for each child enrolled and authorized for payment. In addition, the current Child Care Voucher (DCD-0446) must be on file for each child enrolled and authorized for payment. In NC FAST, these forms are maintained electronically. If changes occur during the twelve (12) month eligibility period, the Child Care Action Notice (DCD-0450) must be on file which is also maintained electronically in NC FAST. The electronic application is completed in NC FAST by the child care worker. Exceptions to this are only when Foster Care referrals are received by the child care worker and when a recipient completes a mail-in application. In these cases, the DCD-0456 is utilized and subsequently entered into NC FAST.

G. MATCHING, LEVEL OF EFFORT, EARMARKING

The Federal requirements for TANF and CCDF have matching, maintenance/level of effort, and earmarking requirements. At the local agency level, however, all of these requirements are transparent because the requirements are met at the State level. The local auditor, therefore, does not have to be concerned with matching, maintenance/level of effort, or earmarking requirements.

H. PERIOD OF PERFORMANCE

Compliance Requirement – Funds are available for expenditure by counties during the State fiscal year (July 1-June 30) for which they are allocated to the county.

M. SUBRECIPIENT MONITORING

Staff from the Subsidy Services Section of DCDEE conduct monitoring of the Subsidized Child Care Assistance Program administered by county DSS and other LPAs. It would be appropriate for an auditor to request the most recent monitoring report of a local program. In addition, even if another program of the agency has been monitored during the year, it would be appropriate for an auditor to peruse other monitoring reports to note if any internal control problems are cited. For purposes of monitoring, child care providers are not considered to be subrecipients.

N. SPECIAL TESTS AND PROVISIONS

The objective is to reduce fraud and stop payment for ineligible recipients. Therefore, accurate documents and records must be maintained.

1. Application for Child Care Assistance Services (DCD-0456)

Compliance Requirement – In order for a child to receive child care services, an application must be completed with the local DSS or other LPAs. The application is used to determine accurately and completely the information used in deeming a child or family eligible for services.

There must be a determination that the income unit is correct, the countable income is verified and computed correctly, and that the fee is correct. A family fee is based on the family's gross monthly countable income, not on the type of child care arrangement. If there are multiple children in care, the family fee is assessed to the child receiving the greatest number of hours of care. Usually this is the youngest child in the family. The Intake Application and Your Signature and Statement of Understanding form must be signed and dated. The eligibility period must begin with the date of initial application if eligibility is determined within 30 days of application. Eligibility periods extend for a twelve (12) month period. The DSS Child Care Subsidy Recertification Notice must be completed and signed annually before the twelve (12) month certification periods ends. The redetermination of eligibility must be completed within 30 days of the applicant's signature on the application or Recertification Notice. The application or Recertification Notice must be signed and dated by the local worker.

The narrative document should support the need for care, plan of care, special needs of the child, need for a supplemental payment, and/or care for a child 13 years or older, if applicable. The narrative should reflect the date the information was received and the initials of the person entering the information. If narrative documentation is entered in NC FAST, the worker is identified systematically. [Subsidized Child Care Services Manual: Chapters 4 and 5]

Suggested Audit Procedures – Test a sample of child care records for evidence that the Application for Child Care Services was processed within thirty (30) days, including documentation that income was verified and documentation is included in the file, that approval dates are correct and that the fee is assigned correctly.

Audit Objective – To determine that appropriate application procedures are followed and eligibility for services are determined accurately and completely.

2. Child Care Voucher (DCD-0446)

Compliance Requirement – All individuals deemed eligible for child care services receive a voucher for the service at the initial application or when choosing a new provider.

The primary purpose of the voucher is to assure maximum opportunity for parents to select the type of child care arrangements they prefer as well as the child care provider for their child. [Subsidized Child Care Services Manual: Chapter 9]

Suggested Audit Procedures – Test a sample of child care records for evidence that the voucher has been issued for each child at the time of initial determination of eligibility for child care and at the time of a change in provider. Each child will receive his/her own voucher in NC FAST.

Verify by a sample that the voucher is signed in the Provider Portal within thirty (30) calendar days from the date of issuance. Otherwise, another voucher must be issued.

Verify by a sample that the vouchers indicate the correct eligibility period for services, parent fee amount, date parent fee began, days and hours that care is needed, type of care, and that the voucher is signed and dated by all participating parties (typically the parent and provider). The Provider's signature will be electronic in the NC FAST Provider Portal. [Subsidized Child Care Services Manual: Chapter 9 and Administrative Letter #01-17]

Audit Objective – To ensure that vouchers are being issued appropriately for children to receive child care.

3. Child Care Action Notice (DCD-0450)

Compliance Requirement – This form is used as notice to inform a family when a change is about to take place related to the provision of subsidy services. If the change does not affect the child's or family's eligibility, plan of care or parent fee, it is not necessary to send the Child Care Action Notice to the parent and provider. NC FAST generates Child Care Action Notices and the local purchasing agency mails the notices to the provider and recipient. Examples of actions are redetermination of eligibility, termination of services, and change of fee.

Suggested Audit Procedures – Test a sample of child care records for evidence that the action notices correctly document changes; such as redetermination of eligibility corresponding to the Application for Child Care, including documentation of fee changes or termination of child care. [Subsidized Child Care Services Manual: Chapter 11]

Audit Objective – To determine if action notices are being provided appropriately when changes in child care occur.

4. Payment for Care

- a. **Compliance Requirement** – The DCD-0452, Child Care Provider Agreement, is the form that ALL providers must complete annually.

The Approval Notice is a form generated in NC FAST for review. The Approval Notice indicates the payment rate that the provider will receive which is either the market rate or private pay rate; whichever is lower. The Approval Notice provides notification to the local purchasing agency that the provider has been approved to receive subsidy funds.

Suggested Audit Procedures – Test a sample of provider files for evidence that enrollment was completed through the NC FAST Provider Portal. Determine that the current Approval Notice is available electronically in NC FAST. In NC FAST,

providers will enroll through the Provider Portal which will allow the provider to receive payment for services delivered to children from any county. Verify that current rates charged by the provider are in the Provider Portal and that the payment is correct. Verify that providers submit monthly attendance records and that payment is not made for excessive absences (over ten per month). If absences are more than 10 but less than 30 days per month, there must be documented approval by the LPA. If the absences exceed 30 consecutive days, a statement of approval received from DCDEE must be in the record.

Audit Objective – To determine that current Approval Notices and rates charged by the provider are present and on file, with appropriate payments being made to providers.

5. Provider Records

Compliance Requirements – The local purchasing agency and/or the record within NC FAST must have on file the following:

1. a current Subsidized Child Care Assistance Program Provider Agreement (within NC FAST);
2. a copy of the LPA's local Waiting List policies (on file with LPA);
3. the current rates charged to private-paying parents (within NC FAST).

Appropriate administrative records shall be maintained for each provider of services for children receiving subsidized child care funding. Payment records are maintained in NC FAST.

The Subsidized Child Care Assistance Program Provider Agreement must be electronically signed once per calendar year. The purpose of the Provider Agreement is to make the provider aware of the payment policies and procedures and other requirements for participation.

Suggested Audit Procedures – Test a sample of the child care provider records and verify that the required documents and information is available .

Audit Objective – To determine whether child care provider records are being properly maintained NC FAST and proper payments are being made.

IV. OTHER INFORMATION

The Office of State Auditors has determined that the direct benefit payments (i.e. payments for programs in which the County Department of Social Services (DSS) determines eligibility and the benefits are paid directly by the state to the participant) should only be reflected on the State's Schedule of Expenditures of Federal Awards (SEFA). Therefore, these direct benefit payments will NOT be shown on the County's Schedule of Expenditures of Federal and State Awards (SEFSA). Programs with direct benefit payments that are affected include: Medical Assistance (93.778), Children's Health Insurance Program (93.767), Temporary Assistance to Needy Families, Work First (93.558), Women, Infants, and Children (10.557), Adoption Assistance (93.659), Subsidized Child Care, and State/County Special Assistance for Adults.

