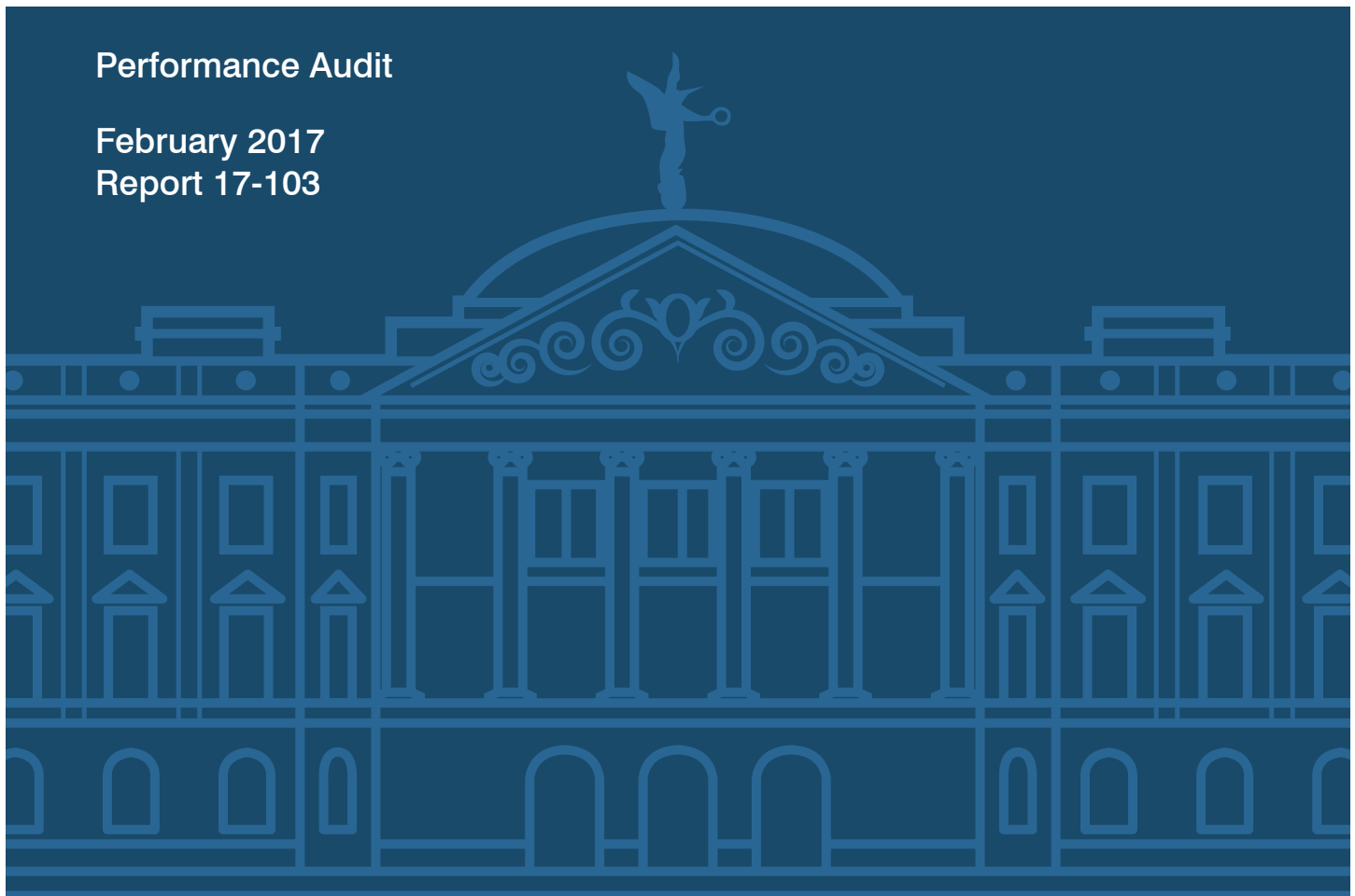


# Arizona Department of Economic Security Child Care Services

Department should improve its child care provider monitoring and complaint-handling processes and examine consolidating child care regulation under one agency

Performance Audit

February 2017  
Report 17-103



A Report to the Arizona Legislature

Debra K. Davenport  
Auditor General





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February 15, 2017

Members of the Arizona Legislature

The Honorable Doug Ducey, Governor

Henry Darwin, Interim Director  
Arizona Department of Economic Security

Transmitted herewith is a report of the Auditor General, *A Performance Audit of the Arizona Department of Economic Security—Child Care Services*. This report is in response to an October 22, 2014, resolution of the Joint Legislative Audit Committee. The performance audit was conducted as part of the sunset review process prescribed in Arizona Revised Statutes §41-2951 et seq. I am also transmitting within this report a copy of the Report Highlights for this audit to provide a quick summary for your convenience.

As outlined in its response, the Department agrees with all of the findings and plans to implement or implement in a different manner all of the recommendations.

My staff and I will be pleased to discuss or clarify items in the report.

Sincerely,

Debbie Davenport  
Auditor General

Attachment



## Arizona Department of Economic Security Child Care Services

**CONCLUSION:** The Arizona Department of Economic Security (Department) is responsible for establishing and administering child care services, including providing a child care subsidy for eligible families, certifying and monitoring child care home providers who are not regulated by the Arizona Department of Health Services (DHS), and developing and implementing services to increase child care affordability, availability, and quality. We found that the Department did not always conduct two required comprehensive on-site inspections annually of each child care home provider (provider) in calendar years 2012 through 2014. Department inspectors also did not consistently assess provider compliance with child care requirements during inspections. Additionally, we found that although the Department is required to investigate and resolve complaints and provide information on valid complaints to the public, it has not established procedures to effectively receive, investigate, and monitor complaints. Finally, the Department and DHS share responsibility for child care regulation in Arizona, and consolidating this responsibility under one agency could potentially improve the economy and efficiency of child care regulation in the State.

### Child care eligibility and settings

The Department provides a child care subsidy for eligible families that helps pay for child care costs and enables parents to participate in employment and specific education and training activities related to employment. Eligible families include those enrolled in the Temporary Assistance for Needy Families (TANF) cash assistance program; transitioning off TANF; or caring for children under the supervision of the Arizona Department of Child Safety or developmentally disabled children under department supervision; and, when funding is available, qualified low-income families with incomes below 165 percent of the federal poverty level, which was \$33,264 for a family of three in 2016. During September 2016, the Department provided subsidized child care for approximately 30,000 children but also had a waiting list of approximately 3,500 families. Eligible families must use one of four types of child care providers that the Department or DHS regulates (see textbox).

- **Child care home providers** care for up to four children for compensation in the provider's home.
- **Child care in-home providers** care for up to four children for compensation in the children's own home.
- **Child care centers** care for more than four children for compensation in a nonresidential facility.
- **Child care group home providers** care for five to ten children for compensation in the provider's home.

### Department should strengthen its child care monitoring

**Department monitors providers to ensure compliance with health and safety requirements—**The Department must certify and monitor child care home providers who care for children of eligible families. Once a provider is certified, the Department conducts a variety of on-site inspections, and in fiscal year 2015, the Department conducted 1,569 inspections. Inspectors use a checklist of more than 130 items to assess compliance with various state health and safety requirements, such as whether toxic chemicals are appropriately stored and toys are appropriate. When noncompliance is identified, the Department may take progressive enforcement actions against the provider.

**Department should develop and implement a differential monitoring approach—**The Department is required to conduct two inspections annually for each provider—an announced annual and an unannounced monitoring inspection—regardless of the provider's compliance history. However, we analyzed the Department's inspection data for 600 providers who were active and had at least one annual inspection period beginning in calendar years 2012, 2013, and/or 2014 and found that between 15 and 18 percent of those providers did not receive at least one of the annually required inspections. Although the Department did not comply with its two-inspection-per-year requirement, this requirement exceeds the federal requirement of one on-site inspection per year.

According to a 2015 federal report on innovations in monitoring, a blanket monitoring system that treats all providers equally can be inefficient, and a better approach bases monitoring and oversight of providers on their past performance

or on an assessment of risk for noncompliance with standards. The report notes that such differential monitoring approaches are consistent with recommended best practices and are being used by other states.

**Department should ensure inspections are consistently performed**—It is important that inspectors assess provider compliance in a consistent manner to ensure equitable treatment of providers and the health and safety of children. However, we observed five inspections conducted by three different inspectors during March and April 2016 and identified various inconsistencies with how inspectors ensured providers' compliance with requirements, such as the providers having a working fire extinguisher that they know how to operate. Neither department rule nor policy specifies how to assess compliance with this requirement. We also reviewed one inspection checklist for 12 randomly selected providers to assess inspectors' completion of the checklist and identified problems with 7 of the 12 checklists, such as items being marked as both compliant and noncompliant. Limitations with the Department's training for new inspectors and limited guidance in its rules and policies manual have contributed to the inconsistently performed inspections.

## Recommendations

The Department should:

- Implement a differential monitoring approach to more effectively and efficiently monitor its providers;
- Develop and implement a structured training program for new inspectors; and
- Enhance its rules and policies manual to help ensure inspectors perform inspections consistently.

## Department should improve its child care provider complaint-handling process

The Department is required to receive, investigate, and resolve complaints against child care home providers, but it has not developed and implemented adequate procedures to guide all the steps in its complaint-handling process. For example, the Department lacks an adequate intake process, which should include providing information to the public about how to file a complaint. The Department also does not have a centralized electronic log for recording key complaint information such as the date, time, and place of an incident and the complainant's contact information. Without such a log, the Department is at risk for some complaints not being documented, investigated, and/or resolved, and it cannot easily track complaints or analyze complaint trends. Additionally, although the Department's complaint-handling policy indicates that inspectors should conduct on-site investigations for specific complaints and may interview pertinent individuals, the policy does not specify what investigative activities are required, such as what type of documentation should be obtained and reviewed. The policy also does not include adequate guidance regarding what disciplinary actions should be taken based on the violations found or how to follow up with providers and complainants.

## Recommendations

The Department should:

- Include information about how to file a complaint and the complaint-handling process on its website;
- Modify its data system to capture complaint information; and
- Develop and implement policies and procedures for complaint investigations, enforcement processes, and follow-up activities.

## Department should examine costs and benefits of consolidating child care regulation under one agency

The Department and DHS share responsibility for regulating child care providers, although each regulates different types of child care providers. Specifically, the Department regulates providers caring for four children or less in the provider's or children's home, and DHS regulates nonresidential child care centers and group homes. However, they perform many of the same regulatory responsibilities, such as establishing standards and requirements to ensure child health and safety and conducting inspections. In contrast, at least 31 states and the District of Columbia have a single agency that regulates child care centers, group homes, and family homes.

## Recommendation

The Department should work with DHS and stakeholders to examine the costs and benefits of consolidating their child care regulatory functions.



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## Scope and objectives

The Office of the Auditor General has conducted a performance audit of the Arizona Department of Economic Security (Department)—Child Care Services, pursuant to an October 22, 2014, resolution of the Joint Legislative Audit Committee. This audit is the second in a series of five audits conducted as part of the sunset review process prescribed in Arizona Revised Statutes (A.R.S.) §41-2951 et seq. This audit presents findings and recommendations in the following areas:

- Monitoring of certified child care home providers (Finding 1);
- Child care services complaint-handling process (Finding 2);
- The costs and benefits of consolidating child care regulation under one agency (Finding 3); and
- Child care services process for managing the child care waiting list (Finding 4).

The first audit addressed the Department's processes for managing its Vocational Rehabilitation Services Program service costs and clients' progress, while the remaining department audits will focus on information technology security, licensing and oversight of homes for the developmentally disabled, and the statutory sunset factors.

## Department administers child care services, including Arizona's child care subsidy program

According to A.R.S. §46-802, the Department is responsible for establishing and administering child care services. These services include:

- **Assisting eligible families with child care costs**—The Department provides a child care subsidy for eligible families that helps pay for child care costs and enables parents to participate in employment and specific education and training activities related to employment or in certain other circumstances when parents are unable to provide care, such as when a child is in foster care. According to a department report, in fiscal year 2016, the Department subsidized child care costs for an average of 30,000 children each month. The average monthly subsidy payment was \$359, which the Department pays directly to the child care provider (see following bullet for more information on providers). The State's child care reimbursement rates vary by factors, including child age, provider type, number of care hours, and geographic areas. Table 1, page 2, shows the range of maximum reimbursement rates for full-day care, i.e., 6 hours or more, by provider type and child age group.<sup>1</sup>
- **Regulating child care home providers**—The Department and the Arizona Department of Health Services (DHS) share regulation of child care providers based on the provider type (see Finding 3, pages 29 through 34, for more information). The Department certifies child care home providers not required to be licensed by DHS and monitors them for compliance with health and safety guidelines to ensure an adequate supply of available child care provider options for eligible families. According to department records, as of September

<sup>1</sup> The Department has established tiered reimbursement rates to increase payment rates for targeted needs, such as for child care providers that serve children with special care needs. Additionally, the Department provides an enhanced rate to providers that are nationally accredited to encourage more providers to become accredited and to make higher quality child care available to children receiving the subsidy.

**Table 1**

**Lowest and highest maximum daily full-day child care reimbursement rates across Arizona by provider type and child age group<sup>1</sup>**  
**Fiscal year 2016**

Provider type and child age group <sup>2</sup>	Low and high maximum daily full-day reimbursement rates across the State <sup>3,4</sup>	
	Low	High
<b>Child care centers</b>		
Less than 1 year	\$21.00	\$32.00
1 year to less than 3 years	19.00	28.00
3 years to less than 6 years	18.00	23.80
6 years to less than 13 years	17.00	23.40
<b>Child care group homes</b>		
Less than 1 year	19.00	24.00
1 year to less than 3 years	18.00	22.00
3 years to less than 6 years	18.00	22.00
6 years to less than 13 years	17.00	20.00
<b>Child care homes and in-home providers</b>		
Less than 1 year	18.00	20.00
1 year to less than 3 years	17.00	20.00
3 years to less than 6 years	16.00	18.00
6 years to less than 13 years	16.00	18.00

<sup>1</sup> Rates vary across the State by geographic area. The Department defines six local areas based on geographic proximity and characteristics as “districts.” The districts consist of the following counties: District 1—Maricopa; District 2—Pima; District 3—Apache, Coconino, Navajo, and Yavapai; District 4—La Paz, Mohave, and Yuma; District 5—Gila and Pinal; and District 6—Cochise, Graham, Greenlee, and Santa Cruz. Each district has maximum reimbursement rates for each provider type and child age group.

<sup>2</sup> Full-day payment rates for noncertified relative providers is \$10.50, minus any department-designated copayment. This rate is applicable state-wide for care provided to children of all ages.

<sup>3</sup> The maximum reimbursement rate is the highest reimbursement rate that each district may pay or allow for each provider type and child age group.

<sup>4</sup> The actual reimbursement amount is equal to the reimbursement rate minus any department-designated copayment (see page 4 for a discussion of the copayment). However, in no event shall the amount reimbursed exceed the lesser of the provider’s actual charges or the maximum reimbursement rate minus any department-designated copayment.

Source: Auditor General staff analysis of the department-prepared *Annual Joint Legislative Budget Committee Child Care Report for the Period July 1, 2015–June 30, 2016*.

2016, the Department certified 490 child care home and in-home providers (see pages 4 through 5 for more information on the different child care provider types).

- **Supporting child care in Arizona**—The Department develops and implements services to increase child care affordability, availability, and quality offered in Arizona. For example, using federal Child Care and Development Fund (CCDF) monies, the Department contracted for a self-study project designed to improve the child care quality in centers, family care homes, and after-school programs by providing participants with on-site professional development training and technical assistance at no cost (see Appendix A, pages a-1 through a-2, for a description of these monies and their allowable use). The Department also contracts for child care resource and referral services to provide assistance to families, providers, and the community at no charge through a toll-free phone number and the internet. These resource and referral services include free child care referrals, guidelines on finding quality child care, and a quarterly newsletter including information on upcoming trainings that meet annual training requirements for child care providers.

## Several child care options available to families qualified for child care subsidy

Families are able to choose the child care setting for their children after the Department has determined the family to be eligible. To qualify for the child care subsidy, families must meet certain eligibility criteria. Once determined eligible for the subsidy, families may select from several types of child care providers to care for their children.

**Families must meet various requirements to qualify for the child care subsidy**—The child care subsidy is available to families with children who meet the requirements of one of four categories. See Table 2 for a description of the categories and fiscal year 2016 participant numbers. Specifically, assistance in paying for child care costs is available to those families (1) enrolled in Temporary Assistance for Needy Families (TANF); (2) transitioning off TANF; or (3) caring for children under the supervision of the Arizona Department of Child Safety (DCS) or developmentally disabled children under the supervision of the Department; and, (4) when funding is available, qualified low-income families with incomes below 165 percent of the federal poverty level, which in 2016 for a family of three was \$33,264.<sup>2,3</sup> The Department has not received enough funding to serve all families that fall into this fourth category, so as statutorily required, it has established a waiting list. According to the Department, as of September 2016, approximately 3,500 families were on its waiting list (see Finding 4, pages 35 through 38, for more information on the waiting list).

**Table 2**  
**Department child care subsidy eligibility categories and average monthly participants**  
**Fiscal year 2016**

Eligibility category	Description	Average monthly number of families	Average monthly number of children
TANF	TANF clients engaged in employment activities. There is no copayment required.	1,138	2,126
Transitional	TANF clients who are working but make less than 165 percent of the federal poverty level. Assistance may be provided for up to 24 months. A copayment is required for only the first three children.	2,484	4,918
Protective services	Foster families and relatives caring for children under the DCS' supervision and foster parents of developmentally disabled children under the supervision of the Department. There is no copayment required.	5,855	9,903
Low-income <sup>1</sup>	Teen parents in school, parents in homeless shelters, and working low-income families. These families, which are limited to six eligible children at any given time, have a 60-month lifetime limit for each eligible child. A copayment is required for each eligible child.	6,837	13,053
<b>Total</b>		<b>16,314</b>	<b>30,000</b>

<sup>1</sup> Laws 2016, Ch. 117, §35, indicates that it is the Legislature's intent that the combined number of children authorized for the low-income working population be maintained throughout the year at a minimum of 8,500 children.

Source: Auditor General staff analysis of A.R.S. §46-803(A)-(F) and the department-prepared *Annual Joint Legislative Budget Committee Child Care Report for the Period July 1, 2015–June 30, 2016*.

<sup>2</sup> Arizona's TANF cash assistance program provides temporary cash benefits and supportive services. Eligibility is based on citizenship or qualified noncitizen resident status, Arizona residency, and limits on resources and monthly income. Unless exempt, adults receiving Arizona TANF cash assistance must participate in the State's mandatory employment and training program, which engages individuals in various work-related activities to improve their employability skills. In Arizona, a TANF recipient and his/her spouse may receive no more than 12 months of cash benefits for themselves or on behalf of a child, except in cases of hardship.

<sup>3</sup> The income amount reported for a family of three was calculated using the 2016 federal poverty guidelines updated periodically in the federal register by the U.S. Department of Health and Human Services under the authority of 42 United States Code 9902(2).

In addition to belonging to one of the categories in Table 2 (see page 3), there are several other general eligibility requirements that families must meet (see textbox). For example, the subsidy's applicant or recipient and children for whom the subsidy is being sought must reside in Arizona, and the children must be younger than 13. The Department's child care eligibility staff redetermine families' ongoing eligibility for the child care subsidy annually.

### General eligibility criteria for subsidy applicants or recipients

- Must cooperate with the Department
- Must reside with the children and be a parent, relative caretaker, or court-appointed legal guardian
- Must reside in Arizona, and eligible children must be younger than 13
- Must be a United States citizen or a legal resident of the United States
- Must be engaged in employment, self-employment, education/training, or unable to provide care
- Must be unavailable to care for children for a portion of the day
- Must select a child care provider registered with the Department to care for eligible children

Source: Auditor General staff analysis of Arizona Administrative Code R6-5-4911 and R6-5-4912.

Finally, federal law and state statutes require that families contribute to the cost of child care on a sliding fee scale basis.<sup>4</sup> Federal law requires that the sliding fee scale be based on family size and income, although states may add other factors such as the number of children in care. States also may exempt families below the federal poverty level from paying a copayment. In Arizona, the copayment is applicable to families in the low-income and transitional eligibility categories and ranges between 50 cents and \$5 per child per day. Families, regardless of eligibility category, are also responsible for paying the full difference in the cost between the provider's actual charges and the subsidy amount that the Department pays. Families pay these copayments and costs directly to the providers. According to a department report, approximately \$7.6 million in copayments were paid to child care providers in fiscal year 2016.

**Various types of child care providers available to families qualified for the subsidy**—Families that qualify for the child care subsidy provided through the Department must use a provider the Department or DHS regulates or approves.<sup>5,6</sup> These regulated providers must be registered, i.e., contracted, with the Department to receive the subsidy. Between the two agencies, the following types of child care providers are available:

- DHS-regulated child care providers:
  - **Child care centers**—These are nonresidential facilities that provide care for more than four children for compensation. DHS must license all child care centers, except those on military bases and on Indian reservations; those that provide only recreational or instructional activity to school age children who may come to and go from that facility on their own; and those where parents are on the premises. Although child care centers must be licensed by DHS to operate, they do not need to contract with the Department unless they wish to receive the child care subsidy for qualified children in their care. DHS conducts on-site monitoring of licensed child care centers to ensure they meet health and safety standards and other licensing requirements. According to department records, as of September 2016, there were 1,193 licensed child care centers that cared for children subsidized by the Department.
  - **Child care group homes**—These providers may care for five to ten children for compensation in the provider's home. These providers must at all times have one staff person for every five children. Group homes must be certified by DHS to operate, but they do not need to contract with the Department unless they wish to receive the child care subsidy for qualified children in their care. DHS conducts on-site monitoring of child care group homes to ensure they meet health and safety standards and other

<sup>4</sup> Child Care and Development Block Grant Act of 2014, Sec. 658E(c)(5) and A.R.S. §46-805.

<sup>5</sup> Unregulated child care providers may care for no more than four children for compensation. These providers are not regulated or monitored by any state agency.

<sup>6</sup> A provider meeting regulatory requirements established by military installations or federally recognized Indian Tribes is eligible to receive the Department's child care subsidy.

certification requirements. According to department records, as of September 2016, there were 183 certified child care group homes that cared for children the Department subsidized.

- Department-regulated child care providers:
  - **Child care homes**—These providers may care for four or fewer children for compensation in the provider’s home. Although these providers are not required to be licensed or certified to operate, they must be certified and receive on-site monitoring by the Department to receive the child care subsidy for qualified children in their care. According to department records, as of September 2016, there were 441 certified child care homes.
  - **Child care in-home providers**—These providers may care for up to four children for compensation in the children’s own homes. Similar to child care home providers, these providers must be certified by the Department to receive the child care subsidy. According to department records, as of September 2016, there were 49 certified child care in-home providers.
- Nonregulated child care providers:
  - **Noncertified relative providers**—These providers care for relative children and, similar to the other providers the Department certifies, these providers must obtain a valid fingerprint clearance card and pass a DCS background check to be approved by the Department to receive the subsidy for relative children in their care. However, the Department does not license, certify, or conduct on-site monitoring of these providers. According to department records, as of September 2016, there were 916 noncertified relative child care providers.

Most children whose child care the Department subsidizes receive care in child care centers. Specifically, according to the Department, approximately 87 percent of the 30,138 children for whom the Department provided subsidized child care during September 2016 received care in child care centers.<sup>7</sup> See Figure 1, page 6, for the distribution of the children by provider type.

## Organization and staffing

The Department’s child care services are overseen by an administrator and are located within the Division of Employment and Rehabilitation Services.<sup>8</sup> Department information shows that child care services had 144 filled and 42 vacant full-time equivalent (FTE) staff as of December 21, 2016. These staff provide the following services through one or more of 36 department offices located throughout the State.

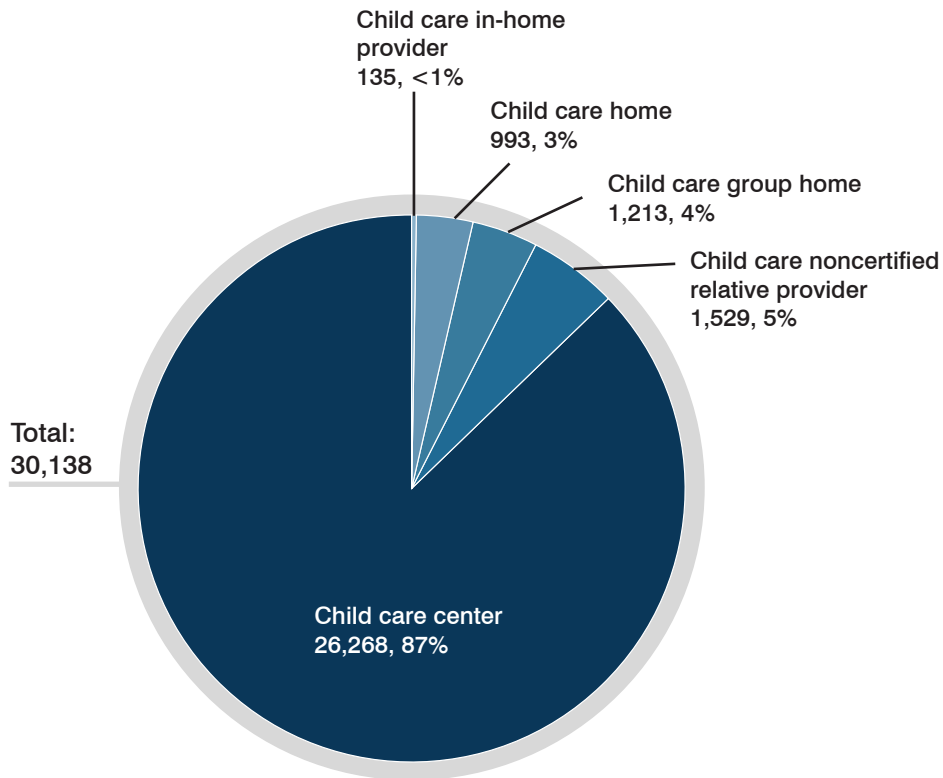
- **Administration/support (19 filled FTE)**—Administration staff oversee the day-to-day operations of child care services, while support staff develop policies and procedures, manage and monitor contracts, provide training, and support the Department’s automated child care system, AzCCATS, which is used to record client and provider personal and eligibility information; track inspections and compliance of providers with health and safety standards; and assist with processing provider billing.
- **Eligibility (92 filled FTE)**—Eligibility staff determine client (i.e., families with children) eligibility for participation in the Department’s child care subsidy program based on state regulations and child care services policies on income, family size, and work or training status. As part of the eligibility process, staff also determine how much the family is eligible to receive in subsidy monies. Staff also follow up with clients to facilitate obtaining or maintaining eligibility status and enter client information in AzCCATS.

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<sup>7</sup> According to the Department, approximately 1 percent of the children were counted twice because they received care from two different provider types during the month.

<sup>8</sup> During the audit, the Department began piloting a new division—the Division of Child and Family Engagement—that combines the Department’s child care services with the Arizona Early Intervention Program. According to the Department, these two programs support families in accessing formal and informal resources to meet their parenting needs.

**Figure 1**  
**Number of children whose child care the Department subsidized by provider type<sup>1</sup>**  
**September 2016**  
(Unaudited)



<sup>1</sup> According to the Department, approximately 1 percent of the children were counted twice because they received care from two different provider types during the month.

Source: Auditor General staff analysis of department-provided data.

- **Certification (24 filled FTE)**—Certification staff process applications for child care home and in-home provider certification and approve noncertified relative providers. Certification staff also monitor child care home and in-home providers to ensure their continued compliance with state health and safety standards by conducting on-site inspections as well as following up on provider violations to ensure they are resolved, and if not, taking enforcement action (see Finding 1, page 11, for a list of the enforcement actions available to the Department).
- **Payment processing and review and reconciliation (9 filled FTE)**—These staff process invoices for subsidy payments from all provider types, audit samples of provider billings to ensure their accuracy, conduct quality assurance such as reading eligibility case files to ensure proper eligibility authorization, and provide help desk support for policy and technical issues regarding eligibility determination. These staff also assist with making eligibility determinations if an eligibility backlog develops.

## Finance and budget

Funding for the child care subsidy and department child care services is provided through various state and federal revenue sources. The primary source is the federal CCDF, which includes specific federal grant resources dedicated to child care services. The CCDF provides states with federal monies to improve the affordability, availability, and quality of child care. To receive CCDF monies, states are required to contribute nonfederal monies toward the federally required purposes to meet the federal state matching and maintenance-of-effort

requirements.<sup>9</sup> Since fiscal year 2011, certain expenditures by the Arizona Early Childhood Development and Health Board, also known as First Things First, have been used to largely fulfill these requirements (see Appendix A, pages a-1 through a-2, for more information on the requirements).<sup>10</sup> As shown in Table 3, page 8, the Department received or is estimated to receive between approximately \$82.5 and \$110.2 million annually in CCDF monies, and between approximately \$2.9 and \$14.2 million annually in other federal monies for fiscal years 2014 through 2017. The Department also received more than \$1.7 million in fiscal year 2015 and nearly \$2.3 million in fiscal year 2016 in State General Funds, but did not receive a State General Fund appropriation in fiscal year 2017. Finally, the Department received more than \$43.3 million in fiscal year 2015 and received or is estimated to receive more than \$47.8 million in fiscal years 2016 and 2017 from the DCS to cover the child care subsidy payments to day care providers for children under the DCS' supervision (see Table 3, page 8, for more information on intergovernmental revenues).

The Department's actual and estimated total child care expenditures were between approximately \$119.6 and \$154.2 million annually for fiscal years 2014 through 2017. Most of the expenditures were for the child care subsidy. However, the Department's actual and estimated expenditures for payroll and related benefits were between approximately \$10.0 and \$10.8 million annually for fiscal years 2014 through 2017.

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<sup>9</sup> The maintenance-of-effort requirement means that a state will spend a specified minimum amount of nonfederal monies to help eligible clients in ways that are consistent with the program involved, which in this case is applicable child care programs.

<sup>10</sup> First Things First (FTF) was established by voter initiative in 2006 to ensure the quality and accessibility of early childhood development and health programs at the community level. To help support early childhood development and health programs, the voter initiative established a new tax on tobacco products that provides dedicated funding for FTF.



**Table 3**  
**Schedule of revenues and expenditures**  
**Fiscal years 2014 through 2017**  
(Unaudited)

	2014 (Actual)	2015 (Actual)	2016 (Actual)	2017 (Estimate)
<b>Revenues</b>				
Federal				
Child Care and Development Fund	\$110,199,596	\$ 82,504,543	\$ 87,996,544	\$103,485,974
Other <sup>1</sup>	9,541,377	14,211,474	6,622,621	2,871,900
State General Fund appropriations		1,735,320	2,269,083	
Intergovernmental <sup>2</sup>		43,327,131	47,840,374	47,840,374
<b>Total revenues</b>	<b>119,740,973</b>	<b>141,778,468</b>	<b>144,728,622</b>	<b>154,198,248</b>
<b>Expenditures</b>				
Client subsidy payments to providers <sup>3</sup>	106,849,789	128,445,249	129,784,489	141,506,843
Payroll and related benefits	10,516,872	10,839,025	9,985,859	9,950,769
Professional and outside services	188,316	184,526	702,297	1,463,067
Travel	145,600	145,478	55,373	67,427
Other operating <sup>4</sup>	1,786,459	1,912,285	4,337,448	915,829
Furniture, equipment, and software	106,513	393,964	388,202	294,313
<b>Total expenditures</b>	<b>119,593,549</b>	<b>141,920,527</b>	<b>145,253,668</b>	<b>154,198,248</b>
<b>Revenues over (under) expenditures</b>	<b>\$ 147,424</b>	<b>\$ (142,059)</b>	<b>\$ (525,046)</b>	<b>\$ 0</b>

<sup>1</sup> According to the Department, other federal revenues include TANF and Social Services Block Grant monies.

<sup>2</sup> Amounts are monies received by the DCS for child care subsidies for children under the DCS' supervision. The Department pays for the child care subsidies on behalf of the DCS with the DCS receiving these revenues directly from mostly federal resources. The DCS was originally part of the Department; however, in fiscal year 2015, it was created as a separate agency. For fiscal year 2014, the child care subsidies for children in foster care were paid using the Department's federal monies.

<sup>3</sup> Amounts include payments made by the Department on behalf of the DCS for the child care subsidies of children in foster care.

<sup>4</sup> According to the Department, amounts were paid for various operating expenditures such as rent, utilities, and other costs related to office space for department employees. In addition, the fiscal year 2016 amount includes approximately \$2.2 million for a payment to the U.S. Department of Health and Human Services, Administration for Children and Families Division (Administration), the agency that administers the CCDF, to pay for expenditures the Administration disallowed during an audit.

Source: Auditor General staff analysis of financial information the Department provided from its Financial Management Control System for fiscal years 2014 and 2015 and the State's Arizona Financial Information System and other financial information for fiscal years 2016 and 2017.





## Department should strengthen child care monitoring

The Arizona Department of Economic Security (Department) needs to strengthen its monitoring of certified child care providers (providers) to better ensure the health and safety of children in the providers' care. The Department conducts on-site inspections of providers to assess their compliance with required health and safety requirements and has several options available to address noncompliance. However, the Department did not comply with its requirement to conduct two comprehensive inspections annually of each provider, which exceeds the federal requirement; therefore, the Department should develop and implement a differential monitoring approach that considers provider compliance and other factors when determining the frequency and/or depth of inspections. Department inspectors also do not assess provider compliance with child care requirements during inspections consistently, and management and staff lack reliable inspection data for use in monitoring providers. The Department should take steps to address its inconsistent inspections and unreliable inspection data by establishing a structured training program, enhancing its rules and policies manual, and strengthening department oversight of the monitoring process.

### Department monitors providers to ensure compliance with health and safety requirements

The Department conducts several types of on-site inspections of providers. These inspections are conducted to assess providers' compliance with required health and safety requirements. When noncompliance is identified, the Department has various options available to address the noncompliance.

**Department conducts on-site inspections to assess provider compliance with health and safety requirements**—As discussed in the Introduction (see pages 1 through 8), the Department certifies and monitors providers for compliance with health and safety requirements to ensure an adequate supply of available child care provider options for eligible families. Before certifying a child care provider, the Department must conduct a precertification inspection at the provider's home, typically referred to as an initial inspection, to ensure the provider is compliant with state health and safety requirements. Once a provider is certified, the Department will conduct a variety of on-site inspections of the provider. Some of these inspections are routine, such as monitoring inspections, and some occur under certain circumstances, such as when the provider relocates. As shown in Table 4 (see page 10), in fiscal year 2015, the Department conducted 1,569 inspections.

When inspectors inspect a provider's home, they use a checklist composed of more than 130 items addressing 18 categories of certification requirements established in administrative rule. The inspections are conducted through observations, discussions, and documentation reviews. For example, inspectors will assess through observation whether sharp objects, such as knives, and toxic chemicals, such as bleach, are stored so that children cannot access them. Inspectors will also discuss developmentally appropriate disciplinary practices with the provider and review the files the providers must keep on each child in their care to ensure they include updated emergency contact information in addition to other information. See the textbox on page 10 for additional examples of items inspected. Inspectors must document on the checklist each violation identified during the inspection, even if it was corrected while the inspector was still in the home, and the date by which each violation needs to be corrected. Inspectors will discuss the violations with the provider and provide him/her with a copy of the *Article 52 Home Visit Compliance Review—Results* page of the checklist. Depending on the nature of the violations, the Department may allow providers to send proof that they have corrected the violations, such as a copy of their

**Table 4**  
**Department child care inspection types and number conducted**  
**Fiscal year 2015**

Inspection type	Description	Number conducted
Precertification/Initial	An announced inspection conducted prior to the Department issuing a certificate to the child care provider applicant. The Department inspects the applicant's home to determine whether the home meets the certification requirements.	128
Monitoring	An unannounced inspection conducted at least annually that assesses the provider's compliance with certification requirements. Areas assessed include the home facility, daily program of activities and equipment, safety and supervision, sanitation, discipline, meals and nutrition, medications, record keeping, and provider/child ratios.	893
Annual	An announced inspection conducted annually that assesses the same areas as a monitoring inspection and verifies that the provider is meeting document requirements, including having immunization records, liability insurance, and training certificates. Additionally, the inspector will review the transportation policy with the provider, which covers various vehicle maintenance and safety requirements and the need for each vehicle to have working seat belts and size- and age-appropriate car seats.	329
Recertification	An announced inspection that occurs in conjunction with certification renewal just prior to the end of the provider's 3-year certification period. It is intended to demonstrate the provider's continuing ability to provide child care that is safe, developmentally appropriate, and in compliance with certification requirements. These inspections are similar to, and conducted in lieu of, the annual inspection during the third year of the certification period.	196
Relocation	An inspection conducted after a provider gives written notice to the Department of a relocation or home repair that significantly affects the provision of child care services. Providers must give this notice at least 15 days before the effective date of any scheduled change, or within 24 hours after an unscheduled change. The inspection is intended to ensure that the home is compliant with certification requirements.	23
<b>Total</b>		<b>1,569</b>

Source: Auditor General staff analysis of fiscal year 2015 child care inspection data maintained in AzCCATS, the Department's automated child care system, administrative regulations, and department documents.

child care liability insurance policy, or the inspector will conduct a follow-up visit to the provider's home or facility to visually confirm the violations have been resolved.

**Department has several options available to address provider noncompliance with health and safety requirements**—When noncompliance is identified during an inspection or follow-up inspection, the Department has various enforcement options available to ensure providers return to compliance (see textbox, page 11). For instance, if the violations identified do not jeopardize the health and safety of the children in care, inspectors will generally require the provider to resolve the violations through

### Examples of items assessed during inspections

- Areas of the home that are accessible to the children are safe and clean.
- Provider offers adequate and appropriate toys, equipment, and activities.
- Daily accident log and accident/illness/injury report are dated and kept current.
- Provider is directly supervising each child who is awake and has no more than the approved number of children.

Source: Auditor General staff analysis of the Department's *Article 52 Home Visit Compliance Review* checklist.

## Department's enforcement options

- **Corrective action**—Inspectors will generally give the provider 10 business days to correct violations that do not endanger children in care.
- **Probation**—The Department may place a provider on probation for violations that are not addressed by the end of the corrective action period. Probation must be initiated within 30 days of the home inspection, is limited to 30 days, and is not appealable.
- **Suspension**—The Department may suspend a provider's certificate if violations are not addressed by the end of probation. Certain violations such as using an unapproved person to provide care in the provider's absence may result in immediate suspension. Providers are suspended for 90 days or until they return to compliance. Providers may appeal the suspension unless the enforcement action is based on child abuse or neglect or a fingerprint clearance finding.<sup>1,2</sup>
- **Revocation**—The Department may revoke a provider's certificate if violations are not addressed by the end of the suspension period. If there is a serious health and/or safety risk, such as substantiated child abuse or neglect, the certificate can be immediately revoked. Providers have the right to appeal the revocation unless the enforcement action is based on child abuse or neglect or a fingerprint clearance finding.

<sup>1</sup> A fingerprint clearance finding is the failure of the provider or a household member to obtain a fingerprint clearance card.

<sup>2</sup> Arizona Administrative Code (AAC) R6-5-5228 outlines the appeal process for suspension and revocation enforcement actions.

Source: Auditor General staff analysis of the Department's child care services policy and guidance documents.

corrective action, i.e., eliminate the causes of the violation, within 10 business days of the inspection. If the violations are not corrected within the 10-day time frame or the violations are serious, the Department may take progressive enforcement actions against the provider. For example, a provider may be placed on probation during which no additional children will be authorized for care, although children already in the provider's care may remain. An inspector will inspect the provider's home prior to ending probation to ensure the provider has addressed the violations if the condition that resulted in probation was related to the home. If the Department determines that a provider's certification should be suspended or revoked, it will send the provider a written notice of the impending adverse action and its effective date, and will stop payment authorization for all subsidized children in the provider's care on the effective date of the adverse action.<sup>11,12</sup> Inspectors will also notify the families with children receiving the subsidy that they have 10 days to select a new provider to care for their children.

## Department should revise monitoring approach to more effectively and efficiently monitor providers

To more effectively and efficiently monitor its providers, the Department should revise its monitoring approach. Specifically, for some providers who were active and had at least one annual inspection period that began in calendar years 2012, 2013, and/or 2014, the Department did not comply with its requirement to conduct two inspections annually of each provider. However, the Department's requirement to conduct two annual inspections exceeds the federal requirement. As a result, the Department should develop and implement a differential monitoring approach that considers provider compliance and other factors when determining the frequency and/or depth of inspections.

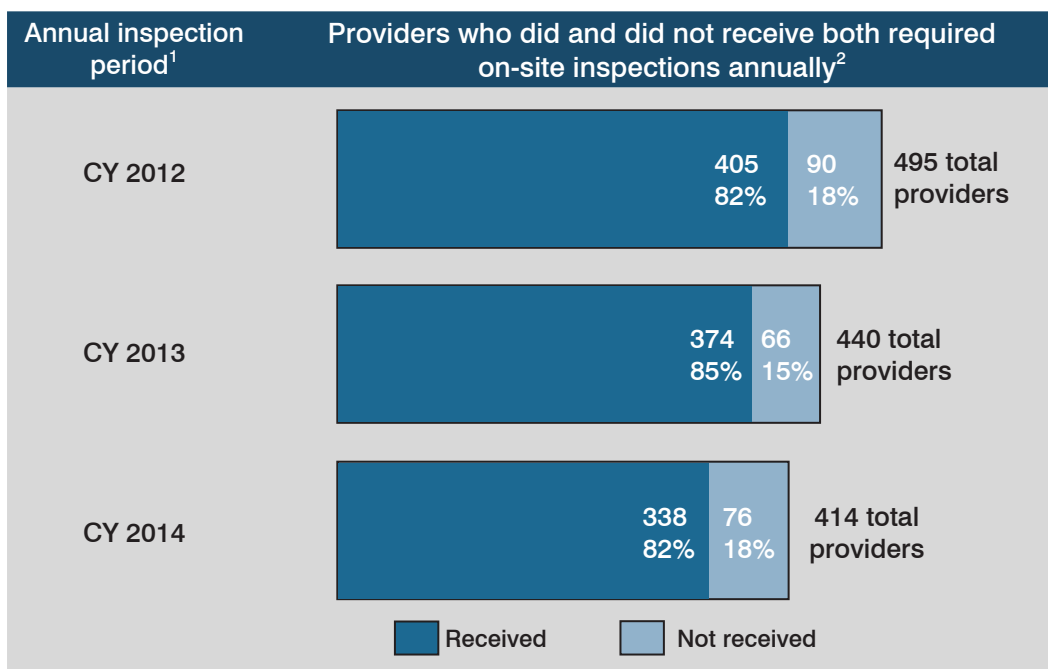
**Department has not met established inspection requirements, but requirements may be excessive**—The Department did not conduct all required inspections, but its monitoring approach is greater than needed and does not effectively use its inspection resources. Specifically, the Department's administrative

<sup>11</sup> A subsidized child is one whose child care costs are covered through the Department's child care subsidy (see the Introduction, pages 1 through 8, for more information on the subsidy).

<sup>12</sup> The Department will not authorize any additional children for care by a provider whose certificate is suspended until the provider's certificate is reinstated.

rules require that it conduct at least two on-site inspections annually of its providers.<sup>13</sup> According to rule and policy, one inspection must be an unannounced monitoring inspection and the other must be an announced annual inspection (see Table 4, page 10, for a description of the various inspection types).<sup>14</sup> To determine if the Department was meeting its inspection requirement, auditors analyzed the Department’s inspection data for certified child care providers who were active and had at least one annual inspection period beginning in calendar years 2012, 2013, and/or 2014.<sup>15</sup> As shown in Figure 2, although most of the providers received their required inspections annually, between 15 to 18 percent of providers annually did not receive at least one of the required inspections.

**Figure 2**  
**Number and percent of certified child care home providers who did and did not receive both required on-site inspections annually**  
**Calendar years (CY) 2012, 2013, and 2014**



<sup>1</sup> Auditors’ analysis included providers who were active and had at least one annual inspection period beginning in calendar years 2012, 2013, and/or 2014, based on the provider’s certification start date and end date. Some providers were excluded from the analysis if auditors were unable to determine if the provider was active for an entire annual inspection period.

<sup>2</sup> The number of providers analyzed for each year varies because not all providers had annual inspection periods during all 3 years.

Source: Auditor General staff analysis of the Department’s automated inspection data maintained in AzCCATS.

Some providers who did not receive both of their required inspections—annual and monitoring—still received two or more on-site inspections annually but did not receive one of each type. Although annual and monitoring inspections cover many of the same areas, annual inspections also assess additional areas that are not covered by the monitoring inspection. These areas include determining whether providers and household members are

<sup>13</sup> AAC R6-5-5207(H).

<sup>14</sup> Both annual and recertification inspection types meet Arizona’s requirement for an annual inspection.

<sup>15</sup> An annual inspection period is 12 consecutive months from the provider’s certification anniversary date. For example, if the provider is certified March 3, the annual inspection period would be between March 3 and the following March 2. Auditors’ analysis included providers who had at least one annual inspection period based on the provider’s certification start date and end date. Some providers were excluded from the analysis if auditors were unable to determine if the provider was active for an entire annual inspection period.

current on their tuberculosis vaccinations, that providers have current child care liability insurance and have attended 6 hours of training in subjects designed to improve the provider's ability to provide child care, that pets have been licensed and vaccinated for illnesses such as rabies, and that providers who transport children do so in a safe manner.

Finally, although the Department has not complied with its inspection requirements, these requirements exceed federal law, which requires one on-site inspection annually.<sup>16</sup> According to the U.S. Department of Health and Human Services, this requirement was added to establish a minimum inspection requirement across states.<sup>17</sup> In addition, the Department's monitoring approach is not risk-based and thus results in inspectors conducting at least two inspections annually for all providers, regardless of their history of compliance. Specifically, even if a provider has not had any violations, the inspectors must still conduct at least two on-site inspections annually.

**Department should develop and implement a differential monitoring approach**—To more effectively and efficiently monitor its certified child care providers, the Department should develop and implement a differential monitoring approach. Federal regulation indicates that states may consider implementing differential monitoring, or a risk-based monitoring approach, as long as the full complement of health and safety standards is represented in the inspection and the inspections are performed at least annually.<sup>18</sup> According to the federal Office of Child Care, differential monitoring is designed in such a way that although not every licensing standard is specifically checked for compliance, the items that are checked during the monitoring visit indicate that the provider is in compliance with the full range of the regulatory requirements.<sup>19</sup> A 2014 National Center on Child Care Quality Improvement (NCCCQI) report on monitoring strategies explains that differential monitoring often involves programs using a subset of requirements to determine compliance.<sup>20</sup> The report indicates that states have used two methods to identify the subset of requirements: the key indicators approach that focuses on identifying and monitoring those requirements that statistically predict compliance with all the requirements and the risk-assessment approach that focuses on identifying and monitoring those requirements that place children at greater risk of mortality or morbidity if violations occur. The report further clarifies that the goal of differential monitoring is to create efficiencies and greater effectiveness in monitoring and enforcement in order to permit more time for monitoring, especially of those providers with lower compliance that need more technical assistance and program consultation.

According to a 2015 federal report on innovations in monitoring, a blanket monitoring system that treats all providers equally can be inefficient, and a better approach bases monitoring and oversight of providers on their past performance or on an assessment of risk for noncompliance with standards.<sup>21</sup> The report notes that such differential monitoring approaches are consistent with the National Association for Regulatory Administration (NARA) recommended best practices and are being used by other states.<sup>22</sup> For example, the federal Office of Child Care indicated that 72 percent of the jurisdictions, or 38 of 53, reported on the 2014 NARA survey of licensing programs and policies that they used differential monitoring to determine the number of inspections needed for a particular child care provider and the content of inspections.<sup>23,24</sup> The report also noted, however, that

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<sup>16</sup> 42 United States Code §9858c(c)(2)(K)(i)(IV).

<sup>17</sup> U.S. Department of Health and Human Services final rule 81 FR 67547, VI, Regulatory Process Matters.

<sup>18</sup> Title 45 Code of Federal Regulations §98.42(b)(2)(iv)(A).

<sup>19</sup> Office of Child Care webpage retrieved on November 22, 2016 from <http://www.acf.hhs.gov/occ/faq/can-states-use-a-differential-monitoring-strategy>.

<sup>20</sup> National Center on Child Care Quality Improvement. (2014). *Contemporary issues in licensing—Monitoring strategies for determining compliance: Differential monitoring, risk assessment, and key indicators*. Washington, DC: Office of Child Care, U.S. Department of Health and Human Services.

<sup>21</sup> Trivedi, P. A. (2015). *Innovation in monitoring in early care and education: Options for states*. Washington, DC: Office of the Assistant Secretary for Planning and Evaluation, U.S. Department of Health and Human Services.

<sup>22</sup> NARA is an international nonprofit professional association that represents all human care licensing, including child care licensing.

<sup>23</sup> The 53 jurisdictions included all 50 states, the District of Columbia, Guam, and the U.S. Virgin Islands.

<sup>24</sup> Administration for Children and Families. (2015). *Trends in child care licensing: 2015 NARA licensing seminar*. [PowerPoint slides]. Retrieved on May 2, 2016 from <http://www.naralicensing.org/2015-program-handouts>.

differential monitoring should not replace routine inspections of all regulated providers.<sup>25</sup> For example, according to the report, a study of Vermont’s use of differential monitoring demonstrated that although it can be effective to inspect child care centers with a poorer compliance record more frequently, centers with a good compliance record also need routine inspections or they could be at risk for deteriorating compliance.

The Department should implement a differential monitoring approach that includes:

- Exploring the various approaches to differential monitoring and selecting the best approach for Arizona certified child care providers. This process could involve activities such as examining federal recommendations on implementing differential monitoring, reviewing research on the effectiveness of the various approaches, and contacting other states to learn about their experiences.
- Determining the necessary procedures for implementing the differential monitoring approach it selects, including procedures to prevent compliance deterioration due to the differential monitoring approach, for example, conducting full inspections for a random sample of compliant/low-risk providers annually. Once it determines the necessary procedures, it should modify its regulation and guidance documents, including administrative rule, policy, and the Child Care and Development Fund (CCDF) state plan, to reflect the differential monitoring approach.<sup>26</sup>
- Ensuring all inspectors are trained on the differential monitoring approach and guidance documents.
- Establishing a process for assessing its differential monitoring approach and making adjustments as needed. This process should determine the frequency for reviewing its differential monitoring approach and identify specific areas to assess, such as whether they are meeting their inspection requirements and whether there has been any change in overall provider compliance. In addition, the process should include a procedure for how to make adjustments to the differential monitoring approach, for example, modifying how providers or requirements are selected for review.

## Two areas of concern further impact provider monitoring

In addition to the Department’s monitoring approach, auditors identified concerns in two important areas that further impact the Department’s ability to effectively monitor providers. Specifically, the Department:

- **Inconsistently assessed provider compliance during inspections**—The Department’s inspection process serves as a key method for ensuring that providers operate safe and healthy environments for the children in their care. It is important that inspectors assess compliance with certification requirements in a consistent manner to ensure equitable treatment of providers and the health and safety of children.<sup>27</sup> However, auditors observed five inspections conducted by three different inspectors during March and April 2016 and identified various inconsistencies. For example:
  - Both rule and policy state that providers must have a “charged, readily accessible, operable, multi-purpose (ABC class) fire extinguisher that the provider knows how to operate.” However, neither rule nor policy specifies how to assess compliance with this requirement. To assess compliance with this requirement, one inspector asked if a provider had a fire extinguisher, the second inspector asked if the provider knew how to operate the fire extinguisher, and the third inspector asked the provider to explain how to use the fire extinguisher.

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<sup>25</sup> Trivedi, 2015.

<sup>26</sup> The CCDF plan serves as a state’s or territory’s application for CCDF funds by providing a description of, and assurance about, the grantee’s child care program and all services available to eligible families. The CCDF plan offers a snapshot into current and planned efforts, initiatives, and implementation plans for each state or territory over the next 2 years, but these plans are not a catalog of all activities the state or territory undertakes.

<sup>27</sup> National Center on Child Care Quality Improvement. (2014). *Contemporary issues in licensing—Inspection policies*. Washington, DC: Office of Child Care, U.S. Department of Health and Human Services.



- Providers who offer nighttime care or care for children who take naps must have a safe and sturdy crib for each infant, and a safe and sturdy bed or cot with mattress for each child. Crib bars or slats should be no more than 2 3/8 inches apart. Although rule and policy list the criteria that the crib must meet, neither specifies how inspectors are to assess compliance with the requirement. When assessing compliance with this requirement, one inspector did not ask to see the crib or playpen, the second inspector asked the provider if she had a crib for each infant in care but did not actually inspect it, and the third inspector asked the provider if she had a crib for each infant, then physically measured the distance between the crib slats to ensure it complied with the requirement.

In addition, auditors randomly selected 12 providers and reviewed one inspection checklist from the hard-copy case files of each of these providers to assess how inspectors were completing the checklist. This included reviewing how inspectors recorded noncompliant areas on the checklist and listed the violations on the *Article 52 Home Visit Compliance Review–Results* page of the checklist.<sup>28,29</sup> For 4 of the 12 checklists reviewed, auditors did not identify problems with how the checklists were completed. However, auditors identified problems with 7 of the 12 checklists, such as inspectors marking items that were resolved at the visit as both compliant and noncompliant. The remaining checklist was not provided by the Department because it was unable to locate the checklist in the provider’s hard-copy file.

- **Has not maintained reliable inspection data**—Complete, accurate, and accessible provider data—including inspection, violation, and enforcement data—is important for several reasons, such as providing the necessary information to inspectors to initiate progressive enforcement action when there are repeat or unresolved violations.<sup>30</sup> However, auditors’ review of provider case files and data recorded in the Department’s automated child care system, AzCCATS, found that the violation and enforcement data is not sufficiently reliable to help the Department determine when to initiate progressive enforcement actions or identify trends. Specifically:
  - Auditors reviewed the hard-copy files for 20 randomly selected providers and found that 7 of these providers had received some type of enforcement action between calendar years 2012 and 2015, but these actions were not reflected in AzCCATS.<sup>31</sup> Specifically, 1 provider had a suspension action, 1 provider had both suspension and probation actions, and the remaining 5 providers had probation actions that were not reflected in AzCCATS. According to department management, probation enforcement actions have been removed from AzCCATS after the probation period ends because of a system design requirement.<sup>32</sup> However, the Department expects to complete modifications to AzCCATS in March 2017 that will allow it to retain probation enforcement action data. If inspectors have access to a provider’s entire enforcement history through AzCCATS, they would be able to easily review a provider’s history and take actions as needed, such as providing targeted technical assistance or imposing/escalating enforcement actions as appropriate, which could help ensure a safe and healthy environment for children in care.<sup>33</sup>

<sup>28</sup> The providers were selected from the department-certified child care home providers auditors identified as being active and having at least one annual inspection period beginning in calendar years 2012, 2013, and/or 2014. For more information on auditors’ selection and analysis of provider data, see Appendix B, pages b-1 through b-2.

<sup>29</sup> The *Article 52 Home Visit Compliance Review–Results* page is given to providers at the end of an inspection so they have the information regarding all violations noted and the due dates for correcting the violations. See pages 9 through 10 for more information.

<sup>30</sup> National Association for Regulatory Administration & National Center on Child Care Quality Improvement. (2015). *Best practices for human care regulation*. Lexington, KY.

<sup>31</sup> The providers were selected from the department-certified child care home providers auditors identified as being active and having at least one annual inspection period beginning in calendar years 2012, 2013, and/or 2014. For more information on auditors’ selection and analysis of provider data, see Appendix B, pages b-1 through b-2.

<sup>32</sup> Once a provider’s probation period ended, the inspector would clear the data entry in AzCCATS indicating the provider was on probation. This action was necessary to allow the Department’s child care eligibility workers to authorize the provider to care for additional children or to receive new authorizations. See the Introduction, page 5, for a description of the eligibility unit.

<sup>33</sup> National Center on Child Care Quality Improvement. (2014). *Contemporary issues in licensing—Enforcement strategies with licensed child care providers*. Washington, DC: Office of Child Care, U.S. Department of Health and Human Services.

- Auditors reviewed the AzCCATS violation data and associated inspection checklists and, except for instances where no violations were found, there were enough errors in the violation data that auditors could not rely on or use the violation data for audit purposes. For example, there were several cases where inspection violations were recorded in AzCCATS, but not all of the violations recorded in the system were found on the inspection checklist and vice versa.

## Department should ensure inspections are performed consistently and strengthen inspection data

The Department should take steps to ensure that it performs inspections in a consistent manner and that inspection data is reliable. Specifically, the Department should develop and implement a structured training program for new inspectors that ensures the inspectors receive both similar and sufficient instruction to perform their job responsibilities consistently. Additionally, the Department should enhance its policies to provide sufficient direction to assist inspectors in assessing provider compliance consistently. Finally, the Department should enhance its oversight in three areas that impact the effectiveness of its monitoring—supervisory review of inspection documentation and data, developing and using management reports, and assessing and addressing any variations that occur when conducting inspections and taking enforcement action.

### Department should develop and implement a structured training program for new inspectors—

Limitations with the Department’s training for new inspectors have contributed to inconsistent inspections and unreliable enforcement and violation data. Specifically, the Department has not established formal, structured training for new staff. Rather, according to department management, because new inspectors are typically hired to fill vacancies as they occur, new inspector training is generally conducted by the inspector’s supervisor primarily through one-on-one training, job shadowing, and mentoring. However, individualized training without adequate structure to guide it and oversight of the content could affect the quality and consistency of the received training and result in some topics not being covered adequately or at all, or in variation in how inspectors are trained. For example, during a meeting in April 2016 with department management and staff from three of the four department regional certification offices, variations in the understanding and implementation of certification activities between offices were identified.<sup>34</sup> Variations included how inspectors tracked when inspections were due or when violations needed to be resolved; how inspectors confirmed that providers had corrected identified violations; and how inspectors handled unannounced inspections when no one answered the door.

Best practices and national health and safety standards recommend that an initial staff training program should be formal and educate staff about regulatory policies, procedures, program standards, and the children’s developmental needs.<sup>35,36</sup> Further, training should include courses that competently and appropriately use the full range of delivery methods, including instructor-led learning, online courses, directed studies, self-paced learning, and peer and supervisory mentoring and coaching. Assessments should also be used throughout training to measure learning and at the end of the training, to confirm competency of the intended training goals. Assessments may include instructional quizzes, discussions, observations, or learning activities to gauge knowledge. Finally, a designated individual should oversee the training. The Oklahoma Department of Human Services has a training program for its new inspectors that incorporates many of the features recommended by best practices.<sup>37</sup> For example, its new licensing specialist training curriculum includes content on administrative and program policies, procedures, and standards. Additionally, training content is provided through classroom instruction, independent study, shadowing experienced inspectors, and mentoring. Oklahoma has also developed a written training plan

<sup>34</sup> As indicated in the Introduction, pages 1 through 8, department child care services are offered through 36 offices throughout the State. Four of these offices function as regional certification offices, with a certification supervisor overseeing each.

<sup>35</sup> NARA & NCCCQI, 2015.

<sup>36</sup> American Academy of Pediatrics, American Public Health Association, & National Resource Center for Health and Safety in Child Care and Early Education. (2011). *Caring for our children: National health and safety performance standards guidelines for early care and education programs*. 3rd Edition. Elk Grove Village, IL.

<sup>37</sup> Oklahoma Department of Human Services (2009). *New Licensing Specialist training checklist*. Retrieved on September 15, 2016, from <http://www.naralicensing.org/models-shared-resources>.



that lists the content, time frames, and tasks/exercises to be completed by the new inspector, such as shadowing an experienced inspector on a child care inspection and writing up the inspection. Throughout the training, the new inspector's competency is assessed by a supervisor or an experienced inspector's review and observation of required tasks/exercises completed by the new inspector. The supervisor or an experienced inspector must sign and date the training plan as the instruction and tasks/exercises are completed.

Similar to Oklahoma, the Department should develop and implement a structured training program for new inspectors that includes:

- A structured training curriculum that covers the Department's child care regulations, policies, procedures, program standards, and the developmental needs of children the Department regulates. The curriculum should include a mix of classroom, independent study, shadowing, and mentoring.
- Written training plans for each new inspector that specify the instructional areas that need to be covered, tasks/exercises to be performed by new inspectors, and time frames for completing the training content.
- A requirement that competency is assessed by a supervisor or an experienced inspector's review and observation of required training tasks/exercises completed by the new inspector. The supervisor or experienced inspector should sign and date the training plan as the inspector completes training content and tasks/exercises.
- A process for tracking the status of inspectors' progress and completion of the initial inspector training content that a supervisor or a training coordinator maintains.

**Department should enhance its rules and policies manual**—Although the Department has a rules and policies manual, in some instances, the manual provides limited guidance to help inspectors assess compliance with certification regulations. For example, as mentioned earlier, the policy guidance for the certification requirement that the provider's home has a "charged, readily accessible, operable, multi-purpose (ABC class) fire extinguisher that the provider knows how to operate" lists only the requirement and does not provide specific direction on how inspectors should assess compliance with this requirement, such as reviewing the expiration date and model type or class listed on the extinguisher and having the provider demonstrate a working knowledge of how to operate the extinguisher. In addition, several policies addressing child care certification and monitoring have not been updated for several years. Specifically, 20 of the 30 policies listed in the manual's index have not been updated since June 2008 and may not reflect current standards and practices.

According to a report by NARA and NCCCQI, a consistent interpretation of child care regulations and implementation of policies is important, and one approach to achieving this is through a practical guide on how an agency will apply, measure, and enforce a rule.<sup>38</sup> Additionally, the practical guides should be updated regularly so they are kept current and consistent with rules and standards.

Therefore, the Department should enhance its rules and policies manual by:

- Establishing and implementing a schedule for routinely reviewing and updating its policies to ensure they reflect current regulations and practices;
- Including adequate guidance and direction to help ensure that inspectors apply, measure, and enforce rules consistently, such as the rule related to having an operating fire extinguisher; and
- Ensuring that all inspectors are aware of any revisions made to its rules and policies manual.

**Department should enhance its oversight of the inspection process in two additional areas**—Auditors identified two additional areas where the Department should enhance its oversight practices:

- First, department policy has not required supervisors to conduct reviews, i.e., case reads, for all types of inspections. Case reads assess whether all items on the inspection checklist were completed and that

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<sup>38</sup> NARA & NCCCQI, 2015.

required documents were obtained and placed in the case file. Specifically, policy requires supervisors to conduct case reads on only annual and recertification inspections and does not require supervisors to review monitoring inspections or other types of inspections (see Table 4, page 10, for descriptions of the various inspection types). However, a department supervisor indicated that supervisors check that inspection data is entered into AzCCATS accurately and completely and that progress notes are clear and support that inspectors have followed up on violations to ensure they are corrected.

Appropriately supervising inspectors' work and data quality is important for evaluating performance and ensuring that an agency has reliable data to make informed decisions.<sup>39,40</sup> Therefore, the Department should conduct case reads on a sample of inspections performed by each inspector that includes all inspection types, not just annual and recertification inspections. When selecting the samples, the Department should consider the experience of the inspectors. For example, supervisors may want to perform more case reads for a less experienced inspector than an experienced inspector. In addition, in line with best practice, the Department should improve its data's reliability by developing policies and procedures for how and when staff should enter data, and how and when supervisors should ensure its reliability, such as through regularly reviewing data quality.

Another method of evaluating consistency between inspectors is inter-rater reliability testing, which examines how much similarity there is between staff implementing standards, such as the violations identified by inspectors and consistency in the enforcement actions taken to address violations.<sup>41</sup> For example, supervisors or experienced inspectors could conduct joint inspections with inspectors or they may conduct a solo inspection soon after a routine inspection is completed to compare the consistency of results.<sup>42</sup> However, although not an inter-rater reliability method, according to the Department, supervisors' performance evaluation requires that they annually conduct two on-site observations with inspectors. The Department has developed a form to assist in the process, and while this does not allow for direct comparison of inspectors' actions and decisions, according to one department supervisor, this information can be used to help improve the effectiveness and efficiency of inspections. The Department should also develop and implement a uniform process for conducting inter-rater comparisons to assess the consistency in how inspectors identify violations, take enforcement actions, and verify that violations have been resolved. This process should identify what information to collect; how to collect the information, such as through joint inspections; and how to use the information to build consistency among inspectors state-wide.

- Second, the Department lacks some important management reports for monitoring providers' performance. Although the Department has some management reports that supervisors can use to monitor some aspects of the inspection process, such as the dates of a providers' last two inspections and upcoming annual inspections and another report that shows the number of providers each month, it has not developed management reports to monitor providers' performance and identify areas for improvements. For example, reports on variations in the number and types of violations cited or the type and reason for enforcement actions taken to address violations could signal potential inconsistent performance that the Department should review and address.

A report by NARA and NCCCQI recommends that agencies have an array of recurring and ad hoc management reports to strengthen program management and improvement efforts and promote consistency and quality

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<sup>39</sup> U.S. Government Accountability Office. (2014). *Standards for internal control in the federal government*. Washington, DC.

<sup>40</sup> Friese, S., Tout, K., & Kirby, G. (2014). *Best practices in ensuring data quality in quality rating and improvement systems (QRIS)*. Washington, DC: Office of Planning, Research and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services.

<sup>41</sup> NARA & NCCCQI, 2015.

<sup>42</sup> During joint visits, both the inspector and supervisor independently complete an inspection report. Following the visit, similar and different observations and findings are discussed. The report the inspector completes is the provider's official visit report. When the supervisor or experienced investigator conduct a follow-up visit after the inspection, the visit is not an official inspection. This visit determines if inspectors are consistently evaluating compliance with child care regulations. While the entire facility is observed, the supervisor looks specifically at items that are not likely to have changed in the short time between the inspection and follow-up visit.

controls.<sup>43</sup> Therefore, the Department should identify and develop management reports needed to monitor and better oversee its providers. For example, reports on the most common or severe violations cited could be used to identify trends and areas for improvement, such as training for providers on how to comply with regulatory requirements. In conjunction with this activity, the Department should identify who will receive the reports, how frequently they will be generated, and how it will use the information to improve the Department's child care processes.

## Recommendations

- 1.1. The Department should implement a differential monitoring approach to more effectively and efficiently monitor its providers. This will require that the Department:
  - a. Explore the various approaches to differential monitoring and select the best approach for Arizona certified child care providers;
  - b. Determine the necessary procedures for implementing the differential monitoring approach it selects, including procedures to prevent compliance deterioration as a result of the differential monitoring approach;
  - c. Modify its regulation and guidance documents, including administrative rule, policy, and the Child Care and Development Fund state plan to reflect the differential monitoring approach;
  - d. Train all inspectors on the differential monitoring approach and guidance documents; and
  - e. Establish a process for assessing its differential monitoring approach and making adjustments as needed, including, at a minimum, assessment frequency, areas to assess, and how to make adjustments.
- 1.2. The Department should develop and implement a structured training program to help ensure new inspectors receive adequate and consistent training that includes:
  - a. A structured curriculum that covers the Department's child care regulations, policies, procedures, program standards, and the developmental needs of children the Department regulates. The curriculum should include a mix of classroom, independent study, shadowing, and mentoring;
  - b. Written training plans for each new inspector that specify the instructional areas that need to be covered, tasks/exercises to be performed, and time frames for completing the training content;
  - c. A requirement that a supervisor or an experienced inspector assess and verify the new inspector's competency through observing the new inspector's completion of required training tasks/exercises and signing and dating the training plan confirming they have been completed; and
  - d. A process for tracking the status of inspectors' progress and completion of the initial inspector training content that a supervisor or a training coordinator maintains.
- 1.3. The Department should enhance its rules and policies manual to help ensure inspectors perform inspections consistently by:
  - a. Establishing and implementing a schedule for routinely reviewing and updating its policies to ensure they reflect current regulations and practices;
  - b. Including adequate guidance and direction to help ensure that inspectors apply, measure, and enforce rules consistently, such as the rule related to having an operating fire extinguisher; and
  - c. Ensuring that all inspectors are aware of any revisions made to its rules and policies manual.

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<sup>43</sup> NARA & NCCCQI, 2015.

- 1.4. The Department should revise its inspection case-read process to help improve its oversight of inspector performance by reviewing a sample of inspections for each inspector that includes all inspection types and considers the inspector's experience.
- 1.5. The Department should improve its data's reliability by developing policies and procedures for how and when staff should enter data, and how and when supervisors should ensure its reliability, such as through regularly reviewing data quality.
- 1.6. The Department should develop and implement a uniform process for conducting inter-rater comparisons to assess the consistency in how inspectors identify violations, take enforcement actions, and verify that violations have been resolved. This process should identify what information to collect; how to collect the information, such as through joint inspections; and how to use the information to build consistency among inspectors state-wide.
- 1.7. The Department should identify and develop management reports to monitor and better oversee its providers. For example, reports on the most common or severe violations cited could be used to identify trends and areas for improvement, such as training for providers on how to comply with regulatory requirements. In conjunction with this activity, the Department should identify who will receive the reports, how frequently they will be generated, and how it will use the information to improve the Department's child care processes.



## Department should improve child care provider complaint-handling process

The Arizona Department of Economic Security (Department) needs to take several steps to improve its certified child care provider complaint-handling process. Although the Department is required to receive, investigate, and resolve complaints against certified child care home providers, including providing information on valid complaints to parents and the general public, it has not established effective complaint intake, investigation, and monitoring processes. As a result, the public may not know how to submit a complaint, and the Department is at risk for not appropriately documenting, investigating, and/or resolving some complaints. Therefore, the Department should more effectively handle complaints against certified child care providers by including information about its complaint-handling process on its website, establishing complaint investigation policies and procedures, enhancing complaint monitoring, and developing and providing complaint-handling training.

### Department's complaint-handling process lacks key elements

The Department lacks several steps in its complaint-handling process, which hinders the process' effectiveness. Although the Department has a complaint-handling policy, the Department has not developed and implemented adequate procedures to guide all steps of the process, including steps for complaint intake and logging; performing adequate complaint investigations; appropriately and consistently resolving complaints; and following up with providers and complainants, such as providing timely feedback to complainants about the complaint's outcome. The Department also does not provide complaint-handling training to its staff, nor has it established specific processes for monitoring complaint-processing timeliness; supervisory oversight of the complaint-handling process; or reviewing complaint outcomes and trends.

**Department lacks adequate complaint intake and logging process**—Although the Department has established a complaint-handling policy, its complaint intake and logging processes are incomplete. Specifically, the Department:

- **Lacks an adequate intake process**—The Department has not provided information to the public on how to file a complaint with the Department about its certified child care providers, nor has it provided general information about the complaint-handling process. Although two department supervisors stated that complaints are typically reported to them through email, phone, or the Department's eligibility unit, the Department lacks readily available information about how to file a complaint against certified child care providers such as an online submission form or a specific phone number to call to report a complaint.<sup>44</sup> According to best practices, information about the complaint-handling process, including how and where to make complaints, should be readily available to the public.<sup>45</sup> For example, the Arizona Department of Health Services (DHS) has a website with an online submission form, a specific phone number for calling

<sup>44</sup> The Department's eligibility unit is responsible for determining if families with children are eligible for participation in the child care subsidy program.

<sup>45</sup> National Association for Regulatory Administration & National Center on Child Care Quality Improvement. (2015). *Best practices for human care regulation*. Lexington, KY; Commonwealth Ombudsman. (2009). *Better practice guide to complaint handling*. Canberra, Australia; National State Auditors Association. (2004). *Carrying out a state regulatory program—A National State Auditors Association best practices document*. Lexington, KY; New South Wales Ombudsman. (2015). *Complaint management framework*. Sydney, Australia; Queensland Ombudsman. (2006). *Guide to developing effective complaints management policies and procedures*. Brisbane, Australia.

in complaints, general information about the complaint process, and a designated staff person to receive complaints against the child care providers it regulates (see the Introduction, pages 4 through 5, for more information about DHS-regulated providers).

- **Lacks adequate process for logging complaint information**—According to auditors’ review of various best practices, agencies should maintain complaint records, including electronic records, to help ensure any substantiated complaints are readily available to the public and to allow the agency to track complaints and analyze trends.<sup>46</sup> Although department policy requires inspectors to maintain confidential and public information related to the complaint, this information is contained in only a provider’s hard-copy file and is not logged into AzCCATS, the Department’s automated child care system. In addition, the Department does not maintain a centralized electronic log for recording key information on all complaints received, such as the location, date, and time of the incident, and complainant’s contact information. Without a centralized complaint log, the Department is at risk for some complaints not being documented, investigated, and/or resolved, and the Department cannot easily track complaints through the complaint-handling process, observe investigation outcomes, or analyze complaint trends. In addition, federal law requires that by November 19, 2017, information on all regulated providers’ substantiated complaints be available to the public using electronic means, such as a website, in a consumer-friendly and easily accessible format.<sup>47</sup> Department management indicated that they are in the process of modifying AzCCATS to include new fields to capture information related to complaints, including the nature of the complaint and whether complaints are substantiated. According to the Department, it completed these changes in January 2017 and expects to use the information on substantiated complaints within AzCCATS to meet the federal requirement to provide such information to the public using electronic means.

**Department lacks key steps in complaint investigation process**—Based on auditors’ review of various best practices, agencies should have a written complaint investigation plan, with time frames, defining what is to be investigated and the steps involved.<sup>48</sup> Although department policy requires complaints to be investigated, this policy and its associated procedures do not adequately direct how these investigations should be performed. For example, although the complaint-handling policy indicates that inspectors should conduct on-site investigations for specific complaints, may interview individuals with information related to the complaint, and should record investigation information on a department-developed form, the policy does not specify what investigative activities are required, such as what type of documentation should be obtained and reviewed. In contrast, DHS’ policy and training guidance direct staff to develop a complaint investigation plan for each investigation that outlines specific steps that inspectors should follow during investigations, such as determining what areas and/or items need to be inspected and in what order, who will be interviewed and in what order, and what records will be reviewed. Inadequate policy and procedures related to investigation steps may result in an incomplete investigation and, depending on the nature of the complaint, could potentially affect the health and safety of children in care.

**Department lacks sufficient guidance on complaint resolution and follow up**—The Department’s complaint-handling policy lacks adequate guidance regarding the disciplinary action(s) it should take based on the number and nature of substantiated violations and how to follow up with providers and complainants, including informing complainants in a timely manner of the complaint investigation outcome. Specifically, the Department’s complaint-handling policy:

- **Does not specify what type of disciplinary action(s) to take**—According to auditors’ review of various best practices, in order to ensure appropriate and consistent enforcement, agencies should develop a systematic, fair, and progressively stringent enforcement process that is defined in policy.<sup>49</sup> Although the Department’s complaint-handling policy directs inspectors to discuss complaint investigation findings and any action that may be taken with their manager and indicates that revocation may be appropriate for substantiated

<sup>46</sup> Commonwealth Ombudsman, 2009; NARA & NCCCQI, 2015; NSAA, 2004; New South Wales Ombudsman, 2015; and Queensland Ombudsman, 2006.

<sup>47</sup> Child Care and Development Block Grant Act of 2014, Sec. 658E(c)(2)(D).

<sup>48</sup> Commonwealth Ombudsman, 2009; NARA & NCCCQI, 2015; New South Wales Ombudsman, 2015; and Queensland Ombudsman, 2006.

<sup>49</sup> NSAA, 2004; NARA & NCCCQI, 2015; and Queensland Ombudsman, 2006.



complaints, the policy does not provide sufficient guidance on other disciplinary actions to take, such as suspension, to address substantiated complaints. Without specific policies and procedures for determining what type of disciplinary action may be warranted based on the number and nature of substantiated violations, providers may not be treated fairly if inspectors are inconsistent in assessing disciplinary action.

- **Lacks sufficient guidance and time frames for followup**—According to auditors’ review of various best practices, agencies should follow up as needed to ensure problems have been corrected and that complainants are advised of the complaint investigation outcomes in a timely manner.<sup>50</sup> The Department’s complaint-handling form indicates that inspectors should determine the need for follow-up actions regardless of whether the complaint allegations were substantiated or unsubstantiated. However, neither the form nor the Department’s policy contain information on what follow-up actions inspectors should take or the time frames for doing so. Additionally, the policy does not require inspectors to notify appropriate persons, such as complainants, regarding the complaint investigation’s outcome in a timely manner. Without clear procedures for performing specific follow-up actions, including notifying providers and complainants of complaint investigation outcomes, neither providers nor complainants may be aware that the complaint has been investigated and resolved.

**Department lacks complaint-handling training and monitoring processes**—Based on auditors’ review of various best practices, well-trained staff are essential for effective complaint handling and for interacting with complainants in a professional manner.<sup>51</sup> However, department management indicated that they have not developed and provided complaint-handling training to inspectors. In contrast, DHS’ initial staff training curriculum for new inspectors contains training related to complaint handling, including developing a written complaint investigation plan that outlines the steps of a complaint investigation, such as deciding who to interview and what documents to review.

Best practices identify three additional key areas for complaint handling: (1) monitoring complaint-handling timeliness and complaint investigations, (2) supervisory review of the complaint-handling process, and (3) reviewing complaint outcomes and trends.<sup>52</sup> However, the Department has not established specific processes for these activities. Specifically:

- Department policy does not provide any guidance on tracking complaints to ensure that they are adequately addressed and resolved within a timely manner. Although supervisors indicated that they do track complaints for their regions, they do so in different ways. For example, one supervisor stated that she tracks complaints by setting reminders in Outlook, flagging the email that describes the complaint, and using sticky notes, while another supervisor indicated she primarily relies on notes in the hard-copy file. Although the supervisors indicated that they believed these methods work, a policy requiring supervisors to monitor complaints and a standardized process for doing so would help ensure that all supervisors are effectively monitoring complaints.
- Although the Department’s complaint-handling policy indicates that inspectors will discuss investigation findings and actions with their manager, it is not clear whether supervisors or managers are required to be involved in other facets of the complaint-handling process. In contrast, DHS’ complaint-handling policy clearly indicates management and supervisory responsibilities for its complaint-handling process, such as reviewing complaint intake, complaint initiation, and statement of deficiency forms; confirming investigation findings; and updating the supervisory complaint tracking document.
- Finally, department management indicated that they do not prepare or receive any management reports related to complaints, such as reports on the number and outcome of complaints by provider. Management reports are helpful for identifying such things as weaknesses in existing policies, training needs, or specific areas

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<sup>50</sup> Commonwealth Ombudsman, 2009; NARA & NCCCQI, 2015; NSAA, 2004; New South Wales Ombudsman, 2015; and Queensland Ombudsman, 2006.

<sup>51</sup> Commonwealth Ombudsman, 2009; New South Wales Ombudsman, 2015; and Queensland Ombudsman, 2006.

<sup>52</sup> Commonwealth Ombudsman, 2009; NARA & NCCCQI, 2015; NSAA, 2004; New South Wales Ombudsman, 2015; and Queensland Ombudsman, 2006.

where some providers are deficient. For example, a report identifying the number and type of substantiated complaints could identify additional provider training that may be needed.

## Department should enhance complaint-handling process

The Department should take several steps to improve its complaint-handling process for certified child care providers as follows:

- **Enhance its complaint intake process**—To help ensure that the public knows how to file a complaint against a certified child care provider and understands how it will handle complaints, the Department should include information about its complaint-handling process on its website, such as an overall description of the process. In addition, it should ensure that the public has a variety of ways to submit a complaint to the Department, such as through an online submission form and a specific phone number to call. Finally, the Department should assign specific staff to receive and process complaints.
- **Continue its efforts to develop an electronic method for logging complaint information**—The Department should continue its efforts to modify AzCCATS to capture information related to complaints. To help ensure inspectors understand how to record complaint information in AzCCATS, the Department should develop and implement guidance within its complaint-handling policy on the complaint information that should be recorded in AzCCATS throughout the complaint-handling process, and how it should be entered into AzCCATS, by whom, and within what time frames. The Department should also ensure that its modifications to AzCCATS will allow it to comply with the November 2017 federal requirement that information on substantiated complaints be electronically available to the public, such as through its website. Similarly, the Department should ensure that the complaint information it is capturing in AzCCATS is sufficient for monitoring whether complaints are being processed in a timely manner and that all steps in the process are completed as well as allow it to periodically assess complaint trends. For example, to allow the Department to track whether complaints are being handled in a timely manner, AzCCATS will need to capture dates for specific steps in the process, such as when complaints are received. Further, to monitor trends, AzCCATS will need to capture information such as the nature of complaints and whether complaints are substantiated or not.
- **Develop and implement complaint investigation policies and procedures**—To help ensure that inspectors appropriately and consistently conduct complaint investigations, the Department should develop and implement comprehensive complaint investigation policies and procedures. These policies and procedures should require inspectors to develop a written complaint investigation plan for each investigation; outlining the investigative steps that inspectors should perform, such as what documents to review; what items or areas to observe; and whom to interview.
- **Develop and implement additional guidance on complaint resolution**—To help ensure that certified child care providers are treated in a fair and consistent manner and that inspectors are appropriately following up with complainants and providers, the Department should develop and implement additional policies and/or guidance regarding its enforcement options and follow-up activities. Specifically, the Department should:
  - Develop and implement within its complaint-handling policy a systematic, fair, and progressively stringent enforcement process. This process should provide guidance on the appropriate disciplinary actions to take if the complaint is substantiated and when to take progressive disciplinary action against a provider, such as when issues are not corrected in a timely manner or the provider receives multiple complaints with substantiated violations; and
  - Develop and implement policies and procedures that specify the follow-up activities to perform, such as the steps needed to ensure problems have been corrected, and that appropriate persons, such as complainants, are notified of the complaint outcome. In addition, the policies and procedures should include the time frames for performing these follow-up activities.



- **Strengthen its monitoring process**—To help ensure that complaints are adequately tracked and monitored, the Department should establish time frames for completing key steps of the complaint-handling process and monitor compliance with these time frames, enhance its supervisory review of the complaint-handling process, and review complaint outcomes to identify trends and take action to address these trends as appropriate. Specifically, the Department should:
  - Establish time frames for completing key steps of the complaint-handling process, such as complaint receipt and assignment for investigation, completion of the investigation, and when enforcement action should be taken and/or the complaint closed. Once established, the Department should also develop and implement policies and procedures for monitoring compliance with the established complaint-handling time frames.
  - Develop and implement policies and procedures directing the supervisory review of complaint-handling. Key complaint-handling steps that may benefit from supervisory review include the complaint intake process, adequacy of the complaint investigation, appropriateness of complaint findings and substantiated violations, and ensuring the appropriateness of any recommended disciplinary action.
  - Develop and implement policies and procedures for reviewing complaint outcomes, identifying trends, and taking any necessary actions based on the trends identified. The policies and procedures should identify the specific information that should be analyzed, such as the number and types of complaints received, and specify how the Department will use the information to make changes to its complaint-handling processes or identify needs within the child care provider community, such as a need for additional training.
- **Develop and implement complaint-handling training**—The Department should develop and implement training on the complaint-handling process. This training should cover the entire complaint-handling process from intake to resolution and should incorporate the changes identified in this audit. This training should be provided to all staff who handle complaints directly so that they understand how to appropriately receive and resolve complaints. In addition, the Department should provide some general training for all child care services staff, such as general information about the overall complaint-handling process, including how complaints can be filed and an overview of the Department's policies and procedures for handling complaints.

## Recommendations

- 2.1. The Department should enhance its complaint intake process to ensure that the public knows how to file a complaint against a certified child care provider and understands how it will handle complaints. Specifically, the Department should:
  - a. Include information about its complaint-handling process on its website, such as an overall description of the process;
  - b. Ensure that the public has a variety of ways to submit a complaint to the Department, such as through an online submission form and a specific phone number to call; and
  - c. Assign specific staff to receive and process complaints.
- 2.2. The Department should continue its efforts to modify AzCCATS to capture information related to complaints on certified child care providers. Specifically, the Department should:
  - a. Develop and implement guidance within its complaint-handling policy on the complaint information that should be recorded in AzCCATS throughout the process, and how it should be entered into AzCCATS, by whom, and within what time frames;
  - b. Ensure that its modifications to AzCCATS will allow it to comply with the November 2017 federal requirement that information on substantiated complaints be electronically available to the public, such as through its website; and

- c. Ensure that the complaint information it is capturing in AzCCATS is sufficient for monitoring whether complaints are being processed in a timely manner and that all steps in the process are completed, as well as allow it to periodically assess complaint trends. For example, to allow the Department to track whether complaints are being handled in a timely manner, AzCCATS will also need to capture dates for specific steps in the process, such as when complaints are received, and to monitor trends, AzCCATS will also need to capture information such as the nature of complaints and whether complaints are substantiated or not.
- 2.3. The Department should develop and implement comprehensive complaint investigation policies and procedures. These policies and procedures should require inspectors to develop a written complaint investigation plan for each investigation that outlines the specific steps that inspectors should perform, such as what documents to review, what items or areas to observe, and whom to interview.
- 2.4. The Department should develop and implement additional complaint resolution policies and/or guidance in its complaint-handling policy regarding its enforcement options and follow-up activities. Specifically, the Department should:
- a. Develop and implement, within its complaint-handling policy, a systematic, fair, and progressively stringent enforcement process. This process should provide guidance on the appropriate disciplinary actions to take if the complaint is substantiated and when to take progressive disciplinary action against a provider, such as when issues are not corrected in a timely manner or the provider receives multiple complaints with substantiated violations; and
  - b. Develop and implement policies and procedures that specify the follow-up activities to perform, such as the steps needed to ensure problems have been corrected, and that appropriate persons, such as complainants, are notified of the complaint outcome. In addition, the policies and procedures should include the time frames for performing these follow-up activities.
- 2.5. The Department should strengthen its monitoring of the complaint-handling process by:
- a. Establishing time frames for completing key steps of the complaint-handling process, such as complaint receipt, assignment for investigation, and investigation completion. Once established, the Department should also develop and implement policies and procedures for monitoring compliance with the established complaint-handling time frames;
  - b. Developing and implementing policies and procedures directing the supervisory review of complaint handling. Key complaint-handling steps that may benefit from supervisory review include the complaint intake process, adequacy of the complaint investigation, appropriateness of complaint findings and substantiated violations, and ensuring the appropriateness of any recommended disciplinary action; and
  - c. Developing and implementing policies and procedures for reviewing complaint outcomes, identifying trends, and taking any necessary actions based on the trends identified. The policies and procedures should identify the specific information that should be analyzed, such as the number and types of complaints received, and specify how the Department will use the information to make changes to its complaint-handling processes or identify needs within the child care provider community, such as a need for additional training.
- 2.6. The Department should develop and implement training on the complaint-handling process. Specifically, the Department should:
- a. Develop and implement training that covers the entire complaint-handling process from intake to resolution and also incorporates the changes identified in this audit;
  - b. Provide this complaint-handling training to all staff who handle complaints directly; and

- c. Provide general training about the overall complaint-handling process to all child care services staff, including how complaints can be filed and an overview of the Department's policies and procedures for handling complaints.





## Department should examine costs and benefits of consolidating child care regulation under one agency

The Arizona Department of Economic Security (Department) should analyze the costs and benefits of consolidating child care regulation under one agency. Although many other states centralize their child care regulatory responsibilities under one agency, the Department and the Arizona Department of Health Services (DHS) share responsibility for child care regulation in Arizona. Consolidating this responsibility under one agency could potentially improve the economy and efficiency of child care regulation by eliminating duplication, overlap, and fragmentation and leveraging the two agencies' resources and authorities, although the costs of consolidating should be considered. Therefore, the Department should work with DHS and stakeholders to examine the costs and benefits of consolidating the Department's and DHS' child care regulatory functions to determine if it would be in the State's best interests and then take action as appropriate. For example, if the benefits outweigh the costs, the Department should seek the necessary approval to proceed with consolidation and work with stakeholders and the Legislature to develop and execute an implementation plan.

### Arizona's child care licensing and certification responsibility is shared between two state agencies

State responsibility for regulating Arizona's child care providers is shared between two state agencies—the Department and DHS. Although the two agencies regulate different types of child care providers, there are several similarities in the two agencies' regulatory responsibilities (see textbox for a description of provider types each agency regulates). Additionally, many other states centralize their child care regulatory responsibilities under one agency.

#### Department and DHS share responsibility for regulating child care providers in Arizona—

Although the Department and DHS regulate different types of child care providers, they perform many of the same regulatory responsibilities. For example, each agency must regularly monitor providers' compliance with laws and regulations. As of September 2016, the Department's 18 child care inspectors were responsible for conducting on-site monitoring of approximately 440 child care homes, while DHS' 26 child care inspectors were responsible for monitoring approximately 1,200 child care centers and 200 child care group homes.<sup>53</sup>

#### Department of Economic Security

- **Child care home providers** care for up to four children for compensation in the provider's home.
- **Child care in-home providers** care for up to four children for compensation in the children's own home.

#### Department of Health Services

- **Child care centers** care for more than four children for compensation in a nonresidential facility.
- **Child care group home providers** care for five to ten children for compensation in the provider's home.

Source: Auditor General staff review of Arizona statutes, rules, and the Child Care and Development Fund state plan for federal fiscal years 2016-2018.

<sup>53</sup> The number of DHS centers and group homes are those that had agreements, i.e., contracts, with the Department to care for children authorized for the subsidy, which is financial assistance that the Department pays to a child care provider on behalf of an eligible child to assist the child's family with its child care costs. According to the Department and DHS, the number of DHS-licensed child care centers and certified group homes, regardless of whether they contracted with the Department, was 2,501 as of October 2016. DHS is responsible for monitoring all of these providers.

Other areas where the two agencies share similar responsibilities include:

- **Licensing and/or certifying child care providers**—Both agencies are statutorily required to license and/or certify child care centers and home providers.<sup>54</sup> The agencies' licensing and certification processes include several similar steps such as reviewing the application to ensure that it is complete; determining the applicant's citizenship status; and verifying that the applicant and other relevant individuals have signed a criminal history affidavit, have a valid fingerprint clearance card, and have passed a child abuse registry check. Additionally, just prior to issuing a license or certificate, the agencies conduct an on-site visit to ensure the center or home meets health and safety requirements.<sup>55</sup>
- **Establishing standards and requirements for ensuring child health and safety**—Both agencies are statutorily required to establish standards to protect children's health and safety when in the care of regulated child care providers.<sup>56</sup> Although there are some differences in the way the two agencies describe their child care standards, they generally cover the same areas. For example, both agencies' standards address safety, supervision, sanitation, discipline, evening and nighttime care, meals and nutrition, medications, immunizations, and transportation, among other areas. These health and safety standards are primarily prescribed in the agencies' statutes and/or administrative rules. In addition, federal law requires states to establish requirements designed to protect the health and safety of children in care.<sup>57</sup> These requirements must address ten areas, although states may include additional requirements to promote child development or to protect children's health and safety (see textbox for the minimum requirements).
- **Conducting routine inspections to monitor providers' compliance with laws and regulations and taking enforcement action as appropriate**—Both agencies routinely monitor providers' compliance with applicable laws and regulations. For example, DHS is statutorily required to conduct at least one unannounced visit annually to each licensed center and certified group home to assure continued compliance with laws and regulations.<sup>58</sup> Further, DHS is required to monitor the operation of group homes at least two times each year to ensure that the group home is meeting DHS' standards of care.<sup>59</sup> Department regulations require that it make at least two on-site visits each year to each home facility and in-home provider, with at least one visit being unannounced (see Finding 1, pages 11 through 12, for additional information on this requirement).<sup>60</sup> Both agencies' inspections are guided by a checklist based on their respective health and safety requirements established in law and administrative rule. Inspections are conducted through observations, interviews, and documentation reviews. If the agencies identify noncompliance during their

#### Minimum federal health and safety child care provider requirements

1. Infectious disease prevention and control;
2. Sudden infant death syndrome prevention and safe sleeping practices;
3. Medication administration;
4. Food and allergic reaction emergency response;
5. Building and physical premises safety;
6. Shaken baby syndrome and abusive head trauma prevention;
7. Emergency preparedness and response;
8. Hazardous materials handling, storage, and disposal;
9. Child transportation precautions; and
10. First aid and cardiopulmonary resuscitation certification.

Source: Auditor General staff review of the CCDBG Act of 2014, Sec. 658E(c)(2)(l)(i).

<sup>54</sup> Arizona Revised Statutes (A.R.S.) §§46-803(A), 46-807(A), 36-882(A), and 36-897.01(A).

<sup>55</sup> Arizona Administrative Code (AAC) R6-5-5204(A)(4) excludes in-home provider applicants from the precertification on-site home visit requirement.

<sup>56</sup> A.R.S. §§36-883(A), 36-897.02(A), and 46-807(A).

<sup>57</sup> Child Care and Development Block Grant (CCDBG) Act of 2014, Sec. 658E(c)(2)(l)(i).

<sup>58</sup> A.R.S. §§36-885(B) and 36-897.05(B).

<sup>59</sup> A.R.S. §36-897.02(F).

<sup>60</sup> AAC R6-5-5207(H).

inspections, they require the providers/facility personnel to correct the violations within a specified time frame, generally 10 business days. Depending on the nature of the violations, the agencies may allow the providers/facility personnel to send proof that they have corrected the violations, such as a copy of their child care liability insurance policy, or the inspector will conduct a follow-up visit to the provider's home or facility to visually confirm the violations have been resolved. If the violations are not resolved within the specified time frames, the agencies have progressively more serious enforcement actions they may take, including suspending or revoking the provider/facility's certificate or license.

- **Investigating complaints**—In addition to regularly monitoring providers' compliance with applicable laws and regulations, both agencies investigate complaints against the child care providers that they monitor. Both agencies accept verbal and written complaints against the child care providers. For further information on the Department's complaint-handling process and some examples of DHS' process, see Finding 2, pages 21 through 27.
- **Ensuring public availability of monitoring and substantiated complaint investigation information**—Both agencies make information on their respective child care providers' licensing and certification inspections and substantiated complaint investigations available to the public. Each agency maintains a public file for viewing in the child care office to which the provider is assigned. The files contain records of inspections, substantiated complaints, and other publicly available documents, and are available for viewing Monday through Friday. Federal law requires that by November 19, 2017, regulated providers' monitoring and inspection results and substantiated complaints be available to the public using electronic means, such as a website, in a consumer-friendly and easily accessible format.<sup>61</sup> DHS already makes licensing and substantiated complaint information on licensed centers and certified group home providers available electronically through AZCareCheck.gov. The Department reported that it plans to be in compliance with this requirement by November 19, 2017 (see Finding 2, page 22, for additional information on the Department's efforts to implement this requirement).
- **Adopting rules**—Both agencies are statutorily required to adopt administrative rules related to their regulation of child care providers.<sup>62</sup> For example, the Department must adopt rules that are reasonable or necessary to implement child care services and to further the objectives of these services. Likewise, DHS is required to establish reasonable rules regarding the health, safety, and well-being of the children cared for in child care centers, and adopt rules necessary for the proper administration and enforcement of its regulation of certified group homes.

**Unlike Arizona, many states centralize their child care regulation under one agency**—Although states have flexibility in how they structure their child care regulation, as of 2014, at least 31 states and the District of Columbia centralize regulation of their child care centers, group homes, and family homes under one agency.<sup>63</sup> Auditors contacted four states—Alabama, Alaska, Arkansas, and Montana—and interviewed relevant child care management about their states' regulatory structures.<sup>64</sup> All four of these states centralize their child care provider regulation under one agency, although Alaska's child care regulatory agency grants authority to the Municipality of Anchorage (MOA) to regulate child care providers in the municipality. Child care management from three of the states provided information on recent efforts that their states have undertaken to consolidate or coordinate child care regulation. For example, in September 2015, Alabama's child care regulatory agency began monitoring family and group home providers that were previously monitored by county departments of human resources. In January 2016, Montana consolidated child care monitoring previously conducted by two separate programs

<sup>61</sup> CCDBG Act of 2014, Sec. 658E(c)(2)(D).

<sup>62</sup> A.R.S. §§46-809, 36-882, 36-883, and 36-897.01.

<sup>63</sup> Auditors were unable to find a centralized source of information that indicates how each state structures its regulation of its child care centers, group homes, and family homes. Therefore, to report some information on states' child care regulatory structures, auditors compiled data from the *2014 National Association for Regulatory Administration Licensing Programs and Policies Survey* (latest available), Early Childhood Training and Technical Assistance System, federal Office of Child Care, and publicly available documents on states' child care programs.

<sup>64</sup> These states were selected based on the various time frames each state uses to review families on waiting lists for continuing eligibility for the child care subsidy (see footnote 71, page 37, for more information). Auditors also contacted these states to obtain information about their child care provider regulation structure. See Appendix B, page b-2, for more information on how these states were selected.



within the Montana Department of Public Health and Human Services. In August 2016, Alaska's MOA decided to adopt the state's child care regulations and started to align its child care policies, forms, and notices with those of the state child care agency. The child care managers from these states reported that the consolidation/coordination efforts are expected to result in greater consistency in monitoring and enforcement, and improved provider practice.

## Consolidation could potentially improve economy and efficiency of Arizona's child care regulation

National and international organizations have noted that consolidation, or reorganization, can improve the economy and efficiency of regulation through the elimination of duplication, overlap, and fragmentation (see textbox for definition of economy and efficiency). For example, the Organisation for Economic Co-operation and Development reported that one of the most important institutional changes to improve the efficiency of inspections and decrease the costs and burden they represent is to restructure regulatory enforcement agencies so that functions are consolidated, thus removing duplications and overlaps.<sup>65</sup> In 2010, the U.S. Government Accountability Office (GAO) outlined a number of management approaches that may improve efficiency, including restructuring outmoded government organizations and operations.<sup>66</sup> In addition, in a 2012 document, the U.S. GAO reported that agencies can often realize a range of benefits, such as improved customer service, decreased administrative burdens, and cost savings from reducing or eliminating duplication, overlap, and fragmentation (see textbox for explanation of terms).<sup>67</sup>

There are several potential benefits for the State of consolidating the Department's and DHS' child care regulatory responsibilities. These benefits include:

- **Administrative efficiencies** through consolidating the agencies' staff, space, equipment, forms, etc., and reducing or eliminating duplicate services and/or responsibilities such as establishing standards and rules;
- **Regulatory consistency** across child care provider types through aligning rules, policies, and practices; and
- **Improved public access** to information on all regulated child care types through a single point of contact. This would eliminate the public's need to first determine which agency would be the appropriate one to contact.

**Economy and efficiency** is defined as maintaining services or outcomes using fewer resources (such as time, money, and staff) or improving or increasing the quality or quantity of services or outcomes while maintaining (or reducing) resources expended.

Source: U.S. Government Accountability Office. (2015). *Fragmentation, overlap, and duplication: An evaluation and management guide*. Washington, DC.

**Fragmentation** refers to those circumstances in which more than one agency (or organization within an agency) is involved in the same broad area and opportunities exist to improve service delivery.

**Overlap** occurs when multiple agencies or programs have similar goals, engage in similar activities or strategies to achieve them, or target similar beneficiaries.

**Duplication** occurs when two or more agencies or programs are engaged in the same activities or provide the same services to the same beneficiaries.

Source: Auditor General staff analysis of U.S. GAO, 2015.

In addition to the above benefits, other potential benefits may be possible through leveraging certain agency resources. For example, both agencies have electronic case management systems that are used to maintain and track provider information, including licensing/certification, inspection, complaint, and enforcement action information. However, one system may provide greater functionality, such as the ability for the public to electronically

<sup>65</sup> Organisation for Economic Co-operation and Development. (2014). *OECD best practice principles for regulatory policy, regulatory enforcement, and inspections*. Paris, France.

<sup>66</sup> U.S. Government Accountability Office. (2010). *Streamlining government: Opportunities exist to strengthen OMB's approach to improving efficiency*. Washington, DC.

<sup>67</sup> U.S. Government Accountability Office. (2012). *2012 Annual Report: Opportunities to reduce duplication, overlap and fragmentation, achieve savings, and enhance revenue*. Washington, DC.



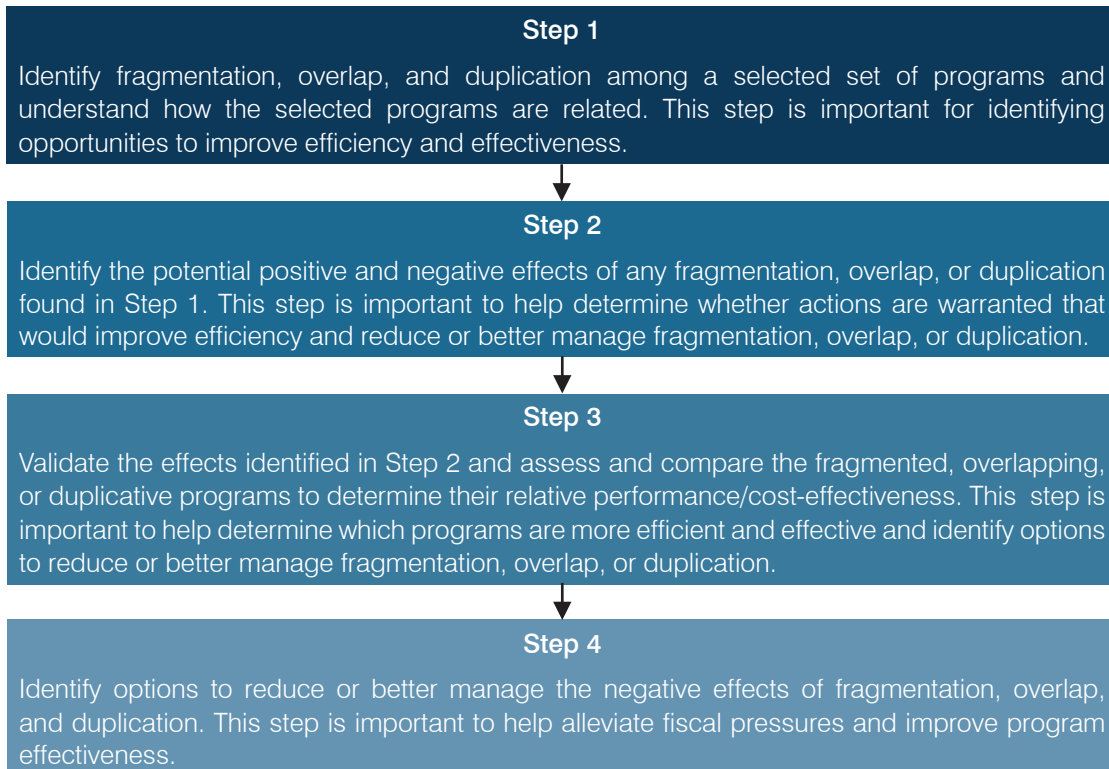
file complaints or search the one system for provider inspection and substantiated complaint histories, regardless of provider type. Another area where the agencies could possibly leverage existing resources is training. Although both agencies use on-the-job training, including having new staff shadow experienced inspectors or supervisors, the agencies may also have additional guides and in-house training classes that would further help ensure regulatory staff are trained in a consistent and thorough manner.

## Department should analyze costs and benefits of consolidating state child care regulation

The Department should work with DHS and stakeholders to examine the costs and benefits of consolidating the Department’s and DHS’ child care regulatory functions to determine if it would be in the State’s best interests and then take action as appropriate. In addition to the potential benefits previously discussed, an analysis of consolidating child care regulation within one state agency should also consider the costs of consolidation. For example, costs may be incurred in transitioning staff and equipment from one agency to the other; modifying automated systems and merging information; aligning or developing new regulations, policies, tools, and forms; training staff; and notifying providers of the changes resulting from consolidation.

In conducting the analysis, the Department should consider a process used by the federal government—examining the two regulatory programs for fragmentation, overlap, and duplication. The U.S. GAO found that opportunities may exist to take action where programs are inefficient or ineffective because they are fragmented, overlapping, or duplicative, and it issued guidance to assist in detecting, evaluating, and reducing fragmentation, overlap, and duplication.<sup>68</sup> The guidance identifies four steps and provides detailed direction on what information to consider and what steps to take for conducting a fragmentation, overlap, and duplication review (see Figure 3 for a list of the steps).

**Figure 3**  
**Steps in assessing program fragmentation, overlap, and duplication**



Source: Auditor General staff analysis of U.S. GAO, 2015.

<sup>68</sup> U.S. GAO, 2015.

Therefore, the Department should work with DHS and stakeholders to examine the costs and benefits of consolidating their child care regulatory functions. The Department should ensure that it documents the process and results of its analysis to support its conclusions. Even if the Department's analysis indicates that consolidation is not worth pursuing, it should share any options to increase efficiency and/or reduce or better manage fragmentation, overlap, and duplication with relevant entities, including policymakers, as appropriate, and document these communications. If the Department determines that it would be worthwhile to pursue consolidation, it should take the next steps, including seeking the necessary approval to proceed and working with stakeholders and the Legislature to develop and execute an implementation plan.

## **Recommendations**

- 3.1. The Department should work with DHS and stakeholders to examine the costs and benefits of consolidating the Department's and DHS' child care regulatory functions.
- 3.2. The Department should document the process and results of its analysis to support its conclusions.
- 3.3. The Department should share any options to increase the efficiency and/or reduce or better manage fragmentation, overlap, and duplication identified during the analysis with relevant entities, including policymakers, as appropriate, regardless of its conclusions regarding consolidation, and document these communications.
- 3.4. If the Department determines that it would be worthwhile to pursue consolidation, it should take the next steps to move toward consolidation, including:
  - a. Seeking the necessary approval to proceed with consolidation; and
  - b. Working with stakeholders and the Legislature to develop and execute an implementation plan.



# Department uses child care waiting list when funding is insufficient to meet needs of all eligible families

The Arizona Department of Economic Security (Department) is statutorily required to use a child care waiting list whenever it determines that available child care subsidy funding is not sufficient to meet the needs of all eligible families. Literature indicates that child care subsidies can positively impact low-income families' ability to obtain and maintain economic self-sufficiency. When subsidy funding becomes available, the Department releases families from the waiting list in a prioritized order based on household income (see textbox for definitions). The Department reported taking several actions to monitor the use of subsidy funding to ensure the child care subsidy program serves as many families as possible while still remaining within budget, but should document these steps in its policies and procedures. The Department reported that it has taken a conservative approach to its subsidy spending because of uncertainty regarding the financial impact of new regulations that may increase the subsidy amounts the Department is required to provide per child.

**Subsidy** is financial assistance paid to a child care provider on behalf of an eligible child to assist the child's family with its child care costs.

**Release** means that a family on the waiting list will be offered the child care subsidy if the family still wants and is eligible to receive it.

Source: Auditor General staff analysis of department documentation.

## Department has established child care waiting list

Arizona Revised Statutes §46-803(l) requires the Department to establish a child care waiting list in order to manage child care subsidies within appropriated and available monies. Specifically, when available subsidy monies are not sufficient to meet the needs of all eligible families, the Department places some families on a waiting list. The Department most recently established a waiting list in 2009, and according to the Department, as of September 30, 2016, there were approximately 3,500 families with about 6,000 eligible children on the waiting list. The Department also reported that the number of children on the waiting list has fluctuated from a high of approximately 10,300 at the start of fiscal year 2011 to a low of 235 at the start of fiscal year 2016. Low-income families are automatically placed on the waiting list when they apply for and are determined to be eligible for the subsidy if sufficient subsidy monies are not available. Temporary Assistance for Needy Families (TANF), transitional, and protective services families are exempt from being placed on a waiting list and are authorized to receive subsidized child care (see the Introduction, page 3, for further description of these families).

## Child care subsidy is important support for low-income families

Child care subsidies can positively impact low-income families' ability to obtain and maintain economic self-sufficiency. According to a 2013 child care subsidy literature review, there is considerable evidence to suggest that families who receive subsidies are more likely to have positive employment outcomes, including a shorter time transitioning from welfare to work, a higher probability of employment, and a lower likelihood of experiencing

a child-care-related work disruption when compared to subsidy-eligible families who do not receive subsidies.<sup>69</sup> Additionally, the research encompassed within the 2013 literature review suggests that child care subsidies may assist families financially by either decreasing the cost of care or allowing families to purchase formal care arrangements. In 2014, the Department surveyed families on its waiting list to determine how they coped with the lack of subsidized care. Seventy-one percent of the respondents reported that waiting for the subsidy negatively affected their employment and/or their ability to accept or maintain employment.

## Department releases children from waiting list as monies become available

Families are prioritized for release from the waiting list when monies become available based on their gross monthly household income and the date they applied for the child care subsidy. Priority 1 on the waiting list represents those families with gross monthly household incomes at or below 100 percent of the federal poverty level (FPL) with each successive priority level reflecting a 10 percent increase in income above the FPL up to the maximum allowable household income of 165 percent of the FPL. For example, priority 2 families are those with incomes at or below 110 percent of the FPL. When all priority 1 families have been released from the waiting list, priorities 2 through 8 will be released based on priority order. According to department reports and a press release, since fiscal year 2009, the Department has released children from the child care waiting list in fiscal years 2011, 2015, and 2017 as follows:

- In fiscal year 2011, the Department released almost 7,000 children.
- In fiscal year 2015, the Department conducted six releases, totaling approximately 15,600 children.
- In August 2016 (fiscal year 2017), the Department released nearly 4,400 children from the priority 1 category of the waiting list.

Although department management reported that it does not routinely track the length of time that families remain on the waiting list, it reported that the approximately 3,500 families on the waiting list as of September 30, 2016, had been on the list for an average of 4.2 months.

## Department reported taking several actions to determine when to release children from waiting list

Although the Department has not formalized its process for determining when and how many children to release from the waiting list in its policies and procedures, it reported taking several actions to monitor the use of subsidy funding to ensure the Department serves as many children as possible while still remaining within budget. Specifically, the Department:

- **Monitors available funding**—The Department reported continually monitoring its available appropriated subsidy funding. In addition, it is required to track its use of some federal allocations. This is important because some allocations may be spent over multiple years and result in a balance that may be available for use. One example of this is the Child Care and Development Fund (CCDF), which is the primary source of funding for the Department's child care services, including the child care subsidy (see Appendix A, pages a-1 through a-2, for a discussion of the CCDF). For example, according to the State's Fiscal Year 2009 Appropriations Report, "over the past several years," the CCDF appropriation was larger than the actual revenue received in order to spend a balance that had accumulated in the fund.
- **Monitors service utilization and expenditure data**—Department management reported that it uses its automated child care system, AzCCATS, to monitor service utilization and expenditure data to help forecast if, when, and to what extent children can be released from the waiting list and be authorized for services.

<sup>69</sup> Forry, N. D., Daneri, P., & Howarth, G. (2013). *Child care subsidy literature review*. Washington, DC: Office of Planning, Research and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services.

According to department management, the trends that are most closely tracked to make this determination are the total number of authorized children who are using care and the average monthly payment the Department is making for these children.<sup>70</sup>

In addition, department management reported that it solicited information from families receiving the subsidy to help understand a trend it was seeing. Specifically, during fiscal year 2016, it appeared that some families were not using their full authorized subsidy amount. The Department estimated that authorized families were using only 82 percent of their authorized subsidy amount, meaning that a family authorized for 5 days of subsidized care per week was using only 4.1 days. Department management surmised that the cost of care the families must cover, i.e., copayments and provider charges above the department reimbursement rate, had become a burden, so families were also using other less costly options for child care such as friends and relatives when available. As part of the Department's 2016 child care client survey, it asked families whether they were fully using their authorized subsidy amount, and if not, why and what other arrangements they were using. Department management reported that 5,000 surveys were sent out in August 2016, and 378 responses were received. The Department was in the process of reviewing the information and anticipates completing its analysis in February 2017.

- **Estimates cost to release**—The Department also estimates the cost of releasing children from the waiting list. First, it assumes based on past utilization that 50 percent of the families with children on the waiting list will report continued interest in receiving the subsidy, and of those, 85 percent will still qualify for and go on to receive the subsidy. Factoring in these assumptions, the Department then calculates its cost to release children by multiplying the average monthly subsidy amount by the number of children on the waiting list multiplied by 12 (the number of months).

The practices the Department reported appear similar to the practices reported by two other states that auditors contacted—Alabama and Arkansas—which both had waiting lists as of August 2016.<sup>71</sup> Department management indicated that it plans to standardize the process it uses to determine when and how many children to release from the waiting list, including establishing a schedule for how frequently to conduct the process. Once this is completed, the Department should include the process within its policies and procedures to ensure that staff know the steps to perform to determine when and how many children to release from the child care subsidy waiting list.

## Department has taken conservative approach to spending in anticipation of increased costs due to new federal regulations

Department management reported that it has taken a conservative approach in its spending because of anticipated increased costs for the Department's child care services as a result of new regulations for implementing the Child Care and Development Block Grant Act of 2014.<sup>72</sup> This federal law requires that states certify that their provider rates afford families receiving CCDF-funded child care services equal access to comparable child care services provided to families not receiving subsidies. The law requires states to take the cost of quality into account when setting rates and to set rates based on the results of a valid market rate survey or alternative method, which must

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<sup>70</sup> Department management explained that there is not a direct correlation between the number of children who are released from the waiting list at any point in time and the total number of children who can be authorized for the subsidy. Rather, the number of children on the waiting list who can be released and authorized for the subsidy is a function of the total projected expenditures for the entire child care caseload and the Department's management of this caseload within available appropriated monies.

<sup>71</sup> Auditors contacted four states' child care subsidy agencies—Alabama, Alaska, Arkansas, and Montana—to determine how they manage their waiting lists. All four states indicated having authority to use waiting lists if child care subsidy funding is insufficient to serve all eligible children. Alaska and Montana reported that they have not had to establish a waiting list for many years. Alabama and Arkansas had waiting lists in place as of August 2016. The states were selected to obtain a variety of time frames for reviewing families' continued interest in remaining on their child care waiting lists. The time frames represented by the selected states were 10 days, 30 days, 6 months, and unspecified.

<sup>72</sup> According to information from a federal Office of Child Care webpage, the law makes changes to help protect the health and safety of children in care, promote continuity of access to subsidies for low-income families, and better inform parents about the child care choices available to them.

be conducted at least once every 3 years.<sup>73</sup> The market rate survey examines variations in rates among types of child care, ages of children, and regions of the state.

The final federal rule that outlines states' requirements for implementing the Child Care and Development Block Grant Act of 2014 does not require states to pay providers at the 75th percentile of the most current market rate survey, which is 2014 for Arizona. However, information within the final rule indicates that the U.S. Department of Health and Human Services (DHHS) strongly discourages states from paying providers less than the 75th percentile and intends to enhance its monitoring of state rates through the CCDF plan approval process.<sup>74,75</sup> This is seen in the conditional approval letter of Arizona's 2016-2018 CCDF plan dated June 13, 2016, from the U.S. DHHS that states "...We continue to be concerned that your rates may not allow for equal access. OCC (Office of Child Care) plans to make review of payment rates a priority for our upcoming implementation monitoring visits. Thus, the conditional approval of your Plan **does not** constitute a final determination that your payment rates are sufficient to provide access to child care services for eligible families that are comparable to those provided to families that do not receive subsidies, as required by law." According to a department report, Arizona's maximum child care reimbursement rates for fiscal year 2016 reflected the 75th percentile of its 2000 market rate survey.<sup>76</sup> The report indicates that to comply with the recommended federal benchmark, the Department would, on average, need to increase rates by 44 percent.

## Recommendations

- 4.1. The Department should complete its plans to standardize its process for determining when and how many children to release from the waiting list, including establishing a schedule for how frequently to conduct this process.
- 4.2. The Department should include its standardized process within its policies and procedures to ensure that staff know the steps to perform to determine when and how many children to release from the child care subsidy waiting list.

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<sup>73</sup> Federal law allows a state to use an alternative methodology, such as a cost estimation model, in place of a market rate survey. The methodology must be approved in advance by the federal Administration for Children and Families.

<sup>74</sup> U.S. DHHS final rule (81 FR 67438) went into effect November 29, 2016.

<sup>75</sup> The CCDF plan serves as a state's or territory's application for CCDF funds by providing a description of, and assurance about, the grantee's child care program and all services available to eligible families. See footnote 26, page 14, for more information.

<sup>76</sup> The department-prepared *Annual Joint Legislative Budget Committee Child Care Report for the Period July 1, 2015–June 30, 2016*.



## Federal Child Care and Development Fund

Monies received through the federal Child Care and Development Fund (CCDF) are the primary source of revenues the Arizona Department of Economic Security (Department) uses to provide the child care subsidy and to help improve child care affordability, availability, and quality. CCDF consists of two federal grants. A portion of one of these grants is available to states only if specific conditions are met including that a state provide matching money and meet the maintenance-of-effort (MOE) requirement. The MOE requirement means that a state will spend a specified minimum amount of nonfederal monies to help eligible clients in ways that are consistent with the child care program. States may meet the federal requirements in various ways using nonfederal monies. In Arizona, since fiscal year 2011, certain expenditures by the Arizona Early Childhood Development and Health Board, also known as First Things First (FTF), have been used to largely fulfill the state match and MOE requirements.<sup>77</sup> For example, a 2015 memorandum of agreement between FTF and the Department indicated that up to \$30 million of FTF expenditures in federal fiscal year 2016 would be used to meet these requirements. These expenditures included Quality First Scholarships, which are similar but not identical to child care vouchers, and a variety of quality-driven initiatives such as technical assistance for child care providers and training for child care staff.<sup>78</sup> According to a 2016 Arizona Office of the Auditor General report (Report No. 16-108), FTF's contributions have helped the State receive more than \$220 million in CCDF federal grant monies in fiscal years 2011 through 2016.

## Federal CCDF expenditure categories

CCDF monies must be expended in accordance with federal requirements and the approved CCDF state plan.<sup>79,80</sup> Table 5, page a-2, provides information on how Arizona spent its 2014 federal CCDF award. This is the latest fiscal year for which all expenditures are reported for the grant's entire time frame, which includes fiscal years 2015 and 2016.

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<sup>77</sup> FTF was established by voter initiative in 2006 to ensure the quality and accessibility of early childhood development and health programs at the community level. To help support early childhood development and health programs, the voter initiative established a new tax on tobacco products that provides dedicated funding for FTF.

<sup>78</sup> In the child care field, voucher refers to a form of payment for subsidized child care.

<sup>79</sup> Generally, CCDF funds may not be spent for construction, tuition, or sectarian purposes.

<sup>80</sup> The CCDF plan serves as a state's or territory's application for CCDF funds by providing a description of, and assurance about, the grantee's child care program and all services available to eligible families. See footnote 26, page 14, for more information.



**Table 5****Federal CCDF and state matching expenditures 2014 award<sup>1</sup>  
October 1, 2014 through September 30, 2016**

Expenditure type	Description	Expenditures
Administrative	Includes accounting and audit services, program planning, coordinating with other child care programs, and monitoring program activities for compliance. No more than 5 percent of the total expenditures may be for administrative costs.	\$ 2,743,208
Quality activities	Includes activities for improving the quality and availability of child care, such as making grants or providing loans to child care providers to meet applicable child care standards, providing training and technical assistance to providers, and improving salaries and other compensation for provider staff. At least 4 percent of the total expenditures must be for quality activities. Beginning in federal fiscal year 2016, states are required to increase their spending in this area to 9 percent, phased in over 5 years.	27,895,012
Direct services	Solely for child care subsidies to eligible children. At least 70 percent of the total expenditures must be for child care subsidies for Temporary Assistance for Needy Families (TANF) families, families transitioning off TANF, or families at risk of becoming TANF recipients. <sup>2</sup>	98,942,387
Targeted	Includes activities focused on three areas: infant and toddler, quality expansion, and school-age/resource and referral. Beginning in federal fiscal year 2017, at least 3 percent of expenditures must be spent on activities to improve the quality of infant and toddler care.	7,906,863
Non-direct	Includes establishing and maintaining child care information systems, determining eligibility, conducting error-rate reviews, recruiting child care placements, setting rates, training providers on billing and claims processes, and providing resource and referral services.	5,792,178
<b>Total</b>		<b>\$143,279,648</b>

<sup>1</sup> Although the Department received most of the federal CCDF award for its child care services, the Arizona Governor's Office and FTF received a small amount for child care quality initiatives. Additionally, the Arizona Department of Child Safety was appropriated monies to pay for the day care subsidy of the children under its supervision.

<sup>2</sup> These direct services expenditures are from one of the two grants comprising the CCDF.

Source: Auditor General staff analysis of the Child Care and Development Block Grant Act of 2014; Title 45 Code of Federal Regulations Part 98; Office of Child Care. (2016). *CCDF program instruction: CCDF-ACF-PI-2013-05*. Washington, DC: U.S. Department of Health and Human Services, Administration for Children and Families; and the Department's *Child Care and Development Fund ACF-696 Financial Report* for the quarter ended June 30, 2016.



## Methodology

Auditors used various methods to address the audit's objectives. These methods included interviewing Arizona Department of Economic Security (Department) child care management and staff and reviewing applicable state and federal laws and rules, policies and procedures, the State's 2016-2018 Child Care and Development Fund (CCDF) plan, and the Department's website.<sup>81</sup> Auditors also used the following methods to address the audit's objectives:

- To assess the effectiveness and efficiency of the Department's monitoring of its certified child care home providers, auditors analyzed department inspection data for a total of 600 unique providers who were active and had at least one annual inspection period beginning in calendar years 2012, 2013, and/or 2014 to determine if they received their required two inspections annually.<sup>82</sup> Auditors also randomly selected 20 of the 600 providers who were a part of auditors' data analysis to assess additional areas. Specifically, auditors reviewed hard-copy files for these 20 providers to determine if any enforcement actions taken during calendar years 2012 through 2015 were in both the provider's hard-copy file and the Department's automated child care system; and randomly selected and examined one inspection checklist for 12 of these providers that was completed between January 1, 2012 and December 31, 2015, to assess the consistency with which inspectors conduct and document inspections in accordance with department guidance. To further assess inspection consistency, auditors also observed five on-site home inspections conducted between March and April 2016. In addition, auditors compared department and federal monitoring requirements to examine the Department's monitoring approach efficiency. Finally, auditors reviewed literature and best practices to identify steps the Department should take to strengthen its child care monitoring.<sup>83</sup>
- To assess the adequacy of the Department's process for handling complaints against certified child care providers, auditors reviewed the Department's child care complaint-handling policy, obtained and reviewed literature on complaint-handling best practices and the Arizona Department of Health Services' (DHS) complaint-handling policy and procedures, and interviewed department management and staff on their complaint-handling practice.<sup>84</sup>
- To assess the potential for consolidating the Department's and DHS' child care regulatory responsibilities under one agency, auditors reviewed the similarities and differences in each agencies' regulatory responsibilities; reviewed agency documents on each agencies' regulatory resources, including automated systems and training; examined states' regulatory structures using information from the National Center for Child Care Quality Improvement analysis of the *2014 National Association for Regulatory Administration Licensing*

<sup>81</sup> The CCDF plan serves as a state's or territory's application for CCDF funds by providing a description of, and assurance about, the grantee's child care program and all services available to eligible families. See footnote 26, page 14, for more information.

<sup>82</sup> An annual inspection period is 12 consecutive months from the provider's certification anniversary date. For example, if the provider is certified March 3, the annual inspection period would be between March 3 and the following March 2. Auditors' analysis included providers who had at least one annual inspection period based on the provider's certification start date and end date. Some providers were excluded from the analysis if auditors were unable to determine if the provider was active for an entire annual inspection period. Although auditors identified a total of 600 unique providers who were active and had at least one annual inspection period beginning in calendar years 2012, 2013, and/or 2014, the number of providers analyzed for each year is less than 600 and varies each year because not all providers had annual inspection periods during all 3 years.

<sup>83</sup> See Finding 1, pages 9 through 20, for specific literature sources reviewed and cited.

<sup>84</sup> See Finding 2, pages 21 through 27, for specific literature sources reviewed and cited.

*Programs and Policies Survey* (unpublished, latest available), and documents on states' child care agency websites; and interviewed child care program management in four states about their child care regulatory structures.<sup>85</sup> Auditors also reviewed literature and best practices on regulatory structures and how to assess their benefits and costs.<sup>86</sup>

- To examine the Department's use and management of its child care waiting list, auditors reviewed statutory and regulatory requirements on when the waiting list may be used and who is eligible to be placed on it, obtained information on the number of children and families on the waiting list between fiscal years 2009 and 2016, reviewed the results of a 2014 department survey of families on the waiting list, and reviewed literature on the impact of insufficient subsidy funding on low-income families in need of child care.<sup>87</sup> Auditors also interviewed department program management on its process for determining when to release families from the waiting list and contacted child care program management in four states to ask about their use and management of their child care waiting lists.<sup>88</sup>
- To obtain information for the Introduction, auditors reviewed and compiled information from the Department's and DHS' statutes, rules, websites, and reports, including the department-prepared annual child care reports to the Joint Legislative Budget Committee. Auditors also reviewed one department contract for child-care-quality initiatives. In addition, auditors compiled and analyzed unaudited financial information the Department provided through October 9, 2016, from its Financial Management Control System for fiscal years 2014 and 2015, and the State's Arizona Financial Information System and other financial information for fiscal years 2016 and 2017.
- Auditors' work on assessing internal controls included reviewing the Department's applicable policies and procedures and interviewing department management and staff on the implementation and oversight of inspections and complaint-handling, and the process for determining when to release families from the child care waiting list. Auditors' conclusions on internal controls are reported in Findings 1, 2, and 4.
- To assess the reliability of department child care data, auditors conducted interviews with department staff regarding controls around the Department's automated child care system and conducted electronic validity tests of various data elements. Auditors also randomly selected 20 providers to compare the Department's automated data to providers' hard-copy files.<sup>89</sup> Specifically, for 11 of these providers, auditors compared the automated inspection data; for 7 of these providers, auditors compared the automated violation data; and for all 20 providers, auditors compared automated enforcement data to documentation in the hard-copy files. Based on the work performed, auditors concluded that the automated inspection data was sufficiently reliable to use for audit purposes, but that the violation data, with the exception of those inspections where no violations were identified, and enforcement data was not sufficiently reliable to use.

Auditors conducted this performance audit of the Department in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Auditor General and staff express appreciation to the Department's interim director, management, and staff for their cooperation and assistance throughout the audit.

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<sup>85</sup> The four states are Alabama, Alaska, Arkansas, and Montana. These states were selected based on the various time frames each state uses to review families on waiting lists for continuing eligibility for the child care subsidy (see footnote 71, page 37, for more information). Auditors then obtained information from these states about their use of differential monitoring, regulatory structures to monitor child care providers, and practices for managing their waiting lists.

<sup>86</sup> See Finding 3, pages 29 through 34, for specific literature sources reviewed and cited.

<sup>87</sup> See Finding 4, pages 35 through 38, for specific literature sources reviewed and cited.

<sup>88</sup> The four states are Alabama, Alaska, Arkansas, and Montana. See footnote 85 for additional information on how the states were selected.

<sup>89</sup> The providers were selected from the 600 certified child care home providers who auditors determined were active and had at least one annual inspection period beginning in calendar years 2012, 2013, and/or 2014. See footnote 82, page b-1, for additional information.

# AGENCY RESPONSE



**DEPARTMENT OF ECONOMIC SECURITY**

*Your Partner For A Stronger Arizona*

Douglas A. Ducey  
Governor

Henry Darwin  
Interim Director

**FEB 09 2017**

Ms. Debra K. Davenport, Auditor General  
Office of the Auditor General  
2910 North 44<sup>th</sup> Street, Suite 410  
Phoenix, Arizona 85018

Ms. Davenport:

The Arizona Department of Economic Security appreciates the opportunity to provide a response to the Child Care Administration Sunset Audit conducted by your office that was received on February 3, 2017. The Department is committed to continuous quality improvement, transparency, and accountability.

Attached is the Department's responses to your findings and recommendations. We look forward to sharing our progress in implementing these recommendations.

Sincerely,

Henry Darwin  
Interim Director

Enclosure: ADES Child Care Administration's response

**Finding 1:** Department should strengthen its child care monitoring

**Recommendation 1.1:** The Department should implement a differential monitoring approach to more effectively and efficiently monitor its providers. This will require that the Department:

**Recommendation 1.1a:** Explore the various approaches to differential monitoring and select the best approach for Arizona certified child care providers;

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES concurs with the Auditor General recommendation. ADES has begun exploring various approaches to differential monitoring. ADES will research and contact other states to learn about various approaches and experiences regarding differential monitoring.

**Recommendation 1.1b:** Determine the necessary procedures for implementing the differential monitoring approach it selects, including procedures to prevent compliance deterioration as a result of the differential monitoring approach;

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Once ADES determines the best differential monitoring approach for the State of Arizona, ADES will determine the necessary procedures for implementing the differential monitoring approach selected. The new approach will create efficiencies and great effectiveness in monitoring and enforcement to allow certification staff to spend more time with providers who display a need for more technical assistance and program support.

**Recommendation 1.1c:** Modify its regulation and guidance documents, including administrative rule, policy, and the Child Care and Development Fund state plan to reflect the differential monitoring approach;

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Once the differential monitoring approach for certified homes has been determined, ADES will modify regulation and documents including the Child Care Development Fund state plan for Arizona, administrative rule and policies to reflect the new monitoring approach and procedures.

**Recommendation 1.1d:** Train all inspectors on the differential monitoring approach and guidance documents; and

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will train all inspectors on the revised monitoring approach as well as any new materials. All guidance materials including desk aids, training materials, and documents will also be revised to reflect the new approach.

**Recommendation 1.1e:** Establish a process for assessing its differential monitoring approach and making adjustments as needed, including, at a minimum, assessment frequency, areas to assess, and how to make adjustments.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will establish a process for assessing the differential monitoring approach and make adjustments as needed. ADES has revised AzCCATS to track compliance data, monitoring results, and timeliness of visits. Once the new process is established, metrics will be pulled to determine the success of the new monitoring approach in all areas. ADES will monitor trends and implement adjustments as needed on an ongoing basis.

**Recommendation 1.2:** The Department should develop and implement a structured training program to help ensure new inspectors receive adequate and consistent training that includes:

**Recommendation 1.2a:** A structured curriculum that covers the Department's child care regulations, policies, procedures, program standards, and the developmental needs of children the Department regulates. The curriculum should include a mix of classroom, independent study, shadowing, and mentoring;

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES has submitted a request to the Office of Professional Development to develop structured training. This training will include a structured curriculum covering child care policies, regulations, procedures and standards. The training will include face to face, independent study, computer, shadowing, and mentoring. The training will also include timelines of expectations which an inspector will need to meet.

**Recommendation 1.2b:** Written training plans for each new inspector that specify the instructional areas that need to be covered, tasks/exercises to be performed, and time frames for completing the training content;

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will ensure written training plans are created with all new inspectors. The training plans include specific instructional areas, activities, tasks and exercises to be performed, and time frames for completion of all training content

**Recommendation 1.2c:** A requirement that a supervisor or an experienced inspector assess and verify the new inspector's competency through observing the new inspector's completion of required training tasks/exercises and signing and dating the training plan confirming they have been completed; and



Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will require a supervisor and/or mentor to work closely with new inspectors ensuring a clear understanding of the expectations. The supervisor and/or mentor will observe the completion of the required training and tasks as well as observe site visits conducted by the new inspector. The plan will be signed and dated by the inspector and the supervisor and/or mentor after the tasks, visits, and training are completed.

**Recommendation 1.2d:** A process for tracking the status of inspectors' progress and completion of the initial inspector training content that a supervisor or a training coordinator maintains.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: The supervisor will be responsible to track the status of the inspector's progress and completion of the initial inspector training as well as any other required training.

**Recommendation 1.3:** The Department should enhance its rules and policies manual to help ensure inspectors perform inspections consistently by:

**Recommendation 1.3a:** Establishing and implementing a schedule for routinely reviewing and updating its policies to ensure they reflect current regulations and practices;

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will enhance its rules and policies manual as well as create desk aids to ensure inspectors perform inspections consistently. ADES will also establish and implement a schedule for routinely reviewing and revising its policies to ensure they reflect current regulations and procedures.

**Recommendation 1.3b:** Including adequate guidance and direction to help ensure that inspectors apply, measure, and enforce rules consistently, such as the rule related to having an operating fire extinguisher; and

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will ensure that adequate guidance, direction, and tools are developed to assist in ensuring that inspectors apply, measure, and enforce rules consistently. Inspectors will periodically shadow one another to also help ensure standard and consistent work.

**Recommendation 1.3c:** Ensuring that all inspectors are aware of any revisions made to its rules and policies manual.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will ensure that all inspectors are aware of any revisions made to its rules and policies manual through written notifications, meetings and huddles.

**Recommendation 1.4:** The Department should revise its inspection case-read process to help improve its oversight of inspector performance by reviewing a sample of inspections for each inspector that includes all inspection types and considers the inspector's experience.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES is in the process of determining the best case-read process to help improve its oversight of inspector performance. The new case-read process will include reviewing a sample of inspections for each inspector, all inspection types and will consider the inspector's experience. Additionally, ADES will consult with the Federal Program Manager to ensure compliance of the new case-read process.

**Recommendation 1.5:** The Department should improve its data's reliability by developing policies and procedures for how and when staff should enter data, and how and when supervisors should ensure its reliability, such as through regularly reviewing data quality.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES has developed guidance and procedures and will develop policies for how and when staff should enter data and for when supervisors should ensure its reliability. Additionally, metrics are pulled from AzCCATS to reflect the timeliness in which data is updated in the system. A metric report is provided to supervisors weekly to ensure data is entered timely.

**Recommendation 1.6:** The Department should develop and implement a uniform process for conducting inter-rater comparisons to assess the consistency in how inspectors identify violations, take enforcement actions, and verify that violations have been resolved. This process should identify what information to collect; how to collect the information, such as through joint inspections; and how to use the information to build consistency among inspectors state-wide.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES has updated AzCCATS to reflect compliance findings based on inspections. Reports will be created that provide information and data related to compliance issues discovered by inspectors, as well as the frequency of inspections. ADES will review the data and cases to identify trends. Additionally, joint inspections will be conducted with supervisors or mentors and inspectors to ensure compliance findings are consistent and to identify any areas for improvement. The joint inspections will include inter-rater reliability testing by examining the consistency in how inspectors are identifying violations, taking enforcement actions, and verifying violations are resolved state-wide.

The Department will utilize this information to build consistency among inspectors and inspections state-wide.

**Recommendation 1.7:** The Department should identify and develop management reports to monitor and better oversee its providers. For example, reports on the most common or severe violations cited could be used to identify trends and areas for improvement, such as training for providers on how to comply with regulatory requirements. In conjunction with this activity, the Department should identify who will receive the reports, how frequently they will be generated, and how it will use the information to improve the Department's childcare processes.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES has updated AzCCATS to better monitor providers as well as staff. Reports reflecting the most common or severe violations cited can be pulled to identify trends and areas for improvement. With this information, trainings or technical assistance can be provided in the identified areas. ADES will continue to seek and develop various reports to improve child care processes and compliance.

**Finding 2:** Department should improve its child care provider complaint-handling process

**Recommendation 2.1:** The Department should enhance its complaint intake process to ensure that the public knows how to file a complaint against a certified child care provider and understands how it will handle complaints. Specifically, the Department should:

**Recommendation 2.1a:** Include information about its complaint-handling process on its website, such as an overall description of the process;

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will enhance its complaint intake process and develop a plan to ensure that the public is aware of the complaint handling process. Once the complaint process has been identified, ADES will ensure it is placed on the ADES and CCR&R websites.

**Recommendation 2.1b:** Ensure that the public has a variety of ways to submit a complaint to the Department, such as through an online submission form and a specific phone number to call; and

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will ensure that the public has a variety of ways to submit a complaint to the Department. This will include an online submission form and specific contact information including email address and phone number.

**Recommendation 2.1c:** Assign specific staff to receive and process complaints.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Once ADES has enhanced the complaint process, ADES will assign specific staff to receive and process any complaints.

**Recommendation 2.2:** The Department should continue its efforts to modify AzCCATS to capture information related to complaints on certified child care providers. Specifically, the Department should:

**Recommendation 2.2a:** Develop and implement guidance within its complaint-handling policy on the complaint information that should be recorded in AzCCATS throughout the process, and how it should be entered into AzCCATS, by whom, and within what time frames;

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will develop and implement guidance within its complaint-handling policy on the complaint information that will be recorded in AzCCATS. ADES has updated AzCCATS to record complaints

**Recommendation 2.2b:** Ensure that its modifications to AzCCATS will allow it to comply with the November 2017 federal requirement that information on substantiated complaints be electronically available to the public, such as through its website; and

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES is working on developing a means to implement the November 2017 federal requirement that substantiated complaints be electronically available to the public.

**Recommendation 2.2c:** Ensure that the complaint information it is capturing in AzCCATS is sufficient for monitoring whether complaints are being processed in a timely manner and that all steps in the process are completed, as well as allow it to periodically assess complaint trends. For example, to allow the Department to track whether complaints are being handled in a timely manner, AzCCATS will also need to capture dates for specific steps in the process, such as when complaints are received, and to monitor trends, AzCCATS will also need to capture information such as the nature of complaints and whether complaints are substantiated or not.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES has updated AzCCATS to reflect findings for complaints. Reports will be created that provide information and data related to the nature of complaint by provider as well as frequency. ADES will review the data and cases to look for trends. Additionally, ADES will implement metrics from AzCCATS to reflect timeliness of complaint response in the system. A metric report is provided to supervisors weekly to ensure complaints are investigated and completed timely.

**Recommendation 2.3:** The Department should develop and implement comprehensive complaint investigation policies and procedures. These policies and procedures should require inspectors to develop a written complaint investigation plan for each investigation that outlines the specific steps that inspectors should perform, such as what documents to review, what items or areas to observe, and whom to interview.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will develop and implement comprehensive complaint investigation policies and procedures. These will include a written plan on what documents to review, items to observe, whom to interview, and supervisor collaboration.

**Recommendation 2.4:** The Department should develop and implement additional complaint resolution policies and/or guidance in its complaint-handling policy regarding its enforcement options and follow-up activities. Specifically, the Department should:

**Recommendation 2.4a:** Develop and implement, within its complaint-handling policy, a systematic, fair, and progressively stringent enforcement process. This process should provide guidance on the appropriate disciplinary actions to take if the complaint is substantiated and when to take progressive disciplinary action against a provider, such as when issues are not corrected in a timely manner or the provider receives multiple complaints with substantiated violations; and

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will enhance the complaint-handling policy to ensure a systematic, fair, and progressively stringent enforcement process is in place.

**Recommendation 2.4b:** Develop and implement policies and procedures that specify the follow-up activities to perform, such as the steps needed to ensure problems have been corrected, and that appropriate persons, such as complainants, are notified of the complaint outcome. In addition, the policies and procedures should include the time frames for performing these follow-up activities.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will develop and implement policies and procedures that specify the follow-up activities to perform, such as the steps needed to ensure problems have been corrected, and that appropriate persons, such as complainants, are notified of the complaint outcome. ADES will include time frames in these policies and procedures

**Recommendation 2.5:** The Department should strengthen its monitoring of the complaint-handling process by:

**Recommendation 2.5a:** Establishing time frames for completing key steps of the complaint-handling process, such as complaint receipt, assignment for investigation, and investigation completion. Once established, the Department should also develop and implement policies

and procedures for monitoring compliance with the established complaint-handling time frames;

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will establish time frames for completing key steps of the complaint-handling process, such as complaint receipt, assignment for investigation, and investigation completion. Once established, ADES will also develop and implement policies and procedures for monitoring compliance within the time frames.

**Recommendation 2.5b:** Developing and implementing policies and procedures directing the supervisory review of complaint handling. Key complaint-handling steps that may benefit from supervisory review include the complaint intake process, adequacy of the complaint investigation, appropriateness of complaint findings and substantiated violations, and ensuring the appropriateness of any recommended disciplinary action; and

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will enhance its policies and procedures to include supervisory review of the complaint-handling process as recommended.

**Recommendation 2.5c:** Developing and implementing policies and procedures for reviewing complaint outcomes, identifying trends, and taking any necessary actions based on the trends identified. The policies and procedures should identify the specific information that should be analyzed, such as the number and types of complaints received, and specify how the Department will use the information to make changes to its complaint-handling processes or identify needs within the child care provider community, such as a need for additional training.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will develop and implement policies and procedures for reviewing complaint outcomes, identifying trends, and taking any necessary actions based on the trends identified. Additionally, reports reflecting outcomes and trends will be made available and reviewed to identify areas of need for additional training.

**Recommendation 2.6:** The Department should develop and implement training on the complaint-handling process. Specifically, the Department should:

**Recommendation 2.6a:** Develop and implement training that covers the entire complaint-handling process from intake to resolution and also incorporates the changes identified in this audit;

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will develop and implement training that covers the entire complaint-handling process from intake to resolution and also incorporates the changes identified in this audit.

**Recommendation 2.6b:** Provide this complaint-handling training to all staff who handle complaints directly; and

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will train all inspectors on the revised complaint-handling policies and procedures as well as any new materials. All guidance materials including desk aids, training materials, and documents will also be revised to reflect the new policies and procedures.

**Recommendation 2.6c:** Provide general training about the overall complaint-handling process to all child care services staff, including how complaints can be filed and an overview of the Department's policies and procedures for handling complaints.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will develop a curriculum and train all staff within the child care program on the revised complaint-handling process.

**Finding 3:** Department should examine costs and benefits of consolidating child care regulation under one agency

**Recommendation 3.1:** The Department should work with DHS and stakeholders to examine the costs and benefits of consolidating the Department's and DHS' child care regulatory functions.

Department Response: The finding of the Auditor General is agreed to and a different method of dealing with the finding will be implemented.

Response explanation: ADES, other state and federal agencies, and stakeholders are currently, and will continue to, explore various methods and opportunities for aligning and partnering with the different child care provider regulatory agencies and functions throughout the state to better serve the provider and public.

**Recommendation 3.2:** The Department should document the process and results of its analysis to support its conclusions.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will document the process and results of the analysis to support its conclusions.

**Recommendation 3.3:** The Department should share any options to increase the efficiency and/or reduce or better manage fragmentation, overlap, and duplication identified during the analysis with relevant entities, including policymakers, as appropriate, regardless of its conclusions regarding consolidation, and document these communications.



Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES will share any options to increase the efficiency and reduce or better manage fragmentation, overlap, and duplication identified during the analysis with relevant entities including policymakers regarding consolidation. These communications will be documented.

**Recommendation 3.4:** If the Department determines that it would be worthwhile to pursue consolidation, it should take the next steps to move toward consolidation, including:

**Recommendation 3.4a:** Seeking the necessary approval to proceed with consolidation; and

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Once a decision has been made, if the Department determines that it would be worthwhile to pursue consolidation, ADES will pursue necessary approval to proceed with alignment, partnerships or consolidations by seeking the necessary approval.

**Recommendation 3.4b:** Working with stakeholders and the Legislature to develop and execute an implementation plan.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: If the Department determines that it would be worthwhile to pursue consolidation, ADES will work with stakeholders and the Legislature if needed to develop and execute an implementation plan

**Finding 4:** Department uses child care waiting list when funding is insufficient to meet the needs of all eligible families

**Recommendation 4.1:** The Department should complete its plans to standardize its process for determining when and how many children to release from the waiting list, including establishing a schedule for how frequently to conduct this process.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: ADES is currently working to determine a standardized process for determining when and how many children to release from the waiting list, including a schedule for how frequently to conduct this process.

**Recommendation 4.2:** The Department should include its standardized process within its policies and procedures to ensure that staff know the steps to perform to determine when and how many children to release from the child care subsidy waiting list.

Department Response: The finding of the Auditor General is agreed to and the audit recommendation will be implemented.

Response explanation: Once a standardized process is determined, ADES will include it within its policies and procedures to ensure that staff know the steps that should be performed to determine when and how many children to release from the waiting list.

