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TO: Joint Committee on Finance

FROM: Reggie Bicha  
Secretary, Department of Children and Families

RE: Wisconsin Shares Program

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Chairman Miller, Chairman Pocan and members of the Joint Committee on Finance, thank you for inviting me to discuss with you all that the Department of Children and Families is doing to ensure that the Wisconsin Shares program is managed in a manner that safeguards Wisconsin's taxpayer dollars. No one in this state is more outraged than am I by the behavior we have seen in the Wisconsin Shares program. And, my staff and I are working tirelessly to fix this mess.

Let me be clear, the Department of Children and Families did not create the problems in Wisconsin Shares and other child care programs; we were created to fix them.

When the Department of Children and Families started last summer, the Governor gave me the direction to retool and refocus the Wisconsin Shares program. He told me that I needed to figure out why this program was creating budget holes every fiscal year, and then clean it up. He said that we had to improve the quality of child care for all children in the state, and to do so, we needed systemic change. And he said that the artificial wall between the work of child care regulation and child care subsidies needed to come down.

Before I address the progress we have made in the past year, I think that it is important to review why the program needs such significant fixing today.

### **Program History**

When the Wisconsin Shares program was created 13 years ago, its function was to help low income parents go to work. The design of the program allowed parents to get child care affordably – and, even encouraged parents to work in the child care industry. In its initial design, it is clear that when the program legislation and rules were written, criminal webs of child care providers were not imagined or anticipated. Vital fiscal and programmatic controls which could have prevented fraud or uncovered it more quickly were never instituted.

Both in statute and in policy, the state mandated counties to operate and manage this program. The state's role until recently was limited to developing policy, maintaining the IT infrastructure and managing state/county contracts. As the program more than tripled in size, the state staff dedicated to overseeing it remained the same (eight FTE) until the creation of the Department of Children and Families last year and our Fraud Detection and Investigation Unit this year.

Over the past 10 years, the program has grown from just over \$100 million dollars per year to nearly \$400 million dollars per year. For six consecutive fiscal years, the Shares program ran over budget.

### **Department Actions**

Earlier this year, the Legislative Audit Bureau conducted an audit of the Wisconsin Shares program. The audit confirmed our assessment of this program and strongly supported the administrative and statutory overhauls we have pursued.

DCF has created a series of quantitative red flag reports that identify child care providers about whom we have a strong notion of fraud based on usage and reimbursement patterns. We are using this data to inform and direct our investigative efforts.

Already we have taken a broad range of actions to fight fraud in the Wisconsin Shares program. With this legislature's support and new management approaches within the department, we now have more tools to fight fraud, and we are using them.

- 1) Since our agency opened its doors in July 2008, we have revoked more than 100 child care licenses...revoking more than double the previous year.
- 2) The Department of Children and Families has created and staffed a five-person Fraud and Detection Unit.
- 3) The Department of Children and Families has contracted with O'Brien and Associates, a private investigative firm specifically dedicated to combating public assistance fraud.
- 4) The Department of Children and Families has implemented a new Shares Fraud Hotline. We have received several tips of child care fraud, all of which are being pursued by the Fraud Detection and Investigation staff.
- 5) The Department of Children and Families now suspends Shares payments to a provider when we "reasonably suspect" violations of the program have taken place. We will continue suspending until we have confirmed that no fraud has occurred.

In the past two weeks, the Department has utilized its new authority to suspend payments to 69 providers based on the “reasonable suspicion” of program violations. With the use of our Fraud Detection Unit, Licensing Staff and private investigators, we are visiting child care centers and gathering evidence. Let me share a few examples of what we found.

We suspended payments to Tammy’s Tots in Milwaukee. As of early September 2009, this provider had 223 Shares authorizations for a facility licensed to serve a total of 97 children, implying more than two full shifts of children. Of those 223 authorizations, 94 percent, were for children of employees of Tammy’s Tots. During an in-person visit on September 24th, the Department of Children and Families staff observed that the licensee was not on premise. There were 16 children present, but no attendance being tracked. The provider would not provide our staff with attendance records.

Last week, we also suspended payments to Zelda’s Love & Happiness. As of early September 2009, Zelda’s had 48 Shares authorizations for two facilities licensed to serve a total of 16 children. Of those 48 authorizations, 88% were for children of employees of Zelda’s Love & Happiness Child Care. During a visit on September 24, Department of Children and Families staff were unable to gain access, because no children or adults were present. On our visit, no one responded to the doorbell or to a knock on the door.

If you want to see the others, you can check out our department’s web site. We have posted the names of each of the child care providers where we have suspended payments along with the basis for the suspension. We will continue to work aggressively to pursue leads of fraudulent child care providers.

- 6) The Department of Children and Families can now suspend Shares payments for children of employees at child care centers if more than 40 percent of enrolled children belong to employees.
  - o We have already notified nearly 50 providers in Wisconsin that they must change this ratio within the next six weeks, as required by law, or their Shares payments for children of employees will be suspended.

And we have created new alliances to help us in this fight. Earlier this month, Milwaukee County District Attorney John Chisholm and I created a Child Care Anti-Fraud Task Force, which includes representation from the FBI, Milwaukee Police Department, US Attorney’s Office and the Milwaukee County Sheriff. We are sharing information and resources to pursue revocations of child care licenses and criminal prosecutions.

Recently, we have added the Wisconsin Department of Revenue to our team. There is strong reason to believe that many fraudulent providers are also not filing income taxes, are underreporting income, and are over reporting expenses. We will share all of our findings with the Department of Revenue as we proceed.

We have also changed the way that we do business. Today, the Shares program and child care licensing bureau are co-located. Licensors are monitoring for suspected Shares violations and sharing that information directly with our Fraud Detection and Investigation Unit. State staff will continue to work collaboratively with counties, but we now directly investigate and pursue fraud investigations and provider suspensions ourselves.

We are adding ten new licensing specialists positions to the Southern Regional Team, which is in addition to the five positions we added last year. We will use these new staff resources to create a specialized unit of licensors with much smaller caseloads dedicated to monitoring providers with high numbers of licensing violations.

But some of our strongest tools have yet to go into effect.

I have directed my staff to prepare a proposal for a Quality Rating and Improvement System to be presented to the Joint Finance Committee within the next month. This state has accepted poor quality care for too long, and the time for meaningful systemic change is now. The time has come to stop paying the same for low quality child care as we do for high quality care.

We will also return to this committee to seek funding to support our launch of an automated attendance system or swipe card system. This technology will improve our ability to more accurately track and verify children's attendance. And, will be ready to roll out next year.

Lastly, we recognized that corruption in the Wisconsin Shares program is so heavily concentrated in Milwaukee County that failed efforts in fraud prevention, detection, and collection in this county have the potential to crumble the entire program. We can not allow this to happen.

As a result, the Department of Children and Families is assuming direct responsibility for child care administration and program integrity efforts in Milwaukee County on January 1<sup>st</sup>, 2010.

I have directed my Deputy Secretary Henry Wilde to work full –time on child care issues until we get this program under control. I do not tolerate fraud.

### **Next Steps**

The Department of Children and Families has achieved more changes to the Wisconsin Shares Program in the past 14 months than has been done in total since the program was created in 1996. Despite these unprecedented actions, there is still more work for all of us to do.

- 1) We need to fix the incentive structure for counties, parents, and providers.
  - We need to amend existing law to give counties a financial incentive and reward them for the difficult and costly work of investigating and eliminating fraud. We believe that this is good public policy, but the current state law requires us to direct overpayment back to program benefits. Changing the law to allow counties to keep a portion of the overpayments they find is good public policy. Let's change this law.
  - And we need stronger financial oversight of providers who care for Shares children. We will recommend new requirements that mandate providers to conduct independent financial audits if they collect more than \$25,000 annually in Shares payments,
  - We need to strengthen state laws to give us the tools to collect personal assets of providers who have defrauded Wisconsin Shares. I want to thank Senator Jauch and Representative Grigsby for their willingness to introduce legislation to address this concern.
- 2) We need to link violations of the Shares program to a ban on licensure, such that a provider who defrauds the program loses his or her privilege to attempt to do so again. We believe that defrauding the Shares program should be a one strike and you're out offense.
- 3) My department's next steps are to combine our aggressive actions against providers with comparable enforcement actions against parents who are complicit in illegal schemes. In the short term, we are focused on provider fraud, because that is where the money flows. But, we will also be using our investigative resources to go after parents who have benefited from these schemes and make sure that they are also held accountable.

Under my leadership, the Department of Children and Families will continue to utilize every tool at our disposal to fight fraud. My staff and I are working as hard as we can to end fraud in Wisconsin Shares. We will not stop until we have achieved this goal.

We will continue to work with all deliberate speed to ensure that taxpayer dollars are protected, so hard-working, honest low income families will continue to have access to affordable child care through the Wisconsin Shares program.

Thank you again for the opportunity to speak with you about the actions we are taking to fix the Wisconsin Shares program.