

Final Report

**Investigation into Out-of-School Care Subsidy Claim
Irregularities**

Prepared by: The Office of the City Auditor
City of Edmonton

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This report does not reveal the identity of the out-of-school care facility or the name of the Director of the facility to maintain confidentiality. While the report outlines investigation results, it refers in generic terms to the out-of-school care facility as "Facility Y."

Introduction

The purpose of this report is to inform City Council and the City Manager of the results of the Office of the City Auditor's (OCA) investigation into fraudulent subsidies paid to an Out-of-School Care (OSC) facility by the City of Edmonton. The Office of the City Auditor (OCA) initiated a fraud investigation when contacted by the Community Services Department, City Wide Services Branch. This investigation was based on information reported to City of Edmonton Community Services staff by parents of children attending the out-of-school care program.

The City of Edmonton Community Services reported this information to the Ma'mowe Capital Region Day Care Services. This provincial agency is responsible for licensing out-of-school care operators (in addition to licensing day care operators and providing day care subsidies to children attending day care programs). On Friday, August 17, 2001 the Ma'mowe Capital Region Day Care Services served a *non-renewal of license* notice to *Facility Y* (both out-of-school care and day care licenses) based on secured affidavits relating to child care issues. On August 30, 2001 the centre closed. As of August 17, 2001, attendance documents indicated that six children eligible for out-of school care subsidies attended the out-of school care program at *Facility Y*. The City's Out-of-School Care consultants contacted the parents, and helped them relocate their children to another out-of-school care facility, as required.

The OCA reviewed subsidy claims made by *Facility Y* for the period August 1999 to July 2001. Comparison of attendance records to the results of parent interviews indicated that overpayments were being made.

Background

The Out-of-School Care Section of City Wide Services Branch, Community Services administers the Out-of-School Care (OSC) program. The OSC program pays subsidies on behalf of approximately 2000 children at approximately 160 OSC Centres, 10 Family Home Day Agencies, and 30 Daycares. The City of Edmonton's Out-of-School Care program has an annual operating budget of \$6.1 million including a provincial operating grant of \$3.8 million. *Facility Y* was paid over \$19,000 in out-of-school care subsidies in the year 2000.

The Province of Alberta subsidises pre-school children (0 - 5 years of age) who are enrolled in Daycare programs and meet eligibility criteria set by the Province. The City of Edmonton partially subsidises school age children (6 - 12 years of age) enrolled in OSC programs within the City. The City receives a Family & Community Support Services grant from the Province, a portion of which is applied to the OSC Program. The most important goal of the OSC program is "to assist low income, single parent and special need families in accessing quality child care services in Edmonton."

The City of Edmonton Community Services Department, in accordance with subsidy eligibility policies outlined in the Children's Services OSC Manual, determines eligibility for OSC subsidy. A full time subsidy will be paid on behalf of an eligible child who attends a licensed and

approved OSC facility/day care facility/family day home agency for a minimum of 50 hours per month. A part-time subsidy will be paid on behalf of an eligible child who attends a licensed and approved OSC facility/day care facility/family day home agency between 25 and 49 hours per month.

The Department pays subsidies directly to facility operators based on amounts claimed by the operators. The monthly claim form submitted by operators contains a clause, which states: "*I have reviewed the details of this subsidy claim and certify that all information is true, correct and complete in every respect. It is a serious offence to make a false claim.*" Operators are required to provide their signature below this clause to indicate compliance. Parents are normally required to pay a portion of the childcare fees to the operator separately. The amount of the parent portion is calculated by the Department using verified income figures.

All operators of approved OSC facilities receive monthly subsidy claim forms for completion and submission in accordance with the OSC Program Manual. The City of Edmonton issues a monthly subsidy payment to each operator on behalf of the approved applicants.

The OSC program manual states that attendance records for all school age children on whose behalf a subsidy is being paid must be submitted to the City of Edmonton with the monthly claim form in order for payment to occur. Each parent must sign the appropriate OSC Attendance Record following the last day of the child's attendance at the facility prior to submission of the attendance record. To properly account for attendance, accurate records must be kept on site in the facility for the current and past year for all school age children attending Out-of-School centres. Criteria for the preparation of on-site attendance records include:

- Each daily arrival and departure time for each school age child must be observed and recorded to the nearest ¼ hour in the monthly attendance record.
- Total hours of attendance per day for each school age child from a subsidized family must be recorded on the monthly attendance record.
- Total hours of attendance per month for each school age child from a subsidized family must be calculated and recorded to the nearest hour on the monthly attendance record.
- Attendance must be recorded in ink with changes initialed by the person(s) making the change(s) (no whiteout is to be used).
- The on-site attendance records must be made available to Community Services upon request within twenty-four (24) hours for their review.

Review Objectives

The OCA objectives in conducting this investigation were guided by Policy A1431 – Conduct of Examination of Allegations or Suspicion of Fraudulent Acts. They were as follows:

- a. To gather evidence to either dispel or confirm the suspicion of fraud.
- b. To work co-operatively with the Edmonton Police Service (EPS) to ensure that evidence was documented at a level sufficient to substantiate any charges laid.
- c. To review and assess the adequacy of controls in place to safeguard the assets of the City against loss, misuse, unauthorized use, and fraud. The purpose of this review was to identify the cause(s) of the failure and provide recommendations to help avoid similar losses.

- d. To coordinate the investigation with that of Provincial representatives to encourage a consolidated approach to the investigation and any resulting prosecution.

The OCA obtained a high-level understanding of the out-of-school care subsidy process and procedures in place at both the Community Services Out-of-School Care section and Out-of-School Care centres such as *Facility Y*.

Investigation Results

The OCA reviewed *Facility Y*'s OSC subsidy claims for the period August 1999 to July 2001. The investigation methodology included:

- Interviews with parents and centre workers to validate attendance records for some of the children. The parents and centre workers involved signed affirmations as to the accuracy and validity of the attendance records.
- *Facility Y*'s accounts receivable ledger and receipts book were examined and compared to the details of each claim to support its validity.

As a result of the investigation, the OCA found that \$3,450 (18%) of the subsidies in 2001 were paid on behalf of children who were not in attendance at the centre at the time in question. These discrepancies are supported by affirmations signed by parents and/or centre workers.

Conclusion

The City's investigative team (OCA and Community Services) attempted to coordinate common areas of the out-of-school care subsidy claim fraud investigation with the Provincial investigative team (Edmonton Fraud and Error Control Unit and Edmonton Fraud Investigation & Review, Human Resources and Employment) for the day care program. The Provincial investigative team will make a determination of whether the Province will lay fraud charges against *Facility Y*. OCA is coordinating the City's findings with those of the provincial investigative team so that a duplicate investigation does not have to be conducted by the Edmonton Police Service.

The August 2001 payment for subsidy claims made by the *Facility Y* for OSC services were halted and the City has recovered approximately one-third of the identified losses. There is no assurance that all remaining claims submitted to the City by *Facility Y* are valid, since it was difficult for parents to remember details of their child's attendance for past months/years.

It was also determined that parents' signatures and initials were falsified in some attendance records. However, even though we were able to get parents' signed affirmations stating that their signatures and initials had been falsified, they were unable to recall whether or not the hours on the affected claims were correct.

The results of this investigation revealed that some out-of-school care subsidy claims were fraudulent. The following recommendations related to this investigation were made:

1. That the City of Edmonton withhold any claim payments due to *Facility Y* in order to recover substantiated false claims.
2. That the City of Edmonton take the necessary steps to collect any balance owing from *Facility Y*.

3. That the City of Edmonton attempt to coordinate the criminal charging process with appropriate Provincial officials in order to avoid duplications in charging, gathering evidence and presenting evidence in court.

The primary responsibility for maintaining appropriate internal controls to prevent, detect, and deter fraud rests with management. Good internal controls assist management in minimizing opportunities for fraud and maximizing the chances of discovering fraud. In all fraud investigations conducted by the OCA, the OCA's goal is to provide assistance in helping the Administration to strengthen internal controls and improve methods of prevention and early detection of potential fraud. The OCA will use the findings in this fraud investigation as well as those from another OSC subsidy investigation done earlier in the year to help determine the scope of an OSC subsidy audit to be completed in 2002.