

STATE IMPROPER PAYMENTS REPORT (ACF-404)

Part I. Program Assurances and Certifications

The Lead Agency, named below, assures and certifies the following:

1. The data collection process, including sample selection and case record reviews, adhered to all requirements of the instructions and regulations for *Error Rate Reporting* at 45 CFR 98 Subpart K.
2. The reviews were not conducted by persons who: (1) make or approve eligibility determinations, or who (2) are under the supervision of persons responsible for eligibility determinations, or (3) ever made or approved eligibility determinations for a case in which they were assigned to review.
3. All reviewers have been trained to ensure that the review process is consistent with state policies and that there is consistency within the state in interpretation of what is an error.done
4. The state agrees to retain *Record Review Worksheets*, the *State Improper Payments Report* and any revisions, and any other records pertinent to the case reviews and submission of error rate reports for five years from the date of submission of the *State Improper Payments Report* or final revision submitted, whichever date is later.
5. The state understands that this information, including the sampled case records and calculations, are subject to federal review.
6. Documents submitted to the Office of Child Care as part of the error rate review must not contain any personally identifiable information (PII) as defined in Section I of the *Child Care Improper Payments Data Collection Instructions*.

Part II. Error Measures Reporting

Item #	Question	Response
1.	Number of cases reviewed	276
2.	Total number of cases with an error	72
3.	Percentage of cases with an error	26.09%
4.	Total number of cases with an improper payment	19
5.	Percentage of cases with an improper payment	6.88%
6.	Total number of cases with an improper payment error due to missing or insufficient documentation (MID)	0
7A.	Total number of MID errors with identified potential improper payments	0
7B.	Total dollar amount of potential improper payments resulting from the MID errors. Apply the state's pooling factor if pooled funds were used.	0
8A.	Total number of MID potential improper payment errors that was mitigated using an additional inquiry (AI)	0
8B.	Total dollar amount of MID potential improper payments that was mitigated using an AI. Apply the state's pooling factor if pooled funds were used.	0
9A.	Total number of MID improper payment errors that, after an AI was considered and possibly used, still resulted in an improper payment	0
9B.	Total dollar amount of MID improper payments that resulted even after an AI was considered and possibly used.	0
9C.	Total dollar amount of MID underpayments that resulted even after an AI was considered and possibly used. Apply the state's pooling factor if pooled funds were used.	0
9D.	Total dollar amount of MID overpayments that resulted even after an AI was considered and possibly used. Apply the state's pooling factor if pooled funds were used.	0
10.	Total amount of payments for the sampled cases. Apply the state's pooling factor if pooled funds were used.	176364
11.	Total amount of improper payments for review period (gross amount of underpayments and overpayments)	2206
11A.	Total amount of underpayments for review period. Apply the state's pooling factor if pooled funds were used.	308
11B.	Total amount of overpayments for review period. Apply the state's pooling factor if pooled funds were used.	1898
12.	Percentage of the total amount of payments for the sampled cases that are improper payments	1.25%
13.	Average amount of improper payments	116
14A.	Total annual amount of CCDF subsidy payments	1176178874
14B.	Estimated annual amount of improper payments	14702236

Item #	Question/Response
15.	Check the appropriate response based on whether the state combines or pools funds, and conducted its reviews based on a sample drawn from a universe of cases served by these pooled funds. Check one of the following: a. ☐ the review was not based on a sample drawn from pooled funds. b. ☒ the review was based on a sample drawn from pooled funds, and the state applied pooling factor from the relevant ACF-800 reporting form. b-i. indicate the number of sampled cases that used pooled funds. 276 b-ii. indicate the percentage of sampled cases that used pooled funds. 100.00% b-iii If the Lead Agency did not apply the pooling factor to all sample cases, please describe which cases the pooling factor was applied to and why. Otherwise, enter N/A. N/A c. ☐ the review was based on a sample drawn from pooled funds, but the state did not apply the pooling factor found on the relevant ACF-800 reporting form. c-i. provide the pooling factor. c-ii. explain the derivation of this pooling factor. c-iii. indicate the number of sampled cases that used pooled funds. c-iv. indicate the percentage of sampled cases that used pooled funds. c-v. If the Lead Agency did not apply the pooling factor to all sample cases, please describe which cases the pooling factor was applied to and why. Otherwise, enter N/A.
16.	Number of replacement cases used each month of the 12-month review period and reason for each replacement <i>(if one or more replacement cases were used):</i> Describe how the Lead Agency will review and adjust (if necessary) the sampling methodology to reduce the need for replacement cases in the next review cycle. Describe:

Month	Reason(s) for Replacement Cases (please list)	# Times Reason Used

Part III. State Response to Error Measures Findings

Item #	Question/Response
17.	Describe lessons learned or improvements made in implementation of the review process during the current review cycle. Describe: The most significant lesson learned during this review cycle was the impact of the statewide transition to a new child care case management system, Texas Child Care Connection (TX3C), which launched on January 13, 2025. The transition period resulted in a temporary increase in administrative errors as staff adjusted to new data entry workflows and documentation protocols. To improve the review process, reviewers cross-checked errors against known technical issues with the new case management system. This allowed reviewers to distinguish between eligibility errors and system errors occurring during the migration, ensuring the report accurately reflects program integrity while acknowledging the challenges of the technical infrastructure overhaul. TWC maintains guidance within the Child Care Services Guide regarding income calculation and the suggested number of paystubs used for eligibility determinations. As improper payment reviews occurred, Board Technical Assistance (TA) continued to remind Boards of the importance of case noting any situation where staff did not utilize the number of paystubs outlined in Board or contractor policies. Clear documentation ensures that monitors can understand the rationale behind a determination even when non-standard documentation is present. In addition, the TA team meets regularly with Boards needing additional support and conducts on-site visits to Boards throughout the state. These visits allow the TA team to address each Board's individual needs and provide hands-on support for implementation challenges. The team has also created desk aids to help simplify income calculation guidance.

Item #	Question/Response
18.	For each potential improper payment error due to missing or insufficient documentation, enter the following: a. <i>the Element number of the RRW where the error was identified</i>; b. a <i>description of what documentation was missing or insufficient</i>; c. <i>the dollar amount of the potential improper payment</i>; d. <i>a description of the AI that was done or an explanation of why there was no appropriate AI</i>; e. <i>(if an AI was used) the dollar amount (if any) that was able to be mitigated</i>; f. <i>(if an AI was used) how the state determined whether or not the potential improper payment could be mitigated</i>.

a. Element #	b. What was the MID?	c. Dollar amount of potential IP	di. AI used?	dii. Describe why or why not	e. How much mitigated?	f. Explain how state determined whether or not the potential IP could be mitigated

Item #	Question/Response
19.	Identify all root causes of improper payments. List each cause, the number of cases with an error due to this cause, an example of an error, and whether this cause involved missing or insufficient documentation. <i>Note: If any of the errors identified were caused by IT systems issues, please include a description of how the Lead Agency will address these issues in Items 20 and 22.</i>

Row #	MID (Y/N)	Root Cause	Describe (only used if 'other' is selected)	# Cases	Example
1	N	Income miscalculation		6	Did not use the correct amount of paystubs
2	N	Wrong or no copay applied		12	Subsidy amount calculated incorrectly
3	N	Wrong provider rate assigned		1	Used Blended rate instead of full-time rate

Item #	Question/Response
20.	List the root causes of improper payment errors identified in Item 19. For each cause, describe the action steps planned in between review cycles in order to reach the targeted reductions identified in Item 23, the timeline for implementing the action steps, and method(s) that will be used to measure progress and the impact of the action steps.

Row #	Root Cause of Error	Action Steps	Timeline	Progress Measurement
1	Income miscalculation	TWC will provide additional staff training to reiterate to Boards the importance of adhering to the manual calculation requirements detailed in the Child Care Services Guide. Training will emphasize that staff should use either paystubs or an Employment Verification Form (EVF), but not both, to prevent conflicting data. Training will reiterate to Boards the importance of using case notes to document the specific rationale when the number of paystubs used varies from standard policy.	September 2026	Boards will continue to monitor based on their local procedures. In FY27, TWC's Sub-Recipient Monitoring will monitor Boards for eligibility determination, which should reflect a reduction in errors.
2	Wrong or no copay applied	TWC will provide additional staff training reinforce the use of the TWC Parent Share of Cost (PSOC) calculator to standardize co-pay amounts across all Boards. The calculator provides a standardized way for staff to determine the correct amount before entering it into the system. TWC will provide targeted technical assistance to the specific Boards that showed high error rates in this category to ensure their staff are using the calculator	September 2026	Boards will continue to monitor based on their local procedures. In FY27, TWC's Sub-Recipient Monitoring will monitor Boards for eligibility determination, which should reflect a reduction in errors.

		correctly.		
3	Wrong provider rate assigned	TWC will provide targeted support to the specific Board that incorrectly applied the wrong provider rate type (full-time rather than blended care). to ensure their staff are assigning provider rate types correctly.	September 2026	Boards will continue to monitor based on their local procedures. TWC will continue to review up to 10% of all provider agreements and verify that information in the system of record matches the rates in the provider agreement. This will be done annually.

Item #	Question/Response
21A.	State the amount of improper payments the state expects to recover as a result of the review. If the amount is less than the total amount of overpayments (see Item 11B above), provide a summary of the reasons limiting the collections. 1898 Describe:

Item #	Question/Response
21B.	State the amount of improper payments the state recovered as a result of the previous review. If the amount is less than the total amount expected to have been recovered according to the previous report, describe the reasons. 520 Describe:

Item #	Question/Response
22.	Describe the information systems and other infrastructure that assist the state in identifying and reducing improper payments. If the Lead Agency does not have these tools, describe actions to be taken to acquire the necessary information systems and other infrastructure. Describe: Inter-Agency Data Sharing and Matching To ensure eligibility accuracy, TWC and Local Workforce Development Boards (Boards) access cross-program data to verify income and household status. • To verify income, TWC and Boards access systems used by other government programs such as Temporary Assistance for Needy Families (TANF), Supplemental Nutrition Assistance Program (SNAP), and unemployment insurance (UI). • TWC's Child Care Services rules (40 Texas Administrative Code, Chapter 809) prohibit child care providers that have been debarred from other state or federal programs from receiving subsidies to provide child care services. When a child care provider is debarred from the Child and Adult Care Food Program (CACFP), the Texas Department of Agriculture (TDA)-the lead agency for CACFP in Texas-notifies TWC. • Since 2013, TWC has been validating identity information such as names, date of birth, Social Security Number (SSN) of parents and children through a data-match process with state and federal databases. • TWC receives a weekly report from the Texas Health and Human Services Commission Child Care Regulation (CCR) that lists child care providers on corrective action, adverse action, or that have had their permit denied, revoked, or suspended. TWC sends this reports to Boards who use this information to take certain actions if CCR places a child care provider serving subsidized children on corrective or adverse action. Data Mining and Fraud Detection Tools TWC utilizes advanced analytics to flag high-risk cases for further review. • A new data mining system, Integrity Central, assists TWC and the local Boards in identifying any cases that require additional review for possible issues that could lead to improper payments. • Child Care and Unemployment Insurance Early Warning Report - identifies and assesses customers who are potentially ineligible for child care services because they filed UI claims advising TWC that they are not working. Potential child care eligibility issues are resolved by verifying the customers have reported their UI benefits'

	income for child care eligibility. • Child Care Income Report - compares all available income sources for the parent/custodian of a child care recipient to the 85 percent of SMI level to identify parents/custodians who may potentially be ineligible due to parental/custodial changes or underreporting of income. • Duplicate SSN Report - lists duplicated parent/custodian SSNs that have a payment in more than one workforce area in the same service month to identify customers who may be receiving child care services in multiple workforce areas. • TWC Division of Innovation, Information, & Insight (I 3) also leverages the Enterprise Data Warehouse to review and analyze child care data for trends that may identify any areas where improper payments could occur. If data is identified, this information is reviewed and provided to FDCM or another department for further research. • TWC's IT division also identifies issues with cases and flags them for follow-up at the state level for further investigation. If an issue is identified, it is pushed down to the Local Boards for review and resolution. Local Boards have policies and procedures that help to identify any cases that may need review. Quality Assurance and Monitoring Program integrity is maintained through a combination of state-level oversight and local quality control. • TWC's Fraud Deterrence and Compliance Monitoring (FDCM) Department performs virtual and occasional on-site monitoring reviews of fiscal and program activities, including customer eligibility, wage verification, provider billing, and disbursement testing. • TWC works closely with the Quality Assurance Network (QAN), which consists of a network of all Boards' local quality assurance monitors. TWC and the QAN to work together to develop strategies that help identify risk areas related to ineligibility and improper payments. • On-Site monitoring is conducted when risks are identified through reporting, data-mining, and outside reporting by individuals. • Boards' quality assurance monitors use the Record Review Worksheet to conduct case reviews to improve data validation and reduce instances of improper authorization. System Modernization: Texas Child Care Connection (TX3C) TWC has transitioned from its legacy infrastructure (TWIST) to a modern, end-to-end case management and payment system: • The TX3C attendance module was launched in May 2023, followed by the full eligibility and application functionality. On January 13, 2025, TWC fully launched TX3C as the primary system of record. • TX3C consolidated eligibility, enrollment, and payment processing into a single platform. While the system does not include an automated income calculation tool, requiring staff to continue performing manual calculations, it standardizes the eligibility workflow and provides a unified statewide platform for document storage. • The move to electronic document storage within TX3C is designed to significantly reduce Missing/Insufficient Documentation (MID) errors. By replacing legacy systems that were difficult to maintain, TX3C allows TWC to implement policy changes more quickly and provides more robust data for identifying potential improper payments. Staff training and technical assistance Continuous improvement is supported through specialized training: • TWC FDCM Department provides training and TA to help Boards and contractors identify and prevent improper payments and potential problems. TWC's Office of Investigations (OI) provides training to Boards on fraud prevention, detection, and investigation. • Child Care and Early Learning Division's TA department offers requested training through in-person or virtual visits, regular reviews of Board data, and a dedicated email address to identify and reduce any issues that could lead to improper payments.
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Item #	Question/Response
23.	Provide the findings for the current cycle, data and targets for the prior and current cycles, and targets for the next cycle for percentage of cases with an error, percentage of cases with an improper payment, percentage of improper payments, average amount of improper payments, and estimated annual amount of improper payments.

Error Measures	Prior Cycle Data	Prior Cycle Target	Current Cycle Data	Current Cycle Target	Target for Next Cycle
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Percentage of cases with an error	14.49%	25.76%	26.09%	14.70%	15.00%
Percentage of cases with an improper payment	3.99%	5.22%	6.88%	5.98%	5.00%
Percentage of total amount of payments for the sample that are improper payments	.44%	.54%	1.25%	.65%	.82%
Average amount of improper payments	\$53	\$31	\$116	\$40	\$60
Estimated annual amount of improper payments	\$4,319,074	\$4,756,077	\$14,702,236	\$6,699,472	\$7,267,132

Item #	Question/Response
24.	If any targets were not met, provide an explanation of why the state did not meet these targets and describe how the actions outlined in Item 20 will address these areas.

Error Measures	If any targets were not met, provide an explanation of why the state did not meet these targets and describe how the actions outlines in item 20 will address these areas.
Percentage of cases with an error	Texas exceeded its targets, which is likely due to the statewide transition to a new case management system on January 13, 2025. This led to an increase in administrative errors as staff adjusted to new workflows, data entry requirements, and documentation protocols. TWC will continue to work with the Boards on refining their policies and quality assurance processes. TWC continues to monitor management of the Child Care Services program through monthly report reviews. Additionally, TWC regularly issues new and updated guidance to Boards to support operation of the program.
Percentage of cases with an improper payment	Texas exceeded its targets, which is likely due to the statewide transition to a new case management system on January 13, 2025. This led to an increase in administrative errors as staff adjusted to new workflows, data entry requirements, and documentation protocols. TWC will continue to work with the Boards on refining their policies and quality assurance processes. TWC continues to monitor management of the Child Care Services program through monthly report reviews. Additionally, TWC regularly issues new and updated guidance to Boards to support operation of the program.
Percentage of total amount of payments for the sample that are improper payments	Texas exceeded its targets, which is likely due to the statewide transition to a new case management system on January 13, 2025. This led to an increase in administrative errors as staff adjusted to new workflows, data entry requirements, and documentation protocols. TWC will continue to work with the

	Boards on refining their policies and quality assurance processes. TWC continues to monitor management of the Child Care Services program through monthly report reviews. Additionally, TWC regularly issues new and updated guidance to Boards to support operation of the program.
Average amount of improper payments	Texas exceeded its targets, which is likely due to the statewide transition to a new case management system on January 13, 2025. This led to an increase in administrative errors as staff adjusted to new workflows, data entry requirements, and documentation protocols. TWC will continue to work with the Boards on refining their policies and quality assurance processes. TWC continues to monitor management of the Child Care Services program through monthly report reviews. Additionally, TWC regularly issues new and updated guidance to Boards to support operation of the program.
Estimated annual amount of improper payments	Texas exceeded its targets, which is likely due to the statewide transition to a new case management system on January 13, 2025. This led to an increase in administrative errors as staff adjusted to new workflows, data entry requirements, and documentation protocols. TWC will continue to work with the Boards on refining their policies and quality assurance processes. TWC continues to monitor management of the Child Care Services program through monthly report reviews. Additionally, TWC regularly issues new and updated guidance to Boards to support operation of the program.

Item #	Question/Response
25.	List the causes of improper payment errors identified in the previous cycle (item 20 in the 2021 ACF-404) and for each cause, describe the action steps that were taken, (including dates), to correct the cause, whether the action steps reduced the identified errors, and how any progress was measured. Discuss any barriers to the effectiveness of the action steps to reduce improper payments.

Improper Payment Error	Action steps and dates when taken	Did the action steps reduce the identified errors?	How did you measure your progress in reducing the identified errors?	Barriers to reducing error
Data Entry Error/No PSOC or Incorrect PSOC	In FY2025, TWC implemented a new statewide Parent Share of Cost (PSOC) policy capping copays at 7% of household income and providing a standard sliding scale across all Board areas. They new case management system deployed in January 2025 automatically calculates the PSOC. TWC also developed an external PSOC calculator to support staff ensuring standardized copay determinations.	The implementation of a statewide policy and standardized calculation reduced errors caused by manual math and incorrect applications of the sliding fee scale.	TWC's SRM staff continue to monitor eligibility determinations and payment calculations through annual program monitoring.	Both the legacy case management system and the new case management system allow for manual overrides of system-calculated copays. This functionality supports the requirement to reduce copays when a parent's income drops or they experience an extenuating circumstance causing financial hardship. This functionality does open the door, however, to staff data entry errors.

Incorrect Provider Rate	TWC developed new guidance and a template for provider agreements to ensure consistent collection and data entry of provider rate data. That guidance was first issued in early FY2023 and has been updated with various improvements since. The most recent version can be found here: https://www.twc.texas.gov/policy-letters?guidance_number=14-22&title=&type=All&keywords=All&year=all TWC has also implemented more frequent monitoring of provider agreement data and regularly tasks the Boards with data cleanup when issues are identified.	Yes.	This issue did not arise in this most recent review.	Frequent changes in child care licensing data can lead to data integrity challenges that require manual intervention.
Ineligible due to not meeting participation	TWC SRM staff as well as local monitoring and quality control staff continued to conduct eligibility case reviews and provide technical assistance where needed. TWC's rollout of a new statewide parent application and case management system have also improved the way participation hours are collected. The new system was implemented in January 2025. TWC and the case management system vendor have also made additional desk aids/guides available to help staff understand the data collection tied to participation hours.	Yes.	This issue did not arise in this most recent review.	No significant barriers have been identified.

PAPERWORK REDUCTION ACT OF 1995 (Pub. L. 104-13) STATEMENT OF PUBLIC BURDEN: The purpose of this information collection is to gather data from states once every three years about the errors occurring in the administration of CCDF grant funds. Public reporting burden for this collection of information is estimated to average 66 hours per response, including the time for reviewing instructions, gathering and maintaining the data needed, and reviewing the collection of information. This is a mandatory collection of information (45 CFR

Part 98, Subpart K). An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information subject to the requirements of the Paperwork Reduction Act of 1995, unless it displays a currently valid OMB control number. The OMB # is 0970-0323 and the expiration date is 03/31/2028. If you have any comments on this collection of information, please contact ACF Office of Child Care.