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States' Payment Rates Under the Child Care and Development Fund Program Could Limit Access to Child Care Providers

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Why OIG Did This Review

The Child Care and Development Fund (CCDF) program, for which fiscal year (FY) 2018 Federal funding totaled \$8.2 billion, provides child care subsidies for 1.4 million eligible children. CCDF program payments, which are administered by States, allow eligible low-income parents to work or pursue training or education while their children attend child care. If States set CCDF payment rates too low, families may not have access to child care providers. The Administration for Children and Families (ACF) is responsible for overseeing States' CCDF payment rates and ensuring that eligible families have equal access to child care services. The only proxy for ensuring equal access that ACF has recommended to States is setting CCDF payment rates at a level that covers 75 percent of child care provider prices—referred to as the 75th percentile.

How OIG Did This Review

We surveyed a nationwide sample of licensed child care providers, including centers and family child care homes, to obtain child care pricing for an infant with no special needs. We compared providers' prices to States' CCDF payment rates and estimated the difference between these amounts. We surveyed States to examine how they determine that their CCDF payment rates are sufficient to ensure equal access to child care services for eligible families. Lastly, we interviewed ACF staff responsible for CCDF plan oversight to review how ACF ensures that States' CCDF provider payment rates are sufficient to ensure equal access for eligible families.

States' Payment Rates Under the Child Care and Development Fund Program Could Limit Access to Child Care Providers

What OIG Found

The majority of child care providers charge more for full-time infant care than States' CCDF payment rates. As a result, CCDF families' access to care may be limited unless they can pay the difference between provider prices and State payment rates.

Operating with finite resources, States must balance competing priorities and perform tradeoffs between raising payment rates, serving eligible families, and ensuring compliance with program requirements. ACF does not evaluate States' CCDF payment rates, nor does it determine whether States have ensured equal access to child care services for eligible families. We found that only seven States have set their CCDF payment rates at the level that ACF recommends for ensuring equal access.

The majority of States have implemented provider-friendly payment practices, such as paying providers timely, to incentivize providers to participate in the CCDF program and ensure access for eligible families. However, some providers still report concerns about payment amounts, payment frequencies, and other administrative burdens associated with CCDF program participation.

What OIG Recommends

As only seven States set payment rates at the level ACF recommends, ACF should evaluate whether States are ensuring equal access for CCDF families, as required. ACF should consider developing additional proxies for equal access—apart from setting rates at the 75th percentile of provider prices—that would allow it to evaluate States' progress toward meeting the requirement. Additionally, ACF should ensure that States comply with the new requirement to use the results of the most recent market-rate survey, or alternative methodology, to set CCDF payment rates. To encourage States to learn about and potentially adopt successful practices, ACF should establish a forum for States where, at regular intervals, they can share strategies regarding how they set payment rates to ensure equal access for eligible families while balancing competing program priorities. Lastly, ACF should encourage States to minimize administrative burdens for CCDF providers, with a goal of encouraging provider participation and expanding access for eligible families. ACF concurred with all of our recommendations.

Full report can be found at <http://oig.hhs.gov/oei/reports/oei-03-15-00170.asp>

Key Takeaways

- The majority of child care providers charge more for infant care than States' payment rates, which could limit access to care for CCDF families
- Operating with finite resources, States must balance competing priorities when setting payment rates
- ACF does not evaluate States' compliance with the Federal equal-access provision
- Only seven States set payment rates at the level that ACF recommends for ensuring equal access

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BACKGROUND

Objectives

1. To compare Child Care and Development Fund (CCDF) provider payment rates to the prices charged by child care centers and family child care homes.
2. To review efforts by States and the Administration for Children and Families to ensure equal access to child care services for eligible families.
3. To identify challenges that child care providers face in participating in the CCDF program.

CCDF Program Snapshot

- CCDF is the third-largest Federal block grant program.
- CCDF funds help pay for 1.4 million children to participate in child care every month.
- 305,524 child care providers care for CCDF-eligible children.
- Nearly half of the families receiving CCDF subsidies reported income below the Federal poverty level.

Child Care and Development Fund Program

The CCDF program is a partnership between the Department of Health and Human Services' (HHS) Administration for Children and Families (ACF) and States to provide child care subsidies to eligible low-income families. It is the third-largest block grant program that the Federal government administers, with fiscal year (FY) 2018 Federal funds totaling \$8.2 billion.¹ CCDF funding is made up of Federal funds and State matching funds. The Child Care and Development Block Grant Act of 2014 (the Act), signed into law on November 19, 2014, reauthorized the CCDF program through FY 2020.

Under the block grant, States have flexibility in the design and administration of their CCDF programs and policies, which essentially leads to a different program in each State. States establish their own payment rates for providers that serve CCDF families, and these rates are highly variable both within and across States. If States set rates too low, they may be insufficient to ensure equal access to child care for low-income families.²

CCDF Eligibility

States' CCDF programs serve low-income families. For purposes of CCDF, the definition of "low income" is capped at 85 percent of State median income, adjusted for household size. However, States generally set the income-eligibility ceilings lower for their CCDF programs. Children under age 13 in low-income families qualify for the CCDF program if their parents are working or pursuing education or training.³

¹ ACF, *Final FY 2018 CCDF Allocations (Including Redistributed Funds)*, December 2018. Accessed at <https://www.acf.hhs.gov/occ/resource/final-fy-2018-ccdf-allocations-including-redistributed-funds> on March 7, 2019.

² 81 Fed. Reg. 67438, 67561 (Sept. 30, 2016).

³ To qualify for the program, children also must be U.S. citizens or qualified aliens.

CCDF-eligible children are cared for in a variety of provider settings. Seventy-five percent of children are cared for in child care centers, 21 percent are cared for in family child care homes⁴, and 3 percent are cared for in their own home.⁵

State CCDF Plans

Every 3 years, States are required to submit a comprehensive CCDF plan to ACF for review and approval. The plan serves as a State's application for CCDF funds and an outline of how the program and funds will be administered. Each State must ensure that its CCDF program complies with its approved CCDF plan and all Federal requirements.⁶

In the section of the CCDF plan regarding States' payments to child care providers, States must report provider payment rates and the percentage of providers that charge prices at or below the States' payment rate.⁷ States report these percentiles for certain categories of child care in the geographic area of the State that serves the highest number of children.⁸ States provide information including increased payment rates for children with special needs and higher quality providers, and policies regarding additional fees that providers are permitted to charge to CCDF families. In addition, States are required to describe in their CCDF plans their policies to ensure the timeliness of payments to providers.

As reported in their FY 2016–2018 CCDF plans, 42 States have implemented a CCDF payment rate add-on, also called a tiered rate, for child care providers that meet higher quality standards, as defined by the State.⁹

Equal Access to Child Care Services

Federal statutes include an equal-access provision that requires States to

⁴ As defined in the CCDF regulations, a child care center is a provider licensed or otherwise authorized to provide child care services for fewer than 24 hours per day per child in a non-residential setting. A family child care provider is one or more individual(s) who provide child care services for fewer than 24 hours per day per child, in a private residence other than the child's residence. 45 CFR § 98.2.

⁵ ACF, *FY 2017 Preliminary Data Table 3 - Average Monthly Percentages of Children Served by Types of Care*, February 2019. Accessed at <https://www.acf.hhs.gov/occ/resource/fy-2017-preliminary-data-table-3> on April 23, 2019. For the remaining 1 percent of children, information on the type of care was invalid or missing.

⁶ Section 658E of the Child Care and Development Block Grant Act of 2014; 45 CFR § 98.16.

⁷ 45 CFR § 98.16(r).

⁸ For example, Nevada establishes CCDF provider payment rates for each of four market areas across the State. However, in its CCDF plan for FYs 2016–2018, Nevada reported to ACF the payment rates and corresponding percentiles only for Clark County—the area serving the highest number of children.

⁹ Tiered or differential provider payment rates could include higher payment rates for child care programs that (for example) meet certain quality standards, have nontraditional hours, and/or serve children with special needs.

certify to ACF in their CCDF plans that their CCDF provider payment rates are sufficient to ensure that eligible children have equal access to child care services that are comparable to services provided to children whose parents are not eligible to receive child care assistance.¹⁰ The Federal equal-access provision specifically refers to the role of States' payment rates in ensuring equal access for CCDF-eligible families. States are required to describe in their CCDF plans how their provider payment rates are adequate to ensure equal access.¹¹ In addition, Federal law establishes requirements regarding access to child care in States' CCDF programs, including minimum 12-month eligibility periods,¹² affordable family copayments,¹³ and timely payments to child care providers.^{14, 15}

ACF's Recommended Level of Payment To Ensure Equal Access. Historically, ACF has designated setting CCDF provider payment rates at the 75th percentile of the child care provider prices found in a State's market-rate survey as a proxy for equal access.¹⁶ Setting payment rates at this level would mean that CCDF families may access three out of four child care providers without paying additional money out of pocket, apart from any family copayment. ACF has encouraged—but has not required—States to set their payment rates at this level. In the introduction to a regulation issued in 2016, ACF noted that CCDF payment rates below this recommended level are “of great concern to ACF both because inadequate rates may violate the statutory requirement for equal access and because CCDF is serving a large number of vulnerable children who would benefit from access to high-quality care and for whom payment rates even higher than the 75th percentile may be necessary to afford access to such care.”¹⁷

Setting CCDF Payment Rates

States establish their own CCDF payment rates for child care services, and these rates are highly variable across, and sometimes within, States. Within a State, provider payment rates may vary based on geographical area; the type and quality of child care provider; and the age and needs of the child.

¹⁰ Section 658E(c)(4)(A) of the Child Care and Development Block Grant Act of 2014.

¹¹ Section 658E(c)(4) of the Child Care and Development Block Grant Act of 2014.

¹² Section 658E(c)(2)(N)(i)(I) of the Child Care and Development Block Grant Act of 2014.

¹³ 45 CFR § 98.16(k).

¹⁴ Section 658E(c)(4)(B)(iv) of the Child Care and Development Block Grant Act of 2014.

¹⁵ ACF has incorporated requirements related to affordable family copayments and timely payments to child care providers in the equal-access section of the CCDF regulations. 45 CFR §§ 98.45(k) and 98.45(l)(1).

¹⁶ 81 Fed. Reg. 67440, 67512 (Sept. 30, 2016); ACF, *Program Instruction CCDF-ACF-PI-2018-01*, February 2018.

¹⁷ 81 Fed. Reg. 67512 (Sept. 30, 2016).

CCDF payment rates include the family contribution toward the cost of child care. This family contribution is also referred to as a copayment. Each State determines its own formula for purposes of calculating the family copayment, and may choose to waive the copayment in special circumstances.¹⁸ In cases where States' CCDF payment rates (including the family copayment) do not cover a provider's price of child care, families may elect to pay this difference out of pocket if they wish to enroll with the provider.

Effective October 1, 2018, States are required to set their CCDF provider payment rates in accordance with the results of their most recent child care market-rate survey or an alternative methodology.^{19, 20} Previously, States had to conduct a market-rate survey (or alternative methodology), but they were not required to base their payment rates on the most recent results. A child care market-rate survey is a study that collects and analyzes information on child care providers' prices within the State, across geographic areas, different provider types, and for children of varying ages. An example of an alternative methodology for setting CCDF payment rates is a cost-estimation model that takes into account child care providers' operating costs. States must conduct a market-rate survey, or an alternative methodology, every 3 years, but no earlier than 2 years before submitting a CCDF plan.²¹

ACF Oversight of States' CCDF Plans

Reviewing and approving States' CCDF plans is the primary mechanism by which ACF works with States to ensure that CCDF program implementation meets Federal requirements.²² According to ACF, it uses States' CCDF plans "to track and assess progress, determine [the] need for technical assistance and [CCDF] plan amendments, and ultimately determine compliance with specific requirements and deadlines."²³ In an April 2015 program instruction, ACF indicated that it will determine States' compliance with requirements in

¹⁸ States must establish a sliding fee scale—based on income and family size—to be used in determining the family copayment. ACF suggests that copayments that are no more than 7 percent of a family's income would generally be considered affordable. 81 Fed. Reg. 67440 (Sept. 30, 2016).

¹⁹ 81 Fed. Reg. 67438 (Sept. 30, 2016). Section 658E(c)(4)(B)(iii) of the Child Care and Development Block Grant Act of 2014. The statute does not define "alternative methodology."

²⁰ In States' FY 2016–2018 CCDF plans, only the District of Columbia reported to ACF that it used an alternative methodology in lieu of a market-rate survey.

²¹ 45 CFR § 98.45(c).

²² ACF, *CCDF Reauthorization Frequently Asked Questions*, March 2015. Accessed at <https://www.acf.hhs.gov/occ/resource/ccdf-reauthorization-faq-archived> on May 29, 2018.

²³ ACF, *Draft CCDF Preprint for Public Comment, CCDF Plan for FY 2016-2018*. Accessed at https://www.acf.hhs.gov/sites/default/files/occ/final_fy2016_2018_ccdf_plan_preprint_for_public_comment_12_17_15.pdf on October 11, 2018.

the Act, in part, through submission and approval of States' CCDF plans for FYs 2016–2018.²⁴

States submit their CCDF plans electronically through the Form ACF-118 online submission portal. Electronic submission allows for review and approval of the plans, both by ACF regional offices and ACF central office staff.²⁵ ACF's 10 regional offices serve as liaisons between States' CCDF programs and ACF's central office, and the regional offices participate in reviewing and approving States' CCDF plans and plan amendments. The regional offices also provide technical assistance to States and serve as points of contact for States' requests for such assistance.

Related OIG Work

A July 2016 OIG report evaluated States' CCDF program integrity efforts and their subsequent results.²⁶ OIG found that States differed in the scope of their respective CCDF program integrity activities and varied substantially in the degree to which they conducted specific program integrity activities. Not all States performed important antifraud activities, and few States notified ACF and other States about suspected fraud. ACF concurred with all four of OIG's recommendations and has implemented the recommendations for it to establish routine communication with States to share program integrity and fraud fighting best practices; determine the feasibility of requiring all States to report information about the results of their program integrity and fraud fighting activities; and request that States examine the effectiveness of their program integrity and fraud fighting activities. ACF concurred with—but has not yet implemented—OIG's recommendation to examine with States the benefits of expanding program integrity and fraud-fighting activities.

In a 2013 report, OIG found that all States complied with the Federal requirement to have health and safety requirements for licensed child care providers that receive CCDF payments.²⁷ However, States' monitoring requirements were not always in line with ACF's recommendations for criminal background screenings. ACF has implemented all five of OIG's recommendations regarding the development of health and safety standards and States' compliance with health and safety requirements. OIG has also

²⁴ ACF also will use other appropriate means—including site visits to States—to determine compliance with CCDF requirements. ACF, *CCDF Reauthorization Frequently Asked Questions*, March 2015. Accessed at <https://www.acf.hhs.gov/occ/resource/ccdf-reauthorization-faq-archived> on May 29, 2018. Also see 45 CFR § 98.90 authorizing ACF to monitor States' compliance with CCDF statute, regulations, and States' plans.

²⁵ ACF, *The Fundamentals of CCDF Administration Resource Guide*, August 2018, pp. 93-95. Accessed at https://ccdf-fundamentals.icfcloud.com/fundamentals_tools on January 25, 2019.

²⁶ OIG, *More Effort Is Needed To Protect the Integrity of the Child Care and Development Fund Block Grant Program*, OEI-03-16-00150, July 2016.

²⁷ OIG, *Child Care and Development Fund: Monitoring of Licensed Child Care Providers*, OEI-07-10-00230, November 2013.

conducted indepth audits of child care providers in 10 States, including center-based and family home providers, to determine their compliance with State licensing requirements related to the health and safety of children. OIG found that of the child care providers inspected in unannounced site visits, 96 percent had one or more instances of potentially hazardous conditions and noncompliance with State health and safety requirements, including requirements for criminal-records checks and for licensing. The reports contained a number of recommendations to States, including that States:

- ensure through effective monitoring that providers comply with all health and safety requirements;²⁸
- ensure adequate oversight by reducing licensing inspectors' caseloads;²⁹ and
- develop a mandatory training program to improve provider compliance with health and safety regulations.³⁰

Methodology

There are many factors that may impact access to child care, but this report focuses on States' payment rates because of the explicit link that the Federal equal-access provision makes between payment rates and equal access for CCDF-eligible families.

Data Collection and Analysis

States' FY 2016–2018 CCDF Plans. We obtained all States' provider payment rates from the information that each State provided for Section 4.3.1 of its FY 2016–2018 CCDF plan. If States had amended their FY 2016–2018 plans with updated provider payment rates, we used the latest rates in our comparison to surveyed providers' prices.

To examine how States have demonstrated to ACF that payment rates are sufficient to ensure equal access to child care services for eligible families, we reviewed information in Section 4.4.1 of States' FY 2016–2018 CCDF plans. In this section, States are asked to select—from a list of options—the “data and facts” that they relied on to certify to ACF that their provider payment rates ensure equal access. ACF does not require States to submit any documentation with their plans to support their selected data and facts.

Survey of Child Care Providers. To obtain information regarding child care providers' prices, OIG surveyed a national, stratified random sample of 2,000 licensed child care centers and family child care homes by mail. In the

²⁸ Seven States have implemented this recommendation for centers, and six States have implemented this recommendation for family child care homes.

²⁹ Three States have implemented this recommendation for centers, and four States have implemented this recommendation for family child care homes.

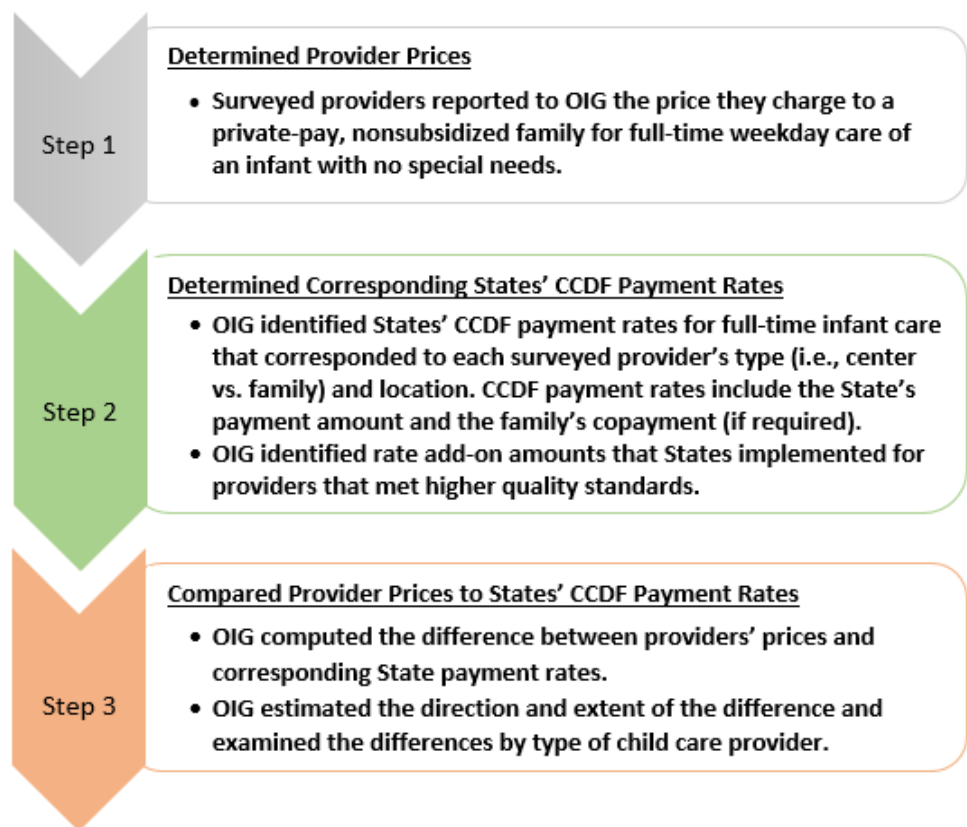
³⁰ Three States have implemented this recommendation for family child care homes.

1,257 survey responses, 81 providers reported that they were not currently providing child care, and we therefore did not include those 81 providers in our review. We received surveys from 1,176 respondents, achieving a weighted response rate of 61 percent.³¹

Because the price of child care may vary depending on the age of the child, we needed to create a specific child profile for the survey. We selected an infant, age 0 to 11 months, with no special needs. The survey included questions about the price charged for full-time infant care and the providers' experiences, if any, participating in the CCDF program.

We compared providers' prices to States' corresponding CCDF provider payment rates, as displayed in Exhibit 1. Appendix A contains a detailed description of our sampling methodology and analysis of child care prices. Appendix B contains statistical estimates and 95-percent confidence intervals for the child care provider survey.

Exhibit 1: Analysis That Compared Child Care Provider's Prices to States' CCDF Payment Rates



³¹ Our results pertaining to child care providers apply to the population represented by the survey respondents. The survey respondents included providers that served CCDF families and providers that did not. It is possible that the providers that did not respond to our survey have different payment rates and/or practices than the providers that did respond to our survey. We did not adjust our results on the basis of any inferences about the nonrespondents.

Survey of States' CCDF Programs. To examine how States determine that their CCDF payment rates are sufficient to ensure equal access to child care services for eligible families, we sent an online survey to all 50 States and the District of Columbia (hereafter referred to as States). Forty-five of the 51 States (88 percent) responded to our survey.³² We reviewed and aggregated States' responses to the survey questions. We did not receive completed surveys from Montana, New Mexico, Ohio, Oregon, Pennsylvania, or Rhode Island.³³

ACF Office of Child Care. To review how ACF ensures that States' CCDF provider payment rates are sufficient to ensure equal access to child care services for eligible families, we sent information requests to the Office of Child Care in ACF's Central Office. We reviewed ACF's responses to the information request, and we followed up with ACF staff by telephone to clarify their responses.

Limitations

We based our findings regarding child care providers and States on the information reported by child care providers and States. We did not independently verify these responses. In addition, we achieved an overall weighted response rate of 61 percent for the survey of child care providers. Our results pertaining to child care providers apply only to the population represented by these respondents—child care centers and family child care homes that responded to the survey—and cannot be generalized to all child care providers. Finally, we surveyed child care providers regarding the prices they charge for infant care; we did not request any information from providers regarding their operating costs.

Standards

We conducted this study in accordance with the Quality Standards for Inspection and Evaluation issued by the Council of the Inspectors General on Integrity and Efficiency.

³² Using a combination of email and telephone outreach, OIG made at least three followup attempts to obtain responses from States that did not complete the survey.

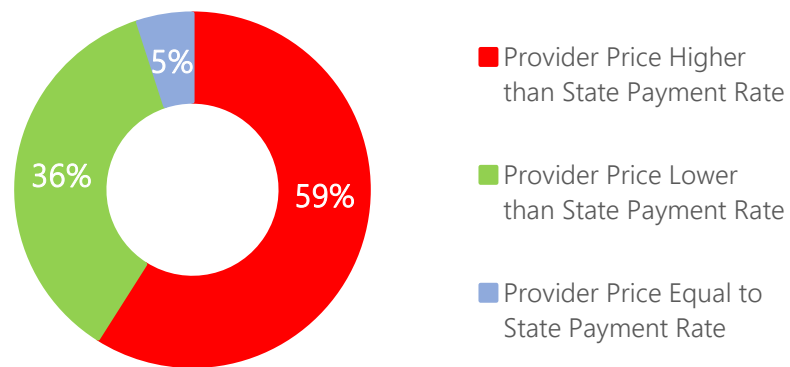
³³ These six States served approximately 13 percent of CCDF children in 2016.

FINDINGS

The majority of child care providers charge more for infant care than States' payment rates, which could limit access to care for CCDF families

States' CCDF payment rates are an important component of ensuring that low-income families may access child care. We found that States' CCDF payment rates for infant care covered 41 percent of child care providers' prices. Specifically, 36 percent of providers' prices for full-time infant care were lower than States' payment rates, and 5 percent of providers' prices were equal to States' payment rates. In contrast, the remaining 59 percent of providers' prices exceeded States' payment rates. In these instances, the State payment amount, including the family copayment, might not cover the cost of child care, potentially limiting CCDF families' access to these providers.

Exhibit 2: States' CCDF payment rates for infant care do not cover the prices charged by 59 percent of child care providers



Source: OIG comparison of surveyed providers' prices to States' CCDF payment rates in 2017.

When providers' prices exceeded States' CCDF payment rates, nearly half did so by a substantial margin

For 18 percent of providers whose prices exceeded CCDF payment rates, the prices charged by the providers were at least 50 percent higher than corresponding State payment rates. An additional 29 percent were between 25 and 50 percent higher than State payment rates.

A family seeking to enroll a child with a provider whose price exceeded the State's CCDF payment rate would have to cover the cost of the difference itself if required to do so by the provider, in addition to any required copayment. This could pose a significant financial hardship on low-income families or potentially prevent them from accessing child care, even with CCDF assistance. For example, in one State, the difference between a provider's price and the corresponding State CCDF payment rate was \$376 per month. In addition, a family of four in this State would incur a monthly copayment ranging from \$35 to \$442, depending on family

We would like to accept infants but the [CCDF] rate is just too low to pay for staff in [infant] room.

Child Care Provider

income.³⁴ Should a family seek child care services from this provider, it may need to pay approximately \$400 to \$800 per month out of pocket to cover the gap between the provider's price and the CCDF payment amount and copayment.

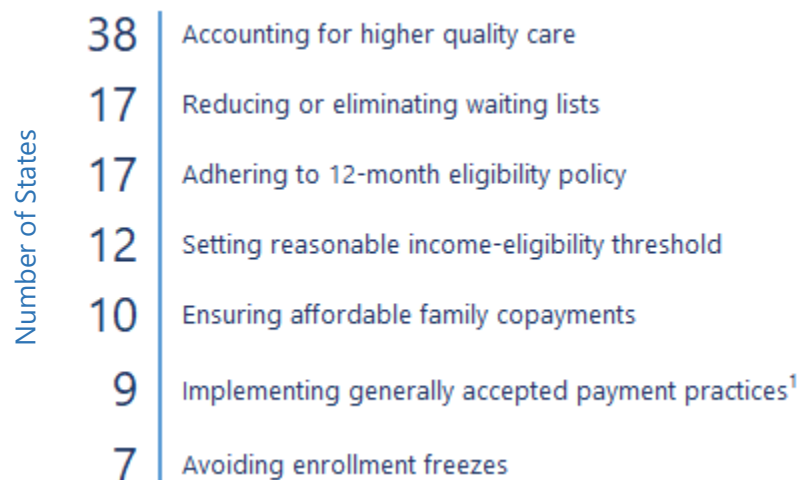
When setting CCDF payment rates, States face budgetary constraints and competing priorities

Most States reported that finite resources at the State and Federal levels were challenges in setting payment rates that ensure equal access to child care services. CCDF funding is made up of Federal funds—allocated to States in formula block grants—and State matching funds. Formula block grants give States the flexibility to decide how to allocate the fixed amount of Federal funding. Thirty-seven States identified State budget and funding limitations as a challenge that they have encountered. Similarly, 36 States indicated that Federal funding limitations were a challenge in setting provider payment rates that ensure equal access for eligible families.

In light of budgetary constraints, States must consider a number of competing factors and make tradeoffs when setting their CCDF provider payment rates, as shown in Exhibit 3. One State explained that increasing payment rates may mean serving fewer families:

"The cost of [...] subsidies is driven by three things: (1) the number of children served, (2) the amount each child is served, and (3) the amount paid for each unit of care...In the absence of additional funding this presents counties with two primary options: (A) find other sources of funding or (B) serve fewer children. Thus, a focus on increasing rates to a sufficient level comes with a cost borne out either in more dollars or fewer children served/served for less time."

Exhibit 3: States balance multiple competing priorities when setting their CCDF payment rates



¹For example, paying for days when a child is absent.
Source: OIG analysis of 45 States' survey responses, 2017

³⁴ This copayment information was reported in the State's FY 2016–2018 CCDF plan for the most populous area of the State.

[Setting rates at the 75th percentile] would substantially reduce the number of children and families who could be served.

State CCDF Program Administrator

There are factors—such as the desire to increase the number of families served—that may drive States to lower CCDF payments for individual families in an effort to stretch the overall CCDF budget to provide child care assistance to more families. Seventeen States reported that concerns over having waiting lists of families requesting CCDF assistance affected their approach to setting CCDF payment rates. As one State put it, “In setting rates, we seek to support as many families while balancing demand and resources in a way that allows us to maximize participation and avoid returning to a waiting list.” Similarly, seven States indicated that avoiding enrollment freezes factored into their decision-making about payment rates.

Other factors may drive States to increase CCDF payment rates or establish tiered rates, even if this may result in serving fewer families. One of these factors is that when States set CCDF payment rates, they are required to take into consideration the cost of providing higher quality child care.^{35, 36}

Offering increased, tiered rates to providers that meet higher quality standards is a financial consideration that a State may weigh when setting its CCDF payment rates. Thirty-eight States indicated that they took the cost of higher quality child care services into account when setting provider payment rates for the FY 2016–2018 plan period. Twenty-nine of these States noted that they have increased payment rates for higher quality providers.

Other factors raise the overall costs of the CCDF program, which may reduce the amount available for direct child care assistance and thereby affect rate-setting. One of these factors is the program requirement to maintain a minimum 12-month eligibility period for CCDF families³⁷—i.e., provide for a family’s continuous eligibility throughout a 12-month period, regardless of changes in income, as long as the family does not exceed the Federal income threshold or experience a nontemporary change in work, education, or training that affects eligibility. Seventeen States indicated that complying with this policy affects how they set payment rates. One State estimated that implementing the 12-month eligibility policy would double its costs. Ten States reported that ensuring family copayments are affordable affects their payment rates, and nine States reported that implementing generally accepted payment practices affects their payment rates.

Finally, 12 States reported that setting reasonable income-eligibility thresholds had an impact on rate-setting. When setting CCDF payment

³⁵ Section 658E(c)(4)(B)(iii)(II) of the Child Care and Development Block Grant Act of 2014.

³⁶ Many States have implemented Quality Rating and Improvement System (QRIS) programs to assess the quality of child care providers and to communicate provider quality levels to the public. Typically, a QRIS program assigns ratings (such as star ratings) to providers that meet a set of defined quality standards. In certain States, providers that have achieved a QRIS rating may be entitled to a higher CCDF payment rate, also called a tiered rate or rate add-on.

³⁷ Section 658E(c)(2)(N)(i) of the Child Care and Development Block Grant Act of 2014; ACF, *CCDF Reauthorization Frequently Asked Questions*, March 2015. Accessed at <https://www.acf.hhs.gov/occ/resource/ccdf-reauthorization-faq-archived> on May 29, 2018.

rates, States consider whether to have lower income thresholds that may *reduce* the number of eligible families but allow for *higher* provider payment rates, or to have higher income thresholds that may *increase* the number of eligible families but potentially *reduce* the subsidy amount available to each family.

ACF does not evaluate States' payment rates to ensure compliance with the CCDF equal-access provision

ACF has not evaluated whether States are ensuring equal access; instead, it relies on States to self-certify their compliance with the equal-access provision

Although States must provide in their CCDF plans information regarding payment rates and equal access, ACF does not evaluate this information. ACF reported that staff review this information for completeness, responsiveness, and clarity, but that they do not make evaluative judgements to determine whether States with payment rates that are below the recommended level have ensured equal access. Regardless of the level at which States' rates are set, ACF defers to States to self-certify that they have met the equal-access provision.

ACF reported that 40 States self-certified in their CCDF plans that payment rates were sufficient to ensure equal access for the FY 2016–2018 plan period. Eleven States self-certified that they had not fully implemented the equal-access provision. These States described implementation plans to meet the requirement and requested waivers for this provision. ACF approved all of these waiver requests.

ACF allows States to indicate, in their CCDF plans, how they met the equal-access provision. States select—from a list of options—the “data and facts” they relied on to demonstrate to ACF that their provider payment rates ensure equal access to child care services. In FY 2016–2018 CCDF plans, many States selected (1) the use of “tiered” or differential payment rates³⁸ for targeted child care needs; (2) data on the percentage of families served by high-quality providers; and (3) data showing that families have access to the full range of providers. States provided narrative descriptions, but they were not required to submit any documentation with their plans to support their selected data and facts.

The flexibility in program administration afforded to States under the CCDF block grant and the lack of an operating definition for equal access make it difficult for ACF to evaluate whether States with rates below the recommended level have ensured equal access. ACF also stated that it cannot review payment rates in isolation, considering that States have limited resources and competing factors that they must balance when setting

³⁸ Tiered or differential provider payment rates could include higher payment rates for child care programs that (for example) meet certain quality standards, have nontraditional hours, and/or serve children with special needs.

payment rates. Going forward, a new requirement under the Act mandates States to set payment rates on the basis of the results of the most current market-rate survey or alternative methodology.³⁹ However, ACF has not developed a specific review process or tool that it will use to determine compliance with this requirement.

Most States do not set payment rates at the level ACF recommends

Only seven States reported to ACF in their CCDF plans for FYs 2016–2018 that they set their CCDF payment rates for full-time infant care at or above the 75th percentile of child care provider prices for their respective geographic areas serving the highest number of children. The 75th percentile is the level that ACF recommends to ensure equal access. The payment rates for these seven States ranged from the 75th percentile to the 98th percentile of child care provider prices for the reported geographic areas. Across the remaining States that have payment rates for full-time infant care that are below the 75th percentile, rates varied widely. To illustrate, CCDF payment rates for full-time licensed center care for infants ranged from the 1st percentile of child care provider prices in Vermont to the 74th percentile in New Mexico. Appendix C provides the CCDF infant-care payment rate percentiles for each State.

Only 15 States indicated that they plan to set any of their CCDF payment rates at ACF’s recommended level for the FY 2019–2021 plan period.^{40, 41}

ACF oversight has focused on technical assistance and has been expanded to include onsite monitoring

Provision of technical assistance. States have access to technical assistance and guidance materials from the ACF central office, ACF regional offices, the National Center on Early Childhood Quality Assurance, and the National Center on Subsidy Innovation and Accountability. States may access program instructions and technical assistance materials on ACF’s website, and ACF operates an “Announcements” listserv that emails guidance, briefs, and materials directly to States.

States may also request targeted guidance, potential strategies, and assistance as needed. In response to these requests, ACF has provided direct assistance to individual States on topics including the development of a

³⁹ Previously, States routinely had to conduct a market-rate survey or an alternative methodology, but they did not have to base their payment rates on the results of the most recent version.

⁴⁰ These 15 States are out of the 45 States that responded to the OIG survey.

⁴¹ Only 4 of the 7 States that set their rates at or above the 75th percentile in the FY 2016–2018 plan period are among the 15 States that indicated that they plan to do so for the FY 2019–2021 plan period. One of the 7 States indicated that it does not plan to set rates at or above the 75th percentile and the remaining 2 of 7 States did not complete the OIG survey.

market-rate survey and alternative methodology options. For example, ACF reviewed a questionnaire that a State was drafting for its market-rate survey process, and ACF provided a presentation comparing provider cost modeling to child care market-price surveys during a State and Territory CCDF Administrators' Meeting.

Onsite monitoring. Beginning October 2018, ACF began implementing an onsite monitoring system. As part of the process, each year, ACF will conduct an onsite monitoring visit with one-third of States' CCDF agencies. It expects to complete visits to all States in FY 2022. Currently, a review of equal access is not part of these monitoring visits. Rather, the focus is on compliance with health and safety requirements for child care providers.

Some providers report concerns about CCDF payment practices, despite States' efforts to incentivize providers to accept CCDF families

The majority of States have implemented provider-friendly payment practices to incentivize providers to accept CCDF families

To aid in ensuring access for CCDF families, many States reported that they have implemented numerous provider-friendly payment practices for child care providers, as shown in Exhibit 4.

Exhibit 4: Most States implemented provider-friendly payment practices

<i>Provider-Friendly Payment Practice</i>	<i>Number of States¹</i>
Pay providers within 21 calendar days of receiving invoice	44
Use electronic payment systems (e.g., direct deposits)	43
Promptly notify providers of changes to a family's eligibility status that may impact payment	42
Pay providers for days a child is absent	41
Ensure timely appeal and resolution for payment disputes	35
Use electronic billing systems (e.g., automated billing)	32
Pay providers for enrollment/registration fees	19
Pay providers for extra child care activities (e.g., class trips)	7
Pay providers prospectively (e.g., at beginning of month)	6

¹This column contains the number of States that implemented the provider-friendly payment practice for child care centers *and* family child care homes. Source: OIG analysis of 45 States' survey responses, 2017.

Under the Act, States are required to have in place generally accepted payment practices that reflect payment practices of non-CCDF providers. The goal of this requirement is to provide stability of funding and encourage

I have received subsidy payments in the past, but they are more paperwork and don't pay what I charge for private pay, so to me, it's not worth the extra work for less pay.

Child Care Provider

more child care providers to participate in the CCDF subsidy program.⁴² In the CCDF final rule, ACF stated that policies governing provider payments, including generally accepted payment practices, are “an important aspect of ensuring equal access and supporting the ability of providers to provide high-quality care.”⁴³

Nineteen States reported that they pay providers for child care enrollment fees and/or registration fees—such fees can reach several hundred dollars.⁴⁴ In the remaining States, the lack of payment for enrollment fees and/or registration fees may pose a financial hardship to families, as only 13 percent of CCDF providers waive registration fees for CCDF children. Seven States reported that they pay providers for extra child care activities, such as class trips. In addition, only six States reported that they pay child care centers and family child care homes prospectively (before services are rendered—e.g., at the beginning of the month), making it the least-implemented payment practice. It is possible that States have not implemented prospective payments because disconnecting payment from attendance could leave their programs vulnerable to fraud and abuse.

Providers that serve CCDF families cite unreliable payments and additional administrative work as challenges

Providers that served CCDF families identified low payment rates from States and the lack of reliable or timely payments as challenges in participating in the CCDF program.⁴⁵ Although 44 States reported that they pay within 21 calendar days of receiving an invoice, some providers remain unsatisfied with the timeliness of payment.

When describing the administrative burdens associated with participating in the CCDF program, 51 percent of providers mentioned paperwork requirements and overall program administration requirements. Thirty-four percent of providers cited the reporting of attendance and billing,

⁴² Per ACF guidance, “provider-friendly payment practices” are practices that align with the private-paying child care market in order to encourage providers to accept children who receive CCDF assistance and enable families to retain child care services. ACF, *What is meant by “generally accepted payment practices?”* Accessed at <https://www.acf.hhs.gov/occ/faq/what-is-meant-by-generally-accepted-payment-practices> on June 25, 2018.

⁴³ 81 Fed. Reg. 67516 (Sept. 30, 2016).

⁴⁴ ACF considers State payment to providers for child care enrollment fees or registration fees as a “provider-friendly” payment practice because private-pay families typically pay for these fees and extracurricular activities. According to OIG’s survey of child care providers, center registration fees (when not waived), ranged from \$10 to \$350, and family care registration fees ranged from \$10 to \$375. Some providers charged registration fees annually, while others charged the fees only at the time of initial enrollment.

⁴⁵ In response to OIG’s survey, 58 percent of child care providers indicated that they care for children enrolled in their States’ CCDF programs.

including the added responsibility of ensuring attendance is properly recorded. For example, States may use electronic cards that CCDF families “swipe” at the child care provider to record attendance. Because payment is linked to attendance, providers must become vigilant in overseeing that parents swipe their cards consistently. One respondent explained this by stating, “The major burden I face is parents not swiping the card... With over 90 percent of my [enrollees using the attendance card], it hurts when they don’t swipe.”

Concerns over payment and administrative burdens discourage providers from participating in the CCDF program

Non-CCDF providers stated that low payment rates, infrequent payment, and perceived administrative burdens discouraged them from participating in the CCDF program. Of the 42 percent of providers that did not provide care to CCDF families at the time of our review, 34 percent would not be willing to provide care to CCDF families in the future.⁴⁶ While the reasons for not participating varied, they commonly included the provider’s belief that States’ payments are too low or not frequent enough, and concerns about the administrative burdens and program requirements associated with being a CCDF provider. For example, one former CCDF provider said, “I started in this field because I love working with kids. The amount of calls and paperwork took time from my own children during nights and weekends.” Another reason providers offered for not participating included the lack of prospective payment in State CCDF programs. One CCDF provider stated, “We cannot bill until the end of the month, but have to cover payroll and overhead costs all month. Accepting these subsidy payments is financially difficult for the day care providers having to wait so long to get their tuitions paid. I can understand why more centers don't accept [CCDF families].”

⁴⁶ Thirty-nine percent of providers would be willing to provide care to CCDF families and the remaining 27 percent expressed lack of familiarity with the CCDF program.

CONCLUSION AND RECOMMENDATIONS

Federal law recognizes that CCDF provider payment rates are an important aspect of ensuring that eligible children have access to child care services. We found that CCDF payment rates for infant care provide access to only 41 percent of child care providers. When setting their CCDF payment rates, States have to factor in numerous competing priorities, including the desire to help as many families as possible. States reported wrestling with the question of whether it is better to set CCDF payment rates lower and serve more children, or to set payment rates higher and potentially serve fewer children.

States also implement provider-friendly payment practices to encourage providers to accept CCDF program payments and help ensure access for eligible children. However, providers report that more could be done to ease the burden of accepting CCDF payments for eligible children.

With respect to oversight, ACF relies on States to self-certify that their payment rates for CCDF providers are sufficient to ensure that eligible children have equal access to child care services comparable to services provided to children whose families are not eligible to receive child care assistance.

To promote States' compliance with the Federal equal-access provision, we recommend that ACF take a number of practical steps, as outlined below.

ACF should evaluate whether States are ensuring equal access for CCDF families, as required

ACF should consider developing additional proxies for equal access—apart from setting rates at the 75th percentile of market prices—that would allow it to evaluate States' progress towards ensuring equal access to child care services for eligible families. Additional proxy measures would allow ACF to evaluate whether, and how, States have ensured equal access when payment rates are lower than the 75th percentile of market prices, and when States are employing an alternative methodology, in lieu of a market-rate survey. This will become increasingly important as States move toward alternative rate-setting methodologies that collect and assess child care costs rather than market prices.

ACF should ensure that States comply with the new requirement to use the results of the most recent market-rate survey, or alternative methodology, to set CCDF payment rates

Prior to the FY 2019–2021 plan period, States were permitted to use outdated market-rate survey results in setting CCDF payment rates, even though more recent results were available. Effective October 1, 2018, the Act requires

States to set their CCDF provider payment rates in accordance with the results of their most recent child care market-rate survey or alternative methodology. This does not mean that States must set their CCDF payment rates at the 75th percentile, but rather that the new percentiles that States report to ACF will represent up-to-date child care provider prices.

ACF currently is implementing an onsite monitoring system with States that focuses on States' compliance with health and safety requirements for child care providers. ACF could incorporate into this onsite monitoring of States' CCDF programs an evaluation of States' compliance with the requirement to use the results of the most recent survey (or alternative methodology). Another option would be to conduct desk reviews of States' payment-rate information compared to the results of their market-rate surveys. This information is readily available to ACF, as States provide links to CCDF payment rates and market-rate survey reports in their CCDF plans.

ACF should establish a forum for States to share strategies regarding how they set payment rates to ensure equal access for eligible families while balancing competing program priorities

States reported encountering challenges in setting payment rates that ensure equal access for eligible families. ACF should work with States to identify and share strategies across States for setting payment rates to ensure equal access while taking into account other competing program priorities and funding limitations. To encourage States to learn about and potentially adopt strategies that have worked for their peers, ACF should establish a forum—such as an interactive webinar—that is held at least once per year.

ACF should encourage States to minimize administrative burdens for CCDF providers, with a goal of expanding access for eligible families

Under ACF guidance, States must implement generally accepted payment practices that reflect payment practices of non-CCDF providers, to encourage more child care providers to participate in the CCDF program. Although numerous States are currently implementing many of the payment practices that OIG evaluated, some providers remain unsatisfied with CCDF payments and administrative burdens. Therefore, ACF should encourage States to continue implementing practices that streamline administrative processes and reduce CCDF providers' administrative burdens, while also keeping in mind the need for appropriate program oversight and accountability.

AGENCY COMMENTS AND OIG RESPONSE

ACF concurred with all four of our recommendations.

In response to our first recommendation to evaluate whether States are ensuring equal access for CCDF families, ACF described steps it has taken to ensure compliance with the equal-access requirement. These include prioritizing the review of the equal-access requirement as part of the FY 2019–2021 CCDF plan review and placing 33 States on corrective action plans for not demonstrating compliance with this requirement. ACF stated that if these States are unable to come into compliance by September 30, 2019, they will be subject to a penalty pursuant to the CCDF regulations. ACF reported that it is providing intensive technical assistance to these States. ACF also issued a number of guidance documents to highlight the importance of the equal-access requirement.

In response to our second recommendation to ensure that States comply with the new requirement to use the results of the most recent market-rate survey, or alternative methodology, to set CCDF payment rates, ACF reported that it placed 18 States on corrective action plans for data collection issues, including not completing market-rate surveys within the required timeframe and not using the market-rate surveys to set payment rates.

In response to our third recommendation to establish a forum for States to share strategies regarding how they set payment rates to ensure equal access for eligible families while balancing competing program priorities, ACF stated that it is planning a set of activities to implement this recommendation. These activities include analyzing States' market-rate survey methodologies, convening a roundtable with key stakeholders, and using the results of those efforts to develop and execute a technical assistance strategy to support States in setting adequate payment rates while balancing other factors.

Lastly, in response to our fourth recommendation to encourage States to minimize administrative burdens for CCDF providers, with a goal of expanding access for eligible families, ACF stated that it believes the stakeholders' roundtable it is planning will provide input from providers on the administrative burdens they face in serving CCDF families. In addition, ACF stated that it will analyze and summarize States' strategies to minimize administrative burden and include this in its technical assistance strategy.

For the full text of ACF's comments, see Appendix D.

APPENDIX A: Detailed Methodology

Child Care Provider Sample

We contacted the CCDF agencies in all States to request lists of all licensed child care centers and family child care homes, including the provider's address; contact information; and QRIS rating and accreditation status, if applicable. On receipt of this information, we combined the lists of providers into a single sampling frame.

Because States and providers may have different payment and price levels depending on the age of the child, we needed to create a specific child profile for our review. We selected an infant, age 0 to 11 months, with no special needs. Because infants need a higher level of care, not all child care providers offer infant care. Some States' lists of providers distinguished between those that served infants and those that did not. Therefore, when it was possible to do so, we removed providers that—according to State-submitted data—did not serve infants to create a sampling frame of providers who potentially served infants.

We grouped providers into four strata by type of care and State payment rate percentile for infant care, as displayed in Exhibit A-1. We stratified providers in this manner to ensure that the sample included centers and family child care homes located in States with both lower and higher payment rate percentiles. We used the payment rate percentiles—the percentage of providers that charge prices at or below a State's payment rate—that States reported in their FY 2016–2018 CCDF plans to identify States with infant-care payment rates above or at/below the 33rd percentile.⁴⁷ We selected a stratified random sample of 2,000 providers from the sampling frame—500 providers from each stratum.

To obtain additional information regarding accreditation status for child care centers and family child care homes, we contacted five national child care accreditation organizations that were cited in States' CCDF plans.⁴⁸ We compared our lists of child care providers against the lists obtained from the accreditation organizations to ensure that we applied payment rate add-on amounts for accredited providers, if applicable, when comparing surveyed providers' prices to the corresponding State CCDF payment rates.

⁴⁷ States' FY 2016–2018 CCDF plans, Section 4.3.1. The State-by-State data for payment rate percentiles are presented in Appendix C.

⁴⁸ The five accrediting organizations were the Council on Accreditation; the National Accreditation Commission for Early Care and Education Programs; the National Association for the Education of Young Children; the National Association for Family Child Care; and the National Early Childhood Program Accreditation.

Exhibit A-1: National, random sample of child care providers that potentially served infants

Strata Descriptions	Number of Providers in Study Population	Number of Sampled Providers	Number of Providers Currently Providing Care	Number of Survey Responses	Response Rate
<i>Stratum 1:</i> Licensed child care centers in States with payment rate percentiles (for full-time infant care) at or below the 33rd percentile	22,377	500	492	331	67%
<i>Stratum 2:</i> Licensed child care centers in States with payment rate percentiles (for full-time infant care) above the 33rd percentile	39,911	500	484	296	61%
<i>Stratum 3:</i> Licensed family child care homes in States with payment rate percentiles (for full-time infant care) at or below the 33rd percentile	24,284	500	475	260	55%
<i>Stratum 4:</i> Licensed family child care homes in States with payment rate percentiles (for full-time infant care) above the 33rd percentile	99,760	500	468	289	62%
Total	186,332	2,000	1,919¹	1,176	61%

Source: OIG analysis of providers' survey responses.

¹ Of the sample of 2,000 licensed providers, 81 providers reported not providing child care at the time of the survey.

To examine the extent of potential nonresponse bias, we compared whether survey respondents and nonrespondents differed with regard to provider type. We did not find a significant difference at the 95-percent confidence level. We found that, for center-based providers, the weighted response rate was 63 percent. For family child care home providers, the weighted response rate was 60 percent. We found no evidence that these response rates were statistically different ($p=0.22$).

We also explored the potential effects that nonresponse may have had on the results of our comparison of providers' prices for full-time infant care to the corresponding State payment rates. If all nonresponding child care providers had reported prices that were lower than State payment rates, we would have found that 70 percent of providers' prices were lower than or equal to corresponding State payment rates. On the other hand, if all nonrespondent providers had reported prices that were higher than corresponding State payment rates, we would have found that 21 percent of providers' prices were lower than or equal to the payment rates.

Child Care Provider Survey

In September 2017, OIG sent its survey to sampled providers through UPS and included a prepaid business reply envelope to facilitate survey response.

We sent two follow-up requests to providers that had not responded to the initial mailing, for a total of three outreach attempts for each provider. Providers had the choice to respond online or by returning the survey by mail. We received responses from 1,176 child care providers for an overall weighted response rate of 61 percent. The response rates by stratum ranged from 55 percent in Stratum 3 to 67 percent in Stratum 1. The provider survey estimates are weighted to reflect the stratified sample design and the population of responding providers.

Child Care Provider Prices

OIG asked surveyed providers to report the total amount charged to a private-pay, nonsubsidized family for full-time weekday care of an infant with no special needs and the accompanying unit of time (i.e., hourly, daily, weekly, monthly).⁴⁹

Using the CCDF payment rates that States submitted to ACF with their FY 2016–2018 CCDF plans, we identified the payment rate for full-time infant care corresponding to the type and location of each sampled provider. We included any additional payments that States implemented for child care providers that met higher quality standards. The payment rate add-on amount was applied for providers that met specified quality rating levels or achieved child care accreditation status.⁵⁰

To ensure that our comparisons of provider prices to State payment rates were based on the same unit of time, we performed calculations to convert provider prices when necessary. We used the following conversion formulas: 9 hours equals 1 day; 5 days equals 1 week; and 4.33 weeks equals 1 month.

We computed the difference between providers' prices for full-time infant care for private-pay families and the corresponding State payment rates. We estimated the direction and extent of the difference and examined the differences by type of child care provider.

Price Comparison for Providers Serving CCDF Families. We examined the full-time infant care prices reported by 601 providers that served CCDF families. We compared these providers' prices to corresponding State payment rates. The results of the price-to-rate comparison did not differ substantially from the overall results described in the Findings section of this report. Specifically, 55 percent of CCDF providers' prices exceeded States' payment rates; 38 percent were lower than States' payment rates; and 7 percent were equal to the corresponding payment rates.

Providers that served CCDF families were given an opportunity to indicate whether they charged these families a different price for full-time infant care

⁴⁹ Because the price of child care may vary depending on the age of the child, we needed to create a specific child profile for the provider survey.

⁵⁰ Each State may designate its own add-on amount for specific criteria that a provider meets.

than their private-pay price. For almost all of these providers, the price charged for full-time infant care was the same across both CCDF and private-pay families. Only 5 percent of providers charged a lower price to CCDF families, while another 3 percent of providers charged a higher price to CCDF families.

Price Comparison by Provider Type. We observed only small percentage differences in the results of our comparison of providers' prices to corresponding State payment rates when analyzing by provider type. For child care centers, 65 percent of prices for full-time infant care exceeded States' payment rates; 31 percent of prices were lower than payment rates; and 4 percent of prices equaled the corresponding payment rates. For family child care homes, 56 percent of prices for full-time infant care exceeded payment rates; 39 percent of prices were lower than payment rates; and 5 percent of prices were equal to States' corresponding payment rates.

Survey of States' CCDF Programs

OIG sent an online survey to all States and the District of Columbia (hereafter referred to as States). Forty-five States responded to the survey, a response rate of 88 percent. The survey included questions about whether and how States ensure that their payment rates are sufficient to ensure equal access; how States incorporate considerations of program policies (e.g., family copayments) and provider quality into their processes for setting payment rates; and whether States have implemented provider payment practices similar to those in the private-pay market that may incentivize providers to accept CCDF families. In addition, we asked States to identify the challenges that they face when setting their CCDF payment rates. We also requested the policies, procedures, and/or calculations that States use to determine their CCDF payment rates and to set payment rates that are sufficient to ensure equal access for eligible families.

ACF Survey

For this review, OIG sent information requests to the Office of Child Care in ACF's central office. We requested copies of any policies, procedures, and guidelines that ACF uses to monitor whether States' CCDF payment rates are sufficient to ensure equal access for eligible families. We inquired about how, and the degree to which, ACF assesses whether States' payment rates are sufficient to ensure equal access. We asked about the nature and extent of documentation that States submit to ACF regarding their payment rates and the types of specific guidance and/or technical assistance that ACF provides to States regarding payment rates and equal access. In addition, we inquired about steps that ACF has taken to hold States accountable for establishing payment rates that are sufficient to ensure equal access. Lastly, we asked about the challenges that ACF faces in monitoring and overseeing States' payment rates.

APPENDIX B: Child Care Provider Survey— Statistical Estimates and Confidence Intervals

Exhibit B-1: Child Care Provider Survey—Statistical estimates and confidence intervals

Estimate Description	Sample Size	Point Estimate	95-Percent Confidence Interval
Percentage of providers whose prices for full-time infant care exceeded corresponding CCDF payment rates	950	59.0%	55.1%–62.8%
Percentage of providers whose prices for full-time infant care were lower than corresponding CCDF payment rates	950	36.4%	32.7%–40.2%
Percentage of providers whose prices for full-time infant care were equal to corresponding CCDF payment rates	950	4.6%	3.2%–6.7%
Of providers whose full-time infant care prices exceeded corresponding CCDF payment rates, percentage of providers whose prices were up to, but not including, 25 percent higher than CCDF payment rates	626	53.4%	48.6%–58.2%
Of providers whose full-time infant care prices exceeded corresponding CCDF payment rates, percentage of providers whose prices were from 25 percent to up to, but not including, 50 percent higher than CCDF payment rates	626	28.8%	24.6%–33.3%
Of providers whose full-time infant care prices exceeded corresponding CCDF payment rates, percentage of providers whose prices were at least 50 percent higher than CCDF payment rates	626	17.8%	14.5%–21.6%
Percentage of providers that serve CCDF families	1,163	57.6%	54.2%–61.0%
Of providers that serve CCDF families, percentage of providers that waive registration fees for CCDF children	713	13.1%	10.3%–16.5%
Of CCDF providers that described challenges/issues faced in participating in their State’s CCDF program, percentage that identified the lack of reliable or timely payments as a challenge	394	17.4%	13.2%–22.5%
Of CCDF providers that described challenges/issues faced in participating in their State’s CCDF program, percentage that identified low payment rates (and not being paid for absent days) as a challenge	394	19.5%	15.3%–24.7%

Exhibit B-1: Child Care Provider Survey—Statistical estimates and confidence intervals (continued)

Estimate Description	Sample Size	Point Estimate	95-Percent Confidence Interval
Percentage of CCDF providers that indicated they were not satisfied with the timeliness of CCDF payments	678	21.2%	17.8%–25.2%
Of CCDF providers that described administrative burdens associated with participating in their respective State’s CCDF programs, percentage that identified paperwork requirements and overall program administration requirements as burdens	444	51.2%	45.6%–56.8%
Of CCDF providers that described administrative burdens associated with participating in their respective State’s CCDF programs, percentage that identified the reporting of attendance and billing as burdens	444	33.6%	28.7%–38.9%
Of CCDF providers that offered full-time infant care to CCDF families, percentage of providers whose prices exceeded corresponding CCDF payment rates	601	55.4%	50.5%–60.2%
Of CCDF providers that offered full-time infant care to CCDF families, percentage of providers whose prices were lower than corresponding CCDF payment rates	601	37.8%	33.2%–42.7%
Of CCDF providers that offered full-time infant care to CCDF families, percentage of providers whose prices were equal to corresponding CCDF payment rates	601	6.7%	4.6%–9.7%
Percentage of providers that do not serve CCDF families	1,163	42.4%	39.0%–45.8%
Of providers that do not serve CCDF families, percentage of providers that would not be willing to provide care for CCDF children	431	33.8%	28.8%–39.3%
Of providers that do not serve CCDF families, percentage of providers that would be willing to provide care for CCDF children	431	39.0%	33.6%–44.7%
Of providers that do not serve CCDF families, percentage of providers that expressed lack of familiarity with the CCDF program	431	27.1%	22.6%–32.2%
Of CCDF providers that offered full-time infant care to CCDF families, percentage of providers that charged CCDF families a lower price than their private-pay price	601	4.9%	3.2%–7.4%
Of CCDF providers that offered full-time infant care to CCDF families, percentage of providers that charged CCDF families a higher price than their private-pay price	601	3.4%	1.9%–6.0%

Exhibit B-1: Child Care Provider Survey—Statistical estimates and confidence intervals (continued)

Estimate Description	Sample Size	Point Estimate	95-Percent Confidence Interval
For child care centers, percentage of providers whose prices for full-time infant care exceeded corresponding CCDF payment rates	475	65.1%	60.5%–69.5%
For child care centers, percentage of providers whose prices for full-time infant care were lower than corresponding CCDF payment rates	475	31.3%	27.1%–35.8%
For child care centers, percentage of providers whose prices for full-time infant care were equal to corresponding CCDF payment rates	475	3.6%	2.2%–5.8%
For family child care homes, percentage of providers whose prices exceeded corresponding CCDF payment rates	475	56.2%	51.0%–61.3%
For family child care homes, percentage of providers whose prices for full-time infant care were lower than corresponding CCDF payment rates	475	38.7%	33.7%–43.9%
For family child care homes, percentage of providers whose prices for full-time infant care were equal to corresponding CCDF payment rates	475	5.1%	3.2%–8.0%

Source: OIG analysis of providers' survey responses and comparison of providers' prices to States' CCDF payment rates, 2017.

APPENDIX C: CCDF Infant-Care Payment Rate Percentiles by State, Fiscal Years 2016–2018

Exhibit C-1 contains payment rate percentiles data that States reported in their FY 2016–2018 CCDF plans. The percentiles reflect States’ measurements of the percentage of child care providers that charge prices for infant care at or below the State’s CCDF payment rates, based on each State’s market-rate survey. Payment rate percentiles below are for full-time infant care in the geographic area of the State that serves the highest number of children.

Exhibit C-1: States’ CCDF infant-care payment rate percentiles reported in FY 2016–2018 CCDF plans

State	CCDF Infant-Care Payment Rate Percentile ¹	
	Full-Time Licensed Center Care	Full-Time Licensed Family Child Care
Alabama	46	22
Alaska	11	45
Arizona	8	70
Arkansas	80	98
California	55-60	50-55
Colorado	10-25	<10
Connecticut ²	4	72
Delaware	65	65
District of Columbia ³	n/a	n/a
Florida	25	13
Georgia	50	50
Hawaii	56	42
Idaho	40	40
Illinois	31	72
Indiana	32	47
Iowa	40	60
Kansas	15	50
Kentucky	33	39
Louisiana ⁴	50	25
Maine	50	50
Maryland	8	15
Massachusetts	58	33
Michigan	71	83
Minnesota	26	39
Mississippi	54	52

Exhibit C-1: States' CCDF infant-care payment rate percentiles reported in FY 2016–2018 CCDF plans (continued)

State	CCDF Infant-Care Payment Rate Percentile ¹	
	Full-Time Licensed Center Care	Full-Time Licensed Family Child Care
Missouri	46	49
Montana	75	75
Nebraska	60	60
Nevada	8	18
New Hampshire	50	50
New Jersey	19	58
New Mexico	74	47
New York	69	69
North Carolina	56	58
North Dakota	33	24
Ohio	16	16
Oklahoma	36	52
Oregon	75	75
Pennsylvania	22	17
Rhode Island	12	55
South Carolina ⁵	75	75
South Dakota	80	75
Tennessee ⁶	21	7-33
Texas	57	49
Utah	69	71
Vermont	1	3
Virginia	18	35
Washington	8	39
West Virginia	75	75
Wisconsin	53	53
Wyoming	15	11

Source: OIG review of States' FY 2016–2018 CCDF plans, Section 4.3.1.

¹ OIG rounded States' reported percentiles to the nearest whole number.

² Connecticut indicated in its CCDF plan that the reported percentiles are for the north central region.

³ The District of Columbia is the only State that used an alternative methodology in lieu of a market-rate survey for its FY 2016–2018 CCDF plan. As such, it did not provide percentiles in Section 4.3.1 of its plan.

⁴ The center care percentile in the table is based on this information reported by Louisiana in its CCDF plan: "Near the 50th percentile rate of \$125." In addition, Louisiana reported that family child care is not licensed.

⁵ South Carolina indicated in its CCDF plan that the reported percentiles are for Level B of the State's five-tier provider-quality rating system.

⁶ Tennessee's percentile range for family child care encompasses both of the State's percentile ranges for its two categories of family child care: group and family homes.

APPENDIX D: Agency Comments



ADMINISTRATION FOR CHILDREN & FAMILIES

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July 17, 2019

Suzanne Murrin
Deputy Inspector General for Evaluation and Inspections
Office of Inspector General
U.S. Department of Health and Human Services
200 Independence Avenue, SW
Washington, D.C. 20201

Dear Ms. Murrin:

The Administration for Children and Families (ACF) appreciates the opportunity to respond to the Office of Inspector General (OIG) report titled, *States' Payment Rates Under the Child Care and Development Fund Program Could Limit Access to Child Care Providers* (OEI-03-15-00170). The following is ACF's response to the OIG's recommendations:

Recommendation 1:

ACF should evaluate whether states are ensuring equal access for CCDF families, as required.

Response:

ACF concurs with the recommendation to evaluate whether states are ensuring equal access for Child Care and Development Fund (CCDF) families. We have undertaken significant steps since the fiscal year (FY) 2016-2018 CCDF Plan cycle to ensure compliance with the equal access requirements within the CCDF final rule.

We prioritized the review of the equal access requirement as part of the FY 2019-2021 CCDF Plan review during the fall of 2018. The FY 2019-2021 CCDF Plan Preprint was the first to align fully with the requirements of the CCDF final rule for equal access at 45 CFR 98.45, which included additional questions related to equal access. Specifically, states had to provide a detailed summary of facts that was part of a broader framework for equal access beyond payment rates that included several metrics (e.g., the portion of eligible providers participating in the subsidy program, the narrow cost analysis, copayments, payment practices, etc.).

To highlight the importance of the equal access requirements in the new regulations, OCC issued a number of sub-regulatory guidance documents, including:

- Program Instruction CCDF-ACF-PI-2016-08 on the timelines and requirements for market rate surveys and alternative methodologies (<https://www.acf.hhs.gov/occ/resource/ccdf-acf-pi-2016-08>);
- Program Instruction CCDF-ACF-PI-2018-01 on alternative methodologies for setting payment rates, including the narrow cost analysis required of all states (<https://www.acf.hhs.gov/occ/resource/ccdf-acf-pi-2018-01>); and

- Information Memorandum CCDF-ACF-IM-2018-03 on the FY 2018 CCDF funding increase, which encouraged states to use the funds to address provider payment rates (<https://www.acf.hhs.gov/occ/resource/ccdf-acf-im-2018-03>).

Based on the new FY 2019-2021 Plan questions linked to the new requirements, ACF placed 33 states on corrective action plans (CAP) for not demonstrating compliance with the new equal access requirements. Of those 33 states¹, ACF placed:

- Twenty-one states on CAP for having inadequate rates to support equal access;
- Eighteen states on CAP for data collection issues, including not completing their required Market Rate Survey within the required timeframe, not using the MRS for setting their payment rates, or not collecting other data as required by the final rule; and
- Fifteen states on CAP for not meeting the payment practice requirements.

These states have until September 30, 2019, to come into compliance. If they are unable to meet the requirements by then, they will be subject to a penalty pursuant to the CCDF regulations at Subpart J. To support their compliance efforts, ACF is providing intensive technical assistance (TA) to these states, including on-site TA through a series of regional trainings held during the spring and summer of 2019. In addition, states have reported they plan to use the increased CCDF funding appropriated in FY 2018 and continued in FY 2019 to increase payment rates.

Recommendation 2:

ACF should ensure that states comply with the new requirement to use results of the most recent market rate survey, or an alternative methodology, to set CCDF payment rates.

Response:

ACF concurs with this recommendation. The CCDF final rule clearly requires states to set payment rates in accordance with the results of the most recent market rate survey or alternative methodology, which must be conducted every three years. As indicated above, 18 states were placed on CAP for data collection issues, including not completing their required Market Rate Survey (MRS) within the required timeframe, not using the MRS for setting their payment rates, or not collecting other data as required by the CCDF final rule.

Recommendation 3:

ACF should establish a forum for states to share strategies regarding how they set payment rates to ensure equal access for eligible families while balancing competing program priorities.

Response:

ACF concurs with this recommendation. We are planning a set of activities from the TA and research perspectives to support this recommendation. Specifically, ACF has asked a research contractor to analyze the MRS methodology states reported in their Plans for their MRS to determine if they were valid and reliable. Once that detailed analysis is complete, ACF plans to develop a TA strategy to improve states methodologies for collecting their MRS data and provide guidance on using the MRS data to set payment rates. As part of the development of that TA strategy, ACF is planning to host a roundtable with key stakeholders including states,

¹ Note that this breakdown is not mutually exclusive.

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researchers, child care providers, and others to discuss ways to support states in balancing having adequate rates while supporting eligible children. We believe that having the new baseline of CCDF Plan data, the detailed analysis of MRS methodologies, and the stakeholder input through the roundtable will allow us to embark on targeted TA efforts going forward, including annual forums or communities of practices for states to support peer learning about strategies to support equal access while balancing other factors, which help them with these challenging decisions.

Recommendation 4:

ACF should encourage states to minimize the administrative burdens for CCDF providers, with a goal of expanding access for eligible families.

Response:

ACF concurs with this recommendation. The CCDF Final Rule included requirements for states to report in their Plans how they ensure child care providers receive payment for services in accordance with a written payment agreement, and how they ensure child care providers receive prompt notice regarding any changes to family eligibility status that could impact payments. In addition, we believe the roundtable referenced above will provide additional input from child care providers on the administrative burdens they face in serving CCDF families. ACF will analyze and prepare a summary of the administrative burden and strategies used by states to minimize the administrative burden and include this as part of our technical assistance strategy.

Again, thank you for the opportunity to review this report. Please direct any follow-up inquiries on this response to Scott Logan, Office of Legislative Affairs and Budget, at (202) 401-4529.

Sincerely,



Lynn A. Johnson,
Assistant Secretary
for Children and Families

ACKNOWLEDGMENTS

Amy Sernyak served as the team leader for this study. Others in the Office of Evaluation and Inspections who conducted this study include Karolina Hill, Tara Bernabe, San Le, and Maura Lavelle. Office of Evaluation and Inspections staff who provided support include: Althea Hosein, Seta Hovagimian, and Christine Moritz.

This report was prepared under the direction of Linda Ragone, Regional Inspector General for Evaluation and Inspections in the Philadelphia regional office, and Joanna Bisgaier, Deputy Regional Inspector General.

To obtain additional information concerning this report or to obtain copies, contact the Office of Public Affairs at Public.Affairs@oig.hhs.gov.

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