Program Integrity: CCDF Fiscal Fundamentals

This brief provides an overview of the Child Care and Development Fund (CCDF), including its allowable uses and federal requirements for Lead Agencies. It is intended to help CCDF Lead Agencies understand the basics of their child care funding streams. Additionally, understanding both the allowable uses and limitations of CCDF will help Lead Agencies ensure fiscal accountability and program integrity.

This brief provides an overview of:

- The basics of CCDF
- How federal CCDF funds are allocated to Lead Agencies
- Federal reporting requirements for CCDF funds
- Federal requirements for and allowable uses of CCDF funds
- Common child care budget constraints

CCDF Overview: The Basics

The Child Care and Development Block Grant (CCDBG) Act is the law that, along with Section 418 of the Social Security Act, authorizes the federal child care subsidy program known as the Child Care and Development Fund. CCDF is the primary federal funding source devoted to providing low-income families that are working or participating in education and training with help paying for child care. Additionally, these funds are used to improve the quality of child care for families.

Federal Funding Overview

There are three federal funding streams for CCDF:

Mandatory	Matching	Discretionary
100% Federal funds and available to all 50 states, DC and tribes	Available to the 50 states and DC only	100% Federal funds and available to states, territories, DC and tribes

The CCDBG Act authorizes the CCDF program through fiscal year 2020 and includes authorized funding amounts for Lead Agencies for each fiscal year. While mandatory and matching funds are authorized by the CCDBG Act, discretionary funding is appropriated separately by Congress and can vary on an annual basis.

Federal Reporting Requirements

There are four commonly used fiscal-related reports that are important for CCDF Administrators to know for understanding their program's fiscal status:

Federal Reporting Requirements

Federal Reports	ACF-801	ACF-696	Quality Progress Report (QPR)	ACF-404
What's included?	Case level data on the recipients of CCDF	Financial data on CCDF expenditures, including estimates and expenditures for the Mandatory, Matching and Discretionary funds	Information on state/territories' efforts to increase access to high-quality child care	Error and improper payment findings and analyses from case reviews
How often is data reported to the Federal government?	Monthly or Quarterly	Quarterly	Annually	Three-year cycle
How is it used and by whom?	For research on the status of CCDF services in the United States. The Secretary of the U.S. Department of Health and Human Services is required to report biennially to Congress.	Reported to the U.S. Department of Health and Human Services to ensure funds are being spent in accordance with the CCDBG Act.	To describe state priorities and strategies on quality child care activities to key stakeholders such as Congress, federal and state administrators, providers, parents, and the public.	Reported to the Department of Health and Human Services to identify programs and activities that may be susceptive to significant improper payments and reduce future improper payments.

Federal Requirements and Allowable Uses of CCDF

Federal law requires that CCDF funds must be used for the following purposes:

Eligible Families - At least 70% of mandatory and federal/state share of matching funds must be spent on families who are:

- Receiving TANF
- Making efforts through work activities to transition off TANF
- At risk of becoming dependent on TANF

Quality Activities - Of the aggregate mandatory, matching, and discretionary funds expended by a state or territory:

- At least 8% in Federal Fiscal Year (FFY) 2019, and 9% of funds in FFY 2020 and beyond shall be used for quality child care activities
- An additional 3% shall be used for quality activities for infants and toddlers
- These are minimum levels and Lead Agencies may reserve more dollars for quality activities

Child Care Services - From the remainder of the discretionary allotment (after setting aside administrative, quality, and infant/toddler expenditures), states/territories must spend at least 70% to fund direct child care services:

- Of all remaining funds after meeting the spending requirements above, a substantial portion of funds must be used to support direct child care services for low-income families who are working or in training or education

Administration - Lead Agencies may spend up to 5% of the aggregate funds (Mandatory, Matching and Discretionary) from each fiscal year's allotment on administrative costs, including:

- Program administration (e.g. salaries and benefits)
- Travel costs incurred for official business
- Administrative Services (e.g. accounting services)
- Indirect costs (i.e. costs other than direct services, like rent and overhead)
- Other costs such as rental equipment, utilities and office supplies

No more than 5% of aggregate funds shall be expended for administrative activities. These are not administrative costs, but rather costs of running the program. CCDF Administrators should be familiar with the rules pertaining to expenditures when administering the subsidy system. The activities in the chart below **do not** count toward administrative costs pertaining to subsidy.

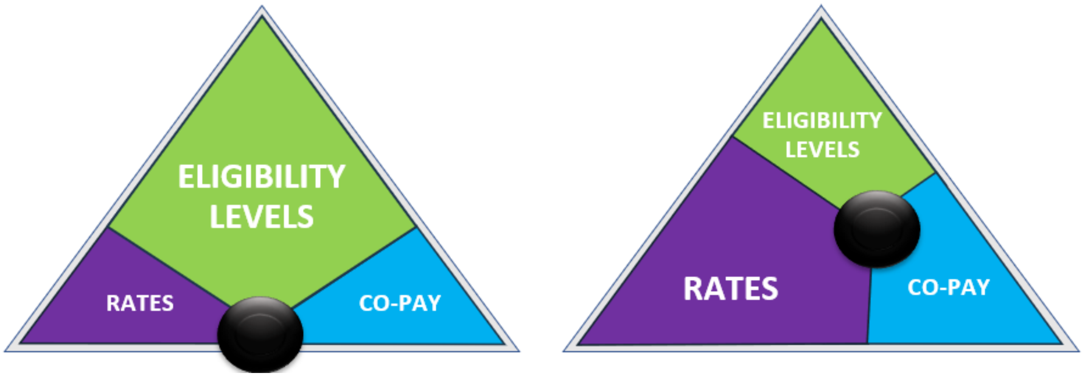
Activities not counted toward 5% limit on administrative costs

Establishment and maintenance of computerized child care information systems	Establishing and operating a certificate program	Eligibility determination and redeterminations	Preparation and participation in judicial hearings
Child care placement	Training for Lead Agency or sub-recipient staff on billing and claims processes associated with the subsidy program	Reviews and supervision of child care placements	Activities associated with payment rate setting
Resource and referral services	Training for child care staff	Recruitment, licensing, and inspection of child care providers	Improper payment process and investigation/ recovery of improper payments

Budget Constraints, Competing Priorities and Additional Considerations

When limited funding exists, tough budget decisions may need to be made. Variances in three factors can impact the ability of Lead Agencies to support high quality care. These factors are reimbursement rates, eligibility levels, and co-pays.

Budgetary Constraints



Changes to co-pay structures, reimbursement rates, and tiered eligibility systems impact a state's overall existing budget and a change in one area may mean that an adjustment needs to be made in other areas to accommodate it. For example, increasing reimbursement rates with a fixed budget could lead to the need to reduce eligibility levels.

Lead Agencies can utilize internal administrative data, as well as research to help guide their decision-making when considering how to prioritize limited funding. Examples of information that are used to guide decision-making include:

- State and Federal CCDF data reports
- Evidence-based or best practice research
- Cost/benefit analysis

Additional considerations in fiscal management of the CCDF program include equal access, quality child care, and the cliff effect. Some of these requirements are highlighted below:

Equal Access

Establish payment rates for child care services that are high enough to ensure equal access to services comparable to those families that are not eligible to receive CCDF. Market rate surveys must be conducted regularly to ensure CCDF providers are paid at a rate that is comparable to the local market.

Increasing Access to Quality Child Care

Another fiscal consideration is quality child care and increasing access. Strategies to increase access and quality include:

- Increasing financial assistance to families
- Increase access to quality information
- More access to quality providers
- Supporting the childhood workforce
- Making it easier for providers to improve their programs

Mitigating the Cliff Effect

One of the most significant barriers to self-sufficiency for low-income families is the "cliff effect" – where a family becomes ineligible for child care services because their income increases, but not at a rate that allows the family to be self-sufficient. Per federal rule, Lead Agencies may gradually adjust co-pay amounts for some families through a tiered eligibility system. This tiered eligibility system, otherwise known as graduated phase-out, must set a second tier of eligibility that applies at the time of eligibility re-determination. This second tier must be set at either 85% of State Median Income (SMI) or at a lower level that:

- Considers a typical household budget of a low-income family
- Is enough to accommodate increases in family income that are typical for low-income workers, and,
- Reasonably allows a family to continue accessing child care without unnecessary disruption. Once a family's eligibility for services has been determined, their benefits are protected throughout the year

A Lead Agency may also reconsider what qualifies as countable income for families. For example, a Lead Agency could disregard specific income received such as TANF, SSI, and lump sum child support payments.

Summary

The Child Care and Development Fund is a multibillion-dollar federal and state partnership that promotes economic self-sufficiency for families. Additionally, it helps children succeed in school and life through affordable, high-quality early care and afterschool programs. While CCDF dollars are primarily spent on providing child care services to families, Lead Agencies can spend CCDF dollars flexibly and broadly on activities such as improving the quality of child care, covering administrative costs, and mitigating the cliff effect for families.