

ACF

Administration
for Children
and Families

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

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POLICY INTERPRETATION QUESTION (PIQ)

- To:** State, Territorial, and Tribal Lead Agencies administering child care programs under the Child Care and Development Block Grant Act of 1990 (the CCDBG Act), as amended, and other interested parties.
- Subject:** Child Care and Development Fund (CCDF) Lead Agencies have asked questions about the use of CCDF for program integrity efforts, and how these expenditures should be included on financial reports.
- References:** The CCDBG Act (42 U.S.C. § 9858 et seq.); Section 418 of the Social Security Act (42 U.S.C. § 618); 45 CFR Parts 98 and 99.
- Guidance:** The Office of Child Care (OCC) supports Lead Agency efforts to improve program integrity and accountability in the Child Care and Development Fund (CCDF) program, and Lead Agencies are encouraged to use CCDF funds to cover the costs associated with these efforts. This may include costs to implement systems, use of information technology, data matches, staff training and development, and other activities.

In most cases, the costs of program integrity initiatives should be considered either a non-direct service or administrative expenditure for purposes of financial reporting in the CCDF program. Costs associated with program integrity efforts would generally not be considered allowable quality expenditures for purposes of meeting the 4 percent minimum quality spending requirement pursuant to section 658G of the Child Care and Development Block Grant (CCDBG) Act, 42 U.S.C. § 9858e, or the targeted funds requirements contained in annual CCDBG appropriations law.

Section 658G of the CCDBG Act requires that States use at least 4 percent of their CCDF allotment for quality activities that: provide comprehensive consumer education to parents and the public; increase parental choice; and improve the quality and availability of child care. In addition, annual appropriations law includes targeted funds for

quality improvement activities authorized by section 658G of the CCDBG Act. Program integrity efforts are not primarily designed as quality activities specified at section 658G, but rather are designed to eliminate error and program violations. Therefore, to count expenditures associated with program integrity efforts as quality improvement would negate the intent of the CCDBG Act.

CCDF Lead Agency compliance with the 4 percent minimum quality and targeted funds spending requirements is primarily monitored through submission of the CCDF ACF-696 Financial Report, or ACF-696T for Tribes. Using this form, Lead Agencies report categorical expenditures from the CCDF grant award. For States, Territories, and non-exempt Tribes, expenditures on quality from each fiscal year's allotment, including expenditure of State matching funds, must equal at least 4 percent. Similarly, Lead Agencies must also report expenditures of targeted funds for quality improvement. Quality expenditures and targeted funds are reported in Lines 1(b)-1(e) on the ACF-696 form, and line 7 on the ACF-696T. Lead Agencies may not include expenditures related to program integrity efforts within these categories on the ACF-696 or ACF-696T.

Notwithstanding the guidance above, Lead Agencies have some flexibility to determine how to report expenditures related to program integrity. The Lead Agency may choose to consider these as administrative costs; however, section 658E(c)(3)(C) of the CCDBG Act, 42 U.S.C. § 9858c(c)(3)(C) and Federal regulations limit expenditure of funds on administrative activities to 5 percent of each fiscal year's allotment, or 15 percent for Tribes. Given this limitation, Lead Agencies may alternately choose to report certain expenditures as non-direct service costs. The preamble of the 1998 CCDF final rule listed certain expenditures that are explicitly excluded from the administrative costs cap (63 FR 39962). These expenditures may be claimed as non-direct services. Specifically, the following activities are among those that are not considered administrative costs:

- Eligibility determination and redetermination
- Child care placement
- Recruitment, licensing, inspection, reviews, and supervision of child care placements
- The establishment and maintenance of computerized child care information systems

Many program integrity efforts include documentation or verification of eligibility requirements and may therefore reasonably be considered a part of "eligibility determination and redetermination." Efforts to prevent provider fraud or errors may often be considered part of the "review and supervision of child care placements." Use of information technology for data matches and other program integrity purposes may be considered part of the "establishment and maintenance of

computerized child care information systems.” Expenditures on non-direct service activities should be reported on the ACF-696 form in Lines 1(h) and Lines 1(h)(1)-1(h)(3), and on the ACF-696T form on Line 6.

Please direct inquiries to the Child Care Program Manager in the appropriate ACF Regional Office.

/s/

Shannon Rudisill
Director
Office of Child Care

Attachment: [List of ACF Regional Child Care Program Managers](#)