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PROGRAM INTEGRITY AND ACCOUNTABILITY IN THE CHILD CARE AND DEVELOPMENT FUND PROGRAM

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Program integrity and accountability policies are part of all federal social services programs. This brief provides an overview of the comprehensive monitoring and oversight of fiscal program integrity processes in the Child Care and Development Fund (CCDF) Program.

THE CHILD CARE AND DEVELOPMENT FUND PROGRAM

CCDF is the federal program that provides financial assistance to help families who are working or are participating in education or training to afford child care and supports the quality of care for all children. It is authorized by the Child Care and Development Block Grant Act (CCDBG) and Section 418 of the Social Security Act, which allocate the funds to state governments by a formula based on the number of young children that reside in a state and the number of children receiving free and reduced school lunch there. Most families need child care to go to work, but with the average cost of care more than \$13,000 per year for one child, stable child care arrangements can be difficult or impossible to afford.¹

By providing child care assistance to families with lower incomes, CCDF helps support child development and family well-being, facilitates parent employment, education, and training, and improves the economic

well-being of participating families. According to the latest data published by the Administration for Children and Families (ACF) at the U.S. Department of Health and Human Services (HHS), 1.6 million children in 995,000 families receive child care assistance each month from CCDF.²

CCDF PROGRAM OVERSIGHT

CCDF is comprehensively monitored, with numerous oversight, reporting, and auditing requirements and systems that promote strong program accountability. Since CCDF is a federal block grant, monitoring and oversight is the responsibility of both the federal government and state governments that operate the program. HHS, which administers the program, is responsible for overseeing the state agencies that administer CCDF, including their compliance with the federal law and all relevant regulations and grant award terms and conditions. States are primarily responsible for overseeing participating families and providers and maintaining internal policies and systems that ensure program administration compliance with federal requirements. This includes requirements that states document and verify child eligibility and enrollment, regularly report spending to the federal government, track improper payments and reduce administrative errors, conduct annual audits, pursue and investigate fraud, and conduct regular provider inspections. There is no evidence of significant or widespread fraud in the CCDF program. Historically, ACF has paired program oversight with technical assistance and other supports to states to improve CCDF implementation and compliance and promote continuous improvement and best practices in states' program administration and oversight. This partnership with states has been critical to strengthening state systems and performance, but these efforts to support state program administration have been curtailed in the past year due to significant staff reductions at ACF.

Program integrity is important in any public program, meaning strong adherence to the statutory and regulatory requirements of the program. For CCDF, program integrity would mean:

- Eligible families receive the child care assistance they need to sustain work, education, or training;
- Participating families with low incomes have equal access to child care as parents who are not eligible to participate in CCDF;
- Child care providers are paid with the same generally accepted payment practices private pay parents use for the services they provide to families receiving CCDF assistance;
- Child care program quality is supported and improved;
- All licensed and regulated child care meets minimum health and safety standards;
- Children are safe and their development is supported when in child care;
- CCDF funds are safeguarded to maximize benefits for eligible children and families; and
- Taxpayer dollars are spent as required by law.

Federal and state governments should always approach program integrity with the goal of appropriately balancing fiscal accountability measures that ensure strong oversight without compromising services to the people the program is intended to help. It is important to appropriately gauge and respond to risk so funds are not unnecessarily diverted from serving people. Accountability measures shouldn't be so burdensome that they interfere with eligible families getting and maintaining the child care assistance they need, make it hard for providers to serve those families, or impede the effective or efficient implementation of the very purposes of the law.

This brief provides an overview of the comprehensive monitoring and oversight of fiscal program integrity processes in the CCDF program, including:

- ACF's monitoring of state policies
- State internal controls and fraud requirements
- Data reporting requirements
- Oversight of participating providers
- Improper payment reviews
- State annual audits
- HHS sanction and penalty authority
- HHS Office of the Inspector General

MONITORING AND OVERSIGHT PROCESSES

ACF COMPREHENSIVELY MONITORS CCDF STATE POLICIES FOR COMPLIANCE EVERY THREE YEARS

States are required to submit a triennial CCDF State Plan to ACF, which is ACF's primary mechanism to determine state compliance with the requirements of the law and regulations. The State Plan is also how a state child care agency applies for CCDF funding. States must hold public hearings when developing their Plan and publish their completed State Plan on their website. ACF uses the Plan to collect comprehensive data on each state's CCDF policies and carefully reviews each State Plan to determine compliance with the law's requirements and regulations. The policies covered by the Plan span the breadth of CCDF, covering topics such as child and family eligibility, parent copayments, establishing adequate payment rates and practices for providers, continuity for working families, health and safety in child care settings, public information about child care options and quality, supporting the child care workforce, quality improvement activities, and program integrity and accountability.

Section 10 of the FY2025-2027 CCDF State Plan focuses on program integrity and accountability, specifically addressing a state's internal controls and its accountability measures for reducing fraud, program violations, and administrative errors.³ States must describe their fiscal management practices and their activities to identify and prevent fraud or intentional program violations and the results of these activities. In addition, states must describe how they investigate and recover fraudulent payments, including details on the results of those activities. After a comprehensive review of each State Plan, ACF transmits a letter to each state indicating areas of non-compliance and states must submit evidence of compliance and an amendment(s) to their Plan to come into full compliance.

ACF also conducts an on-site monitoring review of each state every three years. This monitoring system has two main components: (1) a desk review of state policies and procedures; and (2) an on-site visit that includes discussions with state agency officials and local-level staff to understand how CCDF is implemented across the state, including individual case reviews of provider and subsidy case files to dive deeper into program administration and compliance. The current monitoring review focuses on eligibility and enrollment, equal access, health and safety standards, background checks, and program integrity and accountability policies. ACF transmits any findings of non-compliance after the monitoring review to the state agency and states must submit evidence of compliance and an amendment(s) to their Plan to come into full compliance.

STATES MUST CONDUCT KEY PROGRAM INTEGRITY AND ACCOUNTABILITY ACTIVITIES

CCDF requires states to have effective internal controls that support program integrity and accountability, while maintaining continuity of services for families, and to have processes to address fraud. Because CCDF is a federal block grant program, states have flexibility to determine exactly how to meet these federal requirements so they can design systems that best meet their state's needs and program design. ACF provides substantial ongoing guidance and technical assistance to states on program integrity and fraud to help continuously improve systems, practices, and results.

State CCDF agencies must have strong internal controls, maintaining sound fiscal management that ensures funds are spent within the parameters required by federal law, regulations, and grant terms and conditions. Internal controls refer to a set of policies, processes, and mechanisms that together ensure that funds are used for the purposes for which they are intended. CCDF requires state internal controls include processes to:

- Identify areas of risk;
- Train child care providers, state agency staff, and any relevant delegate staff on program requirements and integrity; and
- Regularly evaluate internal control activities.

Each state's description of its approach to effectively maintaining these aspects of its internal controls can be found in responses to question 10.1 in its FY2025-2027 State Plan.⁴ (Because CCDF does not require a state to publicly post any significant updates between triennial Plans, any updates to state policies since July 1, 2024, when the Plan was submitted to ACF would not be reflected in the posted Plan). States also must have systems to document and verify child eligibility.

- States use risk identification strategies such as conducting analysis of eligibility errors and improper payments; implementing red flag alerts; using risk data analysis tools; developing formal guidelines to monitor program performance, objectives, and subsidy related goals; and using standardized self-assessment instruments.
- To evaluate their internal control activities, states are advised to use specific systems and tools that identify program risk and prevent errors related to recipient eligibility and CCDF payments. States use strategies such as automatic red flag alerts in electronic eligibility systems, units that regularly assess administrative errors and improper payments, and regular reviews of audit results.

CCDF also requires states to have systems to identify fraud and other program violations, to investigate and recover fraudulent payments (from providers or parents), and to impose sanctions on parents or providers in response to fraud. States use a variety of strategies to identify potential fraud risk, including data analytics, billing record reviews, fraud toolkits, quality control reviews, and electronic red flag reports that alert the state for further review in cases of unusual revenue growth or unusual payment timing. Each state's strategies to identify and prevent fraud (current as of July 1, 2024) can be found in its responses to question 10.2.1 of their FY2025-2027 State Plan.⁵ To investigate fraud, states are advised to use strategies such as systemic approaches to reviewing provider billing, case reviews, collaboration with other subsidy programs, or on-site visits. Some states have fraud investigation units. Each state's strategies to identify and recover fraud (current as of July 1, 2024) can be found in its responses to question 10.2.2 of their FY2025-2027 State Plan.⁶ Local, state, and federal law enforcement can also pursue legal action, as warranted, in addition to recouping fraudulently spent funds.

CCDF HAS EXTENSIVE FISCAL AND CASE-LEVEL REPORTING REQUIREMENTS

CCDF requires states to regularly submit fiscal and case-level reporting on program participants to ACF, which is a core part of ACF's program oversight, helping ensure funding is being spent as required by law. These reporting requirements also help ACF assess and track program performance and ensure program transparency. States must submit the following reports:

- **ACF-696** – States must submit this financial report of all CCDF expenditures to ACF quarterly. ACF uses this form to track compliance with CCDF spending requirements as part of the oversight process to ensure states are spending CCDF funds within the allowable uses and parameters and within the obligations and liquidation timelines required.⁷
- **ACF-801** – States must submit this case-level data report to ACF quarterly. It provides case-level data on the children and families receiving child care assistance during the month of the report and many other key demographics, including the reason for receiving child care subsidy, family copayment amount, and hours and type of care provided. States are allowed to submit a sample or all cases, although almost all provide data on all cases.⁸
- **ACF-800** – States must submit this aggregate data report to ACF annually. It provides unduplicated annual counts of children and families served by CCDF and other key demographic information about the families and the providers they used. ACF reviews this report in coordination with the ACF-696 fiscal report to ensure information reported on children and providers aligns with fiscal expenditures. Additionally, this report provides estimates of how CCDF funding is used in conjunction with other federal funds to provide a comprehensive picture of federal spending on child care assistance.⁹
- **Quality Progress Report (QPR)** – States must submit the QPR annually to ACF to detail how CCDF quality funds were expended, including a description of the activities funded by the dollars set-aside for quality activities, the measures the state used to evaluate progress in improving the quality of child care programs and services, and the extent to which the state has met these measures. This helps ACF track program performance.¹⁰

PARTICIPATING CHILD CARE PROVIDERS ARE SUBJECT TO SIGNIFICANT OVERSIGHT AND MONITORING

Child care providers are not obligated to serve families paying with CCDF assistance, and many choose not to because state payment rates are too low, state payment practices are too unstable, or for other reasons – but a child care provider choosing to serve families that pay with CCDF subsidy must meet many requirements to be eligible. Once an eligible family chooses a provider, informs the state of its choice, and the state has confirmed the provider's CCDF eligibility, states typically send a family's child care payment directly to the provider. A small number of states provide parents with loaded EBT cards to use directly with the approved child care provider.

To be eligible to receive state payment for services, a provider must complete training on CCDF program requirements and integrity, sign an agreement with the state that includes numerous terms and conditions, meet extensive health and safety standards, be in good standing, conduct comprehensive background checks on all staff, and receive at least one unannounced on-site health and safety inspection by the state agency each year. Most center-based and family child care providers that receive payment for serving families with CCDF assistance are licensed or regulated, and those who are license-exempt must

meet the same health, safety, and oversight requirements to receive state CCDF payments. Providers are required to submit accurate and timely billing; review payment information and report overpayments or other errors; retain enrollment, attendance, and billing records; report changes to child enrollment within a specific timeline; and retain records and make them available to state auditors and agency staff as needed. Providers generally must agree improper payments by the state may be recouped or future payments withheld. Each state has additional requirements. Intentional program violations can result in required repayments, recoupments, termination of services, noncompliance notices, administrative hearings, or even criminal prosecution.

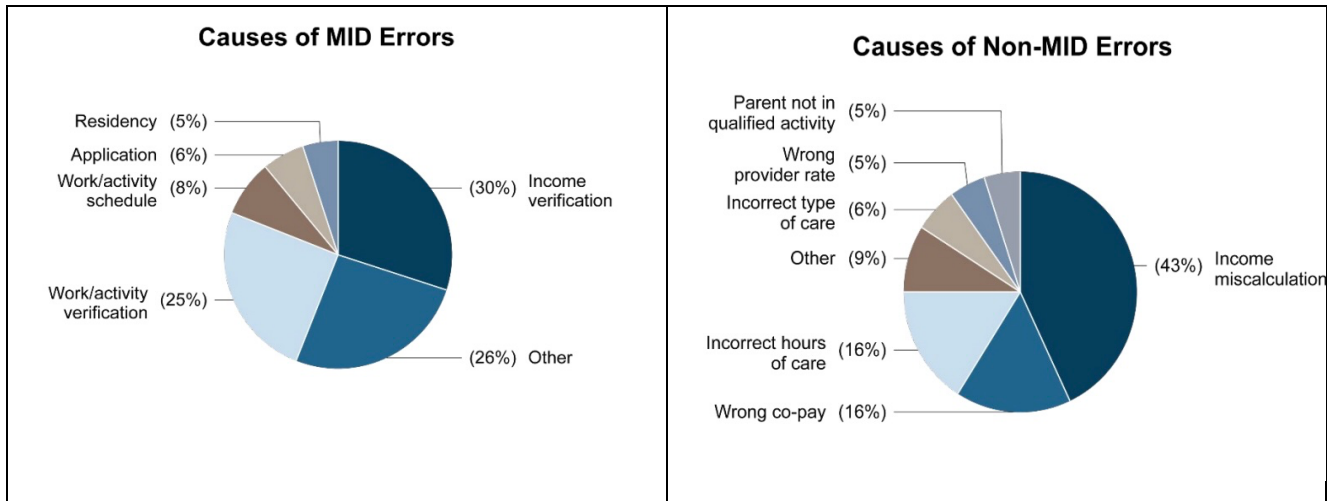
States must strive to find a balance between appropriate program integrity controls over payments without burdening providers so much that they decline to serve families with CCDF subsidies or it is fiscally infeasible for them to do so. Child care providers are mainly small businesses that operate on thin profit margins and often struggle to retain staff and keep their doors open. Overly burdensome requirements are likely to strain the child care sector and reduce child care options, both for families with CCDF assistance and those paying privately.

STATES CONDUCT REGULAR IMPROPER PAYMENT REVIEWS USING GOVERNMENT-WIDE STANDARDS

CCDF requires states to conduct improper payment reviews once every three years. These reviews are important because they demonstrate whether funds are being spent according to a selection of program rules and are an indicator of program integrity, but an improper payment rate is not a fraud rate. As explained by the Government Accountability Office, improper payments “are payments that should not have been made or that were made in the incorrect amount; typically they are overpayments. While all fraudulent payments are considered improper, not all improper payments are due to fraud.”¹¹ Examples of improper payments include overpayments, underpayments, and payments made when there was insufficient or missing documentation for later verification of eligibility during the review that made it impossible to determine if the payment had been made in the proper amount.

In CCDF, improper payment reviews capture errors made in the front-end process by the state agency – processes involving eligibility determinations and subsidy authorization amounts.¹² For example, these are errors that arise from the state agency incorrectly calculating parent income, parent co-payments, or the number of hours of care, or when the state agency failed to properly maintain the documentation used to establish parent eligibility. According to a fact sheet by an ACF technical assistance center, 39 percent of improper payment errors in 2023 were due to missing or insufficient documentation.¹³ The CCDF improper payment review methodology explicitly excludes: intentional program violations by clients or providers, errors with attendance record identified via audit, errors with issuing payments identified via audit, and errors caused by clients failing to report changes.¹⁴

The pie charts on the next page display the causes of improper payments in the 18 states reviewed in 2023. Note: “MID” in the pie charts refers to “missing or insufficient documentation.”



Source: "Program Integrity Factsheet: Results from the 2023 Child Care and Development Fund (CCDF) Error Rate Review," National Center on Subsidy Innovation and Accountability, Office of Child Care, October 2024, <https://childcareta.acf.hhs.gov/sites/default/files/new-occ/resource/files/2023%20Error%20Rate%20Fact%20Sheet.pdf>.

CCDF requires states to measure, calculate, and report improper payments and to identify strategies for reducing future improper payments, which includes setting targets for future improper payments cycles. States with an improper payment rate of 10 percent or greater must submit a comprehensive corrective action plan (CAP) and subsequent reports describing progress toward fully implementing the plan.¹⁵ States placed on a CAP must measure and report improper payment rates to ACF annually instead of every three years, indicating progress through regular meetings with ACF, until they make sufficient progress to reduce their improper payment rate below 10 percent and are taken off their CAP. According to unpublished data shared by Congress, the FY2025 national CCDF improper payment rate was 4.93 percent. The most recent publicly available rate is from 2023 and was 3.55 percent.¹⁶

The states reporting in 2023 identified action steps to reduce improper payments. The most cited strategies included:

- Conducting trainings with eligibility staff on CCDF policies and procedures;
- Reviewing and updating eligibility policies;
- Reviewing and discussing errors with eligibility agencies;
- Editing or updating systems;
- Providing technical assistance to eligibility agencies;
- Conducting ongoing case reviews or audits of eligibility agencies and staff; and
- Implementing new tools or processes for eligibility determination.

CCDF's improper payment requirements stem from the Program Integrity Information Act (PIIA) and the Office of Management and Budget, which, as the GAO explains, "established criteria and guidance that executive branch agencies must comply with in assessing risk and estimating and reporting improper payments."¹⁷ Together, they create a government-wide approach to considering improper payments as a key program integrity measure. Any federal program with estimated improper payments exceeding \$10 million and 1.5 percent or \$100 million, regardless of the improper payment rate, must conduct improper

payment reviews every three years. CCDF's improper payment rate risk threshold of 10 percent also stems from PIIA, which sets an agency-wide threshold for improper payments of 10 percent or greater and requires corrective action plans and reduction targets for higher rates.

STATES MUST CONDUCT ANNUAL AUDITS TO MONITOR INTERNAL CONTROLS

States are required to have an annual audit conducted by an independent agency, consistent with the requirements of the Single Audit Act. These annual audits determine if the state has established accounting systems with sufficient internal controls that provide full accountability for:

- Assets, liabilities, revenues, and expenditures; prepared financial statements in accordance with generally accepted accounting principles;
- Submitted financial reports, cash reports, and fiscal claims that contain accurate and reliable financial data in accordance with award agreements; and
- Funds being used in accordance with the terms and conditions of the award agreements in ways that could have a material effect on the financial statements or financial assistance award test.¹⁸

States must take corrective action on any audit findings. State audit reports are submitted to ACF for review and substantiation and any determinations regarding disallowance if findings determined that funds were misused. ACF may refer findings to the HHS Office of the Inspector General as appropriate. CCDF also requires states to submit annual audits to their state legislature each year.

HHS HAS PENALTY AND SANCTION AUTHORITY

HHS is required to review and monitor state compliance with CCDF and the State Plan approved by ACF and has authority to sanction states for failures to substantially comply after a specific timeline of due process, including an opportunity for a hearing. The allowable penalties and sanctions, the procedures and timelines HHS must provide states for due process, and applicable timelines for when a fiscal penalty may be taken are specifically delineated in CCDF regulations. If HHS formally makes a final determination of substantial non-compliance after due process is provided, HHS will apply a penalty that: (1) disallows any improperly expended funds; (2) is an amount equal to or less than the improperly expanded funds to be deducted from the administrative portion of the state allotment in the following fiscal years; or (3) a combination of the two. HHS may impose additional penalties if it chooses, also subject to due process. In addition, any amount of CCDF funds determined through a state's own audit not to have been expended according to the CCDF or with a State Plan that is disallowed by the Department must be repaid to the federal government or offset by HHS against other CCDF funds the state would otherwise be entitled to receive.

HHS OFFICE OF THE INSPECTOR GENERAL HAS INVESTIGATIVE, AUDIT, AND ENFORCEMENT AUTHORITIES

The Office of the Inspector General (OIG) at HHS is an independent oversight agency established to conduct audits, investigations, and other activities to prevent and detect fraud and abuse in HHS programs including CCDF.¹⁹ It has the authority to conduct criminal, civil, and administrative investigations and enforcement actions to address fraud. Allegations of fraud in CCDF are reported to the OIG for investigation and to determine if follow-up is needed. The OIG regularly evaluates program offices, including the ACF Office of Child Care, for efficacy in monitoring and oversight processes, makes recommendations, and tracks changes to align with the recommendations until any findings have been sufficiently resolved. OIG audits and investigations of CCDF have contributed to strengthened program integrity processes and requirements at the federal and state levels.

CONCLUSION

These comprehensive program integrity policies create a strong system of oversight and accountability for CCDF. They both prevent and provide recourse for implementation concerns under CCDF while still balancing the goal to effectively provide child care services to the people the program is intended to help. HHS and state agencies should always strive toward continuous quality improvement in their accountability practices and program services, maintaining a balance to deliver a successful program for families.

Information in this brief was compiled from resources including but not limited to the Child Care and Development Block Grant Act, the Child Care and Development Fund regulations, CCDF state plans, ACF guidance, Child Care Technical Assistance Network, and the Government Accountability Office.

ENDNOTES

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