

Child Care Program Integrity

Discussion Draft

Senate Committee on
Health Education Labor & Pensions
Senator Bill Cassidy, M.D., Chairman

Introduction

The Child Care and Development Block Grant (CCDBG) program provides critical support through the Child Care Development Fund (CCDF) to help low-income working families afford child care and improve quality of care nationwide. Despite the program's importance, CCDF currently serves about 1.4 million families out of the 8 million eligible households.¹ Ensuring that available funds are administered responsibly is essential to expanding access to child care for the families who rely on it.

Strengthening program integrity is not about reducing access to child care assistance. On the contrary, ensuring that funds are used appropriately is essential to expanding access for eligible families and children. By preventing waste, fraud, and improper payments, policymakers can ensure that limited resources reach the working families and children the program was designed to serve.

Recent oversight and audit findings from both the Government Accountability Office (GAO) and Health and Human Services (HHS) Office of Inspector General (OIG) have identified weaknesses in program administration, including improper payments, inconsistent verification practices, and varying levels of state oversight. Addressing these challenges are necessary to strengthen program integrity, improve transparency, and ensure federal funds are used as intended.

Every dollar misspent is a dollar not going to children and working families. The latest events in Minnesota have underscored vulnerabilities in the administration and oversight of federally funded child care assistance programs. Minnesota's Office of the Legislative Auditor raised concerns about fraud as early as 2018 regarding program integrity risks. Subsequent findings indicate that the state has continued to report high levels of improper payments, with approximately one in ten dollars in child care assistance identified as improperly used.

While Minnesota has brought national attention to the issue, program integrity challenges extend far beyond any single state and represents a national problem. Americans expect strong stewardship of taxpayer dollars and consistent safeguards to ensure funds intended for children and families are used appropriately. Effective oversight models in states such as Texas, which reports a 0.4 percent error rate compared to 35 percent in Oregon, demonstrate that increased oversight are both achievable and necessary.

It is the responsibility of Congress to address identified weaknesses by amending the Child Care and Development Block Grant Act of 1990, which was last authorized in 2014. This discussion

¹ Office of Child Care Quick Fact, Administration for Children & Families. (June 4, 2025), <https://acf.gov/occ/quick-fact>.



draft aims to set a clear marker and invites input on improving payment integrity, reducing fraud and improper payments, enhancing eligibility verification, increasing transparency, and ensuring prompt and consistent corrective action.

The proposed reforms focus on five key areas:

Strengthening Federal Oversight Authority

Beginning with strengthening oversight and existing authority, the discussion draft includes provisions giving the Department of Health and Human Services (HHS) authority to enforce program requirements and ensure states and lead agencies comply with program rules. For example, Section 658I(b) of the CCDBG Act outlines steps HHS may take in the event of a state's failure to "comply substantially" with statute, regulations, or the state plan. Under these rules, HHS may, "after reasonable notice to a State and opportunity for a hearing," disallow improperly spent funds or may deduct improperly spent funds from subsequent allotments, or some combination of the two. HHS may also impose other sanctions, including disqualification of further CCDF funds. This discussion draft includes a provision that if a state is found noncompliant, penalties must (instead of may) include a disallowance or withholding of funds, a percentage reduction in funds, or disqualification from receipt of funds.

The discussion draft would require states to arrange for independent audits of their programs. Under these provisions, states must repay the federal government for any funds that are found to have been misspent, or HHS may offset these amounts against future payments to the state. Amounts spent out of compliance must be repaid or offset with a 5% penalty fee against the state and require a corrective action plan to be submitted to HHS within 60 days. If the state fails to submit a corrective action plan within 60 days, the Secretary shall hold funds until obligations are made. Furthermore, if the state fails to meet the obligations under their action plan the Secretary shall hold funds until obligations are made.

The draft also increases oversight by requiring states to publish their error reports every two years rather than every three years, with the addition of detailed descriptions of identified errors and strategies to reduce them before their next independent audit. The Government Accountability Office will be tasked with reviewing state error and improper payment reports to provide recommendations to the HHS Office of Inspector General for additional oversight and policy suggestions.

Enhancing Monitoring for High-Risk States

Several states report consistently high improper payment rates and may warrant enhanced monitoring. Therefore, states with error rates above a certain percentage should be subject to additional federal monitoring by HHS. The discussion draft requires HHS to heighten monitoring of states identified as "high-risk" if a state's error report is above 9 percent. Additionally, any state consistently above a 6 percent error rate for two consecutive audit cycles will be deemed "high risk".

To increase public trust and further transparency, states must publicly post state plans, amendments to state plans, and corrective action plans due to non-compliance. To better account for suspected or verified fraud, the draft would also add fraudulent payments to the category of improper payments when calculating state error rates.

Improving Payment Integrity

This discussion draft includes a series of provisions to improve payment integrity, beginning with requiring states to compensate child care providers based on verified attendance, not enrollment, while still allowing state flexibility to pay providers prospectively or after services are delivered.

Finally, to achieve additional payment integrity and transparency, HHS would be required to publish these state error reports, along with all state plans, amendments, and corrective action plans related to noncompliance, on a publicly available website. All taxpayers should be able to easily check how a state is administering CCDBG dollars.

Removing the Marriage Penalty

Current program rules can unintentionally discourage family stability by creating eligibility cliffs when parents marry. The discussion draft addresses this concern by modifying eligibility criteria to ensure families are not penalized when single parents marry. Specifically, provisions are included to ensure that the program helps children from married two-parent families where both adults are working a combined 60 hours per week or enrolled in job training or educational programs, and are considered to have moderate to low-income which does not exceed 85 percent of the State median income.

Tightening Eligibility and Payment Verification

The discussion draft includes provisions designed to strengthen eligibility verification, including tightening eligibility verification requirements by eliminating reliance on parent self-attestation without verification of key eligibility factors such as income, household composition, address, and citizenship status. Moreover, it requires participants to self-report income changes within three months of changes. It would also require states to verify recipients' income every six months and require beneficiaries to report significant income changes within that period. Additional provisions would eliminate retroactive eligibility and require states to use electronic authentication tools to verify participant identity. The draft requires states to verify identity through electronic authentication. To support a range of options to implement this requirement, HHS would issue regulations on verifying attendance through electronic verification. Finally, it lowers asset limits from \$1 million to \$500,000.

Request for Feedback

The Committee invites feedback from stakeholders, administrators, and policy experts regarding the proposed legislative text. Comments and recommendations will help inform potential reforms

to strengthen accountability, safeguard taxpayer resources, and ensure assistance reaches eligible families. Written feedback should be submitted by April 8, 2026.

Discussion Draft

S. ____

To amend the Child Care and Development Block Grant Act of 1990 to require that States pay child care providers on the basis of attendance, to allow States to pay the providers prospectively or through reimbursement, and to establish requirements relating to error reports, and for other purposes.

____ introduced the following bill; which was read twice and referred to the Committee on ____

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the “____ Act of ____”.

SEC. 2. PAYMENT PRACTICES AND VERIFICATION.

(a) State Plan.—Section 658E of the Child Care and Development Block Grant Act of 1990 (42 U.S.C. 9858c) is amended—

(1) in subsection (c)(2)—

(A) in subparagraph (N)(i)—

(i) in subclause (I)—

(I) by striking the subclause heading and inserting the following:

“(I) 6-MONTH PERIOD.—”; and

(II) by striking “12” and inserting “6”; and

(ii) by adding at the end the following:

“(III) CHANGES IN INCOME.—A parent referred to in subclause (I), who experiences a change in the ongoing status of the parent as working or attending a job training or educational program or whose family experiences a change in family income, shall report the change involved to the State not later than 90 days after the change.”;

(B) in subparagraph (S), by striking clause (ii) and inserting the following:

“(ii) an assurance that the State will, notwithstanding clause (i), provide payment under this subchapter to a child care provider based on an eligible child’s verified attendance, but support the fixed costs of providing child care services by delinking provider payments from the child’s occasional absences by providing full payment if the child is absent for 6 or fewer days in a month.”; and

(C) by adding at the end the following:

“(W) TIMING OF BILLING AND PAYMENT.—The plan shall describe how the lead agency for the State will establish payment practices that ensure timeliness of billing by and payment of child care providers under this subchapter by—

“(i) requiring that such a provider submit a complete invoice within 9 months after the date on which the provider delivers the services involved; and

“(ii) either—

“(I) paying prospectively prior to the delivery of services; or

“(II) paying within not more than 21 calendar days after the receipt of a complete invoice for services.

“(X) VERIFICATION OF ELIGIBILITY.—

“(i) VERIFICATION.—The plan shall describe how, if a parent seeks child care assistance for a child under this subchapter, the State will verify (without self-certification) the eligibility of the child, including verifying the income and assets of the child’s family, the size of the family involved, the county or other political subdivision in which the child resides (subject to paragraph (3)(B)(i)), that the individual for whom the parent seeks child care assistance is the child of the parent, and whether the parent and the child either are citizens or are not ineligible for Federal public benefits under title IV of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (8 U.S.C. 1601 et seq.).

“(ii) NO PRESUMPTIVE ELIGIBILITY.—The plan shall include an assurance that the State will not consider a child to be presumptively eligible, or allow the child to receive a child care subsidy prior to a full documentation and eligibility determination, within the meaning of section 98.21(e) of title 45, Code of Federal Regulations (as in effect on the day before the date of enactment of the [short title]), subject to subparagraph (I)(i)(I) and paragraph (3)(B)(i).

“(Y) VERIFICATION OF ATTENDANCE WITH ELECTRONIC AUTHENTICATION TOOLS.—

“(i) DEFINITION.—The term ‘electronic authentication tool’ means an electronic tool that authenticates the identity of a parent or other person dropping off or

picking up a child from a child care provider, such as a finger imaging device or an interactive voice response device.

“(ii) USE.—The plan shall describe how the State will require eligible child care providers receiving assistance, or a child care provider that receives a voucher, under this subchapter to use electronic authentication tools, including to verify attendance.”; and

(2) by adding at the end the following:

“(e) Posting State Plans and Related Documents.—Each State that receives a payment for the program carried out under this subchapter shall post, on a publicly available website, each State plan or State plan amendment proposed by the State or approved under this section for the State, and each corrective action plan issued for the State due to State noncompliance with this subchapter (including any failure described in section 658I(b)(2)(A)).

“(f) Regulations on Attendance Verification.—Not later than 6 months after the date of enactment of the [short title], the Secretary shall issue regulations that specify the manner in which a State shall verify attendance for purposes of subsection (c)(2)(S)(ii), including the manner in which the State will require the use of electronic authentication tools to verify that attendance under subsection (c)(2)(Y). Such regulations shall take effect 1 year after the date of issuance.”.

SEC. 3. ACTIVITIES TO IMPROVE QUALITY.

Section 658G of the Child Care and Development Block Grant Act of 1990 (42 U.S.C. 9858e) is amended—

(1) in subsection (a), by inserting at the end the following:

“(4) PORTION FOR QRIS AND COMPLIANCE ACTIVITIES.—Of the funds reserved under paragraph (2)(A), the Secretary shall set aside 3 percent of the funds described in paragraph (1) to carry out activities under subsection (b)(10).”; and

(2) in subsection (b)—

(A) by redesignating paragraph (10) as paragraph (11); and

(B) by inserting after paragraph (9) the following:

“(10) Carrying out a Quality Rating and Improvement System and carrying out State requirements for inspection, monitoring, and licensing of child care providers receiving funding under this subchapter.”.

SEC. 4. REVIEW OF COMPLIANCE.

Section 658I(b) of the Child Care and Development Block Grant Act of 1990 (42 U.S.C. 9858g(b)) is amended—

(1) by striking paragraph (1) and inserting the following:

“(1) REVIEW OF COMPLIANCE.—

“(A) IN GENERAL.—Not less often than once every 3 years, the Secretary shall review and monitor State compliance with this subchapter, including with the plan approved under section 658E(c) for the State.

“(B) HEIGHTENED MONITORING.—States designated as high-risk under subparagraph (C) shall be subject to monitoring, of that State compliance, that is more frequent than the monitoring required under subparagraph (A), with the frequency determined by the Secretary.

“(C) HIGH-RISK.—The Secretary shall designate as high-risk any State with—

“(i) unresolved or repeated negative audit findings under section 658K(b);

“(ii) an improper payment rate that exceeds 6 percent, as reflected in 2 consecutive reports described in section 658K(a)(3)(A)(i); or

“(iii) an improper payment rate that exceeds 9 percent, as reflected in such a report.”;

(2) in paragraph (2)—

(A) in subparagraph (B)—

(i) by striking “Secretary may” and inserting “Secretary shall”; and

(ii) by striking “subchapter, and” and inserting “subchapter, withholding of funds or a percentage reduction of funds from the State allotment for the following fiscal year, or”; and

(B) in subparagraph (C), by striking “additional sanction being imposed under subparagraph (B)” and inserting “additional sanction or penalty being imposed under subparagraph (B) or (C)”;

(3) by redesignating paragraph (3) as paragraph (5); and

(4) by inserting after paragraph (2) the following:

“(3) PENALTIES.—If the Secretary determines that an amount shall be reimbursed, deducted, recouped, withheld, or reduced under subparagraph (A) or (B) of paragraph (2) for a State, the Secretary shall increase that amount by adding a penalty equal to 5 percent of the amount against the State.

“(4) CORRECTIVE ACTION PLANS.—

“(A) SUBMISSION.—If the Secretary finds under paragraph (2) that a State has made an improper expenditure of funds, and the Secretary does not disqualify the State under that paragraph from receiving financial assistance, then the Secretary shall require the

State to submit to the Secretary for approval, not later than the date that is 60 days after that finding, a corrective action plan with an implementation date.

“(B) FAILURE TO SUBMIT.—If the State fails to submit the plan by that submission date, the Secretary shall withhold funds for the program carried out under this subchapter for that State until the State submits the plan.

“(C) FAILURE TO IMPLEMENT.—If the Secretary determines that the State fails to implement the corrective actions in the plan by that implementation date, the Secretary shall withhold funds for the program carried out under this subchapter for that State until the Secretary determines that the State has implemented those corrective actions.”.

SEC. 5. REPORTS AND AUDITS.

(a) Error Report Requirements.—

(1) IN GENERAL.—Section 658K(a) of the Child Care and Development Block Grant Act of 1990 (42 U.S.C. 9858i(a)) is amended by adding at the end the following:

“(3) ERROR REPORTS.—

“(A) RULEMAKING.—The Secretary shall issue regulations to, at a minimum—

“(i) ensure that, in calculating, preparing, and submitting reports of errors, under subpart K of part 98 of title 45, Code of Federal Regulations (or a successor regulation), in the administration of grant funds appropriated or made available under this subchapter, States include suspected and verified cases of fraud as improper payments;

“(ii) require any State with an improper payment rate that exceeds 6 percent, as reflected in a report described in clause (i), to submit to the Secretary for approval a comprehensive corrective action plan, as well as submitting to the Secretary subsequent reports describing progress in implementing the plan; and

“(iii) require each State to conduct case reviews and submit reports described in clause (i) to the Department of Health and Human Services according to a staggered 2-year cycle established by the Secretary such that each State will be selected once, and only once, in every 2 years, notwithstanding subchapter IV of chapter 33 of title 31, United States Code.

“(B) AVAILABILITY.—The Secretary, on receiving a report described in subparagraph (A), shall post the report on a publicly available website. The Secretary shall also post on that website any corrective action plan that is described in this subchapter and approved for a State that is described in section 658E(e).

“(C) GAO REVIEW.—The Comptroller General of the United States shall—

“(i) review fraud and improper payments that—

“(I) involve funds described in subparagraph (A)(i);

“(II) are committed at the State, local or regional level, as appropriate; and

“(III) are covered in sources including reports described in subparagraph (A)(i) and corrective action plans submitted to the Secretary by States; and

“(ii) offer recommendations to the Inspector General of the Department of Health and Human Services and to the Secretary for additional oversight.

“(D) STATE.—In this paragraph, the term ‘State’ means any of the 50 States, the District of Columbia, and the Commonwealth of Puerto Rico.”.

(2) INTERIM FINAL RULE.—Not later than June 30, 2026, the Secretary shall promulgate an interim final rule amending sections 98.100 through 98.102 of title 45, Code of Federal Regulations, as in effect on January 12, 2026, to promulgate the regulations required under section 658K(a)(3)(A) of the Child Care and Development Block Grant Act of 1990 (42 U.S.C. 9858i(a)(3)(A)), as added by paragraph (1).

(b) Audits.—Section 658K(b) of the Child Care and Development Block Grant Act of 1990 (42 U.S.C. 9858i(b)) is amended—

(1) by striking paragraph (3) and inserting the following:

“(3) SUBMISSION OF AUDIT REPORT AND CORRECTIVE ACTION PLANS.—

“(A) IN GENERAL.—Not later than 30 calendar days after the State receives the independent auditor’s report under paragraph (2), the State shall submit—

“(i) to the legislature of the State and, if applicable, to the Indian tribe or tribal organization involved—

“(I) a copy of the audit; and

“(II) for approval, a corrective action plan to address each negative audit finding included in the auditor’s report for the current reporting; and

“(ii) to the Secretary, a copy of the audit and (for approval by the Secretary) the corrective action plan.

“(B) CONTENTS OF CORRECTIVE ACTION PLAN.—The corrective action plan shall include the name of the contact person responsible for the corrective action, the corrective action to be taken, and the anticipated completion date, which shall be not later than 1 calendar year after the State received the independent auditor’s report under paragraph (2). If the State does not agree with the audit findings or believes corrective action is not required, the corrective action plan shall include a detailed explanation of the reasons.”; and

(2) by adding at the end the following:

“(5) INSPECTOR GENERAL REPORT.—Not less often than every 2 years, the Inspector General of the Department of Health and Human Services shall prepare and submit to the Secretary a report on States that fail audits under this subsection, and shall include recommendations for States that need additional monitoring and technical assistance.”.

(c) Database on Providers.—Section 658K of the Child Care and Development Block Grant Act of 1998 (42 U.S.C. 9858i) is amended by adding at the end the following:

“(c) Database on Providers Under Administration for Children and Families.—

“(1) DATABASE.—The Secretary, acting through the Assistant Secretary of the Administration for Children and Families, shall maintain a database of individuals who served as providers under a program administered by the Administration but were disqualified from receiving financial assistance under the program. The Secretary shall list a provider in the database for the period of the provider’s disqualification.

“(2) PROHIBITION ON FUNDING LISTING PROVIDERS.—The Secretary shall, when approving an application for financial assistance under such a program—

“(A) from a State, prohibit the State from using any of the financial assistance for a provider listed in the database; and

“(B) from a provider, prohibit the provider from receiving the financial assistance if listed in the database.”.

SEC. 6. ELIGIBILITY.

Section 658P(4) of the Child Care and Development Block Grant Act of 1990 (42 U.S.C. 9858n(4)) is amended—

(1) by striking subparagraph (B) and inserting the following:

“(B) whose family assets do not exceed \$500,000 (as determined by the State involved); and”; and

(2) by striking subparagraph (C) and inserting the following:

“(C) who—

“(i) resides in a family that is headed by an unmarried person who is the child’s parent, who is working or attending a job training or educational program, and that has a family income that does not exceed 85 percent of the State median income for a family with the same number of children headed by an unmarried person, based on the most recent data that is published by the Bureau of the Census;

“(ii) resides in a family that is headed by two [married] persons who are the child’s parents, and who work a combined total of at least 40 hours per week, with a family income that does not exceed 85 percent of the State median income for a family with the same number of children headed by two [married] persons, based on the most recent data that is published by the Bureau of the Census; or

“(iii) is receiving, or needs to receive, protective services and resides with a parent or parents not described in clause (i) or (ii).”.