

May 2010

# CHILD CARE

## Multiple Factors Could Have Contributed to the Recent Decline in the Number of Children Whose Families Receive Subsidies



GAO

Accountability \* Integrity \* Reliability



Highlights of [GAO-10-344](#), a report to congressional requesters

## Why GAO Did This Study

As Congress considers reauthorization of the laws which provide funding for the Child Care and Development Fund (CCDF), there is interest in understanding what accounts for recent trends in child care subsidy receipt among eligible families and what research says about subsidies' effects on parents' ability to obtain and maintain employment. The U.S. Department of Health and Human Services (HHS) administers CCDF, but states have flexibility in its implementation. As requested, GAO examined: (1) trends in federal estimates of the number and proportion of eligible children and families who receive child care subsidies, (2) factors that may affect trends in estimates of the number of children served, and (3) what is known about the extent to which access to subsidies supports low-income parents' employment.

To address these issues, GAO reviewed recent federal estimates of the number and proportion of eligible children and families served; conducted a survey of state child care administrators in 50 states and the District of Columbia; interviewed HHS officials, state officials in four selected states, and researchers and experts in child care subsidies; and reviewed research on the relationship between subsidy receipt and employment outcomes. GAO is not making recommendations in this report.

HHS generally agreed with the report and provided technical comments, which GAO incorporated as appropriate.

View [GAO-10-344](#) or [key components](#). For more information, contact Kay E. Brown at (202) 512-7215 or [BrownKE@gao.gov](mailto:BrownKE@gao.gov).

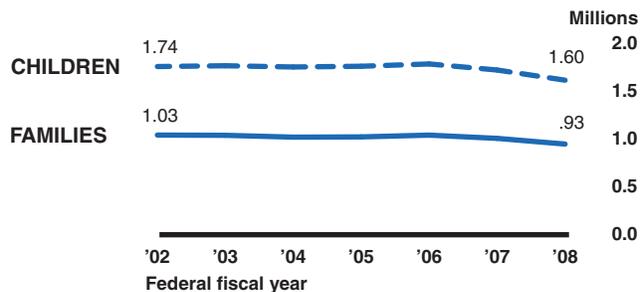
## CHILD CARE

### Multiple Factors Could Have Contributed to the Recent Decline in the Number of Children Whose Families Receive Subsidies

#### What GAO Found

From 2006 to 2008, the estimated average monthly number of children served by CCDF declined by about 170,000 (10 percent), after remaining relatively stable for a number of years. However, state data vary, as 34 states reported decreases in the number served during this period, while 17 states reported increases. Along with a decline in the number served by CCDF, an estimate for a key performance measure also shows a decline in the proportion of eligible children whose families received subsidies funded by key federal programs from 2006 to 2007. Overall, estimates indicate that annually about one-third or fewer of eligible children received subsidies funded by CCDF and other federal programs between 2004 and 2007. Estimates occur at this level partly because many states cannot serve all eligible families with available resources and partly because eligible families do not always seek subsidies.

**Average Monthly Number of Children and Families Served by CCDF in Fiscal Years 2002-2008**



Source: GAO analysis of HHS data.

HHS, state officials, and experts cited multiple factors that could have influenced the recent overall decline in children served by CCDF. These include state decisions about resource allocation, such as increasing provider payments, as reported in GAO's survey, or decreasing Temporary Assistance for Needy Families funds transferred to CCDF, as shown by expenditure data. Also, changes in state-level requirements and the recession may have affected the availability of providers. Finally, economic factors can affect the demand for subsidies, and the recession may have affected parents' child care choices or their ability to meet work-related requirements. However, since 2006, some states took actions that could increase access to subsidies, such as increasing income eligibility limits or extending eligibility to unemployed parents.

Research has linked access to child care subsidies to increases in the likelihood of low-income mothers' employment. Study results have varied in the extent to which subsidies affect employment, in part due to differences in data, scope, and methodology. Some research reviewed and experts interviewed indicated that the size of the effect on employment outcomes may vary based on other factors, such as child care options and employment flexibilities available to families. Experts also suggested that when child care prices increase, mothers may change their work hours or shift to lower-cost providers, for example, rather than exiting the labor force altogether.

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# Contents

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<b>Letter</b>		<b>1</b>
	Background	3
	The Estimated Number of Children Whose Families Receive Child Care Subsidies Has Declined in Recent Years	9
	Multiple Factors Could Have Contributed to the Recent Decline in the Number of Children Served by State Child Care Subsidy Programs, but Some States Have Taken Steps to Expand Access	15
	Research Indicates That Child Care Subsidies Increase the Likelihood of Low-Income Mothers' Employment, but Studies Have Found Variation in the Size of the Effects	26
	Concluding Observations	30
	Agency Comments and Our Evaluation	31
<b>Appendix I</b>	<b>Objectives, Scope and Methodology</b>	<b>34</b>
<b>Appendix II</b>	<b>Data Reliability Assessment for CCDF Administrative Data and Child Care Subsidy Coverage Rates</b>	<b>39</b>
<b>Appendix III</b>	<b>Studies Examining the Effect of Child Care Subsidies on Employment Outcomes</b>	<b>46</b>
<b>Appendix IV</b>	<b>Comments from the U.S. Department of Health and Human Services</b>	<b>49</b>
<b>Appendix V</b>	<b>GAO Contact and Staff Acknowledgments</b>	<b>53</b>
<b>Related GAO Products</b>		<b>54</b>

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## Tables

Table 1: Child Care Subsidy Coverage Rate Estimates Published by HHS	13
Table 2: Summary of Data and Methodology from 31 Selected Peer-Reviewed Studies	27

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## Figures

Figure 1: Federal and State Child Care Expenditures from CCDF, TANF, and Related State Funds	5
Figure 2: Many State Policies May Affect the Allocation of Resources for Child Care Subsidies	8
Figure 3: Average Monthly Adjusted Number of Children and Families Served by CCDF in Fiscal Years 1998-2008	10
Figure 4: Percentage Change by State in the Estimated Average Monthly Number of Children Served by CCDF from Fiscal Years 2006 to 2008	11
Figure 5: Number of States That Reported Use of Funding from Sources Other Than CCDF for Their Child Care Assistance Programs	16
Figure 6: State Policy Changes in Payment Amounts for Child Care Providers since 2006	19
Figure 7: States That Reported That They Serve All Eligible Applicants	20
Figure 8: State-reported Changes in the Number of Regulated Child Care Providers since 2006	20
Figure 9: Direction of State Policy Changes since 2006 That Could Affect Access to Child Care Subsidies	22
Figure 10: Direction of State Policy Changes to Income Eligibility Requirements since 2006	23
Figure 11: State Maximum Income Eligibility Criteria as a Percentage of the 2009 Federal Poverty Level	24
Figure 12: Direction of State Policy Changes to Other Eligibility Criteria That Affect Access	25
Figure 13: Direction of State Policy Changes to Co-payments Paid by Families to Child Care Providers	25
Figure 14: CCDF State Reporting Requirements	40

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## Abbreviations

ASPA	After-School Programs and Activities Survey
ASPE	Office of the Assistant Secretary for Planning and Evaluation
CCDBG Act	Child Care and Development Block Grant Act of 1990
CCDF	Child Care and Development Fund
DRA	Deficit Reduction Act of 2005
ECPP	Early Childhood Program Participation Survey
Education	U.S. Department of Education
HHS	U.S. Department of Health and Human Services
MOE	maintenance of effort
NHES	National Household Education Surveys Program
Recovery Act	American Recovery and Reinvestment Act of 2009
SSBG	Social Services Block Grant
SIPP	Survey of Income and Program Participation
TANF	Temporary Assistance for Needy Families

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Washington, DC 20548

May 5, 2010

### Congressional Requesters

Survey data from the U.S. Census Bureau indicate that for families with working mothers living below the federal poverty line, child care costs on average comprised nearly 30 percent of their monthly income in 2005.<sup>1</sup> Child care subsidies can help such low-income families pay for the care their children need while allowing parents to work or participate in education or training programs. The federal government provides funding to states through the Child Care and Development Fund (CCDF) for improving the affordability, availability, and quality of child care. States also have the option of using some part of their Temporary Assistance for Needy Families (TANF) funds for child care, either by providing subsidies directly to eligible participants or providers or by transferring a portion of these funds to CCDF. Both CCDF and TANF are block grant programs that allow states substantial flexibility in setting eligibility criteria. In fiscal year 2008, federal expenditures for child care subsidies funded by the CCDF and TANF programs totaled \$8.45 billion, comprised of \$6.83 billion in CCDF expenditures, including TANF transfers to CCDF, and \$1.62 billion in direct TANF expenditures for child care.

States have the flexibility to adjust their policies for providing child care subsidies to respond to external circumstances and to achieve specific policy goals. When using CCDF funds, states can set a range of child care assistance policies, such as eligibility criteria and child care provider reimbursement rates, or payment amounts, which can affect families' access to subsidies and the subsidy amount they receive. Since 2001, many states have made changes to their child care assistance policies, and we previously reported on those changes which occurred through March 2005.<sup>2</sup> However, since then, changes in the law and economic circumstances have occurred that may have affected state policies and the

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<sup>1</sup>U.S. Census Bureau, Survey of Income and Program Participation (SIPP), *Tabulations Derived from Current Population Reports*, <http://www.census.gov/population/www/socdemo/child/weeklychldcare.xls> (accessed on Jan. 15, 2010).

<sup>2</sup>GAO, *Child Care: Recent State Policy Changes Affecting the Availability of Assistance for Low-Income Families*, GAO-03-588 (Washington, D.C.: May 5, 2003); and *Child Care: Additional Information Is Needed on Working Families Receiving Subsidies*, GAO-05-667 (Washington, D.C.: June 29, 2005).

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demand for child care subsidies. For example, the Deficit Reduction Act of 2005 (DRA)<sup>3</sup> effectively increased the work participation rates that states must achieve in their TANF programs and also increased mandatory funding for the CCDF program. Furthermore, the American Recovery and Reinvestment Act of 2009 (Recovery Act),<sup>4</sup> which became law on February 17, 2009, made available \$2 billion in additional discretionary funds for child care assistance. States can use this funding to support subsidies for low-income families and activities to improve child care quality. The Recovery Act also provided \$5 billion to a temporary emergency contingency fund for TANF to assist states in fiscal years 2009 and 2010, which states can use for specified activities, which may include child care. Finally, the economic downturn that began in December 2007 has been accompanied by increased unemployment levels, potentially affecting overall demand for child care.

As Congress considers reauthorization of the laws which provide funding for the CCDF, there is interest in understanding what accounts for recent trends in child care subsidy receipt and what research says about subsidies' effects on parents' ability to obtain and maintain employment. At your request, we examined (1) trends in federal estimates of the number and proportion of eligible children and families who receive child care subsidies, (2) factors that may affect trends in estimates of the number of children served, and (3) what is known about the extent to which access to child care subsidies supports low-income parents' employment.

To learn about HHS's estimates of the number and proportion of eligible children who receive child care subsidies, we interviewed officials from the U.S. Department of Health and Human Services (HHS), and we reviewed CCDF administrative data and related documentation on the proportion of eligible children whose families receive subsidies, known as a coverage rate. We also reviewed related survey findings from the U.S. Department of Education (Education), as well as relevant federal laws and regulations. See appendix II for our assessment of the reliability of CCDF administrative data and coverage rate estimates. To identify factors that may affect current trends in estimates of the number of children served, we conducted a Web-based survey of state child care administrators in all

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<sup>3</sup>Pub. L. No. 109-171 (2006).

<sup>4</sup>Pub. L. No. 111-5 (2009).

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50 states and the District of Columbia.<sup>5</sup> We received a 100 percent response rate. We analyzed the survey to determine recent state policy changes and their impact on access to and the amount of child care subsidies. We also interviewed HHS officials and three experts in the area of child care subsidies for low-income families. In addition, we interviewed state child care and TANF program administrators in Colorado, Florida, Illinois, and New York, which were selected for geographic diversity, administrative organization, and the amount of Recovery Act funds allocated and drawn down. We also reviewed administrative and expenditure data for the key federal programs that fund child care subsidies. Our interviews with agency officials and experts, review of agency data, related literature, and state child care policies allowed us to reasonably conclude that the identified factors could have had the described effects. However, we did not design our review to definitively distinguish between these factors and other explanations or to systematically assess their relative contribution. To determine what is known about the impact of child care subsidies on low-income parents' employment, we conducted a literature search and identified and reviewed 31 studies that appeared in peer-reviewed journals between 1995 and 2009 (see app. III). In addition, we interviewed four of the studies' authors.

We conducted this performance audit from May 2009 to May 2010 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Appendix I provides further information on our scope and methodology.

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## Background

The CCDF is the key mechanism through which the federal government provides funding for child care subsidies to support work among low-income families, and is administered by the Administration for Children and Families within HHS. The component funds of the CCDF were identified under the Personal Responsibility and Work Opportunity

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<sup>5</sup>In this report, we will refer to the District of Columbia as a state when we present results of our analyses.

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Reconciliation Act of 1996:<sup>6</sup> (1) mandatory funding for child care subsidies under section 418 of the Social Security Act;<sup>7</sup> (2) matching funds under section 418 of the Social Security Act, which a state receives if it has met certain maintenance of effort and matching requirements;<sup>8</sup> and (3) discretionary funding under the Child Care and Development Block Grant Act of 1990 (CCDBG Act), as amended.<sup>9</sup> Each state must expend its own funds each year at the level it was doing so under former child care programs in fiscal year 1994 or 1995, whichever is greater, which is referred to as CCDF maintenance of effort (MOE).

Each state's annual federal CCDF allocation consists of separate mandatory, matching, and discretionary funds. A state does not have to obligate or spend any state funds to receive the discretionary and mandatory funds. However, for a state to receive its federal matching funds, a state must meet its MOE requirements, and provide state matching funds at the state's federal Medicaid matching rate. Despite increases in CCDF mandatory funding under the DRA, CCDF funding overall, when including the three major funding streams, has remained relatively stable from fiscal years 2002 to 2008. In fiscal year 2009, the combined budget for CCDF was \$7 billion, which included supplemental discretionary funding provided under the Recovery Act.<sup>10</sup> Federal funding for child care subsidies also comes from the TANF program,<sup>11</sup> and to a lesser extent, the Social Services Block Grant (SSBG) program. States can spend TANF directly on child care, and may transfer up to 30 percent of their TANF block grant funds to CCDF. TANF funds transferred to CCDF are subject to the requirements of the CCDBG Act, as amended, but states have discretion with regard to whether or not they apply CCDBG rules to TANF funds spent directly on child care. The Recovery Act also provided

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<sup>6</sup>Pub. L. No. 104-193 (1996).

<sup>7</sup>42 U.S.C. § 618(a)(1).

<sup>8</sup>42 U.S.C. § 618(a)(2)(C).

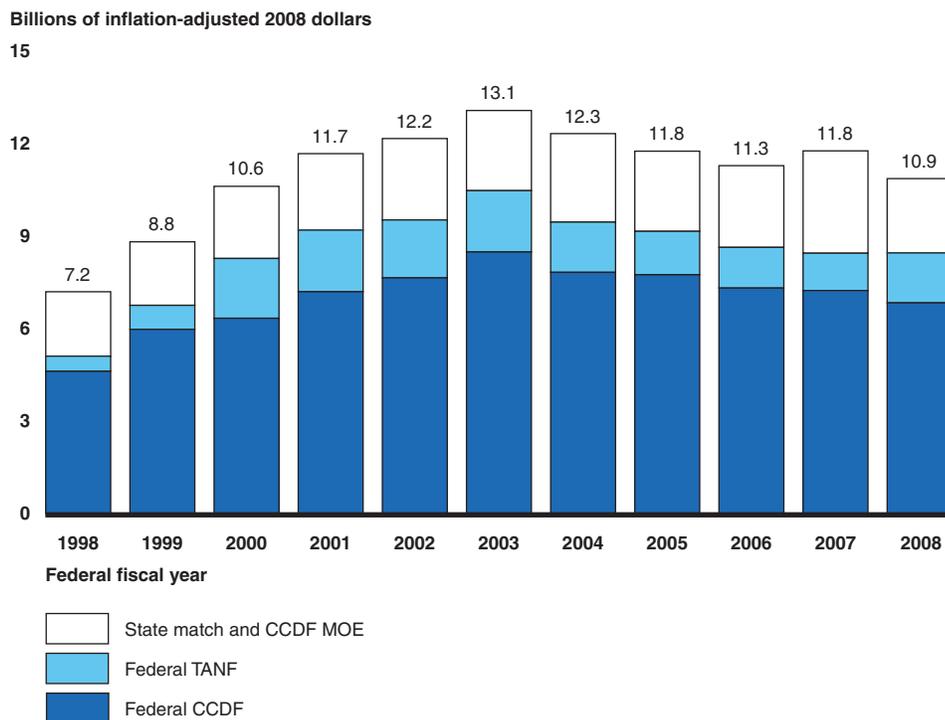
<sup>9</sup>42 U.S.C. § 9858 et seq.

<sup>10</sup>For fiscal year 2009, Congress provided an additional \$2 billion in CCDF discretionary funds. Pub. L. No. 111-5, Div. A, Title VIII.

<sup>11</sup>Funding for child care under the TANF program includes direct TANF funding (which may also be used for tax credits for child care) and TANF MOE funding (which are funds that states are required to spend each year under the TANF program based upon previous state expenditure levels).

additional funding for the TANF program.<sup>12</sup> Child care expenditures as reported by HHS since fiscal year 1998 are shown in figure 1.

**Figure 1: Federal and State Child Care Expenditures from CCDF, TANF, and Related State Funds**



Source: GAO analysis of HHS data.

Note: The Federal CCDF category includes CCDF and TANF transfers to CCDF, while the Federal TANF category includes TANF-direct expenditures. In addition, states' expenditure of CCDF funds can also count toward TANF MOE, so to avoid duplication, "State match and CCDF MOE" excludes TANF MOE. Furthermore, according to HHS, some states may have reported state expenditures on child care that exceed CCDF MOE and match requirements. In addition, HHS officials noted that from fiscal years 2007 to 2008, the decrease in CCDF MOE and state match occurred primarily because California discontinued reporting excess state matching funds on its financial report to HHS for fiscal year 2008. Fig. 1 also excludes any TANF funds directed to refundable child care tax credits. HHS publishes information on TANF expenditures for refundable tax credits, but these can include other kinds of tax credits beyond those specifically for child care.

<sup>12</sup>Congress provided \$5 billion to create an emergency contingency fund for state TANF programs, which is available through fiscal year 2010 to states with certain increases in caseloads and expenditures. Pub. L. No. 111-5, Div. B, Title II § 2101. The temporary emergency contingency fund is distinct from the existing regular TANF contingency fund that was established in 1996.

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To manage their programs, federal agencies can develop coverage rates to estimate the proportion of the potentially eligible population participating in a particular program, as HHS does for federal programs that fund child care assistance. As we reported in 2005, coverage rates can be valuable management tools in monitoring access to federally funded assistance.<sup>13</sup> Once a baseline trend is established for a coverage rate, movement up or down may alert federal program managers to changes in demand for assistance, access to this assistance, or interaction with other programs and allow for appropriate adjustments.<sup>14</sup>

Federal law<sup>15</sup> and CCDF regulations<sup>16</sup> require that states collect data on services provided under CCDF, including TANF funds transferred to CCDF, and mandatory, matching, and discretionary funds. States must submit these data to HHS through quarterly reports—although some submit these data monthly—as well as annual reports. HHS uses these data to estimate the average monthly number of children served and the annual number of children served. However, HHS does not collect data on the number of working families receiving child care assistance directly funded by TANF, an issue we previously reported and raised as a matter for congressional consideration,<sup>17</sup> nor does it collect these data for the SSBG program.

Federal law provides in general that to be eligible for CCDF funds children must be younger than 13 years old and living with parents who are working, enrolled in school or training, or searching for a job. Once these requirements are satisfied, states consider a variety of factors in establishing eligibility for child care assistance. States have many policies

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<sup>13</sup>GAO, *Means-Tested Programs: Information on Program Access Can Be an Important Management Tool*, [GAO-05-221](#) (Washington, D.C.: Mar. 11, 2005).

<sup>14</sup>In general, the calculation of these coverage rates involves dividing the estimated number of children receiving child care subsidies through one or more funding streams (the numerator) by an estimate of the number of children whose families would be eligible to receive subsidies for these programs (the denominator), which can vary by estimation methodology.

<sup>15</sup>42 U.S.C. § 9858i(a).

<sup>16</sup>45 C.F.R. §§ 98.70 and 98.71.

<sup>17</sup>[GAO-05-667](#). Specifically, we noted that Congress may wish to require that, for child care subsidies directly funded by TANF, the Administration for Children and Families find cost-effective ways to collect data on the numbers of children and families receiving these subsidies and the types of care they obtain.

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that can affect the allocation of resources for child care subsidies, including prioritizing different types of recipients, such as families currently receiving TANF cash assistance, families transitioning from TANF or with a recent TANF history, and other low-income working families (see fig. 2). For child care subsidies funded by CCDF, states may set any maximum family income eligibility requirement at or below 85 percent of the state median income for families of the same size. States may also have policies prescribing other criteria that affect access to child care subsidies, such as the amount of time families can spend searching for employment and restrictions on the number of total or new enrollees.

In addition, states have flexibility in determining the amount of subsidies families receive through the child care assistance programs funded by CCDF. Provider payments are based on the combined state subsidy and required family co-payment. States have discretion in setting provider payment amounts, which must be sufficient to ensure equal access to child care services for eligible families comparable to those for families not receiving subsidies.<sup>18</sup> States show that the provider payment amounts are adequate to ensure equal access by, among other things, conducting a market rate survey every 2 years.<sup>19</sup> States must permit families to purchase care from any legally operating child care provider, which may include child care centers, family members, neighbors, and after-school programs. While states generally require families to make a co-payment, some states exempt families from making co-payments if they are at or below 100 percent of the poverty level. Since co-payments are a portion of the providers' payment amounts, larger co-payments can result in smaller subsidies to families, and smaller co-payments can increase the effective subsidy amount. In 2002, we found great variation in child care subsidy and co-payment amounts and made similar observations in 2005.<sup>20</sup>

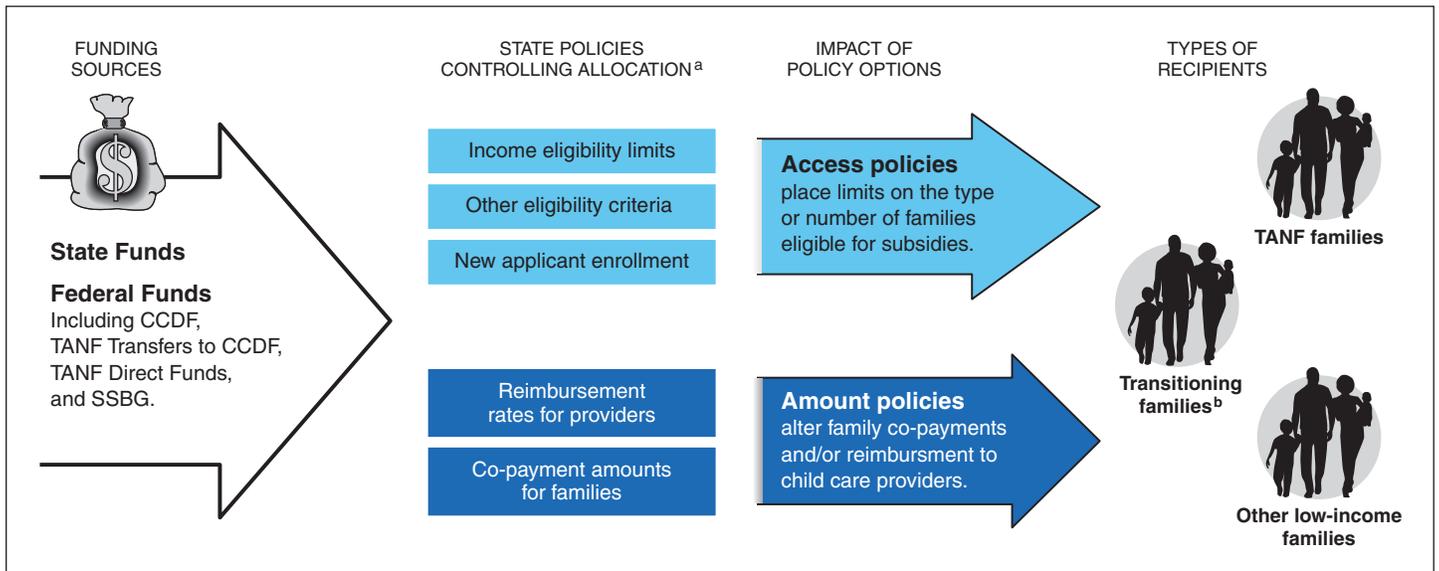
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<sup>18</sup> 42 U.S.C. § 9858c(c)(4)(A).

<sup>19</sup> Data on provider fees for care are gathered from these surveys and then ranked from highest to lowest fee, so that state officials can understand which provider payment amounts allow families to afford services. The provider payment amount often is expressed as a percentile of this ranking of provider fees, and HHS recommends that rates be set at the 75th percentile of current market rates, but this is not required.

<sup>20</sup> GAO, *Child Care: States Exercise Flexibility in Setting Reimbursement Rates and Providing Access for Low-Income Children*, [GAO-02-894](#) (Washington, D.C.: Sept. 18, 2002); and [GAO-05-667](#).

**Figure 2: Many State Policies May Affect the Allocation of Resources for Child Care Subsidies**



Source: GAO analysis.

<sup>a</sup>States generally set policies aimed at controlling the allocation of funding for child care subsidies, but some states allow local entities to have flexibility in establishing policies related to access to and the amount of child care subsidies.

<sup>b</sup>The term "transitioning families" refers to families transitioning from receiving cash assistance through the TANF program or that have recently received TANF cash assistance.

In our 2005 report, we found that between January 2001 and March 2005, many (19) states made eligibility and enrollment changes that may have had an overall effect of decreasing access to child care subsidy programs.<sup>21</sup> In addition, 35 states reported that they increased provider payment amounts during that time, but fewer states reported increases in co-payments, which may have had an overall effect of increasing the amount of the subsidies to families, possibly allowing them a broader selection of providers.

To support more effective policy making on child care, according to HHS, since fiscal year 2000, Congress has authorized HHS to spend approximately \$10 million annually from its discretionary funding appropriation for research, demonstration, and evaluation. The Child Care Bureau within HHS administered these research activities until 2007, when

<sup>21</sup>GAO-05-667.

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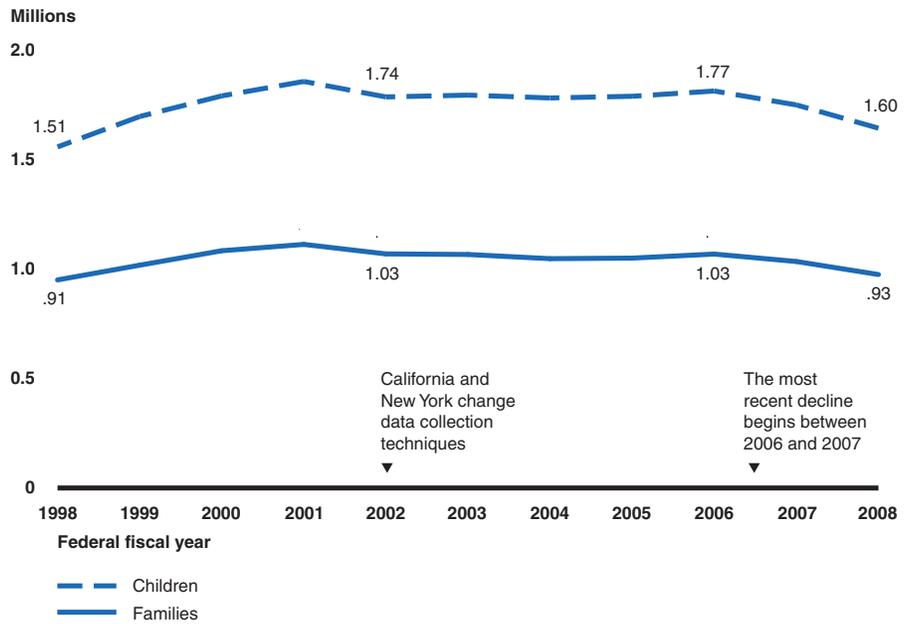
responsibility shifted to the Office of Planning, Research and Evaluation within the Administration for Children and Families. HHS reported that these research efforts have focused on increasing knowledge about the efficacy of child care subsidy policies and programs in supporting employment and self-sufficiency outcomes for parents, and in providing positive learning and school readiness outcomes for children.

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## The Estimated Number of Children Whose Families Receive Child Care Subsidies Has Declined in Recent Years

From fiscal years 2006 to 2008, declines have taken place in the estimated number of children whose families receive child care subsidies funded by CCDF—the only one of the three key federal block grants used for this purpose for which HHS collects and publishes participation numbers. As shown in figure 3, after an initial increase, the average monthly number of children and families served by CCDF has remained relatively stable over time, but these numbers have decreased in recent years. In fiscal year 2006, nearly 1.8 million children were served by CCDF in an average month, and preliminary data for 2008 indicates that this number has decreased to approximately 1.6 million children—a decrease of about 170,000 children (10 percent).

**Figure 3: Average Monthly Adjusted Number of Children and Families Served by CCDF in Fiscal Years 1998-2008**



Source: GAO analysis of HHS data.

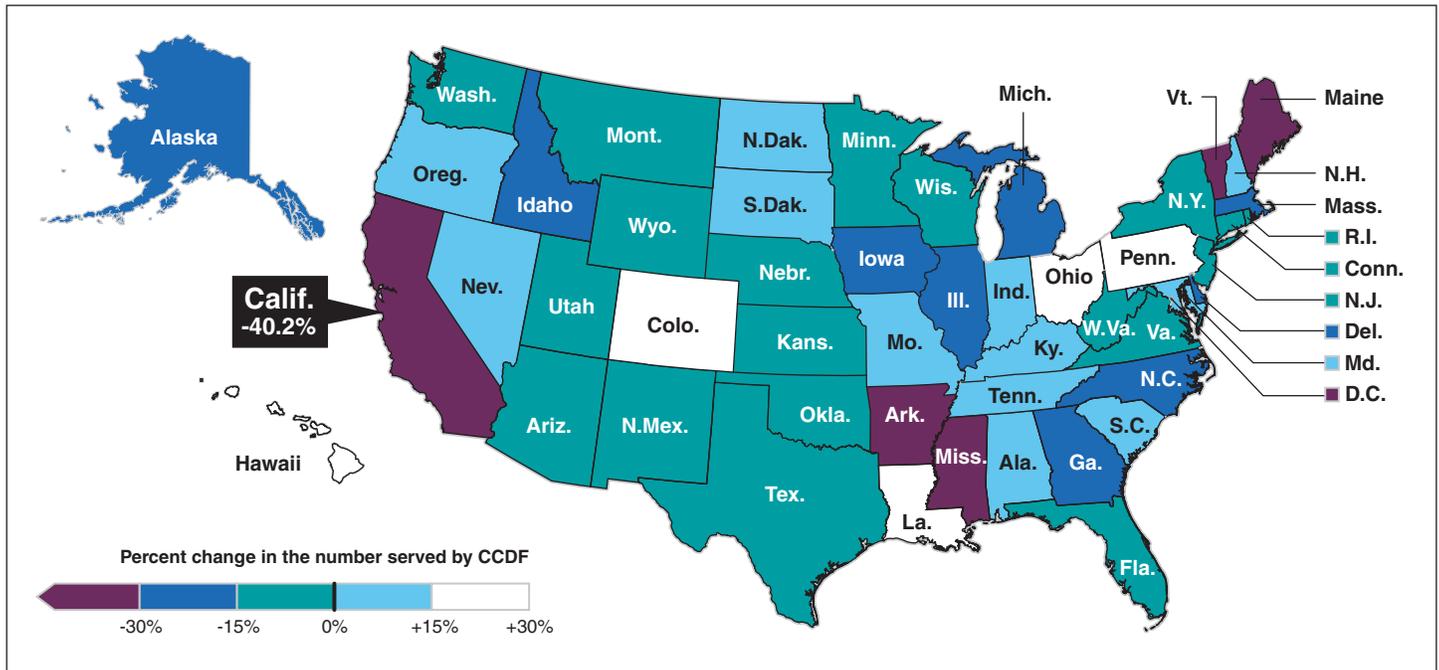
Note: As we previously reported, according to HHS, the decrease in 2002 can largely be explained by the change New York and California made in their data collection techniques in fiscal year 2002. HHS officials told us they have lower confidence in the quality of CCDF administrative data collected prior to 2002. In addition, the data for fiscal year 2008 are preliminary; HHS had not yet released the final dataset in April 2010, when we completed our work.

The national data mask some variations among states. In all, 34 states reported declines in the average monthly number of children served by CCDF from fiscal year 2006 to 2008, and the remaining states reported increases.<sup>22</sup> However, state-reported decreases in the average monthly number served by CCDF varied, as declines ranged from a few hundred children in some states to a decline of 70,600 children (40 percent) in California. Nearly half of all states reported decreases of 20 percent or less in the average monthly number of children served during this time period, but some states reported larger declines. For example, the average monthly number of children served in the District of Columbia decreased by 57 percent (2,100 children), and North Carolina had a 27 percent

<sup>22</sup>The average monthly numbers of children served by CCDF that are reported by HHS for each state are rounded to the nearest 100. For more information on how these average monthly numbers of children served by CCDF are calculated, see app. II.

decrease (21,900 children). At the same time, 17 states experienced increases in the average monthly number of children served, and these data also varied by state. Pennsylvania had the largest increase, having served 15,300 more children (18 percent) in an average month in fiscal year 2008 in comparison to fiscal year 2006, and Ohio had the second largest increase with 8,900 children (22 percent). As shown in figure 4, states varied in whether they reported increases or decreases in the number of children served from fiscal years 2006 to 2008.

**Figure 4: Percentage Change by State in the Estimated Average Monthly Number of Children Served by CCDF from Fiscal Years 2006 to 2008**



Sources: GAO analysis of HHS data; National Atlas of the United States of America (map).

Although states use other federal funding, such as TANF and SSBG, to support child care subsidies, HHS does not collect case-level data on the numbers served by these grants. As a result, the recent decline shown in figure 3 does not fully reflect the number of children and families receiving subsidies funded through federal resources. However, two annual estimates help to provide some data on children served by these non-CCDF funding streams. First, annual data reported by states on the total number of children served, which may include children funded by other federal programs, such as TANF and SSBG, also indicate a less-marked decline of approximately 4 percent (159,000) in the number of children

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served from 2006 to 2008.<sup>23</sup> In lieu of case-level data on the number of children served directly by TANF and SSBG, HHS developed a second estimate for these numbers using expenditure data from TANF and SSBG and average monthly costs under CCDF. Current estimates also indicate a decline in the number of TANF- and SSBG-funded children from fiscal year 2006 to 2007. For more information about CCDF administrative data that HHS collects from states, see appendix II.

In addition to the recent decline in the numbers served by CCDF, from fiscal year 2006 to 2007, a key performance measure also shows a decline in the estimated proportion of potentially eligible children whose families receive child care subsidies funded by several federal block grants. HHS has published several estimates of the proportion of eligible children whose families receive child care subsidies from these key federal programs—CCDF, TANF, and SSBG. Such coverage rate information can help program managers more effectively address issues related to program access. However, coverage rate estimates must be interpreted carefully because of limitations in the data sources and estimation methodologies used.

As shown in table 1, all of these estimates indicate that about one-third or fewer of the potentially eligible children have received child care subsidies funded by CCDF, TANF, and SSBG between fiscal years 2004 and 2007.<sup>24</sup> Two divisions within HHS—the Office of the Assistant Secretary for Planning and Evaluation and the Child Care Bureau—calculate coverage rate estimates. Both types of estimates are based on the same core elements of administrative and financial data,<sup>25</sup> but differ in how they

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<sup>23</sup>States may pool or combine their funding from non-CCDF sources with their CCDF funding to support child care subsidy programs. As a result, HHS allows states to include children funded by these non-CCDF sources as part of their quarterly and annual reports, to the extent that states combine their funding streams and cannot account for children solely funded by CCDF. HHS uses a state-reported proportion of total subsidy funds derived from CCDF, also known as a pooling factor, to estimate those children served only by CCDF.

<sup>24</sup>In our prior work, we reported that in 2001 an estimated 18 to 19 percent of children who met state-defined eligibility criteria received child care services through the CCDF program only. See [GAO-05-221](#).

<sup>25</sup>HHS approximates the numbers of children served directly by TANF and SSBG because it does not collect this information from states. We raised this as a matter for congressional consideration in our 2005 report. HHS estimates the number of children served through these other funding sources by dividing the total amount spent on child care services from each source by the average cost of serving a child under CCDF.

determine the potentially eligible population (see app. I for more information). For example, because states have some flexibility in establishing their eligibility criteria, one set of estimates is based on the number of children potentially eligible under state requirements. Alternatively, another set of estimates consistently applies a common eligibility standard—the number of children in families with incomes below 150 percent of the poverty level—to allow for more comparable estimates across states. HHS has used this coverage rate estimate as an annual performance measure with the target of maintaining the proportion served by CCDF, TANF, and SSBG at 32 percent. Recently, HHS revised this performance measure to reflect children in families with incomes equal to or below 85 percent of state median income, the maximum level allowed under the law.<sup>26</sup>

**Table 1: Child Care Subsidy Coverage Rate Estimates Published by HHS**

HHS agencies and offices	Funding sources for children served (numerator)	Potentially eligible children (denominator)	Fiscal year	Coverage rate estimate
Office of the Assistant Secretary for Planning and Evaluation	<ul style="list-style-type: none"> <li>• CCDF (including TANF funds transferred to CCDF)</li> <li>• TANF direct and TANF state funds</li> <li>• SSBG</li> </ul>	Children that meet state-defined eligibility criteria	2004	31 percent
			2005	29 percent
Administration for Children and Families, Child Care Bureau	<b>Previous performance measure</b>			
	Children in families with incomes below 150 percent of the federal poverty level <sup>a</sup>	2005	33 percent	
		2006	34 percent	
2007 <sup>b</sup>		30 percent		
<b>Current performance measure</b>				
Children in families with incomes equal to or below 85 percent of state median income <sup>c</sup>	2006	17 percent		

Source: GAO analysis of HHS data.

<sup>26</sup> 42 U.S.C. § 9858n(4)(B).

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<sup>a</sup>Additional criteria used to identify families with potentially eligible children include the presence of children ages 0 through 12 (or disabled teenagers) and indications that parents or guardians are working or in school.

<sup>b</sup>The fiscal year 2007 actual results for this outcome measure are preliminary and have not yet been finalized.

<sup>c</sup>In calculating the denominator, HHS assumes that children are eligible if they are under age 13 (or are ages 13 to 18 and have special needs), live in households where all residing parents work at least 1 hour per week, and live in families with incomes under 85 percent of state median income, regardless of their poverty status.

Further, as seen in table 1, among those estimates that have been compiled annually using the number of children in families below 150 percent of the poverty level as the basis, the estimated coverage rate has declined from 34 percent in 2006 to 30 percent in 2007. HHS had previously established a performance target of 32 percent for fiscal years 2004 to 2010. The department's new target, based on the number of children in families with incomes equal to or below 85 percent of state median income, is to maintain the proportion of children served by CCDF, directly by TANF, and by SSBG at 17 percent for fiscal years 2006 to 2010 and 18 percent for 2011. This change in the way HHS calculates its coverage rate—switching from 150 percent of the federal poverty level to 85 percent of state median income—increases the estimated number of children potentially eligible for these subsidies (i.e., the denominator), which would have the effect of decreasing the estimated coverage rate. Accordingly, the estimated 2006 coverage rate declined from 34 percent to 17 percent when the methodology for calculating the denominator was changed. HHS reported having met this target for 2006—the most recent year for which it has published this coverage rate with the new criteria for determining the potentially eligible population of children; the 2007 and 2008 coverage rate estimates are not yet available.

In general, full coverage may not be expected or achieved for a variety of reasons. Because federal funds for child care subsidies are delivered to states in multipurpose block grants, the number of children who can receive subsidies is determined, in part, by the size of the grant and choices that states make regarding how to fund and structure their subsidy programs. In addition, other state and federal programs, such as Head Start and TANF, provide services or offer funds that may substitute for child care subsidies in some circumstances and age groups. Finally, some families potentially eligible for child care assistance under federal and state rules, including many who pay for child care, do not receive subsidies, may be temporarily ineligible but difficult to exclude from estimates of potentially eligible families, or may obtain care from providers unwilling or unable to accept subsidies. For example, the National Household Education Surveys Program found in 2005 that only

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about 50 percent of families with incomes below roughly 150 percent of the federal poverty level that pay for one or more regular child care arrangements reported receiving assistance with their child care fees from any public or private source.<sup>27</sup> Although the longer-term trend in HHS's published coverage rate has been relatively stable, the estimate used for its previous performance measure indicates a decline in coverage for child care subsidies from fiscal years 2006 to 2007.

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## Multiple Factors Could Have Contributed to the Recent Decline in the Number of Children Served by State Child Care Subsidy Programs, but Some States Have Taken Steps to Expand Access

HHS, state officials, and experts we contacted cited multiple factors as potential influences on the overall decline in the numbers served by CCDF from fiscal years 2006 to 2008, which occurred even as some states took steps to expand access. However, it is difficult to draw general conclusions about the relative importance of specific factors. A complex relationship exists among factors that affect the number of children receiving child care subsidies, making it difficult to determine the extent to which specific factors are individually responsible for changes in access or numbers served. In addition, different sets of factors may combine in individual states to either decrease or increase the number of children served. The potential factors fell into three groups:

- state decisions that affect resource allocation, such as availability of TANF for child care or trends toward higher provider payments;
- changes in provider supply and requirements; and,
- economic factors that may affect parents' ability to meet work-related eligibility criteria for subsidies or their child care choices.

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<sup>27</sup>Results from federal surveys conducted in 2005 indicate that many poor or near-poor families using paid weekly nonparental child care arrangements do not receive assistance from any federal or nonfederal source. Education conducts the National Household Education Survey, which has estimated the proportion of children using one or more weekly nonparental child care arrangements involving a payment whose families receive child care assistance from any source. For children from birth through age 5 from families with incomes below roughly 150 percent of the federal poverty level who had a weekly nonparental child care arrangement involving a payment, 52 percent reported receipt of child care assistance from some source. For such families with children in kindergarten through eighth grade, the comparable estimate was 48 percent.

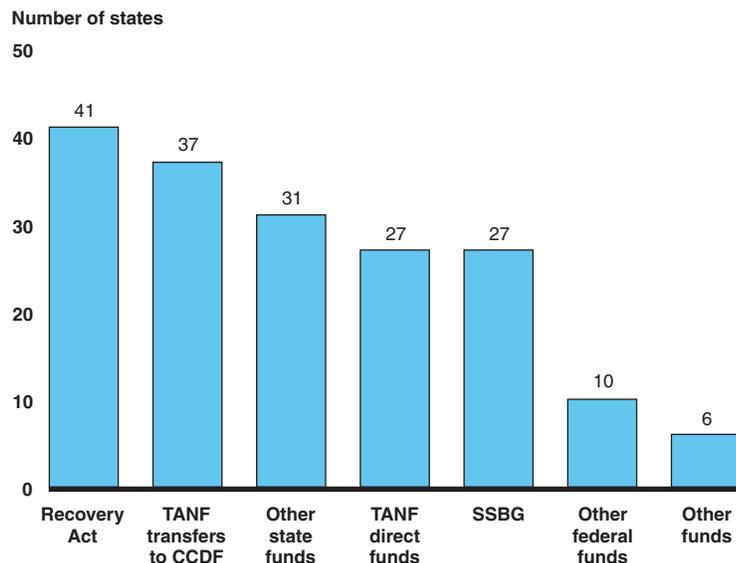
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## State Decisions

Each state's decisions regarding how to use funding from flexible sources not specifically dedicated to subsidized child care services can affect both the number of children served and the overall proportion of eligible children receiving subsidies. Most states reported using additional sources of funding, beyond CCDF resources and required state matching and MOE funding, to support child care subsidies, such as Recovery Act, TANF, SSBG, and other state funds (see fig. 5). In general, among the additional funding sources for child care subsidies apart from the Recovery Act, states were most likely to report changes in TANF transfers into CCDF and in other state funds. Many states had already added Recovery Act funds by the time we conducted our survey. In addition to Recovery Act funds, states more often reported adding or increasing funding from most other sources including state funds and TANF transfers, since July 2006, compared to eliminating or decreasing such funds. However, it is important to note that survey responses reflected relatively long-term trends (from 2006 through the fall of 2009) and these trends may not accurately reflect more recent or future periods.

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**Figure 5: Number of States That Reported Use of Funding from Sources Other Than CCDF for Their Child Care Assistance Programs**



Source: GAO analysis of survey results.

States' decisions to use their federal TANF funds—through transfers to CCDF and direct spending for child care—have contributed substantial amounts to the total federal funding that supports state child care subsidy programs over a period of general stability in federal funding of CCDF in

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recent years. However, HHS officials we interviewed attributed the recent decline in numbers served by CCDF, in part, to state funding decisions regarding whether to transfer TANF funds to CCDF. Such decisions can affect the numbers of children and families that states report as being served by CCDF. Nationally, TANF funding transferred to CCDF increased about 8 percent between fiscal years 2006 and 2007, from about \$1.9 billion to about \$2 billion, but declined sharply, by about 17 percent, or about \$350 million, in fiscal year 2008.

Although fewer funds transferred to CCDF can result in fewer children served through that program, this change does not necessarily equate to a commensurate decrease in total children served. States can also use TANF and other federal and state funds to directly provide child care subsidies to offset in whole or in part a decrease in children served through CCDF (however, the amounts of these funds can vary from year to year). Based on our analysis, 10 states decreased TANF transfers and 4 eliminated them from 2006 to 2008. Twelve of these states, including the 4 states that did not transfer TANF funds to CCDF in fiscal year 2008 as they had in fiscal year 2006, reported a decrease in the number of children served by CCDF during the same time period.<sup>28</sup> These states also reported a decrease in the total number of children subsidized by a larger group of funds, which may include TANF direct and SSBG, although the extent of the overall decrease varied considerably by state. Conversely, 2 states that had decreased TANF transfers recorded no or minor decreases in total children served, which may, in part, be a consequence of spending additional funds to support child care services.<sup>29</sup>

According to an official from one large state we surveyed that did not transfer TANF funds to CCDF in fiscal year 2008 as it had in prior years, the number of estimated children served through CCDF dropped between fiscal years 2006 and 2008. According to our analysis this was about a 40 percent decrease, with this state alone accounting for over 40 percent of the national decline in children served by CCDF between fiscal years 2006 and 2008. While withdrawal of TANF transfers was closely linked to the sharp decrease in the number of this state's children served through

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<sup>28</sup>Based on preliminary fiscal year 2008 data reflecting the average monthly adjusted number of children served by CCDF.

<sup>29</sup>Based on preliminary fiscal year 2008 data reflecting the annual unadjusted number of children served by funding from all sources, including sources beyond CCDF, such as SSBG and TANF funds spent directly on child care.

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CCDF, the overall number of children the state reported receiving subsidies from all funding sources, including sources beyond CCDF, such as SSBG and TANF funds spent directly on child care, also decreased—but by about 2.4 percent. The state’s increase in the use of TANF funds to directly support child care may have helped limit the decline in the number of children receiving subsidies. Nationally TANF funds spent to directly support child care increased from about \$1.2 billion in fiscal year 2006 to about \$1.6 billion in fiscal year 2008, or over 30 percent.

For fiscal years 2009 and 2010, states have additional federal funds available to consider when making decisions about using TANF funds for child care. These include the Recovery Act funds for CCDF as well as a temporary emergency contingency funding for TANF to assist states in fiscal years 2009 and 2010 to help them meet increasing caseloads in their TANF programs associated with the current recession. In a related report that examined changes in TANF caseloads and spending since the recession that began in December 2007, we found that 7 of 11 states we studied with increased spending on TANF cash assistance either maintained or increased the amount of TANF-related spending for family and work supports between June 2008 and June 2009 by accessing available resources. These supports included child care subsidies, transportation subsidies, subsidized employment, CCDF, and SSBG. The remaining four states reduced spending for family and/or work supports to offset the cost of increased spending on cash assistance. However, officials in several states that had not reduced their spending on work supports offered that they expected there would be cuts in TANF-related spending for these services in the near future because of state budget and resource constraints associated with their growing caseloads, which is consistent with our observations of state responses in prior periods of caseload increase.<sup>30</sup>

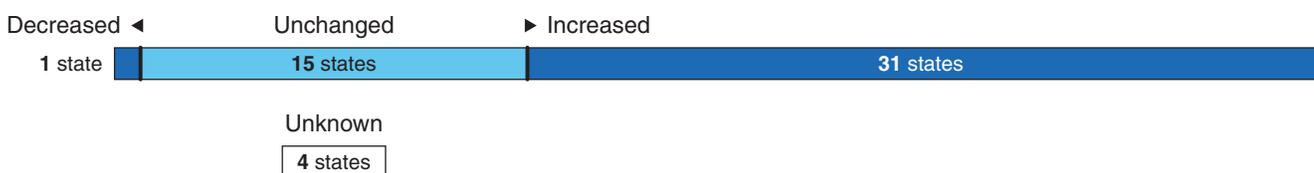
In addition to effects attributable to states’ use of varied sources of funding, HHS officials also suggested that the trend toward higher provider payment amounts might be constraining the numbers of children states could serve, particularly if funding remains stable. According to our survey, the majority of states reported they had increased child care payment amounts since 2006 (see fig. 6). Many of these states reported

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<sup>30</sup>GAO, *Temporary Assistance for Needy Families: Fewer Eligible Families Have Received Cash Assistance Since the 1990s, and the Recession’s Impact on Caseloads Varies by State*, GAO-10-164 (Washington, D.C.: Feb. 23, 2010).

they had increased provider payment amounts to keep pace with market rates for child care. However, about a third of states reported no change in provider payment amounts. This trend toward higher payments for child care providers is longstanding, having also been reported in our last survey,<sup>31</sup> while the decline in the number of children receiving subsidies is relatively recent. A senior HHS official suggested states previously may have had the resources available to accommodate these increases in provider payment amounts without decreasing the overall number of children receiving subsidies, but that this may no longer be true during the recession.

**Figure 6: State Policy Changes in Payment Amounts for Child Care Providers since 2006**



Source: GAO analysis of survey results.

Note: Four states were categorized as unknown because they did not answer the related survey questions.

Twenty-two states we surveyed in 2009 did not provide child care assistance to all eligible families who applied (see fig. 7), compared to 20 states that reported not being able to serve all eligible applicants in our 2005 survey, possibly as a result of state decisions that affect resource allocation. States that reported not providing assistance to all eligible applicants, which included many of the most populous states, often cited limited funding. However, some states that reported being able to serve all eligible applicants may have set their policies in order to achieve this goal. For example, an official from one of the four states we selected to interview said that the state had been able to serve all eligible applicants because the state's income eligibility limit was set at a level that allows all families with incomes below this limit to be served. In 2009 this income eligibility limit was about 192 percent of the 2009 federal poverty level for a family of three.

<sup>31</sup> [GAO-05-667](#).



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State-level requirements for child care providers, which can affect the availability of providers eligible to receive child care subsidies, are also cited as a potential contributor to the decline in the number of children served by CCDF. Officials from one selected state and at least one other state we surveyed suggested that more rigorous state-level requirements for child care providers could have left some families without access to child care if their provider became ineligible for participation in the subsidy program. Officials in one of these states attributed the decreased number of children served in that state to two recently implemented requirements for license-exempt child care providers who receive subsidy payments. According to a state official, one requirement mandated that license-exempt providers (those caring for three or fewer children) submit to a child abuse and neglect background check and provide their social security number. A second requirement, implemented in 2007, requires such providers to provide a copy of their social security card and valid photo identification. When this state initiated these requirements to increase accountability, some providers stopped participating in the child care program. The number of children receiving subsidies funded by CCDF in this state declined by about 17 percent between fiscal years 2006 and 2008.

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## Economic Factors

Economic factors, which can affect the demand for child care subsidies, may be contributing to the decline in the number of children served by CCDF. States we surveyed and experts we spoke with identified economic factors that may affect parents' ability to meet work-related eligibility requirements or that could affect parents' child care choices. Some states we surveyed suggested that they saw a decreasing demand for child care due to rising unemployment. Some also suggested that fewer hours worked by parents seeking child care or changed work schedules could result in fewer families being eligible for subsidies. Even if families remain eligible, experts noted that changed work schedules, such as a reduction in the number of hours worked per week, can make it difficult for families to obtain child care subsidies. We previously reported that studies on child care identify the traditional operating hours of program offices, among other things, as a barrier to obtaining child care subsidies for working families, such as those who change work schedules and must reapply for child care.<sup>32</sup> In addition, research has also found that the administrative process to apply for child care subsidies can be difficult and time

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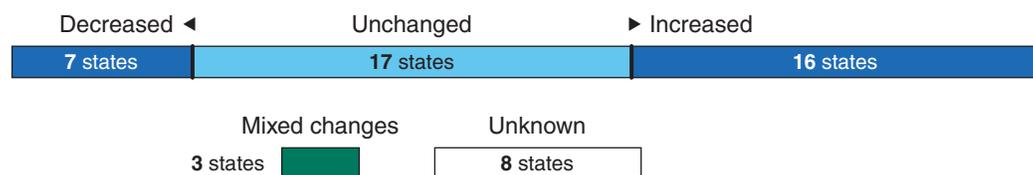
<sup>32</sup>[GAO-05-221](#).

consuming, causing some families to choose not to apply.<sup>33</sup> A researcher told us this was especially the case when work changes occur.

### Some States Took Actions That Could Increase Access

The number of children served by CCDF nationwide declined by 10 percent from 2006 to 2008. However, 17 states individually saw increases in the number served during this same time period.<sup>34</sup> We did not find a consistent relationship between the states that reported increases to HHS in the numbers served and those that reported changes in policies that could increase access in response to our survey. Since 2006, some states, including some of those reporting increases in the numbers served, have taken various actions that could increase families' access to child care subsidies, and in some cases for those families struggling due to the economic downturn. For example, our survey indicates that although the majority of states did not make changes to eligibility and enrollment policies that could clearly have the effect of increasing access to child care subsidies, 16 states reported making policy changes that could increase access (see fig. 9). Our 2005 survey effort also used a method to measure access and, in that year, 8 states reported they had increased access.

**Figure 9: Direction of State Policy Changes since 2006 That Could Affect Access to Child Care Subsidies**



Source: GAO analysis of survey results.

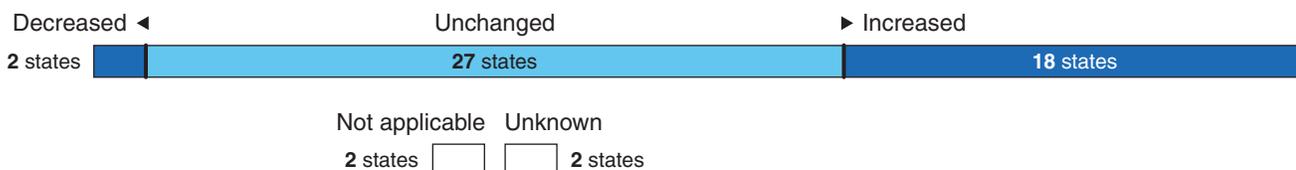
Note: The direction of policy changes is based on state changes in income eligibility limits and other eligibility criteria (such as work requirements) and enrollment changes that could affect program access. See app. I for additional information on how we identified changes to eligibility and enrollment policies that could clearly have the affect of increasing access to child care subsidies.

<sup>33</sup>Gina Adams, Kathleen Snyder, and Patti Banghart, *Designing Subsidy Systems to Meet the Needs of Families: An Overview of Policy Research Findings* (Washington, D.C., The Urban Institute, January 2008); and Kathleen Snyder, Patti Banghart, and Gina Adams, *Strategies to Support Child Care Subsidy Access and Retention: Ideas from Seven Midwestern States* (Washington, D.C., The Urban Institute, November 2006).

<sup>34</sup>The Office of Planning, Research and Evaluation within the Administration for Children and Families has funded a project to catalog state policies. Officials expect the project to facilitate examining associations between variations in state policy and access to subsidies ([http://www.acf.hhs.gov/programs/opre/cc/ccdf\\_policies/index.html](http://www.acf.hhs.gov/programs/opre/cc/ccdf_policies/index.html)).

When looking specifically at income eligibility policies, although the majority of states did not make changes to these criteria, 18 states reported increases to their income eligibility limits during the period since 2006—three times as many as in our previous report on state child care policy changes from 2001 to 2005 (see fig. 10).<sup>35</sup> Eight of these states reported increases in the number of children receiving subsidies funded by CCDF between fiscal years 2006 and 2008. States gave various reasons for the increases in income eligibility limits, such as keeping up with changes in the federal poverty level, which would not necessarily affect the number of children eligible, although the number of children in poverty has increased since 2006.<sup>36</sup>

**Figure 10: Direction of State Policy Changes to Income Eligibility Requirements since 2006**



Source: GAO analysis of survey results.

Increases in income eligibility limits raised the median income eligibility limit among states, which could represent an increase in access to child care subsidies. In 2009, the median state income eligibility limit was about 192 percent of the federal poverty level, while in 2005 it was about 184 percent (see fig. 11).<sup>37</sup> As shown in this figure, one state, which allows flexibility at the local level, has an income eligibility limit set at about 295 percent of the 2009 federal poverty level—the highest among all states.

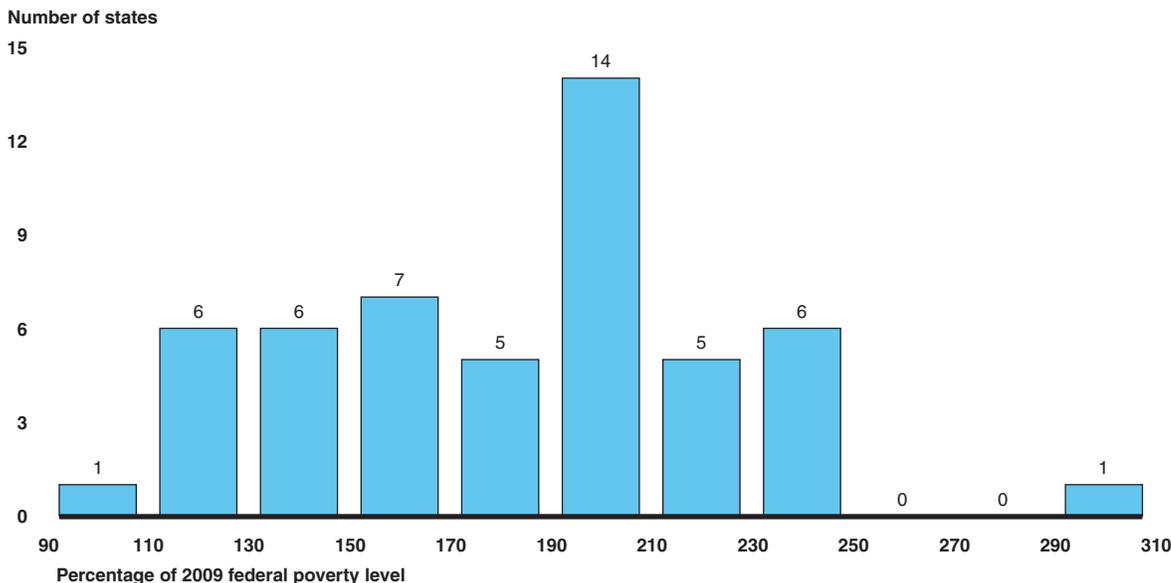
<sup>35</sup>GAO-05-667.

<sup>36</sup>U.S. Census Bureau, Current Population Survey, *2007 Annual Social and Economic Supplement*, [http://pubdb3.census.gov/macro/032007/pov/new01\\_100\\_01.htm](http://pubdb3.census.gov/macro/032007/pov/new01_100_01.htm) (accessed on Feb. 23, 2010) and U.S. Census Bureau, Current Population Survey, *2009 Annual Social and Economic Supplement*, [http://www.census.gov/hhes/www/cpstables/032009/pov/new01\\_100\\_01.htm](http://www.census.gov/hhes/www/cpstables/032009/pov/new01_100_01.htm) (accessed on Feb. 23, 2010). These statistics reflect an increase in the number of children in poverty between 2006 and 2008 both for children under age 5 and for children ages 5 to 17.

<sup>37</sup>We calculated states' 2005 income eligibility limits as a percentage of the federal poverty level based on data from HHS's summary of state fiscal year 2004-2005 CCDF plans and the federal poverty level for 2005 for a family of three. The 2009 income eligibility limits as a percentage of the federal poverty rate are based on states' responses to our August 2009 survey regarding income eligibility limits and the federal poverty level for 2009 for a family of three.

This percentage approximates the federally prescribed maximum eligibility limit of 85 percent of the state’s median income.<sup>38</sup>

**Figure 11: State Maximum Income Eligibility Criteria as a Percentage of the 2009 Federal Poverty Level**



Source: GAO analysis of survey results and 2009 federal poverty level.

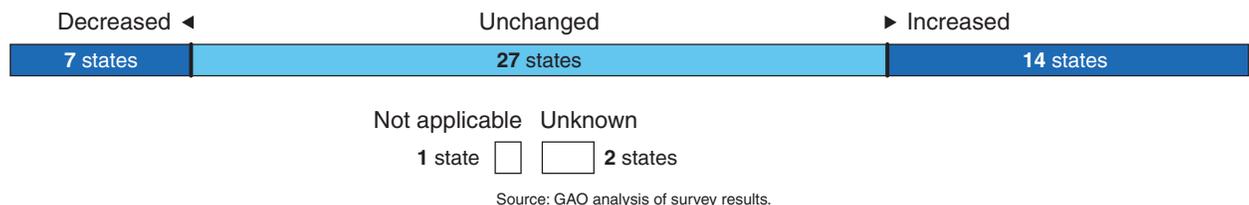
Note: Dollar amounts are based on the federal poverty level for 2009 which was \$18,310 for a family of three in the 48 contiguous states and the District of Columbia. The analysis of state income eligibility limits factored in the different poverty levels for Alaska (\$22,890) and Hawaii (\$21,060). GAO did not conduct any analysis of state to state differences in average child care costs.

Over one quarter of states we surveyed reported they increased access by changing policies related to eligibility criteria—other than income eligibility limits—that qualify a family for child care subsidies, such as work and educational activity requirements. These policy changes most often benefited other low-income families that do not currently receive or have not recently received TANF benefits. Several states reported they did this in order to support low-income families during the economic

<sup>38</sup>The majority of states reported that child care subsidy policies are primarily set at the state level and are uniformly implemented across the state—including those policies that could affect access or subsidy amounts for families currently receiving TANF cash assistance, families transitioning from TANF or with a recent TANF history, and other low-income families. However, six states—Colorado, Florida, Georgia, New York, Texas, and Virginia—reported that although policies are primarily set at the state level, they allow flexibility for implementing these policies at a regional or local level.

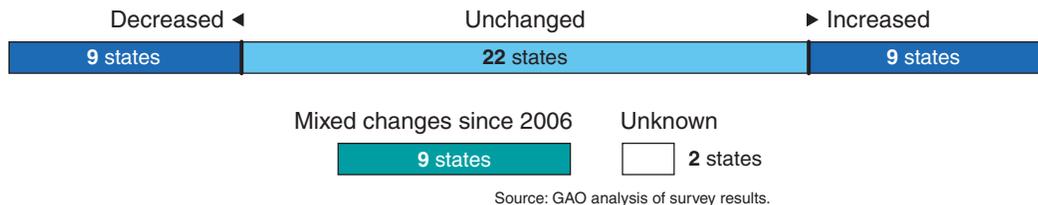
downturn, such as those facing unemployment or reduced work hours (see fig. 12).

**Figure 12: Direction of State Policy Changes to Other Eligibility Criteria That Affect Access**



Nine states reported decreasing co-payments, which can affect the affordability of child care (see fig. 13).<sup>39</sup> Two of these states reported they did so to help families deal with impacts of the downturn in the economy and rising prices, such as for child care as well as for fuel for transportation. However, states were most likely to report making no changes to the co-payments paid by families receiving child care subsidies.

**Figure 13: Direction of State Policy Changes to Co-payments Paid by Families to Child Care Providers**



Note: The mixed changes category includes states that reported that co-payments are higher for some and lower for others since 2006. For example, two states reported that because they allow flexibility for implementing co-payment policies at a local level, their co-payments both increased and decreased since 2006 due to regional or local policy changes.

<sup>39</sup>Decreasing co-payments can increase the amount of subsidies provided to families because the family pays a reduced co-payment, and states generally make up the difference between the co-payment and the rate paid the provider. CCDF regulations require that states set affordable co-payments for families but do not define affordability. The preamble to the published final CCDF regulations states that a fee that is no more than 10 percent of family income would generally be considered to be an affordable co-payment (63 Fed. Reg. 39936, 39961), but states have flexibility for determining affordability for their child care programs and do not have to use this benchmark. However, according to HHS's report on CCDF state plans for fiscal years 2008 to 2009, nearly half of all states refer to this affordability benchmark, and another 16 states indicate that most or all family fees are established below 10 percent of income. The remaining 11 states report that they base their co-payments on a sliding fee scale or system of cost sharing based on income and family size, by setting a maximum co-payment for program entry and another for program exit.

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By December 2009, most states had drawn down some Recovery Act funds, and over half of all states reported plans to use these funds to make changes that could increase access to subsidies for children and families. For example, the majority of the 15 states that reported having waiting lists reported drawing down some Recovery Act funds by the fall of 2009, and most planned to use these funds to reduce the number of families on these lists. In addition, some states said that Recovery Act funds would allow them to raise their income eligibility limits and potentially serve more families. Most states also planned to use Recovery Act funds to provide education and training scholarships and grants for child care providers or to upgrade their management information systems or technology, or both.

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## Research Indicates That Child Care Subsidies Increase the Likelihood of Low-Income Mothers' Employment, but Studies Have Found Variation in the Size of the Effects

Research we reviewed and experts we spoke to indicate that child care subsidies increase the likelihood of low-income mothers' employment. Consistent with our findings in 1994 that reducing child care costs for low-income mothers increases the likelihood they will be able to work,<sup>40</sup> the studies published from 1995 to 2009 that we examined found that receiving a child care subsidy or decreasing child care costs had a positive effect on employment outcomes for low-income mothers. In addition, two of these studies looked at the relationship between federal or state funding for child care subsidies and employment outcomes. Overall, the results of the studies we reviewed varied in terms of the size of the effect on employment outcomes. See table 2 for a methodological summary of the 31 peer-reviewed studies that we identified for our literature review.

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<sup>40</sup>GAO, *Child Care: Child Care Subsidies Increase Likelihood That Low-Income Mothers Will Work*, GAO/HEHS-95-20 (Washington, D.C.: Dec. 30, 1994).

**Table 2: Summary of Data and Methodology from 31 Selected Peer-Reviewed Studies**

<b>Main explanatory variables</b>	<b>Methodology</b>	<b>Number of studies reviewed</b>
Child care costs	Used statistical models to simulate child care subsidy receipt in order to estimate effect of changes in child care prices on employment outcomes.	12 studies
Child care subsidy receipt	Used data on child care subsidy receipt to estimate effect on employment outcomes.	17 studies <sup>a</sup>
State or federal child care funding	Used data on public funding for child care subsidies to estimate effect on employment outcomes.	2 studies

Source: GAO analysis.

<sup>a</sup>Two studies used survey data on child care subsidy receipt and child care prices to examine employment outcomes. In addition, another study used public kindergarten as a proxy for child care subsidy receipt.

Overall, we found that studies using these various types of data yielded the same conclusion with regard to child care subsidies increasing the likelihood of low-income mothers' employment. Until the mid-1990s, when child care subsidies started becoming more widely available, and therefore could be studied directly, most research examined the relationship between the price charged by child care providers and mothers' employment outcomes to infer the likely effects of the subsidies on those outcomes. Recognizing that child care subsidies have the effect of reducing the price of child care for subsidy recipients, early studies statistically estimated economic models of mothers' employment decisions at various child care prices. For example, in our 1994 report we applied an economic model to survey data, and this analysis predicted that providing a full subsidy to mothers who pay for child care could increase—from 29 percent to 44 percent—the proportion of mothers at or below the federal poverty level who work.

While studies have found similar results related to the direction of the effect of child care subsidies or decreases in child care prices on low-income mothers' employment, their results varied in the size of these subsidies' effects on employment, due in part to differences in data, scope, and methodology. For example, research and experts we interviewed indicated that the effect of child care subsidies on mothers' employment can vary by family characteristics, such as marital status. Some studies estimated that child care subsidies may have a greater likelihood of affecting single mothers' employment in comparison to married mothers'

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employment. For example, one study found that for single mothers, a 1 percent decrease in the price of child care would result in about a 1.3 percent increase in full-time employment, compared to a 0.75 percent increase for married mothers.<sup>41</sup> Such results indicate that the employment status of single mothers may be more sensitive to changes in the price of child care, in comparison to married mothers, who may be able to share child care responsibilities and costs with their spouses.

Some aspects of study methodology have important implications for findings. After accounting for the extent to which subsidy receipt is contingent on employment, another study found that subsidy receipt increased the probability of single mothers' employment by 15.3 percent.<sup>42</sup> According to an HHS official, studies that do not take this factor into account may find that subsidies have no influence on employment because potential recipients have to be employed in order to qualify for subsidies. The Office of Planning, Research and Evaluation within the Administration for Children and Families is currently conducting some work on how best to measure employment outcomes in light of this issue.

Studies we reviewed and experts we spoke to also indicated that the extent of these subsidies' effects on employment can vary due to multiple factors, such as the child care options and employment flexibilities available to families. Experts we interviewed suggested that when child care prices increase, mothers may change their scheduled work hours or shift to lower-quality child care, for example, rather than simply exiting the labor force. Some mothers may already be working, but using unpaid child care, such as care provided at no cost by a grandmother or friend, when they become eligible for a child care subsidy program. When these mothers receive a child care subsidy or when the price of child care decreases, they may switch to a paid child care arrangement without altering their employment status.

In addition to the studies that evaluated the impact of child care subsidy receipt and changes in child care prices on the likelihood of employment, we identified two studies that examined the impact of aggregate public funding for child care subsidies (as opposed to individual subsidy receipt)

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<sup>41</sup>Connelly, R., and J. Kimmel. "Marital status and full-time/part-time work status in child care choices." *Applied Economics*, vol. 35, no. 7 (2003): 761-777.

<sup>42</sup>Tekin, E. "Child care subsidy receipt, employment, and child care choices of single mothers." *Economics Letters*, vol. 89, no. 1 (2005): 1-6.

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on mothers' employment. For example, one study that examined public funding for child care subsidies from 1991 to 1996 found that every \$1,000 allocated for Child Care and Development Block Grant assistance per single mother with at least one child under the age of 13 years was associated with a 26 percentage point increase in employment for this population. This study also found that a \$1,000 increase in average state spending for all types of child care subsidies per single female household including a child under 13 years of age was associated with a 3.6 percentage point increase in employment among single mothers within these households.<sup>43</sup> Similarly, another study, which looked at child care funding in Miami-Dade County during a 24-month period from 1996 to 1998, found that funding increases for subsidized child care were linked to increases in the likelihood of employment for current and former welfare recipients.<sup>44</sup> This study included several variables to adjust for other factors that might have affected employment, such as other major policy and administrative changes, as well as controls for human capital and socio-demographic characteristics and labor market conditions. In addition, HHS noted in its annual report to Congress for fiscal years 2004 and 2005—the most current report available—that its sponsored research has indicated subsidies are associated with increased employment rates and earnings for low-income families, reduced return to welfare programs for assistance, reduced barriers to finding employment, and increased likelihood of maintaining employment.<sup>45</sup>

Finally, several studies we reviewed identified a relationship between subsidy receipt and the type of child care used, as families receiving subsidies are more likely to use center-based care, which typically involves care provided for 12 or more children in a nonresidential facility. One researcher we spoke to indicated that when the price of child care is lower for families, parents tend to move their children into center-based

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<sup>43</sup>Bainbridge, J., M. Meyers, and J. Waldfogel. "Child care policy reform and the employment of single mothers." *Social Science Quarterly*, vol. 84, no. 4 (2003): 771-791. To control for local economic conditions, this study included measures of state unemployment rates. In addition, the study controlled for other characteristics that might impact employment decisions, such as other state or federal policies.

<sup>44</sup>Queralt, M., A. Dryden Witte, and H. Griesinger. "Changing policies, changing impacts: Employment and earnings of child-care subsidy recipients in the era of welfare reform." *Social Service Review*, vol. 74, no. 4 (2000): 588-619.

<sup>45</sup>Administration for Children and Families, U.S. Department of Health and Human Services, *Child Care and Development Fund (CCDF) Report to Congress for FY 2004 and FY 2005* (Washington, D.C., 2008).

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care, which parents may view as being of higher quality. States typically impose staffing and training requirements on child care centers that are generally higher than those for family child care providers that care for just a few children.

While some research has indicated a relationship between subsidies and the type of care selected, research we reviewed and experts we spoke to indicated that little work has been done to document the direct effect of subsidy receipt on the quality of care selected by working families. Some experts said this was due to the lack of datasets that combine subsidy receipt with reliable measures of child care quality. A 2006 literature review funded by HHS also suggested a need for future research studying the effect of child care subsidies while taking into consideration how parents consider child care subsidies, other public benefits, and the availability of quality care in their communities when making decisions with regard to employment and child care.<sup>46</sup> HHS recently announced several new research grant awards that focus on parental decision making related to child care and employment through their Child Care Research Scholars and Secondary Analyses of Data on Child Care grant programs, which have project end dates in 2010 and 2011.

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## Concluding Observations

Reliable, high-quality child care is critical to sustaining parents' ability to work, while safeguarding their children's health and intellectual development. In addition, given the research that links child care subsidies to employment in low-income families, the multiple sources of funding states can use to subsidize child care play an important role in supporting employment for these families. The flexibility states have in the design of their programs affects the number and characteristics of families eligible for child care through CCDF in each state. Moreover, the flexibility in allocating funds from sources not explicitly dedicated to child care, such as TANF funds, allows states to shift resources as needed to reflect state conditions and priorities. Because states often exercise these flexibilities concurrently, it is difficult to attribute the changes in the number of children served—regardless of whether the number increased or decreased—to any single factor or set of factors. It may also be difficult to predict how these factors will affect the number of children served in the future. For example, past trends in states' use of the various sources of

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<sup>46</sup>S. Schaefer, J. Lee Kreader, and A. Collins. "Parent employment and the use of child care subsidies." *Child Care & Early Education Research Connections* (New York, N.Y., 2006).

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funds available for child care may not be good predictors of these funds' future availability for this purpose, particularly given stresses that a prolonged recession might place both on state budgets and certain human services.

Although states' flexibility in use of federal funds helps to shift resources to cover ongoing state needs, it, along with the lack of data on the number children receiving child care directly funded by TANF as we reported in the past, poses challenges in compiling integrated information on the use of child care subsidies. Such information can be helpful to monitor the effects of federal spending on specific program objectives, such as improving the affordability, availability, and quality of child care, and allowing parents to work or participate in education or training programs. Further, this flexibility can create uncertainty regarding the amounts available for child care assistance from year to year, particularly when states shift emphasis on TANF direct funding. As the nation moves toward economic recovery and creates new jobs that provide unemployed parents with opportunities to return to work, child care assistance may play a key role in supporting parents' transition back to the workforce. States will likely continue to face difficult decisions about the use of their resources available for child care subsidies.

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## Agency Comments and Our Evaluation

We provided a draft of this report to HHS for review and comment. HHS's comments are reproduced in appendix IV. In its comments HHS generally agreed with GAO's findings. HHS did not contest the potential role of any factors we identified, but elaborated on particular ones it views as important. For example, HHS commented that it believes the decline in the number of children served by CCDF is primarily attributable to the decline in inflation-adjusted CCDF spending and increasing child care and subsidy costs. While our report provides information on these factors, we believe that due to the number of concurrent changes in policy and funding, and the manner in which data are collected, it is difficult to determine to what extent changes in individual factors or funding sources, such as CCDF spending, account for changes in the number of children served. HHS noted that it still lacks authority to require states to report the numbers of families and children receiving child care services funded directly by TANF. HHS commented that it is not only important to track and measure the numbers of children receiving child care services, but it is also important to increase child care quality and improve information about the quality of child care services being received. HHS noted that, in addition to its role as a work support for parents, quality child care—which it considers a key benefit of the CCDF program—is also important to

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ensuring children are safe, healthy, and successful in school and in life. HHS also provided technical comments, which GAO incorporated as appropriate.

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We are sending copies of this report to the Honorable Kathleen Sebelius, Secretary of HHS, and interested congressional committees. The report also is available at no charge on the GAO Web site at <http://www.gao.gov>. If you or your staff have any questions about this report, please contact me at (202) 512-7215 or [brownke@gao.gov](mailto:brownke@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Staff who made key contributions to this report are listed in appendix V.

*Kay E. Brown*

Kay E. Brown  
Director, Education, Workforce,  
and Income Security Issues

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*List of Requesters*

The Honorable Max Baucus  
Chairman  
Committee on Finance  
United States Senate

The Honorable Sander M. Levin  
Chairman  
Committee on Ways and Means  
House of Representatives

The Honorable Blanche L. Lincoln  
Chairman  
Subcommittee on Social Security, Pensions,  
and Family Policy  
Committee on Finance  
United States Senate

The Honorable Jim McDermott  
Chairman  
Subcommittee on Income Security and  
Family Support  
Committee on Ways and Means  
House of Representatives

The Honorable John F. Kerry  
United States Senate

The Honorable Charles B. Rangel  
House of Representatives

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# Appendix I: Objectives, Scope and Methodology

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Our review focused on (1) trends in federal estimates of the number and proportion of eligible children and families who receive child care subsidies, (2) factors that may affect trends in estimates of the number of children served, and (3) what is known about the extent to which access to child care subsidies supports low-income parents' employment.

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## Coverage Rate Estimates for Child Care Subsidies

To address our first objective, we spoke with U. S. Department of Health and Human Services (HHS) officials from the Child Care Bureau to learn about Child Care and Development Fund (CCDF) administrative data that the agency uses to develop coverage rate estimates. We reviewed guidance provided by HHS to states and related reports regarding these data. In addition, we obtained information on state data collection efforts from our survey of state child care administrators and interviews with state child care and Temporary Assistance for Needy Families (TANF) program administrators in four selected states. We selected these states—Colorado, Florida, Illinois, and New York—to achieve variation in geographic location, administrative organization, and the amount of American Recovery and Reinvestment Act of 2009 (Recovery Act) funds allocated to and drawn down by the state. In our interviews with state officials, we asked questions about their processes for developing complete and unduplicated counts of children receiving subsidies and their challenges in doing so; however, we did not test the extent of actual duplication or incompleteness. We determined that both the child care coverage rate estimates and CCDF administrative data were sufficiently reliable for the purposes of our report. For more detailed information about our assessment of data reliability for these data, please see appendix II.

We also interviewed HHS officials and reviewed relevant documents to identify child care subsidy rate of receipt estimates, or coverage rates, developed by federal agencies. HHS has developed two sets of child care subsidy coverage rates that estimate the proportion of the eligible population that actually receives subsidies. One estimate, developed by the Office of the Assistant Secretary for Planning and Evaluation (ASPE), uses state-defined eligibility criteria to determine the potentially eligible population. HHS's other national coverage rate estimate, developed by the Child Care Bureau, generally defines families potentially eligible to receive child care subsidies as those with income below 150 percent of the federal poverty level, with children under the age of 13, and with parents or guardians working or in school. In fiscal year 2010 HHS redefined those potentially eligible to receive child care subsidies as families with incomes

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equal to or below 85 percent of the state median income, rather than those below 150 percent of the federal poverty level.

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## Survey of State Child Care Administrators and Interviews with HHS Officials and Child Care Subsidy Experts

To identify factors that may affect current trends in these estimates we used data collected from our Web-based survey that provided detailed information about recent state policy changes and their impact on access to child care and child care subsidy amounts. We also interviewed HHS officials and three experts in the area of child care subsidies that we identified based on their research on child care for low-income families. In addition, we analyzed administrative and expenditure data from HHS for key federal programs that fund child care subsidies. Our interviews with agency officials and experts, and review of agency data, related literature, and state child care policies allowed us to reasonably conclude that the identified factors could have had the proposed effects. However, we did not design our review to definitively distinguish between these factors and other explanations or to systematically assess their relative contribution.

Our survey gathered information to identify changes in state policies affecting access to child care subsidies for low-income families since July 2006. The survey was directed to state child care administrators in all 50 states and the District of Columbia. This survey collected information on how states changed their policies for three categories of families—TANF families, families who recently stopped receiving TANF benefits (transitioning families), and other low- or moderate-income families—why those changes were made, and states' plans for Recovery Act funding. The survey was conducted between July and November 2009.

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## Process for Developing and Administering the Survey Instrument

We based our survey questions on the survey instrument used to collect data for our prior report on child care subsidies.<sup>1</sup> We held pretests of our survey with state child care administrators from three states to help ensure that the questions were clear, the terms used were precise, the questions were unbiased, and the questionnaire could be completed in a reasonable amount of time. We modified the questionnaire to incorporate findings from each pretest.

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<sup>1</sup>GAO, *Child Care: Additional Information Is Needed on Working Families Receiving Subsidies*, GAO-05-667 (Washington, D.C.: June 29, 2005).

Our survey questionnaire obtained information on state policy changes with regard to child care subsidies since July 2006. Specifically, we asked states to provide information about changes to policies related to (1) income eligibility; (2) other eligibility criteria, such as activities or conditions that qualify families for assistance; (3) priorities for certain types of families, such as TANF families; (4) use of waiting lists; (5) opening enrollment to new applicants; (6) co-payments; and (7) provider payment amounts. We also included questions on states' plans for Recovery Act funding and data collection efforts.

We conducted the survey using a Web-based, self-administered questionnaire. In the questionnaire, we asked that state child care administrators be the lead survey respondent and provide contact information for state staff who could answer questions requiring more detailed knowledge. We obtained contact information for surveyed state administrators from HHS. We sent e-mail notifications to these officials beginning on July 31, 2009. To encourage them to respond, we sent two follow-up e-mails over a period of about 4 weeks. During this time, we made phone calls to encourage those who did not respond to complete our questionnaire. In all, we received a response rate of 100 percent.

The practical difficulties of conducting any survey may also introduce other types of errors, commonly referred to as nonsampling errors. For example, the type of difficulties that can introduce unwanted variability into the survey results include the way a particular question is interpreted, the sources of information that are available to respondents, or the way the data are entered into the database or were analyzed. We took steps in the development of this questionnaire, in the data collection, and in the data analysis to minimize such errors. Specifically, a survey specialist designed the questionnaire in collaboration with staff with subject matter expertise. Then, as previously mentioned, the draft questionnaire was pretested to ensure that questions were relevant, clearly stated, and easy to comprehend. The questionnaire was also reviewed by an additional survey specialist. Data analysis was conducted by a data analyst working directly with staff with subject matter expertise. When the data were analyzed, a second independent data analyst checked all computer programs for accuracy. Since this was a Web-based survey, respondents entered their answers directly into the electronic questionnaires. This eliminated the need to have the data keyed into databases, thus removing an additional source of error.

Our data analysis included identifying changes to state child care subsidy eligibility and enrollment policies. We based the direction of policy

changes—increasing or decreasing access, both increasing and decreasing access, or no change—on changes states reported in response to each of the three questions related to access. These questions asked about changes to (1) income eligibility levels, (2) other eligibility criteria (such as work requirements), and (3) enrollment. In order to do this, we aggregated responses to each question for each state and for each family type—TANF families, transitioning families, and other low- or moderate-income families. For example, in order to determine the direction of policy changes for our question related to changes in income eligibility levels if a state marked “increased” for at least one family type and “stayed the same,” “don’t know,” or “not applicable” for all other family types, we identified the state’s response to the question as “increased.” We performed similar analyses for responses marked “decreased.” We also performed these types of analyses for the two questions related to other eligibility and enrollment policies. (See figs. 10 and 12.)

In order to identify the states that made consistent changes in the direction of policies related to access to child care subsidies, such as increases or decreases, we combined the aggregated responses to each of the three questions related to eligibility and enrollment policies for each state. Among the states that made consistent changes, we identified the states which made a set of changes that could clearly have the effect of increasing or decreasing access to child care subsidies. For example, we identified states as “increased” as those that identified as “increased” for at least one question and “stayed the same,” or “unchanged,” for the other two questions. We performed a similar analysis for states identified as “decreased.” In addition, we identified states that made set of changes that included “increased” for at least one question and “decreased” for at least one question, as “mixed.” Finally, we identified states that did not answer or responded “don’t know” to at least one question as “unknown.” (See fig. 9.)

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## Review of Literature on Child Care Subsidies

To determine what is known about the impact of child care subsidies on employment, we conducted a literature search for studies that analyzed relationships between child care subsidies or changes in child care costs and employment outcomes. To identify existing studies from peer-reviewed journals, we conducted searches of various databases, such as EconLit, ProQuest, PolicyFile, and Social SciSearch. We also asked all of the external researchers that we interviewed to recommend additional studies. From these sources, we identified 31 studies that appeared in peer-reviewed journals between 1995 and August 2009 and were relevant to our research objective on the effect of child care subsidies on

employment outcomes. We performed these searches and identified articles from June 2009 to October 2009.

To assess the methodological quality of the selected studies, we obtained information about each study being evaluated and about the features of the evaluation methodology. We based our data collection and assessments on generally accepted social science standards. We conducted an extensive literature review, examined summary level information about each piece of literature, and then from this review, identified articles that were germane to our report. We then evaluated the methods used in the research, eliminated some research if we felt the methods were not appropriate or rigorous, and then summarized the research findings. In addition, for articles directly cited in the report, we performed an initial in-depth review of the findings and methods, and then a GAO economist performed a secondary review and confirmed our reported analysis of the finding. As a result, the 31 studies that we selected for our review met our criteria for methodological quality. We supplemented our synthesis by interviewing four of these studies' authors. We also conducted an interview with an official at the Office of Planning, Research and Evaluation within the Administration for Children and Families.

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# Appendix II: Data Reliability Assessment for CCDF Administrative Data and Child Care Subsidy Coverage Rates

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This appendix describes the methodology and results of our assessment of data reliability for administrative data on the number of children served by CCDF and estimates of child care subsidy rates of receipt, or coverage rates, published by federal agencies that we reviewed. In addition, we outline limitations of these data and specific issues related to the methods used to compile them in order to fully describe their quality. Specifically, this appendix contains a discussion of CCDF administrative data, and child care subsidy coverage rate estimates published by HHS, as well as survey data on child care assistance received by low-income families with paid arrangements collected by the U.S. Department of Education (Education). In our review of CCDF administrative data and child care subsidy coverage rate estimates, we did not review any primary data or complete any electronic testing. Instead, we relied on secondary data sources provided by HHS and Education to assess the reliability of these data. Based on our assessment, we determined that these data are sufficiently reliable for the purposes of this report, which describes the range of available federal estimates.

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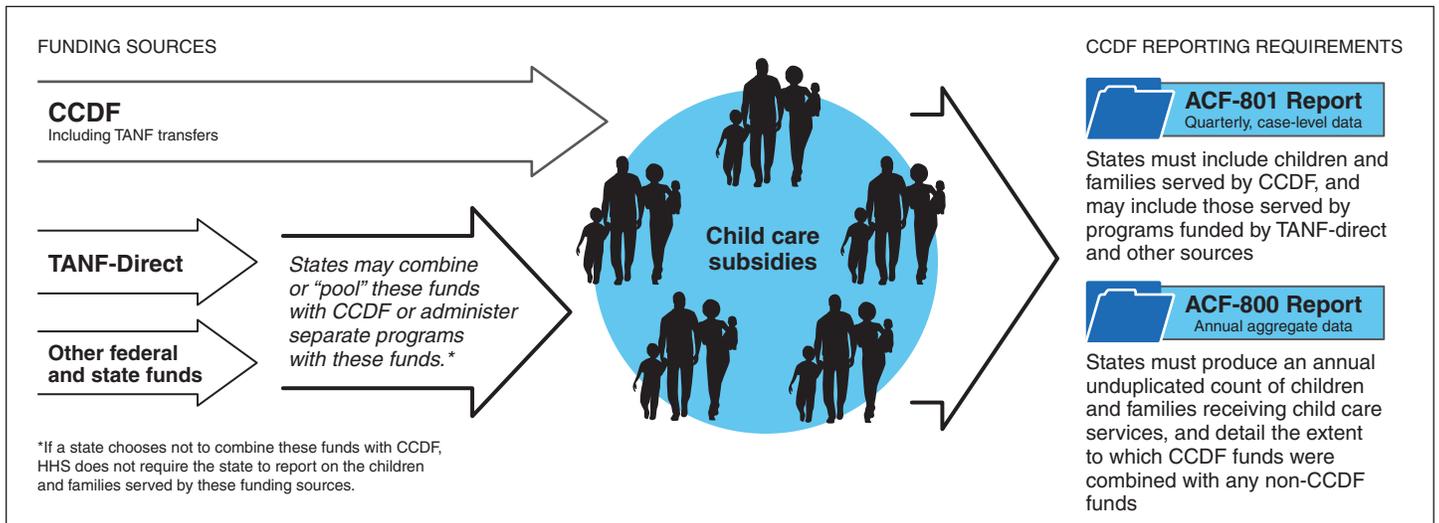
## CCDF Administrative Data

To assess the reliability of the data elements from CCDF administrative data needed to answer the engagement objectives, we interviewed HHS officials knowledgeable about CCDF administrative data and reviewed relevant documentation. The state-provided CCDF administrative data that HHS relies on, in part, to develop coverage rate estimates for child care subsidies can be affected by the funding sources used, how states administer these funds, and the methods states use to report on numbers served. As required by federal statute, states must report to HHS on the numbers of children and families served by CCDF, including TANF funds transferred to CCDF. States must provide these data to HHS on a quarterly basis (although some states choose to provide them monthly), through the ACF-801 report, and annually, through the ACF-800 report (see fig. 14).

States can combine or pool a number of funding sources to support child care subsidies. HHS allows states to report the total number served by all these pooled funds, such as TANF funds spent directly and not transferred to CCDF, because states may not have the ability to identify children served only by CCDF. In these cases, HHS must estimate the number served by CCDF using a state-reported pooling factor, which is the percentage of funds spent on child care subsidies from CCDF. HHS uses the pooling factor to weight the state-reported data in order to determine the number of children and families served solely by CCDF. The department multiplies a state's pooling factor by the total number served in order to develop adjusted counts of those served by CCDF.

**Appendix II: Data Reliability Assessment for  
CCDF Administrative Data and Child Care  
Subsidy Coverage Rates**

**Figure 14: CCDF State Reporting Requirements**



Source: GAO analysis of CCDF regulations and guidance.

State pooling factors can vary from year to year, which may impact changes in the reported number of children and families served by CCDF. For example, one state had a 25 percent decline in its pooling factor from fiscal years 2006 to 2008 and reported a decrease of 21 percent in the average monthly adjusted number of children served by CCDF during the same time period. Given the decline in the pooling factor during this period, it is difficult to know the extent to which this state’s decline in the numbers served occurred as a result of funding changes or other factors, such as a decreasing demand for child care subsidies. HHS does not routinely assess the reliability of state-reported pooling factors. However, it has taken steps in recent years to improve their accuracy by providing states with additional guidance and technical assistance, such as a pooling factor spreadsheet and checklist to help states account for funding across multiple fiscal years. In addition, if the pooling factor changes by more than 5 percent, states must provide a written explanation for the change before HHS releases the final dataset for a particular fiscal year. HHS officials said that changes in the pooling factor can often occur due to a state audit.

States also make different decisions on whether to transfer TANF funds to CCDF, or administer a separate TANF-funded child care assistance program altogether. For example, one state may decide to transfer its TANF funding for child care to CCDF, while another state may decide not

to do so, and instead spends its TANF funds directly on a separate child care assistance program. For these two states, when reviewing their CCDF administrative data on the numbers served, it would appear as if the second state did not serve as many children as the first state, when actually, these two states could be serving similar numbers. States can also vary in the amount of TANF funding transferred to CCDF or spent directly on child care subsidies from year to year, which may impact the administrative data on numbers served by CCDF.

Another factor that can potentially have an effect on the number of children and families reported as being served by CCDF is the method states use to provide these data. When states submit their ACF-801 data, HHS allows them to provide either full population or sample data on the numbers served by CCDF, and states must have their sampling plan approved by the Administration for Children and Families within HHS. In the absence of full population data, the department uses state-reported sample data to generate estimated average monthly counts of the numbers served. However, according to HHS officials, providing full population data helps to improve the overall quality of CCDF administrative data at the national level because it relies less on estimated numbers. HHS officials said that full population data can also benefit HHS and states because it would allow additional types of analyses, such as longitudinal evaluations of trends over time in patterns of subsidy receipt. HHS has been encouraging states that submit sample data to switch to reporting full population data, and department officials told us that in recent years the number of states providing sample data has declined. For fiscal year 2008, nine states provided sample data.

While HHS collects an annual count of the children and families served by CCDF from states' ACF-800 reports, the department does not report these data in its biennial report to Congress, nor does it use the annual counts to develop coverage rates. Instead, the department reports an average monthly adjusted number of the children and families served by CCDF. The monthly data are also used by ASPE and the Child Care Bureau to develop coverage rate estimates. HHS officials told us they have more confidence in the data from the ACF-801 report used to develop average monthly counts, in comparison to the annual counts reported on the ACF-800 reports, and they feel that an average monthly count provides a better picture of the CCDF caseload. For example, HHS officials said families may receive subsidies for their children for only a short period of time or for multiple times within a year. As a result, according to HHS officials, an average monthly count provides more realistic information on those being

served, and they had concerns it would be confusing to report both an annual and monthly count of children and families served.

While required to report an unduplicated annual count to HHS, states can face challenges in doing so, and the department is taking steps to address data quality issues. Our survey found that most states (46) reported being capable of generating a complete, unduplicated count of the total number of families or children receiving child care subsidies supported by CCDF and TANF funds, but several reported that aggregating data from multiple systems or accounting for children served by multiple providers or under protective services, for example, can be challenging. In addition, five jurisdictions reported being unable to generate such a count. These states reported reasons such as a lack of unique identifiers and being unable to account for children served by multiple funding streams and those served in different settings, such as child care centers under contract with state agencies. In addition, one state told us that children served by contracted child care providers, representing 10 percent of the state's caseload, were not currently included in their quarterly ACF-801 reports provided to HHS, which are used by the department to generate average monthly adjusted counts.

In general, HHS was aware of these challenges, and provides technical assistance to states through its contractor via email and phone. HHS also runs a number of technical assistance reports through its information system to review the quality of the data. Other resources provided by HHS to states include written guidance, such as technical bulletins, and information provided at the annual state child care administrators' meeting. In addition, HHS's contractor conducts technical assistance site visits each year to six states. During the 26 state site visits that were conducted between fiscal years 2004 to 2009, according to HHS, the department identified several issues in several states, such as gaps or duplication, which seemed to only have a relatively small effect on the total numbers of families and children served nationally.

In a written summary of recent site visits, HHS acknowledged that almost all grantees experience some issues with their data reporting. However, HHS noted that grantees are extremely responsive to suggestions for improvement, especially when they have the direct authority and resources to make these changes and improvements. HHS reported that data issues that arose during these site visits to state grantees involved the HHS-defined categories: data extraction, sampling, population coverage, definitions, system ownership, and data entry. Overall, HHS reported these issues have had little impact on the data on the number of families and

children served, or on the characteristics or profiles of those served. While HHS acknowledged that some of the issues could affect assessments of the characteristics of families and children served within particular states, officials noted they would have limited effects on national estimates.

In terms of duplication, HHS provided us with information showing that most states had low percentages of families with duplicate social security numbers. For example, most states in fiscal year 2007 had an average of less than 1 percent of their caseload reporting duplicate social security numbers. Only six states had average monthly percentages of duplicate social security numbers greater than 1 percent, and none were greater than 3.4 percent. Overall, HHS also provided us with information indicating that most states had social security numbers on file for the vast majority of families served by the CCDF program. States have the option of using unique identifiers in lieu of social security numbers, and one state does so exclusively and does not collect social security numbers. Other than this one state, in fiscal year 2007, eight states reported having social security numbers for less than 95 percent of their caseload in an average month. According to HHS, these states are instead reporting state case identification numbers. In addition, HHS officials informed us that only slightly more than 50,000 family records, or less than 1 percent, had neither a state identification number nor a social security number.

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## HHS's Child Care Subsidy Coverage Rate Estimates and Education's Survey Data

HHS has published several types of coverage rate estimates for the number of children whose families receive child care subsidies. These estimates come from administrative data in the form of individual records about participating families and children. Education has also published other rate of receipt estimates based on surveys that ask samples of the public whether they participate in particular government programs. Either method can measure participation inaccurately. For instance, data that are analyzed or entered into a database incorrectly may have measurement error. Survey data may have an additional amount of error due to the practical difficulties of conducting any survey. For example, respondents may have difficulties in interpreting a particular question, such as whether they participate in a specific program being asked about. In addition, different respondents may have different sources of information available to answer the question. This variation across respondents can make survey data inaccurate.

To assess the reliability of data used to compile child care subsidy coverage rate estimates, we interviewed HHS officials knowledgeable about CCDF administrative data and reviewed relevant documentation.

States can use funding from three HHS programs to support child care subsidies—CCDF, TANF, and the Social Services Block Grant (SSBG) programs; and HHS develops two types of coverage rates estimates that include subsidies funded by all three of these programs. For those estimates developed by HHS, the department uses administrative data on CCDF, which includes funds transferred from TANF, to determine the average monthly number of children served, and estimates the numbers served directly by TANF and by SSBG based on expenditure data collected for these two programs. More specifically, HHS estimates the average monthly number of children served through these two funding sources by dividing the total amount spent on child care services under the two programs, by the average subsidy cost per child. For example, for its fiscal year 2005 estimate, HHS assumed that child care funded directly by TANF, TANF maintenance of effort, and SSBG had the same subsidy costs per child as CCDF-funded care—about \$310 per month. In addition, the department assumed that the additional children served by these programs have the same age and poverty distribution as the CCDF children.<sup>1</sup>

To assess the reliability of statistics published by Education’s National Household Education Surveys Program (NHES) for evaluating access to child care subsidies, we reviewed relevant documentation related to the department’s survey methodology. The NHES is a set of telephone surveys sponsored by the Education’s National Center for Education Statistics. For information about the percentage of students from kindergarten through eighth grade in weekly after-school arrangements that have a fee and whose families are receiving assistance, we used data from the After-School Programs and Activities Survey (ASPA), a nationally representative survey of the 2005 NHES. NHES surveys focused on after-school arrangements of students in 2001 and 2005. This report presents data from the ASPA survey of the 2005 NHES. Data collection was conducted by Westat and took place from January 3 through April 24, 2005. The respondent to the ASPA interview was the parent or guardian in the household who knew the most about the student’s care and education. While parents or guardians responded to the survey, the unit of analysis is students. Interviews were completed with parents or guardians of 11,684

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<sup>1</sup>In contrast to previous years, the CCDF subsidy cost for fiscal year 2005 and later years are based on data from states’ quarterly reports submitted to HHS regarding payments made for participating children. For prior years, expenditure data from state financial reports were used to estimate an average cost per child. HHS reports that using case-level administrative data to calculate an average subsidy per child provides a more accurate estimate of the number of children being served by TANF and SSBG subsidy costs.

students representing a weighted total of 36,185,760 students. This survey has a weighted unit response rate of 84.1 percent and an overall estimated unit response rate (the product of the screener unit response rate and the ASPA unit response rate) of 56.3 percent. The ASPA sample is nationally representative of all noninstitutionalized students in the 50 states and the District of Columbia who are enrolled in kindergarten through eighth grade with a maximum age of 15.

For information about the percentage of children from birth through age 5 and not yet in kindergarten whose families are receiving assistance for child care costs, we used data from the Early Childhood Program Participation Survey (ECP) of the 2005 NHES. For the ECP, early childhood program participation was defined as nonparental child care arrangements in relative care, nonrelative care, and center-based programs, including Head Start or Early Head Start. Data collection was conducted by Westat and took place from January 3 through April 24, 2005. These estimates are based on 7,198 interviews representing 20,665,000 children. The respondent to the ECP interview was the parent or guardian in the household who knew the most about the student's care and education. While parents or guardians responded to the survey, the unit of analysis is students. In the 2005 survey, screener interviews were completed with 58,140 households, with a weighted screener unit response rate of nearly 67 percent. A screener was used to collect information on household composition and interview eligibility. ECP interviews were completed for 7,209 children, for a weighted unit response rate of 84.4 percent and an overall estimated unit response rate (the product of the screener unit response rate and the ECP unit response rate) of 56.4 percent. The ECP sample is nationally representative of all noninstitutionalized children in the 50 states and the District of Columbia from birth through age 6 and not yet attending kindergarten or primary school.

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# Appendix III: Studies Examining the Effect of Child Care Subsidies on Employment Outcomes

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# Appendix IV: Comments from the U.S. Department of Health and Human Services



DEPARTMENT OF HEALTH & HUMAN SERVICES

OFFICE OF THE SECRETARY

Assistant Secretary for Legislation  
Washington, DC 20201

APR 20 2010

Kay Brown, Director  
Education, Workforce,  
and Income Security Issues  
U.S. Government Accountability Office  
441 G Street N.W.  
Washington, DC 20548

Dear Ms. Brown:

Enclosed are comments on the U.S. Government Accountability Office's (GAO) report entitled: "Child Care: Multiple Factors Could Have Contributed to the Recent Decline in the Number of Children Whose Families Receive Subsidies" (GAO-10-344).

The Department appreciates the opportunity to review this report before its publication.

Sincerely,

A handwritten signature in cursive script, appearing to read "Andrea Palm", with the word "for" written below it.

Andrea Palm  
Acting Assistant Secretary for Legislation

Enclosure

**GENERAL COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS) ON THE GOVERNMENT ACCOUNTABILITY OFFICE'S (GAO) DRAFT REPORT ENTITLED, "CHILD CARE: MULTIPLE FACTORS COULD HAVE CONTRIBUTED TO THE RECENT DECLINE IN THE NUMBER OF CHILDREN WHOSE FAMILIES RECEIVE SUBSIDIES" (GAO-10-344)**

The Department appreciates the opportunity to comment on this draft Government Accountability Office (GAO) report. The report discusses multiple contributing factors to the decline in the number of children whose families receive child care subsidies.

This report provides a valuable picture of the importance of access to child care and demonstrates that child care assistance is critical to the employment of low-income working families. ACF is concerned about the decline in the child care subsidy caseload and the number of potentially underserved families. While GAO discusses a number of factors contributing to the recent Child Care and Development Fund (CCDF) caseload decline, ACF believes this decline is primarily attributable to a decline in inflation-adjusted CCDF spending, at the same time that families' child care costs and the costs of subsidies were continuing to increase. States have broad discretion in administering the CCDF program, but only have enough funding to serve a limited share of eligible children. When inflation-adjusted spending declines States must respond by reducing the number of children served, reducing the value of the subsidy, and/or reducing critical quality expenditures. Between 2006 and 2008, the number of children receiving CCDF-funded child care subsidies fell by 10 percent. Over that same period, Federal expenditures and State-required CCDF expenditures fell by four percent in inflation-adjusted terms.

Over this same period, the GAO notes that the majority of States increased their provider payment rates. However, even with those adjustments, State subsidy rates were typically far below the cost of a large share of care in local markets. Only seven States reported in their FY 2010-2011 State Plans that they have provider payment rates at the 75<sup>th</sup> percentile of their most current market rate survey, the recognized standard for ensuring that rates are sufficient to provide "equal access" to the care available to families not receiving subsidies. Average CCDF subsidy payments per child in 2008 were \$4,131—seven percent higher than just two years earlier in 2006. At the same time, the National Association of Child Care Resource and Referral Agencies (NACCRRA) reported that in 2008 a family with one infant faced average prices of \$4,560 to \$15,895 a year for center-based child care. Parents of a four-year-old faced average prices of \$4,055 to \$11,680 a year. Thus, it seems clear that a principal explanation for the declining number of children receiving care is the combination of a decline in inflation-adjusted expenditures along with an increase in the cost of care.

We recognize the important role that child care plays in the lives of children and families and the health of the overall economy. In 37 States and the District of Columbia, care for an infant in a child care center exceeded 10 percent of the median income for a two-

**GENERAL COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS) ON THE GOVERNMENT ACCOUNTABILITY OFFICE'S (GAO) DRAFT REPORT ENTITLED, "CHILD CARE: MULTIPLE FACTORS COULD HAVE CONTRIBUTED TO THE RECENT DECLINE IN THE NUMBER OF CHILDREN WHOSE FAMILIES RECEIVE SUBSIDIES" (GAO-10-344)**

parent family.<sup>1</sup> A recent report from the Carsey Institute found that working families with young children living in poverty pay 32 percent of their monthly family income on child care, nearly five times more than families at 200 percent of poverty or higher.<sup>2</sup> Significantly, Congress provided \$2 billion in supplemental funding for CCDF in the American Recovery and Reinvestment Act (ARRA).

The CCDF ARRA funding has allowed States to assist more families with child care than would otherwise have been possible because of State budgetary conditions and to make other important improvements. ACF has built a strong partnership with States to support their efforts to use ARRA funds to expand services and improve the quality of child care. At least 20 States avoided or will avoid cuts in services to families or reduce waiting lists; at least 14 States and Territories have increased or plan to increase payment rates for child care providers; and at least 13 States and Territories have increased or plan to increase periods of eligibility for parents engaged in searching for employment. Florida reported serving 24,144 children through its school readiness program, Indiana added 3,000 children to its child care voucher program, and South Dakota extended eligibility during periods of job search to two months. States are also using ARRA funds for quality investments, including plans for Quality Rating and Improvement Systems (QRIS), funding for professional development, and improving the quality of child care for infants and toddlers. In New Mexico, the State invested ARRA funds to provide training and scholarships to over 400 early childhood providers. In Idaho, the State is expanding its QRIS and developing a professional development database. The President's Fiscal Year (FY) 2011 budget request builds on the ARRA commitment with a \$1.6 billion increase for the CCDF program, which would extend child care assistance in FY 2011 to approximately 235,000 more children than could be served in the absence of these funds.

The GAO report discusses ACF's estimates of the number and proportion of eligible children who receive child care. ACF recently implemented a change to the way we calculate the coverage rate for child care for the purposes of program performance measures included in the President's budget request. Prior to the FY 2011 budget request, the CCDF coverage rate compared the number of children served through CCDF, TANF and the Social Services Block Grant (SSBG) programs to the number of children in eligible families below 150 percent of the Federal Poverty Level (FPL). ACF believes that the more relevant comparison for determining the proportion of eligible families being served is the Federal income eligibility limit of 85 percent of State Median Income (SMI). Use of 150 percent FPL as the comparison does not correspond with any statutory or regulatory standard. Federal rules allow States to set eligibility as high as 85 percent

<sup>1</sup> "Parents and the High Price of Child Care: 2009 Update," National Association of Child Care Resource and Referral Agencies (NACCRRRA).

<sup>2</sup> "Low Income and Impoverished Families Pay More Disproportionately for Child Care," Carsey Institute. Policy Brief No 16; Winter 2010.

**GENERAL COMMENTS OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS) ON THE GOVERNMENT ACCOUNTABILITY OFFICE'S (GAO) DRAFT REPORT ENTITLED, "CHILD CARE: MULTIPLE FACTORS COULD HAVE CONTRIBUTED TO THE RECENT DECLINE IN THE NUMBER OF CHILDREN WHOSE FAMILIES RECEIVE SUBSIDIES" (GAO-10-344)**

of SMI, which corresponds to approximately 200 to 250 percent of the FPL in many States. This modified coverage rate for the CCDF program provides a more accurate picture of the proportion of Federally eligible children being served. GAO discusses that the Department's performance target for the proportion of eligible children served as 17 percent for FY 2010 and 18 percent for FY 2011. Note that HHS targets are not meant to indicate that this level of performance is optimal, but reflects a realistic coverage rate given available resources. The Administration has proposed additional funding for child care to serve additional children.

GAO notes in this report that the Department does not have the authority to collect caseload information on families receiving child care assistance directly funded by TANF. Federal funding for child care provided through TANF, both through transfers and directly, is substantial. TANF transfers become part of the CCDF block grant, thus HHS has caseload data on those families. In contrast, we do not have data on families provided child care assistance funded directly through the TANF program. However, as noted, under current law, ACF lacks authority to require States to report the numbers of families and children receiving child care services directly-funded with TANF dollars.

Finally, ACF believes that the GAO report does not adequately focus on a key benefit of the CCDF program, which is the role high-quality child care plays in ensuring children are going to be safe, healthy, and successful at school and life. Over 11 million children under the age of five are in child care each week. Child care should be a place that engages children's minds, sparks their curiosity and begins to develop their cognitive and social skills. This Administration has put a very strong focus on improving the quality of our early childhood and child care programs. It is not sufficient to view child care as merely a work support for parents—investing in high-quality child care is a key opportunity to give our most vulnerable children the support they need to reach their full potential and lay the foundation for future prosperity. While it is important to track and measure the number of children receiving child care services, it is also important to increase the quality of those services and to improve our information about the quality of the services being received.

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# Appendix V: GAO Contact and Staff Acknowledgments

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## GAO Contact

Kay E. Brown, (202) 512-7215 or [brownke@gao.gov](mailto:brownke@gao.gov)

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## Acknowledgments

Betty Ward-Zukerman, Assistant Director, and Julianne Hartman Cutts, Analyst-in-Charge, managed this assignment. Heddi Nieuwsma and Meghan Squires made significant contributions to all aspects of this report. Kate Van Gelder and James Bennett provided writing and graphics assistance. In addition, Harold J. Brumm, Jr. made key contributions; and Walter K. Vance, Jeff M. Tessin, and Monique B. Williams provided design and methodological assistance. Ashley L. McCall assisted with our literature search, and James Rebbe provided legal assistance.

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# Related GAO Products

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*Temporary Assistance for Needy Families: Implications of Changes in Participation Rates.* [GAO-10-495T](#). Washington, D.C.: March 11, 2010.

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*Poverty in America: Consequences for Individuals and the Economy.* [GAO-07-343T](#). Washington, D.C.: January 24, 2007.

*Welfare Reform: Better Information Needed to Understand Trends in States' Uses of the TANF Block Grant.* [GAO-06-414](#). Washington, D.C.: March 3, 2006.

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