Strategies to Improve Payment Practices

An Implementation Guide to ARP Act CCDF Discretionary Supplemental Funds

Introduction

The American Rescue Plan Act of 2021 (ARP Act) includes $14.99 billion in supplemental Child Care and Development Fund (CCDF) discretionary funds to help states, territories, and Tribes recover from the COVID-19 pandemic and rebuild a better child care system. Guidance from the Office of Child Care (OCC) strongly recommends CCDF Lead Agencies use funds to increase payment rates and improve payment practices and policies, among other strategies, to expand access to high-quality child care and stabilize the small businesses that comprise the child care sector. By implementing payment practices that ensure reliable and appropriate compensation for providers, Lead Agencies take important steps toward supporting equal access to high-quality child care for the most vulnerable families they serve.

How to Use This Implementation Guide

Lead Agencies are required to implement a payment strategy to delink payments from a child's occasional absence and are strongly encouraged to consider additional opportunities to improve payment practices. A child care provider not paid for days or hours when a child is absent loses income that makes it difficult for them to meet their fixed costs of providing care and to plan for investments in quality. Implementing policies that allow providers to receive payment for absences beyond the minimum outlined in the CCDF rule can make the largest impact to providers in supporting the reliability of their subsidy revenue stream.

This guide highlights three strategies: (1) payment by enrollment, (2) flexibility in child absence policies, and (3) paying prospectively. These and other policy options can serve as incentives for providers to enroll more children eligible for subsidies, thereby expanding access. Recommendations for program integrity measures to support successful implementation will also be reviewed.

Payment by Enrollment

Lead Agencies often use the term "payment by enrollment" interchangeably with the requirement to delink provider payments from a child's occasional absence. In fact, the rule requires Lead Agencies to support the fixed costs of child care services by *delinking provider payments from a child's occasional absence* but does not require Lead Agencies to pay for all days when children are absent. Instead, the rule allows for flexibility in how the requirement is implemented. Payment by enrollment is one of several options that Lead Agencies may choose to delink payments for a child's occasional absence. Payment by enrollment:

- Should not take child absences into account
- Reflects the practice of many parents who pay for care privately
- Supports reliable revenue for providers
- Recognizes that a provider's cost of care does not change due to children's absences.

Attendance-based payments can serve as a disincentive for providers to participate in the program, thereby reducing access. Paying based on enrollment vs. an attendance-based payment can yield benefits for increasing family access to quality child care. In addition, enrollment-based payments support improving quality and help stabilize the market. Examples include:

- Higher monthly payments may allow providers to improve quality.
- Increased revenue may result in provider actions that support staff retention, improve staff benefits, and expand opportunities for staff professional development.
- Increased time devoted to caretaking and program improvement can result by reducing provider's administrative burden with tracking attendance to invoices for subsidy payment.
- Increased goodwill may result by increasing providers' reliability of revenue, which could translate into an expanded pool of providers willing to serve children eligible for subsidies.
- Supporting generally accepted practices that align with the private pay market further removes a disparity between publicly supported and privately paid child care.

There is the potential for administrative relief to the Lead Agency under the approach of paying based on enrollment. Examples include:

- More staff time to manage the subsidy program *if* duties can be redirected from tracking attendance, scanning children's attendance sheets, or manually storing paper attendance forms.
- Error rates may decrease and payment accuracy may increase by eliminating minor miscalculations of parent activity and travel time, etc.
- Lead Agency and partner agency administrative burden may be reduced by decreasing the effort spent on:
    - Audit investigations
    - Processing appeals from parents and providers
    - Costs to hold hearings on appeals
    - Processing repayment agreements
    - Information technology supports needed to manage attendance-based practices

While payments based on enrollment should not take absences into account *in issuing payment*, Lead Agencies have legitimate reasons for requesting that providers continue to track child absences. These may include:

- Welfare of children: Follow up with parents when there are excessive or extended unexplained absences
- Accountability: Supports program integrity efforts and audits, and having data may reduce concerns regarding provider fraud
- Licensing: Provides information to confirm that providers are adhering to ratio and group sizes
- Collaboration with other programs: Supports attendance data needed for programs such as the Child and Adult Care Food Program

Examples of Enrollment-based Payment Strategies

- One Lead Agency revised its policy to pay providers based on enrollment rather than attendance. Under the new policy, absences do not impact payment for a given child unless there is a pattern of extensive absences. After 20 *consecutive* days absent, the Lead Agency reaches out to the family to verify that the child will not return to care before stopping payments to the provider.
- Another Lead Agency implemented an underutilization tracking process where a child needs to be "scanned in" to care once per month for the provider to receive payment. Monthly management reports reflect whether any children did not scan in at least once in the prior month. In the case that a child was not scanned into care at all during the prior month, the Lead Agency conducts extensive outreach to both the provider and the family to find out why the child did not attend. If the child does not resume attending at least once per month or the family is nonresponsive, the provider will be paid for the prior month, along with the current month, before ending the family's authorization.
- Another Lead Agency administers subsidy through local boards and requires that the boards or its child care contractor reimburse a regulated provider based on a child's monthly enrollment authorization. Providers are reimbursed for the full authorization regardless of the child's attendance.

Flexible Child Absence Policies

Another option for delinking provider payments from a child's occasional absence is to offer more generous attendance policies, recognizing that children and families need flexibility in their attendance due to illness, emergencies, and a host of other reasons. Many issues impact a child's attendance at child care, including such circumstances as extended illness, family emergencies, parent illness, and family vacations.

Another related policy change that could make a difference is separating *provider* closure limits from child absence allowances. Provider closure days could be used for holidays, vacations, or to compensate for inclement weather closures. Lead Agencies should ensure that an allowance for providers does not unduly impact families and, if allowing payment to providers for closures of their own choosing, providers should be encouraged—if not required—to give ample notice to families.

Examples of Flexible Child Absence Policies

- One Lead Agency makes full payment to a provider based on the weekly amount approved. Providers can submit invoices for payment every two weeks. The full payment is based on the actual attendance or as indicated by absence codes. The state gives parents 10 days of vacation days per fiscal year and allows unlimited sick days for the child, which helps encourage providers to submit accurate attendance records. In addition, providers receive 15 days for closure and are allowed one week of payment if parent does not give notice of the child's absence.
- Another Lead Agency has established that a child will be disenrolled if he or she is not in attendance for 14 consecutive days. The 14 consecutive days of allowable absences is designed to help families to maintain their child care slots over winter and summer when children may be home

for a variety of legitimate reasons. Providers in this state do not have to submit regular attendance reports unless there is a need identified by the Lead Agency to verify attendance.

- A third Lead Agency has longstanding family- and provider-friendly attendance policies that:
  - Requires a child who is enrolled on a full-time basis to attend 25 hours per week for the provider to receive a full subsidy payment. The child can be absent for some days within the week and the provider is still paid for full time care.
  - Allows children who are enrolled on a full-time basis up to 20 personal days per enrollment year for weeks when attendance is less than 25 hours.
  - Gives *providers* six days per calendar year to use for attendance credit for enrolled children when the provider is closed for holidays or other planned days of closure *and* five days per calendar year for closure due to inclement weather.

Paying Prospectively

Paying prospectively is another provider-friendly strategy that Lead Agencies can implement to promote stable revenue for providers. Although the CCDF rule allows the option for paying an approved invoice within 21 days, OCC strongly encourages Lead Agencies to pay prospectively. Not only does this mirror the business practice in the private market, it promotes stability of revenue and cash flow for providers – a sound business practice in any industry.

A common misperception is that Lead Agencies must implement enrollment-based payment to pay prospectively. In fact, after assessing the availability of sufficient funds, Lead Agencies can initiate these policies by advancing an “upfront” payment and then continuing with attendance-based, invoice-generated payments. The upfront could be based on Lead Agency data showing the average cost for child care for a similar-aged child served in a similar provider type.

Examples of Paying Prospectively

- One Lead Agency issues direct deposits or checks prospectively to providers. The payment is made to the provider on the first day of each month for ongoing child care assistance cases. For initial child care assistance cases, payments can be authorized daily with payments issued each morning.
- A Lead Agency pays centers at the beginning of the month based on the authorization certificate. If an adjustment to the payment becomes necessary, the amount is added or reduced in the following month.

Hurdles to Implementing Payment Strategies

In exploring these practices and policies, Lead Agencies may encounter hurdles in building support for implementation. Some concerns may include:

- Ensuring a child and family intend to use a child care slot

- Justifying an empty slot for a period when there is a waiting list
- Addressing the perspective of some policymakers who don't want the lead agency paying for unused services or paying before a service is delivered
- Articulating that the approach has benefits for the child care workforce that may outweigh a possible increase in child care expenditures
- Anticipating possible information technology changes to reporting, tracking, and payment systems
- Deciding whether to collect attendance information for reasons other than issuing payment, if paying by enrollment, including determining timeframes for submitting to Lead Agency, retention period by providers, etc.

Program Integrity Considerations for Implementing Provider-Friendly Payment Strategies

- Incorporate performance measurements and processes to assure accountability
  - Before implementing a payment practice, the Lead Agency should conduct a policy and process analysis. The analysis should include reviewing and evaluating all potential options to make informed decisions on the best approach.
  - Incorporate a performance measurement system to evaluate the effectiveness of implemented payment policies and processes. Performance measurement will provide data on how the agency is meeting the payment goal and how well activities meet their objective.
  - Implement an administrative monitoring process that allows the agency to mitigate discrepancies, make improvements (e.g., lower administrative errors and improper payments), and enforce accountability proactively.
- Implement effective and efficient internal controls to support payment integrity
  - Regardless of a Lead Agency choosing to pay based on enrollment or attendance, federal regulations require agencies to have processes in place to identify fraud and other program violations which <u>may</u> include but are not limited to reviewing billing and attendance records.
    - Retrospective reviews of attendance records can confirm the need for child care still exists.
    - Prospective payment reviews can decrease agency improper payments.
  - Update payment policy, process documents, and communicate the change to staff, providers, families, and community partners. Internal and external communication plans, at a minimum, should include reporting lines, an oversight body and appropriate communication methods.
  - Update technology and systems to create internal controls incorporating rules and system edits that align with payment practice policies and processes.

Establishing Payment Practices with an Equity Lens

Lead Agencies are encouraged to incorporate strategies to ensure subsidy payment practices and policies begin to address structural inequities and ensure equitable access for *all* children to *all* appropriate providers of the parents' choosing. Payment practices and policies that support stability of revenue and thus increase the viability of providers help to ensure equity for all families and providers.

In developing policies that promote equal access for children, Lead Agencies are first and foremost encouraged to consult with a broad range of partners and providers. Policies should address equity and access from multiple perspectives (e.g., race, ethnicity, life conditions, socioeconomic status, geographical locations and settings, language, age, gender, gender identity, sexual orientation, differing abilities, religion, language-based disparities, family characteristics, and other ways that families *and providers* may be unique).

Resources

The **CCDF Budget Calculator** helps estimate the impact of policy changes on a Lead Agency's CCDF budget: CCDF Budget Calculator Instructions | Child Care Technical Assistance Network (hhs.gov)

The Implementation Guide: **Strategies to Support Use of Contracts for Child Care Slots** provides information on a payment approach to expand access to an array of child care providers.

Visit the Strategic Planning for American Rescue Plan Act CCDF Discretionary Supplemental Funds webpage for additional resources.