

Secretary of State Audit Report

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Child Care in Oregon: Difficult to Afford; New Regulations May Improve Safety but Further Raise Costs

Summary

New federal rules to take effect next year will substantially increase Oregon's oversight of child care providers and could improve safety for children. However, the new rules risk reducing the number of regulated providers and raising costs in a state where child care is difficult to afford.

Oregon child care is relatively unaffordable

Oregon's median income is relatively low and child care costs are relatively high, posing major challenges for parents and regulators. The state also has a relatively high overall cost of living, making child care more difficult to afford.

Oregon's child care costs have increased in recent years while household income has decreased, particularly among single mothers. In 2012, the average annual cost of infant care in Oregon ranked 5th highest in the nation. In 2012, state median income in Oregon ranked in the bottom third for married couples and single mothers.

Although child care is expensive, the industry pays low wages. In 2013, the hourly average wage for child care workers in Oregon was \$11.18. This rate exceeds the national average, but it falls below federal poverty guidelines for a family of four.

Oregon's Child Care Challenge

	Figure	National Ranking
Annual average cost of infant care in certified center	\$ 13,452	5 th
Annual average cost of care as a percent of median income:		
Married couples	19%	1 st
Single mothers	62%	2 nd
Annual cost of living	n/a	9 th
Hourly average wage of child care workers	\$11.18	11 th

Sources: National Association of Child Care Resources and Referral Agencies (2013), Missouri Economic Research and Information Center (2014) and U.S. Bureau of Labor and Statistics (2013).

The need for child care is substantial. About 4,360 child care facilities offer 151,000 child care slots across the state—an estimated 165,000 children in Oregon need care.

In Oregon and elsewhere, families in urban areas tend to pay more than families in rural areas. State child care standards, including background check, inspections, education and training requirements, and maximum ratios of children to staff, can also increase child care costs.

Child care policies vary

No single solution can address child care affordability, but policy makers do have options to consider. Several states use child care subsidies and tax credits to help parents pay for child care. Oregon offers tax credits for child care but they are scheduled to expire at the end of 2015. Some states provide universal preschool, which may reduce child care costs for parents. Other countries offer extensive paid leave policies for new parents. In the U.S., only California, Rhode Island, and New Jersey offer paid leave.

Investing in child care is costly, but affordable child care also creates long-term benefits. When parents can afford child care, they can participate in the workforce or enroll in postsecondary education, which can strengthen Oregon's economy. Affordable child care can also offer parents child care settings that improve school readiness.

New rules will raise oversight standards

Oregon's child care system features multiple agencies and a variety of providers, which makes for complex, uneven regulation.

Our audit found that new rules to strengthen safety standards in federally-funded care will fill many gaps in Oregon's oversight system. For many providers, the rules will require more comprehensive background checks, increase on-site monitoring, and require more information to be posted online for parents to reference.

Under the new rules, listed, unlicensed providers—those who accept payment for children receiving subsidy and are not required to be licensed in Oregon—will receive inspections. Currently, Oregon only inspects licensed child care facilities.

Oregon now only requires fingerprints in limited circumstances, primarily when individuals self-disclose recent out-of-state-residency or out-of-state crime. The new rules will require more providers and others with access to children in care to pass background checks that include fingerprints. Fingerprinting sites throughout Oregon are limited.

Consequences of new requirements are difficult to predict

The costs of implementing the new requirements are largely unknown and state agencies have yet to determine how they will manage them. New regulations may prompt providers to raise their rates or stop providing care altogether, which would limit affordability and access.

While state agencies are planning to implement changes, they are not fully prepared to comply. Some change is needed to allow providers serving children receiving subsidy, also known as listed providers, to be inspected, but state agencies have not initiated the process. The availability of fingerprinting services for new background check requirements may not meet the increased demand among child care providers. The higher workload resulting from additional inspection requirements—up to a 71% increase—may exceed capacity of field offices across Oregon.

Like other states, Oregon also lacks data on the state’s child care supply, which makes the impact of the new federal regulations hard to predict. For example, the state does not track providers that leave the oversight system or families that leave subsidized care.

At a time when child care is recognized as both an opportunity for early learning and as a means for parents to enter the workforce, Oregon must balance goals of safety, quality, and affordability to ensure that all children, and their parents, can succeed.

Recommendations

The Oregon Department of Education and the state’s Department of Human Services oversee child care regulation. The agencies can take steps to comply with new federal regulations and potentially reduce their impact on providers, parents, and their children. We recommend the agencies:

- Identify and initiate administrative or statutory changes needed to allow inspections of unlicensed providers
- Determine costs associated with the new regulations
- Track providers and monitor whether the state is meeting demand for fingerprinting services and inspections

Agency Response

The agency response is attached at the end of the report.

Child care affordability, settings, and capacity

Oregon child care is relatively unaffordable

Child care is expensive, and for many parents affordability is an issue. The U.S. Department of Human Services' measures affordability as the percentage of households with children under 13 who spend less than 10% of their income on child care.

One study from the National Association of Child Care Resources and Referral Agencies (NACCRRA) ranked Oregon as the least affordable state for infant and four-year-old care in a child care center setting for a married couple in 2012. The study found married couples with children in a center used 14% of their income to pay for their four-year-olds and 19% of their income to pay for their infant's care. Although Oregon was not ranked as least affordable for single mother families, they used 47% of their income to pay for their four-year-olds and 62% of their income to pay for their infants care in a center.

Oregon's average yearly cost to parents for center care for an infant in 2012 was about \$13,000; \$10,000 for a four-year-old; and \$5,000 for a school-age child.

Many factors drive child care cost. Some of these factors include payroll, regulation, and other costs such as facility rent, mortgage payments and utilities. Cost of living differences within regions also impact child care costs. Within Oregon, care in urban areas is significantly more expensive than care in rural areas.

Oregon's Working Family Child Care tax credit (scheduled to sunset at the beginning of 2016) and the subsidy program for low income families help offset some child care costs. In 2012, Oregon taxpayers with annual incomes between \$8,200 and \$57,650 could claim up to \$2,400 with the tax credit to offset \$6,000 in qualifying child care expenses. Depending on the child's age, the type of provider, and the hours and location of care, parents eligible for subsidy can receive anywhere from \$340 to \$1,130 per month to assist with full time child care expenses. The subsidy rates are subject to collective bargaining by labor unions representing child care providers.

Child care settings are diverse

In Oregon, an estimated 570,000 children under the age of 12 live in the state. About 165,000 are under the age of six and potentially need child care. They receive care in a variety of licensed and unlicensed settings.

Figure 1: Different Types of Child Care and Regulations in Oregon

		Facility Type	Number of Children in Care	State Regulations
Licensed	Certified Child Care Center	Usually a commercial building	Generally more than 13	Background checks Inspections Complaints online
	Certified Family Child Care Home	Single-family dwelling	Up to 16, including provider's own children	Background checks Inspections Complaints online
	Registered Family Child Care Home	Provider's home	Up to 10, including provider's own children	Background checks Inspections Complaints online
Unlicensed	Family, Friend, and Neighbor*	Child(ren)'s home or provider's home	Three or fewer	Background checks Complaints online**
	Recorded Programs	Other types like preschool	No specific limits	Background checks

* Family, Friend and Neighbor care only requires regulation if the provider accepts subsidy payments.

**Complaint information is only provided online for Family, Friend, and Neighbor providers who were found to be providing illegal child care.

Note: Background checks do not use fingerprints to check state and FBI records. Inspections can be announced or unannounced. Complaints are limited to those that were found valid, and violations that were observed as part of an on-site complaint assessment.

State oversight for licensed providers increases as the number of children in care increases. Home settings available to care for 16 or fewer children include registered and certified homes. Child care centers are generally bigger settings that usually have slots for more than 13 children, with maximum number of children allowed based on the center's square footage.

All licensed facilities are subject to inspection and background checks are required of providers, visitors, other household members in the homes, and other adults that have access to children in care.

Unlicensed child care such as Family, Friend, and Neighbor and Recorded Programs are also available to parents, including parents who participate in the child care subsidy program, which helps low income families pay for child care. Unlicensed providers participating in the subsidy program (also known as listed providers) are required to follow federal and Oregon's Department of Human Services (DHS) rules, including passing background checks. Oregon is among nine states and territories where, on a monthly basis, a third or more of children whose care is paid for with subsidy are in unlicensed settings. Approximately half of children in Oregon are served by Child Care Development Fund in settings legally operating without regulation. Nationally, the monthly average is only about 17%.

In Oregon, Service Employees International Union and the American Federation of State, County and Municipal Employees represent child care providers serving children receiving subsidy. Labor unions play a significant role in policies and budget matters involving the subsidy program.

Child care capacity varies by type

About 4,360 child care facilities with about 151,000 known child care slots are available in the state. The total number of slots occupied is unknown, as the Office of Child Care within ODE doesn't track the number of children in each type of care. To see the known capacity of child care in Oregon by type, refer to Figure 2.

Figure 2: Total Child Care Capacity Is Unknown

	Capacity
Certified Child Care Center	63,750
Certified Family Child Care Home	9,390
Registered Family Child Care Home	25,660
Friends, Family, and Neighbor	?
Recorded Program	52,390
Total capacity	Unknown

Source: Data obtained from the Oregon Department of Education (2014).

The total number of friends, family, and neighbors providing care in Oregon is also unknown, as only those serving children receiving subsidy are included in the state's oversight system. As of October 2013, there were 2,815 unlicensed providers and 1,633 licensed providers caring for over 12,500 children that receive subsidy.

Several agencies oversee child care in Oregon

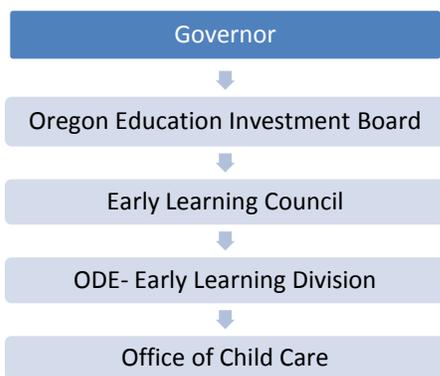
Office of Child Care, within ODE, regulates child care safety

The Oregon Department of Education (ODE), Early Learning Division is the lead agency that administers the Child Care and Development Fund (CCDF). The block grant funds the subsidy program available to low income working families and provides some funding for ODE's licensing and quality activities. ODE is also responsible for setting child care licensing and health and safety standards.

In July 2013, Governor Kitzhaber signed legislation that moved the Child Care Division from the Employment Department to the Department of Education. The Child Care Division was renamed the Office of Child Care (OCC) and became part of the Early Learning Division. The Office of Child Care retained its responsibility for ensuring child care safety. The Early Learning Division now reports to the Early Learning Council and the Oregon Education Investment Board.

The creation of the Early Learning Division emphasizes early learning and school readiness for children. Instead of creating a new agency for early

Figure 3: The Office of Child Care Reports to the Early Learning Council and the Oregon Education Investment Board



Source: Oregon Department of Education

learning, the governor decided to add to an existing department that is already set up with a learning mission, with the focus on children being prepared for kindergarten.

DHS administers the child care subsidy program

The Employment Related Day Care Program (subsidy program), helps eligible low income working families pay for child care. About 20,000 families and 35,000 children are served every year by the subsidy program. A parent applies for child care assistance at a local DHS office and DHS staff determines if the parent is qualified based on the number of hours of care needed, the family's income, family size, and the type of child care the family receives. DHS pays the provider directly on behalf of the family.

Most funding for the subsidy program comes from federal funds passed through the Department of Education. The Early Learning Division receives the funding from the federal government in the form of the Child Care and Development Fund and passes a portion of the funding to the subsidy program. For the 11-13 biennium, the subsidy program received about \$108 million from the Early Learning Division.

DHS also conducts background checks on unlicensed providers accepting subsidy payments and other people in their home or facility with access to the children, to help ensure children's safety.

Other agencies help ensure health and safety of children in care

A representative from the Oregon Health Authority or other health specialists inspect and approve homes and centers before a license is issued. An inspection approval is required before a child care license is issued for certified centers and certified family child care homes. The fire marshal or local fire department personnel conduct the fire inspections for certified centers.

Local building departments in the area where care is provided will ensure child care homes follow codes for living quarters if there is a complaint. For example, the Oregon Building Codes Division does not consider garages to be living quarters unless a local agency that issues building permits approves the garage for that purpose.

When fingerprints are required to pass a background check, the Oregon State Police (OSP) processes them. OSP also maintains the Law Enforcement Data System that ODE and DHS use to run state criminal history checks. The Child Welfare program within DHS investigates child abuse cases in all child care settings.

Audit Results

Child care affordability in Oregon and current efforts to address it

Child care affordability is calculated by comparing the average cost of care to the state median income. Oregon's median income is relatively low and child care costs are relatively high, posing major challenges for parents and regulators.

Oregon's child care cost as a percentage of income exceeds the U.S. Department of Health and Human Services' benchmark of 10% of family income spent on child care, the same benchmark that Oregon has adopted.

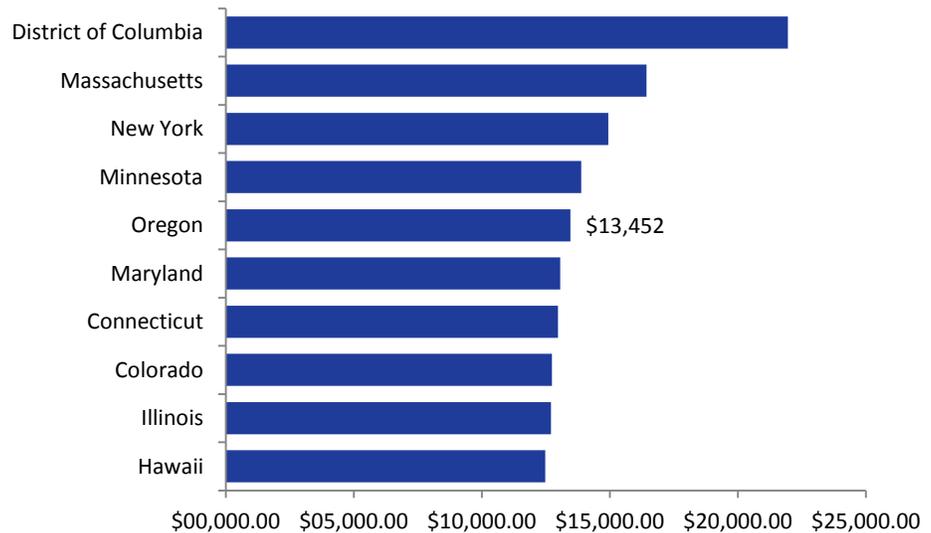
A 2013 report by the National Association of Child Care Resources and Referral Agencies (NACCRRA) ranked Oregon as the least affordable state in the nation for infant care in a certified center for a married couple in 2012. A married couple spent about 19% of their income on infant care in a certified center.

Similar to infant care in a certified center, Oregon was ranked as the least affordable state for a four-year-old in a child care center for a married couple. A married couple spent about 14% of their income on a four-year-old in a certified center.

According to NACCRA, child care centers were even less affordable for single mothers. In 2012, Oregon ranked second least affordable for infant care in a certified center for a single mother. They spent 62% of their income on infant care in a child care center. Furthermore, Oregon was ranked third least affordable for a four-year-old in a certified center for a single mother, taking up about 47% of income.

Child care cost has been increasing over the years. Between 2004 and 2012, Oregon child care prices increased by 13%. In 2012, the average annual cost of infant care in a center across the state of Oregon ranked 5th among 50 states and the District of Columbia, with a cost of about \$13,000 a year (See Figure 4). The average annual cost for a four-year-old and a school-age child in a child care center were about \$10,000 and \$5,000 respectively.

Figure 4: Oregon Has the 5th Highest Child Care Cost for a Full Time Infant in a Certified Center



Source: NACCRRRA (2013).

Family income is not keeping pace with child care cost. Between 2004 and 2012, Oregon household income decreased by nine percent. The median income for a single mother household has been consistently under \$30,000, and also declined between 2004 and 2012. In 2012, the state median income for a single mother in Oregon was ranked 37th when compared to other states and the District of Columbia. Median income for a married couple was ranked 36th in the nation.

Factors driving child care cost

Many factors drive child care cost. Child care is a labor intensive industry and payroll costs are a significant driver. Other provider costs, such as those associated with regulation, facility rent, mortgage payments, and utilities are important.

Oregon’s relatively high overall cost of living further undermines affordability by raising provider costs. To illustrate, in 2014 (second quarter) Oregon nationally had the 9th highest cost of living and the 5th highest child care cost (2012) for an infant in a child care center. In contrast, Mississippi had both the lowest cost of living and lowest child care cost for an infant in a similar setting.

Payroll costs also tend to follow overall cost of living trends. In 2013, Mississippi’s child care workers’ hourly wage was 49th in the nation, at \$8.73. Oregon, with the 9th highest reported cost of living, had a 2013 reported average hourly wage of \$11.18. While this wage is the 11th highest nationally, it is still below the federal poverty guidelines for a family of four.

Child care cost can also vary dramatically within Oregon. Families in urban areas generally pay more for child care than families in rural areas. In Oregon, families in urban areas paid twice the amount for infant care as families in rural areas in 2012. The 2012 average annual cost in an urban area for an infant in a child care center was about \$14,000, whereas the cost in a rural area was about \$7,000.

Licensing requirements can also affect the cost of child care. These include group size, ratios of children to care providers, activities and materials, and requirements related to nutrition. However, more regulation doesn't necessarily equate to higher child care cost. For example, Minnesota and North Dakota share high standards for child care benchmarks such as staff to child ratios, group size, and training requirements, to name a few. However, Minnesota ranked 4th in the nation for child care cost, while North Dakota ranked 36th. The appendix shows child care costs and some related factors for the states.

States use subsidies and tax credits to address affordability

Nationally, and in Oregon, states have implemented child care subsidies and tax credits in an effort to address child care affordability, but policies vary widely. In 2012, the income limit as a dollar amount and as a percent of poverty for the subsidy program varied, with Oregon approaching the middle. See Figure 5.

Figure 5: Oregon's Income Eligibility Limit is Closer to the Middle of the National Range

	Income limit – Dollar Amount	Income limit – As a Percent of Poverty
Low	\$ 22,248	121%
High	\$ 54,288	284%
Oregon	\$ 35,328	185%

Source: National Women's Law Center (2012).

Some states require parents to help pay child care costs. For a family of three with an income of \$28,635 a year in 2012, the copay as a dollar amount and as a percent of income varied, with Oregon toward the high end. See Figure 6.

Figure 6: Oregon's Copayment is Closer to the Higher End of the National Range

	Copayment	Copayment as a Percent of income
Low	\$ 58	2%
High	\$ 405	17%
Oregon	\$ 368	15%

Source: National Women's Law Center (2012).

Federal and state governments provide tax credits to alleviate the high cost of child care. In Oregon the following tax credits are available:

- Federal child and dependent care tax credit - offsets some child care expenses based on a family's federal adjusted gross income.
- Oregon Child and Dependent Care - personal income tax credit for employment related dependent care expenses. This credit is scheduled to sunset December 31, 2015.
- Oregon Working Family Child Care - a refundable personal income tax credit for low income working families. This credit is scheduled to sunset on January 1, 2016.

As mentioned before, tax credit policies vary nationally. Oregon is among 13 states that provide full or partial refundable (check to tax payer) child care credits while many states offer non refundable child care credits. Only four states allow a deduction of child care expenses. Income limits for the tax credits vary as well, from about \$30,000 to \$100,000 in 11 states. Most states do not have an income limit.

State funded preschool may reduce child care costs for some parents

Some states have adopted a model of preschool for all, sometimes referred to as universal preschool or public preschool. This model allows most four-year-olds in the state to participate in preschool at little or no cost to parents. In 1995, Georgia became the first state in the nation to establish a state funded pre-k program to expand the availability of high quality education to young children. The program can save some Georgia parents one year's worth of child care for four-year-olds, which in 2012 was about \$6,234 for a center care and \$5,166 for family child care.

Oklahoma followed suit and established a state funded preschool for four-year-olds. The program is available in 99% of the state's school districts. Some Oklahoma parents can save one year's worth of child care for four-year-olds, which in 2012 was \$5,610 for center care and \$5,212 for family child care. Other states such as Alabama, Louisiana, Maine, Missouri, and West Virginia have implemented state funded preschools.

The Oregon Head Start Prekindergarten program is generally available only to families with income at or below 100% of the federal poverty level. If Oregon were to establish a state funded preschool, some families could save a year's worth of child care cost, which in 2012 was \$10,200 for center care and \$6,000 for family child care.

A national effort entitled Preschool for All recognized the benefits of preschool and offered additional funding for participating states. Oregon could receive an estimated \$30.7 million if the state participates in the Preschool for All program.

Oregon law passed in 2011 authorizes school districts to offer full-day kindergarten, beginning with the 2015-2016 school year. Once implemented, some families can save between \$5,000 and \$5,400 annually,

depending on the type of care a child would be attending if there was no full day kindergarten.

Some countries deeply subsidize child care and give parents more paid time off

Family leave and work time also differs internationally. European countries provide extensive paid family leave with job protection and substantial income replacement. In Sweden, parents receive up to 16 months of paid parental leave, allowing parents to save on child care costs during these months. California, Rhode Island, and New Jersey are the only states in the U.S. that have adopted paid family leave to care for newborn babies. Oregon and the rest of the states generally guarantee a 12-week job protected family leave, which is generally unpaid.

The French child care system is free to most parents and paid for by the government. In Denmark, the child care system receives most of its money from public funding and parents pay no more than 25% of the child care costs.

Countries in South America, such as Argentina, Bolivia, and Brazil, to name a few, provide between 12 and 18 weeks of paid maternity leave. The paid benefits are financed by the countries' social security systems. El Salvador and Ecuador's benefits are financed partially by their social security systems and employers.

In Australia, paid parental leave is available to parents, up to 18 weeks, to care for newborn babies or recently adopted children. The paid parental leave is a government funded benefit.

Affordable care can create long-term benefits

Affordable child care can increase parents' earnings and the state's economic vitality

Families' immediate and long term earnings drop when child care arrangements are unaffordable, especially for women who tend to bear most care-giving responsibilities. Affordable child care lessens career disruptions and periods of non-employment, allowing parents to earn higher wages. Affordable care also prevents parents from experiencing lower wages that result from skill depreciation and loss of seniority when they leave the workforce to tend to child care needs.

A 2010 Oregon Employment Department's report on the economic impact of Oregon's child care industry indicates the industry's services allow more than 98,000 parents to continue working, earning an estimated \$4 billion annually. If these parents could afford child care and continue to work, Oregon's economy would benefit from about \$25 billion in gross revenues.

Affordable child care can promote early learning

Affordable child care can offer more opportunities for parents to place their children in higher quality regulated child care settings. These settings may provide structure to support early learning. Regulated child care, which includes trained teachers, smaller group size, and lower adult-child ratios, is associated with school readiness. Children are generally better prepared at an early age learning basic language and math as well as behavioral skills. When parents choose unregulated settings due to child care cost, children may miss out on these early learning opportunities.

In 2011, the Oregon State Legislature affirmed an educational goal, known as the “40-40-20 goal”, which states that by 2025, all adult Oregonians will hold a high school diploma or equivalent, 40% of them will have an associate’s degree or postsecondary certificate, and 40% will hold a bachelor’s or advanced degree.

Affordable child care may help Oregon meet its 40-40-20 goal

Finally, affordable child care may help the state achieve the 40-40-20 goal that by 2025, 40% of Oregonians will hold an associate’s degree or a postsecondary certificate, 40% will hold a bachelor’s degree or advanced degree, and all adult Oregonians will have a high school diploma. Affordable child care allows some students with dependent children to enroll in college and complete a degree. Not meeting this goal would mean that some Oregonians may not be ready to enter the workforce and contribute to the economy, a component of the 40-40-20 goal.

Changes to CCDF program will strengthen oversight of child care providers, but gaps remain

New federal rules to take effect in 2015 will increase Oregon’s oversight of child care providers but risk reducing the number of regulated providers and raising costs in a state that already ranks as one of the least affordable.

New rule adds requirements for some providers

On May 20, 2013, the U.S. Department of Health and Human Services proposed to amend CCDF regulations.* For the last 15 years, states have designed their own child care assistance programs with minimal federal guidelines. As a result, implementation of evidence-based practices has remained uneven across the country.

Proposed regulatory action seeks to improve accountability by ensuring children whose care is paid for with subsidy are in safe, healthy, and high-quality child care settings. The proposed rule also seeks to empower parents by providing them with information about the child care choices available to them.

Changes made in this proposed rule reflect best practices among state child care programs across the country and represent the most basic research-based criteria. If adopted, final rule provisions would become effective October 1, 2015.

While proposed rulemaking covers many aspects of the CCDF program, our audit focuses on three specific oversight standards: comprehensive background checks (using fingerprints), on-site monitoring (inspections), and publishing provider information online (complaint and compliance

**These regulations were finalized when the federal Child Care and Development Block Grant was reauthorized on November 19, 2014.*

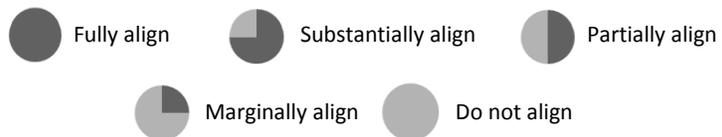
history). Provider training, parent involvement, program requirements, and health practices, as well as staff-child ratio and group size requirements, also affect child care safety.

Oregon falls short of best practices in all three areas. While best practices recommend all child care providers are inspected, Oregon only inspects licensed child care facilities. Best practices also recommend fingerprint checks against state and federal criminal records as part of a comprehensive background check. In Oregon, fingerprint checks are only conditionally required for licensed and for listed providers, who serve children receiving subsidy. Contrary to best practices, providers' compliance information (derived from inspection reports) is not available to parents online.

Although this rule will fill many holes in Oregon's oversight system, it does not close all gaps because it is limited to listed providers. Relatives who are listed will also be exempt from inspections and online reporting requirements. To see how these proposed changes affect alignment with best practices for child care providers in Oregon, refer to Figure 7.

Figure 7: Child Care Providers in Oregon Will Align More, but Not Fully, With Best Practices after New Regulations Are Implemented

	Comprehensive background checks		On-site monitoring		Provider information online	
	Before	After	Before	After	Before	After
Licensed, listed providers						
Unlicensed, listed providers						
Licensed, unlisted providers						
Unlicensed, unlisted providers						



Notes: Comprehensive background checks use fingerprints. On-site monitoring includes announced and unannounced visits. Provider information online includes complaint and compliance history. Full alignment means all providers of a given type adhere to the fullest extent of best practices. Listed providers refer to providers serving children receiving subsidy.

Some providers are unaffected by the new rule

The rule does not cover unlicensed providers who don't receive subsidy payments (also known as unlisted providers). These providers include those who care for fewer than three children as well as government-operated programs and providers who exclusively care for any number of children from the same family.

The care they provide—whether paid or unpaid, in or outside a child's home or by a relative or non-relative—may be safe, but knowledge of these settings is scarce. Without fully understanding the child care settings that parents choose, opportunities for the state to ensure safety, let alone provide early learning activities, are limited, leaving safety conditions and kindergarten readiness to chance.

The Office of Child Care only contacts these providers in response to complaints of "over numbers," when a provider is accused of having more children in care than the licensing threshold allows. With no reliable method of tracking this population, there's no way of knowing how many providers or children are engaged in this type of care.

Listed, relative care providers will be exempt from inspections and posting compliance information online, but will be subject to comprehensive background checks. However, the percentage of relative providers is unknown and estimates may have been underreported in the past.

A comprehensive background check includes:

- *Checking Federal Bureau of Investigation (FBI) criminal records, which is based on fingerprints.*
- *Using fingerprints to check state criminal history records.*
- *Checking the child abuse registry.*
- *Checking the sex offender registry.*

Comprehensive criminal background checks would be required for listed and licensed providers

Background checks for child care providers are intended to screen out unfit providers. They help satisfy parents' need to know that providers are qualified to care for their children.

Best practices suggest comprehensive background checks for licensed child care providers who regularly care for unrelated children and for unlicensed individuals who receive federal funds to provide care. A comprehensive background check includes a fingerprint check against state and federal criminal records and checks of the child abuse and sex offender registries. A background check using a fingerprint match is more effective than a simple check using a name search because individuals can have very common names or use aliases.

While current CCDF regulations require lead agencies to regulate the health and safety of children whose care is supported by the CCDF program, they do not require criminal background checks. However, the federal Office of Child Care recommends them for all child care providers serving children receiving CCDF subsidies.

The proposed rule would require comprehensive background checks to minimize children's risk of abuse and neglect. That includes the use of fingerprints to check for state and FBI criminal history records and child abuse, neglect, and sex offender registries, if available.

Thirteen states conduct a comprehensive background check. Oregon does not.

In Oregon, the Office of Child Care (OCC) does conduct background checks on all child care business owners, providers, staff, volunteers, substitute caregivers, residents, frequent visitors and others who may have unsupervised contact with children in licensed child care settings. While the check includes a Law Enforcement Data System check and a child protective services check, fingerprints are only required in some cases. Fingerprinting for an FBI background check is required if:

- the individual self-discloses that s/he has lived outside Oregon during the past 18 months; or
- the law enforcement check indicates the person has committed a crime in Oregon and another state; or
- the individual self-discloses committing a crime in another state and the crime is within timeframe for review.

According to OCC staff, about 10% of subject individuals are required to submit fingerprints.

Some unlicensed providers must also pass a background check. To be eligible for payment from DHS, providers and others in the home or facility who will have access to the children in care must pass a background check. This check is conducted by DHS's Background Check Unit and includes a state criminal and Child Protective Services history check. Persons who have lived outside of Oregon in the last 18 months for 60 consecutive days or more, or who have known or self-disclosed convictions or arrests for crimes in other states, are required to submit fingerprint cards for a national check.

With implementation of the new federal rule, the Oregon Department of Education (ODE), which oversees licensed child care settings, has indicated it would subject 100% of the licensed child care provider population to comprehensive background checks, rather than limit this requirement to licensed providers that are listed with DHS. DHS also plans to implement this requirement for unlicensed providers that receive subsidy payments.

Comprehensive background checks could create a burden for certified and registered providers, whose relatives living in the home would also be required to submit fingerprints. Meeting this new requirement may be especially difficult for unlicensed, listed providers in rural areas, too, who already experience limited fingerprinting availability. This new requirement will not apply to unlicensed providers who do not care for children receiving assistance.

Agencies in Oregon are required to use electronic fingerprint capture technology

When ODE and DHS implement the proposed regulation regarding fingerprint checks, they will be required to capture fingerprints electronically. House Bill 3330, passed in 2013, requires state agencies that conduct fingerprint checks to use electronic fingerprint capture technology. Agencies can either purchase the technology and provide the service directly or contract with a vendor. The Department of Administrative Services (DAS) was responsible for selecting a vendor to provide electronic fingerprinting services. DAS selected the vendor Fieldprint to provide the service. Fieldprint charges \$12.50 per fingerprint transaction. DHS is already in contract with Fieldprint and ODE is considering using Fieldprint to capture fingerprints.

Initial availability of electronic fingerprinting services is limited in some parts of the state

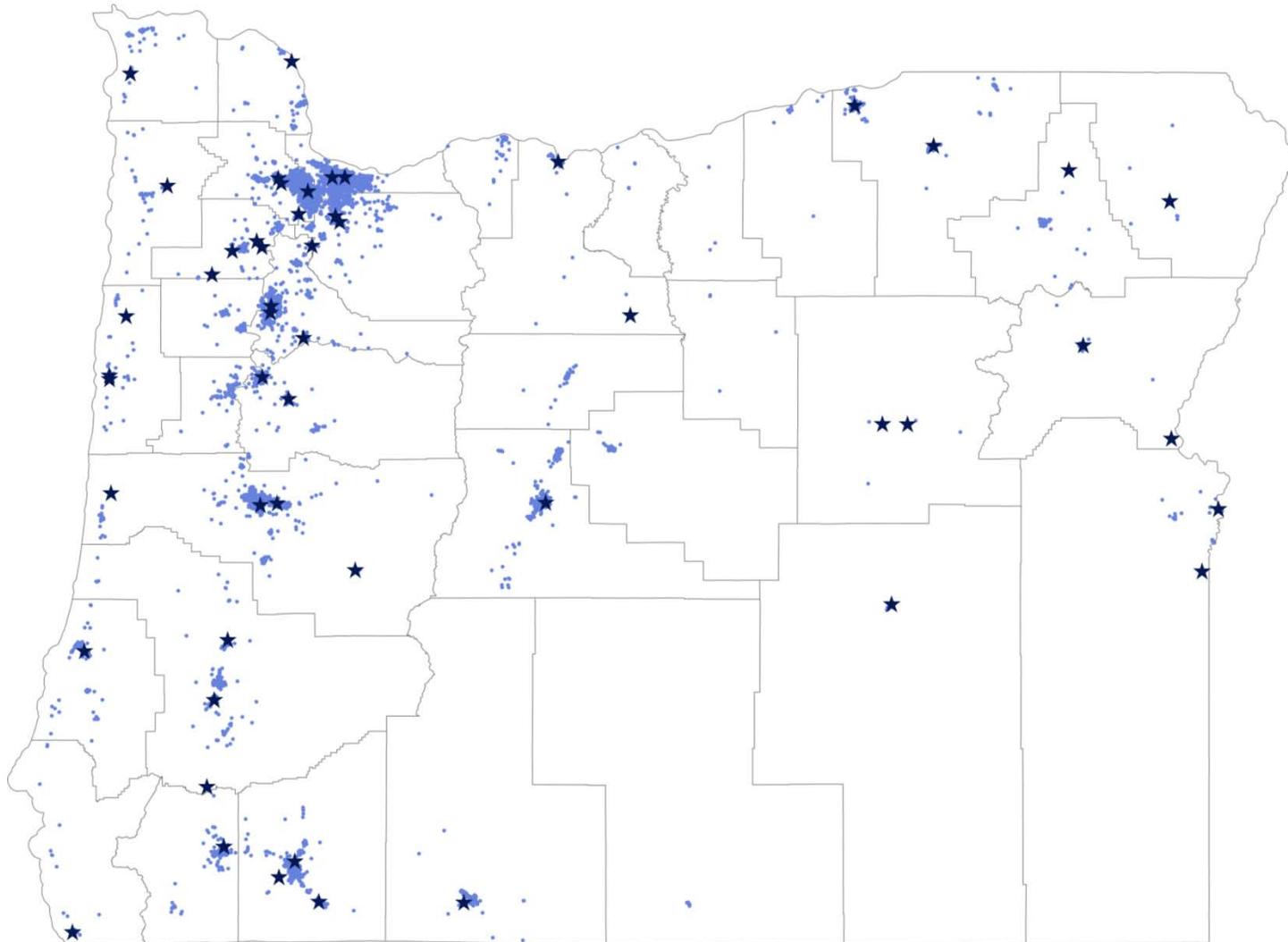
Prior to the passage of HB 3330, about 50 sites were available to child care providers for fingerprint services in Oregon. A limited number of these sites provided the option for electronic fingerprinting services. Many of these fingerprint sites included local police departments and county sheriff offices. As of August 2014, there are 32 Fieldprint sites in Oregon that will serve the needs of child care providers and other state agencies that conduct fingerprint checks. Fieldprint has the ability to conduct mobile fingerprint services where a staff travels to a specific site with a portable machine to capture and transmit fingerprints.

The demand for fingerprinting services will increase with the influx of child care providers required to pass comprehensive background checks. Figure 8 compares the locations of licensed and listed child care providers and Fieldprint sites that provide fingerprinting services across Oregon. While providers along Interstate 5 appear well-covered, services appear sparse in other areas of the state. According to the Department of Administrative Services staff, plans exist to evaluate the adequacy of the number of sites available to meet the state's business needs.

In Oregon, under the proposed rule, all employees, volunteers, and other individuals who may have unsupervised contact with children in facilities licensed by the Office of Child Care or listed with the Department of Human Services will be subject to fingerprinting. Those populations are not represented on the map, which only shows provider addresses.

Fieldprint services are not exclusive to child care providers. Other state agencies that use Fieldprint will also refer their clients to these sites, which contribute to the demand for fingerprinting services across the state.

Figure 8: Fieldprint Sites May Not Meet Demand for Fingerprinting Services in Central Oregon and the Coast



- ★ Fieldprint Sites
- Child Care Providers Requiring Fingerprints

Sources: Data from the Oregon Departments of Education, Human Services and Administrative Services (2014), and the U.S. Census Bureau (2010). Notes: Child Care Providers include those licensed by the State of Oregon Office of Child Care and unlicensed providers listed with the Department of Human Services.

Oregon would be required to inspect some unlicensed, listed providers

Best practices suggest states conduct regular inspections to ensure compliance with state requirements. At least some of these inspections should be unannounced. They also recommend states inspect child care centers and homes before licensing, at least quarterly, and when there is a complaint.

The proposed rule also seeks to strengthen the monitoring of providers who care for children receiving CCDF assistance. Specifically, the proposed rule would require states to conduct pre-inspections for compliance with local fire, health, and building codes and unannounced, on-site monitoring visits, including those in response to complaints pertaining to children's health and safety. This would require inspections of both licensed and unlicensed child care and would not allow providers to self-certify that their establishment meets health and safety standards.

Inspections help ensure that children are safe and, for providers of children receiving a child care subsidy, accountability for public dollars. Research has shown inspections have a positive impact on the safety of children in child care. One study concluded that conducting unannounced inspections of child care facilities is a worthwhile endeavor by state licensing professionals. However, it recommended targeting child care providers with a history of low compliance for inspections in order to conserve state resources and avoid penalizing high quality providers. Requiring health and safety inspections prior to serving children helps ensure children receiving assistance are cared for in safe environments from day one.

Oregon only inspects licensed providers

Currently, Oregon and 10 other states conduct four or more inspections of certified centers a year, including visits from the licensing office as well as fire marshals and health/sanitation departments. In Oregon, certified centers receive routine announced visits from licensing staff once a year and during renewal follow-up, if necessary. They also receive routine unannounced visits once a year and visits to investigate complaints, if needed.

Only four states inspect family child care homes on at least a quarterly basis. Oregon and 25 other states inspect family child care homes at least annually. Oregon inspects family child care homes once a year, before licensing, and in response to complaints. Inspections for family child care homes also include routine and complaint-based unannounced visits.

Certified family child care receives routine announced visits once a year and upon renewal follow up, if necessary. Certified family care also receives routine unannounced visits to investigate complaints. Registered family child care homes, on the other hand, only receive unannounced visits to investigate complaints.

Inspections for certified centers

Fire – fire personnel ensures center meets fire prevention requirements

Health/Sanitation – health inspector ensures center meets requirements for poison control, infection control, food and beverage safety, and building safety, among other things.

Renewal – license specialist checks center for children and staff records, number of children in care, verifies ratios, and playground safety, among other things

Complaint Investigation – License specialist visits a center to verify validity of complaints

In Oregon, unlicensed, listed providers self-declare on the provider listing form that they meet all health and safety requirements, which are not otherwise enforced. Unannounced site visits are conducted to investigate provider fraud complaints when appropriate, but routine announced and unannounced visits are not. Some states require all providers to be monitored, including unlicensed providers serving children receiving subsidy.

New inspection requirement will increase workload for compliance specialists

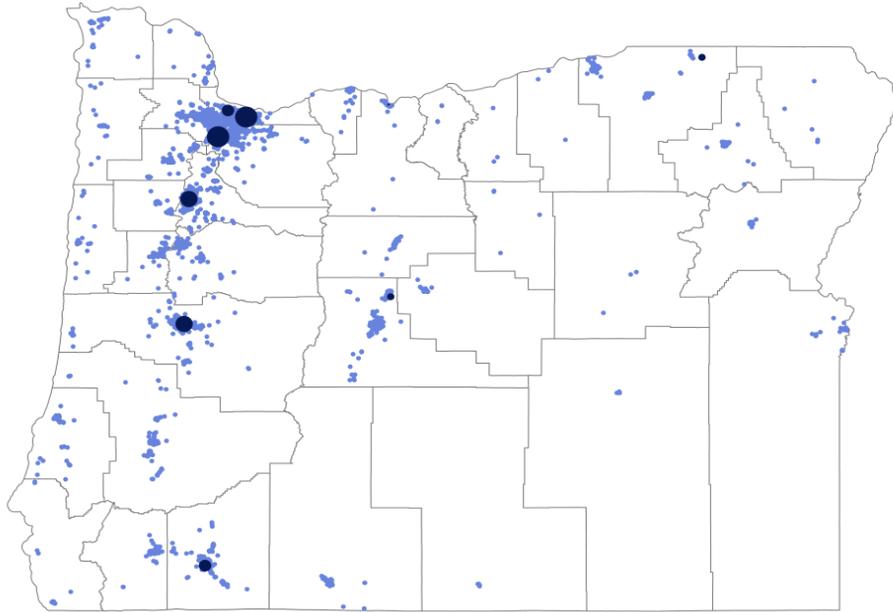
The demand for inspections may increase by 71% with the inclusion of unlicensed, listed child care providers in compliance specialists' workload. Figure 9 compares the locations of child care providers and compliance specialists by Field Office location assignment across Oregon before and after the new inspection requirement is implemented. Licensed providers represent current workload, while unlicensed child care providers caring for children in the subsidy program, were used as a proxy for additional workload.

In both cases, workload along the coast and throughout north and southeast Oregon appears to exceed capacity. In areas of the Willamette Valley and Oregon's southwest region, where workload appears to increase with implementation of new regulations, there may also be insufficient capacity.

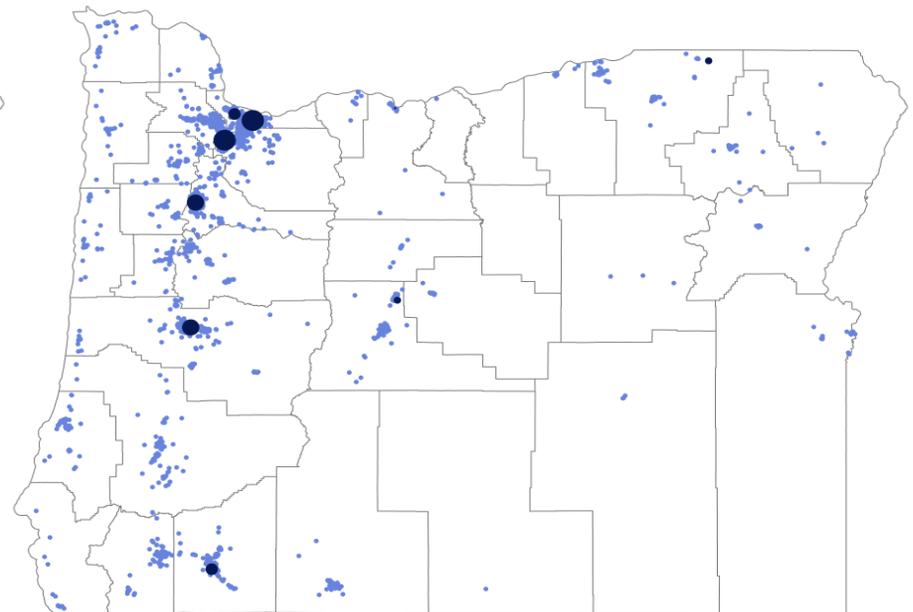
Under the proposed rule, the Office of Child Care has decided to exempt relative care providers from inspections. Therefore, the actual number of providers requiring on-site monitoring may not be accurately reflected on the map. The Office of Child Care has not identified these providers from their records.

Figure 9: Additional Workload May Exceed Capacity of Field Offices across Oregon

Location of Field Offices and Current Workload



Location of Field Offices and Additional Workload



Compliance Specialists

- 1.00
- 1.01 - 2.00
- 2.01 - 4.25
- 4.26 - 5.50
- 5.51 - 9.00

Sources: Data from the Oregon Departments of Education and Human Services (2014), and the U.S. Census Bureau (2010).

Again, unlicensed, unlisted providers are not subject to this rule and OCC only contacts these providers in response to complaints of “over numbers.” Little will be known about the safety and quality of these settings.

Oregon posts complaint information online, but would be required to publish compliance information, too

The proposed rule would require states to post provider information online. Provider information can include health, safety, and licensing information as well as information about the quality and qualifications of caregivers. In this audit, we focused on posting complaint and compliance information, including inspection reports, online. Online publishing of provider-specific information can improve transparency and enable families to make more informed decisions about their child’s care. For the purposes of the CCDF program, making provider information available online ensures that parental choice is meaningful for families receiving subsidies.

Along with 27 other states, Oregon provides complaint information online for facilities that are licensed, in the process of becoming licensed, or that were found to be providing “illegal” child care. Complaint history provides information on complaints made on a facility that has violated regulations governing licensed care. Electronic complaint records posted online by Oregon’s Office of Child Care are on file from January 1st, 2004.

A provider’s compliance history provides additional information related to a child care facility’s license, including:

- how long the facility has been licensed and personnel changes;
- types of training the provider has on record with the Office of Child Care;
- any special conditions or exceptions on the facility’s current license;
- observed noncompliance with licensing rules noted during non complaint visits (routine inspections);
- and other actions such as fines, revocations, and denials.

Although Oregon does not publish compliance information online, OCC does encourage individuals to call and request compliance histories for licensed facilities. Compliance history is not available for unlicensed providers, as they are not subject to OCC rules.

The quality of care may improve when child care complaint and compliance information are made available on the Internet. Evidence suggests that placing child care provider complaint and inspection reports online changed child care inspectors’ behavior and improved the quality of care for low-income children. For instance, inspectors produced more inspection reports and became more likely to provide mixed reviews of centers during routine inspections.

Making compliance information, including inspection reports, publicly available can help parents make informed choices among child care settings. Unlike Oregon, more than half of states have both inspection and

complaint reports on the Internet. Thirty-one states have inspection reports online. Oregon does not.

ODE plans to follow the proposed federal rule by publishing online inspection reports for all licensed child care facilities, in addition to all listed providers, including unlicensed ones that are getting inspected.

Displaying the results of routine inspections expands transparency for unlicensed, listed providers, regardless of their track record. Taken together, fingerprinting, monitoring and publishing provider information online are substantial changes for unlicensed, listed providers, who have been relatively unregulated by DHS or ODE.

New regulations may increase oversight costs and reduce supply of regulated child care

Potential impact of new requirements on child care affordability and availability is unknown

Some states reported no noticeable change in child care affordability. For Oregon, the potential impacts of the new requirements on child care affordability are unknown.

Oregon officials are still exploring the costs related to comprehensive background checks and inspections, but not those associated with posting provider information online. Whether some costs will be passed on to providers and, ultimately, on to parents has yet to be determined. For example, according to DHS management, 779 of the 7,422 background checks performed in 2013 for unlicensed, listed providers included fingerprint checks. Had the remaining 6,642 required fingerprinting, additional costs for processing the fingerprints alone would have been approximately \$296,000, not including administrative costs. Currently, the subsidy program absorbs these costs, but it is unknown if this would continue into the future.

Impact on the availability of child care is also unknown. Proposed regulations could prompt some providers to upgrade their efforts while other providers may withdraw. If providers choose to become licensed, they could raise rates to match their new credentials. While subsidy rates vary by licensed child care setting and enhanced subsidy rates apply to providers who meet specific training requirements, the difference may not be sufficient for providers to transition from unlicensed to licensed care. Further, according to DHS staff, many unlicensed providers serving children receiving subsidy come in and out of the child care market; only providing care for a short time period. These providers may view the additional requirements as burdensome, and decide to stop providing care, thus reducing availability of care.

Should providers opt not to comply with the new requirements and leave regulated child care settings, it is unknown what choices parents would

make for their children. Some may be able to pay at-home providers completely out of pocket, or have relatively easy access to another licensed provider, while others may not be able to afford or access paid care without assistance. Still, some providers may maintain their unlicensed status, while meeting additional requirements, with minimal impact to parents.

Supply of unlicensed, listed providers may decrease, but no causal relationship has been established

Other states reported a decrease in the number of known child care providers once new requirements were put into place, but the causal relationship between implementing proposed federal regulations and reduced child care supply is difficult to establish. States either aren't keeping track of their child care supply or are implementing proposed regulations in coincidence with other events.

North Dakota indicated that the limited supply of unlicensed providers had been dropping since January 2014, when the state started conducting routine visits to those facilities. Other states implemented new requirements during the recession, which may have caused the number of providers to drop. Ohio does not keep track of the number of unlicensed providers because it requires all providers who care for children receiving subsidy to be licensed.

Oregon administrators have different views regarding the shifts that may occur between different provider groups and do not track the providers or families that leave the subsidy program. Since there are frequent entries and exits within subsidized care, tracking this group could be challenging. However, without some mechanism for tracking, knowledge about the supply of care and providers' challenges to provide care is limited. Regardless, no state has studied the possible link between decreasing numbers of providers and new regulations.

Agencies would require staffing, technology, and policy change

To avoid unnecessary administrative costs, DHS and ODE have opted to keep their current structure in place, rather than create new units dedicated to the added requirements.

ODE would take on the responsibility of inspecting unlicensed, listed providers, with the exception of relative care providers for whom no on-site monitoring visits will occur. ODE estimated 8.5 additional staff, consisting primarily of compliance specialists, will be needed to meet the additional workload. It is still unclear whether an Oregon law change will be required to allow ODE licensing staff to inspect unlicensed, listed providers or whether an administrative rule change will be sufficient.

For background checks, DHS would handle the process for unlicensed, listed providers, while ODE would continue to manage the process for licensed providers. Both agencies expect a significant increase in workload.

DHS is developing estimates of the number of staff that would be needed to conduct background checks, but it is difficult to predict due to the potential shift of providers from unlicensed to licensed care and the unknown number of relative care providers. DHS is expecting there will be more cases, in which fingerprints were not provided, requiring follow-up. The number of providers filing appeals because of decisions based on fingerprint background checks, is also likely to increase. Similarly, ODE's workload is expected to increase with the additional number of individuals requiring fingerprints.

Background Check Units from both agencies are considering using the Department of Administrative Services (DAS) contract with Fieldprint to conduct comprehensive criminal background checks. Fieldprint would be responsible for capturing and submitting electronic fingerprints to local and federal authorities. ODE may consider implementing this requirement in phases by license renewal date or targeting new and returning providers.

An HB 3330 committee is working to identify the demand for fingerprinting services, which could be met in part by Fieldprint. However, Oregon State Police (OSP) would continue to be the sole processor of state background check results.

ODE would also have to address technological needs in order to efficiently post inspection reports online. For example, staff showed interest in being able to complete inspection checklists electronically in the field using their computer tablets. Currently, compliance specialists fill out hard copy forms and enter the information manually into a database. They also expressed a desire to use less paper to do their jobs, in general, and pointed to other states that may be completing inspection paperwork electronically.

ODE is exploring posting inspection reports online, but has not addressed the associated costs.

Knowledge from other states and local staff may help Oregon agencies successfully implement new requirements

Washington reported an initial backlog associated with implementing the new fingerprint requirement and avoided re-printing providers moving between different types of licensed care by making fingerprints valid for three years. Some states used a phase-in approach to manage the new background check process by requesting all new providers to submit fingerprints and existing ones to do so upon renewal. New Hampshire indicated the need to educate providers and partner agencies on the new requirements to avoid confusion.

OSP regulatory management indicated they were unaware of the proposed regulations affecting child care providers. Once ODE and DHS complete and share their plans for implementing the comprehensive background check requirement with OSP, OSP can begin anticipating the impact on workload and staff. OSP managers pointed out that electronic fingerprint capture will

reduce processing time for ODE and DHS. But turnaround time with the FBI may increase depending on the amount of additional fingerprint volume from other states implementing the new requirement.

Oregon licensing staff indicated the need to identify the locations of unlicensed providers serving children receiving subsidy and inform them of expectations for health and safety. In fact, staff from other states spent time verifying and updating contact information for unlicensed providers, since they had not been previously visited.

Staff from other states had to overcome language barriers to communicate the new rules among subgroups of unlicensed providers and negotiate different cultural perspectives on sanitation and nutrition. In Oregon, some local licensing staff already dedicate time translating materials for licensed providers and struggle to reach those with limited technology literacy.

As licensing staff pointed out, there is no relationship between compliance specialists and unlicensed providers - it will have to be established. Because unlicensed providers do not interact regularly with compliance specialists, providers may not readily welcome them into their homes and businesses.

To address workload challenges, OCC may consider using a differential monitoring system, which qualifies established providers who consistently demonstrate compliance for abbreviated inspections. This research-based approach, which OCC has been developing since 2013, would allow licensing staff to focus their time on programs that need additional support and technical assistance.

Licensing staff noted that publishing complaints about licensed providers online has not really affected their work. However, publishing inspection reports may result in more phone calls to compliance specialists from providers to dispute inspection results. Despite this anticipated challenge, compliance specialists predict that both staff and providers will grow accustomed to the practice.

ODE and DHS are planning for changes, but rule status delays final preparation

Executive management at ODE and DHS indicate that uncertainty regarding proposed CCDF regulations and pending subsidy policy packages are delaying final preparations. The agencies anticipate more guidance from the federal government before implementation in October 2015.

Until then, agencies have shared information with key stakeholders, including provider unions, about changing regulations and convened a workgroup to interpret and implement the rules once they are finalized. A detailed work plan to guide the implementation process is also under development.

Recommendations

To comply with proposed federal regulations, we recommend ODE and DHS:

- Determine if an administrative rule or statutory change is required to allow ODE licensing staff to monitor unlicensed providers who serve children receiving subsidy and initiate the change process.
- Complete and implement differential monitoring plans that qualify licensed providers who consistently demonstrate compliance for abbreviated inspections to optimize licensing staff resources.
- Monitor the demand for inspections among unlicensed providers across Oregon and adjust field office location assignments accordingly.
- Monitor and inform the HB 3330 committee of changes in the demand for fingerprinting services among providers to determine whether enough Fieldprint sites are available to meet the demand.

To mitigate some of the potential consequences, we recommend ODE and DHS:

- Determine costs associated with comprehensive background checks, inspections, and posting inspection reports online and develop strategies to minimize the burden on providers and families.
- Consider tracking parents who stop receiving assistance and providers who stop providing care and the movement of providers between different types of regulated care, including those who migrate between licensed and unlicensed care settings.

Objectives, Scope and Methodology

The objective of this audit was to determine how background check and inspection requirements (including information online) for child care facilities in Oregon compare to other states, independent benchmarks, and proposed federal regulations. We also identified challenges with implementing the proposed federal regulations and looked for opportunities to adopt practices from other states to ease those challenges. We also gathered general information about child care affordability across the nation.

We reviewed applicable state laws and proposed federal regulations regarding child care safety. We also reviewed program manuals, policies, and existing research related to background checks, inspections, and posting provider information online. In addition, we reviewed independent studies comparing Oregon's child care program and oversight standards, child care prices, and child care affordability, to other states.

We interviewed staff from the Department of Human Services and the Department of Education including program managers, background check staff, and compliance specialists as well as labor union representatives. We also interviewed staff from Oregon State Police and policy advisors from the governor's office and state legislature. We visited three ODE field offices and reviewed a limited number of case files to obtain corroborating evidence.

We identified relevant representatives from other states and interviewed them to gain an understanding of their strategies for implementing comprehensive background checks and inspections of unlicensed providers serving children receiving subsidy.

We obtained and visualized data from ODE, DHS, and DAS using Geographic Information Systems (GIS) to assess the need for additional fingerprinting and monitoring service coverage across Oregon.

We gathered general information on child care affordability as part of the audit report. We reviewed a report from the National Association of Child Care Resources and Referral Agencies that compared child care prices and affordability across the nation. We also reviewed Oregon's child care market price studies conducted by the Oregon State University, publications on child care tax credits, and information about other countries' child care systems and paid leave benefits.

We conducted this performance audit 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

State Ranking by Child Care Cost and Some Factors that May Influence Costs

	State	2012 Child Care Cost for Infants in a Certified Center	2013 Cost of Living Ranking	May 2013 Child Care Worker Hourly Average Wage Ranking and Wage	Comprehensive background check required?	Inspection Required?	Post-Secondary Coursework Required for Directors and Lead Teachers?	Staff-Child Ratios for Infants	Maximum Group Size for Infants
1	District of Columbia	\$21,948	3	1 (\$16.04)	No	Yes	Yes	3	9
2	Massachusetts	\$16,430	7	2 (\$12.47)	No	Yes	Yes	3	7
3	New York	\$14,939	5	3 (\$11.94)	No	Yes	Yes	4	8
4	Minnesota	\$13,876	18	16 (\$10.62)	No	Yes	Yes	4	8
5	Oregon	\$13,452	9	11 (\$11.18)	No	Yes	No	4	8
6	Maryland	\$13,055	12	12 (\$11.07)	No	Yes	Yes	3	6
7	Connecticut	\$12,973	2	13 (\$11.06)	No	Yes	No	4	8
8	Colorado	\$12,736	20	6 (\$11.48)	Yes	Yes	Yes	5	10
9	Illinois	\$12,697	29	14 (\$10.86)	Yes	Yes	Yes	4	12
10	Hawaii	\$12,473	1	32 (\$9.56)	Yes	Yes	Yes	4	8
11	Washington	\$12,108	16	10 (\$11.20)	Yes	Yes	No	4	8
12	Rhode Island	\$12,075	10	8 (\$11.42)	No	Yes	Yes	4	8
13	California	\$12,068	6	4 (\$11.86)	No	Yes	Yes	4	N/A
14	New Hampshire	\$11,730	13	17 (\$10.52)	Yes	Yes	Yes	4	12
15	New Jersey	\$10,949	8	9 (\$11.23)	Yes	Yes	Yes	4	12
16	Kansas	\$10,518	38	33 (\$9.52)	No	Yes	No	3	9
17	Alaska	\$10,338	4	7 (\$11.45)	Yes	Yes	No	5	10
18	Pennsylvania	\$10,319	17	28 (\$9.84)	No	Yes	Yes	4	8
19	Michigan	\$10,114	43	20 (\$10.33)	No	Yes	Yes	4	12
20	Virginia	\$10,028	27	25 (\$9.98)	No	Yes	Yes	4	N/A
21	Vermont	\$9,958	11	5 (\$11.56)	No	No	Yes	4	8
22	Wisconsin	\$9,939	26	22 (\$10.09)	No	Yes	Yes	4	8
23	Nevada	\$9,608	22	21 (\$10.24)	No	Yes	No	4	N/A
24	Maine	\$9,360	14	23 (\$10.08)	No	Yes	No	4	8
25	Wyoming	\$9,100	34	15 (\$10.84)	No	Yes	No	4	10
26	Iowa	\$9,053	37	48 (\$8.82)	No	Yes	No	4	N/A
27	Delaware	\$8,928	15	18 (\$10.37)	No	Yes	Yes	4	8
28	North Carolina	\$8,868	28	31 (\$9.57)	Yes	Yes	No	5	10
29	Arizona	\$8,671	23	24 (\$10.00)	No	Yes	No	5	N/A
30	Texas	\$8,495	39	38 (\$9.33)	No	Yes	No	4	10
31	Ohio	\$8,482	32	19 (\$10.34)	No	Yes	No	5	12
32	Montana	\$8,475	25	26 (\$9.88)	No	Yes	No	4	N/A
33	Missouri	\$8,320	35	34 (\$9.51)	No	Yes	No	4	8
34	Florida	\$8,299	24	27 (\$9.86)	No	Yes	No	4	N/A
35	Indiana	\$8,073	47	39 (\$9.31)	No	Yes	No	4	8
36	North Dakota	\$8,021	19	45 (\$8.92)	No	Yes	No	4	8
37	West Virginia	\$7,961	30	51 (\$8.63)	No	Yes	No	4	8

38	Utah	\$7,860	46	30 (\$9.73)	No	Yes	No	4	8
39	Nebraska	\$7,797	41	42 (\$9.12)	No	Yes	No	4	12
40	Oklahoma	\$7,480	48	36 (\$9.39)	No	Yes	No	4	8
41	New Mexico	\$7,360	42	41 (\$9.13)	No	Yes	No	6	N/A
42	Georgia	\$7,228	36	29 (\$9.75)	No	Yes	Yes	6	12
43	Idaho	\$6,969	49	35 (\$9.47)	Yes	No	No	6	N/A
44	South Carolina	\$6,280	31	43 (\$9.07)	Yes	Yes	No	5	N/A
45	Kentucky	\$6,105	44	37 (\$9.36)	No	Yes	No	5	10
46	South Dakota	\$6,071	21	46 (\$8.84)	Yes	Yes	No	5	20
47	Arkansas	\$5,894	45	50 (\$8.69)	No	Yes	No	6	12
48	Tennessee	\$5,857	50	40 (\$9.15)	Yes	Yes	No	4	8
49	Louisiana	\$5,574	33	44 (\$8.96)	No	Yes	No	6	N/A
50	Alabama	\$5,467	40	47 (\$8.83)	No	Yes	No	5	N/A
51	Mississippi	\$4,863	51	49 (\$8.73)	Yes	Yes	No	5	10

Note: N/A means not applicable, or no maximum for group size

Sources: National Association of Child Care Resources and Referral Agencies (2013), Missouri Economic Research and Information Center (2014) and U.S. Bureau of Labor and Statistics (2013).

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The courtesies and cooperation extended by officials and employees of the Oregon Department of Education and the Department of Human Services during the course of this audit were commendable and sincerely appreciated.



December 2, 2014

Gary Blackmer
Director, Audits Division
Oregon Secretary of State's Office
255 Capital St. NE, Suite 500
Salem, OR 97310

Dear Mr. Blackmer,

The Secretary of State's audit report on child care in Oregon accurately reflects the challenges and policy decisions faced by the State related to child care affordability and implementation of new federal regulations. The Early Learning Division (ELD) of the Oregon Department of Education and the Department of Human Services (DHS) thank you for the opportunity to respond to the audit, and appreciate the time and attention on this important topic.

Cost of Child Care

Prior to entering school, children in Oregon are in a variety of settings. Currently,

- 43% of all children in Oregon younger than five are exclusively home with their parents;
- 30% of children are cared for informally by relatives, neighbors or family friends; and,
- 27% of Oregon's children are in formal, regulated child care programs.

The child care industry is driven by a consumer-based competitive marketplace influenced by a variety of economic factors in which parents predominately cover the cost of tuition.

The affordability of child care is one of many factors that disproportionately impacts low-income working families. Wages, home prices, food prices and transportation costs are among the other factors that impact affordability of care for families. The price of child care is dependent on a host of factors including family wages, child care provider payroll costs, and facility costs. Oregon's relatively high cost of living and relatively low median income makes affordability challenging for families.

The accessibility of stable, affordable child care also challenges families with work constraints such as fluctuating work schedules, nonstandard hours, and employers with inflexible work policies. These factors limit access most severely for working, low-income families.

Safe, stable and affordable child care is critical for parents to retain employment, and Oregon's Early Learning Division and Department of Human Services manage two primary strategies for helping families pay for care:

- The Employment Related Day Care (ERDC) program, which provides a child care subsidy to low-income working families; and,
- The Special Populations Subsidy Program, which serves high-risk families. High-risk is defined as low-income families that do not qualify for ERDC, but are identified as having uniquely challenging circumstances such as teen parents or migrant workers.

Additionally, Oregon has three tax credit programs which provide relief for child care costs for low- to moderate-income families:

- Working Family Child Care;
- Child and Dependent Care; and,
- Employer-provided Dependent Care Assistance.

A fourth tax credit program, the Child Care Contribution Tax Credit, does not provide financial supports for care, however, it assists the child care workforce with professional development and quality improvements to increase the focus of care on child learning and development.

As mentioned in the audit report, Oregon ranks low in child care affordability for families. As such, it is important for Oregon policy makers to consider expanding ERDC funding and supports for low-income working families. Continuation of the child care tax credits, especially those that are scheduled to sunset in 2015 and 2016, are also important strategies.

Impact of Federal Rule Changes

State policy and regulation play an important role to make sure the investment in child care subsidy also contributes to healthy children who are ready for school. The new federal rules brought about by the Child Care Development Block Grant (CCDBG) Reauthorization will require Oregon to implement practices that will foster healthy child development, however, the implications of implementation must be considered carefully.

The most dramatic change for Oregon under the new federal rules will be for license-exempt child care providers chosen by families who access the child care subsidy program. These individuals are currently subject to background checks. The new rules will increase standards by requiring fingerprinting and FBI checks on all providers, including relatives. The new rules also include pre-service training, and annual onsite health and safety monitoring. Relatives will be exempt from onsite monitoring. As outlined in the audit report, the new regulatory processes will bring additional costs and considerable workload increases for the Office of Child Care within the ELD and for DHS staff. The state will not receive additional federal funding for implementation of the new requirements.

The Office of Child Care and DHS subsidize the cost of background checks and have absorbed the increased costs of processing and interpretive services for non-English speaking providers over the last 15 years. The Office of Child Care and DHS also subsidize pre-service and continuing education training for licensed and license-exempt providers. Collective bargaining agreements with the two unions that represent these small business owners and independent

contractors have led to increased training costs to the state. At some point the Office of Child Care and DHS will not be able to absorb additional expense and will need to pass a portion of these costs on to both regulated and license-exempt providers.

Providers who are required to be fingerprinted by DHS pay a fee to obtain their fingerprints and DHS covers the cost of processing the fingerprints. Law enforcement agencies send the resulting criminal history records to DHS for evaluation.

Background checks include review of criminal history records, differences in criminal statutes between states, child protective service records, police and court records, addictions and mental health records, and other information as needed to complete a weighing test of potential risk presented by a provider when serving vulnerable children.

The changes will put pressure on current staff workloads. Monitoring of and increased training requirements for license-exempt providers who care for children of families receiving subsidy is a substantive increase in workload for both agencies. Without additional funding at both the federal and state levels or changes to state child care subsidy policy, it will be difficult to implement parts of the federal block grant revised statute. We will work with state leaders and across agencies to navigate this challenge.

Next Steps

The combined child care team from the Early Learning Division and Department of Human Services acknowledges and agrees with the recommendations from the auditors.

To address these recommendations, the ELD and DHS are pursuing both statutory and administrative rule changes to allow for onsite monitoring of license-exempt providers who care for children on the subsidy program. Federal law requires that enforcement for monitoring begin no later than December 2016. Statutory authority in the form of a legislative concept will be submitted by the ELD to the Oregon State Legislature in the 2016 session.

ELD is implementing a differential monitoring system statewide in January 2015 and will begin Key Indicator Differential Monitoring visits for those child care facilities that meet specific quality and compliance criteria. ELD will utilize field staff in nine offices throughout the state to monitor the demand for inspections and will adjust resources accordingly.

Both ELD and DHS will continue working with the Department of Administrative Services and the fingerprinting contractor to minimize the impact of the new statewide requirement for electronic fingerprints and the related federal rules taking effect in the next two to three years.

ELD and DHS will continue leading a Child Care Policy Reform Implementation Planning team to comprehensively evaluate and plan for the new rules. This will include determining costs as well as leveraging current efforts underway, such as the overhaul of the child care regulatory information system. This system will include license-exempt providers and the public will be able to access monitoring and compliance history and consumer education. Changes that create a fiscal impact are subject to collective bargaining through the two child care provider unions.

ELD also plans to increase data collection on regulated child care facilities, and will track moves between license-exempt and licensed status for providers who accept subsidy. We will consider implementation of a survey system to ascertain whether families stop receiving assistance due to the new regulations.

Summary

While ELD and DHS are very supportive of the federal changes, those changes also bring challenges to the agencies and by extension to impacted families.

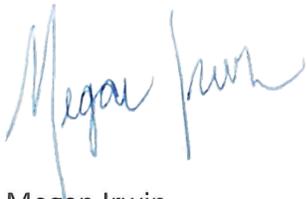
Additional quality and safety improvements, through both statutory and rule changes, will put pressure on the federal child care funds, decreasing the amount of funding available for subsidies. While federal and state tax credits can provide some relief for rising child care costs, affordable child care for low-income working families will continue to be a barrier to complete self-sufficiency.

Safe, affordable, high-quality child care is an essential component of strong early learning and workforce systems. It contributes to a healthy future for Oregon, primarily by supporting child development and school readiness in ways that help reduce the achievement gap in education and, over the long-term, reduce the number of families living in poverty.

We appreciate the attention this audit will shed on the current state of child care and the changes that will be implemented as part of federal child care statutory and rule revisions.

Thank you for the opportunity to review and address the recommendations in the audit report. Please contact us with questions regarding our response.

Sincerely,



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