MAY 30 1995

Subject: Office of Inspector General (OIG) Audit Report No. 27600-6-At, Child and Adult Care Food Program (CACFP) Day Care Homes - Nationwide Audit

To: STATE AGENCY DIRECTORS
   (Child Nutrition Programs)

- Colorado DH, Iowa, Kansas, Missouri DH, Montana DHES, Nebraska ED, North Dakota, South Dakota, Utah and Wyoming

Attached is the final Nationwide audit report issued by OIG for the family day care home segment of the CACFP. The Department is currently in the process of reaching management decisions and responding to OIG concerning the findings.

If you have any questions, please contact my staff at (303) 844-0359.

Ann C. DeGroat
ANN C. DEGROAT
Regional Director
Child Nutrition Programs

Attachment
FOOD AND CONSUMER SERVICE
CHILD AND ADULT CARE FOOD PROGRAM
DAY CARE HOMES - NATIONWIDE
AUDIT REPORT NO. 27600-6-A1

MARCH 1995

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UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL - AUDIT
SOUTHEAST REGION
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ATLANTA, GA 30365-3520
EXECUTIVE SUMMARY

FOOD AND CONSUMER SERVICE
CHILD AND ADULT CARE FOOD PROGRAM
DAY CARE HOMES - NATIONWIDE
AUDIT REPORT NO. 27600-6-A1

PURPOSE

This report summarizes the results of our audits of the U.S. Department of Agriculture, Food and Consumer Service’s (FCS), Day Care Homes (DCH) programs in California, Georgia, Kansas, Minnesota, and Texas. The audits were conducted to (1) evaluate the adequacy of FCS’, State agencies’, and sponsors’ financial and administrative controls over meal claims, and (2) determine the propriety of DCH meal claims including determining the extent of absent or nonexistent DCH providers and children and overstated meal claims. This coordinated audit of five States was initiated as a result of a recent Office of Inspector General (OIG) audit (Audit Report No. 27099-54-At) in one State which found high levels of noncompliance by sponsors and DCH’s including meals claimed for absent or nonexistent providers and children.

RESULTS IN BRIEF

At the time of our audit, there were about 285 sponsors and 54,000 DCH’s in the 5 States reviewed. Our audit randomly selected and reviewed 38 sponsors and 300 DCH’s in the 5 States. During the period of our review (October 1992 through April 1993), the five State agencies spent about $122 million for meals. Based upon the various conditions noted at the sample sponsors and DCH’s, we statistically estimated that within the five States:

- 3,713 DCH’s claimed meals totaling over $6 million during the period October 1992 through April 1993 for absent and/or nonexistent children,
- 22,246 DCH’s did not maintain current meal count and/or menu records for meals served resulting in unsupported meal claims totaling over $2.5 million,
- 160 sponsors did not perform all required monitoring visits to DCH’s, and
201 sponsors did not require DCH providers to attend program and child care training.

These figures are point estimates—our best statistical estimators. Exhibit E contains our statistical projections, the precision of point estimates, and the lower one-sided 95-percent confidence limits.

Management controls over program operations were not well designed to prevent or detect inflated and unsupported meal claims. Sponsor visits to monitor DCH’s were usually announced in advance. Only 9 of the 38 sponsors we reviewed conducted most of their visits unannounced. Monitoring forms used by sponsors to document the results of their visits did not collect and evaluate sufficient information to identify inflated meal counts and some unsupported meals. Child enrollment data was insufficient to assess the validity of meal claims. Sponsor edits of DCH meal claims generally were not sufficient to identify inflated claims. Only 6 of the 38 sponsors reviewed routinely contacted parents to verify child attendance times and claimed meals. Also, sponsors and some employee monitors may be reluctant to identify serious program deficiencies because it would reduce their income.

Of the 38 sponsors reviewed, 22 in 3 States did not require that care providers attend training. Although Federal regulations require that sponsors provide training, some regional FCS officials have interpreted the rules as allowing voluntary attendance by childcare providers. FCS Headquarters officials informed us that they interpreted the rules as requiring attendance as a condition to participate in the program.

State agency and FCS oversight reviews did not focus on the primary management controls at the sponsor and DCH levels. State agency administrative reviews of sponsors and DCH’s generally did not include sufficient tests to identify inflated and unsupported meal claims and assess the adequacy of sponsor monitoring of DCH’s. DCH visits were often announced in advance and parents were not contacted to verify meal claims. Organizationwide single audits provided little or no information from compliance testing of the Children and Adult Care Food Program (CACFP). Program-specific audits did not include sufficient tests to identify inflated meal claims. Audit coverage of military sponsors was not consistent.

FCS management evaluations of DCH activities did not include tests to assess the effectiveness of sponsor monitoring or to evaluate the adequacy of State agencies’ assessments of sponsor monitoring. Most evaluations did not include sponsor and/or DCH visits.

The results of our DCH visits and subsequent claims analysis and parent contacts identified significantly more serious deficiencies than sponsor monitoring of DCH’s and reviews conducted by the State agencies and independent auditors. Sponsor oversight of the DCH
program provides the primary controls to ensure the validity of DCH meal claims and maintain program integrity. Improvements are needed to strengthen oversight controls and to focus State agencies' and FCS' reviews on assessing their effectiveness.

**KEY RECOMMENDATIONS**

We recommend that FCS (1) require that sponsor and State monitoring visits to DCH's be unannounced and routine parent contacts be made, (2) establish minimum sponsor review coverage, enrollment information, and meal claim edits, (3) explore alternatives to reimbursing sponsor administrative costs based on the number of DCH's sponsored and incentives to compliance enforcement, (4) require that all DCH providers receive specified minimum training each year, (5) work with OMB and OIG to improve the CACFP compliance supplement for audits of sponsors, (6) establish minimum State agency review coverage, (7) work with the Department of Defense to define the scope and frequency of audits of military sponsors, and (8) require that FCS management evaluations include tests to assess and evaluate the effectiveness of State and sponsor monitoring of DCH's.

**AGENCY POSITION**

The FCS generally concurred with the recommendations during the December 12, 1994, exit conference. In its March 21, 1995, written response, the FCS stated that the recommendations will aid in its recent initiative to improve CACFP administration. FCS said that in January 1995, a task force was convened to identify areas where improvements are needed. The task force met again in March 1995 but no management decisions on our audit recommendations were made. This CACFP initiative is scheduled for completion in October 1996. Applicable portions of FCS response are incorporated along with our position, into the Findings and Recommendations Section of the report. The complete written response is included as exhibit F.
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INTRODUCTION

BACKGROUND

Section 17 of the National School Lunch Act, as amended, authorizes the Child and Adult Care Food Program (CACFP). The CACFP is intended to integrate nutritious food services with organized care services for enrolled children and certain functionally impaired or elderly adults. Under the CACFP, the Food and Consumer Service (FCS) provides cash reimbursement on a per meal basis for nonprofit food service to children in nonresidential child care centers and day care homes (DCH).

Title 7 CFR 226, dated January 1, 1992, contains regulations for administering the CACFP. State agencies participating in the CACFP enter into written agreements with FCS to administer the program in accordance with the applicable regulatory provisions. State agencies are responsible for (1) providing sufficient consultative, technical, and managerial personnel to administer the program, (2) giving training and technical assistance to institutions (sponsors, care facilities, etc.), (3) monitoring performance and compliance with program requirements, and (4) disbursing payments for administration and meal claims. FCS provides funding and is responsible for overseeing program operations.

Under the DCH provisions of the regulations, the State agency enters into written agreements with public or nonprofit sponsoring organizations. Sponsors assume complete responsibility for program administration in one or more DCH’s. Sponsors are required to (1) periodically visit all homes to monitor food service operations and attendance, (2) maintain enrollment and eligibility data on DCH’s and participants, (3) provide training, technical, and consultative services to assist DCH’s in meeting program requirements, and (4) review DCH meal claims and submit a consolidated monthly claim for meals and administrative costs to the State agency.

Sponsoring organizations enter into written agreements with each DCH provider which specifies the rights and responsibilities of both parties. Providers are responsible for preparing and serving meals which meet the meal pattern requirements specified by FCS’ regulations. They must maintain current enrollment and attendance records, menus, and the number of meals served (by type) to enrolled children. Two meals (breakfast, lunch, or supper) and one
supplement per child per day or two supplements and one meal are eligible for reimbursement.

In general, each participating DCH must have a current Federal, State, or local license or approval to provide an organized child care program in a private home. DCH providers must agree to comply with State or other approved child care standards. Most States periodically inspect all or some DCH's to assess compliance with the standards. Some States do not inspect DCH's. For example, does not inspect DCH's with six or fewer children. On military bases, sponsors and DCH's come under Department of Defense (DOD) child care regulations. DOD sponsors certify their DCH's for care services and routinely inspect them to ensure compliance. Authorized capacity in DOD sponsored DCH's is limited to six children.

Sponsoring organizations submit consolidated meal claims to the State agency for meals served by their DCH's and receive reimbursement based on fixed rates per meal established by FCS. Sponsors are required to reimburse providers for food service within 5 working days of receiving the State payment. Sponsors also receive reimbursement for their administrative costs. This reimbursement may not exceed the lesser of (1) actual expenditures for the costs of administering the program, (2) the amount of administrative costs approved by the State agency in the sponsoring organization’s budget, or (3) the sum of the products obtained by multiplying each month the sponsoring organization’s (a) initial 50 DCH’s by $65, (b) next 150 DCH’s by $50, (c) next 800 homes by $39, and (d) additional DCH’s by $34 (rates effective July 1, 1992). Reimbursements for administrative costs may not exceed a maximum of 30 percent of the sponsor’s total meal and administrative cost reimbursements.

State agencies are required to perform periodic onsite administrative reviews of sponsoring organizations and selected DCH’s at least once every 4 years to assess program performance and compliance. Sponsors with more than 200 homes are to be reviewed at least every 2 years. Audits of sponsors' financial and program activities are also conducted. Audits of sponsors may include coverage of DCH’s as part of organization-wide single audits or program-specific audits. FCS provides special funding for these audits. Any funds remaining after all required audits are performed can be used for additional State administrative reviews. For fiscal year (FY) 1993, State agencies spent about $11.7 million of $15.1 million that was specifically allocated for audits. Military sponsors do not come under the single or program-specific audit requirements. State agencies are to accept audits conducted by military auditors.


**OBJECTIVES**

Audit objectives were to (1) evaluate the adequacy of FCS', State agencies', and sponsors' financial and administrative controls over DCH meal claims, and (2) determine the propriety of meal claims including determining the extent of absent or nonexistent DCH providers and children and overstated claims.

**SCOPE**

This report summarizes the results of five Office of Inspector General (OIG) audit reports. The audit was conducted at the FCS National Office, 5 FCS regional offices (FCSRO), 5 State agencies, 38 DCH sponsors, and 300 DCH's. (See exhibit A.) Sponsor and site visits were conducted during the period April through August 1993. Audit coverage primarily included evaluating the current status of program internal controls and the validity of meal claims for the period October 1992 through April 1993. During this period, the five State agencies disbursed $122 million for meals served and about $17.6 million for sponsor administrative costs. Other periods were reviewed as deemed necessary. As of March 31, 1993, there were 270 DCH sponsors, about 54,000 DCH's, and an average daily attendance (ADA) of about 315,000 enrolled children in the 5 State DCH programs we reviewed.

<table>
<thead>
<tr>
<th></th>
<th>DCH SPONSORS</th>
<th>DCH's</th>
<th>ADA</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>113</td>
<td>22,742</td>
<td>121,000</td>
</tr>
<tr>
<td>Georgia</td>
<td>25</td>
<td>2,630</td>
<td>15,075</td>
</tr>
<tr>
<td>Kansas</td>
<td>31</td>
<td>6,489</td>
<td>40,654</td>
</tr>
<tr>
<td>Minnesota</td>
<td>12</td>
<td>11,846</td>
<td>75,471</td>
</tr>
<tr>
<td>Texas</td>
<td>89</td>
<td>10,433</td>
<td>62,484</td>
</tr>
<tr>
<td>Five State Total</td>
<td>270</td>
<td>54,140</td>
<td>314,684</td>
</tr>
<tr>
<td>National Total</td>
<td>1,169</td>
<td>174,224</td>
<td>848,792</td>
</tr>
</tbody>
</table>

We placed primary emphasis on evaluating the accuracy of DCH meal claims and supporting records and the adequacy of the FCSRO, State agency, and sponsor monitoring systems and policies and procedures.
We did not assess compliance with meal pattern requirements. The audit was conducted in accordance with generally accepted government auditing standards.

**METHODOLOGY**

Our audit included reviews of FCS, State agency, and sponsor CACFP policies and procedures and monitoring activities, including evaluations of administrative reviews and certified public accountant audit coverage. We also assessed State agencies' annual administrative cost plans and program participation and training records. We reviewed DCH meal claims, sponsor claim edits, DCH monitoring visit reports, and enrollment, attendance, meal count, and training records. We conducted unannounced visits to 300 sample DCH's and observed child attendance and meal servings. We also contacted parents to verify questionable meal claims. We interviewed Federal, State, sponsor, and provider officials regarding program activities and financial and administrative controls.

The five States were judgmentally selected based on total sponsor and DCH enrollment, program costs, and geographic location. During the period April through August 1993, sponsors and DCH's were statistically selected for review. (See exhibit E.) Except for Minnesota, we stratified each State's universe of sponsors into two strata, and during each State review selected sponsors from each stratum. Because Minnesota had only 12 comparatively large sponsors, we did not stratify.

<table>
<thead>
<tr>
<th></th>
<th>No. of Sponsors</th>
<th></th>
<th>Range of DCH's per Sponsor</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Selected</td>
<td></td>
</tr>
<tr>
<td>California</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strata 1</td>
<td>77</td>
<td>5</td>
<td>7 to 198</td>
</tr>
<tr>
<td>Strata 2</td>
<td>36</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Georgia</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strata 1</td>
<td>16</td>
<td>3</td>
<td>8 to 53</td>
</tr>
<tr>
<td>Strata 2</td>
<td>8</td>
<td>3</td>
<td>74 to 1,013</td>
</tr>
<tr>
<td>Kansas</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strata 1</td>
<td>22</td>
<td>3</td>
<td>13 to 212</td>
</tr>
<tr>
<td>Strata 2</td>
<td>10</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Minnesota</td>
<td>12</td>
<td>6</td>
<td>109 to 5,148</td>
</tr>
<tr>
<td>Texas</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strata 1</td>
<td>68</td>
<td>5</td>
<td>1 to 67</td>
</tr>
<tr>
<td>Strata 2</td>
<td>36</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>285</td>
<td>38</td>
<td></td>
</tr>
</tbody>
</table>
During each sponsor review, we statistically selected 6 to 10 DCH's (60 DCH's per State) for unannounced site visits.

<table>
<thead>
<tr>
<th></th>
<th>DCH's in Selected Sponsors</th>
<th>DCH's Selected</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Per Sponsor</td>
</tr>
<tr>
<td>California</td>
<td>2,708</td>
<td>10</td>
</tr>
<tr>
<td>Georgia</td>
<td>1,357</td>
<td>6</td>
</tr>
<tr>
<td>Kansas</td>
<td>1,757</td>
<td>6</td>
</tr>
<tr>
<td>Minnesota</td>
<td>7,782</td>
<td>6</td>
</tr>
<tr>
<td>Texas</td>
<td>1,477</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>15,081</td>
<td></td>
</tr>
</tbody>
</table>

Our random sample of DCH sponsors and DCH's was designed to support a statistical estimate of the extent of sponsor and DCH compliance error for the five selected States.
FINDINGS AND RECOMMENDATIONS

PROGRAM CONTROLS NEED STRENGTHENING TO ENSURE PROGRAM INTEGRITY AND COMPLIANCE

Management internal controls over the DCH program were not adequate to prevent or detect inflated and unsupported meal claims. DCH monitoring visits and meal claim edits by sponsors were generally ineffective because they were not designed to identify inflated and unsupported meal claims. Similarly, State agency and FCS oversight reviews were inadequate to detect the control weaknesses at the sponsor and DCH levels.

Our review of 300 statistically sampled DCH's and 38 sample sponsors identified various deficiencies at 151 DCH's and 28 sponsors. Based on these audit sample results, we statistically projected the following deficiency rates for the five State area. (See exhibits B and E.)

- An estimated 3,713 DCH's inflated meal claims by over $6 million during the 7-month period October 1992 through April 1993.

- An estimated 22,246 DCH's did not maintain current meal count and/or menu records for meals served. The cost of such unsupported meal claims was estimated at over $2.5 million.

- An estimated 160 sponsors did not perform all required monitoring visits or untimely performed initial visits.

- An estimated 201 sponsors did not require DCH providers to attend annual training.

Overall, we estimated that 26,532 DCH's and 256 sponsors in the 5 States reviewed had one or more compliance deficiencies including those cited above.

Our audit identified 24 DCH's in 4 of the 5 States reviewed that routinely claimed meals for absent and/or nonexistent children. (See exhibit B.) We found that DCH's claimed meals (a) when they did not care for any children, (b) at times and on days when
enrolled children were not in attendance, and (c) for children who were no longer attending. Examples follow.

- Two DCH’s managed and claimed by one sponsor did not provide day care. One of the providers told us she did not provide day care. Despite repeated attempts, we were unable to contact the other provider. However, her children told us she did not provide care because she did not get home until late at night. No deficiencies were reported by the sponsor’s reviews.

- One provider routinely claimed maximum participation and meals allowed per day until our visit. On the day of our visit, the provider claimed one-fourth the usual number of meals. A parent told us her two children only attended on weekends, but the provider routinely claimed six meals per day during the week for the children. Another parent said her child did not eat breakfast at the provider’s home. The provider routinely claimed breakfast for this child. The sponsor reported no deficiencies at this DCH.

- One provider routinely claimed suppers that were not served. Parents confirmed that their children were always picked up before suppertime. Our review of 13 monitoring reports found that no sponsor visits were made at suppertime, and no deficiencies were reported.

- One provider claimed weekend meals for children who, according to their mother, attended another day care 100 miles away. No problems were reported by the sponsor.

Attendance and meal participation observed at the time of our visits differed substantially from prior attendance and meal claims at many DCH’s. For example, one provider’s meal participation rate was 90 percent of enrolled children for the 6 months prior to our visit in July 1993. During our first visit at about 8 a.m., no children were present. The provider said that the children’s parents were not dependable. Another visit an hour later found that the provider was not at home. The provider’s July meal claim showed breakfasts claimed for five children the day of our visits. A third visit several days later found about 40 percent of the enrolled children were present and received meals. Using enrollment data, we tried to contact parents of the missing children. All telephones had been disconnected. The sponsor’s monitoring reviews found no problems at this DCH. Because we could not contact parents, we did not include this case in our statistical estimate of inflated claims.

DCH’s are required to maintain current meal count (attendance) and menu records through the last meal service. During our unannounced DCH visits, we examined the records to determine whether they were current through the prior serving day.
Of the 300 providers reviewed, 109 DCH’s did not keep current meal count and/or menu records or completed them in advance. (See exhibit B.) We estimate that about 22,200 DCH’s in the 5 States reviewed did not adequately maintain these records. We estimated that unsupported meal claims totaled $2.5 million for this deficiency. Sponsor monitors should have detected and corrected this problem but their DCH monitoring visits were usually announced in advance and some sponsors did not assess compliance for these recordkeeping requirements. Also, some monitors did not consider the lack of records to be serious. As a result, sponsors rarely reported the deficiencies.

It is essential that records be kept current to ensure that subsequent meal claims made at the end of the month are accurate and reliable. Providers cannot accurately remember names of every enrolled child in attendance and the number and types of meals served days or weeks later when monthly meal claims are submitted. After our visits, 19 DCH’s claimed more meals than were served at the meal service we observed.

FCS’ last vulnerability assessment of CACFP activities was conducted in 1983. FCS' Federal Managers' Financial Integrity Act management control report for FY 1993 identified no material internal control weaknesses in the DCH program.

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**SPONSOR MONITORING CAN BE MORE EFFECTIVE**

**FINDING NO. 1**

Sponsor monitoring visits to DCH’s and meal claim edit checks were ineffective in preventing or detecting improper meal claims. Monitoring visits and edit checks were not designed to ensure meal claims were accurate and proper. Sponsors and some employee monitors may be reluctant to identify serious deficiencies because it would reduce their income. Sponsor monitoring seldom identified the type and extent of deficiencies found by our audit.

Sponsors must visit each DCH no less than three times each year with at least one visit made during the first 4 weeks of program participation and no more than 6 months between visits. During these visits, sponsors are required to assess recordkeeping, meal pattern, and other program requirements such as compliance with child care standards. Preapproval visits to each DCH must also be made to discuss program requirements and to assess the home's capability to provide food service.

Sponsors are also required to establish meal claim edit systems to ensure that claims are accurate and are made only for authorized meals served to enrolled children by approved providers.

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Sponsor's DCH visits were primarily directed at meal pattern, selected recordkeeping requirements, and compliance with selected child care standards. Meal claim edits included checking child enrollment, authorized meals, and claim calculations. These controls were not well designed to detect and prevent meal overclaim deficiencies and unsupported meal counts. Design problems included (a) home visits announced in advance, (b) inadequate monitoring visit forms, (c) insufficient and inaccurate child enrollment data, (d) inadequate meal claim edits, and (e) few parent contacts.

Announced Monitoring Visits

Sponsor monitoring visits to DCH's were routinely announced in advance. Some sponsors made formal appointments to visit. Only 9 of the 38 sponsors we reviewed conducted most of their visits unannounced. (See exhibit C.) In general, the other sponsors said they had policies to make unannounced visits if meal claim irregularities were suspected; however, sponsor monitoring reports on sample DCH's reported few irregularities and contained no evidence that unannounced visits were made.

FCS program regulations are silent on whether or not visits should be announced in advance. None of the State agencies we reviewed required unannounced visits. They usually left it up to each sponsor to decide. Because of our State audit recommendations, the five States reviewed now require, or plan to require, that at least one visit per year be unannounced.

Unannounced visits during our audit were effective in identifying child attendance (absences) which significantly varied from prior daily meal claims and noncurrent meal count and menu records. These deficiencies were rarely identified in the over 900 sponsor review reports we examined.

We also determined that 18 of 38 sponsors in 4 of the 5 States did not conduct all DCH visits as required. (See exhibit B and examples below.)

- One [redacted] sponsor did not perform the required number of compliance visits at 15 of its 24 DCH's (63 percent) during a 20-month period ended May 1993. Of 19 DCH's that began providing child care services during the review period, 10 (53 percent) were not reviewed within the first 4 weeks of operation. One DCH that joined the program in April 1992 had not been visited at the time of our review in June 1993.

- All six sampled sponsors in [redacted] did not review new providers timely. One sponsor's initial visits were late for 33 of 119 new DCH's (28 percent).
Monitoring Visit Forms

Monitoring forms used by sponsors to document the results of their DCH visits did not contain sufficient questions or require adequate data to identify inflated meal counts and some recordkeeping problems. During visits, child enrollment, attendance, and meal count data were not compared to identify attendance and meal count irregularities.

On September 10, 1987, FCS issued an instruction which stated that sponsors must ensure that providers maintain current child enrollment records. It required that sponsors compare data on the enrollment records to attendance records and meal claims submitted by DCH's. FCS did not require that similar reconciliations be conducted during monitoring visits to detect or prevent attendance and meal count deficiencies before meal claims were submitted to the State. We found that such data reconciliations during visits were effective in identifying potentially inflated meal claims.

The questions and data collected on sponsor monitoring forms varied considerably. (See exhibit C.) In some cases, basic compliance requirements were not included. The State Agency required sponsors to use a standard form developed or approved by the State. The forms required each monitor to gather and examine the same basic data such as whether meal count and menu records were current, enrollment records were available, training was provided, and selected child care standards were met. The State Agency allowed each sponsor to develop its own review form. Five of the six sponsors did not require their monitors to verify whether all basic recordkeeping requirements were met. Five sponsors' forms did not determine whether child enrollment records were current and available. Only one sponsor had a review form containing extensive questions on recordkeeping, training, and child care standards.

FCS regulations provide general guidelines for monitoring visits but do not require specific tests or data reconciliations.

Child Enrollment Data

Child enrollment data obtained by sponsors were generally insufficient to assess the validity of meal claims. In general, enrollment forms required basic information including child's name, address, birth date, and parents' names and home and work telephone numbers. The forms did not always show usual days and hours of care and meals to be received. None of the forms showed meals eaten at school (breakfast and/or lunch). This information is essential in assessing the validity of attendance and claimed meals, especially for breakfasts and suppers. Meal overclaims found during our audit often included inflated breakfast and supper meal counts.
The data collected on enrollment forms varied considerably between sponsors. In each sponsor developed ‘its own forms. Of the 10 forms reviewed, in addition to the basic data, 1 form requested usual days and hours of care and DCH meals, and 3 forms requested days and hours of care only. Enrollment forms in the other States showed similar variances. (See exhibit C.)

Enrollment data was often inaccurate and incomplete. We estimated that 1,157 DCH’s claimed meals for children without obtaining an enrollment form. Enrollment forms are required to be completed when children first attend DCH’s and copies are to be sent to sponsors. We used enrollment data to contact selected parents to verify DCH attendance and meal service. We could not contact numerous parents because phone numbers were incorrect or missing, phones were disconnected, or the place of parent employment had changed. For example, one provider claimed perfect attendance at meals for the period October 1992 through June 1993. During our visit in July, only 2 of 10 enrolled children were present. We were able to contact only two of the eight missing children’s parents because phone numbers were missing, phones were disconnected, or the parents no longer worked at employers shown on the enrollment forms.

Meal Claim Edits

Sponsor edits of DCH meal claims generally did not include a reconciliation of enrollment, attendance, and meal count data to identify aberrant meal claims. Although routine edits did include checking (a) claim calculations, (b) enrollment, (c) whether only authorized meal types were claimed, and (d) whether the claim exceeded the maximum number of authorized meals, the extent of claim edits varied considerably between sponsors. Some sponsors’ edits were comprehensive but most were limited. For example, one sponsor in checked enrollment only. Few sponsors compared meal claims to both attendance and enrollment data to identify potential overclaims.

We noted that several DCH’s routinely claimed the maximum number of meals and attendance every day month after month, but sponsors did not identify this meal count pattern as a potential overclaim for followup action. We found that comparing meal claims to complete enrollment data, to attendance observed during DCH visits, and to attendance patterns (i.e., perfect attendance each day for weeks or months) was useful in identifying potential meal overclaims.

Parent Contacts

In general, sponsors did not contact parents to verify child attendance times and claimed meals. Of the 38 sponsors reviewed, only 6 routinely contacted parents. (See exhibit C.) One sponsor’s policy was to mail parent surveys to verify meal claims on 20 to 25 DCH’s each month. This sponsor had
terminated three DCH providers from the program for cause (intentional meal overclaims) in FY’s 1992 and 1993.

Parent contacts were an effective means of identifying inflated meal claims. Providers inflated claims by claiming weekday meals for children who attended only occasionally or on weekends and by claiming breakfasts and suppers for children who did not attend at breakfast and supper times. Our statistical estimate that 3,713 DCH’s inflated meal claims at a cost of over $6 million was based primarily on sample cases where parent contacts verified meal overclaims. We contacted parents when our visits to DCH’s indicated potential overclaims such as observed attendance that was lower than usual claims. We believe our estimate is conservative because, as previously stated, many parents could not be contacted due to invalid telephone numbers.

Conflicts in Administrative Cost Reimbursement

Sponsors receive monthly and annual reimbursement for administrative costs based primarily on the number of DCH’s sponsored (i.e., $65 per month times the first 50 DCH’s, etc.). This direct relationship between revenue and the number of DCH’s sponsored can discourage sponsors from taking actions which might cause a DCH to transfer to another sponsor, quit the program, or be terminated from the program. Several sponsor officials told us they did not enforce some requirements such as licensed capacity and training because DCH’s would transfer to sponsors who did not enforce the requirements.

Rather than paying a salary or hourly wage, 5 of the 38 sponsors we reviewed paid their employee monitors based on the number of DCH’s recruited, managed, and/or monitored each month. This system creates financial incentives for the individuals to recruit and maintain DCH participation and avoid actions which might reduce their income. One multi-State sponsor paid its employee monitors $40 for each enrollment visit, $5 to $20 for various monitoring visits, and $6 per month for each active DCH under the employee’s supervision. The employee was the primary sponsor contact with his/her group of DCH’s. Under this system, there is no proper separation of duties in the daily management and oversight of DCH’s. Without this standard internal control, collusion between unscrupulous employees and DCH providers could go undetected. This is a material internal control weakness that invites program abuse.

Nonpayment of Inflated Meal Claims

We found that State agencies and sponsors may be reluctant to disallow payments and/or request repayment of total meal claims made during a period when it was determined that a DCH routinely claimed meals for absent and/or nonexistent children. This occurred because the Federal regulation (7 CFR 226.10 (f)) did not specify that DCH’s
were subject to the same payment penalty for submitting inflated claims as that imposed on sponsors.

Conclusions

The results of our audit visits to DCH's varied considerably from the results of sponsor visits. Deficiencies found during audit visits were rarely shown in the hundreds of sponsor monitoring visit reports we reviewed. The meal overclaims and other compliance deficiencies we noted could have been identified by more effective sponsor oversight of DCH's.

RECOMMENDATION NO. 1a

Require that sponsor and State monitoring visits to established DCH's be unannounced.

RECOMMENDATION NO. 1b

Establish required review coverage for sponsor monitoring of DCH's (review forms) to include (1) assessing whether enrollment, meal count, and menu records are current and complete and (2) reconciling observed attendance with enrollment data and with the subsequent meal count that is claimed.

RECOMMENDATION NO. 1c

Establish standard enrollment information to be collected on enrollment forms which are signed by parents and updated at least annually. Useful information which was not uniformly collected includes normal days and hours of care and meals to be received at the DCH and at school.

RECOMMENDATION NO. 1d

Establish standard meal claim edits to be performed by sponsors. Useful edits include checking claims to enrollment data (attendance times and meals at the DCH and school), authorized meal types, observed attendance at monitor visits, and the maximum number of authorized meals.
RECOMMENDATION NO. 1e

Establish requirements for State agencies and sponsors to perform (1) routine parent confirmations of child attendance and meals received at DCH's and (2) specific parent verifications when potential meal overclaims are identified by monitoring visits or other means.

RECOMMENDATION NO. 1f

Establish procedures to ensure the proper separation of duties by sponsors with more than one employee. As a minimum, sponsors should be prohibited from paying employees based on the number of DCH’s recruited, maintained, and/or monitored.

RECOMMENDATION NO. 1g

Explore alternative systems of administrative cost reimbursement so that they are not directly based on DCH numbers and do not create a financial disincentive to compliance enforcement. Consider emphasizing monthly budgeting and strengthening sponsor eligibility requirements.

RECOMMENDATION NO. 1h

Specify in 7 CFR 226.10(f) that DCH providers' meal claims may be disallowed for unlawful acts.

FCS Response

The FCS written reply from the Deputy Administrator of Special Nutrition Programs stated that these recommendations were being addressed by a CACFP task force as part of an initiative to improve overall CACFP administration. The initiative is scheduled for completion in October 1996. No management decisions were provided on the recommendations.
OIG Position

The FCS needs to provide management decisions specifying corrective actions planned on each recommendation and planned implementation dates. Departmental regulations require that management decisions be agreed upon within 6 months and implementation be completed within 1 year from the date of management decision.

**TRAINING NOT REQUIRED FOR DCH PROVIDERS**

**FINDING NO. 2**

Of 38 sponsors reviewed, 22 sponsors in 3 of the States did not require that DCH providers attend annual training. (See exhibit B.) We estimate this deficiency occurred in about 200 sponsors in the 5 States. Although Federal regulations require that sponsors provide annual training, some FCS officials interpreted the rule as not requiring DCH providers to attend such training.

Federal regulations require that sponsors provide annual training sessions for DCH staff. Sponsor and DCH agreements are to include the sponsor's responsibility to train DCH staff in program requirements. Some regional FCS officials stated that the regulations require DCH sponsors to offer annual training, but DCH provider attendance is voluntary. FCS Headquarters officials informed us that they interpreted the rules as requiring attendance as a condition for providers to participate in the program.

We found that two of the five State agencies reviewed required that providers attend annual training sessions as part of the sponsors' agreements with DCH's. The State Agency requires that each DCH provider attend at least three 1-hour food and nutrition related training sessions each year. Sponsors are required to facilitate and/or present the training. Compliance was examined during State agency administrative reviews. The State Agency requires that each DCH receive annual training through formal training sessions and/or in-home education. Sponsors must document training dates, attendance, and content and the State agency assesses compliance. Sponsor agreements with providers stipulate the minimum amount of time that providers attend training each year. We found that the policies were effective and nearly all DCH providers received the prescribed training.

The State Agency did not require that DCH's receive training, but all 10 sponsor agreements with DCH's that we reviewed did require that DCH's attend at least one session per year. However, the State agency did not assess training attendance during

---

Title 7 CFR 226.16(d) and 226.18(b), dated January 1, 1992.
its administrative reviews. We found that [redacted] sponsors did not enforce the training requirement. Of 2,184 DCH's managed by the 10 sample sponsors in FY 1992 or FY 1993, only 451 attended annual training sessions.

The [redacted] State Agency did not require that DCH providers attend training, but all six sample sponsors’ agreements with DCH’s required attendance. Only one sponsor enforced attendance. We found that 22 of the 60 sample DCH providers did not attend training. Sponsor officials stated that they did not enforce attendance because providers would transfer to other sponsors who did not require attendance. They also stated some providers may not be able to attend because of transportation problems.

Although the [redacted] State Agency responsible for the CACFP did not require that providers receive training, the [redacted] licensing agency required 20 hours of training each year to maintain the license or registration. We found that sponsors did not ensure that DCH’s met this requirement. As a result, DCH’s in [redacted] could lose their authorization to provide day care services and become ineligible to participate.

Periodic training in DCH program responsibilities and child care is important to maintain program integrity and to ensure quality child care.

RECOMMENDATION NO. 2a

Strengthen the DCH regulations to require that all participating child care providers must receive a specified minimum number of hours in program and child care training each year.

RECOMMENDATION NO. 2b

Require that sponsors and State agencies verify at least annually that participating DCH's received the prescribed training.

FCS Response

These two recommendations were discussed during a January 1995 CACFP task force meeting and further discussions planned for a March meeting. No management decisions were made.
OIG Position

During the audit exit conference on December 12, 1994, FCS officials stated that provider training was mandatory. FCS needs to provide its management decisions detailing actions to immediately correct the regulatory interpretation that training attendance is not mandatory.

State agency reviews and independent audits of sponsors did not assess the adequacy of sponsor monitoring of DCH's and generally included only limited compliance testing at the DCH level. FCS reviews of State agency program management provided minimal coverage of DCH program activities. Improvements in the scope of FCS and State agency reviews and sponsor audits can strengthen program oversight by focusing on program internal controls.

State agencies are required to perform onsite administrative reviews of sponsoring organizations and selected DCH's at least once every 4 years to assess program performance and compliance. Sponsors with more than 200 homes are to be reviewed at least once every 2 years. The number of required DCH visits per sponsor varies depending on the number of DCH's managed.

Independent annual audits of sponsors' financial and program activities may be conducted as part of single organizationwide audits for organizations with multiple Federal funding sources or as program-specific audits.\(^3\) Single audits are governed by Office of Management and Budget (OMB) Circular Nos. A-128 for State and local governments and A-133 for audits of educational institutions and other nonprofit organizations. Audit compliance testing is governed by OMB's applicable compliance supplements. FCS provides special funding to State agencies for these audits.

Military sponsors are exempt from the single audit requirements. FCS agreed with the Department of Defense that program-specific audits were not required because audits of program activity on military facilities would be conducted by the military. However, no agreement was made regarding the scope and frequency of military audits.

State Agency Administrative Reviews

State agency administrative reviews of sponsor and DCH activities generally did not include sufficient tests to identify recordkeeping

\(^3\) Title 7 CFR 226.8, dated January 1, 1992.
deficiencies and inflated meal claims, and to assess the adequacy of sponsor monitoring of DCH's. DCH visits were often announced in advance which reduces the chances of identifying DCH deficiencies, especially recordkeeping problems. Parents were not routinely contacted to verify child attendance and claimed meals.

Monitoring visit forms used to conduct and document administrative reviews did not always contain specific questions to test sponsor and DCH controls for ensuring valid meal claims. Three of the five State agency monitoring forms reviewed did not contain questions to determine if current child enrollment forms were maintained by DCH's for each child. The State Agency's form did not contain questions to determine whether DCH's maintained current meal count and menu records. No State agency reconciled enrollment, attendance, and meal count data at DCH's to identify potential meal overclaims. State reviews generally did not assess the effectiveness of sponsor monitoring. Two State agencies found significantly greater deficiencies during their DCH monitoring visits than were found in the sponsor monitoring visits. (See exhibit D.)

Two States in our review had taken action to improve DCH program oversight. Just prior to our audit, the and State Agencies completed special reviews that targeted several sponsors for indepth reviews. They identified DCH's that claimed meals for absent or nonexistent children and nonexistent DCH's. As a result of these reviews, the 2 States terminated 13 sponsors (12 in

### Independent Audits

Of the 38 sponsors reviewed, 29 received organizationwide single audits, 4 received program-specific audits, and 1 military sponsor received an internal audit. Two sponsors were not audited because they were new to the program. Audits covering two military sponsors (one sponsor and one ) had not been received at the time of our review.

<table>
<thead>
<tr>
<th></th>
<th>Sponsors Reviewed</th>
<th>Single</th>
<th>Program-Specific</th>
<th>Military</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>10</td>
<td>10</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Georgia</td>
<td>6</td>
<td>1</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>Kansas</td>
<td>6</td>
<td>5</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Minnesota</td>
<td>6</td>
<td>6</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Texas</td>
<td>10</td>
<td>7</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>38</strong></td>
<td><strong>29</strong></td>
<td><strong>4</strong></td>
<td><strong>1</strong></td>
</tr>
</tbody>
</table>
Organizationwide audits provided little or no information from compliance testing of the DCH program. These audits generally limit compliance testing to other programs which provide the largest sources of funding to sponsor entities. DCH funding tends to be a small portion of total funding in large sponsor organizations which participate in many Federal and State programs. Additionally, the OMB compliance supplements for audits of FCS' CACFP program do not require testing at DCH's nor provide tests to assess the validity of meal claims and the effectiveness of sponsor monitoring.

A standard program-specific audit guide used by contracted auditors for compliance testing did require DCH visits and included general steps to assess enrollment, attendance, and meal servings. The audit guide did not require a reconciliation of enrollment, attendance, and meal count data nor parent contacts to verify the data. An average of only two DCH's was visited during the last program-specific audits of the four sponsors. The audits, including DCH visits, were usually conducted in 1 day. No DCH findings similar to those identified by this audit were found in the audit reports we reviewed.

Audit coverage of military sponsors and State agency action to obtain this coverage varied considerably. Of 285 sponsors in the 5 States at the time of our review, 30 sponsors in 4 States were military sponsors. * did not have any military sponsors. At the time of our review, 3 State agencies had not received 13 of the 30 FY 1991 audit reports for military sponsors.

The State Agency subsequently received its four missing audit reports from the military. A State agency official stated that their military sponsors know that they have to submit audit reports each fiscal year and action will be taken to obtain them. and State Agency officials stated that military sponsors were exempt from program audit requirements and they did not take any followup action to obtain missing reports.

An FCS memorandum dated August 13, 1990, to the Southeast Regional Director of Special Nutrition Programs, stated:

[T]here is no regulatory requirement for audits if the sponsor *** is a Federal entity. Internal audits conducted by the Department of Defense are deemed to cover such entities.

If the State agency believes additional audit activity is necessary or useful, it may perform audits and/or reviews utilizing funds provided under 7 CFR 226.4(h).

FCS had no agreement with DOD regarding the scope and frequency of CACFP audits.

A DOD OIG official responsible for military facility audits nationwide stated that because of the amount of funds involved (care
centers and DCH sponsors), periodic audits should be conducted. He was not aware of any specific audit requirements governing these types of operations.

FCS provides separate funding for the conduct of CACFP audits such as annual sponsor audits. Any funds remaining after completion of the required audits can be used to expand State oversight of CACFP program activities. Two State agencies we reviewed had significant FY 1993 audit funds remaining that were not used. For FY 1993, about $3.4 million in nationwide audit funding was not used by State agencies to improve DCH program oversight.

**FCS Reviews of State Agencies**

The FCSRO’s are required to conduct periodic management evaluation reviews of program activities conducted by the States. The evaluations are usually conducted using a review guide provided by FCS Headquarters. Review steps are updated annually and can be modified at the discretion of regional officials. FCS’ evaluations cover several other special nutrition program activities in addition to the CACFP. Although there is no requirement for cyclical reviews, most State agencies are reviewed within a 3-year cycle.

FCS evaluations were usually conducted at State agency offices and included general program activities such as State agency operations, financial management, free and reduced price meal policy, civil rights, and State agency monitoring. No tests were made to assess the effectiveness of sponsor monitoring or to evaluate the adequacy of the State agencies’ assessments of sponsor monitoring. Most evaluations did not include sponsor and/or DCH visits.

**Conclusions**

Sponsor oversight of the DCH program provides the primary internal controls to ensure the validity of DCH meal claims and maintain program integrity. FCS’ and State agencies’ reviews and independent audits need to focus on assessing the effectiveness of sponsor oversight and include testing at the DCH level.

**RECOMMENDATION NO. 3a**

Require that State agency administrative reviews of sponsors and DCH’s include steps to identify recordkeeping deficiencies, inflated meal claims, and to assess the adequacy of sponsor monitoring of DCH’s. Reviews should include unannounced DCH visits and parent contacts.
FCS Response

This recommendation was discussed at the January 1995 CACFP task force meeting and scheduled for further discussion in a March meeting.

OIG Position

The FCS response was positive but no management decision was provided. FCS needs to provide a management decision describing planned actions and timeframes.

RECOMMENDATION NO. 3b

Work with OMB and OIG to develop improved single audit compliance supplements for audits of sponsors.

FCS Response

The Deputy Administrator of Special Nutrition Programs stated in a March 21, 1995, response that:

FCS will develop improved single audit compliance supplements for audits of sponsors in coordination with OFM, OMB and OIG.

OIG Position

To reach a management decision, FCS needs to provide a planned timeframe for revising the compliance supplements.

RECOMMENDATION NO. 3c

Work with OIG to develop a standard review guide for use during program-specific audits and include steps to address the weaknesses identified in this report.

FCS Response

FCS stated that this recommendation was introduced as an area for discussion in a March 1995 CACFP task force meeting. No management decision was reached.
OIG Position

FCS needs to provide its management decision including a timeframe for completion. The standard review guide should be developed concurrently with actions on Recommendation No. 3d.

RECOMMENDATION NO. 3d

Coordinate with DOD to achieve consistent military audits of CACFP activities. FCS should seek an agreement with DOD which defines audit scope, frequency, and compliance testing.

FCS Response

On March 21, 1995, the Deputy Administrator of Special Nutrition Programs stated that:

FCS will meet with DOD to pursue this recommendation.

OIG Position

To reach a management decision, FCS needs to provide a timeframe for reaching an agreement with DOD.

RECOMMENDATION NO. 3e

Modify FCS management evaluation coverage to include specific steps to assess the effectiveness of State and sponsor monitoring of DCH's (audits, administrative and other reviews, DCH visits, and meal claim edits).

FCS Response

Next fiscal year, the Management Evaluation guidance will be revised to encourage an evaluation of the effectiveness of State and sponsor monitoring of DCHs.

OIG Position

To reach a management decision, FCS needs to provide a description of evaluation steps that will be included in its evaluations and a specific timeframe for completing the evaluation guideline.
EXHIBIT A - AUDIT LOCATIONS

Food and Consumer Service

National Office
Midwest Regional Office
Mountain Plains Regional Office
Southeast Regional Office
Southwest Regional Office
Western Regional Office

Alexandria, Virginia
Chicago, Illinois
Denver, Colorado
Atlanta, Georgia
Dallas, Texas
San Francisco, California

State Agencies

California Department of Education
Georgia Department of Education
Kansas State Board of Education
Minnesota Department of Education
Texas Department of Human Services

Sacramento, California
Atlanta, Georgia
Topeka, Kansas
St. Paul, Minnesota
Austin, Texas

Sponsors and DCH's

The locations of the 38 sponsors and 300 DCH's visited were identified to FCS and State agencies in the State-level reports.

<table>
<thead>
<tr>
<th>State</th>
<th>Audit Report No.</th>
<th>Issue Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>California</td>
<td>27099-28-SF</td>
<td>December 22, 1993</td>
</tr>
<tr>
<td></td>
<td>27099-56-At</td>
<td>March 17, 1994</td>
</tr>
<tr>
<td></td>
<td>27099-3-KC</td>
<td>March 31, 1994</td>
</tr>
<tr>
<td>Georgia</td>
<td>27099-88-Ch¹</td>
<td>November 3, 1993</td>
</tr>
<tr>
<td>Kansas</td>
<td>27099-45-Te</td>
<td>April 29, 1994</td>
</tr>
<tr>
<td>Minnesota</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Texas</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

¹ Statement of Condition - No audit report issued.
EXHIBIT E - STATISTICAL SAMPLING PLAN

Purpose - The purpose of the statistical tests performed during this audit were to evaluate the adequacy of FCS’, State agencies’, and sponsors’ financial and administrative controls over DCH meal claims to (1) determine if meal claims were adequately supported, meal counts and menu records were current, and sponsors were adequately monitoring DCH’s, and (2) provide reliable statistical estimates of the selected attributes and variables.

Approach - A stratified two-stage sampling design was used in four of the five States (California, Georgia, Kansas, and Texas) which had been judgmentally selected for review (see Methodology section). In the first stage, the 273 sponsors (primary sampling unit) located in the 4 States were divided into 2 strata. The strata consisted of sponsors with small numbers of DCH’s and sponsors with large numbers of DCH’s with respect to the number of DCH’s per sponsor in each selected State. The 12 sponsors in Minnesota were not stratified because of the size and number of sponsors in the State. Using a random number table 38 sponsors were randomly selected for review. Table E-1 below details the stratification of the sponsors and the number of sponsors randomly selected from each of the five States.

<table>
<thead>
<tr>
<th>State</th>
<th>Number of Sponsors</th>
<th>Range of DCH’s Per Sponsor</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Selected</td>
</tr>
<tr>
<td>California</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strata 1</td>
<td>77</td>
<td>5</td>
</tr>
<tr>
<td>Strata 2</td>
<td>36</td>
<td>5</td>
</tr>
<tr>
<td>Georgia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strata 1</td>
<td>16</td>
<td>3</td>
</tr>
<tr>
<td>Strata 2</td>
<td>8</td>
<td>3</td>
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<tr>
<td>Kansas</td>
<td></td>
<td></td>
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<tr>
<td>Strata 1</td>
<td>22</td>
<td>3</td>
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<tr>
<td>Strata 2</td>
<td>10</td>
<td>3</td>
</tr>
<tr>
<td>Texas</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strata 1</td>
<td>68</td>
<td>5</td>
</tr>
<tr>
<td>Strata 2</td>
<td>36</td>
<td>5</td>
</tr>
<tr>
<td>Subtotal</td>
<td>273</td>
<td>32</td>
</tr>
<tr>
<td>Minnesota</td>
<td>12</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>285</td>
<td>38</td>
</tr>
</tbody>
</table>

Table E-1

In the second stage, we randomly selected 300 DCH’s (secondary sampling unit) from the 38 sponsors. The DCH’s were selected using a random number table. Table E-2 shows the number of DCH’s selected per State and per sponsor.
EXHIBIT E - STATISTICAL SAMPLING PLAN

<table>
<thead>
<tr>
<th>State</th>
<th>No. DCH's in Selected Sponsors</th>
<th>No. DCH's Selected</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Per State</td>
</tr>
<tr>
<td>California</td>
<td>2,708</td>
<td>60</td>
</tr>
<tr>
<td>Georgia</td>
<td>1,357</td>
<td>60</td>
</tr>
<tr>
<td>Kansas</td>
<td>1,757</td>
<td>60</td>
</tr>
<tr>
<td>Minnesota</td>
<td>7,782</td>
<td>60</td>
</tr>
<tr>
<td>Texas</td>
<td>1,477</td>
<td>60</td>
</tr>
<tr>
<td>Total</td>
<td>15,081</td>
<td>300</td>
</tr>
</tbody>
</table>

Table E-2

Universe - At the time sponsors were statistically selected (April through May 1993), there were 285 sponsors in the 5 States reviewed. There were 15,081 DCH's managed by the selected sponsors at the time the DCH's were statistically selected for review (April through August 1993). There were about 54,000 DCH's in the 5 States during the time of the audit.

Review Procedures - We visited the 38 selected sponsors and reviewed documentation supporting meal claims made by 300 DCH's for the period of review (October 1992 through August 1993). This included visits to DCH's, reviews of child attendance, program enrollment, meal count, menu records, and parent contacts. We also reviewed sponsors' monitoring and training of DCH's.

Statistical Analysis - All statistical analyses were accomplished at the Kansas City Computer Center using SAS software, SESUDAAN, which analyzes sample survey data gathered from complex multistage sample designs. SESUDAAN was written by B.V. Shah of Research Triangle Institute, Research Triangle Park, North Carolina.

Presentation of Data - Statistics in this report generally represent point estimates--our best statistical estimators. The point estimate is a projection of the total value or total amount of the sample variable or attribute in the universe. Our exhibit E consolidates statistical projections and gives the precision of point estimates along with the lower one-sided 95-percent confidence limits. Precision is a measure of the relative sampling variability associated with the variable or attribute being estimated. It is, in part, a function of sample size.
## Statistical Estimates

<table>
<thead>
<tr>
<th>Finding Number</th>
<th>Problem Area</th>
<th>Point Estimate</th>
<th>Lower 95% Confidence Level</th>
<th>Precision (Percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>No. of DCH's with one or more deficiencies.</td>
<td>26,532</td>
<td>18,992</td>
<td>28</td>
</tr>
<tr>
<td>1</td>
<td>No. of DCH's that inflated meal claims.</td>
<td>3,713</td>
<td>1,071</td>
<td>71</td>
</tr>
<tr>
<td>1</td>
<td>Total meal costs for inflated claims.</td>
<td>$5,045,228</td>
<td>$1,573,186</td>
<td>72</td>
</tr>
<tr>
<td>1</td>
<td>No. DCH's with noncurrent (unsupported) meal count and/or menu records.</td>
<td>22,246</td>
<td>15,893</td>
<td>29</td>
</tr>
<tr>
<td>1</td>
<td>Total meal costs for unsupported meal counts and/or menu records.</td>
<td>$2,576,209</td>
<td>$1,430,047</td>
<td>45</td>
</tr>
<tr>
<td>1</td>
<td>DCH's that claimed meals for children with no enrollment form.</td>
<td>1,157</td>
<td>217</td>
<td>81</td>
</tr>
</tbody>
</table>

### SPONSORS

<table>
<thead>
<tr>
<th>Finding Number</th>
<th>Problem Area</th>
<th>Point Estimate</th>
<th>Lower 95% Confidence Level</th>
<th>Precision (Percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>No. of sponsors with one or more deficiencies.</td>
<td>256</td>
<td>248</td>
<td>03</td>
</tr>
<tr>
<td>1</td>
<td>No. of sponsors whose monitoring visits were not made or were untimely.</td>
<td>160</td>
<td>116</td>
<td>28</td>
</tr>
<tr>
<td>1</td>
<td>No. of sponsors that did not require DCH's to attend annual training.</td>
<td>201</td>
<td>171</td>
<td>15</td>
</tr>
</tbody>
</table>
EXHIBIT F - FCS RESPONSE TO THE DRAFT REPORT

United States
Department of
Agriculture

Food and
Nutrition
Service

3101 Park Center Drive
Alexandria, VA 22302

Reply to
Ann. of:
FCS:CND:200:212
MAR 21 1995

Subject: Child and Adult Care Food Program (CACFP) Day Care Homes (DCH), Nationwide Audit Report No. 27600-6-At

To: Terry A. Cover
Acting Regional Inspector General
U.S. Department of Agriculture
Office of Inspector General - Audit
400 West Peachtree Street, N.W., Suite 2328
Atlanta, Georgia 30365-3520

Thank you for the opportunity to respond to the Official Draft Report of the Audit of CACFP Day Care Homes. This report is timely in that its recommendations will aid in guiding an initiative that is currently underway to improve the administration of CACFP.

The CACFP Initiative was begun by the Food and Consumer Service (FCS) to improve program integrity; streamline the operations of the CACFP in an attempt to make the program easier to operate at the State and local levels; and, maintain a program which is fully open to all well-managed sponsoring organizations and the children they serve. The initiative is a collaborative State agency and FCS effort. Through the initiative, an evaluation will be made for the need for program improvements in the areas of approval standards, sponsor monitoring, termination procedures, and delivery of benefits.

In January 1995, an FCS task force of Headquarters and Regional office staff was convened to identify areas of concern from a National perspective. The targeted areas identified were classified under three broad categories: program approval criteria; review and audit oversight; and, training and operations. During the week of March 13-17, 1995, State agency and FCS staff continued to identify areas in which improvements are needed, and began the process of targeting specific assignments. Subsequent work will occur in developing policy and regulatory changes, and operational materials. Proposed legislative changes may also be needed. The initiative is scheduled for completion in October 1996.
EXHIBIT F - FCS RESPONSE TO THE DRAFT REPORT

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Through the course of this initiative, many of the recommendations of this audit will be addressed. Since we are in the midst of the task force's discussions, it would be premature to discuss specific changes to the program. However, we believe this task force will help to design the course of action needed to address the majority of the findings of this audit.

FCS COMMENTS ON REPORT NARRATIVE

Page 28: We are requesting that the first paragraph be amended. The Discussion Draft Audit Report, page 27, first paragraph, referenced "April through May 1993" for sponsor selection, and "April through August 1993" for DCH selection. We are requesting that this language be included in the final audit report since it identifies the reference points.

FCS COMMENTS ON OIG RECOMMENDATIONS

Recommendations No. 1a, 1b, 1c, 1f, 1g, 2a, 2b, and 3a

FCS Response: Discussions regarding these issues occurred during the January 1995 task force meeting. These issues are scheduled for further discussion during the March 1995 task force meeting.

Recommendations No. 1c, 1d, 3c and 1b

FCS Response: These issues were not slated for discussion by the January 1995 task force; however, they were introduced at the March 1995 meeting as areas for discussion.

Recommendation No. 3b: Work with OMB and OIG to develop improved single audit compliance supplements for audits of sponsors.

FCS Response: FCS will develop improved single audit compliance supplements for audits of sponsors in coordination with OPM, OMB and OIG.

Recommendation No. 3d: Coordinate with DOD to achieve consistent military audits of CACFP activities. FCS should seek an agreement with DOD which
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defines audit scope, frequency, and compliance testing.

FCS Response: FCS will meet with DOD to pursue this recommendation.

Recommendation No. 3e: Modify FNS management evaluation coverage to include specific steps to assess the effectiveness of State and sponsor monitoring of DCHs (audits, administrative and other reviews, DCH visits, and meal claim edits).

FCS Response: Next fiscal year, the Management Evaluation guidance will be revised to encourage an evaluation of the effectiveness of State and sponsor monitoring of DCHs.

CONCLUSION

We will provide you the status of the activities identified in response to these recommendations as actions occur.

Please let us know if you have any questions. Specific inquiries on Child Nutrition Program policy should be referred to Alberta Frost, Director, Child Nutrition Programs, at (703) 305-2590.

Mary Ann Keeffe
Deputy Administrator
Special Nutrition Programs
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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</thead>
<tbody>
<tr>
<td>ADA</td>
<td>Average Daily Attendance</td>
</tr>
<tr>
<td>CACFP</td>
<td>Child and Adult Care Food Program</td>
</tr>
<tr>
<td>CFR</td>
<td>Code of Federal Regulations</td>
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<td>DCH</td>
<td>Day Care Home</td>
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