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Office of Inspector General







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Office of Inspector General  
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AUDIT  
NUMBER: 27099-0001-DA

TO: Audrey Rowe  
Administrator  
Food and Nutrition Service

ATTN: Mark Porter  
Acting Director  
Office of Internal Control  
Audits and Investigations

FROM: Gil H. Harden  
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for Audit

SUBJECT: Identifying Areas of Risk in the Child and Adult Care Food  
Program (CACFP) Using Automated Data Analysis Tools

The report presents the results of our audit, *Identifying Areas of Risk in the Child and Adult Care Food Program (CACFP) Using Automated Data Analysis Tools*. Your written response to the official draft is included in its entirety at the end of this report. Excerpts of your December 7, 2011, response and the Office of Inspector General's (OIG) position are incorporated into the applicable sections of the report. Based on your response, we were unable to reach management decision on recommendations 1, 2, and 3. Management decisions for the recommendations can be reached once you have provided the additional information outlined in the report section OIG Position.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, and timeframes for implementing the planned corrective actions. Please note that the regulation requires management decision to be reached on all recommendations within 6 months of report issuance.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions.



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# **Identifying Areas of Risk in the Child and Adult Care Food Program (CACFP) Using Automated Data Analysis Tools – 27099-0001-DA**

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## **Executive Summary**

The Food and Nutrition Service's (FNS) Child and Adult Care Food Program (CACFP) provides nutritious meals and snacks to participants in daycare institutions, such as child care centers, daycare homes, and adult daycare centers. These CACFP sites are reimbursed based on the number of eligible meals and snacks served to children and adults, so the meal counts they provide to their respective States are a critical part of how CACFP operates. The Office of Inspector General (OIG) initiated this audit to determine whether data analysis of these sites' meal counts could provide a valuable technique for identifying sites at higher risk of inflating their meal counts.

In order to test the capability of data analysis to identify sites that could be inflating their meal counts, we selected Florida (because it was one of the top five States in terms of the number of participants) and Michigan (because we wanted to see how the recession was affecting inner city neighborhoods). We visited 56 high risk<sup>1</sup> sites in these two States to determine if daycare providers were claiming more meals than the actual number of meals they served.

We found that one third of the sites visited were historically claiming more meals than we observed during our visits. Although these observations do not necessarily demonstrate that the site operator is committing fraud, it does indicate that data analysis could be used to identify sites that may need additional oversight and thereby improve the integrity of the program. These problems occurred because FNS and the States rely largely on the monitor's limited reviews to ensure that the sites are reporting accurate meal claims and complying with FNS program requirements. However, the monitors do not fully utilize data analysis to target higher risk sites and there are also weaknesses concerning the timing of reviews and the consistency of analysis performed during monitoring visits.

We are therefore recommending that FNS and the States work with program sponsors to improve their monitoring techniques to ensure site visits occur throughout the month, using consistent, standardized guidance and to develop inexpensive, readily available, data analysis tools to identify higher risk sites for additional review.

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<sup>1</sup> High risk sites are sites where fraud may occur within the organization and are determined by identifying potential schemes and events that need mitigating. The existence of a fraud risk assessment and the fact that management is publicizing its existence may also serve to deter would-be fraud perpetrators. High risk sites were determined by analyzing each State's data to identify sites with high meal claims, based on enrollment and dollar volume; sites with higher average daily participation than enrollment; sites that were claiming more than three meals per child per day (i.e., claiming more than two meals and a snack or two snacks and a meal); and sites that were claiming more than 90 percent attendance every month.

## **Recommendation Summary**

FNS needs to work with the States to design inexpensive data analysis techniques for sponsoring organization monitors to target error-prone facilities more frequently. FNS needs to work with the States to encourage sponsors to visit sites early in the month and schedule their visits more randomly. FNS also needs to issue guidance for the 5-day reconciliation so that monitors will perform the reconciliation consistently, using standardized procedures to identify anomalies and specify action necessary to correct and/or resolve common discrepancies.

## **Agency Response**

FNS concurs with our recommendations. By September 30, 2014, FNS plans to conduct an in-depth State agency CACFP operations analysis to consult with stakeholders and review information systems and processes to determine opportunities to use existing data in helping sponsors identify error-prone facilities.

FNS is in the process of developing a proposed regulation that will include requiring sponsoring organizations to vary the timing of sponsored facilities' monitoring to make the reviews unpredictable. Final regulation is expected to be published by September 30, 2013.

Using the results of the in-depth State agency CACFP operations analysis, FNS will issue additional guidance to include standard procedures for reconciliation reviews, specific corrective actions to identify and resolve reconciliation reviews, and policy clarification on the disallowance of ineligible meals. FNS plans to issue this guidance by December 31, 2012.

## **OIG Position**

FNS stated that implementation of corrective actions will not be complete within one year for Recommendation 1 and 2. Because Recommendation 3's implementation of corrective action may take over a year, we do not accept management decision. To reach management decision for each of the recommendations, FNS will establish a time phased corrective action plan with interim completion dates.



## Background and Objectives

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### Background

The Department of Agriculture's FNS administers CACFP to ensure that children and adults in daycare facilities receive nutritious meals by providing reimbursement to child and adult care institutions to assist with the cost of their meals.<sup>2</sup> In fiscal year (FY) 2009, CACFP provided 1.88 billion meals, worth \$2.5 billion. Of the 1.88 billion meals, 64 percent (1.2 billion) were served at child care facilities, 32 percent (600 million) were served at daycare homes for children, and 4 percent (70 million) were served at adult care facilities.<sup>3</sup>

Although CACFP is administered by FNS at the Federal level, the agency relies on the States to implement the program. In Florida and Michigan, the responsible State agency enters into agreements with, and provides technical and supervisory assistance to, participating institutions (sponsoring organizations and independent centers). A representative from the State agency monitors all institutions.

Monitors—some of whom work for sponsors (which oversee sponsored centers and family daycare homes) and some of whom work for the State agency (which oversees sponsoring organizations and independent centers)—oversee the daycare sites. A monitor's responsibilities include conducting reviews of the sites to ensure compliance with the program's requirements and to ensure that corrective action is taken to resolve any deficiencies identified. Monitors for sponsors are required to review each of the sponsor's sites three times per year (unless additional reviews of seriously deficient or higher risk sites are needed, in which case at least two additional unannounced reviews are required).

For independent centers reporting directly to the State, each center is monitored once every three years by a State monitor. Part of the analysis that monitors perform related to meal counts is called the "5-day reconciliation." Monitors must examine the meal counts recorded by the facility for five consecutive days during the current and/or prior claiming period. For each day examined, monitors must use enrollment and attendance records to determine the number of participants receiving care during each meal service and attempt to reconcile those numbers to the numbers of breakfasts, lunches, suppers, and/or snacks recorded in the facility's meal count for that day. In Florida, if the number of participants served on the day of the review is less than 85 percent of the 5-day average, the center must provide a plausible explanation. If a plausible explanation is not provided, the center is to be counseled regarding the consequences of program fraud and abuse, and meals may be disallowed. Michigan compares the meals claimed in the last 5 days with the daily attendance and enrollment records, but does not use a standard threshold level. If there are differences, the State may disallow meals, or it may give the provider a warning and schedule a followup review.

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<sup>2</sup> CACFP was authorized by section 17 of the *Richard B. Russell National School Lunch Act*, with program regulations at Title 7, Part 226 of the Code of Federal Regulations.

<sup>3</sup> *Healthy, Hunger-Free Kids Act of 2010* (S.3307; Senate Report. 111-178).

FNS provides CACFP funding to States in the form of grants. The amount of this funding is based on the number of meals served at the sites in the individual States. In FY 2009, FNS provided \$2.5 billion in CACFP funding nationwide—over \$137 million to Florida and almost \$55 million to Michigan.

## **Objectives**

Our objective was to determine whether data analysis can be effectively used to review additional CACFP sites that are at higher risk of inflating their meal counts.

## **Section 1: FNS and the States' Monitoring Efforts Need Strengthening**

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### **Finding 1: FNS and the States Need to Work More Closely with Monitors to Identify Potentially Higher Risk Sites Requiring Additional Oversight**

Based on our data analysis results, we visited 56 high risk sites in Florida and Michigan to determine if the daycare providers were claiming more meals than the actual number of meals served. We found that one third of the sites we visited were historically claiming more meals than we observed during our visits. Our data analysis included two specific tools: the 5-day reconciliation which monitors use during their visits; and the “average daily participation test,” which we created to compare the number of observed participants to the prior month’s average number of participants claimed for reimbursement. On the two tests we performed during our visit, 20 sites did not pass the 5-day reconciliation and 19 did not pass the average daily participation test. Although these observations from a single visit do not necessarily demonstrate that the site operator is committing fraud, they do indicate that data analysis could be used to identify sites that require additional oversight. FNS and the States, with limited resources, rely largely on the monitors’ limited reviews to ensure that the sites are reporting accurate meal claims and complying with the FNS program requirements. The monitors, however, do not fully utilize data analysis to identify higher risk sites; there are also weaknesses concerning the timing of reviews and the consistency of the analysis the monitors perform during the visits. We are therefore recommending that FNS and the States work with program sponsors to improve the monitoring techniques and develop inexpensive, readily available, data analysis tools to identify high risk sites for additional review.

When sites sign up for CACFP, they agree that they will submit only accurate meal claims to the State for reimbursement. As part of their role in monitoring the program, the States are responsible for implementing controls to ensure that the program is meeting its objectives and that the number of meals reimbursed is accurate. FNS, for its part, reimburses the States for meals served and provides the States with program guidance on how to operate the program effectively.

We found, however, that of the 56 sites that were at higher risk of overstating their claims, many did not pass the “5-day reconciliation,” which compares the number of children served a particular meal type on the day of the review with the number of children served the same meal type over a 5-day period of meal service, and the “average daily participation test,” which compares the number of observed participants with the prior month’s daily average number of participants.

- In Florida, we tested 33 sites and found that 13 did not pass the 5-day reconciliation and 14 did not pass the average daily participation test.
- In Michigan, we tested 23 sites and found that 7 did not pass the 5-day reconciliation and 5 did not pass the average daily participation test.

In order to ensure that sites participating in CACFP comply with program requirements and do not overstate the number of meals they claim, all States rely on monitors who visit the sites where, among other analysis performed, they count the number of participants being served a meal, compared to the number of participants claimed under CACFP. Some monitors work directly for sponsors, while other monitors work directly for the States.

In addition to visiting sites, some sponsor monitors are also responsible for processing the paperwork associated with the monthly meal claim reimbursements. In these sponsoring organizations, monitors process paperwork during the first 15 days of the month and visit sites the last 15 days of the month. We found that the predictability of when these reviews occur enables sites to potentially manipulate the number of meals they claimed. In Florida, we analyzed 654 sponsor monitor reviews and determined that 514, or 79 percent, took place after the middle of the month. In Michigan, we analyzed 70 monitor reviews and determined that 50, or 71 percent, took place after the middle of the month. Very few reviews, in both States, took place early in the month. If sites can anticipate when a review will occur, they can better prepare to ensure that they meet FNS program requirements and potentially choose to report fewer meals as the end of the month nears. By reporting fewer participants as the likely time of inspection approaches, they could potentially manipulate their attendance numbers and enhance their ability to meet the requirements of the 5-day reconciliation.

Finally, we found that sponsor monitors did not always perform the 5-day reconciliation consistently. We found that, of the 70 Michigan monitor reviews, 30 monitor reviews included the date of the review among the 5 days for the test; 11 monitor reviews selected days in the future, or selected days from prior months. OIG maintains that the wide variability in how these reviews are performed could allow monitors to select days for the 5-day reconciliation that justify overstated meal claims. Additionally, Michigan did not use an average of the last five days, with an 85 percent threshold, that Florida used for its 5-day reconciliation in similar type facilities. FNS guidance on performing the 5-day reconciliation does allow for some variability, but we believe that being more specific about how the 5-day reconciliation should be conducted, including establishing standard procedures, will improve the integrity of the program and the accuracy of meal claims submitted for reimbursement.

Furthermore, in Florida, State officials are not fully utilizing the data analysis tools available. We found that an important edit check, intended to help identify sites at higher risk of overstating their meals, was not functioning as intended. This edit check, which was supposed to calculate the average daily meal count, was averaging meal counts using the total number of days in a month (28, 29, 30, or 31), as opposed to the actual number of operational days in the month (usually 20 to 22). This error allowed sites to claim meals for days that they were not open and the edit check did not identify their claim as overstated. When we brought this error to the attention of Florida officials, they took immediate steps to correct the problem. The control, however, had not been serving a useful function for some time.

OIG concluded that FNS and the States should work with the monitors to make use of inexpensive and readily available data analysis techniques to identify higher risk sites and improve the techniques used during monitoring related to the timing and 5-day reconciliation. Many of our tests to identify high risk sites were performed using commercial, off-the-shelf

software, which can quickly identify sites with unusually high participation rates, or with an unusually high number of operating days and attendance trends. Such simple analytical techniques can result in data analysis that will allow FNS and the States to identify problematic sites quickly and with little expenditure of resources.

## **Recommendation 1**

Work with the States to design inexpensive data analysis techniques for sponsoring organization monitors to target error-prone facilities more frequently.

### **Agency Response**

FNS agrees with our recommendation. By September 30, 2014, FNS plans to conduct an in-depth State agency CACFP operations analysis to consult with stakeholders and review information systems and processes to determine opportunities to use existing data in helping sponsors identify error-prone facilities. After this analysis, FNS will consider developing guidance on high risk indicators and data analysis tools.

### **OIG Position**

FNS has stated that implementation of corrective actions will not be complete within one year for this recommendation. Therefore, to reach management decision, we are working with FNS to establish a time phased corrective action plan with interim completion dates for the recommendation.

## **Recommendation 2**

Work with the States to encourage sponsors to visit sites early in the month and schedule their visits more randomly.

### **Agency Response**

FNS agrees with this recommendation and estimates completion by September 30, 2013. FNS is in the process of developing a proposed regulation that will include requiring sponsoring organizations to vary the timing of sponsored facilities' monitoring to make the reviews unpredictable. Final regulation is expected to be published by September 30, 2013. Once the final regulation is published, FNS will issue further guidance providing practical suggestions on how to vary monitoring schedules.

### **OIG Position**

FNS has stated that implementation of corrective actions will not be complete within one year for this recommendation. Therefore, to reach management decision, we are working with FNS to establish a time phased corrective action plan with interim completion dates for the recommendation.

### **Recommendation 3**

Issue guidance for the 5-day reconciliation, so that monitors will perform the reconciliation consistently, using standardized procedures to identify anomalies and specify action necessary to correct and/or resolve common discrepancies.

### **Agency Response**

FNS agrees with this recommendation and estimates completion by December 31, 2012. After the in-depth State agency CACFP operations analysis, FNS will issue additional guidance to include standard procedures for reconciliation reviews, specific corrective actions to identify and resolve reconciliation reviews, and policy clarification on the disallowance of ineligible meals.

### **OIG Position**

Given that implementation of the corrective action may take over a year, to reach management decision, we are working with FNS to establish a time phased corrective action plan with interim completion dates.

## Scope and Methodology

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To identify CACFP sites that may be overstating their meal claims, OIG obtained FY 2010 data for meal reimbursements for Michigan sites and FY 2009 data for sites in Florida. We validated the data to ensure they were accurate and complete and, using data analysis techniques, we identified CACFP sites that could be at higher risk of inflating their meal counts. We used the following criteria to identify higher risk sites:

- Sites with high meal claims based on enrollment and dollar volume;
- Sites with higher average daily participation than enrollment;
- Sites that were claiming more than three meals per child per day (i.e., claiming more than two meals and a snack or two snacks and a meal); and
- Sites that were claiming more than 90 percent attendance every month.

We ranked the sites from highest fraud risk<sup>4</sup> to lowest fraud risk based on these criteria. In Florida, we selected the highest risk sites that were associated with one sponsor; in Michigan, we selected the highest risk sites that were “independent” sites monitored directly by the State. In Florida, we visited the four sponsors associated with these high risk sites first to interview sponsor administrators of CACFP and to review the enrollment and monitoring documentation for each site.

In total, we visited 93 sites in Florida and Michigan that we had identified as high risk or that were within close proximity to a higher risk site. We visited these sites over a span of a few days and found that 26 were closed or had discontinued the program, 5 were not home or did not answer the door, 3 were on an approved fieldtrip, 2 were observing a religious holiday, and 1 served the meal too early for observation. We removed these 37 sites from our sample. Thus, we visited and tested a total of 56 CACFP sites in Florida and Michigan.

During our visits to the sites, we observed the number of participants eating a meal. We varied our visits to monitor all meal types, including breakfast, morning snack, lunch, afternoon snack, and dinner. We performed two tests on participation during our visit. First, we performed the “5-day reconciliation,” which monitors also use during their visits. Second, we performed a test we called the “average daily participation test,” in which we compared the number of observed participants to the prior month’s daily average number of participants. We also conducted an analysis of selected monitor reviews from each State to determine if the sponsors were monitoring their sites as required by CACFP guidelines. We conducted fieldwork from March 2010 to December 2011.

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.

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<sup>4</sup> Fraud risks identify where fraud may occur within the organization, identify potential schemes used to commit fraud, and identify events needing mitigation to prevent fraud.

## Abbreviations

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CACFP .....	Child and Adult Food Care Program
FNS .....	Food and Nutrition Service
FY .....	Fiscal Year
OIG .....	Office of Inspector General
USDA.....	Department of Agriculture



**USDA'S  
FOOD AND NUTRITION SERVICE'S  
RESPONSE TO AUDIT REPORT**



**United States  
Department of  
Agriculture**

Food and  
Nutrition  
Service

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DATE: December 7, 2011

AUDIT  
NUMBER: 27099-01-DA

TO: Gil H. Harden  
Assistant Inspector General for Audit

FROM: Audrey Rowe /S/  
Administrator  
Food and Nutrition Service

SUBJECT: Identifying Areas of Risk in the Child and Adult Care Food Program  
(CACFP) Using Automated Data Analysis Tools

This letter responds to the official draft report for audit report number 27099-01-DA, Identifying Areas of Risk in the Child and Adult Care Food Program (CACFP) Using Automated Data Analysis Tools. Specifically, the Food and Nutrition Service (FNS) is responding to the three recommendations within the report.

FNS supports implementation of effective management controls to address identified concerns. OIG identified several opportunities for improved controls: designing inexpensive data analysis techniques for sponsoring organization monitors to target error-prone facilities more frequently; encouraging sponsors to visit sites early in the month and schedule their visits more randomly; and issuing guidance for the 5-day reconciliation to assist sponsors in performing reconciliation consistently using standardized procedures. FNS actions planned along with the proposed dates of implementation are specified below.

**OIG Recommendation 1:**

Work with the States to design inexpensive data analysis techniques for sponsoring organization monitors to target error-prone facilities more frequently.

**Food and Nutrition Service Response:**

FNS supports this recommendation. FNS will consult with stakeholders and review information systems and processes to determine whether there are opportunities to use existing data to help sponsors identify error-prone facilities. Based on this review, FNS will consider developing guidance on high risk indicators and data analysis tools.

**Estimated Completion Date: September 30, 2014**

**OIG Recommendation 2:**

Work with the States to encourage sponsors to visit sites early in the month and schedule their visits more randomly.

**Food and Nutrition Service Response:**

FNS supports this recommendation. In accordance with requirements of section 331 of the Healthy, Hunger-Free Kids Act of 2010 (P.L. 111-296), FNS is in the process of developing a proposed regulation that will include requiring sponsoring organizations to vary the timing of reviews of sponsored facilities to ensure that they are unpredictable to the facility. FNS believes that unannounced reviews following a consistent pattern undermines the intent of the Program's unannounced review requirements and hinders a sponsoring organization's ability to uncover management deficiencies and program abuse. The proposed regulation is expected to be published no later than June 30, 2012; a final regulation is expected to be published by the end of Fiscal Year 2013. Further guidance providing practical suggestions on how to vary monitoring schedules will be issued upon publication of the final rule.

**Estimated Completion Date: September 30, 2013**

**OIG Recommendation 3:**

Issue guidance for the 5-day reconciliation, so that monitors will perform the reconciliation consistently, using standardized procedures to identify anomalies and specify action necessary to correct and/or resolve common discrepancies.

**Food and Nutrition Service Response:**

FNS supports this recommendation. FNS will issue additional guidance to include standard procedures for reconciliation reviews, specific effective corrective actions to identify and resolve reconciliation issues, and policy clarification on the disallowance of ineligible meals. This guidance will be issued in December 2012, following the analysis of the results of in-depth reviews of State agency CACFP operations conducted by FNS in FY2010 and FY2011. Among other things, these reviews assessed the effectiveness of State agency policies and procedures relating to the five-day reconciliation requirement.

**Estimated Completion Date: December 31, 2012**

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