

UNITED STATES DEPARTMENT OF AGRICULTURE

CFDA 10.558 CHILD AND ADULT CARE FOOD PROGRAM (CACFP)

I. PROGRAM OBJECTIVES

The CACFP assists States, through grants-in-aid and donated foods, to initiate and maintain non-profit food service programs for eligible children and adults in nonresidential day care settings.

II. PROGRAM PROCEDURES

General Overview

The U.S. Department of Agriculture's (USDA) Food and Nutrition Service (FNS) administers the CACFP through grants-in-aid to States. The program is administered within most States by the State educational agency. In a few States, it is administered by an alternate agency, such as the State department of health or social services. At the discretion of the Governor, different agencies within a State may administer the program's child care and adult day care components. In Virginia, the CACFP is directly administered by the FNS Mid-Atlantic Regional Office (MARO). For purposes of this discussion, State agencies and the MARO are referred to collectively as "administering agencies."

CACFP benefits consist of nutritious meals and snacks served to eligible children and adults who are enrolled for care at participating child care centers, adult day care centers, outside-school-hours care centers, at-risk afterschool programs, family and group day care homes, and emergency shelters. These entities are discussed in more detail below. Child and adult day care centers and outside-school-hours care centers (often referred to collectively in this discussion as "centers"), as well as at-risk afterschool programs and emergency shelters, may operate independently under agreements with their administering agencies, or they may participate under the auspices of sponsoring organizations. Day care homes may participate only through sponsoring organizations. An entity with which an administering agency enters into an agreement for the operation of the CACFP, be it an independent center or a sponsoring organization, is known as an "institution."

A sponsoring organization usually does not provide child-care services itself. Rather, it assumes administrative and financial responsibility for CACFP operations in centers and day care homes under its sponsorship. In that capacity, sponsoring organizations generally pass Federal funds received from their administering agencies through to their homes and centers; in some cases, however, sponsoring organizations provide meals to their centers in lieu of cash reimbursement.

Child-Care Centers

Eligible child-care centers include public, private non-profit, and certain for-profit child care centers, Head Start programs, and other entities which are licensed or approved to provide day care services.

Adult-Day Care Centers

Public, private non-profit, and for-profit adult day care facilities which provide structured, comprehensive services to nonresidential adults who are functionally impaired, or aged 60 and older, may participate in CACFP.

Outside-School-Hours Care Centers

Outside-school-hours care centers include public, private non-profit and for-profit organizations, licensed or approved to provide nonresidential child care services to enrolled children outside of school hours.

At-Risk Afterschool Programs

At-risk afterschool programs are structured, supervised programs that: are organized primarily to provide care to at-risk children through age 18 after school hours and on weekends and holidays during the school year; provide educational or enrichment activities; and are located in low income areas. Examples of organizations that typically offer such programs include Boys' & Girls' Clubs, and the YMCA. In areas where Federal, State or local licensing or approval is not required, operators of these afterschool programs are required to comply with State or local health and safety requirements.

Emergency Shelters

Public and private non-profit emergency shelters which provide temporary shelter and food services to homeless children are eligible to participate in CACFP. Eligible shelters may receive reimbursement for serving up to three meals each day to homeless children age 18 and younger.

Day Care Homes

A family or group day care home is a private home licensed or approved to provide day care services. As noted above, the provider of such services must sign an agreement with a sponsoring organization to participate in CACFP; a day care home cannot enter into an agreement directly with the administering agency.

Program Funding

Federal assistance to institutions takes the form of cash reimbursement for meals served, and USDA donated commodities or cash in lieu of commodities. An institution's entitlement to cash reimbursement is generally computed by multiplying the number of meals served, by category and type, by prescribed per-unit payment rates called "reimbursement rates." "Type" refers to the kind of meal service for which the institution seeks reimbursement (breakfast, lunch, snack, supper). For meals served in centers, "category" refers to the economic need of the child or adult to whom a meal is served; such meals are categorized as "paid," "reduced price," or "free." Meals served in day care homes are categorized by the tiering structure (tier I or II) described in III.E.1, "Eligibility - Eligibility for Individuals" below. Under this formula, an institution's entitlement to funding from its administering agency is a function of the categories and types of

services provided. An institution establishes its entitlement to reimbursement payments by submitting claims for reimbursement to its administering agency.

Independent centers, sponsors of centers, and sponsors of day care homes may be approved to claim reimbursement for up to two reimbursable meals (breakfast, lunch or supper) and one snack, or two snacks and one meal, per child per day. Operators of at-risk afterschool programs may claim reimbursement for one snack per child per day (except that operators of such programs in the States of Delaware, Illinois, Michigan, Missouri, New York, Oregon, Pennsylvania, and West Virginia may also claim reimbursement for one meal per child per day).

Homeless shelters may claim up to three meals served to each resident child each day. The specific types of meals for which an institution may claim reimbursement payments are stated in its agreement with its administering agency.

Sponsoring organizations of family day care homes also receive administrative funds related to the documented costs they incur in planning, organizing, and managing CACFP. They are the only CACFP institutions that may receive such assistance. Sponsoring organizations of centers do not receive separate administrative cost reimbursement parallel to that received by sponsors of family day care homes; instead, program regulations allow them to retain for their administrative costs a portion of the meal reimbursement payments generated by their centers.

In addition to cash assistance, USDA makes donated commodities or cash-in-lieu of commodities available for use by institutions in operating the CACFP (7 CFR section 226.5). FNS enters into agreements with State distributing agencies for the distribution of commodities to CACFP institutions; the distributing agencies, in turn, enter into agreements with the institutions. The distributing agency may be the CACFP administering agency or a separate State agency.

Documentation Requirements

An institution operating the CACFP must have procedures in place to collect and maintain the documentation required at 7 CFR section 226.15(e). Examples of such documentation include: (1) the institution's application and supporting documents submitted to its administering agency; (2) records of enrollment of each CACFP participant; (3) records supporting the free and reduced price eligibility determinations for children and adults enrolled in centers and for providers' children in day care homes; (4) daily records indicating the number of children and adults in attendance and the number of meals served by type and category; (5) copies of receipts, invoices and other records of CACFP costs and income required by the administering agency; (6) copies of claims for reimbursement submitted to the administering agency; and (7) documentation of non-profit operation of food service.

Pricing of Program Meals

Child care, adult day care, and outside-school-hours care centers may charge a single fee to cover tuition, meals, and all other day care services; such arrangements are called nonpricing programs. Alternatively, they may operate pricing programs, in which separate fees are charged for meals. An institution must describe its pricing policy in a free and reduced price policy statement submitted to its administering agency. The vast majority of these centers operate

nonpricing programs. Nevertheless, institutions must determine the eligibility of children and adults enrolled at these centers for free or reduced price meals because such determinations affect the reimbursement rates for meals served to the participants. At-risk afterschool programs, emergency shelters, and family day care homes are prohibited from charging separately for meals.

Federal Assistance to States

Program funds are provided to States through letters of credit issued under the FNS Agency Financial Management System. The States, in turn, use the funds to reimburse institutions for costs of CACFP operations, as described above, and to support State administrative expenses.

Funding Program Benefits

FNS provides a cash payment (called a “national average payment”) to each State agency for each meal served under the CACFP. A State’s entitlement to national average payments is determined by substantially the same performance-based (meals-times-rates) formula used by administering agencies to compute reimbursement payments to institutions. From the State’s standpoint, all funds received via this formula are pass-through funds that the State must use for reimbursement payments to institutions under its oversight.

FNS adjusts the national average payment rates on July 1 of each year. National average payments for meals served in centers are adjusted to reflect changes in the *Food Away From Home* series of the Consumer Price Index. Adjustments in national average payments for meals served in day care homes are adjusted on the basis of changes in the *Food at Home* series of the Consumer Price Index.

The State’s level of commodity assistance or cash in lieu of commodities is based on the numbers of lunches and suppers served in centers in the preceding year, multiplied by the national average payment for donated foods. Commodity assistance rates are also adjusted every July 1 to reflect changes in the *Food Used in Schools and Institutions* series of the Consumer Price Index.

Funding State-Level Administrative Costs

FNS makes State Administrative Expense (SAE) funds available to State agencies for administrative expenses incurred in supervising and giving technical assistance to institutions participating in CACFP. SAE requirements are prescribed at 7 CFR part 235.

Additional funds are also available to States to help State agencies and institutions comply with Federal audit requirements, and to fund costs associated with performing administrative reviews of institutions after the audit requirements have been met. A State receives such assistance in an amount equal to one and one-half percent (the percentage is reduced to one percent for fiscal years 2005 through 2007) of the payments FNS made to the State for CACFP program reimbursement to institutions during the second fiscal year preceding the year for which the funds are to be made available (42 USC 1766(i)).

Source of Governing Requirements

The CACFP is authorized at section 17 of the Richard B. Russell National School Lunch Act (NSLA) (42 USC 1766), as amended. The program regulations are codified at 7 CFR part 226. Regulations at 7 CFR part 250 provide general rules for the receipt, custody, and use of USDA donated commodities provided for use in the CACFP.

Availability of Other Program Information

Additional program information is available from the FNS web site at <http://www.fns.usda.gov/cnd/>. Information on the distribution of USDA-donated commodities for the CACFP is available from the FNS Food Distribution web site at <http://www.fns.usda.gov/fdd/programs/schcnp/>.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

A. Activities Allowed or Unallowed

1. *Reimbursement for Operating Costs of Child and Adult Care Centers* - The administering agency determines whether centers and sponsors of centers under its oversight shall be reimbursed solely according to the meals-times-rates formula outlined in II Program Procedures, or at the lesser of meals-times-rates or actual, documented costs. Costs claimed by the institution as operating costs must be related to preparing and serving meals to children and/or adults under the CACFP (7 CFR section 226.11(c) and definition of "operating costs" in 7 CFR section 226.2).
2. *Reimbursement for Sponsoring Organizations' Administrative Costs* - Administrative costs are costs related to planning, organizing, and managing a food service under the CACFP (7 CFR section 226.2).
 - a. *Sponsoring Organizations of Centers* - There is no provision for sponsoring organizations of centers to receive reimbursement for administrative costs. However, a sponsor may retain a portion of a center's meal reimbursement, not to exceed 15 percent, for its own administrative expenses (42 USC 1766(f)(2)(C)(i); 7 CFR section 226.16(b)(1)). The method to determine the portion a sponsoring organization may retain is described in III.G.3, "Matching, Level of Effort, Earmarking - Earmarking."

- b. *Sponsoring Organizations of Family Day Care Homes* - In addition to their meal reimbursement payments, sponsoring organizations of family day care homes may receive reimbursement for their administrative costs (7 CFR section 226.12). The formula a State agency must use to determine a sponsoring organization's entitlement to administrative payments is also described in III.G.3, "Matching, Level of Effort, Earmarking - Earmarking."
3. *Use of Reimbursements* - Reimbursement payments shall be used solely for the conduct of the food service operation or to improve such food service operations, principally for the benefit of the enrolled participants (7 CFR section 226.15(e)(13)).

C. Cash Management

A sponsoring organization must disburse advance and meal reimbursement payments to centers and day care homes under its sponsorship within five working days of receiving them from its administering agency (7 CFR sections 226.16(g) and (h)).

E. Eligibility

1. Eligibility for Individuals

a. *General Eligibility*

Any individual meeting the definition of "children" or "adult participant" at 7 CFR section 226.2, and who is enrolled in a participating nonresidential institution (or, with respect to children, an emergency shelter or an at-risk afterschool program), may receive meals under the CACFP. These definitions are:

- (1) "Children" means (a) persons 12 years of age and under; (b) children of migrant workers 15 years of age and under; (c) persons of any age who have one or more disabilities and who are enrolled in an institution or child-care facility serving a majority of persons who are age 18 and under; (d) for emergency shelters, persons age 18 and under; and (e) for at-risk afterschool care centers, persons age 18 and under at the start of the school year (see definitions of "children," "enrolled child," and "persons with disabilities" at 7 CFR section 226.2).
- (2) "Adult participant" means "a person enrolled in an adult day care center who is functionally impaired ... or 60 years of age or older" (Definitions of "adult participant" and "enrolled participant" are available at 7 CFR section 226.2).

b. *Eligibility for Free or Reduced Price Meals*

- (1) *Children and Adults Enrolled in Centers* - While an independent center or sponsoring organization of centers receives Federal cash reimbursement for all meals served in centers, it receives higher levels of reimbursement for meals served to children and adults who meet Income Eligibility Criteria published by FNS for meals served free or at reduced price. Participants from households with incomes at or below 130 percent of poverty are eligible for free meals; and participants with household incomes between 130 percent and 185 percent of poverty are eligible for reduced price meals. The Income Eligibility Guidelines and Reimbursement Rates are published in the *Federal Register* and on the FNS web site at <http://www.fns.usda.gov/cnd>. Institutions must determine each enrolled participant's eligibility for free and reduced price meals in order to claim reimbursement for the meals served to that individual at the correct rate (7 CFR sections 226.15(e)(2), 226.17(b)(8), 226.19(b)(7)(i), and 226.19a(b)(8)).

A participant's eligibility may be established by the following methods:

- (a) *General Rule: Household Application* - The participant's household may submit an income eligibility statement that provides information about household size and income. The information submitted by each household is compared with USDA's published Income Eligibility Guidelines. A household is not required to furnish documentation to support the information given in its income eligibility statement; however, that information is subject to verification under 7 CFR section 226.23(h) (7 CFR sections 226.23(e)(1)(ii) and (iii), and 226.23(e)(4)).
- (b) *Exception: Categorical Eligibility* - Children and adults may be determined categorically eligible for free and reduced price meals by virtue of their participation in certain other programs. For children, such programs include the Supplemental Nutrition Assistance Program (SNAP), Food Distribution Program on Indian Reservations (FDPIR), or State programs funded through Temporary Assistance for Needy Families (TANF). Categorically eligible adults include those who receive SNAP, FDPIR, Supplemental Security Income (SSI), or Medicaid benefits. Categorically eligible participants must indicate on the income eligibility statement the other program for which they are eligible. No income eligibility

statement is required for children participating in the Head Start Program or for pre-kindergarten children participating in the Even Start Program, nor is any eligibility determination required beyond documenting their participation in Head Start or Even Start (7 CFR sections 226.23 (e)(1)(iv) and (v); 42 USC 1766(c)(6)).

- (2) *Children Enrolled in Family Day Care Homes* - A tiering structure prescribed by program statute and regulations forms the basis for meal reimbursement payments to sponsoring organizations of day care homes. A home is classified as tier I or tier II, depending on the home's location or the provider's income eligibility.

Tier I day care homes are those operated by providers whose households meet the income standards for free or reduced price meals, as outlined above; or those located in low-income areas. A low-income area is one where at least 50 percent of the children are eligible for free or reduced price school meals. Sponsoring organizations may use elementary school enrollment data (or census data in some special cases) to determine if a home is located in a low-income areas (7 CFR sections 226.2 (definitions of "low-income area" and "tier I day care home") and 226.15 (e)(3) and (f)).

Tier II homes are those day care homes which do not meet the location or provider income criteria for a tier I home. Per-meal reimbursement rates for meals served in tier II homes are lower than corresponding rates for tier I homes. The provider in a tier II home may nevertheless elect to have the sponsoring organization determine the income-eligibility of enrolled children, so that meals served to those children who qualify for free and reduced price meals would be reimbursed at the higher tier I rate (7 CFR section 226.23(e)(1)(i)).

Meals served to a day care home provider's own children are not reimbursable unless all of the following conditions are met: (a) such children are enrolled and participating in the CACFP during the time of the meal service; (b) enrolled, nonresidential children are present and participating in the CACFP; and (c) the provider's own children are eligible for free or reduced price meals (7 CFR section 226.18(e)).

- (3) *Children Attending At-Risk Afterschool Programs* - Eligible afterschool programs must be located in geographical areas where 50 percent or more of the children are eligible for free or reduced price meals under the School Nutrition Programs (CFDA 10.553 and 10.555), as demonstrated by the free and reduced price

eligibility data maintained by the school serving the area. Individual eligibility determinations for children attending these programs are not required (42 USC 1766(r)).

- (4) *Children Residing in Emergency Shelters* - Children residing in emergency shelters are categorically eligible to receive meals at no charge (42 USC 1766(t)(5)(C)).

2. Eligibility for Group of Individuals or Area of Service Delivery - Not Applicable

3. Eligibility for Subrecipients

- a. Administering agencies may disburse CACFP funds only to those organizations that meet the eligibility requirements stated in the following program requirements: (1) generic requirements for all institutions at 7 CFR section 226.15 and 42 USC 1766(a)(6) and (d)(1); (2) additional requirements for sponsoring organizations at 7 CFR section 226.16; (3) additional requirements for child care centers (whether independent or sponsored) at 7 CFR section 226.17; (4) additional requirements for day care homes (which must be sponsored) at 7 CFR section 226.18; (5) additional requirements for outside-school-hours centers at 7 CFR section 226.19; (6) additional requirements for adult day care centers (whether independent or sponsored) at 7 CFR section 226.19a; (7) additional requirements for at-risk afterschool programs at 7 CFR section 226.17a; and (8) additional requirements for emergency shelters at 42 USC 1766(t).
- b. For-profit child care and outside-school-hours care centers may participate in the CACFP if they meet either of the following two criteria: (1) at least 25 percent of the enrolled children or 25 percent of the licensed capacity, whichever is less, are funded under Title XX of the Social Security Act; or (2) at least 25 percent of the children in their care are eligible for free or reduced price meals. Children who participate only in the at-risk afterschool component of the program must not be considered in determining whether the institution met this 25 percent threshold (42 USC 1766(a)(2)(B); 7 CFR section 226.11(c)(4)).
- c. For-profit adult day care centers may be eligible for CACFP if at least 25 percent of their participants receive benefits under Title XIX or Title XX of the Social Security Act (7 CFR section 226.2 (definition of “for-profit center”)).

G. Matching, Level of Effort, Earmarking

1. **Matching** - Not Applicable
2. **Level of Effort** - Not Applicable
3. **Earmarking**
 - a. *Sponsoring Organizations of Day Care Homes* - Administrative cost reimbursement to sponsoring organizations of day care homes is limited to the lesser of the following factors on a cumulative year-to-date basis: (1) the sponsoring organization's approved administrative budget; (2) actual administrative costs less income to the program; or (3) the appropriate monthly rates per home, multiplied by the number of operating homes in each month. In addition, during any fiscal year, administrative payments to a sponsoring organization may not exceed 30 percent of the total amount of administrative payments and program (meal reimbursement) payments for day care home operations (7 CFR section 226.12(a))
 - b. *Sponsoring Organizations of Centers* - There is no provision for sponsoring organizations of centers to receive a separate reimbursement for administrative costs. However, sponsors may retain up to 15 percent from a center's reimbursement for its administrative expenses. State agencies may waive this limit if certain regulatory criteria are met (7 CFR sections 226.6(f)(1)(vi) and 226.16(b)(1)).

I. Procurement and Suspension and Debarment

1. *Procurement* - Regardless of whether the State elects to follow State or Federal rules in accordance with the A-102 Common Rule, the following requirements must be followed for procurements initiated on or after October 1, 2000:
 - a. A State agency or institution shall not award a contract to a firm it used to orchestrate the procurement leading to that contract. Examples of services that would disqualify a firm from receiving the contract include preparing the specifications, drafting the solicitation, formulating contract terms and conditions, etc. (7 CFR sections 3016.60(b) and 3019.43).
 - b. A State or local government shall not apply in-State or local geographical preference, whether statutorily or administratively prescribed, in awarding contracts (7 CFR section 3016.60(c)). However, an institution operating the CACFP may use a geographical preference for the procurement of unprocessed agricultural products, both locally grown and locally raised (Section 4302 of Pub. L. No. 110-246, 122 Stat. 1887, June 18, 2008).

2. *Suspension and Debarment* - Mandatory awards by pass-through entities to subrecipients are excluded from the suspension and debarment rules (7 CFR section 3017.215(h)).

L. Reporting

1. Financial Reporting

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable
- e. *Subrecipient Financial Reporting* - A State agency may require subrecipients to report information the State agency needs to prepare the financial reports identified above. Such subrecipient reports should be tested during audits of the subrecipients.

2. Performance Reporting - Not Applicable

3. Special Reporting

a. *State Agency Special Reporting*

FNS-44, *Report of the Child and Adult Care Food Program (OMB No. 0584-0078)* - To receive CACFP funds, a State agency administering the program compiles the data gathered on its subrecipients' claims for reimbursement into monthly reports to its FNS regional office. Such reports present the number of meals served, by category and type, in institutions under the State agency's oversight during the report month.

An initial monthly report, which may contain estimated participation figures, is due 30 days after the close of the report month. A final report containing only actual participation data is due 90 days after the close of the report month. A final closeout report is also required, in accordance with the FNS closeout schedule. Revisions to the data presented in a 90-day report must be submitted by the last day of the quarter in which they are identified. However, the State agency must immediately submit an amended report if, at any time following the submission of the 90 day report, identified changes to the data cause the State agency's level of funding to change by more than (plus or minus) 0.5 percent.

Key Line Items - The following line items contain critical information:

- (1) *Part A - No. Homes*
 - (a) Line 6 - *No. of sponsoring organizations of day care homes administering between (ranges for numbers of homes given in columns)*
 - (b) Line 7 - *No. of homes for which sponsors are eligible to receive reimbursement based on rate for (ranges for numbers of homes given in columns)*
- (2) *Part E*
 - (a) Lines 22 through 30 - *Breakfasts*
 - (b) Lines 31 through 39 - *Lunches*
 - (c) Lines 40 through 48 - *Suppers*
 - (d) Lines 49 through 57 - *Supplements*
 - (e) Lines 58 through 60 - *Total Free, Reduced Price, and Paid Meals Served (Respectively)*

b. *Subrecipient Special Reporting*

To receive reimbursement payments for meals served, an institution must submit claims for reimbursement to its administering agency. A claim must include the number of meals served by category and type during the period (generally a month) covered by the claim. All meals claimed for reimbursement must be of types authorized by the institution's administering agency; must be served to eligible children or adults; and must be supported by accurate meal counts and records indicating the number of meals served by category and type. Reimbursement is not allowed for meals served to a participant who is not enrolled for care, meals served in excess of an institution's licensed or authorized capacity, meal types that are not approved in the institution's agreement with its administering agency, or meals served in excess of the maximum number of approved meal services (7 CFR sections 226.10(c), 226.15(h), 226.17(b)(4), 226.17a(p), 226.19(b)(5), and 226.19a(b)(6)).

- (1) *Meals Served in Child and Adult Care Centers* - Several variants are available for reporting participation under the meals-times-rates reimbursement formula. They include: (a) reporting actual meal counts by category and type; (b) applying "blended per-meal rates" to actual counts of meals served by type; and (c) applying the center's "claiming percentage" for each category to its actual

count of each type of meal served. The claiming percentage for each category is the ratio of enrolled persons eligible for meals in that category to all enrolled persons. The institution's agreement with its administering agency identifies the variant to be used (7 CFR sections 226.9(b) and 226.11(b)).

- (2) *Meals Served in Day Care Homes* - Like a sponsor of centers, a day care home sponsor must claim reimbursement for meals by category and type. With respect to day care homes, however, "category" refers to the tiering structure (tier I or tier II) rather than to an individual's income eligibility, as described under III.E.1, "Eligibility - Eligibility for Individuals," (7 CFR section 226.13(b)).

To develop the information needed to prepare a claim, the sponsoring organization requires each day care home under its sponsorship to report the number of reimbursable meals served during each claim month. The sponsoring organization collects the number of meals served, by type, from tier I homes and from tier II homes that elect not to request the sponsoring organization to make individual income eligibility determinations for enrolled children (7 CFR sections 226.13(d)(1) and (2)). If a tier II day care home provider has elected to have its sponsoring organization make individual income eligibility determinations, program regulations provide several options for reporting the number of meals eligible for reimbursement at the tier I and II rates, respectively (7 CFR section 226.13(d)(3)).

The reimbursement rates for lunches and suppers served in day care homes whose sponsoring organizations have elected to receive USDA donated commodities are reduced by the value of the commodities (7 CFR section 226.13(c)).

- (3) *Meals Served in At-Risk Afterschool Programs* - Reimbursement payments for snacks served to children in at-risk afterschool programs are limited to one snack per child per day. In the States of Delaware, Illinois, Michigan, Missouri, New York, Oregon, Pennsylvania, and West Virginia, however, operators may also claim one additional meal per child per day. Snacks and additional meals served in at-risk afterschool programs are provided at no charge and reimbursed at the "free" rate (42 USC 1766(r)(4)).
- (4) *Meals Served in Emergency Shelters* - A shelter or its sponsoring organization may claim reimbursement only for three meals, or two meals and one supplement, per child per day. All such meals are provided at no charge and reimbursed at the free rate (42 USC 1766(t)(5)(B) and (C)).

An institution must report such information, in addition to meal counts, as its administering agency determines necessary to support the reimbursement claimed. For centers and sponsors of centers in States that elect to reimburse at the lesser of meals-times-rates or documented costs, such information includes their operating (meal production) costs. For sponsors of day care homes, such information includes their administrative costs (7 CFR sections 226.7(m), 226.9(c) and (d), 226.10(c), 226.11(d), and 226.12(a)). This aspect of the claiming process is discussed in III.A, "Activities Allowed or Unallowed."

M. Subrecipient Monitoring

The administering agency is responsible for monitoring the institution's non-profit status to ensure that all reimbursements shall be used solely for the conduct of the food service operation or to improve such food service operations, principally for the benefit of the enrolled participants (7 CFR section 226.7(b)) and 42 USC 1766 (d)(1)(B)).

The administering agency is required to assess institutional compliance by performing on-site reviews of independent centers, sponsoring organizations of centers, and sponsoring organizations of day care homes, including reviews of new organizations, in accordance with a schedule prescribed in 7 CFR section 226.6(m) and 42 USC 1766 (d)(2)(A).

N. Special Tests and Provisions

1. Accountability for Commodities

Compliance Requirement

The following compliance requirements do not apply to recipient agencies (as defined at 7 CFR section 250.3), including CACFP institutions. Auditors making audits of recipient agencies are not required to test compliance with these requirements.

a. *Maintenance of Records*

Distributing and subdistributing agencies (as defined at 7 CFR section 250.3) must maintain accurate and complete records with respect to the receipt, distribution, and inventory of donated foods including end products processed from donated foods. Failure to maintain records required by 7 CFR section 250.16 shall be considered prima facie evidence of improper distribution or loss of donated foods, and the agency, processor, or entity may be required to pay USDA the value of the food or replace it in kind (7 CFR sections 250.16(a)(6) and 250.15(c)).

b. *Physical Inventory*

Distributing and subdistributing agencies and institutions shall take a physical inventory of all storage facilities. Such inventory shall be reconciled annually with the storage facility's inventory records and maintained on file by the agency which contracted with or maintained the storage facility. Corrective action shall be taken immediately on all deficiencies and inventory discrepancies and the results of the corrective action forwarded to the distributing agency (7 CFR section 250.14(e)).

Audit Objective - Determine whether an appropriate accounting was maintained for donated food commodities, that an annual physical inventory was taken, and that the physical inventory was reconciled with inventory records.

Suggested Audit Procedures

- a. Determine storage facility, processing, and end use locations of all donated food commodities, including end products processed from donated foods. Ascertain the commodity records maintained by the entity and obtain a copy of procedures for conducting the required annual physical inventory. Obtain a copy of the annual physical inventory results.
- b. Perform analytical procedures, obtain explanation and documentation for unusual or unexpected results. Consider the following:
 - (1) Compare receipts, distributions, losses and ending inventory of donated foods for the audit period to the previous period.
 - (2) Compare distribution by entity for the audit period to the previous period.
- c. Ascertain the validity of the required annual physical inventory. Consider performing the following steps, as appropriate:
 - (1) Observe the annual inventory process at selected locations and recount a sample of commodity items.
 - (2) If the annual inventory process is not observed, select a sample of significant commodities on hand as of the physical inventory date and, using the commodity records, "roll forward" the balance on hand to the current balance observed.
 - (3) On a test basis, recompute physical inventory sheets and related summarizations.
 - (4) Ascertain that the annual physical inventory was reconciled to commodity records. Investigate any large adjustments between the physical inventory and the commodity records.

- d. On a sample basis, test the mathematical accuracy of the commodity records and related summarizations. From the commodity records, vouch a sample of receipts, distributions, and losses to supporting documentation. Ascertain that activity is properly recorded, including correct quantity, proper period and, if applicable, correct recipient agency.

IV. OTHER INFORMATION

FNS no longer requires recipient agencies to inventory commodities separately from purchased food. However, the value of commodities used during a State or recipient agency's fiscal year is considered Federal awards expended in accordance with the OMB Circular A-133 § __.105, definition of Federal financial assistance and should be valued in accordance with § __.205(g). Therefore, recipient agencies must determine the value of commodities used. FNS recommends that recipient agencies use the value of commodities delivered to them during the audit period for this purpose.