



State Agency Monitoring Requirements in the Child and Adult Care Food Program, CACFP #41 (24-41)

I. LEGAL AUTHORITY

7 CFR § 226.2; 7 CFR § 226.6(a)(3); 7 CFR § 226.6(m) and (n); 7 CFR § 226.7(b); 7 CFR § 226.10(c)(2); 7 CFR § 226.16(b)(1)

II. PURPOSE

The purpose of this policy is to explain and clarify State Agencies' monitoring requirements under the Child and Adult Care Food Program (CACFP).

III. APPLIES TO

This policy applies to all institutions participating in the CACFP.

IV. DEFINITIONS

"Center" means a child care center, at-risk afterschool care center, an adult day care center, an emergency shelter, or an outside-school-hours care center.

"Child care center" means any public or private nonprofit institution or facility (except day care homes), or any for-profit center, as defined in this section, that is licensed or approved to provide nonresidential child care services to enrolled children, primarily of preschool age, including but not limited to day care centers, settlement houses, neighborhood centers, Head Start centers and organizations providing day care services for children with disabilities. Child care centers may participate in the Program as independent centers or under the auspices of a sponsoring organization.

"Child care facility" means a licensed or approved child care center, at-risk afterschool care center, day care home, emergency shelter, or outside-school-hours care center under the auspices of a sponsoring organization.

"Community based organization" means a public or private nonprofit organization of demonstrated effectiveness that is representative of a community or significant segments of a community; and provides educational, health, social, and financial services to individuals, families, or the community at large.

"Day care home" means an organized nonresidential child care program for children enrolled in a private home, licensed or approved as a family or group day care home and under the auspices of a sponsoring organization.

"Facility" means a sponsored center or a day care home.

"Independent center" means a child care center, at-risk afterschool care center, emergency shelter, outside-school-hours care center or adult day care center which enters into an agreement with the State agency to assume final administrative and financial responsibility for Program operations.

"Institution" means a sponsoring organization, child care center, at-risk afterschool care center, outside-school-hours care center, emergency shelter or adult day care center which enters into an agreement with the State agency to assume final administrative and financial responsibility for Program operations.

"New institution" means a sponsoring organization or an independent center making an application to participate in the Program or applying to participate in the Program after a lapse in participation.

"Participating institution" means a sponsoring organization or an independent center, including a renewing institution, that holds a current agreement with the State agency to operate the Program.

"Renewing institution" means a sponsoring organization or an independent center that is participating in the Program at the time it submits annual renewal information.

"Seriously deficient" means the status of an institution or a day care home that has been determined to be non-compliant in one or more aspects of its operation of the Program.

"Sponsored center" means a child care center, an at-risk afterschool care center, an adult day care center, an emergency shelter, or an outside-school-hours care center that operates the Program under the auspices of a sponsoring organization. The two types of sponsored centers are as follows:

- (1) An affiliated center is a part of the same legal entity as the CACFP sponsoring organization; or
- (2) An unaffiliated center is legally distinct from the sponsoring organization.

"Sponsoring organization" means a public or nonprofit private organization that is entirely responsible for the administration of the food program in:

- (1) One or more day care homes;
- (2) A child care center, emergency shelter, at-risk afterschool care center, outside-school-hours care center, or adult day care center which is a legally distinct entity from the sponsoring organization;
- (3) Two or more child care centers, emergency shelters, at-risk afterschool care centers, outside-school-hours care center, or adult day care centers; or

(4) Any combination of child care centers, emergency shelters, at-risk afterschool care centers, outside-school-hours care centers, adult day care centers, and day care homes.

The term “sponsoring organization” also includes an organization that is entirely responsible for administration of the Program in any combination of two or more child care centers, at-risk afterschool care centers, adult day care centers or outside-school-hours care centers, which meet the definition of *For-profit center* in this section and are part of the same legal entity as the sponsoring organization.

"State agency" means the State educational agency or any other State agency that has been designated by the Governor or other appropriate executive, or by the legislative authority of the State, and has been approved by the Department to administer the Program within the State or in States in which FNS administers the Program, FNSRO. This also may include a State agency other than the existing CACFP State Agency, when such agency is designated by the Governor of the State to administer only the adult day care component of the CACFP.

V. POLICY

Pursuant to Federal regulation at 7 CFR § 226.6(a)(3), institutions participating in the Child and Adult Care Food Program (CACFP) are subject to compliance reviews by DECAL, DECAL contractors, USDA, or any of their representatives. Monitoring is an essential part of Program oversight and State agency responsibilities. Routine monitoring by State agencies helps to identify and prevent management deficiencies, fraud, and abuse, and improve CACFP operations.

State agencies must maintain documentation of adherence to review requirements such as the review documentation, corrective actions prescribed, and follow-up efforts. In addition, State agencies are required to target and conduct more frequent reviews of institutions who have been issued a finding of serious deficiency. Reviews conducted by DECAL include full compliance reviews, follow-up reviews, serious deficiency follow-up reviews, complaint investigations, claim for reimbursement reviews, and financial reviews. Reviews may be announced or unannounced.

VI. PROCEDURES

A. Review Content

Full compliance reviews conducted by State agencies, per 7 CFR § 226.6(m)(3), must assess each institution's compliance with the requirements pertaining to:

1. Recordkeeping;
2. Meal counts;
3. Administrative costs;
4. Any applicable instructions and handbooks issued by FNS and USDA and any instructions and handbooks issued by the State agency which are not inconsistent;
5. Facility licensing and approval;
6. Compliance with the requirements for annually updating enrollment forms;

7. Compliance with the requirements for submitting and ensuring the accuracy of annual renewal information;
8. If an independent center, observation of a meal service;
9. If a sponsoring organization, training and monitoring of facilities, including the timing of reviews;
10. If a sponsoring organization, implementation of the household contact system established by the State agency;
11. If a sponsoring organization of day care homes, the requirements for classification of tier I and tier II day care homes; and
12. All other Program requirements, which may include, but not limited to, assessments of the following:
 - a. Training requirements;
 - b. Civil rights compliance;
 - c. Staff and governing board requirements;
 - d. Claims for reimbursement;
 - e. Fiscal recordkeeping and integrity, to include CACFP financial management system assessments;
 - f. Procurement requirements;
 - g. Sponsor responsibilities and requirements;
 - h. Participant eligibility;
 - i. At-risk afterschool program requirements, when applicable;
 - j. Meal service operations, food handling/sanitation, and food storage; and
 - k. Adult care requirements, when applicable.

It is important to note that DECAL may assess any and all Program requirements even when conducting follow-up reviews, serious deficiency reviews, complaint investigations, claim for reimbursement reviews, or financial reviews.

B. Review of Sponsored Facilities

State agencies are required to review a sample of facilities sponsored by sponsoring organizations, per 7 CFR § 226.6(m)(4). These reviews must include, but are not limited to, a verification of Program applications, comparison of enrollment and attendance records (with the exception of outside-school-hours care centers, at-risk afterschool care centers, and emergency shelters - these organizations must maintain attendance records), and the sponsoring organization's review results for a sponsored facility's meal counts for five days. In addition, sponsored facilities are subject to a review of any and all of the Program applicable items in Section A. DECAL may review additional sponsored facilities along with the original sample of sites selected, when common severe non-compliance is found within the sampled

facilities.

C. Frequency and Number of Required Full Compliance Reviews

Federal regulation at 7 CFR § 226.6(m)(6) advises of the frequency and number of institution reviews State agencies are required to conduct. These reviews include the following:

1. State agencies are required to conduct a full compliance review at least once every three years for independent centers and sponsoring organizations that operate 1 to 100 facilities. In addition, a full compliance review of a sponsoring organization must include at least 10% of the organization's sponsored facilities.
2. At least once every 2 years, sponsoring organizations that operate more than 100 facilities, that conduct activities other than CACFP, that have been identified during a recent review as having serious management problems, or that are at risk of having serious management problems are subject to full compliance reviews. These reviews must include reviews of 5% of the sponsoring organization's first 1,000 facilities and 2.5 percent of the sponsoring organization's facilities in excess of 1,000.
3. At least once every 2 years, independent centers that conduct activities other than CACFP, that have been identified during a recent review as having serious management problems, or that are at risk of having serious management problems must receive a full compliance review.
4. New sponsoring organizations that operate five or more facilities must be reviewed within the first 90 days of Program operations; however, all new institutions may be subject to review within the first 90 days of operation. This '90-day review' is a full compliance review where all items listed in section A of this policy are subject to review, when applicable.

D. Two Year Full Compliance Review Cycles

As stated above, sponsoring organizations that operate more than 100 facilities must receive a full compliance review every 2 years. In addition, those sponsoring organizations of less than 100 facilities and independent centers that conduct activities other than CACFP, have had serious management problems, or are at risk of having serious management problems are also subject to full compliance reviews every 2 years. It is important to note that if a sponsor which operates less than 100 facilities is subject to a 2 year review, the number of required sites to be reviewed, 10% of sponsored sites, does not change.

1. Other Activities

To ensure that increased monitoring is implemented efficiently, the following activities alone would **not** subject an institution to a 2-year compliance review:

- a. Operating other Child Nutrition Programs, such as the National School Lunch Program and the Summer Food Service Program; and/or
- b. Activities and programs conducted for the purpose of providing child care (e.g., Pre-K grants, subsidized child care, and Head Start).

Activities and types of institutions that would require a 2-year full compliance review are the following:

- a. Contract services, such as training and administrative services. Examples of these activities

are non-CACFP trainings and services such as trainings for child care licensing requirements and first aid/CPR and/or child care curriculum development and child care/small business administration guidance/mentoring;

- b. Community-based organizations (CBOs). CBOs are public or private nonprofit organizations that provide educational, economic, health, and social services to individuals, families, or the community at large. Examples of CBOs can include nationally affiliated community and charitable service organizations, faith-based organizations that conduct community improvement services, local non-profit organizations that focus on family financial stability to include education services, job training, housing, and bill assistance services.
- c. Large nonprofit and for-profit institutions, and multi-state sponsoring organizations. For the purposes of DECAL, large non-profit and for-profit organizations are organizations that expense \$1,000,000 or more in CACFP reimbursement during a fiscal year.
- d. Food banks; and/or
- e. For-profit charter schools.

2. Serious Management Problems

Institutions that have experienced and have been identified as having serious management problems or at risk for serious management problems are required to be monitored every 2 years. The purpose of these more frequent reviews is to help ensure that organizations have fully and permanently corrected problems. In addition, when these problems are found, targeted technical assistance should be provided by the State agency. Serious management problems include administrative weaknesses that would affect an organization's ability to meet CACFP performance standards - financial viability, administrative capability, and accountability.

Institutions that have been deemed seriously deficient as a result of identified serious management problems will receive a full compliance review every 2 years. Those institutions that are at risk for serious management problems will also be placed on a 2-year review cycle. Institutions that are potentially at risk are those that have significant staff turn over, a change in ownership, loss of other funding sources, new licensing, complaints, sizable differences in the number of claims or the amount of claims submitted by an institution, or large increases in the number of sponsored centers or day care homes.

E. State Agency Financial Review Requirements

Per Federal regulation at 7 CFR § 226.7(b)(1), State agencies are required to have a system in place to review institutions' adherence to financial management requirements. State agencies are required to:

- i. **Annually review at least one month's bank account activity of all sponsoring organizations against documents adequate to support that the financial transactions meet Program requirements.** State agencies are required to conduct this assessment on all sponsors, sponsors of affiliated sites and sponsors of unaffiliated sites. This review is known as an 'annual one-month financial review'. The annual one-month financial review is not applicable to independent centers.
- ii. **Annually review actual expenditures reported of Program funds and the amount of meal reimbursement funds retained from centers, if any, for administrative costs for all sponsoring**

organizations of unaffiliated centers. This review is known as an 'administrative costs review.' This review is not applicable to independent centers or sponsors of affiliated sites. State agencies must reconcile reported expenditures with Program payments to ensure that funds are fully accounted for and use the reported actual expenditures as the basis for selecting a sample of expenditures for validation.

- iii. **Monitoring and reviewing the institutions' documentation of their nonprofit status to ensure that all Program reimbursement funds are used solely for the conduct of the food service operation or to improve food service operations, principally for the benefit of children or adult participants.** This review is known as a 'non-profit status review'. This review is applicable to independent centers and sponsors of affiliated and unaffiliated centers.

The above financial reviews do not apply to school food authorities (SFAs) operating the CACFP and the National School Lunch Program (NSLP).

1. Annual One-Month Financial Review

As per 7 CFR § 226.7(b)(1)(i), State agencies are responsible for assuring fiscal integrity and safeguarding Program funds for the sole use in the Program and are only spent on allowable costs. Comparing financial records ensures that a sponsoring organization's charges demonstrate financial viability and align with CACFP federal reimbursements. Federal regulations direct State agencies to, at a minimum, select and compare one month of a sponsoring organization's CACFP bank account activity with supporting documents to verify that the financial transactions meet Program requirements.

Acceptable source documents may include, but is not limited to:

- a. Commingled or separate CACFP bank statements;
- b. Itemized expense reports;
- c. General ledgers;
- d. Canceled checks;
- e. Electronic deductions and transfers;
- f. Itemized receipts;
- g. Dated invoices;
- h. Financial records that substantiate cash or credit card transactions; and
- i. Any other document that supports the receipt and use of CACFP funds.

State agencies have the discretion to determine which month's bank account activity they will review each year. In addition, when anomalies and/or unallowable costs are found during this review, State agencies may review additional months of bank account and financial activity. Based upon findings found, State agencies may also require the completion of a full compliance review, where items such as meal counts, meal patterns, and facility monitoring may be assessed.

Pursuant to Federal regulation, if the State agency identifies and is unable to verify any expenditures that have the appearance of violating Program requirements, or if the discrepancy is significant, the State agency must refer the sponsoring organization's bank account activity to the appropriate State authorities. In addition, sponsors will be required to refund their CACFP food service account any

unallowable costs paid with CACFP funding.

Whether the review is conducted on site or via desk review, a sponsor's failure to submit financial records, as requested, may result in additional State agency action.

2. Administrative Costs Review

Regulations at 7 CFR § 226.7(b)(1)(ii) direct State agencies to annually review reported CACFP expenditures for sponsoring organizations of unaffiliated centers. State agencies must confirm funds are fully accounted for by comparing reported expenditures with Program payments. Comparing and matching financial records related to actual expenditures of sponsoring organizations of unaffiliated centers ensures that Program funds are being spent on allowable cost categories approved in the budget. This monitoring activity will also check that sponsoring organizations are adhering to the regulatory requirement at 7 CFR § 226.16(b)(1), which requires that the portion of the administrative costs to be charged to the Program may not exceed 15% of the meal reimbursements estimated or earned during the budget year.

In order to complete this annual assessment, sponsors must make available to the State agency financial management expense records that:

- a. Details actual expenditures of Program funds and the amount of meal reimbursement funds retained from centers, if any, for administrative costs for the year to which the claims apply; and
- b. Uses the same cost categories as the approved annual budget submitted by the sponsoring organization.

Please note that additional financial records pertaining to the CACFP may be requested during the Administrative Costs Review.

In addition, sponsors should supply the below information when requested, as found in DECAL's policy memorandum, [Charging Net Allowable Administrative Costs to the CACFP](#):

- a. An internal source document that captures the Federal Fiscal Year's (Oct-Sept.) reimbursement earned by each sponsored center, sponsor fee withheld from each reimbursement, the amount paid to the sponsored center, and all administrative costs charged to the Program. This documentation should contain:
 - i. Total reimbursement for the federal fiscal year (October-September);
 - ii. Total sponsors fee withheld;
 - iii. Amounts paid out to the sponsored centers; and
 - iv. Total administrative costs charged to the Program.
- b. Total Administrative costs charged to the Program. This documentation is known as the 'Year-End Administrative Fee Reconciliation' document.
- c. As a reminder, sponsors of unaffiliated sites must complete and upload to GA ATLAS, the Year-End Administrative Fee Reconciliation document by **November 30th** after the close of each Program year.

3. Non-Profit Status Review

As per 7 CFR § 226.7(b)(1)(iii), State agencies must monitor and review institutions' documentation of nonprofit status to ensure that all Program reimbursement funds are used solely for food service operations, primarily for the benefit of children or adult participants. This assessment is not required to be conducted on an annual basis and may be conducted as part of a routine compliance review.

As per DECAL policy memorandum, [Excess Funds in the CACFP and SFSP](#), DECAL assesses an institution's non-profit status via a review of the institution's CACFP food service account balance. Specifically, a non-profit service balance is considered "excessive" when more than three (3) months average expenses are retained. One month of average expenses can be determined by dividing the total prior year's expenses by the number of months in operation that year. If the institution/sponsor did not operate the prior year, averaging the total current months (total of all previous operating months) expenses is feasible.

When an excessive balance is discovered, a for-profit account, the institution/sponsor must immediately devise a plan to bring the excessive balance to total no more than three month's average expenses. If excessive funds are discovered by DECAL, the institution/sponsor will be required to submit a Corrective Action Plan to expend the funds by a specified timeframe. In some cases, if the institution operates another Child Nutrition Program (CNP) with DECAL's approval, the excess funds may be used to enhance operations of the other CNP(s). If, however, an institution has not reduced the excessive amount as required and does not intend to use those funds on another CNP, DECAL may declare the institution/sponsor Seriously Deficient.

F. Follow-up and Serious Deficiency Follow-up Reviews

Per Federal regulation, State agencies must maintain documentation of supervisory assistance activities, including reviews conducted, corrective actions prescribed and follow-up efforts. DECAL may conduct a follow-up review after findings have been issued during a full compliance review, complaint investigation, claim for reimbursement review or a financial review. Follow-up reviews are conducted to ensure that corrective actions put into place by institutions to eliminate future findings have been implemented, followed, and that the findings were not repeated.

During the serious deficiency process after an institution is issued a Notice of Successful Corrective Action and Temporary Deferment, DECAL will conduct a technical assistance visit and a follow-up review to ensure the serious deficiencies were fully and permanently corrected. This follow-up review is known as a 'serious deficiency follow-up review.' If during the serious deficiency follow-up review, DECAL finds that the serious deficiencies have reoccurred, DECAL will propose that the organization be terminated and disqualified from the CACFP or SFSP. A proposed termination from either program is an adverse action and is appealable. For further information regarding the serious deficiency process please DECAL Policy #9 - [Serious Deficiency Process for Applying \(New\), Renewing and Participating Institutions](#).

G. Complaint Investigations

Pursuant to 7 CFR § 226.6(n), each State agency must promptly investigate complaints received or irregularities noted in connection with the operation of the CACFP, and take appropriate action to correct any irregularities. State agencies are also required to maintain on file evidence of such investigations

and actions. USDA's Food Nutrition Services (FNS) and USDA's Office of Inspector General (OIG) may also conduct investigations at the request of State agencies or whenever FNS or OIG determines that investigations are appropriate.

H. Recordkeeping Requirements, Records Requests, and 2-Year Reviews

Participants in the CACFP are required to maintain all records relating to Program administration, financial responsibility, and operation at the location indicated in their Management Plan of their online application for the current year plus a period of three years after the date of submission of the final claim for the fiscal year to which they pertain. Pursuant to 7 CFR § 226.15(e), institutions participating in the CACFP are required to maintain and provide upon request all Program records. Failure to maintain records will be grounds for denial of reimbursement for meals served during the period covered by the records in question and for the denial of reimbursement for costs associated with such records. DECAL Policies #18 - [Recordkeeping Requirements in the Child and Adult Care Food Program](#) and #39 - [Financial Recordkeeping in the Child and Adult Care Food Program and the Summer Food Service Program](#), outline specific recordkeeping requirements for both overall CACFP and financial management compliance.

It is vital to Program operations that institutions have readily available all CACFP records that support not only claims for reimbursement submitted but financial records showing receipt and use of CACFP funds. Program records are requested during all types of State agency reviews. Failure to provide Program supporting records will likely result in findings, reclaims of meal reimbursements and/or unallowable costs due back to an institution's CACFP food service account.

Annual One-Month Financial and Administrative Cost Reviews

Annual one-month financial and administrative cost reviews may be conducted during compliance reviews, follow-up reviews, or added as desk review if no other review is due during the Federal fiscal year. These two types of financial reviews may take place at anytime within the fiscal year beginning in FY 2025 and be conducted by the Audits & Compliance Division.

For desk reviews, the records will be requested by GA DECAL via email to the Program Contact listed in the CACFP institution's application in GA ATLAS. The sponsors will be allowed five (5) business days to submit all requested records to the Audits and Compliance examiner for review. Organizations may submit the requested records either by email or may upload records to a secure link, which will be provided at the time of the records request.

Please keep in mind that desk reviews are treated the same as any other review conducted by GA DECAL for the CACFP in that all recordkeeping requirements apply. Failure to provide records during a desk review will result in a finding and a disallowance of costs for the time period for which the requested records covered. In addition, when serious deficiencies are found during these reviews, State agencies are required to conduct the Serious Deficiency process and deem the sponsor seriously deficient.

2-Year Compliance Reviews

The Audits & Compliance Division will assess the FY 2025 review schedule prior to FY 2025 to ensure that all applicable institutions are on a 2-Year review cycle. The Audits & Compliance Division will

routinely assess institutions' operations to determine if operations meets the 2-year review requirement and will add additional institutions to a 2 year review cycle as needed throughout the fiscal year. Institutions will remain on a 2-year review cycle until the institution's operations no longer meet the 2-year review cycle requirements.

Comments

Any questions concerning this policy should be directed to the Policy Administrator at (404) 651-8193.