



**Georgia Dept
of Early Care
and Learning**

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Effective 5/28/2024
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Area Memo:
Monitoring
Programs CACFP

Implementation Guidance: State Agency Financial Review Requirements

Purpose

This memorandum provides a summary of each provision and instructions for how to complete the annual verification of bank account activity and actual expenditures (Attachment A).

Legal Authority

CACFP 09-2024

Background

On August 23, 2023, the Food and Nutrition Service (FNS) published the [Child Nutrition Program Integrity Final Rule](#) and amended regulations at 7 CFR 226.7(b) and 7 CFR 226.10(c) to codify the requirement for an annual reconciliation of bank account activity and accounting of reported actual expenditures with Child and Adult Care Food Program (CACFP) payments. The amended regulatory provisions have a compliance date of August 23, 2024, and State agencies should plan to implement these new requirements on or before the program year beginning October 1, 2024.

The regulatory amendments are consistent with the audit recommendations by the USDA Office of Inspector General (OIG), *Review of Management Controls for the Child and Adult Care Food Program*, published in November 2011. The audit found that past State agency financial reviews were unable to detect the misuse of funds, which was often an indicator of a sponsoring organization's systemic program abuse. The provisions described in this memorandum were recommended to uncover and prevent the misuse of funds.

Program Requirements

State Agency Financial Review Requirements

The amended regulations at 7 CFR 226.7(b) require State agencies to expand the routine reviews of institutions' finances. State agencies must develop procedures to:

1. Annually conduct reviews of bank account activity for all CACFP sponsoring organizations [7 CFR 226.7(b)(1)(i)];
2. Annually review actual expenditures and meal reimbursement funds retained from centers for administrative costs for CACFP sponsoring organizations of unaffiliated centers [7 CFR 226.7(b)(1)(ii)]; and
3. Monitor and review institutions' documentation of their nonprofit status [7 CFR 226.7(b)(1)(iii)].

These measures are intended to uncover payments made for unallowable costs and further prevent the misuse of CACFP funds.

Provisions described at 7 CFR 226.7(b)(1)(i) and (ii) do not apply to independent centers. Regular oversight conducted by State agencies of independent centers ensures financial viability for these institutions.

Provisions described at 7 CFR 226.7(b)(1)(i), (ii), and (iii) do not apply to school food authorities (SFAs) operating the CACFP and the National School Lunch Program (NSLP). State agencies routinely perform reviews of nonprofit food service accounts in accordance with NSLP regulations that satisfy the requirements described below.

Annual Verification of Bank Account Activity for Sponsoring Organizations

Regulations at 7 CFR 226.7(b)(1)(i) 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 bank statements, itemized expense reports, canceled checks, electronic deductions and transfers, itemized receipts, dated invoices, and other financial records that substantiate cash or credit card transactions. State agencies have discretion to determine which month's bank account activity they will review each year.

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.

In cases where unallowable costs are identified, State agencies may expand the review to examine additional months of bank account activity. The findings may also require a full compliance review to include other elements of Program administration, including but not limited to, meal pattern compliance and facility monitoring. Institutions must exhibit appropriate tracking and separation of funds. Although separate bank accounts for Child Nutrition Program-related transactions and personal or non-Child Nutrition Program transactions are not required, sponsoring organizations must demonstrate the maintenance of nonprofit food service records, as required by regulations at 7 CFR 226.15(e)(13). State agencies are encouraged to provide technical assistance on financial accounting practices.

State agencies should consider the severity and scope of any findings. If at any time during the review the State agency identifies significant discrepancies or is unable to verify any expenditures that may be in violation of Program requirements, the State agency must refer the sponsoring organization's bank account activity to the appropriate authorities. Also, failure to submit financial records, as requested, may result in additional State agency action. When serious deficiencies, as defined at regulations 7 CFR 226.6(c)(3)(ii), are identified, State agencies are required to follow procedures described in regulations at 7 CFR 226.6(c)(3)(iii).

Annual Review of Actual Expenditures for Sponsoring Organizations of Unaffiliated Centers

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 percent of the meal reimbursements estimated or earned during the budget year.

Sponsoring organizations of affiliated centers do not routinely disburse funds to sponsored facilities, so this requirement does not apply to them. Routine monitoring reviews confirm that sponsoring organizations of affiliated centers do not retain more than 15 percent of the meal reimbursements for administrative costs.

To assist State agencies with the verification of actual expenditures, in accordance with 7 CFR 226.10(c)(2), sponsoring organizations of unaffiliated centers must make available to the State agency an annual expense report that:

- 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.
- Uses the same cost categories as the approved annual budget submitted by the sponsoring organization.

State agencies may use a select sample of the submitted expense report, along with supporting documentation, to validate that the expenses were incurred.

Monitoring Documentation of Nonprofit Status for All Institutions

As required by 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 activity is not required to be conducted on an annual basis and may be conducted as part of a routine compliance review.

State Discretion for Review Activities

FNS recognizes that State agencies have discretion in developing review activities that best leverage available resources. The attached *Supplemental Guidance for State Agency Financial Review Requirements in the Child and Adult Care Food Program* contains suggested methods, with instructions and examples, for reconciling bank account activity and actual expenditures. State agencies may tailor these strategies to fit their established processes.

State agencies also have discretion to determine how the documentation needed to complete verification of bank account activity and actual expenditures will be collected. States may conduct these activities as part of an on-site scheduled review or separate review. The annual financial verifications may be completed off-site if the State agency is able to obtain the necessary documentation. Electronic submission of documentation should occur through a secure file-sharing platform.

Comments

For questions concerning this memorandum, please contact the Policy Administrator at (404) 651-8193.

Attachment A:

Supplemental Guidance for State Agency Financial Review Requirements in the Child and Adult Care Food Program

The examples provided below offer guidance and strategies to help State agencies fulfill the requirements outlined in 7 CFR 226.7(b)(1)(i)-(ii). Specifically, new regulations at 7 CFR 226.7(b)(1)(i)-(ii) do the following:

- 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;
- Ensure that State agencies are annually validating program payments, using actual expenditures, to confirm the Program will not be charged for administrative costs in excess of 15 percent of meal reimbursements estimated to be earned during the budget year; and
- Verify, through a select sample of expenses, that administrative costs were actually incurred and documented.

FNS recognizes that many State agencies already have procedures in place for ensuring administrative costs do not exceed 15 percent of the meal reimbursements estimated to be earned during the budget year for sponsoring organizations of centers. The regulation at 7 CFR 226.7(b)(1)(ii) extends this requirement to sponsoring organizations of unaffiliated centers. The strategies provided in this document are only examples and State agencies continue to have discretion in developing review activities that best leverage their available resources and established processes.

Instructions: How to Review Bank Account Activity for CACFP Sponsoring Organizations of Affiliated and Unaffiliated Centers

The step-by-step guide below demonstrates how a State agency may review bank account activity for all sponsoring organizations.

Step 1:

Request and obtain the sponsoring organization's bank statement(s) for one month. This must include all accounts used to receive or expend CACFP funds. Records may be submitted electronically through a secure file sharing platform.

Step 2:

Request and obtain supporting documentation for transactions that appear on the bank statement(s). Documentation may include, but is not limited to:

- Itemized expense reports;
- Actual expenditure reports;
- Itemized receipts;
- Dated invoices;
- Canceled checks;
- Payroll documentation;
- Evidence of disbursements made to sponsored facilities;
- Records to support allocations; and
- Records to support credit card and cash transactions.

Some of the records listed above are insufficient alone and may require additional documentation to substantiate transactions.

Step 3:

Identify all allowable transactions on the bank statement(s). Separate all personal or non-Program transactions. Ensure allowable transactions are approved line items in the budget. Make note of any unallowable banking fines or overdraft fees, which may indicate that the institution does not have adequate sources of funds to pay employees and suppliers, and/or to pay debts.

Step 4:

Compare and match each deposit recorded on the bank statement against the submitted claim for reimbursement. Mark the items that appear on both records.

Step 5:

Compare and match expenditures recorded on the bank statement against supporting documentation such as itemized receipts and payroll documentation. Mark the items that appear on both records. Your goal is to ensure that costs paid with CACFP funds are reasonable, allocable, and necessary.

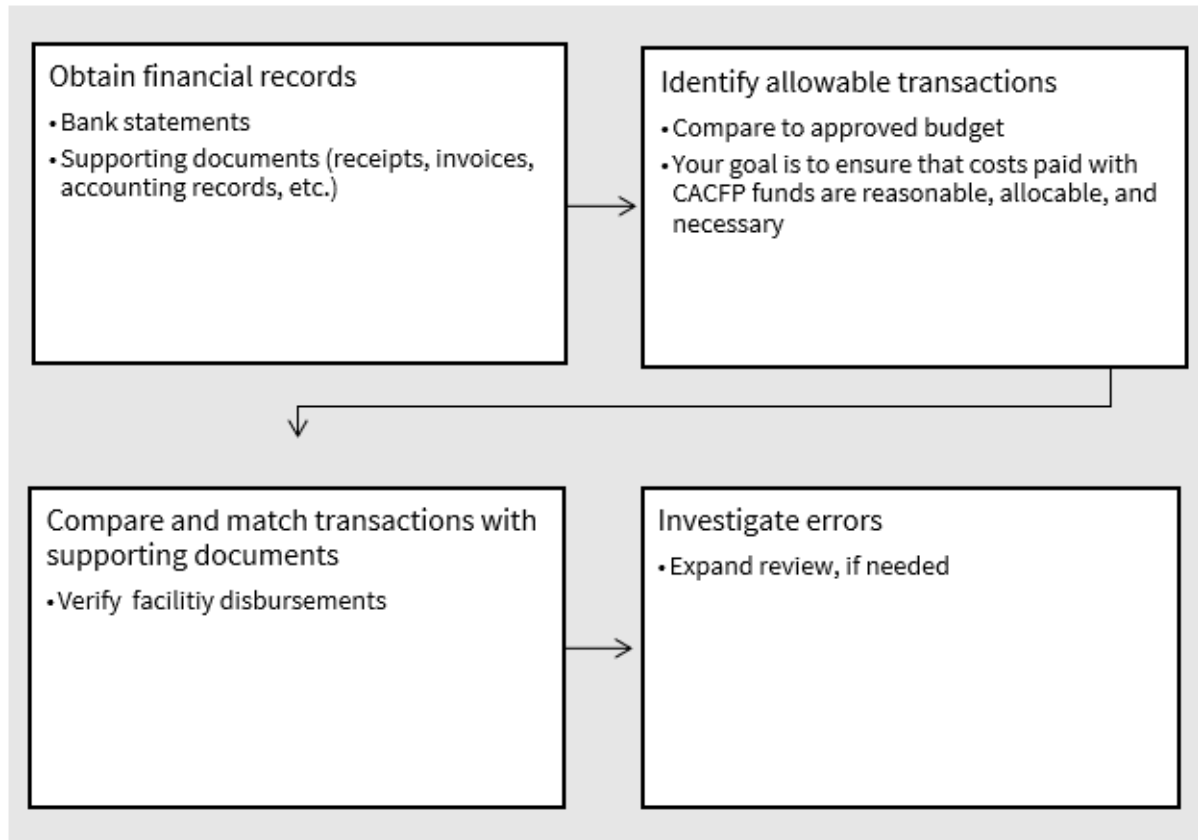
Step 6:

Ensure reimbursement funds were disbursed to sponsored facilities. Reimbursements must be disbursed within five working days of receipt of the earned reimbursement from the State agency.

Step 7:

Investigate transactions that are incorrectly spent or missing supporting documentation, such as unallowable costs that were paid with program funds. Inquire with the sponsoring organization about how and why the error occurred. Based on the severity of the errors or other factors identified by the State agency, determine if the scope of the review should be expanded to include additional months of review or other elements of program management, such as meal pattern requirements or monitoring.

Flow Chart: How to Review Bank Account Activity for Sponsoring Organizations of Affiliated and Unaffiliated Centers



Instructions: How to Review Actual Expenditures of CACFP Sponsoring Organizations of Unaffiliated Centers

The instructions below demonstrate how State agencies may review the actual expenditures of CACFP sponsoring organizations of unaffiliated centers.

Step 1:

Request and obtain the sponsoring organization's annual itemized expense report for all operating and administrative costs. Records may be submitted electronically through a secure file sharing platform.

Step 2:

Compare and match total expenditures to Program payments to ensure funds are fully accounted for.

Step 3:

Calculate the total amount of all administrative expenses. Ensure that administrative expenses do not exceed 15 percent of the total reimbursement.

Step 4:

Use the reported expenditures to select a sample of expenditures to validate. Compare and match the sample of expenditures to supporting documentation, such as itemized receipts, dated invoices, or canceled

checks, to ensure that the expenses were incurred and documented.

Example: How to Review Bank Account Activity for Sponsoring Organizations

ABC Sponsoring Organization sponsors CACFP centers and day care homes (DCHs). They use one bank account to manage the finances for both program types. The State agency is conducting an annual reconciliation of one month of banking activity and verifying the amount of meal reimbursement funds that have been disbursed, for one month. In response to the State agency’s request, they submitted a bank statement for one month, and their facility disbursement tracking sheet for review. In addition, the sponsoring organization submitted receipts and invoices for all transactions that were processed through the bank account. This example will demonstrate how to reconcile one itemized receipt and one invoice and confirm disbursements to sponsored facilities occurred.

Sample Bank Statement

ABC Sponsoring Organization Account Activity					
Date	Payment Type	Detail	Paid In	Paid Out	Balance
		Balance Forward			8,313.30
01/05/2024	Debit	Cellphone Bill		400.00	7,913.30
01/05/2024	Debit	Landline/Internet		298.00	7,615.30
01/05/2024	Cash	Cash Withdrawal		120.00	7,495.30
01/10/2024	Dir Dep	State agency reimbursement	32,631.00		40,126.30
01/12/2024	Debit	Printing Services		337.50	39,788.80
01/12/2024	Debit	ATM Withdrawal		100.00	39,688.80
01/13/2024	Debit	Box Store		244.97	39,443.83
01/15/2024	Debit	Conference Hotel		531.00	38,912.83
01/15/2024	Debit	Conference Registration		222.22	38,690.61
01/15/2024	Debit	Payroll		4,960.00	33,730.61
01/16/2024	Debit	Electric & Gas		270.00	33,460.61
01/16/2024	Debit	EFT Facility Disbursements		23,355.00	10,105.61
01/16/2024	Debit	Check #098		890.00	9,215.61
01/22/2024	Debit	Check #099		2,920.00	6,295.61
01/22/2024	Debit	Check #100		540.00	5,755.61
01/24/2024	Debit	Credit Card Payment		1,280.00	4,475.61
01/26/2024	Debit	Auto loan		899.00	3,576.61
01/31/2024	Deposit	Nutrition Grant	1,500.00		5,076.61
01/31/2024	Deposit	Consulting Fees	2,300.00		7,376.61
01/31/2024	Deposit	Training Fees	1,000.00		8,376.61

The supporting documentation, an itemized receipt from the box store and an invoice for printing services, verify the transactions in the bank statement above.

1. Itemized Receipt attached to a Purchasing Card Receipt Form

ABC Sponsoring Organization Receipt Form																																			
<p><i>Attach receipt here.</i></p> <div style="border: 1px solid black; padding: 5px; margin: 10px auto; width: 80%;"> <p style="text-align: center;">Box Store 311 Main Street Receipt date 1/13/24</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 60%;">Item</th> <th style="width: 15%;">Quantity</th> <th style="width: 25%;">Total</th> </tr> </thead> <tbody> <tr> <td>Ream of printing paper</td> <td style="text-align: center;">10</td> <td style="text-align: right;">\$40.00</td> </tr> <tr> <td>Box of blue ink pens</td> <td style="text-align: center;">10</td> <td style="text-align: right;">\$40.00</td> </tr> <tr> <td>Box of staples</td> <td style="text-align: center;">10</td> <td style="text-align: right;">\$20.00</td> </tr> <tr> <td>Potato chips</td> <td style="text-align: center;">6</td> <td style="text-align: right;">\$18.00</td> </tr> <tr> <td>Soda</td> <td style="text-align: center;">6</td> <td style="text-align: right;">\$18.00</td> </tr> <tr> <td>Fruit platter</td> <td style="text-align: center;">3</td> <td style="text-align: right;">\$47.97</td> </tr> <tr> <td>Streamers</td> <td style="text-align: center;">3</td> <td style="text-align: right;">\$6.00</td> </tr> <tr> <td>Balloon arch</td> <td style="text-align: center;">1</td> <td style="text-align: right;">\$25.00</td> </tr> <tr> <td>Cake</td> <td style="text-align: center;">1</td> <td style="text-align: right;">\$30.00</td> </tr> <tr> <td colspan="2" style="text-align: right;">Total</td> <td style="text-align: right;">\$244.97</td> </tr> </tbody> </table> </div>		Item	Quantity	Total	Ream of printing paper	10	\$40.00	Box of blue ink pens	10	\$40.00	Box of staples	10	\$20.00	Potato chips	6	\$18.00	Soda	6	\$18.00	Fruit platter	3	\$47.97	Streamers	3	\$6.00	Balloon arch	1	\$25.00	Cake	1	\$30.00	Total		\$244.97	<p>Budget Category:</p> <ul style="list-style-type: none"> • CACFP Administrative Funds (\$100.00) <p>Cost Categories (check all that apply):</p> <ul style="list-style-type: none"> • Accounting • Advertising • Communications (Internet, Cellular Phones) • Office Lease • Office Supplies <input checked="" type="checkbox"/> • Outreach • Printing • Professional Organization Memberships • Travel (Monitoring) • Technology (Laptops, Cellular Phones) • Wages and Benefits
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Cake	1	\$30.00																																	
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		<p>Notes: Actual charges to CACFP are ream of printing paper, box of blue ink pens, and box of staples</p>																																	

ABC Sponsoring Organization hosted a holiday party for the staff. The items purchased from the box store for the party are unallowable costs that cannot be charged to the Program. The box store transaction comingled allowable office supplies with the unallowable items. In this example, the sponsoring organization correctly separated the allowable and unallowable costs. The unallowable party supplies were not charged to the Program.

3. December 2023 Disbursements to Centers and DCHs

Date	Method	Facility	Disbursement Amount
1/15/2024	Direct Deposit	Connie's <u>Child Care</u>	\$2,725.00
1/15/2024	Direct Deposit	Main Street Adult Daycare	\$3,150.00
1/15/2024	Direct Deposit	Busy Bees Afterschool Program	\$3,300.00
1/15/2024	Check #098	Suzanne Dorsey (DCH)	\$890.00
1/15/2024	Direct Deposit	Wanda Mackins (DCH)	\$775.00
1/15/2024	Check #099	Lance's Little Learners	\$2,920.00
1/15/2024	Direct Deposit	Bonnie's <u>Child Care</u>	\$2,405.00
1/15/2024	Direct Deposit	Nana's Child Development Center	\$3,500.00
1/15/2024	Check #100	George Carter (DCH)	\$540.00
1/15/2024	Direct Deposit	Veterans Adult Daycare	\$3,750.00
1/15/2024	Direct Deposit	High Achievers Afterschool Care	\$3,750.00
Total Disbursements			\$27,705.00

ABC Sponsoring Organization's Disbursements from Bank Statement			
Date	Method	Detail	Amount
01/16/2024	Debit	EFT Facility Disbursements	23,355.00
01/16/2024	Debit	Check #098	890.00
01/22/2024	Debit	Check #099	2,920.00
01/22/2024	Debit	Check #100	540.00
Total Disbursements			\$27,705.00

ABC Sponsoring Organization submitted their disbursement tracking sheet which shows facility disbursements made in January 2024 for December 2023 submitted claims. It shows which facilities were paid, the amount of reimbursement disbursed, the method of disbursement, and the date. This information is consistent with the bank statement.

Transactions on the bank statement that require further verification by the State agency reviewer are all the cash transactions and the credit card payment. In both cases, itemized receipts and dated invoices are required to ensure that Program funds were used appropriately. As a reminder, Program funds may not be used to pay interest on debts.

Example: How to Reconcile Actual Expenditures and Funds Retained for Administrative Costs for Sponsoring Organizations of Unaffiliated Centers

ABC Sponsoring Organization sponsors unaffiliated CACFP centers. In accordance with 7 CFR 226.10(c)(2), the institution submitted, for State agency review, a report of their actual expenditures and funds retained for administrative costs. The State agency determined that the report included only those cost categories in the approved budget. In this example, the State agency will compare, and match reported expenditures with Program payments to ensure that funds are fully accounted for.

In the report of actual expenditures, State agencies should require that the following information and

calculations are included for review:

1. Total CACFP Reimbursements

ABC Sponsor Organization Annual Reimbursements from the State Agency		
Year	Month	Amount
2023	October	\$30,000.00
2023	November	\$28,500.00
2023	December	\$27,705.00
2024	January	\$25,800.00
2024	February	\$29,600.00
2024	March	\$31,200.00
2024	April	\$27,700.00
2024	May	\$30,400.00
2024	June	\$26,300.00
2024	July	\$28,900.00
2024	August	\$29,700.00
2024	September	\$34,195.00
Total CACFP Reimbursements		\$350,000.00

2. Total Administrative Withholding

Total CACFP Reimbursements	\$350,000.00
Minus cash-in-lieu*	- \$34,267.20
	= \$315,732.80
Times the administrative limit (15%)	X 0.15
Total Administrative Withholding Cap	= \$47,359.92

*(40 lunches or suppers X 11 facilities X 22 days of service X 12 months X \$0.295 CIL rate)

3. Total Center Disbursements

Total CACFP Reimbursements	\$350,000.00
Total Administrative Withholdings	- \$47,359.92
Total Center Disbursements	= \$302,640.08

4. Total Cost of Actual Administrative Expenses

Actual Administrative Expenses	
Cost Category	Actual Amount
Accounting	\$ 4,500.00
Advertising	\$ 600.00
Communications (Internet, Cellular Phones)	\$ 1,080.00
Office Lease	\$ 9,600.00
Outreach	\$ 1,500.00
Printing	\$ 350.00
Professional Organization Memberships	\$ 400.00
Travel (Monitoring)	\$ 670.00
Technology (Laptops, Cellular Phones)	\$ 1,200.00
Wages & Benefits	\$ 45,760.00
Total CACFP Administrative Costs	\$ 65,660.00

The State agency determined that, based on the report of actual expenditures, the sponsoring organization expended the 15 percent limitation for administrative costs appropriately. In addition, the State agency found that the actual expenditures were allowable costs that were approved in the budget. For situations where sponsoring organizations are meeting the 15 percent limitation, it is recommended the State agency verify the remaining reimbursement budget was correctly allocated to operating costs.

To validate the actual expenditures, the State agency must select a sample of expenditures to compare and match with supporting documentation. Reconciliation of actual expenditures can be conducted in the same manner as reconciling banking activity (example included above).

This activity, in conjunction with the reconciliation of one month's banking activity, ensures that Program funds are expended and accounted for in accordance with the requirements in 7 CFR 226, FNS Instruction 796-2 ("Financial Management in the Child and Adult Care Food Program"), and [2 CFR part 200, subpart D](#) and [USDA](#) implementing regulations [2 CFR part 400](#) and [part 415](#).