

## Executive Summary

**Issue:** Family child care homes may receive reimbursements for meals and snacks served to participating children through USDA's Child and Adult Care Food Program (CACFP). To participate, these homes must be sponsored by a public or private organization that trains them to follow CACFP rules, monitors compliance with these rules, and handles meal reimbursement claims and payments. Sponsors are reimbursed by CACFP for the administrative expenses incurred in conducting these activities.

In 1996, as part of the Personal Responsibility and Work Opportunity Reconciliation Act, Congress instituted a two-tiered meal reimbursement system designed to better target benefits to low-income providers and children. This system created new administrative tasks for CACFP sponsor organizations. In addition, many sponsors believe that it also created a need for more time to be spent on some of the administrative tasks they had conducted previously, such as recruitment and training (Bernstein and Hamilton). Given expanded administrative responsibilities, the adequacy of sponsor reimbursements has been questioned. To shed more light on this issue, this study explored the administrative cost reimbursement system for CACFP sponsors that oversee the family childcare homes portion of the CACFP.

### Background

The CACFP helps ensure that children and adults who attend day care facilities receive nutritious meals and snacks. The care providers are reimbursed for each type of qualifying meal (breakfast, lunch/supper, or snack) they serve. Almost all participants are children; approximately 36 percent attend family day care homes (Food Assistance Landscape, September 2005). Meals and snacks served by participating child care homes must meet nutritional standards established by the Food and Nutrition Service (FNS) of USDA.

The current two-tiered reimbursement system provides a higher meal reimbursement to homes that are either located in low-income areas or run by providers with family incomes at or below 185 percent of the Federal poverty guideline—these are designated as Tier I. An area is considered low-income if 50 percent or more of the children at the local elementary school have applied and been approved for free or reduced price school meals, or if 50 percent or more of the children in the area are in families with incomes at or below 185 percent of the Federal poverty guidelines as measured by the most recent decennial census. Meal reimbursement rates for Tier I homes are comparable to the rates that existed for all CACFP homes before PRWORA. Family child care homes that do not meet the low-income criteria are designated as Tier II. Tier II homes receive lower reimbursements; although they can be reimbursed at Tier I rates for meals served to children from families with incomes at or below 185 percent of the poverty guideline, given appropriate documentation.

Care providers purchase foods and prepare meals. However, to receive reimbursement for their meal expenses, they must be sponsored by an organization that has entered into an agreement with the State office to administer the program at the local level. Sponsors are responsible for

recruiting homes, determining that homes meet the CACFP eligibility criteria, determining their tier status, providing training and other support, and monitoring the homes to assure that they comply with applicable Federal and State regulations. Sponsors receive and verify the homes' claims for CACFP reimbursement, forward the claims to State CACFP offices for payment, receive the reimbursements, and distribute the meal reimbursements to the homes. Sponsors receive payments for these administrative activities that are based on a four-part formula—the lowest amount of (1) actual costs, (2) State-approved budgeted costs, (3) the sum of a rates-times-homes schedule, or (4) 30 percent of total meal reimbursements and administrative costs. The rates-times-homes schedule accounts for economies of scale by reimbursing sponsors at decreasing rates as the number of homes sponsored increases.

Institution of the two-tiered system resulted in targeting the family childcare home aspect of CACFP more towards low-income providers and children. However, it added to sponsors' administrative responsibilities, with sponsors rating tiering determinations as their most burdensome duties. Many sponsors also reported that after institution of the new system, they found they needed to spend more time on recruitment and training. This has raised concerns as to the adequacy of administrative reimbursements. The decline in the number of CACFP sponsors—a 6 percent drop between 1995 and 2001—has further added to this concern (Bernstein and Hamilton).

In response to these concerns, this exploratory study of the CACFP administrative reimbursement system for sponsors of family child care homes examined a number of issues using a variety of research methods. A first objective was to identify the essential administrative duties sponsors must perform; this was done by convening an expert panel of CACFP sponsors and State administrators. Second, the study investigated the extent of information on sponsor characteristics, costs, and reimbursement available from State CACFP offices via a census of the State offices. Third, to assess feasible approaches for collecting detailed cost information directly from sponsors, site visits to five sponsors in different States were conducted. Fourth, to assess the feasibility of strategies for establishing benchmarks for major costs such as personnel and space, relevant public and private data sources were reviewed. Fifth, to consider alternative cost reimbursement system options, other Federal programs with somewhat similar administrative organizations were identified and their administrative reimbursement systems were reviewed.

## **Findings**

Necessary administrative activities of CACFP sponsors were grouped into six functional areas. These included a) recruitment, b) training, c) monitoring, d) tier determination, e) reimbursement, and f) supervision/office management.<sup>1</sup> Data on sponsor characteristics, costs reported to State agencies, and reimbursements were received from 49 of the 53 State offices that channel Federal reimbursements to sponsors. Findings indicate most sponsors are private nonprofit organizations (80 percent) and that about three-quarters are multi-purpose agencies,

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<sup>1</sup> Since the meeting of the expert panel, additional administrative tasks have been added by new rules designed to strengthen the integrity of the family childcare component of CACFP.

handling CACFP sponsorship along with other activities. The majority are relatively small, with about 80 percent administering 200 or fewer homes, and nearly all (92 percent) had been CACFP sponsors for more than 6 years. Consistent with the findings from previous research that family childcare homes are now more likely to be Tier I, most sponsors (80 percent) report that more than half of the homes they serve are Tier I.

The State Census data indicate that sponsor reimbursements were 14.5 percent of the total meal and administrative cost reimbursements in the family childcare homes portion of the CACFP in Fiscal Year 2000. Nationally, 52 percent of sponsors were reimbursed at the homes-times-rate limit, 42 percent were reimbursed at the level of reported costs, and the remaining sponsors were reimbursed at the other limits. Overall, costs reported by CACFP sponsors to State agencies were similar to amounts reimbursed; however, reported costs tended to be slightly higher than reimbursement amounts, by about 5 percent, on average. Because this study did not include a formal audit, the accuracy and completeness of cost reporting cannot be guaranteed. Some reported costs may have been judged unallowable as CACFP expenses if audited. About half of the responding State agencies indicated they believed that some sponsors underreported allowable costs, possibly because those costs were being covered through some other mechanism or because they did not claim costs that exceed the homes-times-rate limit. The five case study visits were consistent with State office perceptions; all of the sponsors visited had some allowable CACFP costs that were covered by in-kind contributions.

Examination of expenses budgeted by sponsors indicated personnel costs to account for more than three-quarters (76.5 percent) of the budget. Office rent, utilities, benefits, and equipment expenses were frequently unreported, perhaps because these costs were being covered by some other mechanism. Budget categories did not correspond to administrative functions identified by the expert panel, and so could not be used to estimate costs associated with each function. The five case study visits indicated wide variation in the allocation of staff resources to the identified essential functions. To measure what it costs to perform the necessary sponsor functions, it may be necessary to conduct a more detailed study, such as the one used to develop the current homes-times-rates reimbursement approach (Glantz et al., 1982).

Staffs employed by CACFP sponsors typically carry out a range of tasks of varying complexity; therefore identifying appropriate wage benchmarks requires some judgment. Nevertheless, public and private sources of data on average wages by industry and occupation for States and metropolitan areas do exist and can help State CACFP offices assess the reasonableness of sponsors' personnel costs. Since personnel costs are by far the largest sponsor expenses, this should be a useful resource. Office space is a much smaller portion of budgeted expenses, perhaps because it is often covered by non-CACFP sources; however, the sources of information on local area average rents that were identified by the study may also be useful to State offices in assessing reasonableness of sponsors' rent expenses.

Six other Federal programs were identified that had somewhat similar administrative structures to that of the family childcare homes component of CACFP. These programs varied considerably in their administrative reimbursement procedures, and in the percent of total

funding that went to reimbursement of administrative costs. The systems used by these Federal programs may suggest alternative strategies for CACFP—for example, akin to WIC, States could be given authority to contract with sponsors to provide administrative services for a fixed annual fee. However, for conclusive recommendations to be made, further examination of administrative costs by current function, and pilot testing of alternative administrative systems would be needed.