

EXECUTIVE SUMMARY

The purpose of this assessment is to identify improper payments arising from the misclassification of Family Day Care Homes (FDCHs) for Tier I or Tier II program reimbursements. The Improper Payments Information Act of 2002 (Public Law 107-300) requires all Federal agencies to calculate the amount of improper payments in Federal programs and to conduct detailed assessments of vulnerable program components periodically. This assessment of the FDCH component of the U.S. Department of Agriculture's (USDA's) Child and Adult Care Food Program (CACFP) involved producing a national estimate of the share of FDCHs that are classified in the wrong reimbursement tier. Misclassifications translate into improper payments because misclassified FDCHs do not receive the appropriate level of reimbursement for the meals and snacks provided to the children participating in the program. This is year 3 of the assessment, the base year having been conducted in 2005.

A nationally representative sample of sponsor files for 3,284 Tier I and Tier II FDCHs, from 91 distinct sponsors in 14 States, was used to develop national estimates of improper over- and under-payments. This represented approximately 2 percent of all FDCHs and 10.5 percent of all sponsors. Assessment data were obtained through onsite abstraction of randomly sampled FDCHs at the sponsor location. Data were collected on the number of meals reimbursed, by tier type (Tier II FDCHs can be reimbursed at Tier I rates for the meals of individual children who are income eligible), meal type, month—from October 2006 through September 2007—and the tiering decision information from the sponsors' files.

Using a methodology based on Food and Nutrition Service (FNS) guidelines for establishing the tiering status of an FDCH, the analysis involved comparing the tiering status assigned by the sponsor, and a determination of what tiering level the documents on file actually supported. Whenever there was a discrepancy between these two determinations, a procedural misclassification was identified.¹ Overall, slightly more than 21 percent of all FDCHs were found to have a procedural misclassification; for instance, their file documentation did not support the tiering determination. Slightly more than 84 percent of these procedural misclassifications were attributable to errors in the School Boundary Area method for determining Tier I status, including inadequate documentation linking an FDCH to an eligible school, or inadequate documentation of an eligible school.

Independent validation procedures were then used to confirm the Tier I status of FDCHs with procedural errors. The independent validation reviewed only the documentation present in the FDCH sponsor's file and was limited to using only the existing documentation to determine whether the Tier I status could be supported by using either the School Boundary Area method—the primary validation method for an independent attempt—or by using the Census Block Group method—the secondary validation method. The Census Block Group method was attempted only in cases where the School Boundary Area method resulted in either an

¹A procedural error may or may not lead to improper payments, which are addressed later in this document.

inconclusive or lower tiering status determination.² After these procedures were applied, 96.82 percent of all FDCHs were found correctly classified. The rate of misclassification was determined to be 3.18 percent for all FDCHs and 4.09 percent for Tier I FDCHs (see Exhibit A).

Exhibit B shows the estimated costs associated with the verified estimates of misclassifications, including findings from both the primary and secondary validation processes. The total amount of improper payments³ associated with misclassified FDCHs for this assessment is estimated at \$10.9 million, with a 90 percent confidence range between \$8.1 and \$13.6 million, which represents 1.6 percent of the total FDCH meal reimbursements in 2007.

The total estimated expenditures for meal reimbursements for all FDCHs (covering October 2006 to September 2007) were \$699,736,802 (see Exhibit C).

²It should be noted that the School Boundary Area method was attempted first in the independent verification procedures for all tiering methods, except for the cases where the original tiering status was determined using the Census Block Group method. In such instances, the original method was first attempted independently, and then the School Boundary Area method was attempted. This ordering is outlined in the algorithms presented in Chapter 3 of this report.

³The sum of the overpayments to Tier I homes and the absolute value of the underpayments to Tier II homes.

Exhibit A: Estimated Misclassification Rates in FY 2007, by Tiering Status

Type of FDCH	Pre-Verification Estimate of Misclassification Rate	Lower Limit*	Upper Limit*	Pre-Verification Estimate of FDCHs Incorrectly Classified**	Pre-Verification Estimate of FDCHs Correctly Classified	Estimated Total FDCHs ⁴
Tier I	28.5 %	25.9%	31.0%	29,912	75,205	105,118***
Tier II	0.66%	0.45%	0.89%	252	37,822	38,074***
All Tier I or Tier II	21.1%	18.78%	23.35%	30,164	113,028	143,192
Type of FDCH	Preliminary Verified Estimate of Misclassification Rate	Lower Limit*	Upper Limit*	Preliminary Verification Estimate of FDCHs Incorrectly Classified	Preliminary Verification Estimate of FDCHs Correctly Classified	Estimated Total FDCHs
Tier I	4.63%	3.79%	5.46%	4,819	99,348	104,167***
Tier II	0.66%	0.46%	0.86%	249	37,293	37,541***
All Tier I or Tier II	3.58%	2.93%	4.22%	5,068	136,641	141,708
Type of FDCH	Final Verified Estimate of Misclassification Rate	Lower Limit*	Upper Limit*	Secondary Verification Estimate of FDCHs Incorrectly Classified	Secondary Verification Estimate of FDCHs Correctly Classified	Estimated Total FDCHs
Tier I	4.09%	3.19%	5.00%	4,263	99,904	104,167***
Tier II	0.66%	0.46%	0.86%	246	37,293	37,541***
All Tier I or Tier II	3.18%	2.50%	3.87%	4,512	137,196	141,708

*90 percent confidence level. **All sampled FDCHs for which Tier I status cannot be documented, either initially or through follow-up, are deemed incorrectly classified. ***Total FDCHs estimated from sample. Source: *2007 CACFP Tiering Assessment*, weighted estimates. Final verified findings include the outcomes of the secondary verification of FDCHs, with procedural errors using primarily the Census Block Group method.

⁴For the 2007 wave, the total number of FDCHs for pre-verification was based on the original weights, using FNS data for the average number of FDCHs for the first 6 months of the fiscal year. This year, for secondary verification, weights were adjusted separately, by tier. This adjustment ensures that the weighted percentages for each tier will correspond to the totals by tier and the numbers that are reported in FNS documents. In addition, weights were adjusted using data for the entire fiscal year compared with data for the first 6 months of data. Therefore, the total number of FDCHs will be slightly different for pre-verification and secondary verification.

Exhibit B: Costs of Verified Misclassifications in FY 2007

Primary Verification*	Estimated Costs**	Lower Bound Estimate***	Upper Bound Estimate***	Estimated Total FDCHs
Misclassified Tier I FDCHs	\$12,189,838	\$9,782,934	\$14,596,742	104,176****
Misclassified Tier II FDCHs	\$123,804	\$41,918	\$205,689	37,541****
All Misclassified FDCHs	\$12,313,642	\$9,867,052	\$14,760,231	141,708
Secondary Verification*	Estimated Costs**	Lower Bound Estimate***	Upper Bound Estimate***	Estimated Total FDCHs
Misclassified Tier I FDCHs	\$10,750,282	\$8,037,505	\$13,463,059	104,176****
Misclassified Tier II FDCHs	\$123,804	\$41,918	\$205,689	37,541****
All Misclassified FDCHs	\$10,874,086	\$8,115,612	\$13,632,559	141,708

*Data for Primary Verification presents the findings after the initial wave of independent follow-up of procedural errors using the School Boundary Area method had been conducted. Secondary Verification presents the findings after the Census Block Group method had been attempted on the remaining procedural errors. **Cost estimates are the seasonally adjusted expected values, where the expectation takes into account the average number of meals and snacks for which a Tier II home would be compensated at the highest (Tier I) level. ***90 percent confidence level. ****Total FDCHs estimated from the sample. Source: 2007 CACFP Tiering Assessment.

Exhibit C: Meals and Expenditures Reimbursed at Tier I and Tier II Rates

Type of FDCH	Number of Meals and Snacks	Expenditures	Share of Meals and Snacks	Share of Expenditures
Tier I	500,901,471	\$626,992,597	80%	90%
Tier II	123,118,097	\$72,744,205	20%	10%
Total	624,019,568	\$699,736,802	100%	100%

Source: 2007 CACFP Tiering Assessment. National, weighted, seasonally adjusted estimates based on sponsor files for 3,284 FDCHs.