

Executive Summary

The Improper Payments Information Act of 2002 (Public Law 107-300, or IPIA) requires all Federal agencies to identify programs and activities that may be susceptible to erroneous payments and to annually estimate and report to Congress the value of erroneous payments.¹ This assessment examines the accuracy of the classification of Family Day Care Homes (FDCHs) participating in the U.S. Department of Agriculture’s (USDA) Child and Adult Care Food Program (CACFP). The assessment provides estimates for Fiscal Year (FY) 2009 of the number of FDCHs misclassified by sponsoring agencies into the wrong tier, and the resulting erroneous payments for meals and snacks reimbursed at the wrong rate.² The assessment does not attempt to measure other types of erroneous payments in the CACFP, such as meal claiming errors by FDCHs.

CACFP Background

Meals served in CACFP FDCHs are reimbursed according to a two-tiered rate structure: Tier I and Tier II. Sponsoring agencies are responsible for determining the appropriate tier for each of their participating FDCHs. FDCHs are eligible for reimbursement at the higher Tier I rates for all eligible meals if they satisfy either of two conditions: geographic eligibility or provider income eligibility.

- **Geographic Eligibility:** the FDCH is located in a low-income area. Geographic eligibility is determined by a home being located: a) in the attendance area of an elementary school in which at least 50 percent of the children enrolled are certified eligible for free or reduced-price meals; or b) in a census block group (CBG) in which at least 50 percent of the children live in households with incomes at or below 185 percent of the Federal poverty guidelines (FPG).³
- **Provider Income Eligibility:** the family day care provider certifies by application that she or he has a household income at or below 185% of the FPG or is categorically eligible because of being certified for the Supplemental Nutrition Assistance Program (SNAP) or another means-tested program with income limits of no more than 185% of the FPG.

FDCHs that meet geographic or income eligibility criteria are classified as “Tier I,” and those that do not are classified as “Tier II.” In Tier II FDCHs, meals served to children who qualify as low-income are reimbursed at the Tier I rates; all other meals are reimbursed at the lower Tier II rates.⁴

¹ OMB guidance defines significant erroneous payments as annual erroneous payments in the program exceeding both 2.5 % of program payments and \$10 million (OMB Circular A-123, Appendix C, August 10, 2006). The terms “improper” and “erroneous” have the same meaning within the OMB guidance. We use the term “erroneous” in this report.

² Four previous reports provide estimates of erroneous CACFP payments due to errors in sponsor tiering determinations for FY 2005, FY 2006, FY 2007, and FY 2008: Rose et al., 2006; Gordon et al., 2008; Gordon et al., 2009; and Logan et al., 2010.

³ Program regulations indicate that sponsors should use elementary school data when available, but there are several circumstances that allow a sponsor to use CBG data even when school data are available.

⁴ Although the CACFP regulations differentiate between meals (breakfasts, lunches, and suppers) and snacks, we use the term “meals” alone in this report for simplicity.

During FY 2009, there were 139,774 family day care homes participating in the CACFP in the continental United States (the sampling universe for the assessment), including 106,154 Tier I FDCHs and 33,620 Tier II FDCHs (Exhibit ES.1). The CACFP provided reimbursements to FDCHs for 610 million meals, at a total cost of \$762.1 million. Thus, even a relatively modest percentage of FDCHs misclassified would lead to millions of dollars in erroneous payments. Tier I FDCHs claimed 78.1 percent of CACFP meals and received 86.4 percent of reimbursements.

Exhibit ES.1: Continental United States FDCH Totals for FY 2009

| Type of Meal Served | Tier I | Tier II | All |
|---------------------|-----------------|-----------------|-----------------|
| Number of homes | 106,154 | 33,620 | 139,774 |
| Number of meals | 477 million | 134 million | 610 million |
| Reimbursements | \$658.8 million | \$103.4 million | \$762.1 million |

Sources: Numbers of homes and meals from FNS National Data Bank, as of March 2010. Number of homes is the average of counts for four reporting months. Reimbursements estimated from FNS data on number of meals and reimbursement rates. All totals exclude Alaska, Guam, Hawaii, and Puerto Rico; therefore the total numbers of homes differ from those in Exhibit 1.2.

Assessment Methods and Sample Results

For this assessment, we attempted to verify sponsors’ determinations of tiering status for a sample of 660 FDCHs, selected from the lists of 60 sponsors located in 14 States. All FDCHs in the final sample were currently approved for the CACFP as of August 2009 and claimed meals at some time between August 2008 and July 2009. We first attempted to independently verify Tier I eligibility for all sampled FDCHs using matches with school and Census data. Tier I FDCHs were verified without any additional data collection if all three of the nearest elementary schools (by straight-line distance) were area-eligible (i.e., at least 50 percent of students were approved for free or reduced-price meals), or if the FDCH was located in a Census Block Group (CBG) that was area-eligible (with at least 50 percent of children at or below 185 percent of the Federal Poverty Guidelines, or FPG). If some but not all of the nearest schools were area-eligible, we contacted school districts or used their websites to determine the correct school attendance area for the FDCH, and then determined whether this school was area-eligible. Using these methods, we verified sponsors’ determinations for 418 Tier I FDCHs, 79.9 percent of the Tier I sample.

For Tier I FDCHs not verified through data matching and all Tier II FDCHs, we reviewed sponsors’ documentation of tiering determinations. These documents confirmed the sponsors’ determinations for 92 Tier I FDCHs and 137 Tier II FDCHs. The assessment was completed for 100 percent of the sample. We identified 13 misclassified Tier I FDCHs and no misclassified Tier II FDCHs.

National Estimates of Misclassification Errors and Costs

Using sample data and sampling weights, we estimated that, nationwide, 2.39 percent of Tier I FDCHs and 0 percent of Tier II FDCHs were misclassified in FY 2009. In total, there were an estimated 2,527 misclassified FDCHs, 1.82 percent of all FDCHs. The percentage estimates and the associated 90 percent confidence intervals are shown in Exhibit ES.2.

Since we found no misclassified Tier II FDCHs, the estimates of the misclassification rate, the percentage of meals claimed at the wrong rate, and the improper payment rate were all 0 for Tier II FDCHs. It is very likely that the true population parameters for these measures are not zero but too small to be estimated with our sample, which is designed to estimate the parameters for the entire population of FDCHs.

Exhibit ES.2: Estimated Misclassification Rates by Tiering Status in 2009

| FDCH Classification by Sponsor | Estimate of Misclassification Rate | 90% Confidence Interval | | Estimated FDCHs Incorrectly Classified ^a | Estimated FDCHs Correctly Classified | Estimated Total FDCHs ^b |
|--------------------------------|------------------------------------|-------------------------|-------------|---|--------------------------------------|------------------------------------|
| | | Lower Limit | Upper Limit | | | |
| Tier I | 2.39% | 0.75% | 4.03% | 2,527 | 103,306 | 105,832 |
| Tier II | 0.00% | 0.00% | 0.00% | 0 | 33,162 | 33,162 |
| All (Tier I or Tier II) | 1.82% | 0.55% | 3.08% | 2,527 | 136,467 | 138,994 |

^a All sampled Tier I FDCHs for which Tier I eligibility could not be verified, either initially or through followup, were deemed incorrectly classified. Tier II FDCHs were deemed incorrectly classified if the assessment determined they were Tier-I eligible and the sponsor determined or reviewed the tiering classification between September 2007 and June 2009.

^b Total FDCHs estimated from sample using adjusted weights; therefore these totals do not exactly match FNS totals in Exhibit ES.1.

Source: 2009 CACFP Tiering Assessment, weighted estimates. Sample data include active FDCHs with reimbursable meals served in August 2008–July 2009.

For misclassified FDCHs, the number of meals claimed in error is the difference between the number they actually claimed at Tier I rates and the number they would have claimed at Tier I rates if they had been correctly classified. Meals claimed at Tier I rates that should have been claimed at Tier II rates result in overpayments; meals claimed at Tier II rates that should have been claimed at Tier I rates result in underpayments. The erroneous payment for a meal claimed at the wrong rate is the **difference between the Tier I and Tier II rates**, which ranged from \$0.47 for snacks to \$0.87 for lunches and suppers (under rates effective from July 1, 2008 through June 30, 2009).

We estimate that, as a result of misclassifications, 2.25 percent of meals claimed by Tier I FDCHs were reimbursed at the higher Tier I rate instead of the lower Tier II rate, and 0 percent of meals claimed by Tier II FDCHs were reimbursed at the Tier II rate instead of the Tier I rate. Overall, 1.76 percent of FDCH meals—a total of 10.7 million meals—were reimbursed at the incorrect rate. (See Exhibit ES.3 for estimated percentages and their 90 percent confidence intervals.) The estimates for Tier I FDCHs are computed using State average percentages of meals in Tier II FDCHs reimbursed at Tier I rates, since we do not know the actual number of Tier I-eligible children in FDCHs misclassified as Tier I.

Exhibit ES.3: Percentage of Meals in CACFP Family Day Care Homes (FDCHs) Reimbursed at the Incorrect Rate Due to Misclassification of FDCHs in 2009

| | Lower Limit ^a | Estimate | Upper Limit ^a |
|----------------------------|--------------------------|----------|--------------------------|
| Tier I FDCHs ^b | 0.77% | 2.25% | 3.74% |
| Tier II FDCHs ^b | 0.0% | 0.0% | 0.0% |
| All FDCHs | 0.57% | 1.76% | 2.95% |

^a Lower and upper limits represent 90 percent confidence interval. If lower limit was computed as a negative value, it is shown as 0.

^b FDCHs classified according to sponsor determination.

Source: 2009 CACFP Tiering Assessment, weighted estimates. Sample data include FDCHs active and reimbursable meals served in August 2008–July 2009. Excludes Alaska, Guam, Hawaii, and Puerto Rico.

The estimated costs of misclassification errors were overpayments of 1.15 percent to Tier I FDCHs and underpayments of 0 percent to Tier II FDCHs. Overall, the erroneous payment rate was 0.99%, with a 90 percent confidence interval from 0.32 percent to 1.65 percent, as shown in Exhibit ES.4. Breaking down the overall erroneous payment rate, overpayments represented 0.99 percent of total payments, and underpayments represented 0 percent of total payments.

The total estimated cost of misclassification errors was \$7.5 million, with a 90 percent confidence interval from \$2.5 to \$12.6 million. The estimated total includes \$7.5 million in overpayments to Tier I FDCHs and \$0 in underpayments to Tier II FDCHs, as shown (with confidence intervals) in Exhibit ES.5.

Exhibit ES.4: Cost of Misclassification as a Percentage of Total Reimbursements to CACFP Family Day Care Homes in 2009

| | Lower Limit ^a | Estimate | Upper Limit ^a |
|----------------------------|--------------------------|----------|--------------------------|
| Tier I FDCHs ^b | 0.39% | 1.15% | 1.90% |
| Tier II FDCHs ^b | 0.00% | 0.00% | 0.00% |
| All FDCHs | 0.32% | 0.99% | 1.65% |

^a Lower and upper limits represent 90 percent confidence interval. If lower limit was computed as a negative value, it is shown as 0.

^b FDCHs classified according to sponsor determination.

Source: 2009 CACFP Tiering Assessment, weighted estimates. Sample data include FDCHs active and reimbursable meals served in August 2008–July 2009. Excludes Alaska, Guam, Hawaii, and Puerto Rico.

Exhibit ES.5: Total Costs of Verified Misclassification in 2009

| Type of Home | Estimated Costs of Misclassifications ^a | 90% Confidence Interval | | Estimated Total Payments to All FDCHs in Tier ^b |
|---------------|--|-------------------------|----------------------|--|
| | | Lower Limit Estimate | Upper Limit Estimate | |
| Tier I FDCHs | \$7,543,221 | \$2,536,433 | \$12,550,010 | 658,796,618 |
| Tier II FDCHs | 0 | 0 | 0 | 103,352,854 |
| All FDCHs | 7,543,221 | 2,536,433 | 12,550,010 | 762,149,472 |

^a The estimated cost is the difference between the actual claims for misclassified FDCHs and estimates of what their claims would be if correctly classified. For misclassified Tier I FDCHs, the estimate is computed using the State average percentage of meals and snacks for which a Tier II FDCH would be compensated at the highest (Tier I) level. For FDCHs misclassified as Tier II, only meals reimbursed at Tier II rates are subject to error. The total estimated cost of improper payments equals the sum of overpayments to FDCHs misclassified as Tier I and the absolute value of underpayments to FDCHs misclassified as Tier II.

^b Total payments including correct and improper payments estimated from sample.

Source: 2009 CACFP Tiering Assessment, weighted estimates. Sample data include FDCHs active and reimbursable meals served in August 2008–July 2009. Excludes Alaska, Guam, Hawaii, and Puerto Rico.

The estimates of misclassification rates and the cost of misclassification for 2009 are less than estimates for all prior years. (See Exhibit ES.6.) In particular, the estimated overall erroneous payment rate of 1.0 percent⁵ for 2009 is less than the estimates for the previous years, which ranged from 1.4 percent (for 2006) to 2.1 percent (for 2008). The estimate for 2009 is not significantly different from the estimate of 2.1 percent for 2008 at the conventional 5 percent level of significance, although the difference is significant at the 10 percent level. Therefore, we have weak evidence that the erroneous payment rate declined in 2009.

Factors that might have contributed to a decline in erroneous payments include efforts by program officials to improve tiering determinations and changes in the program environment—specifically, rising poverty rates—that made more providers area-eligible for Tier I. FNS and the States have provided guidance and training to sponsors in an effort to improve the accuracy of tiering determinations, and the results may represent some payoff to these efforts. Rising poverty rates due to the recession beginning in 2008 may have had a small effect on Tier I eligibility and therefore on the misclassification rate. Overall, 87 percent of Tier I FDCHs in the sample (unweighted) were verified using area eligibility, either independently (80 percent) or by sponsor documents (7 percent). The comparable figure for 2008 was 85 percent, a small difference but one that may have contributed to the lower error rate.

We also note that while no Tier II FDCHs were misclassified, our independent verification found five FDCHs (3.6 percent of the sample) that could have been classified as Tier I in 2009. These FDCHs were not misclassified because there was no Tier I application or determination in the reference period, or because the sponsor’s determination was correct at the time it was made.

⁵ The erroneous payment rate for 2009 is reported with greater precision as 0.99 percent in Exhibit ES.4.

Exhibit ES.6: Results of the 2005, 2006, 2007, 2008, and 2009 Program Assessments

| Type of Home | Estimate of Misclassification Rate | 90 Percent Confidence Interval for Misclassification Rate | Estimated Number of FDCHs Incorrectly Classified | Estimated Erroneous Payments (millions) | Estimated Erroneous Payment Rate |
|----------------------------|------------------------------------|---|--|---|----------------------------------|
| <i>FY 2005^a</i> | | | | | |
| Tier 1 | 5.2% | 3.8–6.5% | 5,903 | \$12.7 | 2.1% |
| Tier II | 0.7% | 0.4–0.9% | 261 | \$0.3 | 0.3% |
| All | 4.1% | 3.1–4.9% | 6,164 | \$13.0 | 1.8% |
| <i>FY 2006^b</i> | | | | | |
| Tier 1 | 4.0% | 2.8–5.3% | 4,171 | \$9.2 | 1.6% |
| Tier II | 0.2% | 0.1–0.4% | 94 | \$0.1 | 0.1% |
| All | 2.9% | 2.1–3.7% | 4,265 | \$9.3 | 1.4% |
| <i>FY 2007^c</i> | | | | | |
| Tier 1 | 4.1% | 3.2–5.5% | 4,263 | \$10.8 | 1.8% |
| Tier II | 0.7% | 0.5–0.9% | 246 | \$0.1 | 0.1% |
| All | 3.2% | 2.5–3.9% | 4,512 | \$10.9 | 1.6% |
| <i>FY 2008^d</i> | | | | | |
| Tier 1 | 5.4% | 3.8–7.0% | 5,635 | \$13.8 | 2.2% |
| Tier II | 1.7% | 0.0–3.6% | 612 | \$1.4 | 1.3% |
| All | 4.4% | 3.0–5.8% | 6,247 | \$15.2 | 2.1% |
| <i>FY 2009^e</i> | | | | | |
| Tier 1 | 2.4% | 0.8–4.0% | 2,527 | \$7.5 | 1.2% |
| Tier II | 0% | 0% | 0 | \$0 | 0% |
| All | 1.8% | 0.6–3.1% | 2,527 | \$7.5 | 1.0% |

^a Exhibits A and 4.11 in *USDA, Food and Nutrition Service. Child and Adult Care Food Program, (CACFP): Assessment of Sponsor Tiering Determinations, 2005 (CN-06-IPIA)*.

^b Exhibits A and 4.20 in *USDA, Food and Nutrition Service. Child and Adult Care Food Program, (CACFP): Assessment of Sponsor Tiering Determinations, 2006 (CN-07-TD)*.

^c Exhibits A and 4.20 in *USDA, Food and Nutrition Service. Child and Adult Care Food Program, (CACFP): Assessment of Sponsor Tiering Determinations, 2007 (May 2009)*.

^d Exhibit ES.6 in *USDA, Food and Nutrition Service. Child and Adult Care Food Program, (CACFP): Assessment of Sponsor Tiering Determinations, 2008 (March 2010)*.

^e Source: 2009 CACFP Tiering Assessment, weighted estimates.

Implications of the Assessment Process and Results

This assessment met FNS' requirements to provide estimates of misclassification rates for FDCHs in the CACFP and the resulting erroneous payments, within the standards of precision set by OMB. The 2009 assessment produced results comparable to those of previous assessments. The methods used in the 2005-2007 assessments imposed substantially higher burdens on sponsors and costs to FNS than the methods used here for 2009 and also in 2008. These assessments collected sponsor documents for over 3,000 FDCHs per year through site visits; if the documents indicated procedural errors, school and Census data were used to confirm tiering determinations. The 2008 and 2009 assessments reversed the process, using independent verification with school and Census data first, followed by review of documents collected by mail from sponsors only when needed. The shift of methods, combined with the reduced sample size justified by error rates estimated in previous assessments, resulted in a substantial reduction in the need to collect and review documents: from over 3,000 FDCHs per year in the 2005, 2006, and 2007 assessments to about 240 per year in the 2008 and 2009 assessments. The current approach also eliminates the cost and intrusiveness of site visits to sponsors. Although sponsors take on the work of locating and copying documents, the average sponsor provided documents for just 4 FDCHs. The sample size is sufficient to produce 90 percent confidence intervals less than the OMB standard of 2.5 percentage points for the estimates of the misclassification rate, the percentage of meals claimed in error, and the erroneous payments as a percentage of reimbursements.

While the current approach meets FNS' primary requirements with substantially reduced burden and costs, it has some limitations. First, the current approach does not provide national estimates of the rates of procedural errors and the proportions of FDCHs approved by the various criteria. These estimates require a nationally representative sample of tiering determination documents; however, the documents collected in 2008 and 2009 represent only the FDCHs that could not be independently verified. Second, sample sizes are too small to provide State-level estimates of misclassification rates, which would be useful for program management. On balance, the benefits of the new approach appear to outweigh its limitations.

The assessment confirms that the vast majority of tiering determinations – 98 percent in 2009 – were accurate. At the same time, the document review indicates that determinations based on income are more error-prone than other determinations, and that income determinations without tax return documents are particularly error-prone – the “weakest link” in an otherwise highly accurate process. The results suggest the need for continued communications with States and sponsors about the importance of getting full documentation of income, and especially the need to document day care income and expenses. We also highlight the finding that, for five Tier II FDCHs, the sponsor determination was not in error (under FNS rules), but the FDCHs could have been classified as Tier I. This finding reinforces the value of checking area-eligibility for all FDCHs every year, as many sponsors already do.

Finally, in considering the implications of this assessment, it is important to acknowledge that tiering determinations are only one of several potential causes of improper payments in the CACFP. If tiering determinations were the sole source of improper payments, the CACFP would fall below the IPIA's reporting threshold, which mandates reports for programs with improper payments that exceed both \$10 million per year and 2.5 percent of total payments. The CACFP has several other potential sources of erroneous payments, including errors in determining eligibility of children in Tier II

FDCHs for Tier I meals, meal claiming errors by providers, and meal claims processing errors by sponsors. Thus, the estimates of this assessment understate the full extent of improper payments in the CACFP.