



United States
Department of
Agriculture

Food and
Nutrition
Service

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SUBJECT: Documentation of Tier I Eligibility Determinations in the
Child and Adult Care Food Program

TO: State Agencies
All States

Regional Directors
Special Nutrition Programs
All Regions

In December of 2006, the Agency released a study entitled *Child and Adult Care Food Program: Assessment of Sponsor Tiering Determinations*. The study analyzed the accuracy of tiering determinations made by sponsoring organizations of family day care homes (FDCHs) and estimated the amount of improper CACFP payments resulting from misclassifications of FDCH. The purpose of this memorandum is to highlight some of the results of that study, and to re-issue guidance concerning what constitutes acceptable documentation of tier I eligibility for family day care homes (FDCHs).

Study Results

Based on a nationally representative sample of FDCHs, the study found that, for over one-quarter of the homes classified as tier I, sponsors made procedural errors in documenting the home's tier I status. About 80 percent of these procedural errors related to the sponsor's documentation of the FDCH's location within an area served by an eligible elementary school. Most of the remainder of the errors were the result of inadequate documentation when the provider was qualifying for tier I based on income.

By making follow-up contacts with school officials, the researchers were able to verify that many of these "procedurally misclassified homes" were, in fact, eligible for tier I benefits. This reduced the percentage of misclassified FDCH's (and the associated estimate of improper CACFP payments related to tiering) from about 20 percent to 5 percent. Still, the National estimate of improper payments resulting from improper tier I determinations was almost \$13 million.

The study results make clear that procedural errors such as improper documentation and lack of verification remain a serious problem in the CACFP. It is therefore critical for State agencies (SAs) to provide refresher training to participating FDCH

CACFP sponsoring organizations on the proper methods for documenting tier I eligibility, and for FNS regional offices (FNSROs) to continue to assess the tiering process as part of their management evaluations of SAs.

FDCH sponsors may determine the tiering status of participating FDCHs using elementary school data, census data, or the provider's documented household income. FNS has issued extensive guidance related to documenting tiering determinations, most of which can be found in:

- The final regulation (63 FR 9087, February 24, 1998);
- The handbook entitled, *Child and Adult Care Food Program: Eligibility Guidance for Family Day Care Homes* (issued on May 14, 1997);
- A series of four numbered Questions and Answers, all entitled "Two-tier Reimbursement Structure for Family Day Care Homes Participating in the Child and Adult Care Food Program (CACFP)" and issued on November 25, 1996, January 24, 1997, March 12, 1997, and May 16, 1997; and
- Guidance memoranda issued on February 10, 1997 ("Child and Adult Care Food Program [CACFP] Improved Targeting of Day Care Home Reimbursement – Provision of Elementary School Attendance Area Information"), April 25, 1997 ("Elementary School Attendance Area Determinations: Two-Tiered Reimbursement Structure for Family Day Care Homes in the Child and Adult Care Food Program"), and May 29, 1997 ("Verifying a Child and Adult Care Food Program [CACFP] Provider's Household Income through Use of the Internal Revenue Service [IRS] Form 1040").

All of the aforementioned guidance has been posted to the *PartnerWeb*. The guidance is summarized below, and focuses on those aspects of tier I eligibility determinations that were discovered to be especially problematic by the study.

Documenting Tier I Status Using Elementary School Data

Using aggregate free and reduced price lunch data from elementary schools is the preferred method of determining tier I eligibility. To document that a FDCH is located in the attendance area of a school with at least 50 percent of the enrolled children eligible for free or reduced price school meals, the sponsoring organization must use one of the following, as explained in guidance entitled, *Elementary School Attendance Area Determinations* (April 25, 1997):

- A current (i.e., dated) official school boundary map that shows where the FDCH is located within the attendance area of an area eligible school on the date of the determination; or
- A letter from a school official, signed and dated, verifying that the home's address is within an eligible elementary school's attendance area boundaries; or

- A memo to the file with the name of the school official and the information provided, dated and initialed by the staff person of the sponsoring organization who talked to the school official, verifying that the provider's address is within the attendance area.

The tiering assessment found significant problems with the use of school data by sponsoring organizations. The most common problems involved:

- Undated or outdated school boundary maps;
- The use of non-school maps which did not actually show an eligible elementary school's attendance area; and
- Memos to the file documenting conversations with school officials which were undated and/or not initialed.

The fact that many of these problems were procedural errors, rather than actual misclassifications, is reassuring. Nevertheless, the prevalence of these errors demonstrates that some sponsoring organizations still lack the management controls to ensure that they have the documentation necessary to demonstrate a home's tier I status. In providing refresher training to sponsoring organizations, SAs should stress the importance of sponsors' having systems in place to determine and document changes to official school boundaries and to ensure that current information is being used when making initial determinations and five-year re-determinations of a home's tier I eligibility.

Documenting Tier I Status Using Census Data

In accordance with § 226.15(f), a sponsoring organization may use the special CACFP tabulation of census data provided by FNS to SAs to document the FDCH's area eligibility when:

- After reasonable efforts are made, as defined by the SA, the sponsoring organization is unable to obtain local elementary school attendance area information;
- Pockets of poverty in rural areas are obscured by geographically large elementary school attendance areas; or
- School data shows an area to be close to the 50 percent threshold (between 40 percent and 49 percent); or
- The local elementary school data does not reflect the surrounding area's socioeconomic condition, due to busing, magnet schools, or charter schools.

There may be other reasons that justify the use of census data over school data to document a FDCH's tier I status, but the sponsoring organization should work closely with the State agency to ensure that the need for census data is legitimate.

The documentation that sponsoring organizations maintain to support a FDCH's tier I eligibility based on current decennial census data must be based on:

- A current census block group boundary map; and
- A list that includes the provider's street address, permitting each address to be matched to the eligible census block groups shown in geo-mapping software, and showing that each address is located within the boundaries of an eligible census block group.

Documenting Tier I Status Based on the Income or Categorical Eligibility of the Provider's Household

The sponsoring organization may also determine whether the home qualifies for tier I rates based on the provider's household income. When using household income to determine tiering status, sponsors must independently verify all income information provided by the FDCH.

To classify a FDCH as tier I based on household income information, the sponsoring organization must have on file:

- A complete and correct income eligibility statement that lists household members and all income available to the household, and that shows the household is eligible for free or reduced price meals; or
- A complete and correct income eligibility statement that lists all household members and that provides proof of the household's eligibility for benefits under the Food Stamp Program (FSP), the Food Distribution on Indian Reservations (FDPIR), or the State-administered Temporary Assistance to Needy Families Program (TANF).

Once this information has been obtained, the sponsor must independently verify the information on the income eligibility statement. There are three acceptable ways of verifying the household's eligibility information--written evidence, collateral contacts, or agency records.

- *Written evidence* must be the primary source of information for verification. Examples of acceptable written evidence include:
 - Wage statements, pay stubs, or a letter from an employer confirming the wages; and/or
 - Tax forms, specifically the Federal 1040 form from the most recently completed tax year (see memo issued May 29, 1997, "Verifying a . . . Provider's Household Income Through Use of the . . . Form 1040" on the

different definitions of some types of income on Form 1040 and in the CACFP); and/or

- o Dated documentation (such as a “Notice of Eligibility” or a certification) showing current eligibility for the FSP, FDPIR, or TANF, or another eligible program.
- *Collateral contacts* are to be used only in cases when the provider does not have adequate written evidence. Acceptable collateral contacts are persons who have knowledge about the household’s income or receipt of FSP, FDPIR, or TANF, and who have no personal stake in the provider qualifying for tier I reimbursement rates. Collateral contacts may include employers, social service agencies, migrant worker agencies, or religious or civic organizations. The collateral contact may be obtained by phone or in person and must be supported by documentation including the date of contact, and the name or initials of the sponsoring organization staff making the contact.
- *Agency Records* indicating that the provider’s household is categorically eligible for FSP, FDPIR, or TANF benefits may also be used to verify income eligibility. The sponsoring organization may submit the name and case number to the local food stamp or welfare office to request verification of the provider’s categorical eligibility. The agency’s dated and signed response may be considered verification.

In addition to incomplete household eligibility statements, one of the most important tier I documentation problems uncovered by the study was the use of “ledger sheets” to determine a provider’s eligibility. The “ledger sheets” shown in Appendix 6 of the *Assessment of Sponsor Tiering Determinations* are, by themselves, inadequate to document a FDCH’s tier I eligibility because:

- They account for income derived from child care, but do not address income from other household members; and
- In many cases, they were not independently verified by the sponsor, amounting to “self-declaration” of eligibility by the provider.

According to the study, even when the ledger sheet was supplemented by adequate information on the income of other household members, some sponsors were unaware that, when calculating a provider’s eligibility for tier I based on household income, business losses and retirement income may not be deducted from household income. For a more complete discussion of the determination of a provider’s household income eligibility, see the handbook entitled, *Child and Adult Care Food Program: Eligibility Guidance for Family Day Care Homes* (May 14, 1997).

Record Retention

Records related to tiering determinations must be maintained for at least three years after the end of the Program year for which the eligibility determination has been made. This may result in different retention periods based upon the method used to determine eligibility. Determinations based on census data remain in effect from the point of the determination until such time as the next census tabulation is complete and a new determination is made. Determinations based on the family size and income of the provider, or on school data, are more standard—one year for income based determinations, and five years for determinations based on school data. In each case, records must be retained for at least three years from the final month of the fiscal year for which the determination is valid, or longer if required for audit or investigation purposes.

Documentation of tiering determinations may be retained in each individual provider's file, or the sponsor may maintain a master file related to tiering determinations. Any form of record retention that allows a tiering determination and all related documentation to be associated with the specific FDCH to which it applies is acceptable.

We trust that this information will assist in developing administrative procedures that ensure the integrity of the tiering determination process. State agencies with questions should direct them to their Regional Offices. Regional Office questions should be directed to Keith Churchill.

Original Signed

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