



Date: May 28, 2024

Policy Memo: CACFP 09-2024

Subject: Implementation Guidance: State Agency Financial Review Requirements

To: Regional Directors, Child Nutrition Programs, All Regions
State Directors, Child Nutrition Programs, All States

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.

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).

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.

State agencies are reminded to distribute this memorandum to program operators. Program operators should direct any questions concerning this guidance to their State agency. State agencies with questions should contact the appropriate FNS Regional Office.

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