



U.S. DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL



A Nationwide Sweep
of the Child and Adult Care Food Program

April 22, 1998

INTERIM REPORT FOR THE SECRETARY ON OPERATION "KIDDIE CARE"

FROM: Roger C. Viadero
Inspector General

SUBJECT: Child and Adult Care Food Program

ISSUE:

Sponsors enrolled in the U.S. Department of Agriculture's Child and Adult Care Food Program and the providers of child care under their sponsorship are given a special trust. They are asked to maintain the integrity of a program that promises the proper nutritional care of the Nation's children and elderly. Unfortunately, we have found that this trust has been violated and the promise often neglected.

SUMMARY:

This interim report offers details of the results to date of the most intensive review of the CACFP that we have ever performed. This review is continuing, but so far it has brought to light significant weaknesses in program delivery. Day care providers and their sponsors were found to be submitting false claims on a grand scale. Some were engaging in money laundering, embezzlement, forgery, and extortion. Many simply padded their payrolls to justify fatter Government checks. For this \$1.6 billion-a-year program that feeds an estimated 2.4 million children annually, the temptation to cheat was too great and the controls to prevent cheating were too weak.

During recently completed individual audits of child care operations, we spotted warning signs that some sponsors were acting more out of their own self-interests than the interests of the children they claimed to be feeding. It also became apparent that the oversight provided by State agencies was generally not detecting or preventing these abuses. Both you and the Under Secretary for the Food, Nutrition, and Consumer Services joined me in recommending this initiative to the President. Food and Nutrition Service staff is assisting us in this effort.

As a result of the warning signs, I proposed that the Department undertake an initiative to determine the extent of fraud in the child care program and root it out. Endorsed by the President, this initiative, known as Operation "Kiddie Care," employs an audit technique we call "sweeps." During a "sweep," auditors, investigators, and reviewers make simultaneous, unannounced visits to the providers and their sponsors. The purpose of a "sweep" is to concentrate our resources in particular locations at unguarded moments and obtain an accurate picture of the day-to-day operations of the day care facilities and those administering them.

With 1,200 sponsors in the program nationwide, and approximately 200,000 providers of child care, our "sweeps" must necessarily target only those individuals and organizations suspected by the Department or local authorities of being deficient in some aspect of their operations.

Our first "sweeps" were conducted in the fall of 1997, and as our attached interim report shows, they were well targeted. Of the original 12 sponsors we reviewed, 11 were found to be seriously deficient in their administration of the program, and 5 were terminated from the program. Four of the terminated sponsors have subsequently been investigated for fraud, and four employees of one sponsor have been sentenced to prison.

We are now in our second phase of Operation "Kiddie Care" and keep expanding the scope of our review as we progress. To date, 10 CACFP sponsors have been terminated from the program and 26 sponsors and providers have been investigated for fraud. The 10 sponsors terminated from the program were receiving approximately \$23 million in program funds each year. Every dollar saved by removing these abusers from the program provides another dollar that can be spent to feed the children and the elderly who are truly in need of care.

As Operation "Kiddie Care" continues, we will periodically inform you of the results.



U.S. Department of Agriculture
Office of Inspector General

Operation
"Kiddie Care"
(Interim Report)

Audit No. 27601-3-SF



April 1998

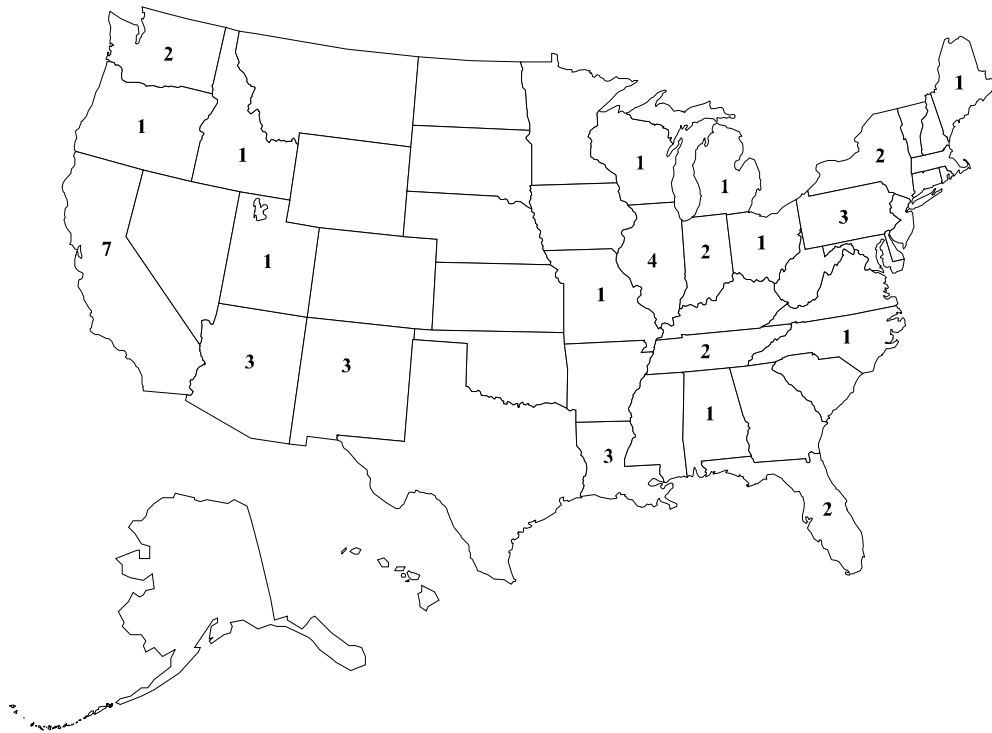
OPERATION "KIDDIE CARE"

Operation "Kiddie Care" is a national initiative led by USDA's Office of Inspector General (OIG) to identify, investigate, and prosecute individuals who are abusing and defrauding one of the most important feeding programs in USDA, the Child and Adult Care Food Program (CACFP). This is a progress report on the results of this operation.

Assisted by the Food and Nutrition Service, State agencies, and U.S. Attorney's offices, Operation "Kiddie Care" involves 43 audits and investigations in 21 States of child care sponsors and providers who were identified as potentially abusing this program.

As a result of these reviews, 32 sponsors have been designated as "seriously deficient" in program administration and are subject to termination from the program if they fail to correct the deficiencies. These 32 sponsors have been receiving approximately \$51.5 million annually in program food and administrative funds. Twenty-six investigations for program fraud have been initiated and 10 sponsors so far have been terminated from the CACFP. These 10 sponsors were receiving \$23 million annually in food and administrative funds, an amount that may now go to legitimate sponsors to feed needy children.

NUMBER OF LOCATIONS REVIEWED BY STATE



See pages 9 and 10 for a summary of audits and investigations in each State.

STATUS OF INVESTIGATIONS

State	Investigations in Progress	Entities Terminated from the CACFP	Individuals Indicted or Named in Criminal Information	Individuals Who Pled Guilty or Were Convicted	Individuals Sentenced
Arizona	1				
California	6	4	7	4	4 ¹
Florida	2				
Idaho	1	1	1	1	
Louisiana	2				
Michigan	1	1	2		
New Mexico	2		1	1	
New York	2				
Ohio	1	1			
Pennsylvania	3	1		1	
Tennessee	2		1	1	
Utah	1	1	1	1	
Washington	2				
TOTALS	26	9 ²	13	9	4

¹The sentence handed down on these four individuals included \$2.2 million in restitution.

²A tenth sponsor in Oregon was terminated from the program but not investigated for fraud.

WHAT IS THE CACFP?

The Food and Nutrition Service (FNS) administers a number of feeding programs which account for more than half of USDA's annual outlays. For Child Nutrition Programs (including the school nutrition programs and the summer feeding program), estimated outlays were \$9 billion for fiscal year (FY) 1997, with \$1.6 billion estimated for meals served under the CACFP to preschool and school age children in day care homes and centers, and to chronically impaired adults and the elderly in adult day care centers.

State agencies and sponsors (private and public nonprofit organizations) are responsible for administering the CACFP. In FY 1997, about 1,200 sponsors administered the CACFP to approximately 200,000 day care homes and centers, while States directly administered the program to another 33,000 day care centers. An estimated 2.4 million children and adults participate in the CACFP daily.

HOW DID OPERATION "KIDDIE CARE" GET STARTED?

Operation "Kiddie Care" started in 1996 with a whistleblower complaint against a CACFP sponsor in central California. OIG used a "sweep" audit to determine the validity of this allegation. A "sweep" audit is a new audit method adopted by USDA-OIG to gain an accurate picture of an enterprise's operation in a brief, unguarded moment. During a "sweep," auditors and investigators conduct simultaneous, unannounced visits to selected audit sites, presenting the auditee with little opportunity to hide the smallest misdemeanor.

As a result of the 1996 "sweep" audit, the sponsor was identified as seriously deficient in its program administration, eventually terminated from the program, and investigated for program fraud.

The 1996 "sweep" audit also led us to conclude that since the sponsor is essentially the internal control for this program, any disreputable sponsor could abuse the program with little or no chance of being detected. In fact, the design of the program may encourage program abuse.

Based on the results of this audit, the Inspector General decided to do "sweep" audits of 11 more sponsors nationwide. Working with State agencies and FNS, we selected 11 sponsors to audit based on concerns expressed by the States and based on a problem-sponsor profile that we developed.

RESULTS OF OUR FIRST ROUND OF "SWEEP" AUDITS

The results of these first 12 CACFP sponsor audits were significant. We found that 11 of 12 sponsors (92 percent) were seriously deficient in program administration. These deficiencies included lack of recordkeeping, claims for unsupported and ineligible costs, lack of provider training and monitoring, and numerous health and safety violations, which were reported to the local authorities. Five of these sponsors were eventually terminated from participating in the CACFP.

These 11 sponsors alone received \$20.3 million in FY 1996. However not all of this money went to feed children. Four of these sponsors were investigated for program fraud. Because the 11 seriously deficient sponsors were located in all areas of the country, we concluded that the problem was significant and was national in scope.

The program abuses we found took many different forms. For example:

- In California, criminal charges were filed against a husband and wife who owned and operated a Southern California sponsor. The couple was charged with defrauding the program of approximately \$2.2 million by submitting inflated budgets and by diverting CACFP funds to themselves through "payments" to nonexistent employees and bogus entities. The couple was also charged with using numerous aliases to

conceal their interest in the sponsor. This was done in part because the wife was also a manager for the California State agency which was responsible for administering the program. As a manager for the State agency, the wife was responsible for overseeing this and other sponsors in Southern California.

The husband was sentenced to 2 years in Federal prison and the wife to 3 years. They were ordered to pay the Government \$2.2 million in restitution and had already forfeited four residential properties they owned, including their 5,000 square-foot home in an exclusive neighborhood in Southern California.



5,000 square-foot home forfeited by sponsor.

- In Utah, a sponsor is under investigation for defrauding the program of over \$100,000. One of the sponsor's providers, who is believed to be working in concert with the sponsor, was arrested and charged in a 21-count Federal indictment. She had claimed eligibility for meals that she purportedly provided to young children, when, in fact, she did not provide any meals to anyone. This provider has implicated the sponsor in a scheme to demand and receive kickbacks from providers.
- In Ohio, a sponsor is under investigation for claiming reimbursement payments to day care providers who did not exist or did not have children in their homes. To date, this investigation has resulted in the identification of seven persons, including the



Trailer used to provide day care in Utah.

director of the sponsoring agency, who may have conspired to set up at least 40 false providers. The claims submitted for these false providers resulted in improper reimbursements totaling more than \$700,000 over the last 3½ years. The investigation is ongoing and involves money laundering through bank accounts set up in fictitious names, submission of false claims, submission of false statements and mail fraud.



Vacant lot in Ohio used as an address of a day care provider to obtain payments.

Stealing program funds is a monetary loss to USDA, but even more significant is the suffering that children endure because of these disreputable sponsors. For many sponsors, we found little or no help being given to providers in terms of nutritional awareness. In many cases, the stolen program funds directly reduced the money available to purchase food for needy children. We also identified health and safety problems at numerous locations, including unsanitary feeding sites, dangerous "pets" present, and inadequate supervision of children in day care.

PHASE II - A NATIONAL INITIATIVE

Based on the results of our first round of reviews, the Inspector General proposed a national initiative to restore integrity to this program. Although the necessary resources were extensive, the Inspector General believed it was in the best interest of USDA to undertake this initiative. Resources were allocated to audit and investigate at least another 12 sponsors. The Inspector General was joined in this initiative by the Under Secretary for Food Nutrition and Consumer Services, and the Secretary personally recommended the project to the President.

These reviews are currently in process, and we continue to find the same types of abusive sponsors. Preliminary results show:

- In California, an executive director of a sponsor retained food reimbursements to cover the salary he claimed to earn in California while he was actually working for another enterprise and living in Wisconsin. He also had a vehicle in Wisconsin for his personal use which was being paid for by the California CACFP. We questioned about \$231,000 paid to this individual.
- In Louisiana, a sponsor is being investigated for allegedly embezzling the food payments claimed for providers who were no longer providing day care but who the sponsor kept on the program. Signatures on the providers' checks appear to be forged. Preliminary information shows that the suspected forged checks total about \$28,000 and span a period from July to December 1997. Administrative costs of about \$18,000 were also questioned. The 125 homes we visited that were administered by this sponsor showed very poor oversight.
- In Florida, a sponsor is being investigated for apparently using food funds to pay for over \$147,000 in questionable expenses. Large sums were paid to another enterprise that the director of the sponsor was affiliated with. Additionally, our visits to 207 homes showed that the sponsor's oversight of the providers was very poor. We estimate that about 30 percent of the providers' claims will be questionable due to incomplete meals provided to children, meals claimed for children not present, and meals claimed for children with no enrollment forms on file at the day care homes.

In total, 43 sponsors in 21 States are currently being audited or investigated.

ARE THERE SOME BASIC PROBLEMS WITH THIS PROGRAM?

Although we have concentrated our effort in identifying abusive sponsors, the results of these reviews have disclosed systemic flaws in the program that have allowed or even encouraged problems to develop. We believe that some fundamental changes may be needed in the program to improve integrity.

We recommended that the following changes be considered as part of the reauthorization of the CACFP:

1. Alternative methods of reimbursing sponsors for administrative costs should be considered. The current method of paying sponsors based on the number of homes under their sponsorship creates disincentives to proper program management. Sponsors compete to increase their numbers of homes (and thus their administrative earnings), and they are reluctant to enforce program requirements under the fear that their providers will go to another sponsor.

Related to this, providers should be restricted in their ability to change sponsorships. Although some States restrict providers in changing sponsors, Federal guidelines do

not. If providers can easily change sponsors, they are able to switch to sponsors who do not enforce program requirements.

2. Reimbursement of administrative costs to sponsors of day care centers should be made explicit in the law, as it is for sponsors of homes. Currently, a disparity exists among the States as to what is allowed. Some States do not permit any reimbursement to sponsors of centers and others allow up to 30 percent of the center's food reimbursement to be retained by the sponsor to cover their administrative expenses. We concluded that 30 percent was excessive and created an opportunity for sponsors to abuse the program.
3. Legislation to terminate sponsors from program participation should be revised and clarified. State agencies should be given more specific information of what constitutes serious deficiencies and how to proceed to correct these deficiencies. For example, if sponsors are determined to be seriously deficient in program administration, they should be given a limited period of time (for example 2 months) to correct the deficiencies or be terminated from the program. Also, if a sponsor admits to or is convicted of program fraud, he or she should be permanently disbarred from participating in the CACFP.

As of the date of this interim report, we have completed or have in process audit and/or investigations involving 38 sponsors, 3 providers, and 2 employees of sponsors. As shown in the following tables, to date, we have determined that 32 sponsors are seriously deficient in program operations and 10 of these sponsors have been terminated.

OPERATION "KIDDIE CARE"								
Summary of Audits and Investigations								
Sponsor Reviews		Sponsor Determined Seriously Deficient	Types of Program Deficiencies Identified				Results	
			Monitoring/ Training	Administrative Costs	Provider Payments	Bogus Providers	Sponsor Terminated	Investigated For Fraud
State	No.							
Phase 1								
AL	1	1	1					
AZ	2	2	2	2				
CA	2	2	2	2	1	1	2	2
IL	1	1	1					
LA	1		1					
ME	1	1		1				
NM	1	1	1	1				
OH	1	1	1			1	1	1
OR	1	1	1	1			1	
UT	1	1	1	1		1	1	1
Total Phase 1	12	11	11	8	1	3	5	4
Phase 2								
CA	2	2	1	1				1
FL	1	1	1	1				1
IL	3	2			1			
LA	1	1	1	1				1
MO	1		1					
NC	1		1					
NY	2	1	1	1				2
PA	1	1	1	1				1
Total Phase 2	12	8	7	5	1	0	0	6
Total Phase 1 and 2	24	19	18	13	2	3	5	10

OPERATION "KIDDIE CARE" Summary of Audits and Investigations								
Sponsor Reviews		Sponsor Determined Seriously Deficient	Types of Program Deficiencies Identified				Results	
State	No.		Monitoring/ Training	Administrative Costs	Provider Payments	Bogus Providers	Sponsor Terminated	Investigated For Fraud
Total Phase 1 and 2*	24	19	18	13	2	3	5	10
OTHER REVIEWS								
AZ ¹	1					1		1
CA	3	3	1	3	2	1	2	3
FL	1	1		1				1
ID	1	1		1			1	1
IN	2	1		1				
LA	1	1		1		1		1
MI	1	1		1			1	1
NM ²	2				1			2
PA ³	2	1			1		1	2
TN	2	2		2		1		2
WA ⁴	2	1	1	1				2
WI	1	1						
Total Other Reviews	19	13	2	11	4	4	5	16
TOTAL⁵	43	32	20	24	6	7	10	26

*From Previous Page

1. Includes sponsor employee.
2. Includes sponsor employee and day care home provider.
3. Includes one day care home provider.
4. Includes one day care home provider.
5. Total includes 38 sponsors, 2 employees, and 3 providers.

Annual Funding For Terminated Sponsors		
State		Annual Funding
California		
	1*	\$ 748,882
	2	1,648,744
	3	3,324,195
	4	4,841,559
		<hr/>
		\$10,563,380
Idaho		
	5	54,215
Michigan		
	6	5,619,904
Ohio		
	7	1,902,680
Pennsylvania		
	8	1,207,759
Utah		
	9	1,740,803
Oregon		
	10	1,921,441
Total		<hr/>
		\$23,010,182

* Self Terminated.