



U.S. Department of Agriculture
Office of Inspector General
Midwest Region
Audit Report

STATE AGENCIES' OVERSIGHT OF THE
CHILD AND ADULT CARE FOOD
PROGRAM



Report No.
27002-14-Ch
JANUARY 2002



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Midwest Region

111 North Canal Street – Suite 1130

Chicago, IL 60606-7295



DATE: JAN 14 2002

REPLY TO

ATTN OF: 27002-14-Ch

SUBJECT: State Agencies' Oversight of the Child and Adult Care Food Program

TO: Theodore O. Bell
Regional Administrator
Food and Nutrition Service
77 West Jackson Boulevard – 20th Floor
Chicago, IL 60604-3511

This report presents the result of our audit of State Agencies' Oversight of the Child and Adult Care Food Program in Michigan and Ohio. Your agency's response to the official draft report, dated December 13, 2001, is included as exhibit A, with excerpts and the Office of Inspector General's position incorporated into the Finding and Recommendations section of the report.

We have not yet reached management decisions on any of the recommendations in the report. Management decisions can be reached when FNS has provided the additional information outlined in the report sections OIG Position.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing corrective actions you plan to take and the timeframes to address these recommendations. Please note that the regulation requires a management decision to be reached on all recommendations within 6 months of report issuance.

Ed Krivus

EDWARD R. KRIVUS
Regional Inspector General

EXECUTIVE SUMMARY

STATE AGENCIES' OVERSIGHT OF THE CHILD AND ADULT CARE FOOD PROGRAM

REPORT NO. 27002-14-Ch

RESULTS IN BRIEF

This report presents the results of our audit of State Agencies' Oversight of the Child and Adult Care Food Program (CACFP) in Ohio and Michigan. The objective of our audit was to determine whether Michigan and Ohio provided sufficient oversight of CACFP institutions to ensure they were in compliance with program requirements.

The purpose of the CACFP is to ensure that nutritious meals are available to children and seniors with low incomes. Institutions enter into agreements with States to assume administrative and financial responsibility for CACFP operations at the centers and homes. The Food and Nutrition Service (FNS), which is responsible for the program at the Federal level, requires the States to provide oversight of the institutions. States exercise this oversight through audits, management reviews, licensing reviews, and claims reviews. In Ohio, we found deficiencies in all four types of reviews; in Michigan, our concerns centered on audits.

Audits. Michigan and Ohio did not ensure that required audits were performed or that deficiencies found during audits were corrected. Of the 735 participating for-profit and nonprofit institutions in Ohio, only 21 were known to require an audit and only 13 of these had been audited in FY1999. For the 50 audits of for-profit institutions performed in Michigan during 2000, none had undergone followup actions by the State to determine if deficiencies were corrected and if questioned costs needed to be collected.

Neither State tracked Federal awards received by nonprofit institutions to determine which of those institutions should have submitted to an audit. Federal guidelines require audits of nonprofit institutions whose total Federal awards exceed \$300,000; Ohio and Michigan did not require audits of nonprofit institutions until their CACFP funding itself reached \$300,000. In Ohio, with 542 nonprofit institutions participating in the CACFP at a funding level of \$37 million, only 21 were required to submit

an audit.

Federal guidelines also require States to establish compliance requirements for participating for-profit institutions that may include an audit policy. However, neither State had established compliance requirements or audit policies. In addition, although Michigan's contracted auditor performed 50 audits, none resulted in complete coverage because this auditor did not use the required audit guide.

Administrative reviews. Although States are required to perform annual management reviews of one-third of their centers and sponsors, Ohio completed reviews of fewer than 20 percent of these institutions. The Food and Nutrition Service Regional Office (FNSRO) found one institution during the Ohio's management evaluation in FY 2000 that had not been reviewed for 10 years.

Licensing reviews. Ohio did not require institutions to show each year that day care facilities were properly licensed. The State agency did not have adequate controls to ensure that licenses were renewed timely; it did not have evidence in its files to confirm that half of the centers in our sample had current licenses. The license of one day care home provider had been expired for over 9 years.

Claims reviews. Ohio did not use edit checks or other controls in its payment system for sponsors. There were no edits of the data on the claims and no second-party reviews of data entered into the system. We also found that review policies in Ohio led to inconsistent application of program regulations concerning meal components. Reviewers were required to disallow meals without milk but were given unwritten authority during first visits to provide technical assistance instead. Consequently, some reviewers disallowed milkless meals while others did not.

As a result of the deficient State oversight, there was reduced assurance that the CACFP's, as administered by the Michigan and Ohio State agencies, were being operated in accordance with program regulations and that funds received by the States in FY 2000, totaling over \$97 million, were properly safeguarded.

KEY RECOMMENDATIONS

We are recommending that FNS require State agencies to establish procedures to track Federal awards received by participating nonprofit institutions and require audits of those institutions that meet single audit requirements for organization-wide or program-specific audits. In addition, FNSRO should require each State agency to establish written compliance requirements for participating for-profit institutions.

We are also recommending that FNSRO ensure that State management reviews and licensing reviews are performed as required, and that State claims reviews incorporate some verification of accuracy.

AGENCY RESPONSE

FNS responded on December 13, 2001, that it agreed with all of the recommendations and agreed to take corrective actions.

OIG POSITION

Although FNS agreed with all of the recommendations, it generally did not give details of the corrective actions nor the timeframes for completion.

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INTRODUCTION

BACKGROUND

The U.S. Department of Agriculture's (USDA) Child and Adult Care Food Program (CACFP) was implemented in 1968 to provide nutritious meals to children of working parents in low income areas. In 1989, the program was expanded to include older adults as well as children. USDA's Food and Nutrition Service (FNS) administers the CACFP through grants to States. The program is administered within most states by the State educational agency. In a few States it is administered by an alternate agency, such as the State health or social services department; and in Virginia, it is directly administered by the FNS Mid-Atlantic Regional Office. The FNS regional offices are responsible for authorizing State agencies to administer the CACFP through sponsoring institutions at the local level.

The CACFP is authorized at section 17 of the National School Lunch Act, as amended (42 U.S.C. 1766). USDA issues program regulations under title 7, Code of Federal Regulations (CFR), part 226.

The CACFP is a critical component of America's nutrition assistance programs. On average, 2.6 million children per day receive nutritious meals at more than 200,000 licensed or approved childcare centers or family day care homes that participate in the program. Children in childcare facilities participating in CACFP receive meals which provide them with the nutrients they need for healthy growth and development. The cash payments funded to the States in FY 2000 were over \$1.5 billion.

Independent centers and sponsoring organizations (to be referred to here as institutions) enter into agreements with State agencies to assume administrative and financial responsibility for CACFP operations. FNS regional offices, through State agencies and sponsors, provide reimbursement to participating day care facilities for meals that meet specified nutritional requirements. Sponsoring organizations can be public or private, profit or nonprofit, and are solely responsible for administering the program. Childcare providers that serve meals to children at their private residences must possess the applicable Federal, State, or local licenses and/or approvals to provide day care services. The sponsoring organization acts as a liaison between the State agency and the day care providers.

FNS regulations require State agencies to conduct annual on-site administrative reviews of one-third of all participating institutions. The State agency is responsible for the implementation and oversight of FNS program regulations to guard against fraud and abuse. These regulations require the State agencies, at a minimum to (1) conduct administrative reviews of sponsors and providers to ensure compliance with the program's requirements; (2) review and approve sponsors' budgets and management plans to ensure that only allowable and reasonable costs are claimed; (3) ensure that financial audits are performed according to Office of Management and Budget (OMB) circular A-133; (4) take corrective action on any deficiencies and internal control problems that are found to ensure that corrective action is completed and; (5) assure meal reimbursement claims are valid and accurate.

The General Accounting Office (GAO) reported in November 1999 that State agencies cited various difficulties implementing additional controls for fraud and abuse. FNS shared the sense of urgency to make program improvements and developed a four-part plan consisting of training and guidance for State agencies, regulatory development, evaluation efforts, and possible legislative proposals for addressing the management deficiencies identified by GAO and the USDA Office of Inspector General (OIG). As part of that plan, FNS performed a comprehensive evaluation of all State agencies' effectiveness in managing the CACFP in FY 2000.

During FY 2000, Ohio received \$50 million in CACFP funding, serving 50 million meals with an average daily attendance of about 81,000. Michigan received \$47 million, serving 49 million meals with an average daily attendance of about 66,000.

OBJECTIVES

The objectives of this audit were to determine if the State agencies adequately exercised oversight of CACFP institutions. We reviewed the quality of the State agency's management reviews, evaluated the training and technical assistance provided, and determined whether the State agencies had required applicable profit and nonprofit institutions to obtain audits, as required by title 7, CFR 226.8(a), and OMB circular A-133, respectively.

SCOPE

Audit work was performed at the FNS Midwest Regional Office (FNSRO), Chicago, Illinois; Ohio Department of Education, Columbus, Ohio; and the Michigan Department of Education, Lansing, Michigan. The audit period covered fiscal year (FY) 2000 and FY 2001, through March 31, 2001. We expanded our audit scope to include FY's 1997, 1998 and 1999 because the FY 2000 audit

deadline for the submission of audits required of participating institutions had not yet been reached and to include review of single audits conducted in Michigan and Ohio. The scope of the audit included 542 nonprofit and 193 for-profit institutions in Ohio, and 354 nonprofit and 85 for-profit institutions in Michigan. We conducted the audit in accordance with generally accepted government auditing standards.

To accomplish our objectives we:

METHODOLOGY

- Obtained and reviewed CACFP policies and regulations.
- Reviewed mandates required by Public Law 106-224.
- Reviewed all FNSRO management evaluations for State agencies in the Midwest region for FY 2000 and FY 2001 through March 31, 2001.
- Obtained FY 2000 CACFP funding totals for State agencies in the Midwest Region from FNSRO.
- Interviewed the FNS Director of Child Nutrition Services – FNS Headquarters, Washington, D.C.
- Interviewed pertinent personnel at FNSRO, Chicago, Illinois.
- Interviewed an OMB policy analyst.
- Interviewed the Chief Deputy Auditor of State for Ohio.
- Interviewed the Director of Child Nutrition Services at the Ohio and Michigan State agencies and other pertinent personnel.
- Reviewed a judgment sample of State agency management reviews of participating institutions for compliance with Federal regulations.
- Reviewed a judgment sample of participating institutions for childcare and food licenses to verify licensing requirements.
- Reviewed a judgment sample of participating for-profit and nonprofit institutions in Ohio and Michigan to determine if they obtained and submitted the required audit reports.

- Reviewed the State of Ohio Single Audit reports for periods ending June 30, 1999, and June 30, 2000, and the biennial Michigan Department of Education Financial Audits for the periods ended September 30, 1997, and September 30, 1999.

FINDINGS AND RECOMMENDATIONS

CHAPTER 1	STATE AGENCIES DID NOT ENSURE THAT AUDITS WERE COMPLETED FOR ALL INSTITUTIONS
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The CACFP has two types of institutions, the nonprofit institution and the for-profit institution. Nonprofit institutions that receive \$300,000 or more annually in Federal funds are required to obtain a single audit every year. (In certain circumstances, audits may be performed biennially.) State agencies are required to track all Federal awards received by nonprofit institutions from all Federal sources in order to identify the institutions that receive \$300,000 or more annually in Federal awards. State agencies are also required to ensure for-profit institutions comply with program rules and regulations by methods that can include pre-award audits, monitoring during the contract, and post-award audits. The State agencies also have the authority and responsibility for establishing audit policy for the for-profit institutions with regard to any Federal funds received from USDA. Neither the Michigan nor the Ohio State agency tracked the total amount of Federal awards received by nonprofit institutions because they maintained they had been unaware of the oversight requirement. In addition, the State agencies had not always ensured that audits were properly completed for those institutions they knew required them. As a result, there was reduced assurance that over \$39 million in CACFP funds had been properly expended.

FINDING NO. 1

STATE AGENCIES DO NOT KNOW IF REQUIRED AUDITS HAVE BEEN PERFORMED

State agencies were not aware of which participating institutions were required to be audited each year in accordance with OMB circular A-133 requirements. State agencies had not determined the amount of Federal awards received by institutions participating in the CACFP in order to determine if audits were required. In addition, neither State

agency determined which Federal agency was cognizant or held the oversight responsibility for institutions that received funding from more than one Federal agency. The State agencies' only concern was with those institutions that received CACFP funding that exceeded the \$300,000 threshold specified in OMB circular A-133 and would therefore require an audit. However, the State agencies had taken no steps to determine if funding from other Federal agencies would cause the

institutions to reach the \$300,000 threshold, which would also require an audit to be performed. The State agencies maintained that they had not known they were responsible for tracking all Federal funding received by participating institutions. As a result, there was reduced assurance that participating institutions that received over \$25.6 million in CACFP funding had been provided needed oversight through audits of their operations.

OMB circular A-133, subpart B, subsection .200 (a), requires all non-Federal entities that expend \$300,000 or more in Federal awards to have a single or program-specific audit conducted for that year. Subpart D, subsection .400 (d) (4), requires that pass-through entities, in the case of Michigan and Ohio, each State's Department of Education, ensure that subrecipients that expend \$300,000 or more in Federal awards during the subrecipient's fiscal year meet A-133 audit requirements.

FNSRO included the area of audits obtained by the State agencies in its FY 2000 management evaluation reviews of Michigan and Ohio. They reported no adverse findings in Michigan; however, FNSRO reported that the Ohio Department of Education's Office of Grants Management had the responsibility for notifying institutions of their need to obtain organization-wide audits and was also responsible for tracking audits submitted to ensure all required audits were performed. But because of staff changes and other reasons, this information was not provided to the Division of Child Nutrition Services, which is responsible for the CACFP.

Discussion with the Grants Management staff had lead FNSRO to believe that all Federal awards received by participating institutions were being tracked. However, during our audit, we confirmed that only funding that passes through the State Departments of Education are tracked. The State agencies do not track any other sources of Federal funding received by participating institutions.

The State agencies tracked the receipt of audits from participating institutions that they knew were required to be audited because the institutions had received \$300,000 or more in CACFP funding. However, neither State agency was aware of any other Federal awards participating institutions received because they had not requested that type of information from the institutions. The most recent application used by the Ohio State Agency requested the name of other awards received from Federal agencies but did not request the amounts of the awards. Therefore, the State agency still did not have enough information to determine if these institutions were required to have audits. Michigan had not requested any information regarding Federal awards and similarly had not known if any institutions were required to have audits.

In each State agency, we determined the total number of nonprofit institutions that had not been audited. The Ohio State agency had 521 institutions funded at approximately \$18.2 million and the Michigan State agency had 277 nonprofit institutions funded at about \$7.4 million. However, because both State agencies failed to acquire the necessary information to determine the total amounts of Federal awards received by each nonprofit institution, there was no assurance that all required single and program-specific audits had been performed.

We discussed the issue with FNS and OMB. An FNS grants management official stated that the administering State agencies should track all Federal awards received by participating institutions in their States in order to know which institutions are required to submit an audit. OMB officials also confirmed the necessity to track all Federal funding. OMB stated that the State agencies should include all audit requirements in their agreements with participating institutions, in the form of audit contracts. Those contracts should list the sources and amounts of all Federal funds received and should document all policies and regulations regarding audits of both nonprofit and for-profit institutions. Additionally, OMB noted that the audit contracts should be renewed annually during the application renewal period for all institutions because Federal awards change frequently.

We believe that State agencies should determine what funding participating institutions receive from all Federal sources to enable them to determine which institutions have exceeded the \$300,000 threshold and would therefore be required to obtain an audit. This would not require the State agency to take any action if they were not the cognizant or oversight agency but would enable the State agency to identify the cognizant or oversight agency from which they could determine if an audit had been required.

RECOMMENDATION NO. 1

Require all State agencies in the Midwest Region to establish procedures to track Federal awards received by participating institutions and require audits of institutions meeting the requirements provided in OMB circular A-133.

Agency Response

FNS agreed with this recommendation and stated that it had instructed the State agencies in the Midwest Region to establish procedures to track

Federal awards received by participating institutions and to monitor institutional compliance with the audit requirements in OMB circular A-133.

OIG Position

We can reach management decision on this recommendation when FNS advises us of the timeframe within which State agencies will be required to establish procedures for tracking all Federal funds received by participating institutions and provides assurance that the requirements in OMB circular A-133 will be met.

RECOMMENDATION NO. 2

Require all State agencies in the Midwest Region to incorporate audit requirements in their contracts with each participating institution.

Agency Response

FNS agreed with this recommendation and instructed all State agencies in the Midwest Region to incorporate audit requirements into their contracts with participating institutions.

OIG Position

In order for us to reach management decision on this recommendation, FNS needs to advise us the date when State agencies will be required to incorporate audit requirements into their contracts with each participating institution.

FINDING NO. 2

OHIO INSTITUTIONS HAD NOT ALWAYS SUBMITTED REQUIRED AUDITS

The Ohio State Agency had not ensured that required audits of nonprofit institutions were performed and submitted. This occurred because the State agency had not adequately tracked the list of nonprofit institutions requiring a single audit. We noted that 21 of 542 nonprofit institutions were required to comply with single audit requirements based

on the receipt of CACFP funding that exceeded \$300,000. However, 8 of the 21 had failed to comply with audit requirements and had not submitted audits to the State agency. As a result, there was reduced assurance that \$5.7 million received by these 8 nonprofit institutions was properly expended.

OMB circular A-133 – subpart B requires that all non-Federal entities that expend \$300,000 or more in a year in Federal awards have a single or program-specific audit conducted for that year.

We reviewed CACFP funds awarded to each nonprofit institution to determine institutions that were required to submit audits in compliance with OMB circular A-133. Of 542 nonprofit institutions, 21 exceeded the established threshold, based on CACFP funding alone, for which an audit was required. Of these 21 nonprofit institutions that had received over \$37.3 million in CACFP funding, 8 had received over \$5.7 million, but had not submitted the required audits. In addition, the State agency had not followed up with the institutions to determine if an audit had been performed. Because audits for FY 2000 could still be submitted at the time of our audit, we limited our review to audits required for FY 1999.

State agency officials stated they had assigned a new grants manager who was aware of audit issues and would follow up with all institutions that had not complied with audit requirements. In addition, State agency officials told us that a new claims reimbursement and reporting system for CACFP would be implemented at the end of 2001 and would permit the tracking of audits of participating institutions.

However, until the new system has been implemented and is operating as intended, the State agency has reduced assurance that the nonprofit institutions have had required audits performed and that needed corrective actions have been taken to resolve deficiencies reported.

RECOMMENDATION NO. 3

Require the Ohio State agency to immediately determine if the required audits had been performed and to provide the necessary followup. If the audit period has passed, require the State agency to ensure audits are performed for the current period.

Agency Response

FNS agreed with this recommendation and has required the Ohio State agency to immediately determine if the required audits have been performed and to provide the necessary followup. If the audit period has passed, FNS will require the State agency to ensure that audits are performed for the current period.

OIG Position

FNS needs to advise OIG of the timeframes for implementing the agreed-to corrective actions.

FINDING NO. 3

STATE AGENCIES NEED TO IMPROVE THEIR OVERSIGHT OF FOR-PROFIT INSTITUTIONS

Neither the Michigan nor the Ohio State agencies had established written audit policies or other compliance requirements for their for-profit institutions. The Michigan State Agency contracted with an auditor to perform program-specific audits of for-profit institutions, but had not designated staff to follow up on audit findings and questioned costs to ensure that

corrective actions were taken. In addition, the Michigan State agency had not required the auditor to use the FNS/OIG audit guide developed for program-specific audits. The Ohio State Agency had not performed any audits of for-profit institutions. As a consequence, the Ohio State agency had not ensured that audits or other compliance requirements were in place for institutions that received \$8.1 million in program funds and the Michigan State agency had not ensured that audit coverage was complete, and had not properly followed up on audits of institutions that received \$1.6 million in program funds.

Title 7, CFR 3052.210 (e) and OMB circular A-133, subpart b, section .210 (e), state that the pass-through entity (in this case the State agency) is responsible for establishing policies and procedures to ensure that for-profit institutions comply with program requirements. The for-profit institutions compliance requirements and compliance responsibilities should be documented. Methods to ensure compliance for Federal awards made to for-profit institutions may include pre-award audits, monitoring during the contract, and post-award audits.

FNS policy memorandum 3, dated September 9, 1998, advised State agencies of this change in requirements (previous to this, title 7 CFR 226.8 (a) had required for-profit institutions be audited at least once every 2 years) and stated that the State agencies had the authority and responsibility for establishing audit policy for the for-profit institutions under their oversight with regard to any federal funds received from USDA. FNS encouraged State agencies to continue to require audits of for-profit institutions but to raise the threshold for the audits, previously established at \$25,000, given the cost of the audits relative to the benefits.

Funds are made available to each State agency, in amounts that are proportional to their program reimbursements, to fund a portion of organization-wide and program-specific audits of participating institutions.

State agencies can use any funds remaining after all required program specific audits have been performed to conduct administrative reviews of institutions. Although we did not review administrative costs during the audit, we noted that Ohio claimed costs of almost \$400,000 for administrative audit expenses in FY 1999 while performing no program-specific audits and few organization-wide audits of participating institutions. Michigan, on the other hand, claimed administrative audit costs of only \$2,000, while conducting many more audits.

Neither State agency established written audit policies for their for-profit institutions. The Ohio State agency had established no audit policy, while the Michigan State agency had an unwritten audit policy that required virtually all for-profit institutions to be audited. Officials at each State agency stated that they were not aware they were required to establish a written audit policy.

In 1999, the Ohio State agency contacted the Ohio State Auditor's Office for approval to hire a contract auditor in February 2000. However, the Ohio Auditor of State rejected the auditor the State agency had proposed because the selected auditor had a conflict of interest. The Auditor of State offered to work with the State agency to establish an audit program; however, the State agency took no further action to ensure audits of for-profit sponsors were conducted. No audits were performed in FY's 1999 or 2000, or were scheduled to be performed in FY 2001.

The Michigan State agency contracted with an auditor to audit for-profit institutions, but had not assigned any employees to follow up on the findings and questioned costs in the audit reports. Therefore, no one ensured corrective action was obtained for the findings in the reports on for-profit institutions that had received more than \$1.6 million in CACFP funds in FY 2000. By May 2001, the auditor had submitted about 50 audit reports to the State agency. We reviewed 11 of these reports and determined that the auditor had identified audit findings or questioned costs in all 11. When we discussed the lack of followup with State agency officials, they realized their oversight and initiated corrective action.

Michigan State agency officials told us they were not aware that the contracted auditor should have been required to use OIG audit guide 27029-2 for these audits. Title 7, CFR 3052.235 (a), provides that when a program-specific guide is available, as was the case here, the auditor is to follow generally accepted government auditing standards (GAGAS) and the audit guide when performing the audits. Consequently, the State agency had required only that the auditor develop a work plan. This work plan included the review of records for food and meals served during the audited period, but did not include a review of current operations or

observation of current meal serving procedures, as the OIG audit guide required. Thus, the contracted coverage was not as comprehensive as it would have been had the auditor used the OIG guide.

The Michigan State agency had not established clear documented criteria for audits of for-profit institutions. For example, a State agency official told us that there was an unwritten audit threshold of \$200 for the for-profit institutions; however, other State agency officials disputed this threshold. A written audit policy would resolve this problem.

RECOMMENDATION NO. 4

Require the State agencies in the Midwest region to establish documented requirements to ensure compliance with program rules and regulations by for-profit institutions. If State agencies decide to perform audits of for-profit institutions, ensure the established audit policy is documented and requires use of OIG audit guide 27029-2 for program-specific audits.

Agency Response

FNS agreed with the recommendation and has instructed the State agencies in the Midwest Region to establish requirements to ensure compliance with program rules and regulations by for-profit institutions. FNS further advised that if State agencies decided to perform audits of for-profit institutions, those State agencies should ensure that the established audit policy is documented and that it requires use of OIG audit guide 27029-2 for program-specific audits.

OIG Position

FNS needs to advise OIG of the timeframes for implementing the agreed-to corrective actions.

RECOMMENDATION NO. 5

Evaluate the propriety of the Ohio State agency's use of administrative audit funds claimed for reimbursement.

Agency Response

FNS agreed with the recommendation. FNS stated that it would evaluate the propriety of Ohio's use of administrative audit funds claimed for reimbursement during the next FNS financial review, which will be conducted no later than June 2002.

OIG Position

In order to reach a management decision on this recommendation, FNS needs to make it clear that it will evaluate the propriety of the almost \$400,000 Ohio claimed for administrative audit expenses in FY 1999 during the financial review which it will conduct not later than June 2002.

RECOMMENDATION NO. 6

Require the Michigan State agency to ensure the proper followup of audit findings.

Agency Response

FNS agreed with this recommendation and stated that it had required the Michigan State agency to ensure proper followup on audit findings.

OIG Position

In order to reach a management decision on this recommendation, FNS needs to provide OIG information as to which prior audits the Michigan State agency will be required to follow up on, and the procedures for assuring that corrective actions are taken on all findings in future audit reports.

The State agency did not complete administrative reviews of participating institutions on a timely basis. Although the requirement was to review one-third of participating institutions annually, the State had reviewed only 19 percent of the institutions in FY 2000. In addition, the State agency had not (1) ensured institutions were properly licensed by local authorities to assure meals were served to children in safe and sanitary conditions, (2) developed edits and controls over reimbursement claims from family day care home sponsors to ensure payments were accurate, or (3) documented a revision to an existing State policy regarding meal disallowances. Finally, the State agency had not ensured the consistent application of the revised policy. As a result, the State agency could not ensure institutions were operating the CACFP properly and were entitled to the program payments they had received.

FINDING NO. 4**OHIO DOES NOT CONDUCT
MANAGEMENT REVIEWS IN A
TIMELY MANNER**

In FY 2000, the State agency had not completed administrative reviews of one-third of all participating institutions. We noted that the State agency completed reviews of only 19 percent of the institutions for FY 2000. FNSRO also noted this deficiency in its FY 2000 management evaluation of the State agency and the two most recent single audit

reports from the Ohio Auditor of State similarly reported that the State agency had failed to conduct the required number of administrative reviews of participating institutions. The State agency attributed its failure to a lack of staff to complete the necessary reviews. The importance of the State agency timely reviewing participating institutions was even greater because, as discussed in the findings in Chapter 1 of this report, the State had not ensured required audits of the participating institutions were performed. As a result, the State agency had not met its oversight responsibilities and there was reduced assurance that institutions were operating the program efficiently and effectively.

Title 7, CFR 226.6 (I), requires State agencies to monitor the progress of institutions toward achieving program goals and requires that they review 33.3 percent of all their institutions annually. State agencies are also to ensure each institution is monitored on a specified schedule based on the type of organization and the number of facilities it sponsors. For example, State agencies are to review independent centers, sponsoring organizations of centers, and sponsoring organizations of day care homes with 1 to 200 homes, every 4 years.

The State agency provided us a list of 144 institutions, representing only 19 percent of the State's 764 participating institutions, they claimed had been reviewed in FY 2000. We also reviewed a judgment sample of 75 of the 764 institutions to assist in evaluating the State's schedule of reviews. We noted that 22 of the 75 institutions had not been visited within the 4-year timeframe required and 2 additional institutions had not been visited in 7 years. The Director of Child Nutrition Services at the State agency informed us they did not have sufficient personnel to perform administrative reviews of 33.3 percent of the participating institutions each year. The director also stated that the State's personnel office had placed a ceiling on staff. However, it is unclear how this would impact staff assigned to the Federally funded CACFP. The State agency had not taken any action to reassign present staff.

We also questioned the validity of the statistics provided by the State agency regarding the number of institutions reviewed in FY 2000. We could not confirm the State agency's claim that reviews had been performed at 144 institutions. We examined 15 of the administrative reviews that were reportedly accomplished but found that two institutions were inactive in the CACFP in FY 2000 and one institution's review was actually completed in FY 1998. Therefore, the number of reviews completed was misreported for FY 2000. The Director stated that the files had not been maintained because of the loss of key personnel.

The management evaluation conducted by FNSRO in FY 2000 had reported the same deficiency with respect to completing the required number of administrative reviews. FNSRO reported finding one institution that had not been reviewed for 10 years. The State agency's response to the deficiency noted by FNSRO was that two additional employees had been hired. The State agency had also revised its FY 2001 State administrative expense plan to confirm that there were sufficient employees to conduct the administrative reviews required each year to meet the 33.3 percent requirement specified in the regulations. When we asked the State agency why the review requirements had still not been met, the Director of Child Nutrition Services said that the two employees referred to had been employed as contract employees, however, only one was actually converted to a full-time CACFP position. The remaining contract employee was not converted to a full-time position and was being used to conduct pre-approval site visits of institutions seeking CACFP participation. According to the Director, the State agency really did not gain additional employees.

The two most recent State Single Audits, performed by the Ohio Auditor of State for the periods ending June 30, 1999, and June 30, 2000, had each reported that sufficient administrative reviews had not been performed,

reporting that only 17.5 percent and 14 percent, respectively, had been completed. The State Auditor had recommended in each report that the State agency revise its review schedule to provide for a sufficient number of reviews in order to meet regulatory requirements and if necessary "...reassign on-site reviews to program consultants to help ensure that an appropriate number of reviews will be completed."

The State agency had not taken effective action to correct its failure to review participating institutions timely. The State agency continued to blame its failure to meet review requirements on lack of staff but had not taken action to reassign present staff or shift caseload between staff performing the reviews. As a result, the State agency cannot provide assurance that program funds are being used effectively and efficiently for program purposes.

RECOMMENDATION NO. 7

Require the Ohio State agency to ensure that reviews of participating institutions are performed on a timely basis, such as reporting on a quarterly basis to FNS, the number of reviews completed. If additional staff cannot be provided, consideration should be given to reassigning present staff.

Agency Response

FNS agreed with the recommendation and stated that it had instructed the Ohio State agency to ensure that reviews of participating institutions are performed on a timely basis.

OIG Position

This is a longstanding problem. This finding has previously been reported by FNSRO in its administrative review and in two reports prepared by the Ohio Auditor of State. However, the problem persists even though the Ohio State agency had previously agreed to comply with the review requirements. FNS needs to advise OIG of the actions it plans to take, and timeframes, to require that the State agency complies with the review requirements, and how FNS will assure that corrective actions have been taken.

FINDING NO. 5

**REVIEWS OF LICENSING
REQUIREMENTS WERE NOT
ADEQUATE**

The Ohio State agency did not have controls to ensure participating institutions had currently approved licenses. This occurred because licenses of institutions were examined at a specific time each year, without consideration that licenses expired at different times throughout the year, and because the State agency had not always required institutions to provide documentation of current licenses. As a result, the State agency reimbursed meal claims to institutions that may not have been eligible and there was reduced assurance the participating institutions were providing safe and sanitary conditions.

Title 7, CFR 226.6 (d), provides that each State agency is to establish procedures to review information submitted by institutions annually to ensure that all institutions are licensed or approved. Institutions are to submit documentation to the State agency that the facilities under their jurisdiction are in compliance with licensing/approval requirements. Independent centers are to submit documentation on their own behalf. Institutions that allow licenses/approvals to lapse or expire are not eligible for the CACFP.

The State agency had not ensured participating institutions provided documentation that they were in compliance with licensing/approval requirements. Our review of 20 institutions disclosed that 10 did not have a current childcare and/or food service license on file at the time of our review. Of these, 6 involved childcare centers that did not have current licenses and 4 involved family day care home sponsors that did not provide current licenses for 97 providers under their supervision. The license for one provider had been lapsed for 113 months. Because the State agency did not always require documentation of current licenses to be submitted, the State was not always aware that licenses had lapsed and had not requested that overpayments be returned or withheld current program payments, as required by program regulations.

The State agency's Director of Child Nutrition Services stated that the Federal requirements state that licensing reviews must be conducted annually and she believed that they were in compliance because they reviewed licenses each year during the application renewal period that is conducted in each October. We inquired how the State agency ensured that licenses had not expired during the year and that therefore the State was funding institutions not eligible to participate in the program. The Director stated that licensing authorities backdate expired licenses to the expiration date; thus licenses really never expire. The Director also said

that licenses are maintained at institutions and so would be reviewed during management reviews.

However, because the State agency had not performed timely reviews of participating institutions (as discussed in Finding No. 5), it is even more critical that documentation of current licenses be maintained at the State agency and that a timely review of each institution's licensing requirements be made. The backdating of licenses by licensing authorities has no bearing on the issue being discussed here. The backdating of licenses does not change the fact that an institution or day care provider had not been inspected timely. There is a significant risk of adverse publicity to the program if children were harmed at institutions funded by the CACFP, but which did not have proper licenses and approvals. Further, the regulations require each institution to be reviewed once each year, on an individual basis. This would not be difficult if the State agency required institutions to provide documentation that they were in compliance with licensing/approval requirements. Without the timely submission of documentation, there is also no guarantee that the licensing authorities would find conditions that would warrant a license renewal; therefore, the institution would be ineligible for program payments.

RECOMMENDATION NO. 8

Require the Ohio State agency to establish a system whereby they are assured, on a timely basis, that institutions have current licenses in place and that supporting documentation is on hand at the State agency.

Agency Response

FNS agreed with this recommendation and instructed the Ohio State agency to establish a system whereby they are assured, on a timely basis, that institutions have current licenses in place and that supporting documentation is on hand at the State agency.

OIG Position

FNS' proposed corrective action is a restatement of what is already required and the regulations that the State agency is currently ignoring. FNS needs to take more forceful action with the State agency and advise OIG of those actions and the timeframe for implementation so as to assure that no CACFP sponsor is operating without proper licenses.

RECOMMENDATION NO. 9

Instruct the Ohio State agency that they cannot approve participation by institutions for periods when licenses had lapsed but were subsequently retroactively approved by the licensing authority.

Agency Response

FNS agreed with the recommendation and stated that it had instructed the Ohio State agency that it cannot approve participation by institutions for periods when licenses lapsed but were subsequently retroactively approved by the licensing authority.

OIG Position

Before we can reach a management decision on this recommendation, FNS must advise us of the date it issued instructions to the Ohio State agency and must provide additional information on how it will assure that the corrective actions have taken place.

FINDING NO. 6

NO EDIT CHECKS ARE INCLUDED IN OHIO'S FAMILY DAY CARE HOME PAYMENT SYSTEM

The State agency had not incorporated edit checks or other controls into its payment system for family day care home sponsors' claims for reimbursement. The State agency maintained the same system of claims review that the State Auditor had taken exception to in the State's Single Audit for the period ended June 30, 2000. As a result, there were still no

established edit checks or other controls of payments to family day care home sponsors. Therefore, the State agency could not provide satisfactory assurance that payments were correct.

Title 7, CFR 226.7(m), requires the State agency to establish a financial management system in accordance with title 7 CFR, part 3015, and FNS guidance, to identify allowable program costs. Part 3015.61(c) of the uniform federal assistance regulations provides that recipients and subrecipients should establish effective control and accountability for all USDA grant or subgrant funds.

The payment system for reimbursement claims from child care centers included edit checks and other controls during the scanning of the claims into the payment system; however, the State agency had not established similar controls for reimbursement claims from family day care home

sponsors. There were no edits of the data on the claims and no second party or supervisory review of claims data that was manually entered into the payment system, to ensure that it was accurate and that the correct sponsor was paid. Neither the childcare nor family day care home payment systems included edits or controls to identify block-type claiming, the claiming of all children for all serving days and for all meals.

The State Auditor reported a similar condition in the Single Audit for the period ending June 30, 1999, for the Summer Food Service Program payments and family day care home reimbursements for the CACFP. The State Auditor recommended that the State agency develop a process for approving and reviewing reimbursements to lessen the risk for error and help determine that the payments were accurate, allowable, and conformed to program regulations. However, the State agency had not initiated any action to establish internal controls.

When we discussed this with the State agency, the Director of Child Nutrition Services stated that Ohio was presently installing a new claims reimbursement and reporting system (CRRS) that would incorporate edit checks for the payment system for family day care home sponsor claims for reimbursement. She stated that the CRRS is supposed to be in operation by the end of FY 2001. However, there is no assurance that the system will be in operation and properly functioning at that time. Until it is, there is no assurance that payments to family day care home sponsors would be issued to only eligible institutions and that the amounts paid are accurate and calculated in accordance with program requirements.

RECOMMENDATION NO. 10

Require the Ohio State agency to develop a process for approving and reviewing reimbursement claims from family day care home sponsors to lessen the risk for error and to assist in determining that payments are accurate and allowable, and in conformity with applicable laws and regulations governing the CACFP.

Agency Response

FNS agreed with this recommendation and stated that it had asked the Ohio State agency to verify that its new payment system includes the necessary edits and is now operating.

OIG Position

According to the Director of Child Nutrition Services in Ohio, the new payment system was supposed to be in operation by the end of FY 2001. We have no evidence that the new system has been implemented. FNS needs to advise OIG of the actions (and timeframes) it plans to take if the new system has not been implemented, to assure that payments to family day care home sponsors will be issued to only eligible institutions and that the amounts paid are accurate and calculated in accordance with program requirements. If the new system has been implemented, FNS needs to advise OIG of the date of implementation and what assurance it has received that the necessary edits were included.

FINDING NO. 7

OHIO'S PROCESS FOR MEAL DISALLOWANCE RELATED TO MILK SHORTAGES IS INCONSISTENT

The State agency established a policy that required any meals lacking the milk component to be disallowed on the initial visit. However, the State agency made an undocumented revision to this policy that allowed reviewers to offer technical assistance on the initial visit despite any milk shortages found. In addition to the revised policy not being documented, no guidance was provided

to reviewers regarding circumstances when to apply technical assistance and when to disallow meal claims that lacked the required milk component. Recent reviews conducted by the State agency disclosed individual reviewers were handling milk shortages in different ways. As a result, there was little consistency applied to the oversight of childcare centers regarding the required milk component on initial visits and FNS had no opportunity to evaluate the State agency's actions because the policies followed by reviewers were not always documented.

Title 7, CFR 226.20, provides that each breakfast, lunch, and supper include fluid milk as a component. However, CFR 226.14 (b), states that the State agency has the authority to not disallow payments or collect overpayments, when in their opinion, another action will have a corrective effect. In addition, CFR 226.14 (c) states that FNS may assert a claim against the State agency's action in paying an institution or failing to collect an overpayment if it does not concur with the State agency's action.

Ohio Policy 28 requires that all meal/snacks found with milk shortages to be disallowed, even on the initial visit.

Our review of 15 management reviews disclosed that 1 institution was disallowed meal claims for milk shortages in the amount of \$1,976 while

2 other institutions were offered technical assistance, during the initial management reviews. We discussed the inconsistency of the State's policy with the Director of Child Nutrition Services in Ohio who stated that she felt the State's written policy was too strict for a new CACFP institution. Therefore, she allowed the less penal action of offering technical assistance to the institutions on the initial management review rather than to disallow meals that did not meet milk requirements. When we asked to review this revision to the State's written policy, the Director told us that the revision was never documented. In addition, the State had established no guidelines for those performing the reviews to follow in applying the revised policy.

Ohio has the authority to revise its policies and procedures; however, all revisions and changes to State policy should be documented to ensure that FNS has the opportunity to evaluate the revisions and to ensure State staff apply policies on a consistent basis. Ohio's failure to document policy changes affecting how milk shortages were to be treated on initial management reviews resulted in institutions being treated inconsistently.

RECOMMENDATION NO. 11

Require the Ohio State agency to document any policy changes and to ensure they are consistently applied to all participating institutions.

Agency Response

FNS agreed with this recommendation and instructed the Ohio State agency to document any policy changes and to ensure that the policy changes are consistently applied to all participating institutions.

OIG Position

We can reach a management decision on this recommendation when FNS advises us of the date it issued the instructions to the Ohio State agency to implement the changes.

EXHIBIT A – FNS’ RESPONSE TO THE DRAFT REPORT



**United States
Department of
Agriculture**

Food and
Nutrition
Service

Midwest Region

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20th Floor
Chicago, IL
60604-3591

Mr. Edward Krivus, Regional Director of Audit
Office of the Inspector General
Midwest Region
111 North Canal Street, Suite 1130
Chicago, Illinois 60606-7295

December 13, 2001

Dear Mr. Krivus:

We reference the official draft audit report entitled, "State Agencies' Oversight of the Child and Adult Care Food Program," Audit Report No. 27002-14-Ch. We address each recommendation below.

Recommendation 1: Require all the State agencies (SA) in the Midwest Region to establish procedures to track Federal awards received by participating institutions and require audits of institutions meeting the requirements provided in OMB circular A-133.

FNS agrees with this recommendation and we instructed the SAs in the Midwest Region to establish procedures to track federal awards received by participating institutions. We also instructed all the SAs of their responsibilities to monitor institution compliance with the audit requirements provided in OMB circular A-133.

Recommendation 2: Require all SAs in the Midwest region to incorporate audit requirements in their contacts with each participating institution.

FNS agrees with this recommendation and we have instructed all the SAs in the Midwest Region to incorporate audit requirements in their contracts with each participating institution.

Recommendation 3: Require the Ohio SA to immediately determine if the required audits have been performed and to provide the necessary follow-up. If the audit period has passed, require the SA to ensure audits are performed for the current period.

FNS agrees with this recommendation and we have required the Ohio SA to immediately determine if the required audits had been performed and to provide the necessary follow-up. If the audit period has passed, we are requiring the SA to ensure audits are performed for the current period.

Recommendation 4: Require the SAs in the Midwest region to establish documented requirements to ensure compliance with program rules and regulations by for-profit institutions. If SAs decide to perform audits of for-profit institutions, ensure the established audit policy is documented and requires the use of OIG audit guide 27029-2 for program-specific audits.

FNS agrees with this recommendation. We have instructed the SAs in the Midwest region to establish requirements to ensure compliance with program rules and regulations by for-profit institutions. If SAs decide to perform audits of for-profit institutions, we instructed them to ensure that the established audit policy is documented and that it requires use of OIG audit guide 27092-2 for program-specific audits.

Recommendation 5: Evaluate the propriety of the Ohio SA's use of administrative audit funds claimed for reimbursement.

FNS agrees with this recommendation. We will evaluate the propriety of Ohio's use of administrative audit funds claimed for reimbursement during our next financial review, which will be conducted not later than June 2002.

Recommendation 6: Require the Michigan SA to ensure the proper follow-up of audit findings.

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Mr. Edward Krivus

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FNS agrees with this recommendation and we have required the Michigan SA to ensure proper follow-up of audit findings.

Recommendation 7: Require the Ohio SA to ensure that reviews of participating institutions are performed on a timely basis, such as reporting on quarterly basis, to FNS, the number of reviews completed. If additional staff cannot be provided, consideration should be given to reassigning present staff.

FNS agrees with this recommendation and we instructed the Ohio SA to ensure that reviews of participating institutions are performed on a timely basis.

Recommendation 8: Require the Ohio SA to establish a system whereby they are assured, on a timely basis, that institutions have current licenses in place and that supporting documentation is on hand at the SA.

FNS agrees with this recommendation and we have instructed the Ohio SA to establish a system whereby they are assured, on a timely basis, that institutions have current licenses in place and that supporting documentation is on hand at the SA.

Recommendation 9: Instruct the Ohio SA that they cannot approve participation by institutions for periods when licenses lapsed but were subsequently retroactively approved by the licensing authority.

FNS agrees with this recommendation and we have instructed the Ohio SA that they cannot approve participation by institutions for periods when licenses lapsed but were subsequently retroactively approved by the licensing authority.

Recommendation 10: Require the Ohio SA to develop a process for approving and reviewing reimbursement claims from family day care home sponsors to lessen the risk for error and to assist in determining that payments are accurate and in conformity with applicable laws and regulations governing the CACFP.

FNS agrees with this recommendation and we have asked the Ohio SA to verify that their new payment system includes the necessary edits and is now operating.

Recommendation 11: Require the Ohio SA to document any policy changes and to ensure they are consistently applied to all participating institutions.

FNS agrees with this recommendation and we have instructed the Ohio SA to document any policy changes and that they ensure that the policy changes are consistently applied to all participating institutions.

If you should have any questions or if I may be of further assistance, please don't hesitate to call me at (312) 353-8239.

Sincerely,


for FRANK SUCHY
Acting Chief, Fiscal/State Systems
Financial Management

ABBREVIATIONS

CACFP	Child and Adult Care Food Program
CFR	Code of Federal Regulations
CRRS	Claims Reimbursement and Reporting System
FNS	Food and Nutrition Service
FNSRO	Food and Nutrition Service Regional Office
FY	Fiscal Year
GAO	General Accounting Office
OIG	Office of Inspector General
OMB	Office of Management and Budget
USDA	United States Department of Agriculture