



U.S. Department of Agriculture



Office of Inspector General
Great Plains Region

Audit Report

Food and Nutrition Service
National School Lunch Program
Unified School District 248
Girard, Kansas

Report No. 27010-10-KC
July 2003



UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL - AUDIT
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DATE: July 31, 2003

REPLY TO
ATTN OF: 27010-10-KC

SUBJECT: National School Lunch Program – Unified School District 248,
Girard, Kansas

TO: William E. Ludwig
Regional Administrator
Food and Nutrition Service
1244 Speer Boulevard, Suite 903
Denver, CO 80204

This report presents the results of our audit of the National School Lunch Program (NSLP)¹ as operated by Unified School District 248. This district served as the local school food authority (SFA) under an agreement with the Kansas State Department of Education (KSDE), which served as the State agency (SA). The SFA's onsite accountability review did not identify that the collection and accountability procedures submitted to the SA failed to match the system used at the elementary school, and there was no second party review at the elementary school. The SFA was not ensuring its purchasing cooperative followed State and Federal regulations regarding advertising, Equal Employment Opportunity, access to books and records, and record retention. The SFA did not perform the required cost analysis or price analysis in connection with every purchase to assure maximum open and free competition by the cooperative. In addition, the SFA's accounting procedures did not include crediting to the food service account a prorated share of interest earned from investments.

BACKGROUND:

The KSDE served as the SA, and the U.S. Department of Agriculture's Food and Nutrition Service (FNS) served as the funding agency. For school year 2001/2002 operations, the SFA received about \$151,000 in FNS reimbursement and about \$6,000 in SA reimbursement. Each SA is required to enter into a written agreement with FNS to administer the NSLP/School Breakfast Program (SBP) and each SA enters into agreements with SFA's to oversee day-to-day operations. The SFA, located in Girard, Kansas, is responsible for operating the NSLP in accordance with regulations. The SFA administered the NSLP/SBP in three public schools

¹ Also includes the School Breakfast Program (SBP).

On June 4, 1946, Congress passed the National School Lunch Act,² now the Richard B. Russell National School Lunch Act, which authorizes Federal school lunch assistance. Section 4 of the Act authorizes general cash assistance payment for all lunches served to children, in accordance with the provisions of the NSLP, and additional special cash assistance for lunches served under the NSLP to children determined eligible for free or reduced-price lunches. The States are reimbursed at various rates per lunch, depending on whether the child was served a free, reduced-price, or full-price (paid) lunch. The fiscal year (FY) 2002 funding for the NSLP was \$6 billion for meal reimbursements of approximately 4.7 billion lunches. The Kansas SA received approximately \$58 million for the NSLP and \$14 million for the SBP in Federal reimbursements for FY 2002. For school year 2001/2002, Kansas provided State funds of approximately \$2.5 million to SFA's.

OBJECTIVES:

The objectives of the audit were to evaluate controls over the administration of the NSLP and SBP. We evaluated policies and procedures over meal accountability and oversight of program operation. To accomplish this, we determined (1) the accuracy of collections and accounting for reimbursed meals, (2) the accounting and use of program funds relating to the SFA's procurement of goods and services, and (3) the accounting for the SFA's school food service operations.

SCOPE AND METHODOLOGY:

The review primarily covered NSLP/SBP operations from July 1, 2001, through December 31, 2002, concentrating on operations since July 1, 2002. However, records for other periods were reviewed, as deemed necessary. We performed audit work at the FNS Regional office, Kansas SA, and the SFA in Girard, Kansas. Audit work was performed at the SFA during January through March 2003. We reviewed NSLP/SBP operations at all public schools and made observations at each school (USD 248 has a combined lunchroom at the middle school and high school). This audit was performed in accordance with Government Auditing Standards.

To accomplish the review objectives, we reviewed FNS, SA, and SFA regulations, policies, procedures, manuals, and instructions governing NSLP/SBP operations, and interviewed officials at each level. We also reviewed the SA's most recent administrative review of the SFA's NSLP/SBP operations and the SFA's corrective actions taken in response to the administrative review findings and recommendations. We also (1) evaluated the SFA's procedures used to gather and consolidate monthly meal claims and whether reports were verified for accuracy, (2) evaluated edit check controls used to assure the reasonableness of claims for reimbursement, (3) reviewed the SFA's accounting system, which included a review of program funds and interest earned on those funds, (4) analyzed the SFA's methods used for procurement of goods and services and the SFA's process in monitoring the contract terms and conditions of awarded vendors, and (5) analyzed the monitoring efforts of the SFA through a review of the onsite accountability reviews conducted during school year 2001/2002.

² 42 U.S. Code 1751.

FINDINGS:

Finding No. 1

We found that the required internal reviews by the SFA did not identify that one school was not operating in accordance with the program agreement with the SA and was using an unallowable counting system. In addition, the SFA had not performed edit checks adequately or second party reviews, which could allow meals claimed to exceed the number eligible for reimbursement. The SFA was not ensuring its purchasing cooperative followed State and Federal regulations regarding public advertising, Equal Employment Opportunity, access to books and records, and record retention and did not perform the required cost analysis. In addition, the SFA officials did not record the administrative/handling fees to the correct account. In general, these conditions occurred because the SFA's personnel were unaware of Federal and State requirements or overlooked applying the procedures. As a result, there was increased potential for incorrectly reporting meals for reimbursement, reports to the SA were in error because of the use of improper accounting procedures, and there was a lack of assurance that procurements resulted in the lowest cost to the SFA.

Federal regulations require that SFA internal controls must maintain effective control and accountability for all grants and subgrants, cash, real and personal property, and other assets. The grantee and subgrantees must adequately safeguard all such property and assure that it is used solely for the authorized purposes.³

- a. Onsite reviews did not meet requirements or detect variance from program agreement. The onsite accountability review included a requirement to determine if the system observed matched the system as submitted to the KSDE. The SFA reviewer showed for all three schools that the collection and accountability procedures matched those specified in the program agreement. However, we found one school was using an unallowable counting system which did not match those stated in the program agreement. The SFA review did not detect these conditions. As a result, meal accountability procedures observed at one school did not comply with regulations and the program agreement.

Federal regulations⁴ require the SFA to enter into an agreement with the State. KSDE Food Service Facts Handbook-1999 states that an authorized representative of the SFA must assure that the local program complies with the program agreement between the SFA and SA.⁵ The program agreement for Haderlein Elementary's accountability procedures stated, "At the end of the

³ 7 CFR 3016.20(b)3.

⁴ 7 CFR 210.9(b).

⁵ FNS officials noted that 7 CFR 210.7(c)(1)(iii), requires schools to use a daily count taken at the point of service, and, while 7 CFR 210.7(c)(2), does permit use of an alternative method for counting meals, that count must be performed during the meal service itself and assure the same level of accuracy as a point of service count. The agreement between the KSDE and the SFA, as permitted under 7 CFR 210.19(e), is more restrictive than Federal regulations governing counting and claiming procedures under 7 CFR 210.7(c), by requiring each SFA to identify the specific counting and claiming systems used at each participating school.

serving line, coded tickets/cards are collected from each student served a reimbursable meal. The cashier uses the tally of coded tickets/cards, or the computer, to determine the daily count by category.”

We observed that at Haderlein Elementary a morning roster was used to determine the daily count. The lunchroom supervisor collected the teachers’ morning attendance rosters at the breakfast meal. She then scanned coded cards kept in a notebook to determine reimbursable meals at breakfast and lunch using names obtained from the morning attendance rosters. These procedures could allow a student to leave before the lunch period and still be claimed, resulting in a possible overclaim. However, for our day of observation, we compared the morning attendance and lunch count records to a count we made during the actual service of lunches to children on the roster and did not find any discrepancies with the counts made in the morning.

The SFA’s onsite accountability review showed that the collection and accountability procedures matched those in the program agreement. However, our observation of the elementary school’s accountability procedures did not match those stated in the program agreement. The onsite accountability review did not detect these conditions, because the SFA official failed to compare the collection and accountability procedures with the program agreement during the onsite accountability review. The SFA official stated the school would change accountability procedures to comply with the program agreement.

- b. Edit checks and second party reviews not performed. The SFA officials did not follow instructions for completing the Kansas school food service daily record of meals served, in that an edit check comparing meal counts to the number of eligible applications was not always performed and differences were not resolved. Also, the SFA had not enabled the edit check feature on its Meal Tracking Automated System and no second-party review was performed of the documents supporting the meals claimed for reimbursement. The SFA did not provide an explanation for days that meals exceeded the maximum allowable limit. We found that the numbers of meals claimed were not properly supported for 5 out of 9 months; however, the differences did not result in material errors in the claims for reimbursement.⁶

Federal regulations⁷ state, in part, that the SFA shall compare each school’s daily counts of free, reduced-price, and paid lunches against the product of the number of children in that school currently eligible for free, reduced-price, and paid lunches times an attendance factor. The KSDE form for recording daily record of lunches states, in part, that if the number of meals served is greater than the number eligible, multiplied by the attendance factor, put an “X” in the proper column. The SFA is required to record comments for any count that exceeds the comparison and to recheck the number of meals recorded to assure no errors were made.

⁶ 7 CFR 210.19(d) allows the SA, FNS, or OIG to disregard minor overpayments.

⁷ 7 CFR 210.8(a)(3).

The SFA advised that the edit check feature of the automated system would be activated.

- c. Purchasing cooperative did not advertise for bids and cost analysis was not prepared. The SFA did not ensure the purchasing cooperative publicly advertised for bids (newspapers, internet, etc.) in purchasing for food and nonfood supplies according to requirements. According to officials of the purchasing cooperative, invitations to bid were directly solicited from current suppliers and they were unaware of the Federal and State regulations. As a result, the cooperative's procurements, totaling over \$1.4 million for food and nonfood for school year 2001/2002, did not assure maximum open and free competition.

Federal regulations⁸ require "procurement by sealed bids (formal advertising). Bids are publicly solicited and a firm-fixed-price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest in price."⁹ The SA requires, "For procurement of services or supplies costing in aggregate in excess of \$10,000, competitive sealed bids (formal advertising) are publicly solicited or a Request for Proposal is publicized."¹⁰

We did not note any specific SA requirements that purchasing cooperatives had to follow similar to those agreements with food service management companies (FSMC). In contrast, the SA had specified that required provisions be included in contracts between SFA's and FSMC's, including provisions for Equal Employment Opportunity, access to books and records, and record retention.¹¹ We believe there needs to be a written agreement between SFA's and cooperatives covering all Federal and State requirements.

In addition, a cost analysis or price comparison was not prepared before the SFA agreed to use the services of the purchasing cooperative, as required under KSDE policies and guidelines. KSDE procedures¹² require schools to perform some form of cost or price analysis in connection with every purchase. SFA officials believed the purchasing cooperative had performed a cost analysis, but officials of the purchasing cooperative stated a cost analysis or price comparison was not performed. The cost analysis or price comparison could have resulted in identifying possible savings to the SFA.

⁸ 7 CFR 3016.36(d)(2)(ii).

⁹ FNS officials noted that the policy on assessing whether purchases, in the aggregate, have reached a formal procurement threshold depends on how purchases are aggregated. They stated that one standard for aggregation is to count purchases from a single source aggregated over the period of a year. However, as long as the agency doing the procurement is not disaggregating its procurements with the purpose of avoiding the requirements for performing formal procurements, the period of time for aggregation may be shorter, even much shorter, than a year. In such cases where shorter aggregation periods result in procurement dollar values that are under the formal procurement thresholds, the use of simple procurement procedures is justified. In this case, the cooperative purchased over \$800,000 for fall 2001 deliveries and almost \$600,000 for spring 2002 deliveries. For the fall 2001 deliveries, three vendors received bid awards in excess of \$100,000.

¹⁰ KSDE Food Service Facts Handbook, chapter 8.

¹¹ KSDE Food Service Facts Handbook, chapter 8.

¹² KSDE Purchasing for Child Nutrition Programs.

- d. Purchasing cooperative's fee was not properly recorded. The SFA did not allocate the fee charged by the purchasing cooperative to the correct account. The purchasing cooperative required its vendors to include the purchasing cooperative's administrative/handling fee in the vendors' bid prices for each item.¹³ While the SFA was aware of the percentage rate charged by the purchasing cooperative, neither the SFA nor the vendors separately identified the cooperative charges, which were included in the vendor's billings. We estimated the SFA's account for the cost of food and nonfood supplies was overstated \$483, because of the SFA's practice of not separating the administrative/handling fee from food costs.

The SA¹⁴ prescribed accounting principles show administrative/handling fees should be recorded in a separate account from food purchases. FNS officials advised the administrative fee should be separated to ensure the fees are properly treated as nonfood expenses.

Recommendation No. 1:

Require the SA to instruct the SFA to ensure that onsite accountability monitoring visits are in sufficient depth to detect and correct noncompliance with program requirements, edit check capabilities of the automated system are functioning, and potential errors in meal counts are resolved. Require the SA to instruct the SFA to perform a cost analysis or price comparison before using services of a purchasing cooperative and encourage the SA to develop requirements for SFA's contracting with cooperatives, which include all applicable Federal and State procurement requirements. Require the SA to instruct the SFA to properly allocate the administrative/handling fee in the food service account.

Agency Response:

The FNS response to the draft report (attached to the report as exhibit A) showed the agency concurred with Recommendation No. 1 and will require the SA to instruct the SFA to conduct in-depth onsite reviews, perform required edit checks, and resolve potential errors in meal counts. Further, FNS will require the SA to instruct the SFA to perform a cost analysis or price comparison before using the services of a purchasing cooperative, require the SA to develop requirements for SFA's contracting with cooperatives that include applicable Federal and State procurement requirements, and require the SA to instruct the SFA to properly allocate the administrative/handling fee in the food service account.

OIG Position:

¹³ Cost plus a 2 percent administrative fee.

¹⁴ Kansas Accounting Handbook, exhibit 3.

We can accept the management decision once we receive specific timeframes for the completion of the proposed actions.

Finding No. 2:

The school food service account was not credited with a prorated share of interest earned from investments. According to the SFA, the SA had never instructed the SFA to allocate interest to the school food service account. As a result, we estimated monthly interest that should have been credited to the food service account to be between \$79 and \$373 per month.

The Federal regulations' definition of revenue shows that a prorated share of earnings from investments should be credited to the school food service account.¹⁵

The school food service account closing cash balances for school year 2001/2002 ranged from approximately \$42,000 to \$143,000 and the interest rates per month from the SFA's money market checking account ranged from 2.25 percent to 3.14 percent.

The SFA placed all revenue in a money market checking account. The SFA placed all interest earned from investments and checking accounts into a capital outlay fund. The capital outlay fund was used for equipment, construction, improvements, etc. Because the SFA historically transferred general funds that would exceed the interest earned from investments to the food service account, we are not questioning any costs. However, we believe the earnings from the balance of the school food service account should be recognized in the SFA's accounting system.

Recommendation No. 2:

Require the SA to instruct the SFA to credit the school food service account with its prorated share of the investment income.

Agency Response:

The FNS response showed FNS concurred with Recommendation No. 2 and will require the SA to instruct the SFA to credit the school food service account with its prorated share of the investment income.

OIG Position:

We can accept the management decision once we receive the specific timeframe for the completion of the proposed action.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing corrective actions taken or planned and the timeframes for accomplishing final action. Please note that the regulation requires management

¹⁵ 7 CFR 210.2.

decisions to be reached on all findings and recommendations within 6 months from the date of report issuance.

We appreciate the assistance provided to us during our review.

/s/

DENNIS J. GANNON
Regional Inspector General
for Audit

EXHIBIT A – FNS RESPONSE TO THE DRAFT REPORT



United States
Department of
Agriculture

Food and
Nutrition
Service

Mountain
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1244 Speer Boulevard
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JUL 03 2003

Reply to
Attn of:

MPSN-200

Subject:

Audit Report No. 27010-10-KC, National School Lunch Program-
Unified School District 248, Girard, Kansas

To:

Dennis J. Gannon
Regional Inspector General for Audit
Office of Inspector General
P.O. Box 293
Kansas City, Missouri 64114-3302

We concur with Recommendation No. 1 and will require the State agency (SA) to instruct the school food authority (SFA) to conduct in-depth on site reviews, perform required edit checks and resolve potential errors in meal counts. Further we will require the SA to instruct the SFA to perform a cost analysis or price comparison before using the services of a purchasing cooperative, require the SA to develop requirements for SFAs contracting with cooperatives that include applicable Federal and State procurement requirements and require the SA to instruct the SFA to properly allocate the administrative/handling fee in the food service account.

We concur with Recommendation No. 2. We will require the SA to instruct the SFA to credit the school food service account with its prorated share of the investment income.

If you have any questions, please contact Jerry Stankorb at (303) 844-0355.

Darlene Sanchez

DARLENE SANCHEZ
Regional Director
Special Nutrition Programs