



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 290
Ottawa, Kansas**

**Report No. 27010-11-KC
August 2003**



UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL - AUDIT
Great Plains Region
8930 Ward Parkway, Suite 3016
Kansas City, Missouri 64114-3302
TEL: 816.926.7667 FAX: 816.926.7676



DATE: August 5, 2003

REPLY TO
ATTN OF: 27010-11-KC

SUBJECT: National School Lunch Program – Unified School District 290, Ottawa, 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 the subject audit. The written response, dated July 14, 2003, to the draft report has been incorporated into the Findings and Recommendations section of the report, where appropriate. The response is attached in its entirety as exhibit B. The reply generally expressed agreement with the recommendations. The Findings and Recommendations section of the report explains those actions necessary for us to consider management decisions on Recommendations Nos. 1, 2, 3, and 4. In general, we will need to be provided copies of billings and advised of the specific actions completed or planned along with acceptable dates for completing the proposed actions.

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 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

Executive Summary

Food and Nutrition Service, National School Lunch Program, Ottawa, Kansas (Audit Report No. 27010-11-KC)

Results in Brief

This report presents the results of our audit of the National School Lunch Program (NSLP)¹ as administered by Unified School District 290, the local school food authority (SFA). The Kansas State Department of Education (KSDE) served as the State agency (SA), and the U.S. Department of Agriculture's (USDA) Food and Nutrition Service (FNS) served as the funding agency. For school year 2001/2002 operations, the SFA claimed about \$265,000 in FNS reimbursement and about \$8,000 in SA reimbursement.

Our objectives were to evaluate the SFA's meal accountability, procurement, accounting systems, and management controls that were designed to provide reasonable assurance as to the accuracy of its meal claims and reimbursement for school year 2001/2002 and 2002/2003 through December 31, 2002. We found that the SFA had not fully implemented required program management controls.

The SFA did not effectively monitor its contracted Food Service Management Company (FSMC). The SFA lacked an effective reconciliation of meals billed by the FSMC to the number of meals claimed to the SA for reimbursement, which contributed to the SFA overclaiming \$1,415 and underclaiming \$9,410. SFA personnel did not always follow onsite accountability procedures, questionable counts identified by edit checks were not researched and explained, one school did not follow program agreement requirements, and financial information submitted to the SA was inaccurate. The SFA's accounting procedures did not include crediting a pro rata share of interest earned from investments to the food service account.

Recommendations In Brief

We recommended that FNS require the SA to direct the SFA to follow procedures that ensure compliance with the program agreement between the SA and SFA. We also recommended that the SFA submit revised reimbursement claims to the SA to correct the cited overclaims and request advice on the correction of the cited underclaims.

FNS should also require the SA to direct the SFA to strengthen the internal controls by increased monitoring of FSMC bills and require the SFA to research and resolve potential edit check errors, as well as advise the SFA to reconcile the food service fund and the Annual Financial Status Summary.

¹ Also includes the School Breakfast Program (SBP).

We also recommended that FNS require the SA to direct the SFA to begin crediting the SFA food service account with a pro rata share of the investment income.

**Agency
Response**

The agency response showed FNS officials concurred with three of the recommendations and did not specifically address actions to be taken on the underclaims. We incorporated their comments in the applicable sections of the report and attached a copy of the comments as exhibit B.

**OIG
Position**

We can accept the management decisions once we receive specific timeframes for the completion of the proposed actions. In addition, we will need evidence showing the questioned costs have been recovered or an accounts receivable established and documentation showing specific actions to be taken on the underclaims.

Abbreviations Used in This Report

CFR	Code of Federal Regulations
FNS	Food and Nutrition Service
FSMC	Food Service Management Company
KSDE	Kansas State Department of Education
NSLP	National School Lunch Program
RFP	Request for Proposal
SA	State Agency
SFA	School Food Authority
SBP	School Breakfast Program
USDA	U.S. Department of Agriculture

Table of Contents

Executive Summary	i
Abbreviations Used in This Report.....	iii
Background and Objectives.....	1
Findings and Recommendations.....	3
Section 1. Internal Controls Over The NSLP/SBP	3
Finding 1 Lack of Internal Controls Resulted in Erroneous Reports and Inadequate Monitoring of the Food Service Management Company (FSMC)	3
Recommendation No. 1.....	7
Recommendation No. 2.....	7
Recommendation No. 3.....	8
Finding 2 Interest Income was Not Prorated to the Food Service Fund.....	8
Recommendation No. 4.....	8
Scope and Methodology.....	10
Exhibit A – Summary of Monetary Results	12
Exhibit B – FNS Response to the Draft Report.....	13

Background and Objectives

Background

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. The intent of the Act, as amended December 29, 2001, is to safeguard the health and well-being of the Nation's children by providing them with nutritious foods and to encourage the domestic consumption of nutritious agricultural commodities and other foods. This is accomplished by assisting States, through grants-in-aid and other means, in providing an adequate supply of food and facilities for the establishment, maintenance, operation, and expansion of nonprofit school lunch programs.

The Act, as amended, authorizes the payment of general and special assistance funds to States, based upon the number and category of lunches served. Section 4 of the Act authorizes general cash assistance payment for all lunches served to children in accordance with the provisions of the National School Lunch Program (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. Eligibility of children for free or reduced-price lunches is based upon their family's household size and income, as listed in the Food and Nutrition Service (FNS) Income Eligibility Guidelines, which are reviewed annually.

FNS is the U.S. Department of Agriculture (USDA) agency responsible for administering the NSLP/School Breakfast Program (SBP). FNS is headquartered in Alexandria, Virginia, and has seven regional offices nationwide. The FNS Mountain Plains Regional office, located in Denver, Colorado, is responsible for monitoring and overseeing operations in Kansas. The Kansas State Department of Education (KSDE) serves as the State agency (SA) and is responsible for overseeing program operations within Kansas. The School Food Authority (SFA), located in Ottawa, Kansas, is responsible for operating the NSLP in accordance with regulations. Each SA is required to enter into a written agreement with FNS to administer the NSLP/SBP, and each SA enters into agreements with SFA's to oversee day-to-day operations. The SFA administered the NSLP/SBP in eight public schools.

The fiscal year 2002 funding for the NSLP was \$6 billion for meal reimbursements of approximately 4.7 billion lunches. The general NSLP requirements are codified in Title 7, Code of Federal Regulations (CFR) 210. Requirements for determining eligibility for free and

² 42 U.S. Code 1751.

reduced-price meals and free milk are codified in 7 CFR 245. In accordance with 7 CFR 250, USDA also provides donated foods to SFA's to assist in operating the nonprofit lunch program. The Kansas SA generally provides cash in lieu of actual commodities. Generally, schools must collect applications on an annual basis from households of enrolled children and make annual determinations of their eligibility for free or reduced-price meals. These schools must also count the number of free, reduced-price, and paid meals served at the point-of-service on a daily basis.

Objectives

The objectives of our review 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 evaluated (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 account.

Findings and Recommendations

Section 1. Internal Controls Over The NSLP/SBP

Finding 1

Lack of Internal Controls Resulted in Erroneous Reports and Inadequate Monitoring of the Food Service Management Company (FSMC)

The internal controls used by the SFA did not ensure accurate meal counts claimed for reimbursement. The SFA was also not monitoring the food service program expenses submitted by the FSMC. Edit checks over the number of meals claimed and accuracy of reports to the SA were ineffective. The SFA employee responsible for overseeing the FSMC operations was not aware of the need to review the billings in detail and did not understand monthly billing statements. As a result, the SFA lacked assurances that the bills submitted by the FSMC and the claims and financial reports to the SA were correct. The lack of full reconciliations of the number of meals billed by the FSMC to the reimbursable meals claimed with the SA contributed to the SFA not identifying errors in its supporting documents and the resulting overclaim of \$1,415 and underclaim of \$9,410.

The SA requires the SFA to monitor the FSMC operations through periodic onsite visits.³ Federal regulations require that 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.^{4 5}

a. Meals Billed Differed From Claims To SA.

The SFA did not effectively reconcile the number of meals billed by the FSMC to the meals claimed for reimbursement. SFA personnel said they compared billings to claims. However, our review showed the control was not working because errors in documents supporting meal counts were not detected. As a result, reimbursements from the SA were overstated \$1,415

³ KSDE Food Service Handbook, Chapter 8, and 7 CFR 210.16.

⁴ 7 CFR 3016.20(b) 3.

⁵ FNS officials noted that the Federal requirements for the SFA to assure the accuracy of the reimbursement claim, including the specific edits and procedures to be followed to help assure this accuracy, are the sole "controls" or checks that are specifically set forth for SFA's to follow. However, the officials agreed that any SFA that utilizes an FSMC should always check the company's billings for meals against the number of meals that the SFA has computed for its reimbursement claim each month, primarily to review the FSMC billing accuracy, but also as a prudent check on its own computations. The officials noted that when this comparison of SFA claim calculations to FSMC billings is made, any discrepancies should be investigated and resolved to assure the accuracy of claims and billings.

for August 2001 and understated \$9,410⁶ for February 2002 (see exhibit A).

For example, in August 2001, the FSMC billed the SFA for 1,810 breakfasts. However, the SFA submitted a claim to the SA for 3,344 reimbursable breakfasts. We determined that the SFA claimed 1,534 meals twice, once as regular breakfasts and again as severe-need breakfasts.

In February 2002, the FSMC billed reimbursable meals to the SFA for 18,999 lunches and 5,281 breakfasts. However, the SFA's claims to the SA reported only 12,389 reimbursable lunches and 4,212 breakfasts. We determined that the SFA made an addition error during the calculation of the column totals used to complete the monthly total of meals reported to the SA (the SFA did not include meal counts for two schools in the totals). The SFA understated the number of lunches by 6,610 and understated severe-need breakfasts by 1,069.

b. Meal Edit Checks Were Not Effective.

The edit checks to ensure the accuracy of daily meal counts were not sufficiently researched and resolved. We found that for 23 of 53 days during the period of October 2002 through December 2002, neither the personnel at the school nor central office personnel provided explanations when meal counts were larger than the number of approved applications multiplied by the attendance factor. In four instances, the counts were larger than the number of approved applications.

Federal regulations require that edit checks shall compare each school's daily counts of free, reduced-price, and paid lunches against the product of the number of children in the school currently eligible for free, reduced-price, and paid lunches times an attendance factor.⁷

The edit check form used by the SFA requires an explanation for meal counts that exceed the maximum number of students eligible times the attendance factor.

The responsibility to monitor the school's daily record of meals claimed was given to the SFA central office personnel. These employees did not always recognize instances that needed explanations of potentially excessive meal claims. The SFA official who performed the edit checks stated that she attempted to explain larger meal counts but overlooked researching some high counts. Subsequently, SFA central office personnel were able to provide additional applications to support the

⁶ Does not include an underclaim of \$297 of SA funds.

⁷ 7 CFR 210.8(a)(3).

meals claimed. We concluded the edit check process was not functioning as intended to prevent excessive claims on meal counts.

c. Meal Accountability Procedures Not Followed.

Meal accountability procedures observed at one school were not consistent with the program agreement. An FSMC official stated that accountability procedures were not performed, as described in the agreement, because students did not always have their meal cards with them or the meal card had been lost.

Federal regulations⁸ 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.⁹ The program agreement for Ottawa High School accountability procedures states, “At the end of the serving line, coded tickets/cards are counted, clipped, punched, marked, or scanned. The cashier uses the tally of tickets/cards or the computer to determine the daily count by category.”

We found the actual procedures in practice differed from the approved procedures. At Ottawa High School, we observed the students give the cashier their name and the cashier typed in the name and selected the student from a listing displayed on the screen. Only a few cards were actually scanned.

d. SFA Did Not Adequately Monitor FSMC Billings and Contract Terms.

According to SFA employees, some categories of FSMC billings were never monitored because they were unsure what the contract required or what checks of FSMC expenses were needed. Employees stated they did not review food invoices or other FSMC documents to support expense items that were detailed on the monthly bill submitted to the SFA including travel, sales promotions, cleaning supplies, laundry, training, computer depreciation, and food service bar depreciation. (However, SFA personnel did perform some checks of expenses related to fuel used for delivery vehicles, equipment repair, paper supplies, and special catering services.) SFA officials could not provide an explanation of how the charges were determined by the FSMC nor state if the costs were reasonable. While we did not identify any specifically ineligible items, we believe the SFA employees should be periodically testing each

⁸ 7 CFR 210.9(b).

⁹ 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.

type of FSMC expense and have sufficient controls in place to determine if the reported expenses are reasonable.

SFA employees could not demonstrate that the FSMC fully complied with all contract terms. The employee responsible for overseeing the contract was not familiar with all contract terms and could not provide evidence the FSMC had performed in full accord with the contract. For example, the contract showed the FSMC was to provide up to \$20,000 in new equipment to the SFA to implement marketing and merchandising programs, as stated in the contract. The FSMC monthly bill contained an expense for depreciation. We could not confirm the amount of equipment purchased by the FSMC that was being depreciated. The SFA employee could not initially explain what the billing represented. Because the contract stated that the FSMC agreed to supply new equipment, we believe it is questionable if depreciation should be considered a direct cost of the food service account.

In addition, the Annual Financial Status Summary for the school year 2001/2002 indicated a loss of \$10,359; however, the request for proposal (RFP)/contract with the FSMC guaranteed no loss. The RFP fee structure states, “Guaranteed No Loss – The Contractor shall guarantee the sponsor no loss for the operation of the food service program. The contractor shall bill the sponsor for eligible direct costs of operation, as specified in exhibit H (Division of Responsibilities for the Food Service Program), plus the Administrative/Service Fee as specified in exhibit P.” However, exhibit N (Miscellaneous Contractor Proposals), No. 5 states, “Understand that the district has \$89,388 in cost that are sponsor-added to the financials per your request, (the contractor) is committed to the guaranteed return to the district of \$63,381 less these additional financial requirement.” The RFP differs from exhibit N, No. 5. SFA employees did not understand how to correctly monitor the guaranteed no loss provision, which is unclear in the contract.

e. Report to SA was Inaccurate.

The Annual Financial Status Summary for the year ending June 2002, which the SFA submitted to the SA, contained inaccuracies. Errors occurred because the SFA did not reconcile the SA report and the food service ledger. As a result, the reported revenue was overstated by \$859 and expenditures were overstated by \$2,688.

Federal regulations require that effective controls and accountability must be maintained.¹⁰

¹⁰ 7 CFR 3016.20(b).

SFA personnel made an adjusting entry to the Annual Financial Status Summary of \$859; however, the amount was already included in another account, resulting in an overstatement of revenue.

The SFA overstated expenses due to a posting error in the general ledger. SFA personnel determined that the entry should have been for \$27.15, not the \$2,715 recorded, which resulted in a net overstatement of expenses by \$2,688.

Recommendation No. 1

Instruct the SA to require the SFA to strengthen internal controls over operations of the food service account by (1) reconciling any inconsistencies between the meals billed by the FSMC and the meals claimed for reimbursement from the SA, (2) researching and resolving all cases when edit checks reveal a potential overclaim of meals, (3) providing additional oversight of monitoring visits to ensure they detect and prevent noncompliance with program requirements, (4) increasing monitoring of FSMC billings and contract terms, and (5) reconciling the ledger to the Annual Financial Status Summary.

Agency Response.

The FNS response (attached as exhibit B) showed the agency concurred with Recommendation No. 1.

OIG Position.

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

Recommendation No. 2

Instruct the SA to require the SFA to correct the cited overclaim.

Agency Response.

The FNS response showed the agency concurred with Recommendation No. 2 and will instruct the SA to require the SFA to correct the overclaim identified in Finding. No. 1.

OIG Position.

We can accept the management decision once we receive evidence the questioned costs have been recovered or an accounts receivable established.

Recommendation No. 3

Request the SA to provide advice to the SFA on requirements and actions to be taken to correct the cited underclaim.

Agency Response.

The FNS response did not address this recommendation.

OIG Position.

We can accept the management decision once we receive the FNS determination on the amount of the underclaim and the specific actions to be taken along with dates for completing the corrective actions.

Finding 2

Interest Income was Not Prorated to the Food Service Fund

The SFA did not credit the school food service account 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 the earned monthly interest that should have been credited to the food service account to be between \$24 and \$238 per month.

The Federal regulations definition of revenue shows that a prorated share of interest earned from investments should be credited to the school food services account.¹¹

The monthly closing cash balances for school year 2001/2002 ranged from approximately \$25,000 to \$145,000, and the interest rates earned on the district's investment account ranged from 1.16 percent to 1.97 percent. The SFA deposits all food service funds into the district checking account, which earns interest monthly on funds in the account. The SFA placed all interest earned from investment accounts into a capital outlay fund. The capital outlay fund is used for equipment, construction, improvements, etc. Because the SFA historically transferred general funds to the food service account, we are not questioning any costs, but we believe the earnings from the balance in the school food service account should be recognized in the SFA's accounting system.

Recommendation No. 4

¹¹ 7 CFR 210.2.

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

Agency Response.

The FNS response showed the agency will instruct the SA to require the SFA to credit the food service account with its prorated share of the investment income.

OIG Position.

We can accept the management decision once we receive satisfactory timeframes for the completion of the proposed action.

Scope and Methodology

Our review primarily covered NSLP/SBP operations July 1, 2001, to 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 Ottawa, Kansas. Fieldwork was performed during the period January through March 2003.

In school years 2001/2002 and 2002/2003 there were five elementary schools, one middle school, one achievement center, and one high school. We reviewed NSLP/SBP claims of all eight schools (achievement center and high school claims are consolidated) and made observations at an elementary school, middle school, and high school. Our audit was performed in accordance with Government Auditing Standards.

To accomplish our review objectives, we reviewed FNS, SA, and SFA regulations, policies, procedures, manuals, and instructions governing NSLP/SBP operations. 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. The following audit procedures were also performed:

- Interviewed officials from the SA, SFA, and FSMC in order to obtain an overview of their method of operation for the NSLP/SBP;
- Evaluated the SFA's procedures used to gather and consolidate monthly meal claims and whether reports are verified for accuracy;
- Evaluated edit check controls used to assure the reasonableness of claims for reimbursement when daily meal counts, by category, exceeded average daily attendance;
- Reviewed the SFA's accounting system, which included a review of program funds and interest on those funds;
- Analyzed the monitoring efforts of the SFA through a review of the onsite accountability reviews conducted during school year 2001/2002;
- Reviewed the SFA's procedures for issuing RFP's/Contracts with FSMC to operate the nonprofit food service;
- Reviewed the most recent RFP/contract with FSMC; and

- Compared the number of meals claimed (for each category) by the SFA to the SA to the number of meals billed by the FSMC on their monthly invoices.

Exhibit A – Summary of Monetary Results

Finding No.	Description	Amount	Category
1	SFA overclaimed number of eligible meals for reimbursement	\$1,415	<u>1/</u>
1	SFA underclaimed number of eligible meals for reimbursement	\$9,410	<u>2/</u>

1/ Questioned Costs, Recovery Recommended

2/ Underpayments

Exhibit B – FNS Response to the Draft Report



United States
Department of
Agriculture

Food and
Nutrition
Service

Mountain
Plains
Region

1244 Speer Boulevard
Denver, CO
80204-2581

Reply to
Attn of:

MPSN-200

JUL 14 2003

Subject:

Audit Report No. 27010-11-KC, National School Lunch Program -
Unified School District 290, Ottawa, 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 instruct the State agency (SA) to require the school food authority (SFA) to strengthen internal controls over operations of the food service account by (1) reconciling the meals billed by the food service management company (FSMC) to the meals claimed for reimbursement from the SA, (2) researching and resolving all cases when edit checks reveal a potential overclaim of meals, (3) providing additional oversight of monitoring visits to ensure they detect and prevent noncompliance with program requirements, (4) increasing monitoring of FSMC billings and contract terms, and (5) reconciling the ledger to the Annual Financial Status Summary.

We concur with Recommendation No. 2 and will instruct the SA to require the SFA to correct the overclaim identified in Finding No. 1.

We concur with Recommendation No. 3 and will instruct the SA to require the SFA to credit the food service account with its prorated share of the investment income.

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

Darlene Sanchez
DARLENE SANCHEZ
Regional Director
Special Nutrition Programs