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 204
Bonner Springs, Kansas

Report No.
27010-13-KC
June 2003

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL - AUDIT
Great Plains Region
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Kansas City, Missouri 64114-3302
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DATE: June 20, 2003

REPLY TO
ATTN OF: 27010-13-KC

SUBJECT: National School Lunch Program – Unified School District 204, Bonner Springs, 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 204. 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). We evaluated policies and procedures over meal accountability and oversight of the program operation to include the accuracy of collections and accounting processes and the use of program funds. We found the Annual Financial Status Summary submitted to the SA was inaccurate. The SFA officials did not perform cost analyses to ensure funds were used in an economical and efficient manner and did not use available reports as a management control over meal accountability. Also, the SFA's accounting procedures did not include crediting the food service account a prorated share of interest earned from investments.

BACKGROUND:

The KSDE serves as the SA for administering the program within the State, and the U.S. Department of Agriculture's (USDA) Food and Nutrition Service (FNS) serves as the program's funding agency. For school year 2001/2002 operations, the SFA submitted claims totaling about $277,000[2] in FNS reimbursement and about $10,000 in SA reimbursement. The SFA, located in Bonner Springs, 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.

[1] Includes the School Breakfast Program (SBP).
[2] SFA received FNS reimbursement under the NSLP, SBP, Special Milk Program, and a Federal grant to feed the children of migrant workers. Our review was limited to the NSLP and SBP.

On June 4, 1946, Congress passed the National School Lunch Act,[3] 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 our 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:

Our 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 Bonner Springs, Kansas. Audit work was performed at the SFA during January through February 2003. We reviewed NSLP/SBP operations at all four schools and made observations at one elementary 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, 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 determined 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 on those funds, (4) analyzed the SFA's methods used for procurement of goods and services, and (5) analyzed the monitoring efforts of the SFA through a review of the onsite accountability reviews conducted during school year 2001/2002.

[3] 42 U.S. Code 1751.

FINDINGS:

Finding No. 1:

The SFA improperly combined a la carte sales from students' meal card/accounts with reimbursable meal sales, although the SFA's automated system used for counting meals had the capability to record these sales separately. Although the SFA was aware of the State prescribed chart of accounts, they did not use the available tools of their automated system to separate sales. As a result, the revenue ledgers were inaccurate and the Annual Financial Status Summary submitted to the SA was inaccurate.

SA procedures require that student reimbursable meal sales be separately reported from a la cart sales.[4]

We asked SFA personnel to explain selected information shown in reports generated from the automated meal counting system. They replied they had not received recent training and could not explain all the functions the automated system could perform. The SFA personnel advised that they were not aware if the system could separate a la carte sales (from students' meal card/accounts) from reimbursable meal sales. However, the vendor of the automated system told us that the system could separate the sales. He also said the system could provide various summary reports that could be used to analyze revenue and meal count information.

Recommendation No. 1:

Require the SA to direct the SFA to develop procedures to separately record reimbursable meal sales from a la carte sales and request the SA to encourage the SFA to obtain training to fully use the capabilities of their meal counting system including optimizing the use of summary reports from the automated system to manage the program.

Agency Response:

The FNS response to the draft report concurred that the SA should direct the SFA to develop procedures to separately record reimbursable meal sales from a la carte sales. However, FNS suggested we modify our recommendation because there was not a mandate to take a specific action (training on the automated system).

OIG Position:

We modified our recommendation to address the comments made by FNS (attached as exhibit A). We had previously discussed with the SA the possibility of including training on automated systems at one of its various workshops using a knowledgeable school employee as an instructor. The SA did not object to this action at that time. We can

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[4] Kansas Accounting Handbook for Unified School Districts, Paragraph 22.

accept the management decision once we receive satisfactory timeframes for the completion of the recommended actions.

Finding No. 2:

The SFA had not performed a current cost benefit analysis between food service vendors, nor explored the benefits of standardized procurement, storage, and menus. The SFA had not conducted any recent cost benefit analyses because they relied on historical experience. They noted that a lack of storage space limited their ability to effectively use the economical benefits of a purchasing cooperative. As a result, the SFA may be paying significantly higher prices for food and supplies.

Federal regulations state procurement of supplies, food, equipment, and other services with program funds, are to be obtained for the program efficiently and economically and that consideration should be given to consolidating or breaking out procurements to obtain more economical purchases and, where appropriate, an analysis will be made to determine the most economical approach. To foster greater economy and efficiency, grantees and subgrantees are encouraged to enter into State and local intergovernmental agreements for procurement or use of common goods and services.[5]

The SFA allows each school's food service manager the authority to select vendors at their discretion and order food and supplies without any centralized oversight. There is no standardization of menus among the four schools. The SFA could not provide us with any procurement analysis they had performed. We performed an analysis of nine similar products purchased from two vendors currently used by the individual food service managers. We compared charges by two vendors and found one vendor overall charged 7.8 percent less compared to prices charged by the second vendor. A second analysis of 24 similar products offered by a purchasing cooperative showed the SFA could have saved 41.6 percent compared to the price actually paid to current vendors.

Although not a formal finding requiring a response by the SFA, the SA's review in 1998 noted the SFA had each school's food service manager doing their own purchasing. The reviewer suggested that the purchasing be done by one person with the managers' input encouraged. SFA personnel said they had not formally considered changing their purchasing procedures because the SA did not require a reply to the suggestion.

Recommendation No. 2:

Instruct the SA to work with the SFA to perform analyses of alternatives to their current procurement process, including the costs of additional storage and standardized menus to determine the most economical approach.

<u>Agency Response:</u>

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[5] 7 CFR 210.21(a) and 7 CFR 3016.36(b)(4) and (5). (We did not identify any SA or local requirements more restrictive than the Federal requirements.)

FNS concurred with the recommendation and will require the SA to work with the SFA to accomplish the recommended analyses.

OIG Position:

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

Finding No. 3:

The school food service account was not credited a prorated share of interest earned from investments. According to the SFA, the SA had never instructed it to allocate interest to the school food service account. We estimated the earned monthly interest that should have been credited to be between $62 and $209 per month.

The Federal regulations definition of revenue shows that a prorated share of earnings earned from investments should be credited to the school food services account.[6]

The school food service account closing cash balances ranged from approximately $97,500 to $172,600, and the interest rates per month from the SFA's general fund ranged from 1.45 percent to 0.76 percent. The SFA placed all interest earned from the general fund and other investment activities into the transportation fund. Because the SFA historically transferred general funds to the food service account, we are not questioning any costs, but the earnings from the balance in the school food service account should be recognized in the SFA's accounting system.

Recommendation No. 3:

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

Agency Response:

FNS concurred with the recommendation and will require the SA to instruct 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 specific timeframes for the completion of the proposed action.

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[6] 7 CFR 210.2.

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

EXHIBIT A – 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

JUN 03 2003

Subject: Audit Report No. 27010-13-KC, National School Lunch Program-Unified School District 204, Bonner Springs, 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 the portion of Recommendation No. 1 that requires the State agency (SA) to direct the school food authority (SFA) to develop procedures to separately record reimbursable meal sales from a la carte sales. However, we do not concur that it is appropriate, as part of the recommendation, to direct the SA to require the SFA to undertake any particular specific steps to satisfy the recommendation, unless Federal, State, or local requirements mandate this as the only choice. There is not such a mandate in this instance. Further, we believe that the SA may not have the expertise to provide the training on commercially-produced computer software that OIG would require. If OIG believes that the SFA may best accomplish separate recording of program meal sales and a la carte sales through proper use of its existing automated system, it can suggest to the SA that it encourage the SFA to seek appropriate training from the system's software provider.

We concur with Recommendation No. 2 and will require the SA to work with the SFA to perform analyses of alternatives to their current procurement process, including the costs of additional storage and standardized menus to determine the most economical approach to procurement.

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