



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 486
Elwood, Kansas

Report No. 27010-18-KC
August 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: August 4, 2003

REPLY TO
ATTN OF: 27010-18-KC

SUBJECT: National School Lunch Program – Unified School District 486,
Elwood, 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 486. This district served as the local school food authority (SFA) under an agreement with the Kansas State Department of Education, which served as the State agency (SA). We found that the SFA's purchasing procedures for milk (noncompetitive negotiation) may not have maximized competition, as required by the SA's Food Service Facts handbook. Although the SFA believed only one vendor was interested in providing milk in their area, we identified another dairy that was interested in competing for the milk contract. We considered the accuracy of the SFA's meal counts and accounting for the school food service operations to be satisfactory.

BACKGROUND:

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 received about \$78,000 in FNS reimbursement and about \$2,000 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 Elwood, Kansas, is responsible for operating the NSLP in accordance with regulations. The SFA administered the NSLP/SBP in one public school.

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 Elwood, Kansas. Audit work was performed during March through May 2003. We reviewed and observed NSLP/SBP operations at one public 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 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

² 42 U.S. Code 1751.

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.

FINDINGS:

Finding No. 1:

The SFA used noncompetitive negotiation from a single source for the awarding of the milk bid because the SFA's personnel were unaware other sources were available. As a result, the SFA may not have been receiving the lowest prices on food purchases.

The SA requires that all procurement must be conducted in a manner that provides maximum open and free competition.³

The SFA purchased over \$13,000 from its current vendor under the milk bid for the 2001-2002 school year following noncompetitive negotiation with the justification the milk was available only from a single source. The SFA personnel believed that the current vendor was the only company in the area that would deliver milk to their district. We were able to identify an additional milk company that would be interested in competing for the milk procurement. A bid coordinator for another dairy, after checking with other company officials, advised they would like to bid to provide milk to the SFA.

Recommendation No. 1:

Require the SA to instruct the SFA to ensure procurements are conducted to provide maximum competition and to solicit other vendors to compete to provide milk to the district.

Agency Response:

The written response showed FNS concurred with Recommendation No. 1 and will require the SA to instruct the SFA to ensure procurements are conducted to provide maximum competition and to solicit other vendors to compete to provide milk to the district.

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

³ Food Service Facts Handbook, chapter 8.

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 24 2003

Reply to
Attn of:

MPSN-200

Subject:

Audit Report No. 27010-18-KC, National School Lunch Program-
Unified School District 486, Elwood, 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 1 and will require the State agency to instruct the school food authority to ensure procurements are conducted to provide maximum competition and to solicit other vendors to compete to provide milk to the district.

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

Darlene Sanchez
for DARLENE SANCHEZ
Regional Director
Special Nutrition Programs