



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

FOOD AND NUTRITION SERVICE  
NATIONAL SCHOOL LUNCH PROGRAM  
PROCUREMENT PROCESS  
SOUTHEAST REGION



**Report No.  
27010-3-At  
February 2002**



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL  
Southeast Region - Audit  
401 West Peachtree Street, Suite 2328  
Atlanta, Georgia 30308  
TEL: 404-730-3210 FAX: 404-730-3221



DATE: February 15, 2002

REPLY TO  
ATTN OF: 27010-3-At

SUBJECT: Food and Nutrition Service  
National School Lunch Program  
Procurement Process  
Southeast Region

TO: Virgil L. Conrad  
Regional Administrator  
Food and Nutrition Service  
Southeast Regional Office  
61 Forsyth Street, SW, Room 8T36  
Atlanta, GA 30303-3415

This report presents the results of the subject audit. The Food Nutrition Service Southeast Regional office's December 13, 2001, North Carolina State agency's November 30, 2001, and Tennessee State agency's November 6, 2001, responses to the draft report are included as exhibits B, C, and D, respectively, with excerpts and the Office of Inspector General's (OIG) position incorporated into the findings and recommendations section of this report. Management decisions have not been reached on Recommendation Nos. 2, 3, and 4. Management decisions can be reached on these recommendations once we have been provided the information as outlined in the OIG Position.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned and timeframes for implementation of the recommendations. Please note that the regulation requires a management decision to be reached on all recommendations within a maximum of 6 months from report issuance. Please follow your internal agency procedures in forwarding final action correspondence to the Office of Chief Financial Officer.

We appreciate the cooperation and assistance provided to the OIG staff during the audit.

/s/

RAYMOND G. POLAND  
Regional Inspector General

---

# EXECUTIVE SUMMARY

## FOOD AND NUTRITION SERVICE NATIONAL SCHOOL LUNCH PROGRAM PROCUREMENT PROCESS SOUTHEAST REGION

AUDIT REPORT NO. 27010-3-AT

---

---

### RESULTS IN BRIEF

---

This report presents the results of our survey of the National School Lunch Program (NSLP) procurement process administered by the Food and Nutrition Services (FNS), southeast regional office. The purpose of the NSLP is to provide nutritionally balanced, low-cost, or free lunches to schoolchildren that will encourage better eating habits and stabilize farm prices.

The objectives of our review were to determine if Cooperative Buying Groups<sup>1</sup> (CBG) were adhering to procurement regulations regarding open and free competition when soliciting the services of service providers and whether service providers were improperly benefiting from such things as vendor incentives, discounts, and rebates. Our findings are not intended to restrict or impede efforts made by State agencies (SA) and CBG's to obtain quality products at a low cost but rather to ensure that procurements for the NSLP are made with regard to open and free competition requirements.

Our review of three CBG's in two states (North Carolina and Tennessee) disclosed that one (SECURE) did not always conduct procurement transactions for the NSLP in a manner that provided for open and free competition. SECURE did not solicit or request bids for certain food and non-food products from manufacturers, but purchased these items from their contracted service provider. This is an acceptable practice only if the items purchased from the service provider were included on the secondary bid list of the Request for Proposal (RFP). SECURE purchased numerous food and non-food products from their service provider that were not included on their secondary bid list. As a result, from July 1 through October 31, 2000, SECURE purchased \$408,485 in

---

<sup>1</sup> School districts known as School Food Authorities join together to establish CBG's to utilize the benefits of a large buying organization, such as cost savings and quality, and consistency of food products. CBG's enter into agreements with service providers to purchase, manage, store, and deliver food products to the individual school districts.

food and non-food products from their service providers without regard to open and free competition.

CBG's stated that they received little guidance from SA's in developing the initial RFP for service providers. CBG officials stated that limited upfront involvement from SA's added to the problems initially encountered. As a result, CBG's had to re-advertise for service providers because their proposals did not comply with Federal regulations.

In addition, we found no instances where service providers were benefiting from vendor incentives, discounts, and rebates. Each CBG has taken steps in their RFP's to request the lowest purchase price from manufacturers without utilizing discounts or rebates.

---

## **KEY RECOMMENDATIONS**

---

We recommend that FNS require the North Carolina SA to direct SECURE to reimburse the school food service account \$408,485 for improper procurement transactions and discontinue purchasing directly from the service provider any items not included on the secondary bid list. We also recommend that FNS require SA's to develop procedures and guidance for CBG's to ensure that all procurement transactions are conducted in a manner that provides for open and free competition, and to establish guidelines to assist CBG's to develop RFP's and contracts for service providers.

---

## **AGENCY RESPONSE**

---

In its response to the draft report, dated December 13, 2001, FNS was in agreement with the findings and recommendations.

The North Carolina SA disagrees with the report's conclusion and recommendations. The North Carolina SA stated in their response that SECURE properly purchased product in an open and free manner consistent with reasonable interpretations of program regulations. It does not believe that SECURE should reimburse the school food service account \$408,485.

FNS', Tennessee SA's, and North Carolina SA's responses are included as exhibit B, C, and D of the audit report.

---

## **OIG POSITION**

---

We agree with FNS' response to the report. Based on FNS' response, we achieved management decision on one of the report's four recommendations. Although the North Carolina SA provided OIG with additional information to consider, we continue to find that SECURE did not conduct procurement transactions for the NSLP in a manner that provided for open and free competition.

---

## TABLE OF CONTENTS

---

<b>EXECUTIVE SUMMARY .....</b>	<b>i</b>
<b>RESULTS IN BRIEF.....</b>	<b>i</b>
<b>KEY RECOMMENDATIONS.....</b>	<b>ii</b>
<b>AGENCY RESPONSE .....</b>	<b>ii</b>
<b>OIG POSITION.....</b>	<b>ii</b>
<b>INTRODUCTION.....</b>	<b>1</b>
<b>BACKGROUND .....</b>	<b>1</b>
<b>OBJECTIVES.....</b>	<b>3</b>
<b>SCOPE .....</b>	<b>3</b>
<b>METHODOLOGY .....</b>	<b>4</b>
<b>FINDINGS AND RECOMMENDATIONS.....</b>	<b>6</b>
<b>FINDING NO. 1.....</b>	<b>6</b>
<b>CBG'S DID NOT FULLY COMPLY WITH OPEN AND FREE COMPETITION         PROVISIONS .....</b>	<b>6</b>
<b>RECOMMENDATION NO. 1 .....</b>	<b>9</b>
<b>RECOMMENDATION NO. 2 .....</b>	<b>10</b>
<b>RECOMMENDATION NO. 3 .....</b>	<b>12</b>
<b>FINDING NO. 2.....</b>	<b>13</b>
<b>CBG'S RECEIVE LITTLE GUIDANCE FROM SA'S.....</b>	<b>13</b>
<b>RECOMMENDATION NO. 4 .....</b>	<b>14</b>
<b>EXHIBIT A – SUMMARY OF MONETARY RESULTS .....</b>	<b>15</b>
<b>EXHIBIT B – FNS SOUTHEAST REGIONAL OFFICE RESPONSE TO DRAFT     REPORT.....</b>	<b>16</b>
<b>EXHIBIT C – TENNESSEE STATE AGENCY RESPONSE TO DRAFT REPORT... </b>	<b>18</b>
<b>EXHIBIT D – NORTH CAROLINA STATE AGENCY RESPONSE TO DRAFT     REPORT.....</b>	<b>21</b>
<b>ABBREVIATIONS.....</b>	<b>33</b>

---

## INTRODUCTION

---

---

### BACKGROUND

---

The U.S. Department of Agriculture's (USDA) National School Lunch Program (NSLP) was established under the National School Lunch

Act to provide nutritionally balanced, low-cost, or free lunches to schoolchildren. USDA, through the Food and Nutrition Service (FNS), administers the program at the Federal level. At the State level, the NSLP is administered by State education agencies, which operates the program through agreements with local school districts. The program goals are to provide access to a more nutritious diet for low-income children, encourage better eating habits, and stabilize farm prices.

Funding for the NSLP was about \$5.6 billion for fiscal year (FY) 2000 and about \$5.8 billion for FY 2001. Additional program funding was available to provide over \$751 million in commodities to States in FY 2000 and about \$777 million in FY 2001.

FNS has seven regional offices nationwide that are tasked with providing technical assistance and monitoring to State agencies (SA) and in some instances, directly administering the program in private schools.

The daily operation of the NSLP is typically handled by local school districts known as School Food Authorities (SFA). In FY 1999, there were approximately 19,000 SFA's of which 1,700 had contracts with food service companies.

Many of the SFA's have joined together to establish a cooperative program to utilize the benefits of a larger buying organization. Some of the advantages of participation in a cooperative program are cost savings, quality, and consistency of products. These Cooperative Buying Groups (CBG) jointly purchase food, foodservice related supplies and services. CBG's also coordinate storage and delivery of purchased food and for processing, storage, and distribution of USDA donated commodities.

CBG's purchase much of their products directly from manufacturers. This moves the bidding process from the secondary market of dealing with local distributors to the primary market whereby they deal with product manufacturers. Also, this eliminates the middle distribution layer; thereby, potentially lowering cost and improving product quality. In addition, fewer companies are willing to bid for small contracts with local school districts so it improves competition by encouraging more companies to bid on the larger cooperative contracts.

In the southeast region, SFA's have formed three CBG's, the Southeast Cooperative Utilizing Resources Efficiently (SECURE) located in North Carolina; and the Volunteer State Cooperative (VOLCO) and the Northeast Tennessee Cooperative (NETCO), both of which are located in Tennessee.

The service provider is a contracted distributor generally responsible for various aspects of management, storage, delivery, and purchasing services for CBG. The services provided are set forth in a signed contract between the cooperative and the service provider. CBG's may also include a secondary bid list in their solicitation for services, which allows them to purchase products on this bid list directly from the service provider.

Service providers are typically responsible for receiving and warehousing food and supplies ordered by the cooperatives from manufacturers. They also assist CBG's by delivering products to local schools and by selling CBG's food and non-food products that were not included in contracts with manufacturers. In addition, some service providers are responsible for ordering products for the CBG's from manufacturers who were awarded product contracts. The contract with the service provider is based on the CBG's usage, historical ordering data, and any special requests. In the southeast region, three service providers are under contract to assist the CBG's.

The following table shows the various attributes of the three selected CBG's.

**Table 1**

<b>CBG</b>	<b>SECURE</b>	<b>VOLCO</b>	<b>NETCO</b>
<b>Service Provider</b>	<b>Pate Dawson Inc.</b>	<b>Performance Food Group</b>	<b>U.S. Foodservice</b>
Number of School Systems Participating	8	7	12
Average Daily Participation (Lunch and Breakfast)	62,000	55,649	58,734
Number of Schools Served	153	88	148
Fees paid to Service Providers for 7/1/99-10/31/00	\$1,568,080	\$1,284,772	\$629,144
Purchases made from manufactures under contract 7/1/00 – 10/31/00	\$3,236,599	\$1,770,783	\$2,031,513
Amount Purchased from Service Provider for 7/1/00 – 10/31/00	\$485,263 <sup>1</sup>	\$350,000	\$591,282
<sup>1</sup> SECURE purchased food and non-food product valued at \$408,485 from service provider that was not on the secondary bid list.			

FNS officials expressed concerns regarding the service provider benefiting from vendor incentives, discounts, and rebates paid by the manufacturer. We found that the service providers did not benefit from vendor incentives, discounts, and rebates.

---

## **OBJECTIVES**

---

The objectives of our survey were to determine if CBG's were complying with procurement regulations for open and free competition when soliciting the services of service providers and whether service providers were improperly benefiting from such things as vendor incentives, discounts, and rebates.

---

## **SCOPE**

---

Fieldwork was performed at the FNS southeast regional office in Atlanta, Georgia; and at all three CBG's in the southeast region, SECURE in Goldsboro, North Carolina; VOLCO in Dickson, Tennessee; and NETCO in Johnson City, Tennessee. We also performed fieldwork at the North Carolina Department of Public Instruction (DPI) located in Raleigh, North Carolina; the North Carolina Department of Agriculture State office in Butner, North Carolina; the Tennessee State Department of Education located in Nashville, Tennessee; the Alabama Child Nutrition Programs Division located in Montgomery, Alabama; and the Mississippi Department of Education Child Nutrition Office located in Jackson, Mississippi.

The fieldwork began in August 2000 and ended in May 2001. Our review and analysis of agency data covered the period March 1, 1998, through December 31, 2000. We extended our review period through May 2001 in order to visit the procurement divisions of Mississippi and Alabama to discuss their method of operation on procurement and bidding process. In addition, we discussed with officials from Hudson Company and Paris Food, Inc., their procedures for unit pricing and ordering structures when ordering less than the minimum order required on the bided contract. We limited our data analysis to cover July 1 through October 31, 2000, in order for the data to be consistent for all three buying groups.

In addition to reviewing procurement transactions of the Performance Food Group located in Lebanon, Tennessee; and U.S. Foodservice located in Blount County, Tennessee; we visited the warehouse operations of Pate Dawson Company located in Goldsboro, North Carolina.

We judgmentally selected 10 high dollar purchases made by SECURE from their service provider. Our selection process placed emphasis on food and non-food products that were under contract to a manufacturer.



We also selected products purchased from the service provider but were not on the secondary bid list.

We also judgmentally selected 10 purchases made by VOLCO from their service provider for items that were under contract to a manufacturer during the school year.

This audit was performed in accordance with generally accepted government auditing standards.

---

To accomplish our review objectives we:

## **METHODOLOGY**

---

- Reviewed Federal regulations, policies, and procedures relating to the NSLP procurement process;
- Interviewed officials of FNS southeast regional office in Atlanta, Georgia; the North Carolina Departments of Public Instruction and Agriculture in Raleigh, North Carolina; and the Tennessee State Department of Education in Nashville, Tennessee;
- Interviewed officials from the three CBG's operating in the southeast;
- Reviewed CBG's bid guidelines and procedures, Request for Proposals (RFP), and contracts with manufacturers;
- Analyzed and compared purchase prices for items under contract with manufacturers to similar items purchased from service providers;
- Accompanied State agriculture inspectors from North Carolina on their inspection of food products stored by Pate Dawson, Incorporated;
- Interviewed officials from the State of Alabama Child Nutrition Programs Division and the Mississippi Department of Education Child Nutrition Office in order to obtain an overview of their method of operation and procurement process for food and non-food products;

- Interviewed officials from Tyson Foods and Schwann Foods regarding rebates and discounts received by manufacturers and distributors; and
- Interviewed officials from Hudson Co., Inc., and Paris Foods, Inc., regarding unit price conditions for the minimum amount of shipment on awarded contracts.

---

## FINDINGS AND RECOMMENDATIONS

---

---

### FINDING NO. 1

#### CBG'S DID NOT FULLY COMPLY WITH OPEN AND FREE COMPETITION PROVISIONS

---

Our review disclosed that one CBG did not always conduct procurement transactions for the NSLP in a manner that provided for open and free competition. SECURE did not solicit or request bids for certain food and non-food products from manufacturers, but instead purchased these items from their contracted service provider. In addition, SA's did not have procedures in place to monitor procurement transactions made by CBG's. As a result, from July 1 through October 31, 2000, SECURE purchased \$408,485 in food and non-food products from their service providers without regard to open and free competition provisions.

Federal regulations require that all procurement transactions regardless of the type of procurement method used and without regard to dollar value shall be conducted in a manner that provides open and free competition.<sup>1</sup> In addition, OMB Circular A-102 (Attachment O), dated June 1995, states that for small purchases costing no more than \$10,000, a price or rate quote shall be obtained from an adequate number of qualified sources.<sup>2</sup>

Our survey noted that CBG's entered into an agreement with their service providers to provide services such as the purchase, delivery, and storage of food and non-food products. The CBG's also included a secondary bid list in their solicitation for services, which allowed them to purchase items on this list directly from the service provider. Services also included assisting CBG's in dealing directly with manufacturers by coordinating purchase requisitions, placing orders, and documenting the receipt of the product.

#### **BIDS WERE NOT SOLICITED FOR CERTAIN FOOD AND NON-FOOD PRODUCTS**

The RFP issued by SECURE and subsequent contract entered into with the service provider specified that the service provider would "coordinate the purchasing of produce for SECURE with the Department of Defense." However, on May 15, 2000, SECURE amended their contract with the service provider, and allowed the service provider to sell produce directly to SECURE. Since produce was not included on the secondary bid list,

---

<sup>1</sup> 7 CFR Part 3015, Subpart S.

<sup>2</sup> 7 CFR Part 3016, as of July 2001, sets small purchases threshold at \$100,000.

there was no competition for the procurement of produce as required by 7 CFR 3016.36. In addition, this agreement allowed pricing to be based on market cost plus a "fee add-on of no more than 15 percent margin from the net price." Cost plus percentage cost pricing is an unallowable pricing structure according to 7 CFR 3016.36. School food service funds may not be used for purchases made which do not comply with Federal procurement regulations (7 CFR 210.21(a)).

Also, the RFP issued by SECURE included a secondary bid list with 84 food and non-food products. We found that SECURE purchased products on the secondary bid list from the service provider at a cost of \$76,778. However, SECURE also purchased numerous food and non-food products directly from the service provider which were not included on the secondary bid list. These purchase totaled \$408,485, of this amount, about \$185,000 worth of produce was purchased from the service provider.

SECURE officials stated that they purchased items from their service provider when the items were not needed in large quantities. However, to comply with open and free competition provisions, vendors and manufacturers should have been given the opportunity to bid on these items.

Our review also noted that the RFP issued by VOLCO included a secondary bid list for certain food and non-food products. However, VOLCO only purchased items from their service provider that were on the secondary bid list. VOLCO purchased over \$350,000 in food and non-products contained on the secondary bid list from their service provider.

We concluded that SECURE made \$408,485 in improper procurement transactions for the NSLP from July 1 through October 31, 2000. We discussed this issue with FNS officials and they agreed with our conclusion that SECURE did not comply with open and free competition provisions by purchasing food and non-food products not on their secondary bid list from their service provider. FNS officials also agreed that the SECURE should reimburse the school food service account \$408,485 for improper procurement transactions.

#### **UNIT PRICE FROM THE SERVICE PROVIDER HIGHER THAN UNIT PRICE FROM MANUFACTURER**

We found that unit prices charged by service providers were in most instances higher than the contract unit price from a manufacturer.

CBG officials stated that they purchase certain items from their service provider only when they run out of items that are needed immediately, and when the quantity needed is less than the contract minimum order amount. CBG officials attribute this to poor planning by school district officials. This practice is generally acceptable only if those items purchased from the service provider are included in the secondary bid list of the RFP.

We selected 10 high dollar purchases made by SECURE from their service provider during the period July 1 through October 31, 2000. A contract with a manufacturer currently existed for the items at the time of these purchases. We found that SECURE spent over 20 percent more by purchasing these items from the service provider.

The following table shows that SECURE could have saved about \$2,420 if they had purchased these items from the manufacturer.

**Table 2: SECURE: Items Under Contract Purchased From the Service Provider**

ITEM	QUANTITY PURCHASED FROM SERVICE PROVIDER	COST PER SERVICE PROVIDER	COST IF PURCHASED FROM MANUFACTURE	DIFFERENCE
Tea Concentrate Sweet	19 cs	\$592.46	\$554.80	\$37.66
Cereal Frosted Flakes	128 cs	2,267.72	1,858.56	409.16
Grits Quick White	94 cs	1,073.00	846.00	227.00
Oil All Vegetable	321 cs	3,016.64	2,969.25	47.39
Jelly Apple, Individual Packets	12 cs	68.52	43.44	25.08
Jelly Grape, Individual Packets	76 cs	332.13	279.68	52.45
Syrup Pancake, Individual Cup	385 cs	1,797.30	1,282.05	515.25
Syrup Pancake, Pouch	232 cs	785.26	700.64	84.62
Pepper, Individual Packets	173 cs	1,056.56	762.93	293.63
Catsup, Individual Packets	95 cs	1,570.35	842.65	727.70
<b>Total</b>		<b>\$12,559.94</b>	<b>\$10,140.00</b>	<b>\$2,419.94</b>

We found similar procurement practices at VOLCO. Based on our review of a judgmental sample of 10 items purchased by VOLCO from their service provider, VOLCO paid over \$1,800 more than if these same items were purchased from the manufacturer. (These items were included in VOLCO's RFP secondary bid list.) See table below.

**Table 3: VOLCO: Items Under Contract Purchased From the Service Provider**

ITEM	QUANTITY PURCHASED FROM SERVICE PROVIDER	COST PER SERVICE PROVIDER	COST IF PURCHASED FROM MANUFACTURE	DIFFERENCE
Fork, Plastic white med	576 cs	\$3,432.96	\$2,966.40	\$466.56
Turkey Breast, smoked	21 lbs	1,072.62	576.63	495.99
Weiner, Jumbo 5:1	11 cs	144.21	106.70	37.51
Weiner, All meat 10:1	13 cs	143.78	126.10	17.68
Chix, Strip, Breast, Tender	211 cs	4,707.44	4,431.00	276.44
Knife, Plastic White Medium	32 cs	191.57	164.80	26.77
Spoon, Plastic, White, Med	318 cs	1,895.28	1,637.70	257.58
Fish Pollock, Scrodles	28 cs	400.68	338.80	61.88
Pineapple Tidbits	12 cs	252.12	216.00	36.12
Sauce Pizza Full	39 cs	741.00	604.11	136.89
<b>Total</b>		<b>\$12,981.66</b>	<b>\$11,168.24</b>	<b>\$1,813.42</b>

NETCO included all of their food and non-food products in their RFP's and selected the winning bid based on the lowest bid considering these prices plus storage and delivery charges. NETCO purchased their food and non-food products from the manufacturer or vendor under contract. NETCO officials stated that such a comprehensive RFP might be one method that other CBG's could use to meet the requirements for open and free competition for purchases.

---

**RECOMMENDATION NO. 1**

---

Instruct the North Carolina SA to direct SECURE to discontinue purchasing directly from the service provider any item not

included on the secondary bid list and to not make any material change to the contract entered into with the service provider.

**FNS Response**

In its written response, FNS stated that:

*We agree with the recommendation. The NC DPI correspondence dated November 30, 2001, does not present any evidence that open and free competition existed for the purchase of items not included on the secondary bid list. We support the efforts made by the State and SECURE to obtain quality products at a low cost, however; procurements were made without the benefit of open and free competition, and material changes were made to the initial contract with the service provider. We will provide the required instructions to the North Carolina State agency upon release of the final audit report.*

## **North Carolina SA Response**

In its written response, North Carolina SA stated that:

*[T]he State agency finds that SECURE properly purchased product in an open and free manner consistent with reasonable interpretations of program regulations, instructions and guidance provided by the State agency, the USDA SERO, and USDA HQ. The State agency can instruct SECURE to do as stated in the recommendation, but to do so destroys the integrity of the process to make purchases based on sound data and projections so that manufacturers can more accurately respond in good faith.*

## **OIG Position**

We accept FNS' management decision for this recommendation.

We also support the effort made by the North Carolina SA and SECURE to obtain quality products at lower cost. Although the North Carolina SA provided the Office of Inspector General (OIG) with additional information to consider, we continue to find that SECURE did not conduct procurement transactions for the NSLP in a manner that provided for open and free competition.

---

## **RECOMMENDATION NO. 2**

---

Instruct SA's to develop procedures and guidance to ensure that CBG's conduct all procurement transactions in a manner that provides for open and free competition.

## **FNS Response**

In its written response, FNS stated that:

*The TN [Department of Education] has provided the procedures they use to ensure that the cooperatives have open and free competition (see response from Sarah White, dated November 6, 2001.) The NC DPI also described the procedures they use to monitor procurement in their November 30, 2001, correspondence. Since the audit report identified that SECURE has not followed Federal procurement rules and regulations, we agree that this recommendation be included in the final report. We will instruct the NC DPI to modify its procedures for monitoring*

*the cooperative to ensure that open and free competition exists.*

### **Tennessee SA Response**

The Tennessee SA stated in their response that it has procedures and guidance in place to ensure that CBG's conduct all procurement transactions in a manner that provides for open and free competition.

### **North Carolina SA Response**

In its written response, North Carolina SA stated that:

*As stated in the response to the first draft, open and free competition has always been at the forefront of any decision or instruction given with regard to this CBG. More than two hundred pieces of correspondence were provided previously with many regarding open and free competition. As stated in the main by Tennessee, the North Carolina State agency does the following: attends and answers questions at meetings of the SFA's that are in the process of organizing and setting up CBG's; reviews and approves RFP's for use in requesting services; reviews and makes comments to the CBG's RFP prior to it being mailed; reviewed RFP's are sent to USDA for further comment and review; field-based consultants provide technical assistance to the SFA's of the CBG; CRE reviews, and technical assistance reviews are conducted by schedule on the SFA's of the CBG; independent [certified public accountants] conduct annual audits of the SFA's within the CBG and of the CBG itself.*

### **OIG Position**

We agree with FNS' management decision for this recommendation. However, to achieve management decision, FNS must provide a timeframe for instructing North Carolina SA to modify its procedures for monitoring cooperatives.



---

**RECOMMENDATION NO. 3**

---

Instruct the North Carolina SA to require SECURE to reimburse the school food service account \$408,485 with non-school food service funds. Advise SECURE that school food funds may not be used for procurement transactions which do not follow program regulations.

**FNS Response**

In its written response, FNS stated that:

*We agree with the recommendation. As stated above (Recommendation No. 1), the NC DPI has not presented any evidence that open and free competition existed for items not included on the secondary bid list. Upon issuance of the final audit report, we will establish a bill in the amount specified in the report and direct the State to have non-school food service funds transferred to the school food service account and to advise SECURE as recommended.*

**North Carolina SA Response**

In its written response, North Carolina SA stated that:

*The North Carolina State agency does not believe that SECURE should reimburse the school food service account \$408,485 in non-school food service funds. The State agency believes that SECURE properly procured products and services consistent with Federal, State and local laws, guidance, and instructions when interpreted with an eye toward innovative purchasing practices. Actions taken by SECURE demonstrate their desire to purchase quality product at the lowest possible price in an effort to increase competition, save money and increase participation within the School Breakfast and School Lunch programs. The North Carolina State agency finds that they have done this and therefore does not believe monies should be reimbursed.*

**OIG Position**

We agree with FNS' management decision for this recommendation. However, to achieve management decision, FNS must establish a receivable against North Carolina SA for \$408,485, by billing the SA and providing a copy of the Bill for Collections to OIG.

---

**FINDING NO. 2**  
**CBG'S RECEIVE LITTLE GUIDANCE  
FROM SA'S**

---

CBG's officials stated that they received little guidance from SA's when developing their initial RFP's for service providers, and that limited upfront involvement by SA's added to the problems initially encountered by each of the cooperatives. As a result, CBG's had to re-advertise for service providers.

The role of FNS and SA's is to assist CBG's to improve their procurement capabilities by providing them with technical assistance as necessary. FNS conducted a procurement workshop for CBG's and issued policy to SA's concerning allowable and unallowable procurement instruments. In addition, FNS reviewed and approved CBG RFP's for service providers. FNS notified the CBG's that their initial RFP's did not meet standards set forth in Federal regulations.

SA's officials should have played a more active role in assisting SFA's in setting up their CBG's. SA's should have reviewed CBG RFP's, their contracts with service providers, and their procurement systems and activities. CBG officials stated that it has been a learning process through trial and error.

We found that the three CBG's were required to issue a revised RFP for service providers because a manufacturer informed FNS that they were being charged a fee of \$1.00 for each case of the manufacturer's goods stored by the service provider. In exchange for the fee, the service provider facilitated the manufacturer's access to the CBG. This included inviting only those manufacturers who agreed to the fee to pre-bid conferences and providing the manufacturers with an advance copy of the bid solicitation.

FNS also noted that the service provider should not have been allowed to sell products out of their own inventory to CBG's since the RFP did not specify that the service provider would supply products. FNS officials required CBG's to issue revised RFP's that were more specific regarding the responsibilities of the service provider in the area of purchases, and included only activities involved with purchases made from manufacturers.

---

**RECOMMENDATION NO. 4**

---

Develop guidelines that can be used by SA's in assisting SFA's that may be forming CBG's to assure that all procurement requirements are properly considered and followed.

**FNS Response**

In its written response, FNS stated that:

*We agree with the recommendation. We have been advised that our National office will develop guidance on procurement requirements for States and school cooperatives to use. This guidance will be provided to the States upon receipt in this office.*

**OIG Position**

We agree with FNS' management decision for this recommendation. However, to achieve management decision, FNS must provide a timeframe for developing the guidance on procurement requirements.

---

**EXHIBIT A – SUMMARY OF MONETARY RESULTS**

<b>FINDING NUMBER</b>	<b>DESCRIPTION</b>	<b>AMOUNT</b>	<b>CATEGORY</b>
1	Unallowable Purchases Made By CBG's From Service Providers	\$408,485	Questioned Costs Recovery Recommended

---

## EXHIBIT B – FNS SOUTHEAST REGIONAL OFFICE RESPONSE TO DRAFT REPORT

Page 1 of 2



United States  
Department of  
Agriculture

Food and  
Nutrition  
Service

Southeast Region

61 Forsyth St. S.W.  
Room 8T36  
Atlanta, GA  
30303-3415

Raymond G. Poland  
Regional Inspector General for Audit, USDA  
Office of Inspector General (OIG)  
401 W. Peachtree Street, Suite 2328  
Atlanta, Georgia 30308

December 13, 2001

Dear Mr. Poland:

Thank you for the opportunity to review and respond to the Official Draft of Audit Report No. 27010-3-At. In addition to the draft report, we have reviewed the comments submitted by the Tennessee Department of Education (TN DOE), dated November 6, 2001, and the North Carolina Department of Public Instruction (NC DPI), dated November 30, 2001 (see enclosed copy of each). We also considered the information provided by the NC DPI and the local cooperative, SECURE, during the exit conference in Raleigh on November 13, 2001. Our comments on each recommendation follow:

Recommendation No. 1: We agree with the recommendation. The NC DPI correspondence dated November 30, 2001, does not present any evidence that open and free competition existed for the purchase of items not included on the secondary bid list. We support the efforts made by the State and SECURE to obtain quality products at a low cost, however; procurements were made without the benefit of open and free competition, and material changes were made to the initial contract with the service provider. We will provide the required instructions to the North Carolina State agency upon release of the final audit report.

Recommendation No. 2: The TN DOE has provided the procedures they use to ensure that the cooperatives have open and free competition (see response from Sarah White, dated November 6, 2001). The NC DPI also described the procedures they use to monitor procurement in their November 30, 2001, correspondence. Since the audit report identified that SECURE has not followed Federal procurement rules and regulations, we agree that this recommendation be included in the final report. We will instruct the NC DPI to modify its procedures for monitoring the cooperative to ensure that open and free competition exists.

Recommendation No. 3: We agree with the recommendation. As stated above (Recommendation No. 1), the NC DPI has not presented any evidence that open and free competition existed for items not included on the secondary bid list. Upon issuance of the final audit report, we will establish a bill in the amount specified in the report and direct the State to have non-school food service funds transferred to the school food service account and to advise SECURE as recommended.

AN EQUAL OPPORTUNITY EMPLOYER

Raymond G. Poland

Page 2

Recommendation No. 4: We agree with the recommendation. We have been advised that our National office will develop guidance on procurement requirements for States and school cooperatives to use. This guidance will be provided to the States upon receipt in this office.

Please let us know if you have any questions or need additional information.



Charlie Simmons  
Regional Director  
Special Nutrition Programs

Enclosures

---

**EXHIBIT C – TENNESSEE STATE AGENCY RESPONSE TO DRAFT REPORT**

Page 1 of 3



TENNESSEE  
**STATE DEPARTMENT OF EDUCATION**  
Division of Curriculum and Instruction  
SCHOOL NUTRITION PROGRAM  
6th Floor, Andrew Johnson Tower  
710 James Robertson Parkway  
Nashville, TN 37243-0389  
615-532-4715 or 1-800-354-3663  
FAX: 615-532-7937  
November 6, 2001

Mr. Charlie Simmons  
Regional Director  
Special Nutrition Programs  
U. S. Department of Agriculture  
61 Forsyth Street, S.W., Room 8T36  
Atlanta, GA 30303-3415

Dear Charlie:

**Subject: Revised Report No. 27010-3-AT  
National School Lunch Program Procurement Process**

Attached is our response to the audit by USDA's Office of Inspector General (OIG) of procurement by School Food Authorities acting as Cooperative Buying Groups (CBGs). Two of the CBGs referenced in this report, the Volunteer State Cooperative (VOLCO) and the Northeast Tennessee Cooperative (NETCO), are located in Tennessee.

Since I previously responded to what I felt was erroneous information, and since you and OIG still have my original documentation, I will not re-send this information. Instead, I have merely commented to the recommendations that were made that applied to Tennessee.

I do appreciate the fact that we were allowed to comment and provide documentation on the original report. I feel this allowed clarification by the state on the comments/concerns.

If you have questions or concerns, please do not hesitate to contact us. Or, if I can further clarify any of these, please call me.

Sincerely,

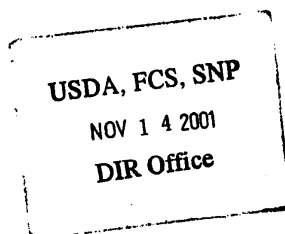
A handwritten signature in cursive script, appearing to read "Sarah White".

Sarah White  
State Director

S/

Attachments

Cc: Steve Minton, Assistant Commissioner  
Vinnie Danner, Coordinator of Reviews  
Rebecca Smith, Coordinator of Field Operations  
Bonnie Thomas, Coordinator of Training  
Phyllis Hodges, CBG Coordinating District



**State of Tennessee  
Audit Report No. 27010-3-AT**

**RESPONSE TO OIG AUDIT**

**Executive Summary  
Food and Nutrition Service  
National School Lunch Program  
Procurement Process  
Southeast Region  
Audit Report No. 27010-3-AT**

***FINDINGS AND RECOMMENDATIONS***

**RECOMMENDATION NO. 1**

This applies to North Carolina.

**RECOMMENDATION NO. 2**

Instruct SA's to develop procedures and guidance to ensure that CBG's conduct all procurement transactions in a manner that provides for open and free competition.

**Agency Response**

1. The TN SA has procedures and guidance in place to ensure that proper procurement transactions are conducted in a manner that provides open and free competition. They are as follows:
  - a. each LEA has on file a state-developed procurement plan;
  - b. each LEA is monitored by the SA on a five-year cycle which includes extensive reviews of the procurement practices; (Attachment B -- previously sent)
  - c. each LEA is audited yearly by county and/or municipal audit;
  - d. each LEA is visited yearly by a local field consultant who reviews practices within the School Nutrition Program;
  - e. the state prototype RFP is provided and used by all SFA's that issue an RFP; (Attachment N -- previously sent)
  - f. both CBG's in TN used the state-approved RFP;
  - g. the CBG's themselves pay for an audit of their books/practices on a yearly basis; and,



- h. each CBG is monitored prior to the beginning of the school year by the SA by an extensive review of the fiscal agent of the CBG.

**RECOMMENDATION NO. 3**

This applies to North Carolina.

**RECOMMENDATION NO. 4**

Develop guidelines that can be used by SA's in assisting SFA's that maybe (sic) forming CBG's to assure that all procurement requirements are properly considered and followed.

**Agency Response**

The SA has in place a system to provide SFA's in organizing and setting up CBG's and developing RFP's and contracts for service providers.

1. The SA attends and answers questions at pre-organizational meetings of SFA's that are in the process of organizing and setting up CBG's. (Attachment H – previously sent)
2. The SA provides CBG's with a state-approved RFP for use in requesting services. (Attachment N – previously sent)
3. The SA reviews and makes comments to the CBG's RFP prior to it being mailed. (Attachment S – previously sent)
4. Regional consultants assigned to the regions where there are CBG's (Middle TN, Upper Cumberland, and First TN) provide technical assistance to the CBG's. (Attachment H – previously sent)
5. State staff visits the coordinating district for the CBG and reviews the RFP once more, the contracts, and a sampling of the purchases. (Attachment M – previously sent)
6. Administrative reviews are administered at the SFA level for all CBG's. In addition to a visit to the SFA being reviewed, the CBG's coordinating district is also reviewed. (Attachment C and I – previously sent)
7. State and municipal auditors perform yearly audits of the SFA's. (Attachment L – previously sent)
8. Private CPA firms perform yearly audits of the CBG's. (Attachment L – previously sent)

---

# EXHIBIT D – NORTH CAROLINA STATE AGENCY RESPONSE TO DRAFT REPORT

Page 1 of 12



## Public Schools of North Carolina

State Board of Education  
Phillip J. Kirk, Jr., Chairman  
www.ncpublicschools.org

Department of Public Instruction  
Michael E. Ward, State Superintendent

November 30, 2001

Mr. Charlie Simmons  
Regional Director  
Special Nutrition Programs  
Southeast Region  
United States Department of Agriculture  
Food and Nutrition Service  
61 Forsyth Street, S. W.  
Room 8T36  
Atlanta, Georgia 30303-3415

Dear Mr. Simmons:

This is in response to the second official draft of USDA/OIG Audit Report # 27010-3-AT. I have consulted with the principles of SECURE and their Service Provider in order to provide factual information in this response. They have provided written documentation to this Agency in order to address the survey findings. A copy of their material is provided with this submission or I have used excerpts from pertinent correspondence as provided. Further, I used with permission, some of the Tennessee response verbiage.

### FINDING NUMBER 1

CBG's did not fully comply with open and free competition provisions

Correspondence is attached from the Chairman of the SECURE Executive Board that fully addresses this finding and proves it to be inaccurate. As stated in the Agency response of August 22, 2001, "All actions of the SECURE CBG and recommendations of the State Agency were made with regard to open and free competition."

The SECURE RFP states that the "Offeror shall purchase products for SECURE when direct buying relationships are not established. Anticipated (emphasis on anticipated) purchases are set forth in Exhibit 2." SECURE did the proper thing by not including a laundry list of products that probably would never be purchased in the secondary market.

I fully agree with their process and their desire to protect their integrity. Advice was given at the May 28, 1998 meeting by you and Lanna Kirk that a list of the anticipated products for secondary market purchase be developed. I don't believe that anyone at that meeting believed that all products would or should be listed. To do so would certainly place the integrity of SECURE on the line with the primary market.

301 N. Wilmington Street, Raleigh, North Carolina 27601-2825

Telephone (919) 807-3300

*As required by state Affirmative Action, Empower*

**USDA, FCS, SNP**

**DEC 04 2001**

**DIR Office**

Page -2-  
November 30, 2001

Further, this finding states that the State Agency did not monitor CBG procurement transactions to ensure they were conducted in a manner that provides for open and free competition. The North Carolina state agency, just as Tennessee stated in the main, trained SFAs on developing and implementing procurement plans, each SFA is reviewed under the current five year CRE plan, each SFA is audited by local CPA firms under the Single Audit Act, and numerous technical assistance visits are conducted annually by our well experienced local field staff of consultants. Additionally, all documents to my knowledge regarding the development of the RFP for service and subsequent contracts were reviewed by this Agency, USDA SERO, and USDA HQ staff. Again with reference to the May 28, 1998 meeting in Goldsboro, you stated that this was a "well intentioned process that SECURE wanted to be done in the proper way." Also, it was stated that Headquarters wanted to issue national guidance on Cooperative purchasing since North Carolina and Tennessee were going through a similar process."

BIDS WERE NOT SOLICITED FOR CERTAIN FOOD AND NON-FOOD PRODUCTS

The SECURE response to this is accurate and very thorough. I have enclosed copies of invoices provided by Pate Dawson, Incorporated that supports the response developed by Mrs. Ware. This is referred to as the "Final Buy Report Summary" and referenced as Attachment A in her letter of November 29, 2001. The summary shows the Department of Defense purchases from Pate Dawson, Incorporated for SECURE for the 1999-2000 school year.

I find the modification dated May 15, 2000 made by SECURE to be proper and within the intent and wording of the contract. This modification was provided in our first response and to the auditor without solicitation. Therefore, nothing was being hidden or believed to be improper with the modification. Section 11.1 of the SECURE contract states that "Modifications may be made to the services which are to be provided under the contract by the Offeror to SECURE with the prior written agreement of the Offeror and the Board of Directors to such modifications." The numbers clearly show that SECURE made the right business decision with regard to purchasing produce. I have requested further supporting documentation from C. H. Robinson Produce Company of Atlanta Georgia, which shows their weekly price quote on their letterhead. That will be forwarded immediately upon receipt.

Page --3-  
November 30, 2001

UNIT PRICES FROM THE SERVICE PROVIDER HIGHER THAN UNIT PRICE FROM MANUFACTURER

As detailed in the first initial response and in this response, there are valid reasons as to why purchases were made from the secondary market. Typically, when purchases are made from the secondary market, the prices naturally will be somewhat higher due the traditional methods of pricing products. Products that are spoiled or fermenting can not be used and must be replaced for immediate use in the daily course of providing meals to students. Purchases were made by SECURE with the goal being to put the best available, wholesome and nutritious product on the student's tray according the published menus.

RECOMMENDATION NUMBER 1

Instruct the North Carolina State Agency to direct SECURE to discontinue purchasing directly from the service provider any item not included on the secondary bid list and to not make any material change to the contact entered into with the service provider.

This was addressed earlier in this correspondence, however, it must be stated again - the State Agency finds that SECURE properly purchased product in an open and free manner consistent with reasonable interpretations of program regulations, instructions and guidance provided by the State Agency, the USDA SERO, and USDA HQ. The State Agency can instruct SECURE to do as stated in the recommendation, but to do so destroys the integrity of the process to make purchases based on sound data and projections so that manufacturers can more accurately respond in good faith.

RECOMMENDATION NUMBER 2

Instruct SA's to develop procedures and guidance to ensure that CBG's conduct all procurement transactions in a manner that provides for open and free competition.

As stated in the response to the first draft, open and free competition has always been at the forefront of any decision or instruction given with regard to this CBG. More than two hundred pieces of correspondence were provided previously with many regarding open and free competition. As stated in the main by Tennessee, the North Carolina state agency does the following: attends and answers questions at meetings of the SFA's that are in the process of organizing and setting up CBG's; reviews and approves RFPs for use in requesting services; reviews and makes comments to the CBG's RFP prior to it being mailed; reviewed RFPs are sent to USDA for further comment and review; field based consultants provide technical assistance to the SFAs of the CBG; CRE reviews, and technical assistance reviews are conducted by schedule on the SFAs of the CBG; independent CPA's conduct annual audits of the SFAs within the CBG and of the CBG itself.

Page -4-  
November 30, 2001

RECOMMENDATION NUMBER 3

Instruct the North Carolina SA to require SECURE to reimburse the school food service account \$408,485 with non-school food service funds. Advise SECURE that school food funds may not be used for procurement transactions which do not follow program regulations.

The North Carolina State Agency does not believe that SECURE should reimburse the school food service account \$408,485 in non-school food service funds. The State Agency believes that SECURE properly procured products and services consistent with federal, state and local laws, guidance, and instructions when interpreted with an eye toward innovative purchasing practices. Actions taken by SECURE demonstrate their desire to purchase quality product at the lowest possible price in an effort to increase competition, save money and increase participation within the School Breakfast and School Lunch programs. The North Carolina State Agency finds that they have done this and therefore does not believe monies should be reimbursed.

FINDING NUMBER 2

CBG's officials' state that they received little guidance from the SA's when developing their initial RFP's for service providers. CBG officials stated that limited upfront involvement added to the problems initially encountered by each of the cooperatives. As a result, CBG's had to readvertise for service providers.

As stated in the first response to the draft audit, this is just not correct. It is offensive to me personally and professionally to have this finding printed without identifying the individual. A letter was attached to the initial response signed by Janice Bodenhamer of the lead district that refutes this finding. Also, Donna Ware addresses this in her correspondence dated November 29, 2001. Numerous meetings, e-mails, and correspondence provided in the initial response say this is not an accurate statement.

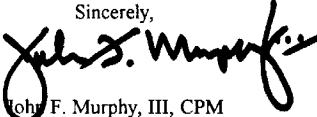
RECOMMENDATION NUMBER 4

Develop guidelines that can be used by SA's in assisting SFA's that maybe forming CBG's to assure that all procurement requirements are properly considered and followed.

To be addressed by USDA.

Page -5-  
November 30, 2001

Please let me know if I may be of further assistance.

Sincerely,  
  
John F. Murphy, III, CPM  
State Director  
Child Nutrition Programs

Jfm

Attachments

C Mrs. Donna Ware, Chairman  
SECURE

**SECURE**  
SOUTHEAST COOPERATIVE  
UTILIZING RESOURCES EFFICIENTLY  
301 Kingold Boulevard  
Snow Hill, North Carolina 28580

November 29, 2001

Mr. John F. Murphy, III, CPM  
Section Chief, Child Nutrition Services  
North Carolina Department of Public Instruction  
301 N. Wilmington Street  
Raleigh, North Carolina 27601-2825

Dear John,

SECURE (Southeast Cooperative Utilizing Resources Efficiently) is writing to you to make a formal response to the U. S. Department of Agriculture Office of Inspector General, Southeast Region Audit Report, the second "Official Draft", concerning the procurement process in the Southeast Region. We are not in agreement with the audit findings.

**Finding No. 1**  
**CBG'S DID NOT FULLY COMPLY WITH OPEN AND FREE COMPETITION PROVISIONS**

A part of the SECURE RFP (Request For Proposal) was the "products to be provided by offeror" which did allow for open and free competition since all potential offerors had the same opportunity to respond to the RFP. The RFP sites product procurement in several places. It is first referred to in the SECURE Time Line, "Advertise RFP for management Services, Storage, Distribution and Product Procurement." It is referenced again in the Legal Notice, "Companies must be able to demonstrate ability to receive, store and deliver food, supplies, and USDA Commodities, and purchase food and supply items." The RFP also included in the instructions, "Offerors need to be aware that this is not a bidding process but rather a negotiated contract to select a working partner to provide at a minimum the services outlined in the enclosed RFP."

In the General Information of the RFP, Part III, Products To Be Provided By Offeror, it states, "Offeror shall purchase products for SECURE when direct buying relationships are not established. Anticipated purchases are set forth in Exhibit 2." Our legal counsel had advised that we include this provision knowing that we would not always be able to

purchase all items at the primary market level. It was anticipated purchases and not a list of all items to be used in the cooperative. We felt strongly that we should not include items that we felt we could purchase at the primary market level because it would not represent an accurate picture of the intentions of SECURE and would be misleading to offerors. We felt that to do otherwise would effect our creditability and integrity in the market place.

**BIDS WERE NOT SOLICITED FOR CERTAIN FOOD AND NON-FOOD PRODUCTS**

The first RFP that was issued by SECURE did not address the service of coordinating the purchasing of produce because each school district in SECURE was purchasing from a different supplier. Produce was being purchased locally, from Pate-Dawson Company, from Department of Defense, or from other distributors. There was little competition for produce at the school district level so SECURE decided to include the coordination of the purchasing of it with the Department of Defense (DOD) in the second RFP.

During the time SECURE was purchasing produce from DOD, we saw several increases in the percentage DOD charged us to handle produce. We were aware that the produce we were receiving through DOD was being purchased directly from our service provider, Pate-Dawson. We were sending our weekly produce orders to Pate-Dawson and they were compiling them to one order and then sending them to DOD. DOD would then send them back to Pate-Dawson to be filled and delivered to the SECURE school districts. This occurred the entire school year. The only purchases that DOD made for SECURE other than from Pate-Dawson came from local farmers through the North Carolina Department of Agriculture's Farm to School Program and that accounted for less than 700 cases. Refer to Attachment A – DOD Purchases From PDC for SECURE 1999-2000.

When the percentage that DOD was charging SECURE continued to rise, we made contact with the officials with DOD about our concerns. They met with our Executive Board on several occasions but told us there was nothing they could do about the increasing cost of their administrative fee for produce. It had risen from 4.0% to 5.4% and we had been told it would be 5.8% for the next school year. At that point, SECURE voted to modify its contract with Pate-Dawson Company to coordinate the purchasing of produce for SECURE. They were already doing this for SECURE but through DOD who only attached an administrative fee to the very same produce that was being purchased from Pate-Dawson Company. We saw nothing wrong with this decision because our contract addressed the need for modification in Part XI, "Modification of Services."  
 "11.1 Modification may be made to the services which are to be provided under the contract by the Offeror to SECURE with the prior written agreement of the Offeror and the Board of Directors to such modifications."

Under the new service agreement, Pate-Dawson Company gave SECURE a weekly price quote and one was also secured from C.H. Robinson Produce Company. Pate-Dawson Company added a handling fee to the cost of the produce and in the agreement it stated



that the handling fee would never be more than 15% margin from the net price. The 15% was a range for us to be able to check the PDC prices against other sources. It was never a cost plus percentage. It was a cost plus a fee, which we understood to be allowable under federal procurement guidelines.

SECURE'S decision to modify the contract in regards to the purchasing of produce resulted in a substantial savings for the cooperative. In the 1999-2000 school year SECURE purchased 58,341 cases of produce from DOD at a cost of \$596,084. In the 2000-2001 school year SECURE purchased 71,352 cases of produce from Pate-Dawson Company at a cost of \$543,124. The service modification to our contract had resulted in savings of \$52,960 with an increase of produce usage of 22.3 %. We have also enclosed in Attachment B, North Carolina County DOD Purchases Compared to SECURE'S from PDC, an analysis of produce cost from PDC for SECURE and DOD for a large school district in North Carolina. Identical items were compared for the time from July 5, 2000 through October 31, 2000. The analysis shows that SECURE paid 14.1 % less for produce during that period of time. Our objective was met through the modification to services in our contract.

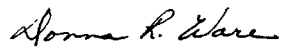
SECURE feels very strongly that the RFP, the contract with the Service Provider, and the Federal Procurement Guidelines have been followed in our procurement process. We have been able to save our school districts money while improving the quality of the food served in the breakfast and lunch programs. We have been able to use our USDA Commodity products in a more efficient manner through processing which has yielded a more consistent product throughout the school year. We have been able to offer a greater variety of food items especially in the fruit and vegetable category. We have also seen an increase in participation in the breakfast and lunch programs. Data to verify all of these claims can be secured if needed and with adequate notification. We have seen a large increase in competition in the market place. We have moved from the time when we were able to only secure bids from one or two distributors to a time where we have more than 400 manufacturers bidding on our school business. We have also provided the means for many of the small manufacturers to be able to compete for our school business when that was not possible when they had to work through a distributor.

We know what we are doing in the area of procurement is successful and it improves the overall quality of the National School Lunch and Breakfast Programs. We know that it increases competition. We agree with the statements of the auditor in the introduction of the draft report. He stated, "... this eliminates the middle distribution layer; thereby potentially lowering cost and improving product quality. In addition, fewer companies are willing to bid for small contracts with local school districts so it improves competition by encouraging companies to bid on the larger cooperative contracts."

We appreciate the help, guidance, support and leadership you have given to SECURE over the past 5 years in our efforts to create a new, more effective and efficient way of purchasing in our program. We ask that you give consideration to our response to the audit report and that of our service provider when you make your response. We feel that the official draft Recommendations 1, 2, and 3 should be stricken from the final report.

If we can supply any further information to you, please let me know.

Sincerely yours,

A handwritten signature in cursive script that reads "Donna R. Ware".

Donna R. Ware, Chairman  
SECURE Executive Board

Attachments

## DOD Purchases From PDC for SECURE 1999-2000

ATTACHMENT A

Final Buy RDD #	Date	Total Cases Sold to SECURE by DOD	Total Cost to SECURE from DOD	Total Cases Sold to DOD by PDC	Total Cost to DOD from PDC	Difference	Percentage
99179	06/01/99	126	1083.57	126	1030.99	52.58	4.85%
99187	07/06/99	191	2042.84	191	1972.42	70.42	3.45%
99193	07/12/99	148	1044.62	148	993.22	51.4	4.92%
99200	07/19/99	189	1536.42	189	1469.67	66.75	4.34%
99207	07/26/99	791	7321.36	791	6965.82	355.54	4.86%
99214	08/02/99	1024	9721.81	1024	9260.51	461.3	4.75%
99221	08/09/99	1430	13759.63	1481	13281.46	478.17	3.48%
99228	08/16/99	2038	19188.46	2039	18272.1	916.36	4.78%
99235	08/23/99	1839	16480.13	1839	15678.63	801.5	4.86%
99242	08/30/99	1730	17863.77	1732	17343.61	520.16	2.91%
99250	09/07/99	1349	13193.72	1349	12773.8	419.92	3.18%
99256	09/13/99	1775	17773.25	1775	16909.72	863.53	4.86%
99272	09/29/99	1237	13119.29	1268	12717.39	401.90	3.06%
99277	10/04/99	1307	12910.00	1307	12272.31	637.69	4.94%
99284	10/11/99	1304	12900.70	1304	12189.79	710.91	5.51%
99291	10/18/99	1280	14463.48	1276	13571.89	891.59	6.16%
99298	10/25/99	1397	14642.58	1414	14176.89	465.69	3.18%
99305	11/01/99	1544	15955.60	1544	15184.92	770.68	4.83%
99312	11/08/99	1373	14730.10	1443	14178.72	551.38	3.74%
99319	11/15/99	1294	13030.45	1261	11751.08	1279.37	9.82%
99326	11/22/99	618	6281.45	622	5966.03	315.42	5.02%
99333	11/29/99	1442	14826.14	1442	14234.74	591.4	3.99%
99340	12/06/99	1533	17413.80	1548	16456.36	957.44	5.50%
99347	12/13/99	317	3402.58	317	3216.15	186.43	5.48%
00003	01/03/00	1568	16622.84	1568	15718.66	904.18	5.44%
00010	01/10/00	1516	15220.82	1516	14336.12	884.7	5.81%
00017	01/17/00	1145	12523.41	1190	11802.43	720.98	5.76%
00024	01/24/00	1280	14195.41	1247	13028.18	1167.23	8.22%
00031	01/31/00	1234	12982.23	1070	11980.24	1001.99	7.72%
00036	02/07/00	1465	13227.08	1465	12645.47	581.61	4.40%
00045	02/14/00	1393	14338.39	1394	13720.85	617.54	4.31%
00052	02/22/01	1307	13798.46	1308	13538.46	262	1.90%
00059	02/29/00	1490	13978.64	1490	13212.24	766.4	5.48%
00066	03/06/00	1510	14168.48	1510	13637.97	530.51	3.74%
00073	03/13/00	1357	12843.93	1357	12280.43	563.5	4.39%
00080	03/20/00	1360	15237.39	1361	14412.8	824.59	5.41%
00087	03/27/00	1316	13794.94	1318	13067.74	727.2	5.27%
00094	04/03/00	1508	18002.78	1508	17047.44	955.34	5.31%

DOD Purchases From PDC for SECURE 1999-2000

00101	04/10/00	1264	12716.15	1273	12098.15	618	4.86%
00108	04/17/00	403	4400.80	410	4281.9	118.9	2.70%
00115	04/24/00	1248	12965.24	1261	12266.24	699	5.39%
00122	05/01/00	1626	17319.00	1638	16443.09	875.91	5.06%
00129	05/08/00	1390	14613.14	1392	13807.13	806.01	5.52%
00136	05/15/00	1015	9547.76	1019	9037.19	510.57	5.35%
00143	05/22/00	647	6371.59	647	6041.51	330.08	5.18%
00150	05/29/00	344	3410.00	344	3295.03	114.97	3.37%
00157	06/05/00	5	39.12	5	36.98	2.14	5.47%
00178	06/26/00	158	1380.87	158	1436.18	-55.31	-4.01%
		<b>54,825</b>	<b>\$ 558,384.22</b>	<b>54,879</b>	<b>\$ 531,038.65</b>	<b>\$ 27,345.57</b>	<b>4.90%</b>

ATTACHMENT B

North Carolina County DOD Purchases Compared to SECURE'S from PDC

July 5, 2000 thru October 31, 2000

DOD total price from Final Buy Reports	\$	174,744.71
Comparable Items, DOD Cost Extended	\$	113,592.60
Comparable items, SECURE Cost extended	\$	97,547.56
Variance	\$	16,045.04
Percentage of Difference for Comparable Items		14.1%

We obtained the DOD Final Buy report from a large system in North Carolina that purchases produce in amounts comparable to SECURE. This comparison covered the same time period as the audit. The only items used in the comparison were items that the specification was exactly the same as the items purchased by SECURE. This is truly an "APPLES to APPLES " comparison.

---

## ABBREVIATIONS

---

CBG	
Cooperative Buying Group.....	i
DPI	
Department of Public Instruction.....	3
FNS	
Food and Nutrition Service.....	i
FY	
Fiscal Year .....	1
NETCO	
Northeast Tennessee Cooperative.....	2
NSLP	
National School Lunch Program.....	i
<b>RFP</b>	
<b>Request for Proposal</b> .....	i
SA	
State Agency.....	ii
<b>SECURE</b>	
<b>Southeast Cooperative Utilizing Resources Efficiently</b> .....	i
SFA	
School Food Authority.....	1
USDA	
United States Department of Agriculture .....	1
VOLCO	
Volunteer State Cooperative.....	2