



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

Food and Nutrition Service
Child and Adult Care Food Program
Wildwood, Inc., Phase II
Littleton, Colorado



**Report No.
27010-6-KC
November 2001**



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Audit

Great Plains Region

5799 Broadmoor, Suite 600

Mission, Kansas 66202



DATE: November 21, 2001

REPLY TO
ATTN OF: 27010-6-KC

SUBJECT: Child and Adult Care Food Program, Wildwood, Inc., Phase II

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 November 6, 2001, 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 D. Excerpts from the response and our comments are presented in the Findings and Recommendations section of the report and explain those actions necessary for us to consider management decisions on Recommendations Nos. 1, 2, 3, and 4. We will need to be advised of the specific actions completed and satisfactory beginning and ending dates for proposed actions along with evidence of billings for the unallowable costs.

Your response raised three issues where you requested additional information or clarification. We have made editorial changes to our report to reflect your comments.

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 for those recommendations where management decision has not been reached. 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 you and your staff provided to us during our review.

/s/

DENNIS J. GANNON
Regional Inspector General
for Audit

EXECUTIVE SUMMARY

FOOD AND NUTRITION SERVICE CHILD AND ADULT CARE FOOD PROGRAM WILDWOOD, INC. – PHASE II LITTLETON, COLORADO

REPORT NO. 27010-6-KC

RESULTS IN BRIEF

Wildwood, one of the nation's largest sponsors of the Child and Adult Care Food Program (CACFP), continues to operate the program without demonstrating that it maintains effective control over and accountability for Federal grant funds. We initiated this audit as a followup to our previous audit of Wildwood as a result of the control weaknesses and the number and seriousness of conditions noted during that review. The prior audit¹ identified problems concerning a lack of controls necessary to safeguard CACFP funds from fraud or unauthorized use, financial systems inadequate to account for CACFP funds, an insecure computer system used for the financial accounting system, and commingling of CACFP funds. Serious weaknesses identified in the prior report are repeated in this report to illustrate the systemic weakness in Wildwood's computerized accounting systems and ineffective or missing controls over program funds. Our primary objective for this followup audit was to reconcile the receipt of Federal funds from Food and Nutrition Service (FNS), through the State Agency (SA), through Wildwood, and to the providers and centers. As shown below, we were unable to fully accomplish our objective because of the lack of controls and the numerous errors and inconsistencies in Wildwood's records.

We were able to reconcile the deposit of Federal funds into Wildwood's accounts, however, we could not rely on Wildwood's accounting system and controls to provide assurance that the funds were properly disbursed to eligible providers and centers. We determined there were numerous and extensive problems associated with Wildwood's preparation of bank reconciliations. Wildwood's records showed that almost \$160,000 of checks to providers remained outstanding for extensive periods, although

¹ Audit Report No. 27010-3-KC, Child and Adult Care Food Program, Wildwood, Inc., dated March 22, 2000.

checks not cashed by the intended providers were subject to refund to FNS.

Regulations require that a SA terminate agreements with any institution, which it determines to be seriously deficient.² Serious deficiencies may include a failure to maintain adequate records or a history of financial mismanagement. During the audit, the SA performed a review of Wildwood that was independent from our audits and which focused on other aspects of Wildwood's responsibilities. (The SA's review did not specifically cover accountability of Federal funds.) The SA concluded that Wildwood was seriously deficient in a number of identified areas and, after a period for corrective action, the SA initiated action to terminate Wildwood as a sponsor. As allowed by the regulations, Wildwood appealed the SA's determination and as of August 2001 was still participating in the program pursuant to a Federal court order. The SA's proposed termination action was also the subject of Federal court proceedings. During March 2001, a settlement agreement to resolve the court proceeding was reached. Under the terms of this settlement, the SA agreed to utilize an independent team to conduct a review of identified areas of the current operations of Wildwood to determine if the causes of the SA's initial determination of serious deficiency had been corrected. Based on the findings of the independent review, the SA concluded Wildwood had not corrected the serious deficiencies in the identified areas. As a result, the court proceedings on the SA's termination action remain ongoing.

In our opinion, the absence of an adequate and accountable financial management system at Wildwood poses an unacceptable risk to the CACFP and Federal funds. FNS must take prompt action to ensure that the approximately \$1 million of funds provided to Wildwood monthly are used in accordance with program requirements and that funds are properly disbursed to eligible providers. The SA must determine whether Wildwood can demonstrate that it can correct its serious deficiencies and whether it can continue to participate in the CACFP.

KEY RECOMMENDATIONS

We recommend that FNS coordinate with the SA to take administrative action utilizing the necessary regulatory actions to ensure the conditions we noted are corrected in a timely manner or the sponsor be terminated from the program. Because of the serious weaknesses exhibited by Wildwood's accounting system and lack of controls, the SA and/or FNS should provide advice, assistance, and

² 7 Code of Federal Regulations (CFR) 226.6 (c), dated January 2000.

alternative methods to ensure Wildwood uses Federal funds only for authorized purposes, and any funds which cannot be proven to have been used properly should be recovered (see exhibit A). This should include monitoring and review to ensure Federal funds were used only for authorized purposes during the appeal period and until Wildwood demonstrates effective corrective actions have been taken and controls are in place and functioning.

FNS should coordinate with the SA so that Wildwood develops an environment and strengthens controls to ensure financial reports are accurate. These actions include requiring Wildwood to improve computer security, maintain integrity of program funds, and reconcile each provider's earnings, payments, and cleared checks. Wildwood should be required to account for all checks listed as outstanding and return funds where appropriate. Further, Wildwood should be required to strengthen check accountability, improve bank reconciliation procedures and other cash controls, and establish a financial management system that accounts for its operations according to Federal financial management standards.

AGENCY RESPONSE

FNS Regional Office officials provided written comments, dated November 6, 2001, to the draft report expressing general concurrence with the recommendations (see exhibit D for the complete response). FNS officials advised that they will coordinate with the SA to ensure that Wildwood develops an environment and strengthens controls to ensure financial reports are accurate.

The response showed FNS will coordinate with the SA to ensure Wildwood is notified that it must correct the serious deficiencies in its operations, show that it can maintain adequate records that provide a complete, accurate, and current disclosure of the financial results of the CACFP and establish effective control over and accountability for all Federal funding. FNS plans to direct the SA to offer Wildwood technical assistance in establishing a financial management system that meets requirements. It is anticipated that a consultant would be used to assist Wildwood in establishing the financial management system. It is also anticipated that Wildwood would be subjected to an agreed upon procedures review to allow Wildwood to demonstrate that it has fully and completely corrected the serious deficiencies.

OIG POSITION

While the FNS response is positive, we are concerned whether the proposed actions will be sufficient to ensure Federal funds for past periods were properly expended. We will

need detailed documentation of actions taken by the agency to determine whether or not to allow Wildwood's claims for reimbursement.

In order to consider the management decisions, we will need to be advised of the specific actions taken or planned and be provided with detailed timeframes for initiating and completing proposed corrective actions. In addition, we need specific determinations and billings evidence as appropriate for the questioned costs in exhibit A.

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INTRODUCTION

BACKGROUND

Wildwood, Inc. (Wildwood), located in Littleton, Colorado, sponsored day care facilities that provided meals to children enrolled in the U.S. Department of Agriculture's Child and Adult Care Food Program (CACFP). The CACFP was established in 1975 by Public Law 94-105 and is intended to ensure that children who attend day care facilities receive nutritious meals by reimbursing participating nonresidential care facilities, including day care homes (homes) and day care centers (centers), for meals served to children in their care. The CACFP requires that meals claimed for reimbursement meet certain nutritional standards.

The CACFP is administered at the Federal level by the Food and Nutrition Service (FNS) and in most States by a State agency (SA). In Colorado, the SA is the Colorado Department of Public Health and Environment (CDPHE). SAs administer the program through sponsoring organizations (sponsors), like Wildwood. A sponsor acts as a liaison between the SA and day care providers (providers) and is ultimately responsible for program operations in those facilities. Sponsors are required to review and monitor the food service operations of providers they sponsor. Monitors must assess compliance with CACFP meal patterns, recordkeeping, and other requirements at least three times per year.

Sponsors also train providers and monitor operations in their homes to ensure compliance with program requirements. Providers can only participate in the program through a sponsor. Sponsors receive reimbursement for costs of administering the program on a per-home basis. The more homes a sponsor administers, the greater the reimbursement for administrative costs.

In Colorado, sponsors normally submit consolidated monthly claims to the SA by the 17th of the month following the claim month. They usually receive payments by electronic funds transfer from the SA by the first working day of the next month. At that time, the sponsor then disburses the payments to providers. Regulations require sponsors to disburse food service payments within 5 working days of receipt. Sponsors receiving \$300,000 per year or more are required to have an annual audit performed in accordance with the Office of Management and Budget's Circular No. A-133.

For the fiscal years (FY) reviewed, Wildwood received program reimbursements as follows.

Year ended September 30	Homes	Centers	Administrative	Total
1997	\$11,088,992	\$ 880,678	\$1,654,221	\$13,623,891
1998	\$ 9,301,631	\$ 927,726	\$1,633,663	\$11,863,020
1999	\$ 8,914,230	\$ 975,753*	\$1,518,717	\$11,408,700
Total	\$29,304,853	\$1,808,404	\$4,806,601	\$36,895,611

* Wildwood ceased sponsoring centers at the end of FY 1999.

For FY 1999, Wildwood received approximately 49 percent of the SA's total CACFP funds for food and administrative costs.

OBJECTIVES

The audit was performed to follow up on internal control weaknesses and noncompliance identified during the previous audit of Wildwood.¹ The audit objectives of this audit were to reconcile Federal funding provided by FNS, through the SA, through Wildwood, and to verify receipt by eligible providers and centers.

SCOPE

We traced the flow of disbursements from the FNS Mountain Plains Regional Office (FNSRO) to the SA for FYs 1997, 1998, and 1999. However, transactions in other periods were reviewed as deemed necessary to achieve our objectives. We tested the SA's payments of the Federal funds to all sponsors in Colorado for a judgmentally selected 6-month period. We then traced all payments from the SA to Wildwood for FYs 1997, 1998, and 1999. At Wildwood, we obtained information in an automated format regarding claims covering FYs 1997 through 1999, and we obtained records that were in an automated format directly from the bank for the period July 1998 through February 2000.

We reviewed FNS, SA, and Wildwood records at their respective locations in the Denver, Colorado, area. (See exhibit B for a list of sites visited). We conducted the review during the period February through December 2000.

Our prior audit noted serious deficiencies in Wildwood's computer security and concluded Wildwood's methods of handling money rendered its accounting system inadequate to account for its administrative and provider funds. As noted in this report, we were unable to rely on Wildwood's financial and computer systems to assure that the Federal funds provided to

¹ Audit Report No. 27010-3-KC issued in March 2000

Wildwood were properly received by homes and centers. Therefore, FNS should not consider our review as offering any assurance the funds provided to Wildwood were used only for authorized purposes.

We conducted this audit in accordance with Government Auditing Standards.

METHODOLOGY

We interviewed FNS, SA, and Wildwood officials to obtain background information, policies, procedures, and internal controls over food and administrative claims and related

documentation.

At the FNSRO, we obtained documentation of available data detailing payments under the CACFP to the Colorado SA. This included information showing SA claims on the Special Nutrition Programs Integrated Information System (SNIPIIS) maintained by FNS' National Office. At the SA, we reconciled the SA claims to the FNSRO payment records. We also obtained information from the SA accounting system as to dates and amounts of payments to Wildwood.

At Wildwood, we utilized the summary claims information maintained on the Colorado Financial Reporting System (COFRS) to compare claims made by Wildwood to monies paid to Wildwood and traced funding per the SA records to deposits in Wildwood's accounts. We utilized the automated banking and claims information obtained from Wildwood and the independent bank to perform additional analyses for reasonableness of the claims. When available, we considered information presented in Wildwood's audit reports obtained to meet OMB Circular A-133 requirements. We reviewed bank reconciliations and, for selected periods, we identified checks listed on the reconciliations that had never cleared the bank.

Where pertinent, the findings and recommendations from our prior report were incorporated into this report to fully illustrate the weaknesses in accountability and lack of controls at Wildwood.

FINDINGS AND RECOMMENDATIONS

CHAPTER 1

THE SPONSOR MAINTAINED INADEQUATE FINANCIAL CONTROLS

We were unable to rely on Wildwood's accounting system to provide assurance that the funds were properly disbursed to eligible providers and centers in accordance with regulatory requirements and timeframes. In our prior audit and again in this audit, we determined that there were serious internal control weaknesses and numerous deficiencies in Wildwood's financial records and computer systems which were used to provide accountability for \$36,895,611 of Federal funds received for the 3 FYs ending September 30, 1999. We questioned the integrity of the accounting system including erroneous financial statements, a lack of security over the computer system, lack of accountability for outstanding checks disbursing Federal funds, and ineffective controls over cash including inaccurate bank reconciliations. We concluded Wildwood's accounting system and controls could not provide adequate assurance that the entire amount of Federal funding received by Wildwood for the audit period was properly expended for eligible purposes. This includes \$159,753 where Wildwood's records indicated that outstanding checks to providers had not been cashed (see exhibit A).

By regulation, serious deficiencies in a sponsor's operation include, but are not limited to, submission of false information to the SA, failure to maintain adequate records, claiming of program payments for meals not served to participants, failure of a sponsoring organization to disburse payments to its facilities in accordance with its management plan, and a history of administrative or financial mismanagement in any Federal child nutrition program. SAs are required to terminate agreements with sponsors determined to be seriously deficient. However, SAs generally must first afford sponsors the opportunity to correct the deficiencies.²

In our opinion, FNS and the SA cannot allow Wildwood to continue to participate in CACFP without accountability over program funds. FNS must ensure that funds are used in accordance with program requirements and that funds are properly disbursed to eligible providers. The SA must determine whether Wildwood can demonstrate that it can

² 7 Code of Federal Regulations (CFR) 226.6 (c), dated January 2000.

correct the serious deficiencies in its administration of the program and whether Wildwood can continue to participate in the CACFP.

FINDING NO. 1
ACCOUNTING SYSTEM WAS
UNRELIABLE

Wildwood's financial records had unexplained entries and unsupported transactions. Wildwood attributed its financial statement problems to the software designed by the SA. However, we noted other errors and control weaknesses that were not related to the software. In effect, the financial statements are

misstated and cannot be relied upon.

Our prior audit reported that the accounting records were in disarray. We noted entries in the FY 1997 accounting ledger that were FY 1998 transactions. There were inappropriate transfers between funds, overdrafts, and account deficits. In addition, due to the turnover of controllers and the limited access auditors had to them, explanations of unclear or erroneous entries were not forthcoming.

In response to our prior audit report, Wildwood submitted a June 9, 2000, letter that attributed many of the conditions noted to poorly designed Management Information System (MIS) software provided by the SA. Wildwood's letter included the following comments about the shortcomings of the software system:

Wildwood has documented many of the administrative problems that the MIS has caused, but it is impossible to document all. Some problems include double-posting of claims and double-issue of checks, re-entering information that was lost in the system or unable to be retrieved, losing provider information, submission of claims late to the SA, unreliable numbers of claims received/posted. The MIS often totally shut down, making it impossible to meet deadlines.

During FY 1999 problems continued to surface, specifically the MIS did not calculate the proper amount when preparing reimbursement checks for providers, checks paid to providers did not always equal the amounts claimed, when the MIS printed a check register for checks paid in a given month the amounts on the register did not always equal the amount printed on the check, the MIS sometimes deleted checks that were paid so there was no record of the payment in the system, claims were sometimes double-posted and checks were sometimes double issued, and the MIS lost provider information, indicated unreliable numbers of

claims received\posted, and was often unable to recognize prior year information at year end.

We found a large number of errors that were similar to the errors described in Wildwood's memo; however, our review was not designed to determine if the problems occurred because of the software or because of user error. We did note that similar problems with financial reports were also occurring before the new MIS was implemented in July 1997. According to the SA, other sponsors using this system did not experience the problems experienced by Wildwood. The result was that our review of Wildwood's accounting records disclosed so many inconsistencies; we could not rely on the information.

Wildwood had significant turnover of personnel during the audit period, particularly the controllers who were responsible for the accounting records. This meant that there was no institutional memory of the history and operation of the accounting system by the controller. Also, delays were caused while each newly hired controller learned the accounting system or attempted to institute a new system. Even though Wildwood contended the State-provided system was inadequate, it was incumbent upon Wildwood to ensure the reliability of its own financial management system.

For example, we noted instances where Wildwood's financial records had out of balance conditions without explanation. The March and April 1998 balance sheets for centers were out of balance by \$29,401 and \$36,981, respectively. The related records showed that the total debits did not equal total credits for the above. From October 1997 through August 1998, the balance sheet showed liabilities for the advance from the SA of \$265,000 and a liability for "Year End Accruals" of \$696,912. Wildwood's financial records showed that these balances remained constant, although the liability to the SA actually changed each month and the yearend accruals should normally have been reversed at the start of the new FY. SA records showed the advance was actually \$135,000 as of the end of October 1997, and it was gradually reduced to \$115,419 at the end of August 1998.

There were numerous improperly explained journal entries to adjust Account 1040-01 (Cash Checking Homes) to the monthly reconciliation. As of the September 30, 1998, reconciliation, the cash per books was \$798,575. However, Wildwood showed the October 1 beginning cash balance had changed to \$807,122. During October 1998, Wildwood made five journal entries to adjust cash. The October 31, 1998, bank reconciliation showed a balance per books that was \$1,551 less than the balance per the general ledger.

We found that the amounts for some check numbers, per Wildwood's automated records, differed from the amount actually clearing the bank. For example, the June 30, 1998, bank statement for centers contained a note that checks 2231 thru 2299 "were out of sequence." We found that a printing error occurred and the amounts shown for the check numbers on Wildwood's automated system differed from the amounts for those check numbers as shown on the bank statement. A similar condition occurred for the bank statement for centers for check numbers 2431 thru 2485. These types of inconsistencies made it difficult to reconcile the bank statements and trace transactions through the financial system.

As shown in our prior report, Wildwood's computerized check summary (check register) changed between the original and updated data Wildwood provided to us. A computer comparison of the first check summary to the second check summary showed that some checks missing from the first check summary appeared on the second check summary. This showed checks could be issued through the computer system with the system either not recording the transaction or not maintaining accountability over the transaction.

Wildwood's memo responded to a reported finding dealing with a deficit account by stating that "...it seems unnecessary to quibble about month-to-month variances between what was submitted to the State on the 17th of the following month and what ultimately ends up in the financials for any given month. Real-world accounting is a constant stream of 'adjustment to actual.' The only point of concern should be a clean year-end cut off."

We believe Wildwood's comments indicate that officials gave a low priority to accurate financial statements and compliance with regulatory responsibilities. These responsibilities include maintaining complete, accurate, and current disclosure of the financial results of CACFP operations and the identification of the source and application of CACFP funds by the continuous maintenance of updated records³.

Another serious weakness (see Finding No. 2) was that Wildwood managers had not maintained adequate security controls over their automated information systems. None of Wildwood's employees had the responsibility or knowledge to develop an adequate security plan or computer application controls. Therefore, for the period covered by this review, adequate computer security was not in place, which brings the validity of the computerized transactions into question.

³ 7-CFR 3015.61 (a) and (b)

RECOMMENDATION NO. 1

Coordinate with the SA to ensure Wildwood demonstrates it is able to correct the serious deficiencies in its operations, show that it can maintain adequate records that provide a complete, accurate, and current disclosure of the financial results of the CACFP, and that it has established effective control over and accountability for all Federal funding. If Wildwood is unable to demonstrate effective corrective action, coordinate with the SA to terminate its participation in the program.

FNS Response

The written response to the draft report (see exhibit D) showed that FNS concurred and will coordinate with the SA to ensure Wildwood is notified that the findings of this audit report are serious deficiencies and that Wildwood must correct these serious deficiencies in its operations, show that it can maintain adequate records, and establish effective control over and accountability for all Federal funding. FNS plans to direct the SA to offer Wildwood technical assistance. FNS anticipates that a consultant who is a Certified Public Accountant would assist Wildwood in establishing this financial management system. An over-all timeline with periodic progress reporting from the SA will be required. Implementation of the system will take between 6 to 9 months. To ensure the new financial management system is adequately functioning, an agreed upon procedures audit covering a 1-year period would be arranged. This audit would cover nine areas of noted weaknesses. If Wildwood does not fully correct its serious deficiencies, the SA must provide Wildwood with a notice of its intent to terminate Wildwood from the program.

OIG Position

Before we can agree to this management decision, we need to be provided timeframes for implementing the corrective action. We need specific dates for issuing determinations to Wildwood, having the consultant start work, final implementation of a satisfactory financial management system, and completion of the assessment of the functioning financial system. We can also consider the management decision if Wildwood is provided a notice of termination.

RECOMMENDATION NO. 2

Work with the SA to provide assurance that Federal funds received by the sponsor were used only for authorized purposes. This could be accomplished by sending in a multidisciplinary team to completely review and recreate the financial records and should include enhanced monitoring and review to ensure Federal funds

were used only for authorized purposes until Wildwood demonstrates effective accounting systems and controls are in place and functioning. Obtain refunds where the sponsor cannot document Federal funding was used for authorized purposes.

FNS Response

FNS advised that as part of the proposed corrective action for Recommendation No. 1, an independent auditor would conduct an agreed upon procedures audit with the intent of ensuring identified problem areas had been corrected. FNS acknowledged that this solution would only ensure that current and future Federal funds are used only for authorized purposes. However, implementation of an acceptable financial management system will require reconstruction and reconciliation of prior accounting periods. FNS will direct the SA that if this reconstruction process identifies the improper use of Federal funds, overclaims must be established and collected consistent with regulatory requirements.

OIG Position

OIG is concerned that the planned actions may not provide adequate assurance that Wildwood properly used Federal funds during the audit period. Before we can consider the management decision for this recommendation, we need to receive evidence that a billing has been issued for all questioned costs or that sufficient evidence has been provided to FNS to fully support any decision not to recover questioned amounts.

FINDING NO. 2

COMPUTER SECURITY WAS INADEQUATE

In our prior audit report, we reported that internal control activities relating to the sponsor's automated financial accounting system were non-existent. As a result, CACFP funds were not adequately safeguarded against loss from fraud or unauthorized use or disposition.

Wildwood's computer application processed CACFP monthly reimbursements totaling about \$1 million to about 3,000 homes and 100 centers. No one was assigned responsibility for security nor did Wildwood have a computer application security plan or computer application controls. Also, no one had computer application knowledge or the necessary training to prepare a computer application security plan identifying the necessary application controls.

Our prior audit showed that the person responsible for Wildwood's automatic data processing (ADP) functions said they did not have computer system access controls. She said that logons and passwords are not required to gain access to the computer application that processes CACFP claims and writes reimbursement checks. Therefore, anyone who turns on the computer can use it for any purpose. She said the only protection against unauthorized use was lack of knowledge on how the system works. She explained that she learned the system from her predecessor. When asked for computerized check summaries, she was unable to provide the information without assistance from the SA's Fiscal Administrator.

Federal regulations state that recipients and subrecipients of Federal funds shall maintain effective control over and accountability for all USDA grant or subgrant funds, real, and personal property assets.⁴ Federal regulations⁵ also identify the objectives of internal controls pertaining to the compliance requirements for Federal programs.

Using computer database analysis, we found Wildwood's computerized check summary changed between the first and second copies we were provided. A computer comparison of the first check summary to the second check summary showed that some checks missing from the first check summary appeared on the second check summary. This shows checks could be issued through the computer system with the computer either not recording the transaction or not maintaining accountability over the transaction.

In a June 9, 2000, memo responding to our first audit, Wildwood stated essentially as follows:

Wildwood generally agreed with the security findings as stated in the report. The MIS claims system was designed by the SA for use by all Colorado sponsors. One design in the program was deliberately made by the SA so it could have direct access to any sponsor's computer data. Wildwood has had numerous disputes with the SA over responsibility for problems with the system; however, Wildwood relied on the SA to provide all required security. Since the start of the Office of Inspector General (OIG) audit, Wildwood has initiated action on its own that all computers in the office need to have log-on passwords for access. Additional passwords are required for accounting applications or for claim check processing. Wildwood would be receptive for ADP system security training. Problems regarding checks missing from one

⁴ 7 CFR 3015.61(c)

⁵ Part 6 - Internal Control of the Compliance Supplement for OMB Circular A-133

summary and appearing on a second summary go back to a poorly designed MIS.

In our prior audit report, we recommended FNS:

- Instruct the SA to work with the sponsor to develop a computer security plan to ensure individual accountability requirements, and
- Instruct the SA to provide ADP system security training to the person responsible for Wildwood's ADP functions so security responsibilities can be assigned.

As of the date of this report, management decision has not been reached on these recommendations. Since these weaknesses and recommended corrective actions are being handled through the management decision process for our prior audit report, we are making no further recommendations on these matters in this report.

FINDING NO. 3

INAPPROPRIATE TRANSFERS OF FUNDS BETWEEN ACCOUNTS

As reported in our prior report, Wildwood's administration of the program was also deficient in the area of financial management. The sponsor failed to exercise prudence and due care in keeping Wildwood CACFP and Wildwood Resources finances separate, and ensuring only allowable program expenses were claimed or paid for with Federal funds. The sponsor was also negligent in its management of program funds.

Our prior report showed that from January 1997 to June 1998, Wildwood wrote approximately \$187,000 in insufficient fund checks out of its accounts at the Colorado Business Bank. These checks were written to providers, centers, employees, and for other administrative expenses. We also noted that Wildwood's expenses were greater than the amount of administrative funds it received from the SA (lesser of actual expenses or homes times rates calculation). Wildwood had insufficient fund checks in the provider account because it inappropriately transferred money out of the provider account to cover expenses in other accounts (i.e. CACFP administrative, CACFP centers, and Wildwood Resources, Inc.). As a result, Wildwood operated the CACFP program with a negative cash flow in FY 1998 and continued to operate at a deficit in FY 1999; and day care providers and day care centers were not paid in a timely manner.

Overdrafts in Provider Account

Per our prior report, the June 1998 bank statement showed Colorado Business Bank charged Wildwood over \$1,000 for 60 overdrafts on June 17, 1998. Wildwood transferred money on June 17 and 18, 1998, after the individual overdraft charges were posted to its account. This record of events gives the appearance that Wildwood knew funds were not available in the provider account when the checks were written, so Wildwood transferred money; however, Wildwood did not get the transfer completed before the checks were cashed. The bank reversed the overdraft charge on June 30, 1998.

In a June 9, 2000, memo responding to our first audit, Wildwood stated essentially as follows:

The controller of the previous 2 years left in April 1998. Her replacement started in May 1998. He held a CPA certificate and, although Wildwood could not speak to his professional competency, Wildwood attributed the error to his learning curve. Wildwood's current policy is that no payment be released from any account without adequate resources to fund it.

Transferring Money between Accounts

Per our prior report, Wildwood's bank statements also showed Wildwood was transferring money between different Wildwood CACFP and Wildwood Resources accounts. We determined that Wildwood did not keep track of all the transfers it made and did not have satisfactory documentation of the transfers.

Funds had been transferred in and out of the provider account (in whole dollar amounts) beginning in October 1996. We traced all non-SA transfers between October 1996 and March 1999. By the end of FY 1997, Wildwood had transferred approximately \$40,000 to the provider food account (\$25,000 from the centers account and \$15,000 from the administrative account). At the end of FY 1998, Wildwood had transferred almost \$20,000 to the provider food account (withdrew \$10,000 for the centers account and deposited \$30,000 from the administrative account).

In a June 9, 2000, memo responding to our first audit, Wildwood stated essentially as follows:

In the past, it was necessary to transfer money between accounts because of the unreliability of the receipt of administrative funds from the SA. When the SA was late in getting payments to

Wildwood, money was moved from the Resources account. This is rarely necessary anymore.

According to the SA's memorandum, dated July 10, 2000, although Wildwood indicated the reason they transferred money between accounts was the lateness of SA payments, the State processes all payments in a timely manner releasing all checks for payment by the first of the month.

Administrative Account Deficit

Per our prior report, at the end of FY 1997, Wildwood had an approximate \$29,000 deficit. From Wildwood's financial statements, we determined that Wildwood's deficit continued into FY 1999. Wildwood was able to continue to operate at a deficit due to the administrative advance it received every month from the SA for administrative expenses and by transferring money to and from the different accounts (homes, centers, administrative, and Wildwood Resources).

According to Wildwood's controller, Wildwood CACFP received a loan from Wildwood Resources to cover the additional amount of CACFP money it spent on computer training and software purchased in preparation for tiering; however, the SA did not reimburse Wildwood for the total. Wildwood's controller claimed this caused the deficit. (Tiering went into effect on July 1, 1997.) Wildwood prepared the computer system for tiering before it received the money allocated to it from the SA for tiering. In total, Wildwood was awarded nearly \$36,000 (50 percent of the total money received by Colorado). The SA paid them in three increments; \$29,000 on April 4, 1997, \$3,000 on October 15, 1997, and \$4,000 on March 26, 1998. At the time of our review, Wildwood was appealing to have the SA reimburse it for the loan obtained from Wildwood Resources.

We noted that Wildwood usually received the homes times rate amount for reimbursement because its actual expenses were usually higher than the homes times rate calculation. In FY 1998, Wildwood's actual expenses were above the homes times rates calculation for 7 of 12 months. This confirms that Wildwood spent more money for administrative expenses than it received from the SA to cover its administrative expenses.

For FY 1998, Wildwood showed a net loss of nearly \$36,000 on the financial statements but only claimed a net loss of approximately \$4,000 to the SA.

In a June 9, 2000, memo responding to our first audit, Wildwood stated essentially as follows:

Wildwood should receive from the SA what it is entitled to receive. If actual expenses are more, the funds to cover such expenses need to come from sources outside of State or Federal funds (presumably from Wildwood Resources). It seems unnecessary to quibble about month-to-month variances between what was submitted to the State on the 17th of the following month and what ultimately ends up in the financials for any given month. Real-world accounting is a constant stream of 'adjustment to actual'. The only point of concern should be a clean year-end cut off.

Wildwood Withheld Checks

As shown in our prior report, we compared FY 1998 bank statements to Wildwood's check summary to determine if Wildwood actually had funds to cover the outstanding checks. Our comparison disclosed that Wildwood consistently did not have enough money in its provider food account to cover monthly provider checks. Wildwood should never have had a deficit in the food account and should never have had to withhold provider checks. Each month Wildwood receives funds from the SA in the amount of the claim it submitted to the State. This claim should include all meal counts that providers submitted to Wildwood.

From Wildwood's bank statements, we determined that blocks of checks did not clear the bank until the month following the payment date. For example:

The October 1997 bank statement showed that 102 checks (check numbers 43631 through 43702 and 43704 through 43733) were outstanding for October. According to Wildwood's computerized check summary, these checks were written on October 7, 1997; however, none of these checks cleared during the month of October. All but three checks cleared the bank in November 1997. Two of the remaining three checks cleared on December 3 and December 22, respectively. The third check did not clear as of the July 1998 bank statement.

The April 1998 bank statement showed that 107 checks (check numbers 63280 through 63296; 63298 through 63327; 63329 through 63352, 63354 through 63359, 63361 through 63381, and 63383 through 63391) were outstanding for April. According to Wildwood's computerized check summary, these checks were written on April 3, 1998; however, none of these checks cleared during the month of April. All but four checks cleared the bank in May 1998. Three of the remaining four checks cleared on June 10, June 15, and July 2, respectively. The fourth check did not clear as of the July 1998 bank statement.

Wildwood's controller said that the accounts on Wildwood's income statement had not been reconciled and had not been tied down.

FNS National office officials stated the provider food account is a trust account and any money that goes into it should be disbursed to providers immediately.

In a June 9, 2000, memo responding to our first audit, Wildwood stated essentially as follows:

Wildwood stated that the only possible error for the October and April 1998 checks was that the date on the check was the date the check was prepared rather than the date of intended issue. Currently, checks are written throughout the month, dated to release the first of the month after the funds for those claims are expected to be received from the State. Although Wildwood disagreed that checks were held because there was no money to cover them, Wildwood stated provider checks were held for a number of reasons. Wildwood always has money to cover the held checks since the claims have already been processed and the claim submitted to the SA for reimbursement. Wildwood does not consider these checks to be outstanding.

OIG believes the policy as stated by Wildwood does not meet the requirements of regulations to make payments to homes within 5 days of receipt from the SA.⁶

Regulations also state that occasionally an awarding agency, or a recipient awarding a subgrant, may find that a particular recipient is financially unstable, has a history of poor performance, or has a management system that does not meet the standards. In these cases, the awarding agency may impose special conditions that are more restrictive than otherwise permitted.⁷

In our prior audit we recommended that FNS:

- Require the SA to ensure the sponsor maintains the integrity of the funds received from the SA,

⁶ 7 CFR 226.16 (g).

⁷ 7 CFR 3015.4(a), January 1998

- Require the SA to direct the sponsor not to make any future transfers between accounts, restore fund shortages, and reconcile each provider's earnings, payments, and cleared checks,
- Require the SA to determine that the sponsor timely issues the full amount of funds due to each provider, and
- Instruct the SA to perform a followup review of the sponsor to determine whether the sponsor has discontinued the practices of transferring money between accounts, operating the program with a negative cash flow, and withholding provider checks.

As of the date of this report, management decision has not been reached on these recommendations. FNS officials advised that they had directed the SA to require Wildwood to establish and maintain separate bank accounts due to concerns with the financial integrity of Wildwood's operations. Since these weaknesses and recommended corrective actions are being handled through the management decision process for our prior audit report, we are making no further recommendations on these matters in this report.

In its written response to the draft report (see exhibit D), FNS requested additional information on deficit operations. We were unable to provide this information, as it was not readily available. FNS also noted that information concerning a loss for December 1997 was not pertinent. We have removed that information from our final report.

FINDING NO. 4

OUTSTANDING CHECKS WERE NOT CONTROLLED AND REFUNDED

Wildwood management did not establish proper reconciliation procedures nor did they ensure that the disposition of each outstanding check was properly documented. We determined checks totaling \$159,753 (see exhibit C) were reported on bank reconciliations but never cleared the bank after Wildwood listed them as outstanding.

Wildwood listed these checks as outstanding from 6 months to 3 years and then dropped them from the reconciliations without explanation. Wildwood's lack of accountability for checks outstanding for long periods weakened internal controls over cash and increased the risk that Federal funds could be used for unauthorized purposes.

Regulations require that recipients maintain effective control over and accountability for all Federal grant or subgrant funds.⁸ In addition, regulations state that each sponsor shall disburse any reimbursement

⁸ 7 CFR 3015.61(c).

payments for food service due to each home within 5 working days of receipt from the SA. FNS personnel advised that if a check to a provider was not cashed, the sponsor was not to keep the money but was to return it to the SA. The SA was then to return the money to FNS.

FNS personnel advised that the sponsor holds provider meal funds in trust and the funds are considered Federal funds until disbursed to the provider or center. This is true even if the funds are deposited in a sponsor's bank account. Wildwood could not provide evidence that it had refunded to the SA or FNS any funds from uncashed checks. However, Wildwood recognized that funds for uncashed checks were to be refunded to the funding agency based on the September 1998 bank reconciliation which showed an "outstanding liability to the State/providers" for \$128,534.

In response to the SA's request for all sponsors to provide their policies on uncashed checks, Wildwood advised it could not find any written policy. Wildwood's February 10, 2000, memo to the SA advised that Wildwood had identified 28 checks totaling \$4,200 ranging in age from June 1999 to August 1998. As of December 2000, the SA advised that it had no record of Wildwood ever returning any funds for aged checks and that no action had been taken on the \$4,200 of aged checks identified in Wildwood's February 10 memo.

Because of the numerous transfers between the various accounts and the numerous errors in reconciliations, OIG cannot explain the actual disposition of the funds represented by the outstanding checks. As shown in exhibit C, Wildwood changed banks effective in January 1997 and moved \$56,814.96 to the new bank in April 1997. After March 31, 1997, the outstanding checks drawn against the old bank no longer appeared on the bank reconciliations. In addition, the centers account contained \$17,472.56 at the end of March 2000. (Wildwood no longer administered centers after September 1999.) In both of these cases, the account balances reasonably included funds for aged outstanding checks.

RECOMMENDATION NO. 3

Coordinate with the SA to require the sponsor to provide adequate documentation of the disposition of checks shown as outstanding but not subsequently cleared through the

bank. Obtain refunds where the sponsor cannot document Federal funding was used for authorized purposes.

FNS Response

The FNS response showed it concurred with the recommendation and will coordinate with the SA to require Wildwood to provide documentation

regarding the disposition of outstanding checks consistent with FNS instructions. The instructions require that institutions undertake specific actions when facility payments are not liquidated timely and return aged payments to FNS via the SA. Further FNS will direct the SA to ensure the implementation of an acceptable financial management system includes reconciliation of all prior period checks identified in the audit as outstanding and that the funds for all aged checks identified in this process are also returned to FNS via the SA.

OIG Position

In order for us to consider the management decision, we need to receive evidence Wildwood has established adequate controls over aged outstanding checks and has been billed for the amounts due.

In the response, FNS requested additional information on what happened to the money in Wildwood's bank account that represented these outstanding checks. We have added a paragraph in the above finding to address this comment.

FINDING NO. 5
CASH WAS NOT PROPERLY CONTROLLED

The bank reconciliations prepared by Wildwood employees did not follow sound accounting practices, contained numerous errors, were not timely, and did not provide adequate control over the approximately \$10.7 million of Federal assistance for food provided to Wildwood each year. Timely and accurate reconciliations are an important internal control to protect cash.

Wildwood made numerous errors on the bank reconciliations for the homes food account and the centers account; which made the reconciliation process ineffective as a control function. For example, Wildwood's independent public accountant's report covering homes for the year ending September 30, 1999, reported as follows:

The periodic reconciliation of the sponsor's bank accounts is an important control designed to help safeguard the sponsor's cash. The sponsor's bank reconciliations were not timely prepared during the year ended September 30, 1999, (August and September not completed as of January 2000). In addition, the sponsor did not follow a procedure that requires all bank reconciliations to be reviewed by an employee not associated with the bank reconciliation preparation, which weakens the sponsor's internal controls.

Our review of the October 1996 through December 1999 bank reconciliations disclosed the following errors:

- 1) Checks were listed as outstanding that were not yet issued, had been voided as of the bank reconciliation date, or were out of the current series of numbers (improbable check numbers).
- 2) There were variances in the check amounts listed on the bank reconciliations compared to the check amounts that actually cleared the bank.
- 3) The bank reconciliations were not prepared timely and were generally not documented as to which employee prepared the reconciliation and whether a Wildwood management official reviewed and approved the reconciliation. (This was also a finding in the independent public accountant's report for the year ending September 30, 1999.)
- 4) Wildwood did not take action to return funds to the SA when reconciliations listed provider checks that were over 6 months old.
- 5) Wildwood incorrectly transferred the beginning bank balance (from the bank statement) to its bank reconciliation. This caused an error of nearly \$36,000, which contributed to an unexplained difference between the "book balance" and the corrected "bank balance" for that month of nearly \$32,000; which was never resolved by Wildwood.
- 6) Wildwood never listed some checks as outstanding but the date on the check indicated the checks had been outstanding several months prior to clearing the bank.

For example, Wildwood's March 1997 reconciliation showed 360 outstanding checks from prior months totaling \$115,439. We found 18 checks totaling \$3,551 which had already cleared, or which Wildwood should not have listed as outstanding, on the reconciliation. Similarly, our review of the March 1998 reconciliation showed Wildwood recorded 133 outstanding checks from before March totaling \$29,526. We identified 48 checks (totaling \$10,867), where, based on the check number, the check had previously cleared the bank. However, for 12 of the 48 check numbers, the amount that cleared the bank was different from the amount shown on the reconciliation.

We requested Wildwood to provide us with automated records of their check registers to allow us to perform various reconciliations. We found that over 1,800 checks cleared the bank that were not listed on the computerized check register files that Wildwood provided to us. For 167 records on the check register, we could not associate the transaction with a valid check number per the bank's records of cashed checks. (The check register showed a blank or a number outside the series of check numbers used for the period.)

We also identified 55 checks that cleared the bank although the date of the check (pay date on the check register) had not yet occurred. For example, four checks were shown in Wildwood's check register with a date of October 17, 1998, but cleared the bank in mid-September 1998. We also noted that check sequence numbers were not in date order (see example below).

Check No	Transaction Amount	Check Date (Pay Date)
122899	\$929.97	28-Oct-99
123407	\$289.03	04-Nov-99
123454	\$85.68	01-Oct-99
124041	\$460.35	01-Nov-99
124141	\$243.76	01-Oct-99

Wildwood advised that the pay date reflects the date Wildwood prints on the check to the provider (even if the check is printed earlier).

Wildwood responded to the finding in the independent auditor's report by stating the following:

“...Effective October 1, 1999, the Director of Finance reviews the completed bank reconciliations with at least one other director, and they both initial and date the statement....”

Even after the corrective action shown above, Wildwood continued to have questionable entries in the reconciliations. For example, the December 1999 bank reconciliation (approved by Wildwood's Director of Finance as of March 8, 2000) listed a check as outstanding that had cleared in a prior period for a different amount than recorded. In addition, this reconciliation listed 21 checks that had been outstanding for over 6 months.

Wildwood exhibited poor internal controls over voided checks. The voided checks resulted from printing errors, check number errors, revisions, and, for over 150 checks, the wrong year was printed on the checks. Based on

the number and type of errors, we concluded management had not taken effective action to ensure that voided checks were kept to a minimum level. The large volume of voided checks increased the difficulty of tracking and properly accounting for checks. It is important that proper internal controls be established over voided checks to prevent checks recorded as voided from being cashed.

We reviewed the bank records and reconciliations for Wildwood covering the periods October 1996 through December 1999 in the homes food account. A review of voided checks for 1998 showed Wildwood had voided over 600 checks. This large number of voided checks further exacerbates the problem of reconciling the bank records to book balances for cash. Some of the bank reconciliations exhibited problems such as including voided checks in the calculations. Until January 1998, Wildwood did not retain the voided checks. As of our review in April 2000, Wildwood maintained the voided checks in 14 large notebooks.

RECOMMENDATION NO. 4

Coordinate with the SA to require Wildwood to strengthen controls over cash, reconciliations, and voided checks. Monitor Wildwood to ensure it performs timely, accurate, and

meaningful reconciliations.

FNS Response

The FNS response showed it concurred with the recommendation and will coordinate with the SA to require Wildwood to strengthen controls over cash, reconciliations, and voided checks. FNS proposed that this recommendation would be satisfied once the consultant/CPA begins to work with Wildwood and monthly progress reports indicate controls are in place. Final action will occur when the independent auditor issues the agreed-upon procedures audit report.

OIG Position

Before we can consider this management decision, we need to be provided timeframes for implementing the corrective action. This should include the estimated dates for completion of the assessment of the functioning financial system.

GENERAL COMMENTS

1. Hiring of Relative Violated Wildwood's Policies

During 1999, Wildwood's president hired her relative to work for part of the year although employment policies specifically stated that it was the policy of Wildwood not to hire relatives of employees.⁹

Wildwood's administrative files included a Form W-2, Wage and Tax Statement, for an individual who employees identified as the relative of the president of Wildwood. The form showed earnings of \$4,444. A Wildwood official advised that the relative did photocopying and filing. She believed that, due to the nature of the work performed, the employment was not improper.

We believe that by violating its own policies, Wildwood management sent an improper message to its employees and the public.

⁹ Employee Handbook for Wildwood Child & Adult Care Food Program, Inc. and Wildwood Resources, Inc., 1/98, section 1-25.

EXHIBIT A – SUMMARY OF MONETARY RESULTS

Finding No.	Description	Amount	Reference
1	Liability of SA/Wildwood due to Wildwood's inadequate accounting system and lack of controls.	\$36,735,858	1/ 2/
4	Liability for aged checks never cashed by providers and centers.	\$159,753	1/

1/ Unsupported Costs - Recovery Recommended.

2/ This amount represents all Federal funding for food and administrative reimbursement received by Wildwood for FYs 1997 through 1999. The funding received was reduced by the questioned costs in Finding No. 2. We did not make any adjustments for the refunds made by Wildwood or the questioned costs resulting from other reviews and audits for the 3-year period.

EXHIBIT B – SITES VISITED

FNS Regional Office	- Denver, Colorado
CDPHE	- Denver, Colorado
Wildwood, Inc., Administrative Offices	- Littleton, Colorado
Colorado Business Bank	- Denver, Colorado
Independent Auditors	- Denver, Colorado

EXHIBIT C – CHECKS THAT NEVER CLEARED PER RECONCILIATIONS

BANK RECONCILIATION DATE	OUTSTANDING CHECKS PER WILDWOOD	UNACCOUNTED FOR CHECKS	REMARKS
<i>Providers</i>			
March 31, 1997	\$ 115,439.33	\$ 111,645.12	10
March 31, 1998	\$ 79,689.76	\$ 15,975.87	11
March 31, 1999	\$ 31,811.30	\$ 7,801.80	12
December 31, 1999	\$ 32,173.75	\$ 12,942.62	13
Subtotal		\$ 148,365.41	
 <i>Centers</i>			
		\$ 11,387.73	14
Total		\$ 159,753.14	

¹⁰ The March 31, 1997, reconciliation included \$47,477.01 of outstanding checks dated before August 1996. Wildwood changed banks effective in January 1997 and moved \$56,814.96 to the new bank in April 1997. After March 31, 1997, the outstanding checks drawn against the old bank no longer appeared on the bank reconciliations.

¹¹ The March 31, 1998, reconciliation included \$24,353.87 of uncleared checks issued between January 1997 and November 1997. In April 1998, Wildwood dropped from the reconciliation all uncleared checks with pay dates before April 1, 1998. We noted that four of the uncleared checks not shown on the April 1998 bank reconciliation subsequently cleared after April 1998.

¹² The March 31, 1999, reconciliation included checks from August 1998. We adjusted Wildwood's outstanding check total for checks that had actually cleared before the March reconciliation. We eliminated any checks that also appeared on the December 1999 reconciliation to prevent duplication of reporting.

¹³ The December 1999 reconciliation included checks from August 1998. We adjusted Wildwood's outstanding check total for checks that had actually cleared before the December reconciliation and checks that we identified as clearing during January and February 2000.

¹⁴ The August 1998 reconciliation for centers included 13 checks dated prior to 1997 and 5 checks issued during 1997.

EXHIBIT D – FNS RESPONSE TO THE DRAFT REPORT



United States
Department of
Agriculture

Food and
Consumer
Service

Mountain
Plains
Region

1244 Speer Boulevard
Denver, CO
80204-2581

Reply to
Attn of:

MPCN-300

NOV 06 2001

Subject:

FNS Response to 27010-6-KC Official Draft

To:

Dennis J. Gannon, Regional Inspector General for Audit
Office of Inspector General
Great Plains Region
5799 Broadmoor, Suite 600
Mission, Kansas 66202

We have the following comments regarding the Official Draft of the subject audit.

1. Page 12, 13 – The audit discusses that Wildwood lost \$36,000 in Fiscal Year (FY) 1998 according to its financial statements. If there is information available regarding FY 1999, we would like to see it included in the audit.
2. The last paragraph on page 12 refers to a particular month, December 1997, and the fact that expenses were higher than Wildwood's homes time rates calculation for that month. This does not seem pertinent since total yearly reimbursement is based on cumulative year-to-date figures, rather than monthly figures. Part 226.12(a) of the Regulations states: "Sponsoring organizations for day care homes shall receive payments for administrative costs. During any fiscal year, administrative costs payments to a sponsoring organization may not exceed the lesser of (1) actual expenditures for the costs of administering the Program less income to the Program, or (2) the amount of administrative costs approved by the State agency in the sponsoring organization's budget, or (3) the sum of the" Number 3 is the homes times rates calculation. We are not sure what point is being made by pointing out one month's expenses is more than the reimbursement received since it is the cumulative year-to-date figures that determine the total reimbursement for the year.

3. On page 15 under Finding No. 4, there is a discussion regarding outstanding checks that were dropped from bank reconciliations without explanation. We would like to see an explanation of what happened to the money in Wildwood's bank account that represented these outstanding checks. Does OIG know what happened to the money? If not, we believe a statement that it is unknown what happened to the money would be appropriate to include in the audit report.

Based on the Key Recommendations outlined by OIG, we concur and will coordinate with the State Agency (SA) to ensure that Wildwood develops an environment and strengthens controls to ensure financial reports are accurate.

Recommendation No. 1

We concur and will coordinate with the SA to ensure Wildwood is notified that the findings of this audit report are serious deficiencies and that Wildwood must correct these serious deficiencies in its operations, show that it can maintain adequate records that provide a complete, accurate, and current disclosure of the financial results of the Child and Adult Care Food Program, and establish effective control over and accountability for all Federal funding.

We propose to accomplish this with a two-phase plan as follows:

1. We will notify the SA that the findings of this report identify serious deficiencies in Wildwood's administration of the CACFP.
2. We will direct the SA to offer Wildwood technical assistance in establishing a financial management system at Wildwood that meets CACFP and generally accepted accounting principles. We anticipate that a consultant who is a Certified Public Accountant (CPA) would assist Wildwood in establishing this financial management system. We will require an over-all timeline for full implementation of an acceptable financial management system, with periodic progress reporting from the SA. These reports would include milestone reporting, identification of problems found and corrective actions taken. We anticipate implementing an adequate financial management system will take between 6 to 9 months.
3. As part of Wildwood's corrective action of these serious deficiencies, Wildwood must successfully maintain this new accountable financial management system. To ensure the system is adequately functioning, an agreed upon procedures audit covering a one year period would be arranged by the SA to ensure:

- Wildwood has corrected the serious deficiencies in its operations;
- Wildwood can demonstrate that it maintains adequate records that provide a complete, accurate, and current disclosure of the financial results of the CACFP;
- Wildwood has established effective control over and accountability for all Federal funding;
- Wildwood maintains two separate bank accounts (one for provider payments and one for CACFP family day care home administrative cost payments) and the integrity of the funds received from the SA;
- Wildwood has not made any transfers between accounts and reconciles each provider's earnings, payments and cleared checks;
- Wildwood identifies all outstanding checks to facilities and returns the money to FNS via the SA consistent with the requirements of FNS Instruction 796-2, Revision 3;
- Wildwood timely issues the full amount of funds due to each provider and does not withhold provider checks;
- Wildwood has sufficient non-Federal funds to cover all CACFP fund deficits; and
- Wildwood has incorporated a system of edit checks that result in a comprehensive review of provider monthly claim forms and rejects questionable provider claims. The edit checks, at a minimum, must compare number of meals claimed with the number of children and days enrolled for food service with the approved days of food service. Provider claims, which do not pass this edit check, must be rejected until a valid provider claim is submitted.

If Wildwood does not demonstrate that it has fully and completely corrected the serious deficiencies, the SA must provide Wildwood with a notice of its intent to terminate Wildwood's participation in the CACFP.

We will also make clear that neither Wildwood nor the SA can substitute the agreed-upon procedures audit for Wildwood's required A-133 audit

Recommendation No. 2

As documented in Recommendation No. 1 above, we propose to assure that Federal funds are used only for authorized purposes by having an independent auditor conduct an agreed upon procedures audit with the intent of ensuring the bulleted areas above have been corrected. We acknowledge that this solution would only ensure that current and future Federal funds are used only for authorized purposes. However, implementation of an acceptable financial management system will require reconstruction and reconciliation of prior accounting periods. We will direct that SA that if this reconstruction process identifies the improper use of Federal funds, overclaims must be established and collected, consistent with regulatory requirements.

Recommendation No. 3

We concur and will coordinate with the SA to require Wildwood provides documentation regarding the disposition of outstanding checks, consistent with FNS Instruction 796-2, Revision 3. This Instruction (page 103) requires that institutions undertake specific actions when facility payments (advances and reimbursements) are not liquidated timely and return aged payments to FNS via the SA.

Further, we will direct the SA to ensure the implementation of an acceptable financial management system includes reconciliation of all prior period checks identified in the audit as outstanding and that the funds for all aged checks identified in this process are also returned to FNS via the SA.

Recommendation No. 4

We concur and will coordinate with the SA to require Wildwood to strengthen controls over cash, reconciliations, and voided checks.

As documented in Recommendation No. 1 above, we propose that this recommendation will be satisfied once the consultant/CPA begins to work with Wildwood and monthly progress reports indicate controls are in place. Final action will occur when the independent auditor issues the agreed-upon procedures audit report.

If you have any questions, please contact Jo Ellen Collin at (303) 844-0359.



WILLIAM E. LUDWIG
Regional Administrator

ABBREVIATIONS

ADP	
Automatic Data Processing	10
CACFP	
Child and Adult Care Food Program	i
CDPHE	
Colorado Department of Public Health and Environment.....	1
CPA	
Certified Public Accountant.....	8
COFRS	
Colorado Financial Reporting System.....	3
FNS	
Food and Nutrition Service	i
FNSRO	
Food and Nutrition Service Regional Office	2
FY	
Fiscal Year.....	2
MIS	
Management Information System	5
OIG	
Office of Inspector General	10
OMB	
Office of Management and Budget	1
SA	
State Agency	i
SNIPIS	
Special Nutrition Programs Integrated Information System	3