



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

Food and Nutrition Service
Child and Adult Care Food Program
Oversight of Sponsor



Report No.
27010-8-KC
November 2001



UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL



Audit
Great Plains Region
5799 Broadmoor, Suite 600
Mission, Kansas 66202

DATE: December 28, 2001

REPLY TO
ATTN OF: 27010-8-KC

SUBJECT: Child and Adult Care Food Program, Oversight of Sponsor

TO: William E. Ludwig
Regional Administrator
Food and Nutrition Service, USDA
1244 Speer Boulevard, Suite 903
Denver, CO 80204

This report presents conditions noted during our audit¹ of the largest sponsor of the Child and Adult Care Food Program (CACFP) in Colorado. While reviewing Federal reimbursements made to the sponsor (Wildwood, Inc.), we found that the State Agency (SA) had neither recovered approximately \$27,000 of excess reimbursements received by a center sponsored by Wildwood, nor obtained the required waiver. In addition, Wildwood did not meet requirements of Office of Management and Budget (OMB) Circular A-133 because it did not timely provide independent audits and the audits did not include all Federal funds.

BACKGROUND

Wildwood, located in Littleton, Colorado, sponsored day care facilities that provided meals to children enrolled in the U.S. Department of Agriculture's 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 SA. In Colorado, the SA is the Colorado Department of Public Health and Environment. A SA administers the program through sponsoring organizations (sponsors), like Wildwood. A sponsor acts as a liaison between the SA and

¹ Audit Report No. 27010-6-KC, Child and Adult Care Food Program, Wildwood, Inc., Phase II, dated November 21, 2001.

participating centers and homes and is ultimately responsible for program operations at those facilities. This includes reviewing and monitoring the food service operations of centers they sponsor. Monitors must assess compliance with CACFP meal patterns, recordkeeping, and other requirements at least three times per year. Wildwood received reimbursements of over \$2,784,000 for the centers it sponsored for the 3 fiscal years (FY) ending September 30, 1999. For FY 1999, Wildwood received approximately 49 percent of the SA's total CACFP funds for food and administrative costs.

A SA is liable to FNS for failure to collect an overpayment unless FNS determines that the SA has conformed with regulations in issuing the payment and has made reasonable effort to recover the improper payment.² Sponsors receiving \$300,000 per year or more are required to have an annual audit performed in accordance with the OMB Circular No. A-133.

OBJECTIVES

Our objectives were to determine if the excess reimbursements received by a center sponsored by Wildwood had been properly serviced and to determine if the SA had ensured that the sponsor obtained independent audits meeting requirements.

SCOPE

As part of our overall review of Wildwood's operations, we traced the flow of disbursements from the FNS Mountain Plains Regional Office to the SA and to Wildwood for FYs 1997, 1998, and 1999. However, transactions in other periods were reviewed as deemed necessary to achieve our objectives. As part of the testing, we determined whether excess reimbursements received by a center sponsored by Wildwood had been properly serviced. We also tested compliance with OMB Circular A-133. We conducted the overall review during the period February through December 2000.

We conducted the audit in accordance with Government Auditing Standards.

METHODOLOGY

We reviewed FNS, SA, and Wildwood records at their respective locations in or near Denver, Colorado. We interviewed SA personnel and obtained spreadsheets from the Office of Inspector General – Investigations. Those spreadsheets contained data on the meals that should not have been reimbursed, broken down by child and by month. The spreadsheets also showed the total overclaims based on the applicable reimbursement rates published in the Federal Register.

² 7 CFR 226.14(c).

FINDINGS

Finding No. 1

FNS was not reimbursed for the full amount of the overclaims by one of Wildwood's centers. Although the SA had recovered over \$70,000 for the most recent 18-month period, the overclaims included earlier periods not included in the SA's billing. The period billed appeared to be based on the period covered by a legal action initiated by the State; however, there was no documented administrative determination or waiver from FNS covering the full period of the overclaim. As a result, a determination had not been made on Wildwood's and the SA's potential liability of approximately \$27,484³ in overpayments occurring beyond the 18-month period billed by the SA.

One of the centers that Wildwood sponsored overstated claims to Wildwood to increase its Federally funded meal subsidies. The center's owner/operator admitted that she overstated the number of meals served to children. The overbilled amounts included overclaims for periods after the children had left the centers. The period covered by the deliberate overclaims ran from December 1995 to April 1998. As a sponsor of centers, Wildwood had final administrative and financial responsibility for all facilities under its jurisdiction.⁴

On November 13, 1998, the SA sent a memo to Wildwood confirming an agreement that Wildwood would submit revised claims for the center for FYs 1997 and 1998. The SA advised us that Wildwood had repaid \$70,404 for the most recent 18 months ending March 1998. SA officials said that period was selected based on advice of the State's attorney. Since the overstated claims extended back to at least December 1995, there was a period of 10 months where the overclaimed Federal funds were not recovered, and for which a potential claim exists against Wildwood or the SA.

Recommendation No. 1

Require the SA to establish claims against the sponsor for the full amount of the loss, repay FNS, or submit documentation to allow FNS to determine if recovery can be waived.

FNS Response

The written response to the draft report (see exhibit B) showed FNS would bill the SA for the additional \$27,484 in overpayments made to the sponsor. FNS would also offer the SA the opportunity to submit documentation to FNS in support of an adjustment or waiver of this amount.

³ The calculation did not reflect any payments received by the center for cash-in-lieu of commodities.

⁴ 7 CFR 226.16(c).

OIG Position

In order for us to consider the management decision for this recommendation, we need to receive evidence showing FNS has billed the SA for the overpayments made to the sponsor.

Finding No. 2

Wildwood's required audit by an independent public accountant did not cover all Federal funds and was not conducted within the specified period. The SA advised that due to lack of funding, not all of Wildwood's agreements were contracted for audit and there was a problem obtaining the current audit because Wildwood and the SA could not agree on whom would pay the cost of the audit. As a result, there was reduced assurance that Federal funds were expended properly.

The OMB Circular A-133 audits provided for Wildwood for the year ending September 30, 1998, did not include approximately \$328,000 of Federal funding that Wildwood received and subsequently passed through to its centers.⁵ The audit report covering centers indicated that only the funds received by Wildwood for centers under a Title XX agreement were covered. Neither the OMB Circular A-133 audit of the homes nor the audit of the Title XX centers disclosed that some CACFP funds were covered under another audit. In addition, the reports did not show the amount of Federal funds not subject to audit. Further, the audit of the centers for the year ending September 30, 1999 (which was due June 30, 2000⁶), was not available for our review as of July 31, 2000.

Recommendation No. 2

Coordinate with the SA to require Wildwood to include all Federal funds in the required single audit and to obtain single audits within the specified timeframe. Instruct Wildwood and the SA to obtain prior approval from FNS if Wildwood deviates from the requirements of OMB Circular A-133.

FNS Response

FNS officials will instruct the SA to require that Wildwood obtains an applicable audit within the timeframes specified in OMB Circular A-133 and the compliance supplement. FNS officials will also ask the SA if it has received Wildwood's audit of centers for the year ending September 30, 1999. If not, the SA will be asked to determine if the audit was conducted. If it has been conducted, Wildwood must furnish a copy to the SA. If it has not been conducted, we will ask the SA to require Wildwood to obtain an organization-wide audit meeting the requirements of OMB Circular A-133. The SA must also ensure appropriate corrective action is taken by Wildwood regarding any findings of

⁵ OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 200 (a) provides that Non-Federal entities that expend \$300,000 or more in a year in Federal awards shall have a single or program-specific audit conducted in accordance with Circular A-133.

⁶ OMB Circular A-133, 235 (c).

the audit. Further, FNS officials will direct the SA to notify all CACFP institutions of the requirement for an organization-wide audit.

OIG Position

In order for us to consider the management decision for this recommendation, we need timeframes for completing the proposed actions.

CONCLUSIONS AND REQUIRED AGENCY ACTIONS

Your November 6, 2001, response to the draft report has been included in its entirety as exhibit B of this report. In order for us to consider the management decisions, we will need specific timeframes for completing the proposed actions and evidence showing the billings for the unallowable costs. In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing corrective actions taken or planned and the timeframes for accomplishing final action. Please note that the regulation requires management decisions to be reached on all findings and recommendations within 6 months from the date of report issuance.

We appreciate the assistance you and your staff provided to us during our review.

/s/

DENNIS J. GANNON
Regional Inspector General
for Audit

EXHIBIT A – SUMMARY OF MONETARY RESULTS

Finding No.	Description	Amount	Category
1	Liability for excess reimbursements received by a center.	\$27,484	Unsupported Costs - Recovery Recommended

EXHIBIT B – FNS RESPONSE TO THE DRAFT REPORTUnited States
Department of
AgricultureFood and
Consumer
ServiceMountain
Plains
Region1244 Speer Boulevard
Denver, CO
80204-2581Reply to
Attn of:

MPCN-300

NOV 06 2001

Subject:

FNS Response to 27010-8-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.

Recommendation No. 1

We will bill the State Agency (SA) for the additional \$27,484 in overpayments made to Playtime Plus. We will also offer the SA the opportunity to submit documentation to FNS in support of an adjustment or waiver of this amount.

Recommendation No. 2

We will instruct the SA to require that Wildwood obtains an applicable audit (organization-wide if Wildwood expends multiple Federal funds) within the timeframes specified in OMB Circular A-133 and the compliance supplement. However, to our knowledge, Wildwood currently only expends CACFP funds; therefore, Wildwood will have the option of selecting either an organization-wide or a program specific audit.

We will also ask the SA if Wildwood's audit of centers for the year ending September 30, 1999, has been received by the SA. If not, the SA will be asked to determine if the audit was conducted. If it has been conducted, Wildwood must furnish a copy to the SA. If it has not been conducted, we will ask the SA to require Wildwood obtain an organization-wide audit meeting the requirements of OMB Circular A-133. The SA must also ensure appropriate corrective action is taken by Wildwood regarding any findings of the audit.

Dennis J. Gannon, Regional Inspector General for Audit

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Further, we will direct the SA to notify all CACFP institutions of the requirements for an organization-wide audit, i.e., an institution must obtain an organization-wide audit when the institution expends more than \$300,000 in Federal funds from more than one source.

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

A handwritten signature in cursive script that reads "Bill".

WILLIAM E. LUDWIG
Regional Administrator

