



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

CACFP AUDIT FUNDS
CALIFORNIA DEPARTMENT OF
EDUCATION



**Report No.
27016-1-SF
April 2003**



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Western Region - Audit

75 Hawthorne Street, Suite 200

San Francisco, CA 94105-3920

TEL: 415-744-2851 FAX: 415-744-2871



DATE: April 16, 2003

REPLY TO

ATTN OF: 27016-1-SF

SUBJECT: CACFP Audit Funds – California Department of Education

TO: Allen Ng
Regional Administrator
Western Region
Food and Nutrition Service

ATTN: Kathleen Burks
Director of Financial Management

This report presents the results of our audit of the California Department of Education's (CDE) administration of Child and Adult Care Food Program (CACFP) audit funds. The cost of this activity is funded by the Food and Nutrition Service (FNS). We reviewed CDE (1) costs claimed for this activity during calendar year 2001, (2) controls for completing required reviews of CACFP audits, and (3) implementation of recommendations from two prior OIG audit reports. Except for some minor discrepancies related to personnel costs, we found no problems in the three areas that we reviewed.

BACKGROUND

The CACFP is designed to ensure that children and adults in day care facilities receive nutritious meals. The CACFP is administered at the Federal level by FNS and in California by CDE through public, nonprofit, and for-profit sponsors that act as liaisons to participating day care facilities.

CACFP sponsors that receive \$300,000 or more in program funds are required to contract with independent Certified Public Accountants (CPA's) to have an audit conducted of their operations.¹ FNS funds States² for the purpose of reviewing these audit reports (commonly referred to as A-133 audit reports) as well as conducting their own audits of participating sponsors. For this service, CDE receives audit funds

¹ Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, dated June 24, 1997.

² Public Law 106-224, dated January 6, 1999.

equivalent to 1½ percent of program funds. The funds may be used for personnel costs (i.e., salaries, benefits, associated indirect costs³), payments to CPA's, and other miscellaneous costs.

OBJECTIVES

The audit objectives were to review CDE (1) costs claimed for administration of CACFP audit funds during calendar year 2001, (2) controls for completing required reviews of CACFP audits, and (3) implementation of recommendations from two prior OIG audit reports.⁴

SCOPE

In one of our prior audits,⁵ we reported that CDE's personnel claims could not be verified and recommended that it establish a system to support its claims. Since CDE was unable to implement a system until January 2001, we selected calendar year 2001 to test claims of \$1,183,242. We reviewed 100 percent of the four largest cost categories (personnel, facilities operations, payments to CPA's for conducting A-133 audits, and communications), which totaled \$1,040,956,⁶ about 88 percent of the total claim.

To determine if CDE received all required sponsor A-133 audit reports, we reviewed records for fiscal years (FY's) 1999 to 2001. These records contained the names of 269 sponsors in FY 1999, 257 sponsors in FY 2000, and 240 sponsors in FY 2001 that were required to submit these reports.

Audit fieldwork was performed in California from October 2001 to October 2002 at the FNS Western Regional Office in San Francisco and at CDE in Sacramento.

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

METHODOLOGY

To accomplish our objectives, we performed the following procedures:

- We reviewed applicable public laws, regulations, General Accounting Office reports, and Office of Management and Budget (OMB) Circulars to familiarize

³ Indirect costs include charges for General Management and State-Wide Cost Allocation Plan (SWCAP). These charges are determined based on percentages applied to outlays and encumbrances for the period.

⁴ Audit Report 27601-8-SF, CACFP – Administration of 2-Percent Funds, dated March 1999, and Audit Report 27601-9-SF, CACFP – Quality of Audit Work, dated August 1999.

⁵ Audit Report 27601-8-SF, CACFP – Administration of 2-Percent Funds, dated March 1999.

⁶ This amount includes \$861,740 for direct costs of personnel, communications, facilities operations, and payments to CPA's and \$179,216 for applicable indirect costs.

ourselves with the requirements of the program.

- We contacted officials at the California Bureau of State Audits to determine its role in reviewing CDE operations and if the agency had concerns about CDE's administration of CACFP sponsor audits.
- At the FNS Western Regional Office, we obtained information about Management Evaluations and other reviews of the CACFP to determine if FNS was aware of past problems with the program. We interviewed FNS officials and obtained applicable program correspondence between FNS and CDE to determine how findings in the previous OIG audits were resolved. We obtained Financial Status Reports (SF 269) submitted by CDE to validate charges to the CACFP during our scope period.
- At CDE, we interviewed audit, program, and accounting officials to verify the status of prior audit recommendations. We reviewed CDE documentation of sponsor payments to determine if claims of CPA expenses were properly reimbursed. We compared employee timesheets to corresponding activity reports to determine if personnel costs charged to audit funds were allowable.
- To determine if CDE obtained all sponsor A-133 audit reports, we analyzed two CDE databases—one that identified the audit reports received and a second that identified which sponsors received CACFP funding.

FINDING

During calendar year 2001, some CDE employees incorrectly charged time to CACFP audit funds on their monthly timesheets when they worked on other unrelated activities. This occurred because (1) employees did not exercise due care in completing their timesheets, and (2) written procedures for charging time were incomplete. Further, audit supervisors missed the incorrect charges when they reviewed the timesheets. As a result, CDE claimed \$20,423 in unallowable costs and \$6,663 in unsupported costs. This resulted in an overreimbursement to CDE totaling \$27,086 (see exhibits A and B).

Regulations⁷ state CACFP audit funds are to be used “for the expense of conducting audits at the State and institution levels.” OMB Circular A-87⁸ provides “that Federal awards bear their fair share of cost...” The Circular also requires that employee compensation for time charged to Federal awards must be “identified specifically to the performance of those awards.”

CDE audit staff submits monthly timesheets to record time worked on various assignments. This includes time charged to general funding sources such as CACFP

⁷ Title 7 CFR 226.4(h) and 226.8(a), Child and Adult Care Food Program, dated January 1, 1998.

⁸ Cost Principles for State, Local, and Indian Tribal Governments, dated August 29, 1997.

audit funds, State Administrative Expense funds,⁹ and State funds. OIG audit report 27601-8-SF, dated March 1999, found that CDE had not provided the detail needed to confirm charges to the CACFP. The audit report recommended that CDE maintain adequate support for time charged to CACFP audit funds with appropriate time distribution records. In January 2001, CDE complied with this recommendation by requiring audit staff to submit supporting documentation (monthly activity reports) for specific activities performed. The monthly activity reports disclose the names of sponsors reviewed and other activities performed.

To determine if CDE audit staff correctly charged its time to CACFP audit funds, we compared time charged on the monthly timesheets with the entries recorded on the monthly activity reports. For calendar year 2001, we found that:

- CDE Claimed Unallowable Personnel Costs. Eleven auditors charged 326.5 hours for 49 desk reviews and 1 audit of non-CACFP sponsors. In addition, 17 auditors and staff charged 195.2 training hours that should have been charged to other programs. These hours resulted in unallowable charges of \$16,906 plus \$3,517 for indirect costs, which totaled \$20,423.
- CDE Claimed Unsupported Personnel Costs. Eight auditors charged 111.5 hours to CACFP audit funds that were recorded as miscellaneous, administrative, and general on their monthly activity reports. The auditors could not explain what they did or how this time benefited the CACFP. These hours resulted in unsupported charges of \$5,522 plus \$1,141 for indirect costs, which totaled \$6,663.

CDE supervisors informed us they discussed procedures for reporting time for desk reviews and audits with their staff. One supervisor also provided staff with a memo dated January 8, 2001, that discussed procedures for charging time to CACFP audit funds. Despite this direction, CDE auditors and staff did not exercise due care in completing their timesheets.

In addition, written procedures for charging training time were incomplete. The procedures provided to audit staff did not include instructions for allocating training that benefited more than one activity. The audit supervisors also missed the incorrect charges when they reviewed the timesheets.

FNS should recover \$20,423 from CDE for unallowable personnel costs claimed during calendar year 2001. In addition, FNS should recover \$6,663 for unsupported personnel costs unless CDE can provide evidence that these costs were related to CACFP audit efforts. To minimize future incorrect charges, FNS should require CDE to revise its written procedures to include instructions for allocating training time among all cost

⁹ State Administrative Expense funds are Federal funds paid to State agencies for administrative expenses incurred in supervising and providing technical assistance in connection with activities under the National School Lunch Program, the Special Milk Program, the School Breakfast Program, the Child and Adult Care Food Program, and the Food Distribution Program.

areas that receive benefit, and improve its method of validating time charged to CACFP audit funds.

Recommendation No. 1:

Recover \$20,423 from CDE for unallowable personnel and indirect costs claimed during calendar year 2001.

FNS Response:

FNS concurred with the finding and recommendation and will instruct CDE to return \$20,423 for unallowable personnel and indirect costs claimed during calendar year 2001.

OIG Position:

We agree with FNS' proposed corrective action. To achieve management decision, the agency needs to provide us with documentation that the State has been billed for the appropriate amount and support that the amount has been entered as a receivable on FNS' accounting records.

Recommendation No. 2:

Recover \$6,663 from CDE for unsupported personnel and indirect costs claimed during calendar year 2001, unless CDE can provide evidence that these costs are related to CACFP audit funds.

FNS Response:

FNS concurred with the finding and recommendation and will instruct CDE to return \$6,663 for unsupported personnel and indirect costs unless CDE can provide evidence that these costs are related to CACFP audit funds.

OIG Position:

We agree with FNS' proposed corrective action. To achieve management decision, the agency needs to provide us with evidence that these costs are related to CACFP audit funds. If this evidence is not available, the agency must provide us with documentation that the State has been billed for the appropriate amount and support that the amount has been entered as a receivable on FNS' accounting records.

Recommendation No. 3:

Require CDE to revise its written procedures to include instructions for allocating training time among all cost areas that receive benefit.

FNS Response:

FNS concurred with the finding and recommendation and will instruct CDE to revise its procedures to include instructions for allocating training time among all cost areas that receive benefit.

OIG Position:

We agree with FNS' proposed corrective action. To achieve management decision, the agency needs to provide us with documentation of its corrective action plan and a timeframe for determining when corrective action will be taken.

Recommendation No. 4:

Require CDE to improve its method of validating time charged to CACFP audit funds.

FNS Response:

FNS concurred with the finding and recommendation and will instruct CDE to improve its methods of validating time charged to CACFP audit funds.

OIG Position:

We agree with FNS' proposed corrective action. To achieve management decision, the agency needs to provide us with a corrective action plan and a timeframe for determining when corrective action will be taken.

CONCLUSIONS AND REQUIRED AGENCY ACTIONS:

Your March 21, 2003, response to the draft report has been included as exhibit C of this report. We agree with your proposed corrective actions but are unable to reach management decision for Recommendations Nos. 1, 2, 3, or 4 for the reasons cited above.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective action taken or planned and the timeframes for implementation of those recommendations for which management decision has not been reached. Please note that the regulation requires a management decision to be reached on all recommendations within a maximum of 6 months from report issuance and final action to be taken within 1 year of the management decision.

We appreciate the assistance and cooperation of your staff during our audit.

/s/

SAM W. CURRIE
Regional Inspector General
for Audit

EXHIBIT A - SUMMARY OF MONETARY RESULTS

RECOMMENDATION NUMBER	DESCRIPTION	AMOUNT	CATEGORY
1	CDE Charged Unallowable Personnel Costs to CACFP Audit Funds	\$20,423	Questioned Costs – Recovery Recommended
2	CDE Charged Unsupported Personnel Costs to CACFP Audit Funds	\$ 6,663	Unsupported Costs – Recovery Recommended
TOTAL MONETARY RESULTS		\$27,086	

EXHIBIT B - UNALLOWABLE AND UNSUPPORTED PERSONNEL COSTS CHARGED TO CACFP AUDIT FUNDS

MONTH / YEAR	UNALLOWABLE COSTS ¹	UNSUPPORTED COSTS ²	TOTAL
01/01	\$ 2,482	\$ 2,809	\$ 5,291
02/01	\$ 667	\$ 981	\$ 1,648
03/01	\$ 269	\$ 54	\$ 323
04/01	\$ 515	\$ 459	\$ 974
05/01	\$ 1,190	\$ 134	\$ 1,324
06/01	\$ 3,045	\$ 301	\$ 3,346
07/01	\$ 3,195	\$ 403	\$ 3,598
08/01	\$ 318	\$ 0	\$ 318
09/01	\$ 105	\$ 289	\$ 394
10/01	\$ 1,185	\$ 0	\$ 1,185
11/01	\$ 1,140	\$ 35	\$ 1,175
12/01	\$ 2,795	\$ 57	\$ 2,852
SUBTOTAL	\$ 16,906	\$ 5,522	\$ 22,428
INDIRECT COSTS ³	\$ 3,517	\$ 1,141	\$ 4,658
TOTAL	\$20,423	\$ 6,663	\$ 27,086

¹ CDE claimed personnel costs for 49 desk reviews, 1 audit, and training that should have been charged to other programs.

² CDE charged time to CACFP audit funds that could not be supported.

³ Indirect Cost Rates were 20.6 percent for the period January – June 2001 and 21.0 percent for the period July – December 2001.

EXHIBIT C - FNS' WRITTEN RESPONSE TO THE DRAFT REPORT



United States Department of Agriculture
Food and Nutrition Service

Western Region

Reply to
Attn of: 270016-1-SF

Subject: CACFP Audit Funds – California Department of Education

MAR 21 2003

To: Sam W. Currie
Regional Inspector General for Audit
Office of Inspector General

This responds to your memorandum dated January 23, 2003, requesting our comments on the official draft report of the subject audit.

Recommendation No. 1 – Recover \$20,423 from CDE for unallowable personnel and indirect costs claimed from January 2001 to December 2001.

FNS Response:
FNS concurs with the finding and recommendation. We will instruct CDE to return the \$20,423 for unallowable personnel and indirect costs.

Recommendation No. 2 - Recover \$6,663 from CDE for unsupported personnel and indirect costs claimed from January 2001 to December 2001, unless CDE can provide evidence that these costs are related to CACFP audit fund.

FNS Response:
FNS concurs with the finding and recommendation. We will instruct CDE to return the \$6,663 for unsupported personnel and indirect costs or provide evidence that these costs are related to CACFP audit fund.

Recommendation No. 3 – Require CDE to revise its written procedures to include instructions for allocating training time among all costs areas that receive benefit.

FNS Response:
FNS concurs with the finding and recommendation. We will instruct CDE to revise its procedures to include instructions for allocating training time among all costs areas that receive benefit.



Recommendation No. 4 – Require CDE to improve its methods of validating time charged to CACFP audit funds.

FNS Response:
FNS concurs with the finding and recommendation. We will instruct CDE to improve its methods of validating time charged to CACFP audit funds.

I apologize for the lateness of our response; however, we were working with the state to mutually resolve these issues.

EXHIBIT C - FNS' WRITTEN RESPONSE TO THE DRAFT REPORT

If you have any questions, please call Rod Regan of our financial management staff at (415) 705-1332, extension 240.


for  ALLEN NG
Regional Administrator
Western Region

cc: Janet Allen, RD, SNP, WRO
Kathleen Burks, FM, WRO

Informational copies of this report have been distributed to:

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