USDA

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

FOOD AND NUTRITION SERVICE
CHILD AND ADULT CARE
FOOD PROGRAM
OPPORTUNITIES INDUSTRIALIZATION
CENTER OF GREATER MILWAUKEE
MILWAUKEE, WISCONSIN

OFFICE OF INSPECTOR GENERAL • USDA •

Report No.
27099-22-CH
FEBRUARY 2002

USDA

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Midwest Region - Audit
111 North Canal Street - Suite 1130
Chicago, IL 60606-7295

DATE: February 27, 2002

REPLY TO
ATTN OF: 27099-0022-Ch

SUBJECT: Child and Adult Care Food Program – Opportunities Industrialization Center of Greater Milwaukee, Wisconsin

TO: Theodore O. Bell
Regional Administrator
Food and Nutrition Service
77 West Jackson Boulevard, 20th Floor
Chicago, IL 60604

ATTN: Frank Suchy
Accountant

This report presents the results of our audit of the CACFP as administered by the Opportunities Industrialization Center of Greater Milwaukee. The response to the official draft report, dated February 14, 2002, is included as exhibit C, with excerpts and the Office of Inspector General's position incorporated into the Findings and Recommendations section of the report.

Based on the response to the official draft report, we have reached management decisions on Recommendations Nos. 6, 7, 8, 9, 10, 11, 12,13, and 16. Please follow your agency's internal procedures in forwarding documentation for final action to the Office of the Chief Financial Officer. We have not reached management decision on Recommendations Nos. 1, 2, 3, 4, 5, 14, and 15. Management decisions on these recommendations can be reached once your have provided us with the additional information outlined in the report section, OIG Position.

In accordance with Department 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 yet been reached. Please note that the regulation requires a management decision to be reached on all findings and recommendations within a maximum of 6 months from report issuance.

/s/
EDWARD R. KRIVUS
Regional Inspector General

EXECUTIVE SUMMARY

CHILD AND ADULT CARE FOOD PROGRAM
OPPORTUNITIES INDUSTRIALIZATION CENTER
OF GREATER MILWAUKEE
MILWAUKEE, WISCONSIN

REPORT NO. 27099-22-Ch

RESULTS IN BRIEF

This audit report presents the results of our audit of the Child and Adult Care Food Program (CACFP) as operated by the Opportunities Industrialization Center of Greater Milwaukee (OIC-GM). The objective of our audit was to determine whether OIC-GM's claims for reimbursement were correct and whether its operational and administrative costs were supported and appropriate. We performed our audit at the request of the Food and Nutrition Service Midwest Regional Office.

Our review disclosed problems in both administrative costs and meal claims.

<u>Administrative costs were inflated by questionable lease arrangements</u>. By entering into less-than-arms-length leases for kitchen equipment, delivery vans, and rental space, OIC-GM used a device to increase its CACFP funding beyond actual program costs. Although regulations limit costs in transactions where one party is able to substantially control the other party, OIC-GM leased its own equipment back from its fully owned subsidiary at rates that would nearly double the cost of the equipment over the terms of the leases. We similarly found that the corporation from which OIC-GM leased its office space shared its officers and board of directors with OIC-GM and charged the organization rental fees that were higher than comparable costs.

For Fiscal Year (FY) 2000, OIC-GM's leases for kitchen equipment, vans, and rent cost the CACFP over $111,000 in excess costs. If allowed to run their full terms, the leases will cost the program about $359,000 in excess costs for the vans and equipment, and an additional $53,000 a year for the rental space.

<u>OIC-GM's monitoring of child care centers in FY 2001 did not ensure the propriety of CACFP meal claims</u>. The sponsor did not perform 112 of the 393 monitoring site visits required by regulations for FY 2000. We reviewed the monitoring checklist and determined that some significant

CACFP operations were not identified to be reviewed. The supervisors did not track the work of the monitors to verify that the required number of monitoring visits was performed. Also, the review forms did not require reviews of critical items such as participant enrollment eligibility, or meal accountability systems. Because of inadequate monitoring by OIC-GM, the following deficiencies were allowed to occur:

- Half of the centers (13 of 26) we visited claimed excessive meals for reimbursement.
- One center claimed lunches for children who were in school at the time and did not participate in the meal service.
- Over 3,100 meals were served to ineligible children during May 2000.

Excessive reimbursements for the months we reviewed totaled $8,840.

We also found that OIC-GM did not follow Federal or State regulations covering procurement of food and supply items for the program. OIC-GM did not purchase items under a sealed-bid procedure and did not complete written contracts with the vendors selected to supply the items. Thus, there is no assurance that OIC-GM purchased items for use in the CACFP at the best possible price.

KEY RECOMMENDATIONS

We recommend that FNS and the State Agency require OIC-GM to (1) recover the $111,000 paid for unallowable lease charges for kitchen equipment, vans, and rent and return this amount to the food service account, (2) return excessive real estate rental costs to the food service account, and (3) refund $8,840 for excess reimbursements for meals served to ineligible participants.

To improve its operations, we are recommending that OIC-GM (1) properly register all children who participate in the program, (2) implement a point-of-service meal accountability system at all of its sites, (3) make the required number of site visits per year, and (4) submit written procurement procedures for approval.

AGENCY RESPONSE

In its response dated February 14, 2002, FNS agreed with all of the findings and recommendations, and both FNS and the State agency are currently taking corrective actions.

OIG POSITION

Based on the corrective actions being taken by FNS and the State agency, we have reached management decisions on Recommendations Nos. 6, 7, 8, 9, 10, 11, 12, 13, and 16. Management decisions can be reached on the remaining recommendations once FNS has provided OIG with the additional information outlined in the report section OIG Position.

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INTRODUCTION

BACKGROUND

The U.S. Department of Agriculture's Child and Adult Care Food Program (CACFP) was implemented in 1968 to provide nutritious meals to children of low-income working parents. In 1989, the program was expanded to include older adults as well as children. The CACFP is administered at the Federal level by the Food and Nutrition Service (FNS) through its regional offices. The regional offices are responsible for authorizing State agencies to administer the CACFP through sponsoring agencies at the local level. The State agency for Wisconsin is the Wisconsin Department of Public Instruction, Community Nutrition Programs.

FNS regional offices (FNSRO), through State agencies, provide reimbursement for meals to sponsoring organizations for food service operations that meet specified nutritional requirements. Child care centers must be public, private nonprofit, or for-profit child care centers with at least 25 percent of their enrollment or licensed capacity receiving Title XX funds. In addition, child care centers must possess the applicable Federal, State, or local license or must meet local approval standards to provide day care services. Child care centers may operate the CACFP independently or under a sponsoring organization. Sponsoring organizations such as Opportunities Industrialization Center of Greater Milwaukee (OIC-GM) act as liaison between the child care centers and the State agency and are ultimately responsible for program operations in the child care centers they sponsor.

Each sponsor collects meal count data; reviews, approves, and prepares a consolidated monthly claim for the child care centers under its control; and submits the claim to the State agency. The sponsor receives reimbursement for meals served to qualified participants. Participants' eligibility category is determined from program applications where they are classified as free, reduced-price, or full-price (paid) depending on income categories. In addition, sponsors are also responsible for training facility staff and monitoring their meal service operations and the nutritional makeup of the meals served to ensure compliance with program requirements.

OIC-GM is a not-for-profit Wisconsin corporation organized to provide vocational training, counseling, assessment, and placement services to unemployed or underemployed individuals. In October 1999, OIC-GM began to participate in the CACFP by providing meals to day care and after-school centers in the capacity of a central kitchen. The number of centers under the sponsorship of OIC-GM varied each month during FY 2000. In May 2000, the sponsor delivered meals to 81 day care centers and 10 at-risk centers with an average daily attendance at the day care centers of 3,020 for 97,531 meals served and an average daily attendance for the at-risk center of 211 and 3,576 snacks served. For FY 2000, OIC-GM received reimbursement of $1,265,386 for 970,418 meals claimed.

OBJECTIVES

The objectives of this audit were to determine if claims submitted to the State agency by OIC-GM were correct and supported, and if OIC-GM's operational and administrative costs were appropriate. We performed our audit at the request of the Food and Nutrition Service Midwest Regional Office (FNSRO).

SCOPE

The scope of our audit was FY 2000 program operations; however, we reviewed selected months in FY 2001 as deemed appropriate. We performed audit work at the Wisconsin Department of Public Instruction in Madison, Wisconsin, and at the Opportunity Industrialization Center of Greater Milwaukee's offices in Milwaukee, Wisconsin. To accomplish the scope of the audit, we reviewed sponsor records for administrative and program costs for FY 2000. We also tested claims data at the sponsor's office for the month of May 2000. We selected the month of May in FY 2000, because it was the last full month of the fiscal year to be representative of that year's operations.

Besides reviewing sponsor records, we performed site visits to sponsored centers during the months of February and March 2001 to evaluate their FY 2001 operations. In FY 2001, the sponsor delivered meals to 91 centers. We judgmentally selected 26 of these for visits. We also reviewed the January 2001 weekly report for a 27th center, as well as its October 2000 monthly claim and visited this center to confirm a discrepancy in its October 2000 claim.

We conducted the audit in accordance with Government Auditing Standards as established by the Comptroller General of the United States.

METHODOLOGY

To accomplish the audit objectives we:

- Reviewed Federal and State regulations, policies and procedures relating to the CACFP;
- interviewed SA personnel and obtained the most recent monitoring review of OIC-GM;
- interviewed OIC-GM officials and reviewed documentation at OIC-GM's offices in Milwaukee, Wisconsin;
- reviewed documentation supporting claims for reimbursement of meals claimed and examined support for operating and administrative costs. These included claims, invoices, receipts, cancelled checks, bank statements, enrollment forms, operating licenses, menus and training, and monitoring records;
- judgmentally selected 27 centers operated by OIC-GM, as of May 2000, and completed a comprehensive file review to test the accuracy of the sponsor's claims.
- examined the CACFP accounting records to determine whether the accounting system was sufficient and whether CACFP funds were used for allowable purposes; and
- visited 27 child care centers to observe operations and to verify attendance.

FINDINGS AND RECOMMENDATIONS

CHAPTER 1 — QUESTIONABLE LEASE ARRANGEMENTS BY THE SPONSOR RESULTED IN UNNECESSARY COSTS TO THE CACFP

The sponsor used less-than-arm's-length lease arrangements as a device to improperly increase its CACFP funding beyond actual program costs. Lease payments for kitchen equipment, delivery vans, and rental space were made to related parties who charged more than the original cost for equipment or who based rental rates on property that was not comparable to the space provided.

With the start of FY 2000, OIC-GM became a sponsor for the CACFP and needed to acquire the equipment, transportation, and space necessary to prepare and deliver meals to centers under its sponsorship. To acquire the kitchen equipment and vehicles, OIC-GM entered into two separate lease agreements with its for-profit subsidiary, Opportunities Investment Associates (OIA). OIA and OIC-GM share the same personnel and office space. To acquire space, the sponsor entered into a third lease agreement with yet another related corporation. Since the leases were between corporations that shared officers and/or board members with the sponsoring organization, we concluded that none of these leases qualified as arm's-length transactions and were consequently subject to Federal regulations limiting costs and rates.

We determined that the questionable leases cost the CACFP over $111,000 in excess costs for FY 2000. If allowed to run their full terms and continued to be charged to CACFP, the leases will cost the program about $359,000 in excess costs for the kitchen equipment and vans, and an additional $53,000 a year for the rental space.

FINDING NO. 1

KITCHEN EQUIPMENT AND VEHICLES WERE LEASED BACK TO THE SPONSOR FOR MORE THAN THEIR TOTAL COST

The leasing contracts for FY 2000 between OIC-GM and OIA for kitchen equipment and food delivery vans set payment rates that were greater than the cost of the equipment being leased. OIC-GM and OIA officials stated that they believed they could charge the higher amount despite Federal regulations that limit rental costs between a corporation and its subsidiary. For FY 2000, the negotiated contracts will cost CACFP an additional $74,748 in program costs.

We reviewed OIC-GM's 1999 financial statements that had been prepared by its certified public accountant. We determined that OIA was a fully owned for-profit subsidiary of OIC-GM. Consequently, any leases between the two corporations would be considered transactions between related parties.

FNS Instruction 796-2, Revisions 2 and 3, define a less-than-arms-length lease as one under which one party to the lease agreement is able to control or substantially influence the actions of the other. Such leases would include those between divisions of an organization and between organizations under common control through common officers, directors, or members etc. OMB Circular A-122, "Cost Principles for Non-Profit Organizations," Attachment B, 46c further states that rental costs under less-than-arms-length leases are allowable only up to the amount that would be allowed had title to the property been vested in the organization. In other words, the lessor could not charge the lessee more than the lessee would have paid had it purchased the property itself.

- **Kitchen Equipment Lease**

  OIC-GM purchased kitchen equipment from a vendor for use in preparing meals for centers participating in the CACFP with OIC-GM as their sponsor. OIC-GM would act as a central kitchen for the centers under its sponsorship. Correspondence between the vendor of the kitchen equipment and an OIC-GM executive disclosed that OIC-GM, not OIA, had solicited bids for the kitchen equipment. The correspondence informed the vendor that theirs was the successful bid for supplying the equipment and further specified the place of delivery. Three checks, dated September 27, 1999, January 14, 2000, and June 1, 2000, were written to the vendor on OIC-GM's checking account totaling $318,939 as full payment for the equipment, including delivery costs.

  On September 27, 1999, OIA executed a contract with OIC-GM allowing OIC-GM to lease from OIA the same kitchen equipment that OIC-GM had purchased. Between the purchase date and the contract date, ownership of the equipment had been transferred from OIC-GM to OIA. We found no evidence that the for-profit subsidiary paid the nonprofit sponsor any sum for the transfer. OIC-GM officials could not provide us with documentation showing that the equipment had been legally transferred to OIA; and, since OIC-GM paid the full purchase cost, we could not verify that OIC-GM, not OIA, was in fact the owner of the equipment.

The contract stipulated that OIC-GM would lease the kitchen equipment for 10 years at a rate of $5,000 per month. The value of the lease for this 10-year period would be $600,000, or $281,061 ($600,000 - $318,939) in excess of the sponsor's original purchase price of the equipment. According to Federal requirements, the sponsor should have recovered the cost of the equipment by depreciating it over its usable life. Transferring the property to a subsidiary does not release the sponsor from this requirement, since the equipment in this less-than-arm's-length transaction would have to be treated as property vested in the sponsor. Insofar as the sponsor paid the full cost of the kitchen equipment, the cost of the equipment may still be recovered through depreciation. Even though ownership of the kitchen equipment may technically reside with the subsidiary, we concluded that the lease itself represented an unnecessary cost. The cost of the lease for its first year, FY 2000, was $60,000.

- **Vehicle Lease Contract**

On September 1, 1999, OIC-GM acquired seven delivery vans to use to transport prepared meals to the centers participating in the CACFP under their sponsorship. The vans cost a total of $131,238, of which OIC-GM paid $25,000 (an amount not reflected as a CACFP program expense) and OIA paid $106,238. On September 27,1999, the vans were leased to OIC-GM by OIA for 5 years at a rate of $500 per month per van. Over the life of the lease, the cost to the CACFP would amount to $210,000. This represents a $78,762 overcharge to the CACFP for the cost of the vans.

The invoices for the new vans showed that the vans were priced from approximately $19,500 to $20,300. Since OIA paid $106,238 of the purchase price, it would be entitled to receive rental payments of $1,771 per month, or an annual payment of $21,252. This would reimburse OIA for its cost in 5 years. The $25,000 paid by OIC-GM should be depreciated over the life of the asset.

During FY 2000, OIC-GM did not pay the full $3,500 per month for the seven vans as called for by the leases; according to OIC-GM officials, this occurred because of an oversight. Instead, OIA billed and was paid by OIC-GM $3,000 per month for an annual cost of $36,000 for the 7 vehicles. As a consequence, the overcharge for the vehicles for FY 2000 was $14,748 ($36,000 - $21,252).

An official for OIC-GM said that it was their understanding that the leases for the kitchen equipment and the vehicles were valid and could be for more than was originally paid for the leased items. The official was aware of Federal regulations regarding less-than-arm's-length transactions but stated that they had received legal advice concerning the lease arrangements with OIA and regarded the leases as proper.

We concluded that because OIC-GM holds a controlling interest in OIA through shared corporate officers and/or board members, the leases must be treated as less-than-arm's-length transactions between related parties and are subject to the regulations governing these types of leases. If allowed to run their full terms, the leases will cost the program almost $360,000 in excess costs for the vans and equipment.

FNS Regulation 226.9(c) provides for two methods of reimbursing institutions: (1) meals-times-rate payment, or (2) the lesser of the meals-times-rate or actual cost. Based on the determination made by the Wisconsin State Agency, all centers in that state are reimbursed by the meals-times-rate payment method, which entails no month-to-month comparison to the costs incurred by the institution for the meal service. As a result, we are not recommending that the State agency compute a direct overclaim against the sponsor based on the excessive rental and leasing payments reported in this finding. However, as noted in the finding, the sponsor must return these amounts to the food service account, and use any available surplus finds that may result from this to benefit the program or reduce the fees charged to participants.

RECOMMENDATION NO. 1

Instruct the State agency to direct OIC-GM to limit its charges to CACFP for the vehicle and kitchen equipment leases to the amounts allowable under the regulations for less-than-arms-length transactions.

Agency Response

FNS officials agreed with the recommendation, and State agency officials responded that they would restrict lease payments so that the total payments made under each lease would not exceed the acquisition cost of the leased property. In addition, the State agency agreed to monitor lease payments through the collection of a quarterly non-profit food service report.

OIG Position

To reach a management decision on this recommendation, FNS needs to provide us with documentation that the State agency has provided the sponsor with written notification of the restriction on the amount of lease payments.

RECOMMENDATION NO. 2

Instruct the State agency to direct OIC-GM to return $60,000 paid to OIA for lease payments on the kitchen equipment and $14,748 for overpayments made on the vehicle leases, for a total amount of $74,748 improperly charged during FY 2000, to the food service account. In addition, instruct the State agency to require the sponsor to return to the food service account any such amounts improperly charged subsequent to FY 2000.

Agency Response

FNS officials agreed with the recommendation, while State agency officials stated that they would require the sponsor to return the cited $74,748 in excessive lease payments for FY 2000 to the food service accounts. The State agency will also require that an independent audit be performed to verify the amounts of unallowable costs for years subsequent to FY 2000, and require that any such amounts be returned to the food service account.

OIG Position

To reach a management decision, FNS needs to provide us with documentation that the State agency has notified the sponsor of this requirement, along with the timeframes for completion of the audit and within which the sponsor will be required to return all required funds to the food service account.

FINDING NO. 2

COSTS OF RENTAL SPACE WERE EXCESSIVE

OIC-GM paid more to rent space than was charged for comparable space of industrial property in the area. This occurred because the leasing agent for the lessor relied on incorrect comparable rent studies and incorrect square footage data. We also noted that officers of the corporate owner of the rental property (the lessor) were also active or former officers of the sponsor organization, thus making it a less-then-arms-length transaction. For FY 2000, the sponsor paid approximately $36,350 in excessive real estate rent.

FNS Instruction 796-2 Revision 2, dated June 1994, states that space costs for facilities under less-than-arms-length arrangements may not exceed the amount that would have been allowed had the property been owned by the institution. Such transactions include, but are not limited to, all transactions between related parties. Revision 3 of the Instruction, dated May 14, 2001, provides further clarification by stating that allowable lease costs in such cases are limited by the amount that results from applying a 30-year life expectancy to the property's acquisition cost less the value of the land.

OIC-GM became a first-time sponsor with the CACFP beginning with FY 2000. OIC-GM was to be the central kitchen for those centers under its umbrella as sponsor. In this capacity, OIC-GM needed a facility to receive, store and prepare food for the centers under its jurisdiction. The lease for the property presently occupied began October 1, 1999. The lease indicates that there are 17,900 square feet being rented for an annual rental of $144,000 for a period of 7 years. The leasing agent for the lessor indicated in a memo to OIG that comparable rent factors were used to determine the rate for the lease, and that these resulted in a lease rate of $6.13 per square foot for 20,635 square feet.

We noted, however, that the sponsor and the corporate property owner shared a substantial number of officers, which could result in common control of both entities. We found these relationships:

- The leasing agent for the corporate owner of the property was on the board of directors of OIA. As noted earlier, OIA is wholly owned by OIC-GM.

- Three of the five members on the board of directors for the lessor were affiliated with OIC-GM and/or OIA, as follows:

    - The former chairman of OIC-GM was the president of the corporation that owned the property.
    - The secretary of the leasing corporation is the secretary of OIA and the chairman of the board of directors of OIC-GM.
    - The president of OIC-GM is also on the board of directors of the real estate corporation.

As stated in Finding No. 1, a less-than-arms-length lease is identified as one under which one party to the lease agreement is able to control or substantially influence the actions of the other. Such leases include those between organizations under common control through common officers, directors, or members etc. We concluded that the lease was in fact less-than-an arms-length transaction, and as such, the property should be considered as vested in the sponsor. Thus, the provisions of FNS Inspection 796-2 relating to less-than-arms-length transactions would apply.

To determine the acquisition cost of the property, we interviewed its previous owner who stated that it was sold to the present lessor for a total of $500,000. To determine how much of this was attributable to the land and how much to the building, we reviewed county tax records that indicate that the building accounts for approximately 57 percent of the value of the property as a whole. Based on this, the acquisition cost of the building could be estimated at $285,000. Over a 30-year life expectancy, the maximum amount that the sponsor could charge in leasing costs per year is $9,500. Since OIC-GM claimed leasing costs of $127,350 for FY 2000, this resulted in an excess cost of $117,850 for the first year.

The lease calls for payments of $144,000 per year, so for the remaining 6 years of the lease OIC-GM could be expected to claim a total of $864,000. However, based on the above, the maximum OIC-GM could claim is $57,000, for a projected overclaim of $807,000. Thus, the total projected overclaim for the 7-year term of the lease would be $924,850.

It should be noted, however, that OIC-GM officials also stated that they made alterations to the property in order to prepare it for program use. Depreciation of these costs, which according to a State agency official may total $1.4 million, could potentially offset a portion of the overclaims if the State determines that any of these qualify as additions to the $500,000 acquisition cost. FNS and the State agency will need to obtain the necessary information from the sponsor and the other involved parties to make this determination.

RECOMMENDATION NO. 3

Direct the State agency to require OIC-GM to return $117,850 in excessive rental costs to the food service account for FY 2000. In addition, determine the excess rental costs for FYs 2001 and 2002, and require that these also be returned to the food service account.

Agency Response

FNS officials agreed with the recommendation, while the State agency agreed to require the sponsor to return the cited $117,850 to the food service account. The State agency will also require that an independent audit be performed that will determine the amount of any related overpayments subsequent to FY 2000, and require that any such amounts also be returned to the food service account.

OIG Position

To reach a management decision, FNS needs to provide us with documentation that the State agency has notified the sponsor of this requirement, along with the timeframes for completion of the audit and within which the sponsor will be required to return all required funds to the food service account.

RECOMMENDATION NO. 4

Direct the State agency to require OIC-GM to amend the budget to have the real estate rental costs reflect the rental costs that are allowable under FNS Instructions.

Agency Response

FNS officials agreed with the recommendation, while State agency officials agreed to carefully analyze and approve the sponsor's budget, ensuring compliance with FNS Instruction 796-2, Rev. 3.

OIG Position

To reach a management decision on this recommendation, FNS needs to provide us with the timeframes within which the agreed-to actions will be completed.

RECOMMENDATION NO. 5

Direct the State agency to require that OIC-GM have an independent audit performed to verify that identified amounts from recommendations nos. 2 and 3 have been returned to the food service account.

Agency Response

FNS officials agreed with the recommendation, while State agency officials agreed to require the sponsor to have an independent audit performed in order to verify that overpayments have been returned to the food service account.

OIG Position

To reach a management decision, FNS needs to provide us with the timeframes within which the audit is to be completed.

CHAPTER 2	OIC-GM HAS NOT PROVIDED ADEQUATE OVERSIGHT OF ITS SPONSORED CENTERS

Our review of selected child care and outside-school-hours facilities under the sponsorship of OIC-GM disclosed that the sponsor's monitoring of its facilities was ineffective in assessing compliance with program requirements. The sponsor performed fewer than half of the monitoring visits required by regulations, and those visits that were performed did not provide a review of all significant CACFP operations. Supervisors did not track the work of the monitors performing facility reviews and review forms did not require reviews of participant enrollment, eligibility, etc. Inadequate monitoring by OIC-GM allowed the following deficiencies to occur undetected:

- Fifty percent of the 26 centers we visited claimed excessive meals for reimbursement for February and March 2001 during which we performed our visits.
- One center claimed 246 lunches on its October 2000 claim for children who were in school during that month.
- Eligibility determinations made by centers and submitted by the sponsor were inaccurate for half of FY 2000. We calculated that over 3,100 meals were served to ineligible children during May 2000.

Excessive reimbursements for the 4 months we reviewed totaled $8,840. We are recommending that the sponsor prepare written review procedures for monitors to follow to ensure their compliance with program regulations.

FINDING NO. 3

AUDIT SITE VISITS DISCLOSED WEAK CONTROLS OVER MEAL CLAIMS

Eighteen of the 26 centers we visited (69 percent) during February and March 2001 claimed ineligible meals for reimbursement due to inadequate meal accountability systems and poor recordkeeping by site supervisors. In addition, inadequate monitoring by the sponsor failed to identify the problems noted during our visits. As a result, the sponsor received $4,587 in excess meal reimbursements during the month reviewed. (See exhibit A.)

FNS Regulations[1] state that institutions should collect and maintain all necessary program records, to include documentation of enrollment of each participant at child care centers and outside-school-hours centers, and to include information used to determine eligibility for free and reduced price meals. FNS Instructions[2] further emphasize that meal service records shall support program earnings and that daily records of the reimbursable meals served to participants, taken at point of service, must be maintained for each meal service. Attendance data, by itself is not enough. FNS regulations[3] also state that reimbursement may not be claimed for meals served to children who are not enrolled.

We visited 26 child care centers under the sponsorship of OIC-GM and reviewed the centers' and the sponsor's meal accountability system. We selected claims for February and March 2001 to verify the meals claimed for reimbursement. We obtained weekly site reports, which were prepared by site officials, and we compared the number of program meals that were served to children to daily attendance records maintained at the site.

The centers' meal count records were inadequate and did not show meals by type served to children, did not ensure that meals were claimed only for children who were registered to participate, and did not ensure that meals were claimed only for children who were present during meal service. The sponsor was unaware of any of these deficiencies. Documents for the 18 deficient centers showed the following improper claims for the February and March 2001 period:

- Eight centers claimed meals for children who were not enrolled or who were absent during meal service. Neither the centers nor OIC-GM maintained family income forms and submitted total meal claims that did not reconcile with their daily attendance records for the 2 months. We counted 2,564 ineligible meals claimed by these centers for the 2 month period at $4,494.

- Five centers claimed meals in excess of the meal count observed by the OIG auditors. We counted 47 ineligible meals claimed by these centers, totaling $93, on the days of our visits.

- Two centers could not serve meals to 28 children on the dates of our visits because they did not have sufficient meals delivered.

- Six centers served children who were not on their rosters, and claimed the meals for reimbursement.

[1] FNS Regulations 226.15(e)(2) and 226.17(b)(7).
[2] FNS Instruction 796-2 Rev 2 Part IX C.
[3] FNS Regulation 226.17(b)(4).

We reviewed the OIC-GM monitoring reports for February and March 2001. We found that the sponsor had not identified any of the deficiencies our audit disclosed. (See Finding No. 6.)

As a result of the improper claims, the sponsor received $4,587 in excess reimbursement.

It is essential that site personnel complete daily records based on actual counts taken at each site for each meal service on each day of operation. It is no less important for the sponsor to ensure that an actual point of service meal accountability system has been implemented. Accurate records are vital to ensure that the sponsor receives all the reimbursement payments it is entitled to and that CACFP reimbursements accurately reflects program operations.

To address these problems, the State agency needs to work with the sponsor to ensure that an adequate meal accountability system has been implemented at all its child care facilities.

RECOMMENDATION NO. 6

Direct the State agency to collect $4,587 from OIC-GM for excessive meal reimbursements.

Agency Response

FNS agreed with the recommendation, and provided a copy of a bill for collection to the State agency for the cited amount, payable by February 15, 2002.

OIG Position

We accept FNS' management decision.

RECOMMENDATION NO. 7

Require the State agency to ensure that the sponsor implements a point-of-service meal accountability system that results in accurate meal counts and prevents the claiming of meals served to non-enrolled children.

Agency Response

FNS officials concurred with the recommendation, and the State agency responded that it had addressed this issue with the sponsor as a result of the administrative review conducted in 2001. As a result of this, the sponsor developed a point-of-service meal accountability system and WDPI is currently verifying that these procedures are being followed.

OIG Position

We accept FNS' management decision.

FINDING NO. 4

ONE CENTER CLAIMED MEALS FOR CHILDREN WHO WERE IN SCHOOL

One of the centers sponsored by OIC-GM claimed lunches for school-age children who were attending school that month and were not present during the lunch services. The site supervisor could not explain why this happened. This site was not among the 26 centers we had selected to visit, but came to our attention through a review of weekly reports. As a result of the inaccurate claim, OIC-GM received excess reimbursement of $534 for 246 lunches which were not served during the month of October 2000.

FNS regulations[4] state that each child care institution shall report each month to the State agency the total number of meals by type served to children.

We reviewed the day care weekly reports for October 2000, the only month for which a voucher was submitted by OIC-GM for FY 2001. The report showed that one child care center had claimed lunches for school-age children who would normally be in school for lunch. We went to the center and determined through observation, interview and review of the center's records that 12 school-age children were reported as having received lunch. We reviewed the October 2000 monthly claim, which was the only claim submitted for FY 2001 as of our review date, and determined that the center had claimed 246 lunches served to 12 school-age children. The director of the center agreed that the children had been in school that month and had not been served lunches. The sponsor's claim for October 2000 was overclaimed by 246 lunches, resulting in an overreimbursement of $534.

[4] See 7 CFR Part 226.11(d).

RECOMMENDATION NO. 8

Require the SA to collect $534 from OIC-GM for excessive meal reimbursements.

Agency Response

FNS agreed with the recommendation, and provided a copy of a bill of collection for the cited amount to the State agency, payable by February 15, 2002.

OIG Position

We accept FNS' management decision.

RECOMMENDATION NO. 9

Direct the State agency to instruct the sponsor to implement edit checks of monthly claims and supporting documents submitted by institutions under its administration, to ensure that only meals served to eligible children are claimed.

Agency Response

FNS officials agreed with the recommendation, and the State agency responded that the sponsor developed the cited edit-checks at the State agency's direction as part of the administrative review conducted in 2001. The State agency is currently verifying that the sponsor is adhering to the new procedures.

OIG Position

We accept FNS' management decision.

FINDING NO. 5

SPONSOR'S CONTROL OVER INCOME ELIGIBILITY APPLICATIONS NEEDS IMPROVEMENT

The sponsor did not have the centers under its administration obtain completed household size and income information forms so that children could be properly registered and classified correctly in their needs categories. This occurred because the sponsor did not properly register children for the program. As a consequence, OIC-GM submitted claims for reimbursement that did not accurately account for meals served to eligible children. From a limited review of only 14 centers, we determined that the sponsor received $3,719 in excess reimbursement for 3,134 meals served to ineligible children during the month in which the eligibility determinations were made.

FNS Regulations[5] state that centers shall collect and maintain documentation of the enrollment of each child, including information used to determine eligibility for free and reduced price meals. The regulations[6] also state that reimbursement may not be claimed for meals served to children who are not enrolled.

Each year, child care centers participating in the CACFP recertify the eligibility of children in attendance at the centers. Eligibility is based on household size and income, and allows for three categories: free, reduced-price, and non-needy. For FY 2001, the most current eligibility information was contained in household size and income forms submitted in May 2000.

At the sponsor's office, we reviewed the children's household size and income information forms for 27 of 91 centers under the sponsor's administration in May 2000. We compared the information on the forms to the May 2000 monthly registration report, which lists the registered children and their eligibility category as determined by sponsor personnel. When we found incomplete forms or missing forms, we categorized those children as non-needy. When we found forms in which the sponsor had incorrectly categorized children, we identified the correct category.

We also compared the children on the May 2000 monthly registered report to the children claimed on the weekly meal service records for 14 of the 27 centers reviewed for enrollment mix. We considered children who were not on the monthly registered report, but included as being served on the weekly meal service report, to be ineligible because they were not properly registered by the centers. Meals served to these children are not eligible for reimbursement.

We calculated the eligible reimbursement to the sponsor using our enrollment mix percentages and deducting the ineligible meal reimbursement for meals served to the ineligible children at the 14 centers. Our calculations (using both the percentages and the deductions) show that OIC-GM received $3,719 in excess reimbursement for 3,134 meals served to ineligible children for May 2000.

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[5] The regulations appear in 7 CFR Part 226.15(e)(2).
[6] See 7 CFR Part 226.16(d).

The May 2000 enrollment report would have been valid for the last half of FY 2000 and the first half of FY 2001, up to the time of the enrollment report for the following year. Consequently, the percentages would apply to claims over a 12-month period. For the 12 months of FY 2000, the sponsor claimed over 970,000 meals. However, because enrollment may vary throughout the year, we only applied the enrollment percentages to the month in which the enrollment determinations were made.

RECOMMENDATION NO. 10

Require the State agency to collect $3,719 from OIC-GM for excess meal reimbursements.

Agency Response

FNS concurred with the recommendation, and issued a bill for collection for the cited amount, with payment due by February 15, 2002.

OIG Position

We accept FNS' management decision.

RECOMMENDATION NO. 11

Require the State agency to instruct the sponsor to initiate controls that corroborate that household and income information have been adequately reviewed.

Agency Response

FNS officials agreed with the recommendation, and the State agency responded that the sponsor was required to develop the cited procedures as a part of the 2001 administrative review. The State agency is currently in the process of verifying that the sponsor is adhering to the new controls.

OIG Position

We accept FNS' management decision.

RECOMMENDATION NO. 12

Direct the State agency to require the sponsor to properly enroll all children who participate in the program.

Agency Response

FNS agreed with the recommendation, while the State agency responded that the sponsor was required to develop the cited controls as part of the 2001 administrative review conducted by the State agency. The State agency is currently verifying the sponsor's adherence to the new procedures.

OIG Position

We accept FNS' management decision.

FINDING NO. 6

OIC-GM DID NOT ADEQUATELY MONITOR ITS DAY CARE FACILITIES

OIC-GM performed fewer than the required number of site visits to its day care facilities, and monitors who did perform site visits used review forms that were not adequate to ensure sufficient review of the centers' food programs. The number of visits was insufficient because the supervisors did not oversee the work of the monitors to verify that the required number of monitoring visits was performed. Also the review forms, when used, did not contain coverage of important program areas. As a result, problems at the centers and program irregularities were not found and corrected in a timely manner.

FNS regulations[7] state that each sponsoring organization shall provide adequate supervision for effective monitoring of the program at all centers under its jurisdiction. At a minimum, the sponsor shall review food service operations to assess compliance with meal patterns, recordkeeping, and other program requirements. Such reviews shall not be performed less frequently than three times a year for day care centers or six times a year for outside-school-hours centers and at-risk centers.

The sponsor had 6 employees performing monitoring duties for the 81 day care centers and outside-school-hours centers under its administration in FY 2000. Through reviews of employee pay and time reporting records and interviews, we determined that the monitors spent on average 30 minutes per visit at small sites and 1.5 hours per visit at large sites.

[7] See 7 CFR Part 226.16 (d).

Based on the time spent per visit and the number of required visits by site (three visits to day care centers and six visits to outside-school-hours centers), we determined that the sponsor had adequate personnel to perform the required number of reviews at all centers. However, we also noted that the monitors, not a supervisor, were responsible for scheduling their own reviews. For FY 2000, the monitors performed 281 of the 393 required site visits. The monitors failed to schedule and perform 112 site visits at the active 81 sites.

For sites that were visited, OIC-GM monitors did not adequately review food service programs onsite because the review forms they followed did not cover all pertinent program areas. The forms specifically did not require monitors (1) to collect license and enrollment information, (2) to review lists of approved meal types per site, (3) to determine whether the sites were within licensed capacity, (4) to determine whether participating children were properly enrolled, (5) to ensure that corrective actions from prior problems had been taken, (6) to reconcile the children's names on enrollment worksheets to the names on enrollment forms, and (7) to compare the meal count or attendance during the visit to the prior period.

We selected 12 of the 26 sites visited by OIG auditors in February and March 2001 and compared OIG findings at these sites to OIC-GMs' monitor reviews made to the same sites during FY 2000. The OIG auditors found deficiencies at 7 of the 12 sites; the OIC-GM monitors found none. During their site visits the OIG auditors found that there were no family income forms, that children who were not registered were receiving meals, and that attendance during the day of the site visits was low compared to prior periods. Since the OIC-GM's monitoring form is inadequate, these areas were not documented as being covered during the monitors' visits, and no problems in these areas were noted.

RECOMMENDATION NO. 13

Instruct the State agency to review the OIC-GM monitor review form and require the sponsor to include all important program review areas on the form.

Agency Response

The State agency has approved new sponsor monitor-review forms, and is currently in the process of verifying that the sponsor is correctly utilizing the new forms.

OIG Position

We accept FNS' management decision.

RECOMMENDATION NO. 14

Instruct the State agency to provide training to OIC-GM monitors on how to perform monitoring reviews, and to require OIC-GM to prepare and provide written review procedures to ensure that monitors are making the required number of site visits per year in accordance with CACFP requirements and are following up to ensure sites are taking corrective actions to findings.

Agency Response

FNS concurred with the recommendation, and the State agency responded that it had addressed monitor training and monitoring procedures as part of the 2001 administrative review. The sponsor has developed monitoring procedures as part of the corrective actions from this review, and the State agency is currently verifying that the sponsor is following these procedures.

OIG Position

To reach a management decision, FNS needs to provide us with timeframes for the State agency to complete its training of the sponsor's onsite monitors.

CHAPTER 3	OIC-GM DID NOT USE FEDERAL PROCUREMENT PROCEDURES

FINDING NO. 7

The sponsor's contracting procedure for the procurement of food and food service supplies did not meet Federal or State agency procurement standards. The sponsor did not always select vendors based on sealed bids and did not require written contracts with the vendors it selected. As a result, there is the potential that vendors did not supply the sponsor with products at the most economical rates. Those potentially higher costs to the food program, if decreased, could be used to increase meal quality or reduce the meal charges to program participants.

FNS regulations[8] state that a sponsor shall establish procurement procedures that provide that sponsor officials shall review proposed procurement actions. The sponsor shall maintain records sufficient to detail the significant history of procurement. Those records shall include selection of contract type.

Wisconsin Department of Public Instruction Guidance Memorandum No. 4 states that procurement procedures for the purchase of goods and supplies of $10,000 or more annually shall follow competitive sealed bid procedures. Those procedures require that a contract be awarded to the low bidder, if responsive and responsible. Subsequent to our audit period (in May 2001), the State updated Guidance Memorandum No. 4 to increase the threshold to $100,000.

We interviewed sponsor personnel and reviewed the sponsor's written procurement procedures for food and food service supplies. From these sources, we determined that the food service manager is responsible for preparing the bid package, sending the bid package to potential bidders/vendors, receiving the bid package from the vendors, reviewing the vendors' responses, and determining which vendors to purchase from. There are no sealed bids, and the successful bidders are informed by telephone. There are also no written contracts between the sponsor and its vendors.

[8] See 7 CFR Part 226,22 (e) and (k).

We selected a judgmental sample of six vendors who supplied the sponsor with food and food service supplies in FY 2000 in order to document the procedure presently in use to purchase food. We selected these vendors because they accounted for the largest food-related purchases made by the sponsor for that fiscal year. The purchases from each vendor ranged from $19,800 to $204,000 and totaled $ 346,942.

The procurement procedures required by Federal regulations and by the Wisconsin Department of Public Instruction in Guidance Memorandum No. 4 are to ensure that there is free and open competition which will ensure that the best possible product or service has been purchased at the best price. OIC-GM has a food vendor register that is comprised of vendors soliciting business, staff recommended vendors and/or vendors recommended by other vendors.

The food manager sends out bid packages every 3 months to those businesses on the vendor register for food that will be needed in the ensuing months. The food manager receives and reviews the responses and also selects the vendors that will be used. With no second party review of the vendor selection and with no written contract, the sponsor may have potentially received supplies at a higher cost to the program than might otherwise have been available. With a reduction in costs, the extra funds could be used for increasing meal quality or reducing meal costs to participants.

RECOMMENDATION NO. 15

Require the State agency to instruct the sponsor to develop and submit written procurement procedures that meet both Federal and State program requirements.

Agency Response

FNS officials agreed with the recommendation, and stated that they are currently working with the State agency to reach a management decision.

OIG Position

To reach a management decision, FNS needs to provide us with its time-phased plan to implement the recommendation.

CHAPTER 4	THE SPONSOR USED AN INDIRECT COST RATE THAT WAS NOT APPROVED BY THE COGNIZANT AGENCY

FINDING NO. 8

OIC-GM charged the CACFP for indirect costs that had not been reviewed or approved by a qualified cognizant agency. Instead of sending the indirect cost rate to the Wisconsin Department of Work Force Development (the cognizant agency), OIC-GM submitted it directly to the Wisconsin Department of Public Instruction along with its CACFP cost claims. We concluded that indirect costs identified in the sponsor's budget as totaling $184,000 are questionable charges to the program.

OMB Circular A-122, "Cost Principles for Non-Profit Organizations," states that a nonprofit organization which has not previously established an indirect cost rate with a Federal agency shall submit its initial indirect cost proposal immediately after the organization is advised that an award will be made and, in no event, later than 3 months after the effective date of the award.

OIC-GM began its participation in the CACFP in October 1999, the start of FY 2000, and had not established an indirect cost rate with a Federal agency before that time. Consequently, OIC-GM should have submitted a proposed indirect cost rate no later than January 2000 to the Wisconsin Department of Work Force Development, the largest provider of funds to OIC-GM through the Welfare to Work Program.

We found that OIC-GM developed its own indirect cost rate but failed to submit it to the cognizant agency for approval. In the budget plan submitted to the Wisconsin Department of Public Instruction for FY 2000 for the CACFP, OIC-GM claimed $184,000 in indirect costs. Because the rate that produced this cost was never approved, we question the allowability of the cost. OIC-GM needs to submit its indirect cost rate and all supporting documentation to the Wisconsin Department of Work Force Development for approval of the rate or for adjustments, as needed.

RECOMMENDATION NO. 16

Instruct the State agency to require OIC-GM to submit its indirect cost rate to the cognizant agency for approval. Also, instruct the State agency to disallow any indirect costs included in the sponsor's budget until this has been done.

Agency Response

FNS officials agreed with the recommendation, and the State agency responded that upon release of the audit report, it would take action to disallow all indirect costs until the cognizant agency documents approval for the indirect cost rate. From that point on, the sponsor's indirect costs will be restricted to the rate approved by the cognizant agency.

OIG Position

We accept FNS' management decision.

EXHIBIT A – SUMMARY OF MONETARY RESULTS

FINDING NO.	DESCRIPTION	AMOUNT	CATEGORY
1	Sponsor paid excessive rental for kitchen equipment	$ 60,000	Funds To Be Put To Better Use
1	Excessive kitchen rental costs through end of lease period	$221,061	Funds To Be Put To Better Use
1	Sponsor paid excessive vehicle lease costs	$ 14,748	Funds To Be Put To Better Use
1	Excessive vehicle rental costs through end of lease period	$ 64,014	Funds To Be Put To Better Use
2	Excessive space rental costs paid by Sponsor	$117,850	Funds To Be Put To Better Use
2	Excessive space rental costs through end of lease period	$807,000	Funds To Be Put To Better Use
3	Sponsor received excess reimbursement	$ 4,587	Questioned Costs Recovery Recommended
4	Sponsor received excess reimbursement	$ 534	Questioned Costs Recovery Recommended
5	Sponsor received excess reimbursement	$ 3,719	Questioned Costs Recovery Recommended
8	Indirect costs	$184,000	Funds To Be Put To Better Use

EXHIBIT B – LIST OF OIC-GM SITES VISITED BY OIG AND PROBLEMS NOTED

	NAME OF SITE	(1) NOT ON ROSTER AT CENTER	(2) LOW ATTENDANCE AT CENTER	(3) RECORDS NOT UP TO DATE AT CENTER	(4) INCOME ELIGIBILITY FORMS NOT ON FILE AT SPONSOR	(5) MEALS CLAIMED IN EXCESS OF SERVICE	(6) TOO FEW MEALS ORDERED
1	Sherman Park						
2	E.M. Jones						
*3	Taylor Home	X				X	
*4	Providence Baptist Church		X	X			
*5	Jackie Robinson						
*6	Urban Waldorf					X	
*7	Giese School						X
*8	Martin Luther King					X	
*9	35th Street School		X				
10	Allen Chapel					X	
*11	Pierce School						X
12	Kid’s Korner North						
13	Betty’s I						
14	Betty’s III	X			X		
*15	Garden Homes	X	X		X		
*16	Granville School	X			X		
*17	Hampton Ave. School				X		
*18	Jerusalem Baptist						
19	Tiny Tunes		X				

	NAME OF SITE	(1) NOT ON ROSTER AT CENTER	(2) LOW ATTENDANCE AT CENTER	(3) RECORDS NOT UP TO DATE AT CENTER	(4) INCOME ELIGIBILITY FORMS NOT ON FILE AT SPONSOR	(5) MEALS CLAIMED IN EXCESS OF SERVICE	(6) TOO FEW MEALS ORDERED
20	Teachable Moments				X		
*21	Incarnation Lutheran						
22	Sallie's Loveland					X	
*23	Northcott Neighbor-hood	X	X		X		
*24	Washington Park	X	X	X	X		
25	Guardian Angel Learning Center						
26	King Drive Day Care			X	X		
	18 CENTERS WITH PROBLEMS	**6**	**6**	**3**	**8**	**5**	**2**

*Outside School Hours Center

We determined that 18 of the 26 centers reviewed had problems, as noted below:

1) Six centers served children who were not on their rosters.
2) Six centers had low attendance on the date of the visit compared to the period prior to the visit.
3) Three centers had meal count and/or attendance records that were not up to date.
4) Eight centers did not have income forms on file with the sponsor. These centers served 2,564 meals, reimbursed for $4,494, during the period of our review.
5) Five centers claimed 47 meals reimbursed for $93.14 in excess of the meal count observed by the OIG auditors.
6) Two centers did not serve 28 children because they did not have sufficient meals delivered.

United States Department of Agriculture

Food and Nutrition Service

Midwest Region

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USDA

MWCN 202: SA 3-2: 27099-22-Ch

FEB 14 2002

Mr. Edward R. Krivus, Regional Inspector General
Office of the Inspector General
Midwest Regional Office
111 North Canal Street, Suite 1130
Chicago, IL 60606-7295

Dear Mr. Krivus:

We have received the Official Draft Report 27099-22-Ch, entitled, "Food and Nutrition Service Child and Adult Care Food Program Opportunities Industrialization Center of Greater Milwaukee Milwaukee, Wisconsin." We address each recommendation below.

Recommendation 1: Instruct the State agency to direct OIC-GM to limit its charges to CACFP for the vehicle and kitchen equipment leases to the amounts allowable under the regulations for less-than-arms-length transactions.

FNS agrees with this recommendation.

The Wisconsin Department of Public Instruction (WDPI) will restrict lease payments so that the total payments made under each lease will not exceed the acquisition cost of the leased property. Also, they will monitor lease payments through the collection of a quarterly non-profit food service report.

Recommendation 2: Instruct the State agency to direct OIC-GM to return $60,000 paid to OIA for the lease payments on the kitchen equipment and the $14,748 for overpayments made on the vehicle leases, for a total amount of $74,748 improperly charged during FY 2000, to the food service account. In addition, instruct the State agency to require the sponsor to return to the food service account any such amounts improperly charged subsequent to FY 2000.

FNS agrees with this recommendation.

WDPI will require OIC-GM to return $74,748 in lease overpayments to its food service account. Also, the State will require that OIC-GM obtain an independent audit to verify the amounts of unallowable costs for years subsequent to FY 2000, and to return those funds to the food service account.

Recommendation 3: Direct the State agency to require OIC-GM to return $117,850 in excessive rental costs to the food service account for FY 2000. In addition, determine the excess rental costs for FYs 2001 and 2002, and require that these also be returned to the food service account.

FNS agrees with this recommendation.

AN EQUAL OPPORTUNITY EMPLOYER

WDPI will require OIC-GM to return $117,850 in excessive rental space costs to the food service account. The State will also require that an independent audit be performed that will determine the amount of any related overpayments, subsequent to FY 2000, and require that these funds be returned to the food service account.

<u>Recommendation 4</u>: Direct the State agency to require OIC-GM to amend the budget to have the real estate rental costs reflect the rental costs that are allowable under FNS Instructions.

FNS agrees with this recommendation.

WDPI will carefully analyze and approve OIC-GM's budget, ensuring its compliance with FNS Instruction 796-2, Rev. 3.

<u>Recommendation 5</u>: Direct the State agency to require that OIC-GM have an independent audit performed to verify that identified amounts from recommendations nos. 2 and 3 have been returned to the food service account.

FNS agrees with this recommendation.

WDPI will require OIC-GM to have an independent audit performed in order to verify that overpayments have been returned to the food service account.

<u>Recommendation 6</u>: Direct the State agency to collect $4,587 from OIC-GM for excessive meal reimbursements.

FNS agrees with this recommendation.

WDPI will collect $4,587 from OIC-GM in excess meal reimbursement, and return this amount to FNS.

<u>Recommendation 7</u>: Require the State agency to ensure that the sponsor will utilize a point-of-service meal accountability system, that will result in accurate meal counts and prevents the claiming of meals served to non-enrolled children.

FNS agrees with this recommendation.

WDPI addressed this issue with OIC-GM as a result of an administrative review conducted in FY 2001. OIC-GM developed point-of-service meal count procedures, and WDPI is currently in the process of verifying that these procedures are being followed.

<u>Recommendation 8</u>: Require the SA to collect $534 from OIC-GM for excessive meal reimbursements.

FNS agrees with this recommendation.

WDPI will collect $534 from OIC-GM in excess meal reimbursement, and return this amount to FNS.

Recommendation 9: Direct the State agency to instruct the sponsor to implement edit checks of monthly claims and supporting documents submitted by institutions under its administration, to ensure that only meals served to eligible children are claimed.

FNS agrees with this recommendation.

WDPI addressed OIC-GM's edit checks as part of a FY 2001 administrative review. OIC-GM developed procedures as part of its corrective action plan, and WDPI is currently in the process of verifying that OIC-GM is adhering to these procedures.

Recommendation 10: Require the State agency to collect $3,719 from OIC-GM for excess meal reimbursements.

FNS agrees with this recommendation.

WDPI will collect $3,719 from OIC-GM in excess meal reimbursement, and return this amount to FNS.

Recommendation 11: Require the State agency to instruct the sponsor to initiate controls that corroborate that household and income information have been adequately reviewed.

FNS agrees with this recommendation.

OIC-GM was required to develop procedures to ensure that household and income information are reviewed by the sponsor, in response to an administrative review conducted by WDPI in FY 2001. Currently, WDPI is in the process of verifying that OIC-GM is adhering to these procedures.

Recommendation 12: Direct the State agency to require the sponsor to properly enroll all children who participate in the program.

FNS agrees with this recommendation.

OIC-GM was required to develop procedures to ensure that each child is enrolled, as part of an FY 2001 administrative review. OIC-GM developed enrollment procedures as part of its corrective action plan, and WDPI is currently in the process of verifying that OIC-GM is adhering to these procedures.

Recommendation 13: Instruct the State agency to review the OIC-GM monitor review form and require the sponsor to include all important program review areas on the form.

FNS agrees with this recommendation.

WDPI has approved OIC-GM's monitor forms for FY 2002. The State is currently in the process of verifying that OIC-GM is utilizing the new monitoring forms correctly.

Recommendation 14: Instruct the State agency to provide training to OIC-GM monitors on how to perform monitoring reviews, and to require OIC -GM to prepare and provide written review procedures to ensure that monitors are making the required number of site visits per year in accordance with CACFP requirements and are following up to ensure sites are taking corrective actions to findings.

FNS agrees with this recommendation.

WDPI addressed OIC-GM's monitor training and monitoring procedures, as part of an FY 2001 administrative review. OIC-GM developed monitoring procedures as part of its corrective action plan, and WDPI is currently in the process of verifying that OIC-GM is following these procedures.

Recommendation 15: Require the State agency to instruct the sponsor to develop and submit written procurement procedures that meet both Federal and State program requirements.

FNS agrees with this recommendation.

USDA-FNS is currently working with the State in order to reach management decision.

Recommendation 16: Instruct the State agency to require OIC-GM to submit its indirect cost rate to the cognizant agency for approval. Also, instruct the State agency to disallow any indirect costs included in the sponsor's budget until this has been done.

FNS agrees with this recommendation.

Upon release of the OIG audit, WDPI will take action to disallow all indirect costs until the cognizant agency documents approval for the indirect cost rate. OIC-GM's indirect costs will then be restricted to the rate approved by the cognizant agency.

FNS agrees with Exhibit A, Summary of Monetary Results, contained within the audit report.

If you have any questions, please call Julie Mikkelson at 312-886-5514.

Sincerely,

by Mary Jane Lillenger

THERESA E. BOWMAN
Regional Director
Special Nutrition Programs