



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

**FOOD AND NUTRITION SERVICE  
NATIONAL SCHOOL LUNCH PROGRAM  
CONTROLS OVER FOOD SERVICE MANAGEMENT  
COMPANIES, SOUTH CAROLINA  
SCHOOL YEARS 1997 THROUGH 1999**



**REPORT NO.  
27601-10-At  
FEBRUARY 2001**



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



DATE: February 16, 2001

REPLY TO  
ATTN OF: 27601-10-At

SUBJECT: National School Lunch Program – Controls Over Food Service  
Management Companies, South Carolina

TO: Virgil L. Conrad,  
Regional Administrator  
U.S. Department of Agriculture  
Food and Nutrition Services  
61 Forsyth Street, SW, Suite 8T36  
Atlanta, GA 30303

**SUMMARY:**

This report presents the results of our audit of Food Service Management Companies (FSMC) that manage school food service programs in South Carolina. The audit was part of a nationwide audit of School Food Authorities (SFA) who contracts with FSMC to operate and manage their National School Lunch Program (NSLP) and School Breakfast Program (SBP). Prior Office of Inspector General audits and investigations disclosed that FSMC does not always pass on to SFA the full value of the U.S. Department of Agriculture's (USDA) donated commodities and/or discounts and rebates on commercial purchases. For the two FSMC's we reviewed in South Carolina, we found they properly accounted for USDA-donated commodities and passed on to SFA the full value for donated-commodities, rebates, and discounts. We did find that the SFA could improve their monitoring of FSMC to ensure compliance with contract terms and other regulatory requirements.

**BACKGROUND:**

Under agreements with State agencies, SFA's are responsible for operating school nutrition programs in schools under their jurisdiction. SFA may contract with a FSMC to manage food service operations. SFA must provide adequate safeguards over contractor activities to ensure that food service operations are in accordance with program objectives. All USDA-donated commodities and other benefits such as discounts and rebates the FSMC receives from commercial purchases must accrue only to the benefit of the SFA's school food service account. SFA's are also required to have a sufficient number of knowledgeable staff to coordinate, monitor, review, and control food service operations and to perform responsibilities retained by the SFA.

A contract between SFA and FSMC can be either fixed rate (price per meal) or cost reimbursable. The SFA is required to insure that all USDA commodities the FSMC receives are used for the school food service only and the full value of commodities benefits the SFA's food service operation. Fixed price per meal contracts are to reflect a reduction in the billed amount that is equal to the value of USDA-donated commodities used. For cost reimbursable contracts, FSMC is required to pass on to SFA all discounts and rebates on purchase of foods and supplies.

In South Carolina there are 88 SFA's. For the 2 school years 1997 through 1999, the 88 SFA's were reimbursed approximately \$336 million for meals served. Ten of the 88 SFA's contracted with 2 FSMC's to manage their food service operations. The 10 SFA's were reimbursed approximately \$29 million for school years 1997 through 1999. One FSMC contracted with eight SFA's who were reimbursed approximately \$22 million for the period and the other FSMC contracted with the remaining 2 SFA's who were reimbursed approximately \$7million for the period.

South Carolina received USDA-donated commodities valued at approximately \$37 million for the 2 school years. The 10 SFA's that contracted with FSMC received approximately \$3.7 million in USDA-donated commodities during the period.

### **OBJECTIVES:**

The objective of the audit was to determine whether controls at the State agency and SFA were sufficient to ensure that FSMC credited SFA for the full value of USDA-donated commodities and passed all purchase discounts, rebates, and other credits applicable to the NSLP/SBP to SFA.

### **SCOPE:**

Our review was performed at the State agency in Columbia, South Carolina; three SFA's (two located in Spartanburg, South Carolina, and one in Greenwood, South Carolina); and at the two FSMC's both located in Spartanburg, South Carolina. Our audit covered the contracts between the 3 SFA's and the 2 FSMC's for school years 1997 through 1999.

### **METHODOLOGY:**

To accomplish our audit objectives, we reviewed applicable laws, regulations, and procedures, and evaluated the State agency's and SFA's controls over FSMC. We evaluated (1) the Request for Proposal (RFP) and contracts under which FSMC agrees to manage the SFA's food service operation, (2) FSMC's procedures to account for USDA-donated commodities and issue credits for the full value of USDA donated-commodities, (3) FSMC's procedures to ensure that discounts, rebates, or other credits were properly accounted for and credited to SFA, and (4) SFA's and FSMC's procedures to ensure the accuracy of meal counts. We also conducted interviews and performed record reviews at the State agency, SFA and FSMC.

**DETAILS:**

The three SFA's we visited received full value from FSMC for donated commodities, discounts, and rebates. During the audit period, the 3 SFA's received credit for approximately \$1.4 million in USDA donated commodities, and rebates and discounts of about \$5,100 from the FSMC's. Our examination of the FSMC's fiscal and procurement records did not disclose any other rebates, discounts, or credits.

We did find that the three SFA's did not monitor or document their monitoring of FSMC to ensure that the companies complied with the contract terms and other applicable Federal, State and local rules and regulations. As required in the USDA Food and Nutrition (FNS) Service Handbook "Contracting With Food Service Management Companies" (Chapter 7), SFA monitoring responsibilities include evaluating documentation supporting claims for reimbursement, reviewing meal count records, cost records, meal patterns, and menus. Although our review did not disclose any improprieties, SFA should be more active in their monitoring efforts. SFA officials agreed that they should do a better job of monitoring FSMC. They said that they would develop checklists and logs to assist them in monitoring FSMC and increase their monitoring efforts over FSMC.

**RECOMMENDATION:**

Require SFA to monitor their FSMC's to ensure compliance with contract terms and applicable rules and regulations.

**FNS RESPONSE:**

In its February 15, 2001, response (attachment), FNS replied, "We agree with the findings and recommendations for corrective action as stated. We will monitor the State Department of Education in South Carolina to ensure that they advise School Food Authorities of their responsibilities to manage their food service management company contracts."

**OIG POSITION:**

We accept the management decision for this recommendation.

A copy of your February 15, 2001, response and this memorandum are being provided to the Office of the Chief Financial Officer (OCFO). Follow your internal agency procedures in forwarding final action correspondence to the OCFO.

Virgil Conrad

Page 4

We appreciate the cooperation extended to us by you and your staff during our review.

/S/  
RAYMOND G. POLAND  
Regional Inspector General

Attachment

cc: OCFO



United States Department of Agriculture  
Food and Nutrition Service

Southeast Region

Reply to  
Attn. of: CN 3-1 OIG Audit No. 27601-10-AT

February 15, 2001

**Subject:** 27601-10-AT

**To:** Raymond G. Poland, Regional Inspector General  
Office of Inspector General  
United States Department of Agriculture  
401 West Peachtree Street, Suite 2328  
Atlanta, Georgia 30308

This is to advise you that we have reviewed the subject audit report on Food Service Management Contracts and agree with the findings and recommendations for corrective action as stated. We will monitor the State Department of Education in South Carolina to ensure that they advise School Food Authorities of their responsibilities to manage their food service management company contracts.

If you have any questions about this matter, please contact Lanna Kirk at (404)562-7072.

A handwritten signature in black ink, appearing to read "C. Simmons".

CHARLIE SIMMONS  
Regional Director  
Special Nutrition Programs

**Attachment**