



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

Food and Nutrition Service  
National School Lunch Program  
Food Service Management Company  
Cost Reimbursable Contracts in Missouri



**Report No.  
27601-14-KC  
December 2002**



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL - AUDIT

Great Plains Region

8930 Ward Parkway, Suite 3016

Kansas City, Missouri 64114-3302

TEL: 816.926.7667 FAX: 816.926.7676



DATE: December 23, 2002

REPLY TO

ATTN OF: 27601-14-KC

SUBJECT: National School Lunch Program – Cost Reimbursable Contracts in Missouri

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

This report presents the results of our audit concerning the National School Lunch Program and one food service management company. Your staff's December 13, 2002, written response is included as exhibit B with excerpts and our positions incorporated into the relevant sections of the report. Based on the lack of information concerning the timeframes for accomplishing the contemplated actions contained in the reply, we were unable to achieve management decisions for any of the recommendations in the report.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned for each recommendation, including estimated timeframes for implementation. Please note that the regulation requires a management decision be reached on all recommendations within a maximum of 6 months after report issuance.

We appreciate the cooperation and assistance extended by your office, the Missouri State agency, and the school food authority during the review.

/s/

DENNIS J. GANNON  
Regional Inspector General  
for Audit

Attachment

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# EXECUTIVE SUMMARY

## FOOD AND NUTRITION SERVICE FOOD SERVICE MANAGEMENT COMPANY COST REIMBURSABLE CONTRACTS IN MISSOURI

AUDIT NO. 27601-14-KC

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### RESULTS IN BRIEF

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We evaluated if payments made by a school food authority (SFA) in Missouri to a food service management company (FSMC) were appropriate. Specifically, we evaluated Food and Nutrition Service (FNS), State agency (SA), and SFA controls over the adequacy of requests for proposal and contracts under which the FSMC agreed to manage the SFA's food service and, in particular, the FSMC's compliance with FNS regulations and guidelines. We selected the FSMC for review based on information developed from our work on a prior nationwide audit of selected FSMC's on whether they had credited SFA's for the full value of United States Department of Agriculture (USDA) donated commodities used and for all volume purchase discounts, rebates, and other credits. We selected the Poplar Bluff SFA for review based on its having the highest total meal reimbursements of Missouri SFA's with cost reimbursable contracts with the FSMC. We determined that controls were insufficient to ensure that costs charged to the SFA by the FSMC were supported by documentation, such as vendor invoices. As a result, the FSMC billed and the SFA paid for \$7,418 in unallowable and excessive costs and fees.

We also performed this audit to determine whether sufficient controls existed to ensure that the FSMC credited the SFA in the State of Missouri for all volume purchase discounts, rebates, or other credits applicable to the National School Lunch Program (NSLP)/School Breakfast Program (SBP). Based on our review results, we expanded our coverage to include other State SFA's and will be reporting these results in a subsequent audit report. During this review, we issued a management alert on June 21, 2002, (27601-14-KC (1)), concerning cost reimbursable contracts. The management alert and the issue of whether the FSMC credited Missouri SFA's for all volume purchase discounts, rebates, or other credits applicable to the NSLP/SBP will be covered in a subsequent audit report. This latter report will be the result of an expanded nationwide audit.

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## **KEY RECOMMENDATIONS**

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We recommend that FNS instruct the SA to require the SFA to strengthen controls so that the FSMC is only paid for allowable expenses. In addition, FNS should instruct the SA to require the SFA to collect the unallowable and excessive costs billed to the SFA by the FSMC. We also recommend that FNS instruct the SA to require the SFA to review the advertising and food costs claimed by the FSMC for other months in the 3 school years, and collect any unallowable or excessive costs claimed, or present a cost justification for not performing the review.

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## **AGENCY RESPONSE**

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In its response to our draft report, the FNS Regional Office concurred with the key recommendations. FNS stated that the State agency would be instructed to ensure that local officials comply with program requirements for accounting for all expenditures in accordance with Federal regulations for determining that expenses billed by the FSMC were correct and allowable during the period of the audit. FNS also stated that local officials must ensure that nonprofit school food service funds are not used for unallowable expenses. Lastly, FNS stated that local officials could choose to transfer funds from sources other than the nonprofit school food service account to replace the unallowable expenses, or offset those expenses with previously unreported allowable costs, or collect any unallowable expenses from the FSMC and report the results of the evaluation to the SA for demonstrating and documenting that the SFA has a system that ensures that the FSMC is performing in accordance with the terms, conditions, and specifications of its contract.

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## **OIG POSITION**

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We agree with the proposed actions; however, in order to reach management decision on the recommendations, we need to be advised of the timeframes for instructing the State agency on the prescribed corrective actions and for implementing the contemplated actions. We recognize that the SFA could have additional unreported allowable costs.

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# INTRODUCTION

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## BACKGROUND

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The Food and Nutrition Service (FNS), an agency of the United States Department of Agriculture (USDA), administers the National School Lunch Program (NSLP). The National

School Lunch Act was passed in 1946 to safeguard the health and well-being of the Nation's children and encourage the domestic consumption of agricultural commodities. The program provided Federal assistance to help public and nonprofit private schools serve nutritious lunches to children. In 1966, Congress expanded food assistance to include the School Breakfast Program (SBP), which became a permanent program in 1975.

Through the Missouri Department of Elementary and Secondary Education (State agency), FNS provides donated foods and cash reimbursements to school food authorities (SFA) for meals served in the NSLP/SBP. The Act, as amended, authorized payment of general and special cash assistance funds to State agencies. The general cash assistance is based upon the number of lunches served; whereas, the special cash assistance is based on the number of free or reduced-price lunches/breakfasts served. Eligibility of children for free, reduced-price, or full-price lunches/breakfasts is based on family household size and income. The total cash assistance each State agency (SA) receives is based on the number of meals claimed by the SFA's multiplied by the applicable rate.

SFA's may contract with food service management companies (FSMC) to assist in the food service operation involving the NSLP/SBP in one or more of their schools. However, the SFA is still responsible for overall program integrity and adhering to Federal and State requirements. A Request for Proposal or Invitation to Bid is provided to applicable bidders detailing the requirements each contract must meet. Federal regulations provide that a contract between an SFA and an FSMC may include either a fixed-price (fee per meal) or cost-plus-a-fixed-fee.

The estimated NSLP/SBP funding for Federal fiscal year (FY) 2001 was over \$7.25 billion. Funding for the NSLP/SBP for FY's 2000 and 1999 was about \$7 billion and \$6.8 billion, respectively. The Missouri SA received

about \$123.9 million and \$119.3 million for the 2000 and 1999 FY's, respectively.

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## **OBJECTIVES**

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The primary objective of this review was to determine whether sufficient controls existed to ensure that the FSMC credited the Poplar Bluff SFA for all volume purchase discounts, rebates, or other credits applicable to the NSLP/SBP. Specifically, we evaluated the SA and the SFA's controls over (1) request for proposal and contract provisions under which FSMC's agreed to manage the SFA's food service, and, in particular, FSMC's compliance with FNS regulations and guidelines, and (2) procedures to ensure that volume purchase discounts, rebates, or other credits applicable to the NSLP/SBP are properly accounted for by the FSMC and credited to the SFA under cost-reimbursable type contracts, and (3) procedures to ensure the accuracy of meal counts, claims, and FSMC billings.

We will address the primary objective regarding volume purchase discounts, rebates, or other credits applicable to the NSLP/SBP in Missouri as part of nationwide coverage in a separate audit report.

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## **SCOPE**

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We performed our review at the Mountain Plains FNS Regional Office in Denver, Colorado; the Missouri Department of Elementary and Secondary Education in Jefferson City, Missouri; and the Poplar Bluff SFA in Poplar Bluff, Missouri, between March 13 and August 6, 2002. Our audit covered the 3 school years ending June 30, 2001.

During school years 1999, 2000, and 2001, 62, 62, and 73 SFA's, respectively, operated in Missouri that maintained food service contracts with FSMC's. Fifteen, twelve, and fourteen of the SFA's maintained cost reimbursable food service contracts with this one FSMC in school years 1999, 2000, and 2001, respectively. We judgmentally selected the Poplar Bluff SFA, which entered into a cost reimbursable contract, based on the value of meal reimbursements from the State Payments by Fund report.

This audit was conducted in accordance with Government Auditing Standards.

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## **METHODOLOGY**

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To accomplish our objectives and assess the internal controls, we reviewed records and interviewed officials at the FNS Regional Office, the SA, and the Poplar Bluff SFA. We also interviewed three of the contractor's vendors and one distributor, in person and by telephone. In addition, we also interviewed the independent auditor firm personnel by telephone concerning the Poplar Bluff SFA. We evaluated the policies and procedures for contracting between SFA's and FSMC's at the FNS Regional Office and the SA. We analyzed the contract documents, supporting documentation for the contractor's billings, and the SFA's claims for reimbursement. Records reviewed included compilations of daily meal count records, claims for reimbursement, contractor billings to the SFA, supporting documentation attached to the billings, and contractor or district physical inventories of USDA donated commodities, SA review documents, single audit reports for the selected SFA, requests for proposals, bid specifications, bid proposals, and contracts.



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## FINDINGS AND RECOMMENDATIONS

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<b>CHAPTER 1</b>	<b>SFA CONTROLS OVER FSMC BILLINGS NEED IMPROVEMENT</b>
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The SFA needs to strengthen its controls over the billings from the FSMC. Despite an SFA official's attempts to monitor the costs claimed by the FSMC, the FSMC claimed, and was paid for, excessive meal costs and fees, and unallowable advertising costs. This happened because the reviews were insufficient to ensure that costs charged to the SFA by the FSMC were allowable. As a result, the SFA overpaid the FSMC \$7,418 over the 3-year period ending June 30, 2001.

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**FINDING NO. 1**

**FSMC CLAIMED EXCESSIVE EXPENSES**

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The Poplar Bluff SFA did not ensure that the FSMC claimed only expenses actually incurred in its billings. SFA officials reviewed the FSMC's billings for reasonableness but did not request and review vendor invoices from the FSMC. As a result, the FSMC billed, and the SFA paid for, \$5,169 in excessive

expenses of which; \$4,442 was food expenses, \$144 was paper expenses, and \$583 was cleaning supply expenses during school year 1999.

The contract between the SFA and the FSMC for the 1999 school year, and renewed each subsequent year through the 2002 school year, includes clauses related to the FSMC costs to be reimbursed by the SFA. Clause 9.6, Invoices, states substantially as follows:

The FSMC shall invoice the District monthly a sum not to exceed the amount necessary to cover the FSMC's expenditures for the food service operation and/or the submission of a valid claim for the items designated in Article X. The FSMC will provide a reconciled monthly statement from its weekly billing procedures. Payment shall be due within ten (10) days of receipt of the weekly invoice.

Clause 10.2, Operating Expenses, in the contract states substantially as

follows:

The FSMC's cost of operating the food service will include, but not be limited to, the cost of goods, including food, beverages and supplies, salaries and wages of all of the FSMC's food service employees, payroll taxes, applicable benefits, and other costs, charges, and expenses necessary to perform the duties and obligations under this Agreement including, but not limited to, office supplies, insurance, training, licenses/permits, laundry, uniforms, postage, paper goods, signage and taxes.

In addition, Federal guidance states that the SFA's contract monitoring responsibilities include, but are not limited to; evaluating cost records, including source documentation supporting charges for contractually approved costs for cost-based contracts.<sup>1</sup> The SA "On-site Review Form, Local Education Agencies (LEA) Contracting with Food Management Companies", asks SA reviewers to determine if the SFA is monitoring food purchases for compliance with contract specifications and billings submitted by the FSMC for accuracy.

An SFA official stated that while the Final Client Operating Statements were reviewed for reasonableness, no requests were made for supporting vendor invoices from the FSMC for the expenses claimed in its monthly billings to the SFA.

The FSMC billed the SFA for \$1.4 million in food costs for school years 1999, 2000, and 2001 through January 2001. We selected for review food costs claimed in September 1998, September 1999, and September 2000. September had the highest food costs in each school year. The food costs for all three Septembers totaled \$320,079, which was about 24 percent of the total food expenses claimed. We requested supporting vendor invoices from the FSMC for the expenses selected for review.

Our review revealed that in September 1998, the FSMC charged the SFA twice for one invoice. The FSMC paid its vendor twice for the same invoice and then billed the SFA for both payments. The invoice amount was listed on the FSMC's Daily Purchase Record twice, once for \$5,121.44 and once for \$5,098.99.

We obtained a copy of the invoice and determined that the total amount of

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<sup>1</sup> FNS procedures, dated June 1995, "Contracting with Food Service Management Companies, Guidance for School Food Authorities," Chapter 7.

\$5,121.44; of which \$4,394.97 was food, \$143.50 was paper expense, and \$582.97 was cleaning expense, was correct. As a result, we question the \$5,098.99 being claimed again, apparently for this invoice. FSMC officials stated that they had paid the vendor twice on this invoice, the second time for an erroneous amount. The Daily Purchase Record showing the duplication of amounts for the invoice was included in a Summary of Daily Purchase Records and in the FSMC's billing to the SFA for September 1998.

We also determined that the FSMC charged \$69 in toner from an office supply vendor as food expense. FSMC officials attributed this to a coding error input into their accounting system.

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**RECOMMENDATION NO. 1**

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Instruct the SA to require the SFA to strengthen its controls by reviewing the FSMC billings along with their supporting source records for excessive expenses.

**Agency Response**

FNS concurs with this recommendation and will instruct the SA to require the SFA to strengthen its controls by reviewing the FSMC billings along with their supporting records for excessive expenses.

**OIG Position**

In order to consider the management decision, we need to be notified of the proposed dates for accomplishing the contemplated corrective actions.

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**RECOMMENDATION NO. 2**

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Instruct the SA to require the SFA to collect the excessive costs from the FSMC.

**Agency Response**

FNS concurs with this recommendation and will instruct the SA to require the SFA to either reimburse the nonprofit school food service funds from other sources for payments for unallowable costs or to collect excessive costs charged by the FSMC.

**OIG Position**

In order to consider the management decision, we need to be notified of the proposed dates for accomplishing the contemplated actions and provided documentation showing that the SFA has either reimbursed the nonprofit school food service funds from other sources or billed the FSMC for the excessive costs.

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### **RECOMMENDATION NO. 3**

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Instruct the SA to require the SFA to periodically review food expenses billed to supporting source documentation for the FSMC for other remaining months of school years 1999, 2000, and 2001, and recover any excessive expense reimbursements found.

#### **Agency Response**

FNS concurred with the recommendation. FNS stated they would instruct the SA to require the SFA to review the amounts billed by the FSMC during the other remaining months of school years 1999, 2000, and 2001, and either compensate the nonprofit school food service fund or recover any unallowable costs from the FSMC.

#### **OIG Position**

In order to consider the management decision, we need to be notified of the proposed dates when the FNS and SFA intend to complete the contemplated actions.

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### **FINDING NO. 2**

#### **FSMC CLAIMED UNALLOWABLE ADVERTISING EXPENSE**

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The FSMC claimed advertising expenses that had already been paid for as part of the administrative fee. In addition, the advertising costs were unallowable under Federal cost principles.<sup>2</sup> SFA officials reviewed the FSMC's billings for reasonableness but were not aware that advertising expenses had been claimed because they did not request and review vendor invoices and other supporting documentation from the FSMC. As a result, the SFA paid the FSMC for \$1,292 in unallowable advertising costs.

Federal guidance states that the SFA's contract monitoring responsibilities include evaluating the FSMC's cost records; including source documentation supporting charges for contractually approved costs for

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<sup>2</sup> Office of Management and Budget (OMB) Circular A-87, Attachment B, Section 2.c., Advertising.

cost-based contracts.<sup>3</sup>

The contract between the SFA and the FSMC for the 1999 school year, and renewed each subsequent year through the 2002 school year, includes clauses related to the FSMC's costs to be reimbursed by the SFA. Clause 10.3 of the contract reads substantially as follows:

The FSMC's overhead expenses necessary to operate the food service includes, but is not limited to: area and zone supervision, general support provided by the FSMC's corporate offices, including without limitation, accounting, purchasing, tax, law, training, marketing, research, auditing other related administrative functions. The FSMC's administrative/service management fee will be \$0.0380 per meal served. For annual renewal terms, the cost of administration expense shall increase by \$0.0011 per meal served.

In addition, Federal cost principles<sup>4</sup> state that to be allowable, a cost has to be necessary and reasonable, allocable, authorized, consistent, and be accorded consistent treatment. Federal cost principles<sup>5</sup> state that advertising costs are allowable only when incurred for the recruitment of personnel, the procurement of goods and services, the disposal of surplus materials, and any other specific purposes necessary to meet the requirements of the Federal award.

We, judgmentally, selected certain expenses charged by the FSMC to the SFA during the 3 school years for further review. We selected advertising expenses, meals and entertainment expenses, client investment amortization expense, equipment replacement expense, outside services expense, and USDA expenses from the FSMC's billing statements based on amount and/or unusual payments. One of the selected expenses was \$1,292 in advertising expenses claimed in October 1998 during the 1999 school year. The FSMC's management explained that \$779 of the \$1,292 was paid to a vendor for toys (pencils, erasers, tattoo's, and stickers, etc.) used as prizes for elementary students. The FSMC management explained that \$513 "is a corporate charge for materials, such as manuals and marketing materials, developed by our company". They further explained that this represented a .3 percent charge of the prior month's sales.

As documentation, the FSMC provided us an operating ledger page,

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<sup>3</sup> FNS procedures, dated June 1995, "Contracting with Food Service Management Companies, Guidance for School Food Authorities," Chapter 7.

<sup>4</sup> OMB Circular A-87, Attachment A, Section C.

<sup>5</sup> OMB Circular A-87, Attachment B, Section 2.c., Advertising.

which showed two entries under “Sales Promotion” for \$779 with a vendor’s name in the text area and for \$513 with “General Journal” in the text area. The operating ledger page had a handwritten note referring to \$513 of the expense as “.3% prior period sales” and referring to another operating ledger page, which showed an entry labeled “CONTRACTUAL ENTRY” for \$170,954. We determined that .3 percent of the \$170,954 was \$513. However, the FSMC management stated that they did not have a copy of the invoice for the \$779 entry. We determined that the \$1,292 in advertising costs claimed was unallowable because the SFA had paid marketing expenses as part of the administrative fee received by the FSMC.

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**RECOMMENDATION NO. 4**

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Instruct the SA to require the SFA to recover the unallowable \$1,292 from the FSMC.

**Agency Response**

FNS concurs with the recommendation and will instruct the SA to require the SFA to recover the unallowable \$1,292.

**OIG Position**

In order to consider the management decision, we need to be notified of the proposed dates for accomplishing the contemplated actions and provided supporting documentation that the SFA has billed the FSMC for the unallowable costs.

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**RECOMMENDATION NO. 5**

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Instruct the SA to require the SFA to review and collect advertising expenses billed by the FSMC in other months of school years 1999, 2000, and 2001.

**Agency Response**

FNS concurs with the recommendation and will instruct the SA to require the SFA to review and collect advertising expenses billed by the FSMC in other months of school years 1999, 2000, and 2001.

## **OIG Position**

In order to consider the management decision, we need to be notified of the proposed dates for accomplishing the contemplated actions, including when the SFA anticipates completing its review.

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### **FINDING NO. 3**

#### **FSMC OVERCHARGED FEES**

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The FSMC did not use the fee rates stated in the contract and overcharged the SFA for administrative and management fees. The SFA did not discover the overcharges because the FSMC did not provide the SFA with the portion of the Final Client Operating

Statement that shows the meal counts, including meal equivalents. Therefore, the SFA had insufficient information to verify that the fees were being billed correctly. As a result, the FSMC overcharged the SFA \$957 in administrative and management fees.

Federal guidance states that the SFA's contract monitoring responsibilities include evaluating the FSMC's cost records; including source documentation supporting charges for contractually approved costs for cost-based contracts.<sup>6</sup>

Clause 10.3, Cost of Administration, in the SFA's 1999 contract with the FSMC states:

The FSMC overhead expenses necessary to operate the food service includes, but is not limited to: area and zone supervision, general support provided by the FSMC's corporate offices, including without limitation, accounting, purchasing, tax, law, training, marketing, research, auditing other related administrative functions. The FSMC's administrative/service management fee will be \$0.0380 per meal served. For annual renewal terms, the cost of administration expense shall increase by \$0.0011 per meal served.

Clause 10.4, Management Fee, in the SFA's 1999 contract with the FSMC states:

The FSMC management fee will be \$0.0190 per meal served. For annual renewal terms, the management fee expense shall increase by \$0.00055 per meal served.

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<sup>6</sup> FNS procedures, dated June 1995, "Contracting with Food Service Management Companies, Guidance for School Food Authorities," Chapter 7.

Clause 10.5, Computing Meals, in the contract states that the total meals are the actual number of reimbursable breakfasts and lunches served to students plus meal equivalents. The clause defines meal equivalents as cash receipts including special functions, other than from the sale of reimbursable breakfasts and lunches to children, divided by \$1.25 to arrive at equivalent meal counts.

To verify the accuracy of the administrative and management fees claimed by the FSMC, we prepared a spreadsheet for each of the 3 school years ending June 30, 2001, using the total meal counts, including meal equivalents, claimed by the FSMC on the Final Client Operating Statements, the administrative and management fee rates in the contract, and the administrative and management fees charged to the SFA by the FSMC. We determined that the FSMC over billed the SFA by \$3,909 in school year 1999 and under billed the SFA by \$2,301 in school year 2000 and \$651 in school year 2001 through February 2001.

When asked what rates they used to compute the management and administrative fees billed to the school district, FSMC personnel stated that they used \$.0391 per meal for the management fee and \$.0196 per meal for the administrative fee. We prepared another spreadsheet using these rates per the FSMC and the total meal counts claimed by the FSMC on the Final Client Operating Statements and compared the result to the fees actually billed on the Final Client Operating Statements. We noted that using the FSMC actual billing rates, the net over claim for all 3 years would have been \$254. However, the cited rates actually used by the FSMC did not comply with the rates as stated in the contract.

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**RECOMMENDATION NO. 6**

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Instruct the SA to require the SFA to recover the overcharge totaling \$957 from the FSMC.

**Agency Response**

FNS concurs with the recommendation and will instruct the SA to require the SFA to recover the net overcharge totaling \$957 from the FSMC.

**OIG Position**

In order to consider the management decision, we need to be notified of the proposed dates for accomplishing the contemplated actions and provided supporting documentation showing that the SFA has billed the FSMC for the \$957 overcharge.



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**RECOMMENDATION NO. 7**

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Instruct the SA to require the SFA to request the total meals claimed each month from the FSMC and periodically verify that the FSMC is charging the proper fee amounts per the

contract.

**Agency Response**

FNS concurs with the recommendation. FNS will instruct the SA to require the SFA to obtain the total meals claimed each month and periodically verify that the FSMC is charging the proper fee.

**OIG Position**

In order to consider the management decision, we need to be notified of the proposed dates for implementing the contemplated corrective actions.

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**EXHIBIT A – SUMMARY OF MONETARY RESULTS**

Finding No.	Description	Amount	Category
1	FSMC Claimed Excessive Expenses	\$5,169	Funds To Be Put To Better Use – Management or Operating Improvements/Savings
2	FSMC Claimed Unallowable Advertising Expense	\$1,292	Funds To Be Put To Better Use – Management or Operating Improvements/Savings
3	FSMC Overcharged Fees	\$957	Funds To Be Put To Better Use – Management or Operating Improvements/Savings

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## EXHIBIT B – AUDITEE’S RESPONSE TO AUDIT REPORT



United States  
Department of  
Agriculture

Food and  
Nutrition Service

Mountain  
Plains Region

1244 Speer Boulevard, Suite 903  
Denver, Colorado 80204-3585

DEC 13 2002

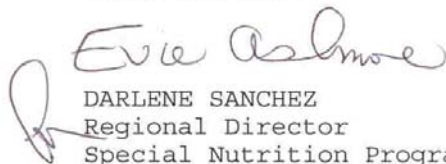
Reply to  
Attn. of: 27601-14-KC

Subject: National School Lunch Program -  
Food Service Management Company, Cost Reimbursable  
Contracts in Missouri

To: Dennis J. Gannon  
Regional Inspector General for Audit  
8930 Ward Parkway, Suite 3016  
Kansas City, Missouri 64141

Attached find our comments to the official draft report of the  
subject audit.

If there are further questions, please contact Ron Shaffer at  
(303) 844-0355.

  
DARLENE SANCHEZ  
Regional Director  
Special Nutrition Programs

Attachment

DRAFT AUDIT 27601-14

Page ii **KEY RECOMMENDATIONS:** We (OIG) recommend that FNS instruct the State Agency (SA) to require the school food authority (SFA) to strengthen controls so that the FSMC is only paid for allowable expenses. In addition, FNS should instruct the SA to require the SFA to collect the unallowable and excessive costs billed to the SFA by the FSMC. We also recommend that FNS require the SA to review the advertising and food costs claimed by the FSMC for other months in the three school years, and collect any unallowable or excessive costs claimed, or present a cost justification for not performing the review.

**AGENCY RESPONSE:** We concur with the Key Recommendations. In accordance with 7 CFR Part 210.19(a)(2), the SA will be instructed to ensure that local officials comply with program requirements for accounting for all expenditures in accordance with 7 CFR Parts 3015.1(a)(3) and 3016.22 for determining that the expenses billed by the FSMC were correct and allowable during the period of the audit. As such, local officials must ensure that nonprofit school food service funds as defined at 7 CFR Part 210.2 are not used for unallowable expenses in accordance with 7 CFR Part 210.14(a). Local officials could choose, however, to transfer funds from sources other than the nonprofit school food service account to replace the unallowable expenses, or offset those expenses with previously unreported allowable costs, or collect any unallowable expenses from the FSMC and report the results of the evaluation to the SA for demonstrating and documenting that the SFA indeed has a system that ensures that the FSMC is performing in accordance with the terms, conditions and specifications of its contract in accordance with 7 CFR Parts 210.16(a)(2) and 3016.36(b)(2).

Page 6 **RECOMMENDATION 1:** Instruct the SA to require the SFA to strengthen its controls by reviewing the FSMC billings along with their supporting records for excessive expenses.

**Agency Response:** We concur with the recommendation. We will instruct the SA in accordance with 7 CFR Parts 210.19(a)(2), 3016.22 and 3016.36(b)(2) for strengthening its controls by reviewing the FSMC billings along with supporting source records for unallowable expenses.

**RECOMMENDATION 2:** Instruct the SA to require the SFA to collect the excessive costs from the FSMC.

**Agency Response:** We concur with the recommendation. We will instruct the SA to require the SFA in accordance with 7 CFR Parts 210.14(a), 210.19(a) and 3016.36 (b) (2) to either reimburse the nonprofit school food service funds from other sources for payments for unallowable costs, or to collect excessive costs charged by the FSMC.

**Recommendation No. 3:** Instruct the SA to require the SFA to periodically review food expenses billed to supporting source documentation for the FSMC for the other remaining months of school years 1999, 2000 and 2001, and recover any excessive expense reimbursements found.

**Agency Response:** We concur with the recommendation. We will instruct the SA in accordance with 7 CFR Part 210.19(a) (2) to require the SFA to review the amounts billed by the FSMC during the other remaining months of school years 1999, 2000 and 2001, compensate the nonprofit school food service fund or recover any unallowable costs in accordance with 7 CFR Parts 3016.22 and 3016.36(b) (2).

Page 8 **Recommendation No. 4:** Instruct the SA to require the SFA to recover the unallowable \$1,292 from the FSMC.

**Agency Response:** We concur with the recommendation. We will instruct the SA in accordance with 7 CFR Parts 210.14(a) and 210.19(a) (2) to require the SFA to recover the unallowable \$1,292 identified in the subject report in accordance with 7 CFR Part 3016.36(b) (2).

**Recommendation No. 5:** Instruct the SA to require the SFA to review and collect advertising expenses billed by the FSMC in other months of School Years 1999, 2000, and 2001.

**Agency Response:** We concur with the recommendation. We will instruct the SA to require the SFA to review and collect advertising expenses billed by the FSMC in other months of School Years 1999, 2000, and 2001 in accordance with 7 CFR Part 3016.36(b) (2).

Page 10 **Recommendation No. 6:** Instruct the SA to require the SFA to require the SFA to recover the overcharge totaling \$957 from the FSMC.

**Agency Response:** We concur with the recommendation. We will instruct the SA in accordance with 7 CFR Parts 210.19(a)(2) to require the SFA in accordance with 7 CFR Parts 210.14(a), (c) and 3016.36(b)(2) to recover the net overcharge totaling \$957 from the FSMC.

**Recommendation No. 7:** Instruct the SA to require the SFA to obtain the total meals claimed each month and periodically verify that the FSMC is charging the proper fee.

**Agency Response:** We concur with recommendation. We will instruct the SA to require the SFA to obtain the total meals claimed each month and periodically verify that the FSMC is charging the proper fee in accordance with 7 CFR Parts 210.16(a)(2) and 3016(b)(2).

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## ABBREVIATIONS

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FNS	-	Food and Nutrition Service
FSMC	-	Food Service Management Company
FY	-	Fiscal Year
LEA		Local Education Agency
NSLP	-	National School Lunch Program
OIG	-	Office of Inspector General
OMB	-	Office of Management and Budget
SA	-	State Agency
SBP	-	School Breakfast Program
SFA	-	School Food Authority
USDA	-	U.S. Department of Agriculture

