

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

Food and Nutrition Service
Child and Adult Care Food Program
Quality of Audit Work
California Department of Education



Audit Report No.
27601-9-SF
August 1999



UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Western Region - Audit
600 Harrison Street, Suite 225
San Francisco, California 94107-1370
TEL: 415-744-2851 FAX: 415-744-2871



DATE: August 5, 1999

REPLY TO
ATTN OF: 27601-9-SF

SUBJECT: Child and Adult Care Food Program
Quality of Audit Work
California Department of Education

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

ATTN: James Nordin
Director
Financial Management

This report presents the results of our audit of the Quality of Audit Work performed by the California Department of Education during reviews of the Child and Adult Care Food Program. Your written response to the draft report is included as exhibit C to the report. For acceptance of your management decisions on the report's recommendations, please provide the information described in the OIG Position sections of the report.

In accordance with Departmental Regulations 1720-1, please furnish a reply within 60 days describing the corrective action taken or planned and the timeframes for implementation of these recommendations. 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.

The Office of the Chief Financial Officer (OCFO), U.S. Department of Agriculture, has responsibility for monitoring and tracking final action for the findings and recommendations. Follow your internal agency procedures in forwarding final action correspondence to OCFO.

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

SAM W. CURRIE
Regional Inspector General
for Audit

EXECUTIVE SUMMARY

FOOD AND NUTRITION SERVICE CHILD AND ADULT CARE FOOD PROGRAM QUALITY OF AUDIT WORK CALIFORNIA DEPARTMENT OF EDUCATION AUDIT REPORT NO. 27601-9-SF

PURPOSE

This is the third State-level audit report issued as part of our audit of the Child and Adult Care Food Program (CACFP) in California. The first report summarized the serious problems disclosed in our audits of CACFP sponsors in California and evaluated why the California Department of Education's (CDE) oversight function had not recognized these problems. The second report discussed the problems we found in the way CDE used Federal funds that were intended to provide audits of CACFP sponsors in California. In this, the third report, we evaluated the quality of audits of CACFP sponsors administered by CDE.

Federal regulations require a State agency to provide sufficient personnel to administer the program. The administration of the CACFP includes conducting audits and administrative reviews of sponsors, centers, and providers participating in the program. In California, the Food and Nutrition Service (FNS) Western Regional Office administers the CACFP through an agreement with CDE. Within CDE, the audits are conducted by the External Audit Unit.

California has the largest CACFP program in the Nation. The U. S. Department of Agriculture (USDA) annually provides to CDE approximately \$16.9 million to administer the CACFP.

As of April 12, 1999, we have also issued seven audit reports on individual sponsors participating in the CACFP in California. We have two additional sponsor reports in process.

RESULTS IN BRIEF

We concluded that sponsor audits were not performed and completed in a timely manner and that deficiencies in the audit process affected the

quality of the audit work.

The CDE did not complete all required program-specific CACFP audits in a timely manner. Managers routinely left audits unassigned. Since FY 1994-1995, the number of uncompleted audits has steadily grown, rising to 77 percent of the total required audits in FY 1996-1997. For those audits that were completed, including CPA audits performed under contract, the audit process showed several deficiencies:

- CDE audits did not follow Government auditing standards. Auditors did not pursue material discrepancies, and their workpapers did not adequately support their conclusions.
- The quality control system for CPA audits was deficient. Reviews of CPA audits did not examine the CPAs' workpapers for sufficiency. Workpapers for two of the five CPA audits we selected for review showed substandard work.
- Resolution of audit findings was inadequate. Actions were taken only on monetary findings and audit files were closed once these actions were implemented.

In our opinion, the substandard audits, a deficient quality control system, and inadequate resolution of audit findings contributed to significant program abuses by the sponsors. All 10 of the sponsors we reviewed in California were seriously deficient in their operations. Seven have been or are being investigated for program fraud. To date, 4 of the 10 sponsors have been terminated from the program. Details of these audits are presented in audit reports issued for each sponsor and are summarized in our report of CDE's oversight of CACFP sponsors (audit report 27601-6-SF).

KEY RECOMMENDATIONS

We recommend that FNS require CDE to implement a system to ensure that audits are completed and discrepancies resolved in a timely

manner. CDE should also implement a quality control process to ensure that audits meet Government auditing standards.

AGENCY POSITION

In its July 27, 1999, written response to the official draft report, FNS agreed with our audit results and recommendations. The response is incorporated, along with our position, in the Findings and Recommendations section of this report. The full text of FNS' response is included as exhibit C.

TABLE OF CONTENTS

EXECUTIVE SUMMARY	i
--------------------------------	---

INTRODUCTION	1
BACKGROUND	1
OBJECTIVES	2
SCOPE	3
METHODOLOGY	3

FINDINGS AND RECOMMENDATIONS	5
---	---

I. SPONSOR AUDITS WERE NOT PERFORMED AND COMPLETED IN A TIMELY MANNER	5
Finding No. 1	5
Recommendations	11
II. DEFICIENCIES IN THE AUDIT PROCESS AFFECTED THE QUALITY OF AUDITS	13
Finding No. 2 - CDE Audits Did Not Meet Government Auditing Standards	13
Recommendations	26
Finding No. 3 - Quality Control System Over CPA Audits Was Deficient	30

Recommendation	32
Finding No. 4 - Audit Followup Was Inadequate	32
Recommendation	34

EXHIBITS

A - LOCATIONS VISITED	36
B - CDE AUDIT DEFICIENCIES	37
C - FOOD AND NUTRITION SERVICES' WRITTEN RESPONSE TO THE DRAFT REPORT	40

FIGURES

1 - Number of Audits Completed (CACFP)	7
2 - Number of Audits Not Completed (CACFP) by Assignment	8
3 - Authorized and Expended Audit Funds	9

INTRODUCTION

BACKGROUND

The Child and Adult Care Food Program (CACFP) is designed to ensure that children and senior citizens in day care facilities receive nutritious meals. Program funding nationwide for fiscal year 1996 was \$1.58 billion. For fiscal year 1997, the appropriation was increased by about 10 percent to \$1.74 billion.

The program is administered at the Federal level by the Food and Nutrition Service (FNS) and at the State level by a State agency, except in Virginia, where it is directly administered by FNS. State agencies administer their programs through public or nonprofit sponsoring organizations which act as a liaison between the State agency and participating day care facilities. Sponsors are ultimately responsible for program operations in those facilities.

Day care facilities participating in the program receive reimbursement for meals meeting specified nutritional requirements. Facilities eligible to participate include day care homes (homes) or child care centers (centers). A home is a day care facility located in a private residence. The operator of the home is referred to as the "provider." A child care center is operated by a public or private nonprofit organization, is licensed to provide child care, and primarily serves pre-school children. Homes and centers must be licensed by a State or local licensing authority.

Under Title 7 Code of Federal Regulations (CFR) 226.4(h), funding is authorized to States specifically for the purpose of conducting audits and administrative reviews of institutions. These funds are designated to pay the cost of required organizationwide or program-specific audits of institutions. Title 7 CFR 226.6(l) also specifies that State agencies perform administrative reviews of sponsors on a periodic basis.

CDE has the responsibility to monitor the CACFP on behalf of FNS. Within CDE, the External Audits Unit, Field Services Unit, and Programs Unit are all involved in the monitoring process. The External Audit Unit conducts audits to determine sponsor's

compliance with program requirements; the Field Services Unit performs administrative reviews to verify the sponsor's latest meal claim reimbursement and review the most current month of operations; and the Programs Unit interacts with sponsors on a daily basis, provides technical assistance, and has the authority to take administrative action against a sponsor.

CDE also reviews independent audits of sponsors conducted by CPA firms in accordance with the Office of Management and Budget Circulars A-133 and A-128.

Administrative reviews and audits conducted by CDE examine some of the same program compliance areas. An administrative review evaluates eligibility and meal requirement compliance. However, an audit is performed in accordance with Government auditing standards (GAS) and is much larger in scope than an administrative review.

The funding to each State agency for a fiscal year is based on 2 percent of the State's CACFP reimbursement (excluding State administrative expense funds) provided to institutions during the second preceding fiscal year.¹ FNS grants these audit funds to defray the expense of conducting audits and administrative reviews. In fiscal year 1997, \$17.1 million of 2 percent funds were expended nationwide. Of that total, approximately \$2.4 million was expended by the California Department of Education (CDE).

OBJECTIVES

Our audit objectives were to (1) determine whether the quality of audits of sponsoring institutions are sufficient to prevent, identify, and correct the types of abuses found during our audits; and (2) determine why funds authorized for audits and reviews remain unexpended at fiscal year end in light of the weaknesses identified by our prior audits of sponsors.

¹ Effective October 1, 1998, Public Law 105-336 reduced this amount to 1.5 percent.

SCOPE

We judgmentally selected for examination audits conducted by CDE during fiscal years 1996 and 1997.

Based on our analysis, we expanded our examination to include five audits performed by CDE and five audits of sponsors performed by CPA's.

The five audits performed by CDE which we reviewed were Aladdin Child Care Services, CF Services, Crossroads Child Care Services, Friends Educational Child Care Services, and Monterey Bay Agency. The five audits performed by CPAs which we selected for review were Children's Spectrum, Community Business Improvement Association, FRAMAX, Pacific Enrichment Incorporated, and Pacific Asian American Family Day Care.

Audit work was performed from October 1997 through November 1998 at the FNS Western Regional Office in San Francisco, California; at the CDE in Sacramento, California; and at certified public accountant offices in Los Angeles, Modesto, and Beverly Hills, California. We also interviewed officials at the Bureau of State Audits, Sacramento, California (see exhibit A for a listing of audit sites).

We judgmentally selected CDE audit reports for five sponsors to determine if CDE complied with audit requirements and issued its reports in a timely manner.

The audit was conducted in accordance with the U.S. General Accounting Offices' (GAO) "Government Auditing Standards (1994 Revision)."

METHODOLOGY

To accomplish our objectives and support our findings, we performed the following steps:

- At the FNS Western Regional Office, we reviewed (1) procedures and guidance provided to CDE, (2) Office of Management and Budget (OMB) Circular A-128 audits to identify previous issues, and (3) management evaluations to determine if FNS adequately monitored CDE expenditures and followed up on reported deficiencies.

- At the CDE, we reviewed yearend financial reports and determined the appropriateness of 2 percent fund expenditures. We sampled personnel costs and other administrative costs to determine if they were allowable and supportable.
- We examined audit reports and workpapers to determine if audits were conducted in accordance with GAO "Government Auditing Standards (1994 Revision)."
- We compiled a data base of the audits that were performed for program years 1994 through 1997. We performed an analysis of this information to determine if the audits were completed and issued in a timely manner.
- We interviewed officials at the Bureau of State Audits to determine if it performed any audits of State agency monitoring. We also reviewed California's Single Audit Report for the period of 1992 through 1996.
- At the offices of certified public accountants, we examined audit reports and workpapers to determine if they were conducted in accordance with GAO "Government Auditing Standards (1994 Revision)."

FINDINGS AND RECOMMENDATIONS

I. SPONSOR AUDITS WERE NOT PERFORMED AND COMPLETED IN A TIMELY MANNER
--

FINDING NO. 1

For program years 1994-1995, 1995-1996 and 1996-1997, required program-specific CACFP audits were not performed or completed in a timely manner. CDE had an inadequate system to track its audits, and auditors who could have performed program-specific CACFP audits were frequently reassigned to complete Child Development Division audits (CDD). As a result, CDE did not meet its CACFP oversight requirements.

For effective program oversight, regulations require independent audits at the sponsor level that are conducted in accordance with the Office of Management and Budget Circulars A-133 and A-128². Prior to June 30, 1996, OMB Circular A-133 required that subrecipients who received Federal awards totaling \$25,000 or more obtain an audit. For audits of fiscal years beginning after June 30, 1996, the audit threshold was raised to \$300,000. The audits must be performed at least biennially and must cover each year's activities.

Regulations also state that "the audit report shall be due within 30 days after the completion of the audit. The audit should be completed and the report submitted no later than 13 months after the end of the recipient's fiscal year unless a longer period is agreed to with the cognizant or oversight agency."³ Additionally, Government

² 7 CFR 226.8(a), dated January 1, 1995.

³ OMB Circular A-133, paragraph 15(h), dated March 8, 1990.

auditing standards state, "... audit reports should be distributed in a timely manner to officials interested in the results."⁴

CDE has overall responsibility for ensuring that all required program-specific CACFP audits are properly performed in accordance with regulatory requirements. The staff is also responsible for ensuring that all audits meet applicable standards, and for tracking audit findings and recommendations to ensure corrective actions are taken (questioned costs are recovered, internal control weaknesses are corrected, etc.).

FNS grants audit funds to defray the expense of conducting audits and administrative reviews. These funds total 2 percent of the State's program expenditures. FNS has stated that the purpose for the allocation of 2-percent funds is "to complete the state's requirement to conduct and review audits required under OMB Circular A-133" and that "the state's utmost priority must be to complete its audit workload."⁵

A total of 56 required program-specific CACFP audits were to be performed for the 1996-1997 program year. However, we found no evidence that audits were completed for 43 of these sponsors, or 77 percent. Similarly, a total of 118 required program-specific CACFP audits were to be performed for the 1995-1996 program year, but we found no evidence that audits were completed for 78 of these sponsors, or 66 percent. And a total of 122 required program-specific CACFP audits were to be performed for the 1994-1995 program year, with no evidence that audits were completed for 68 of these sponsors, or 56 percent (see figure 1).

⁴ Government Auditing Standards, Issued by the Comptroller General of the United States, 1994 Revision, Section 5.33.

⁵ October 14, 1998, letter from FNS Western Region to all Western Region State Child Nutrition Program Directors.

Program Year	Required Program-Specific CACFP Audits	Required Program-Specific CACFP Audits	Percent Completed
1996-97	56	13	23%
1995-96	118	40	34%
1994-95	122	54	44%

Figure 1

The audit manager told us he assigned some of the required CACFP program-specific audits to his staff. Required audits not assigned to audit staff were to be completed by a CPA. We determined that 31 out of 43 audits that were not completed were never assigned by the audit manager to be performed by CDE staff or a CPA for the 1996-1997 program year. For the 1995-1996 program year, 48 out of 78 audits not completed were also never assigned to CDE audit staff or a CPA for completion. Additionally, in the 1994-1995 program year, 61 out of 68 audits were never assigned for completion (see figure 2).

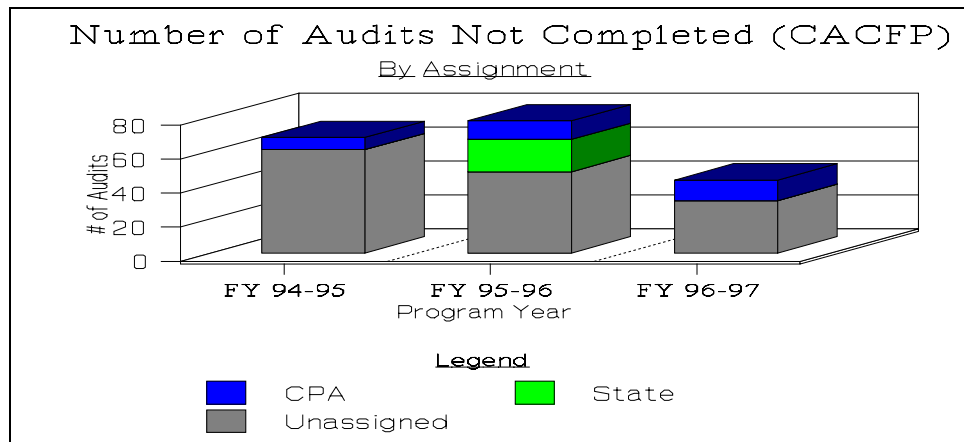


Figure 2

We found no evidence that any of these unassigned sponsors had an audit during the 3-year time period. Federal funds paid to these sponsors amounted to \$24.6 million in 1996-1997, \$1.9 million in 1995-1996, and \$7.8 million in 1994-1995.

For the 1994-1995 and 1996-1997 program years, CDE audit staff were not assigned to complete any CACFP audits. For the 1995-1996 program year, the CDE audit staff were assigned 20 audits. We determined CDE completed only one audit that year. This audit was the Aladdin report, which we determined did not meet Government auditing standards (see Finding No. 2).

Also, CDE did not always complete its CACFP audits including CPA contracted audits within the 13-month timeframe. OMB Circular A-133 states that the audit shall be completed 30 days after the receipt of the audit report, or 13 months after the end of the audit period.

FNS paid CDE about \$10.1 million for the completion of audits of day care home sponsors, child care centers, and adult care centers during this 3-year period. However, over \$3 million (30 percent) was not expended and could have been utilized to conduct or contract for the audits of sponsors which had not been completed (see figure 3).

FY	Audit Funds		Remaining Balance	Percent
	Authorized	Expended		
1998	\$ 3,580,139	\$2,542,189	\$1,037,950	29%
1997	\$ 3,374,849	\$2,379,399	\$ 995,450	29%
1996	\$ 3,176,713	\$2,171,874	\$1,004,839	32%
TOTAL	\$10,101,701	\$7,080,913	\$3,020,788	30%

Figure 3

CDE's explanation for the underutilization of funds was that the funds could not be used to hire any new auditors, due to a lengthy hiring process. Additionally, CDE could not use the funds for the purchase of needed computers and office equipment. CDE officials believed that the addition of six new audit positions on July 1, 1997, and the submission of budget change proposals (in conjunction with the CDD audits) for six more positions would improve program monitoring operations.

CDE's failure to complete CACFP audits in a timely manner has been reported before. OIG reported on the backlog of CACFP audits in its April 1998 Management Alert and FNS commented on the large backlog of unreviewed CPA audits in its March 1995 Management Evaluation. Also, the California Bureau of State Audits (BSA) reported for the fiscal year ended June 30, 1995, that CDE lacked a tracking system to monitor the audit reports for the nutrition programs that it monitored.

In the FNS Regional Office's July 1998 Management Evaluation, FNS reported that 51 percent of CACFP audits had a duration of over 13 months. FNS also reported on the large backlog of unreviewed CPA audits and on an ineffective tracking system.

CDE assured both the BSA and FNS that it had taken steps to correct these conditions. In its response to the 1998 Management Evaluation, CDE stated that it developed a plan to complete all outstanding audits by January 31, 1999, and will complete all 1996-1997 audits according to the new requirements in OMB Circular A-133. CDE also stated that the External Audit Unit had completed fieldwork on 14 out of the 20 required 1995-1996 CACFP audits. After completion of an internal review and approval process, the

External Audit Unit planned to issue draft reports to agencies in September 1998. However, during fieldwork conducted in November 1998, we found that these conditions had not been corrected.

CDE officials told us that audits were not completed or performed in a timely manner because management made a commitment to reduce the backlog of CDD audits. Auditors were reassigned from various nutrition program audits to assist in this endeavor. By shifting auditors to the CDD audits, CDE did not place a high priority on completing the CACFP audits. We determined that it takes CDE between 7 to 9 months to complete a review of a CPA-conducted audit.

As stated, CDE also did not have an adequate tracking system to ensure that audits were completed and performed in a timely manner. We determined CDE was using four different systems to track the progress of a CACFP audit. However, none of the data bases were connected and none tracked the timeliness requirements. Clear and concise reports were not generated to give management an understanding about the progress of each CACFP audit. Only one data base was used to track nonmonetary findings. However, this was only recently started in the Field Services Unit (Administrative Review) and no reports were ever sent to CDE management. The lack of an accurate tracking report directly impacted CDE's ability to efficiently monitor the CACFP program.

We were also unable to determine who was responsible for the CACFP program. Managers from different units were responsible for various steps within the audit process. However, each unit was run independently by a unit manager. Each unit had its own data base, and the units did not effectively communicate with each other. Under the current management structure, we were unable to determine if one individual coordinated or administered the entire CACFP program. However, we did determine that the administrator of the department did not receive any reports or documentation on the progress of the CACFP audits, as outlined in OMB Circular A-133.

RECOMMENDATION NO. 1a

Instruct CDE to arrange for the performance of the 189 required program-specific CACFP audits that have not yet been completed.

FNS Response

In its written response to the official draft report, dated July 27, 1999, FNS agreed with this recommendation. The response stated that FNS received an audit plan from the CDE which provided for the completion of the required 189 program-specific CACFP audits.

OIG Position

To accept FNS' management decision on this recommendation, we will need to be advised of the date when the CDE expects to complete the required 189 program-specific CACFP audits.

RECOMMENDATION NO. 1b

Instruct CDE to establish and implement an adequate tracking system to confirm that it is meeting its audit requirements. The tracking system should measure the time requirements as required by OMB Circular A-133, track the audit process from beginning to end, and create clear and concise reports for CDE management to allow them to monitor the progress of the CACFP audits and the resolution of audit findings.

FNS Response

In its written response to the official draft report, dated July 27, 1999, FNS agreed with this recommendation. The response stated that FNS has requested implementation of a management accountability process by CDE which will incorporate this recommendation.

OIG Position

To accept FNS' management decision on this recommendation, we will need to be advised of the date when the CDE expects to establish and implement an adequate tracking system.

RECOMMENDATION NO. 1c

Instruct CDE to establish and implement a clear line of authority to ensure CACFP audits are completed timely and there is accountability for their completion.

FNS Response

In its written response to the official draft report, dated July 27, 1999, FNS agreed with this recommendation.

OIG Position

To accept FNS' management decision on this recommendation, we will need to be advised of the date when the CDE expects to establish and implement a clear line of authority to ensure CACFP audits are completed timely and there is accountability for their completion.

II. DEFICIENCIES IN THE AUDIT PROCESS AFFECTED THE QUALITY OF AUDITS

For those audits that CDE had completed, including CPA audits performed under contract, deficiencies in CDE's audit and desk review processes affected the performance and quality of the work. We found problems in policy and supervision that resulted in substandard audit work, deficient oversight of CPA's, and inadequate followup of sponsor deficiencies. We noted several cases in which CDE personnel had found evidence of questionable sponsor activities but did not pursue the implications of the evidence or follow through to correct the deficiency.

Program regulations state that, "Each State agency shall provide sufficient consultative, technical and managerial personnel to administer the Program...and monitor performance to facilitate expansion and effective operation of the Program."⁶ Regulations further state that the State agency shall review sponsor claims annually to ensure that all participating child care centers and homes are complying with program requirements.⁷

FINDING NO. 2

CDE AUDITS DID NOT MEET GOVERNMENT AUDITING STANDARDS

The CACFP audits conducted by CDE were substandard. The audit work contained significant departures from Government auditing standards (GAS) in staffing qualifications, workpaper preparation, the audit program, audit methodology, audit reporting, and supervision, including quality control reviews. As a result of the

substandard work, there was no assurance CACFP audits were free of material misstatements.

⁶ 7 CFR 226.6(a), dated January 1, 1995.

⁷ 7 CFR 226.6(d)(1), dated January 1, 1995.

Six principal sources establish audit requirements for State and local governments that receive USDA assistance:

- The Single Audit Act of 1984.
- OMB Circular A-128.
- Government Auditing Standards.
- Generally Accepted Auditing Standards.
- AICPA Industry Audit and Accounting Guide, Audits of State and Local Governmental Units.
- Compliance Supplements for Single Audits of State and Local Governments issued by OMB in April 1985, and any subsequent revisions.⁸

All of the requirements must be met by a recipient before an audit can be accepted as a Federal audit.⁹

We judgmentally selected five CACFP audits completed by CDE. We selected sponsors who received high dollar reimbursements for meal claims or who engaged in practices we found questionable. These sponsors were CF Services, Friends Educational Child Care Services, Crossroads Child Care Services, Monterey Bay Agency, and Aladdin Child Care Services. We reviewed the audit reports, supporting workpapers, and audit closure files for each of the audits selected.

The CACFP audits contained significant departures from GAS in the areas of: audit program, audit workpapers, audit methodology, audit report, quality control reviews, and staff qualifications. A detailed breakdown of all the deficiencies in each of these audits is located in exhibit B.

Audit Program

The CDE audit program (i.e., audit procedures to be followed when conducting an audit) should be designed to detect sponsor noncompliance. "When laws, regulations, and other compliance areas are significant to audit objectives, auditors should design the

⁸ 7 CFR 3015.70(a), dated January 14, 1986.

⁹ 7 CFR 3015.70(b), dated January 14, 1986.

audit to provide reasonable assurance about compliance with them."¹⁰ The CDE audit program was not program-specific and was not useful in detecting sponsor abuse.

The CDE audit program used for conducting the CACFP audits was used for multiple CDE administered programs. Each of these CDE administered programs had different regulations and compliance requirements. In all five of the audits we reviewed, we found audit steps that were incomplete, skipped by the auditor, or marked as nonapplicable without explanation.

Also, some critical audit steps were not included in the audit program. For example, the audit program did not include procedures for assessing the audit risk, a required audit step.¹¹ In another example, auditors did not verify whether the sponsors kept advance funds in an interest-bearing account, since this was not an audit step. CDE auditors said they were not aware of this compliance requirement and agreed that the audit program needed to be strengthened and program-specific to the CACFP.¹²

Government Auditing Standards also require that auditors must coordinate their work with other auditors and reviewers. The standards state that "auditors should determine if other auditors have previously done, or are doing audits of the program or the entity that operates it.... [P]erformance audits or financial audits may be useful sources of information for planning and performing the audit."¹³ Additionally, "auditors face similar considerations when relying on the work of nonauditors."¹⁴

¹⁰ Government Auditing Standards, Issued by the Comptroller General of the United States, 1994 Revision, Section 6.26.

¹¹ Generally Accepted Auditing Standards, Section 8.12, dated 1990.

¹² OMB Circular A-133, Compliance Supplement, Cash Management section, dated October 1991.

¹³ Government Auditing Standards, Issued by the Comptroller General of the United States, 1994 Revision, Section 6.14.

¹⁴ Government Auditing Standards, Issued by the Comptroller General of the United States, 1994 Revision, Section 6.16.

The CACFP audit program developed by CDE required the auditor to review and place the most current administrative review report in the audit workpapers. Auditors claimed they reviewed the last administrative review report, but these reports were not always placed in the audit workpapers. Only two of the five CACFP audit reports selected for review had the most current administrative review report in the workpapers. One audit had the administrative review for a different sponsor in the workpapers.

Coordination and communication between the CACFP units prior to performing a sponsor audit would enable auditors to focus efforts on sponsor problem areas. For example, an administrative review finding for a sponsor indicated the sponsor was paying its employees 2 to 3 weeks in advance of hours worked, which was unallowable.¹⁵

According to the sponsor, this practice started in 1993. However, the audit of this sponsor indicated the sponsor was estimating future expenses, but did not elaborate. The supporting workpaper only stated the sponsor estimated expenses for sick leave, vacation, and training. There was no indication the auditor was aware employees were being paid in advance.

Audit Workpapers

We found that CDE auditors' workpapers did not adequately support the auditors' analyses and conclusions. Also, the study and evaluation of the internal control system for each of the audits we reviewed was seriously limited. As a result, we question the support and accuracy of the conclusions in the audit reports we reviewed.

Conclusions were not adequately supported. According to GAS, "Working papers should contain sufficient information to enable an experienced auditor having no previous connection with the audit to ascertain from them the evidence that supports the auditors' significant conclusions and judgments."¹⁶

¹⁵ OMB Circular A-122 6 (I), dated June 27, 1980.

¹⁶ Government Auditing Standards, Issued by the Comptroller General of the United States, 1994 Revision, Section 6.46.

The audit workpapers did not adequately document the audit work for any of the audits that we reviewed. The workpapers did not adequately document how evidence was gathered and how the analytical and substantive procedures were performed.

For example, the auditors told us they performed a comparative analysis of the sponsor's records to the State-generated records to determine discrepancies in the sponsor's records. However, this analysis was not documented in the workpapers. In addition, the determination of allowed and disallowed administrative expenses was not always documented.

The auditor should document the sampling selection, methodology, and procedures performed.¹⁷ Most of the workpapers did not contain the sample selection and criteria, testing results, or the effects of noncompliance. We were unable to determine the population of the universe, the sample size, the sampling technique used, and the results of tests performed. A description of the sample procedures and the auditor's evaluation of the sample results were necessary to understand the auditor's conclusions.

The workpapers also did not provide a discussion of material noncompliance. "In reporting significant instances of noncompliance, auditors should place their findings in perspective ... a basis for judging the prevalence and consequences of noncompliance."¹⁸ In the Aladdin, CF Services, and Crossroads audits, the audit reports stated material noncompliance, but the reports did not discuss the material noncompliance. In addition, the workpapers did not disclose the full nature and extent of the noncompliance or their effects.

Evaluation of the internal control system was limited. OMB Circular A-128 "requires that the independent auditor determine and report on whether the organization has internal control systems ... In order to provide this assurance the auditor must make a study and evaluation of internal control systems ... The study and evaluation must be

¹⁷ Generally Accepted Auditing Standards, Section 9.29, dated 1990.

¹⁸ Government Auditing Standards, Issued by the Comptroller General of the United States, 1994 Revision, Section 7.28.

made whether or not the auditor intends to place reliance on such system."¹⁹

The internal control questionnaire was the only support for the study and evaluation of the internal control system. The questionnaire was also used to determine the nature, extent, and timing of the substantive testing. However, the questionnaire was limited and did not disclose internal control risks and reportable conditions.

The internal control questionnaire had several deficiencies. It was poorly worded and ambiguous and consisted mostly of "yes/no" responses without any narrative or discussion. The questionnaire consisted of inquiries that were never substantiated by testing. The auditors did not document an adequate understanding of the sponsor's internal control system to support the internal control report, and no test of controls was performed.

Audit Methodology

For the audits that we reviewed, the auditors did not determine audit risk or define materiality so as to expand the audit scope when necessary.

According to GAS, "In planning tests of compliance with significant laws and regulations, auditors assess the risk that illegal acts could occur ... [and consider] whether the entity has controls that are effective in preventing or detecting illegal acts."²⁰ Also, "The auditors should consider materiality, among other matters, in determining the nature, timing, and extent of auditing procedures and in evaluating the results of those procedures."²¹

¹⁹ OMB Circular A-128 (paragraph 8), dated July, 1985.

²⁰ Government Auditing Standards, Issued by the Comptroller General of the United States, 1994 Revision, Section 6.31.

²¹ Government Auditing Standards, Issued by the Comptroller General of the United States, 1994 Revision, Section 4.6.

CDE auditors did not perform a risk analysis, which is a required element of an audit.²² The absence of an audit risk assessment leaves the audit susceptible to the possibility that illegal acts may have occurred without being detected.

We also found that the workpapers for the audits we reviewed did not define materiality. According to the CACFP audit manager, materiality was determined by the dollar impact based on the total funding. However, we found no basis or evidence of this determination of materiality in the workpapers. The audit manager also stated that auditors would not expand the scope of testing until they exceeded a 10-percent error rate or in some cases a 20-percent error rate. GAS suggests that auditors set lower materiality levels for entities that receive government assistance because of the public accountability.²³

CDE sample criteria procedures state that auditors are to use professional judgment to expand upon the initial sample size. We found that CDE auditors did not expand their scope for additional testing, even when problems such as missing records were discovered. In addition, the auditors did not document or justify their reasons for not performing additional testing to determine their effect on the audit results as required.²⁴ CDE auditors expanded testing for only one audit step of one audit (Crossroads), and that was occasioned merely by a math error.

The Aladdin audit demonstrates that materiality was not addressed and that audit scope was not duly expanded. Auditors encountered many problems in obtaining records from Aladdin. The auditors obtained records for only 9 of 36 months and, in order to complete the audit work, allowed the sponsor to recreate some of the missing records. In addition, the auditors found that 25 of 75 centers did not comply with CACFP program requirements. Nevertheless, the sponsor received a qualified opinion in the audit report. We believe the sponsor should have been terminated if these problems could

²² Generally Accepted Auditing Standards, Section 8.12, dated 1990.

²³ Government Auditing Standards, Issued by the Comptroller General of the United States, 1994 Revision, Section 4.9.

²⁴ Government Auditing Standards, Issued by the Comptroller General of the United States, 1994 Revision, Section 6.32.

not be corrected. Regulations state that the State agency shall terminate the program agreement with any institution which it determines to be seriously deficient, which includes failure to maintain adequate records. However, the State agency shall afford an institution every reasonable opportunity to correct problems before terminating the institution for being seriously deficient.²⁵

In Aladdin, only 1 of 36 months was tested for the 5-day payment disbursement requirement even though one center had already informed CDE in writing that reimbursement checks were not received. Auditors also discovered that Aladdin had numerous bounced checks as a result of insufficient funds, but they did not pursue the matter because they claimed Aladdin presented a letter from the bank stating it was a bank error. The CACFP audit manager said it was the auditor's judgment that there was no need for additional testing. After CDE's audit, Aladdin went out of business as a CACFP sponsor while owing its day care centers hundreds of thousands of dollars in food reimbursements.

Audit Report

The purpose of the audit report is to communicate the results of the audit in a way that is fair and not misleading.²⁶ The CDE audit reports were misleading because reportable conditions were not adequately disclosed, the "going-concern" issue was never addressed, and audit workpapers did not fully support the audit opinion.

Conditions were not adequately disclosed. Government auditors are required to report any reportable conditions found in their study and evaluation of the internal control system. If the auditor determines that the findings are not reportable, he or she should still communicate them in writing to the auditee.²⁷

²⁵ 7 CFR 226.6 (c), dated January 1, 1995.

²⁶ Government Auditing Standards, Issued by the Comptroller General of the United States, 1994 Revision, Section 7.58.

²⁷ Government Auditing Standards, Issued by the Comptroller General of the United States, 1994 Revision, Sections 5.26 and 5.28.

In four out of the five audits, the internal control report portion of the audit report identified material weaknesses in the internal control structure. However, the auditors did not document the weaknesses in the workpapers nor did the audit report state the nature and extent of the weaknesses. In addition, no test of controls was documented. As a result, the report did not address the severity of the material weaknesses in the sponsor's internal control system.

The "going-concern" issue was never addressed. Auditors should evaluate the "going-concern" issue when conditions or events are discovered that raise substantial doubt concerning the entity's continued existence.²⁸ CDE auditors never addressed this issue. The auditors told us the going-concern issue was the responsibility of the Audit Closure Unit and Program Unit. However, we interviewed officials from those units, and none of the officials knew of a potential going-concern problem because the issue was never addressed in the audit report.

For example, CDE determined that Aladdin had unauthorized expenditures of \$111,857 for disallowed administrative costs, which were to be paid back to the centers. The audit report also stated that Aladdin owed the State \$208,160 for overclaimed meals. This finding was obtained from reviewing only 9 months of records. If fieldwork had been expanded, in all probability it would have shown that Aladdin's liability was much larger, and its ability to reimburse the centers and State even more questionable.

In another example of the going-concern issue, CF Services maintained a negative cash advance fund balance because it used these funds to pay administrative expenses in excess of earned reimbursement. The CDE auditors determined that continued use of the cash advance restricted the ability of the sponsor to repay CDE.

The auditor's opinion was not supported by the workpapers or the findings in the report. Opinions stated in the audit report about the completeness and accuracy of the sponsor's records must be fully supported in the workpapers. "The strength of the auditors' conclusions depends on the persuasiveness of the evidence

²⁸ Generally Accepted Auditing Standards, Section 8.56, dated 1990.

supporting the findings and the convincingness of the logic used to formulate the conclusions."²⁹

In both the CF Services and Aladdin audits, the opinions did not agree with the material findings reported. GAS requires auditors to report significant constraints imposed on their audit by data limitation or scope impairments.³⁰ GAS also notes that "When significant scope limitation are imposed by the client, the auditor generally should express a disclaimer of opinion."³¹ In Aladdin, the audit opinion was based on the available records, but most of the records were unavailable and some of the records reviewed were recreated by the sponsor. Therefore, a disclaimer of opinion should have been issued.

According to the CACFP audit manager, if the sponsor had some records to enable the auditor to derive a dollar figure and make an adjustment, the auditors would render an unqualified or qualified opinion. If the sponsor had very limited or no records, an adverse opinion might be issued. However, the manager claimed the qualified opinion was based on the auditor's "professional judgment."

Quality Control Reviews

Internal quality control reviews (QCR) performed by CDE were inadequate, and external quality control reviews of CDE's QCR system were never performed. Each audit organization should have an appropriate internal quality control system in place and undergo an external quality control review.³²

Internal reviews were inadequate. CDE did not have formal written procedures for conducting QCRs. The QCR procedures should provide reasonable assurance that the CACFP audits met standards

²⁹ Government Auditing Standards, Issued by the Comptroller General of the United States, 1994 Revision, Section 7.20.

³⁰ Government Auditing Standards, Issued by the Comptroller General of the United States, 1994 Revision, Section 7.14.

³¹ Generally Accepted Auditing Standards, Section 11.30, dated 1990.

³² Government Auditing Standards, Issued by the Comptroller General of the United States, 1994 Revision, Section 3.31.

and followed audit policies and procedures.³³ Because of the absence of written procedures, CDE's QCRs focused on the accuracy of the dollar amounts listed on the schedules of the audit report. The QCRs did not review the quality or completeness of the auditor's work.

According to the CDE official responsible for QCRs, the primary focus of the QCR was to review the amount of meals disallowed and to determine that the auditor's meal adjustments were correct. The QCRs did not include a review of the entire audit report and the supporting workpapers to ensure workpaper accuracy and compliance with auditing standards. Only a limited workpaper review was conducted and not all references were verified. Another official stated that only a few references were ever verified.

In all five audits reviewed, references in the workpapers were missing or incorrect, and none of the audit reports were referenced to the workpapers. Even the auditor's schedule of meal claim adjustments (dollar reimbursements) were not referenced to the supporting analysis in the workpapers. In addition, the workpapers contained numerous mistakes and inaccurate data. Workpapers for the audit of Friends Educational included the Field Services Report for a different sponsor. An adequate internal quality control review system should have detected these errors and discrepancies.

External quality control reviews were not performed. One CDE official noted that CDE is in the process of establishing an external quality control program with the California Association of State Auditors, so that an independent third party can review the internal quality control system. However, CDE has not scheduled the review date.

"Organizations conducting audits in accordance with...[GAS] standards should have an external quality control review at least once every 3 years by an organization not affiliated with the organization being reviewed. The external quality control review should determine whether the organization's internal quality control

³³ Government Auditing Standards, Issued by the Comptroller General of the United States, 1994 Revision, Section 3.32.

system is in place and operating effectively to provide reasonable assurance that established policies and procedures and applicable auditing standards are being followed."³⁴

Staff Supervision

CDE staff auditors were not properly supervised. Their work was not reviewed and their performance was not evaluated.

"Staff are to be properly supervised. Supervision involves directing the efforts of auditors."³⁵ One of the elements of supervision includes reviewing the audit work performed.³⁶

The CACFP audit manager claimed he performed a limited review of the workpapers and the audit report. He stated that he would spot check the workpapers and trace some audit steps, review the reports' content, and sign the audit report. However, we found no documentation of a supervisory review and no evidence that staff auditors' performance was ever evaluated. An adequate supervisory review should have detected and corrected the numerous errors found in the workpapers and would have disclosed that additional audit work and followup was necessary.

For example, audits performed by CDE for the 1991-1992, 1992-1993, and 1993-1994 program years disclosed that Pacific Enrichment Incorporated inflated administrative costs, submitted inaccurate meal claims, and used cash advances improperly. These findings were repeated annually and included in the audit reports. We have referred this sponsor to OIG Investigations for potential program fraud.

We believe that an adequate supervisory review would have concluded that additional audit work and followup on corrective action was necessary. Since the auditor identified serious deficiencies, the sponsor should have been put on notice that if the

³⁴ Government Auditing Standards, Issued by the Comptroller General of the United States, 1994 Revision, Section 3.33.

³⁵ Government Auditing Standards, Issued by the Comptroller General of the United States, 1994 Revision, Sections 6.22 and 6.23.

³⁶ Government Auditing Standards, Issued by the Comptroller General of the United States, 1994 Revision, Section 6.23.

deficiencies were not corrected, the sponsor would be terminated from the program. However, this was never done.

The CACFP audit manager said that his expectations were high; he expected quality work from his auditors. He added that he relied heavily on the internal QCR's to detect errors or discrepancies in the audit reports and the supporting workpapers. However, inadequate supervision of the audits, insufficient review of the workpapers, and inadequate QCRs resulted in the issuance of substandard audit reports.

Staff Qualifications

"Staff assigned to perform the audit should have knowledge of the methods and techniques applicable to government auditing and the education skills ... the auditors should be proficient in the appropriate accounting principles and in government auditing standards."³⁷

The qualifications for Associate Management Auditor require the equivalent to graduation from college with a minimum of six semester units of accounting³⁸ and 1 year of experience in the State civil service. By contrast, OIG auditors must have a bachelor's degree that includes or is supplemented by 24 semester hours in accounting and/or auditing. We believe that a minimum requirement of six semester units of accounting for an auditor position was not enough accounting curriculum to enable an individual to perform the job properly.

For example, State specifications state that an auditor should have the ability to "analyze data and take corrective action."³⁹ Our audit revealed many instances where the auditors could not effectively analyze the sponsor's condition, determine the cause of findings, or recommend corrective action to management. If CDE audits were properly conducted with qualified audit staff, the sponsor abuse and fraud we found would have been detected earlier.

³⁷ Government Auditing Standards, Issued by the Comptroller General of the United States, 1994 Revision, Section 3.10(a) and (e)(1).

³⁸ California State Personnel Board specification, dated September 6, 1978.

³⁹ California State Personnel Board specification, dated September 6, 1978.

Also, the audit staff did not receive performance evaluations from management. Instead, management had the audit staff conduct self-evaluations. Management had no effective way to monitor and appraise staff to determine if they were adequately performing their duties. To ensure quality audit work is performed, an objective evaluation should be conducted.

RECOMMENDATION NO. 2a

Instruct CDE to develop and implement an audit program that is customized to CACFP requirements and includes coordination and communication between the CACFP units.

FNS Response

In its written response to the official draft report, dated July 27, 1999, FNS agreed with this recommendation.

OIG Position

To accept FNS' management decision on this recommendation, we will need to be advised of the date when the CDE expects to develop and implement an audit program that is customized to CACFP requirements and includes coordination and communication between the CACFP units.

RECOMMENDATION NO. 2b

Instruct CDE to establish and implement a process for management to perform supervisory reviews of all audit reports and workpapers.

FNS Response

In its written response to the official draft report, dated July 27, 1999, FNS agreed with this recommendation.

OIG Position

To accept FNS' management decision on this recommendation, we will need to be advised of the date when the CDE expects to establish and implement a process for management to perform supervisory review of all audit reports and workpapers.

RECOMMENDATION NO. 2c

Instruct CDE to establish and implement an evaluation system so management can evaluate an auditor's performance.

FNS Response

In its written response to the official draft report, dated July 27, 1999, FNS agreed with this recommendation.

OIG Position

To accept FNS' management decision on this recommendation, we will need to be advised of the date when the CDE expects to establish and implement an evaluation system so management can evaluate and auditor's performance.

RECOMMENDATION NO. 2d

Instruct CDE to provide training in Government Auditing Standards to audit staff involved in CACFP audits.

FNS Response

In its written response to the official draft report, dated July 27, 1999, FNS agreed with this recommendation.

OIG Position

To accept FNS' management decision on this recommendation, we will need to be advised of the date when the CDE expects to provide training in Government Auditing Standards to audit staff involved in CACFP audits.

RECOMMENDATION NO. 2e

Instruct CDE to establish and implement a formal internal quality control system and a written quality control review procedures manual for their own audits.

FNS Response

In its written response to the official draft report, dated July 27, 1999, FNS agreed with this recommendation.

OIG Position

To accept FNS' management decision on this recommendation, we will need to be advised of the date when the CDE expects to establish and implement a formal internal quality control system and a written quality control review procedures manual for their own audits.

RECOMMENDATION NO. 2f

Instruct CDE to establish and implement a system for an external quality control review (peer review) to be performed to ensure that an internal quality control review system is in place and operating effectively, and that the applicable policy and procedures are being followed.

FNS Response

In its written response to the official draft report, dated July 27, 1999, FNS agreed with this recommendation.

OIG Position

To accept FNS' management decision on this recommendation, we will need to be advised of the date when the CDE expects to establish and implement a system for an external quality control review (peer review) to be performed to ensure that an internal quality control review system is in place and operating effectively, and that the applicable policy and procedures are being followed.

RECOMMENDATION NO. 2g

Instruct CDE to increase staff accounting curriculum requirements for new hires to enable the staff to perform the audits properly.

FNS Response

In its written response to the official draft report, dated July 27, 1999, FNS agreed with this recommendation.

OIG Position

To accept FNS' management decision on this recommendation, we will need to be advised of the date when the CDE expects to increase staff accounting curriculum requirements for new hires to enable the staff to perform the audits properly.

FINDING NO. 3

**QUALITY CONTROL
SYSTEM OVER CPA AUDITS
WAS DEFICIENT**

CDE's quality control system for CPA performed audits for CDE was deficient. CDE does not have written procedures for conducting quality control reviews (QCRs) of these audits. As a result, there was no assurance that audit reports and the supporting workpapers were relatively free of material misstatements, and that audits

performed were in accordance with Government auditing standards.

The internal quality control system established by the audit organization should provide reasonable assurance that it (1) has adopted and is following applicable auditing standards and (2) has established and is following adequate audit policies and procedures.⁴⁰ In addition, all CACFP audits are to be performed in accordance with GAS⁴¹ and the audit reports for each sponsor state that the audit was conducted "in accordance with generally accepted auditing standards and Government Auditing Standards (GAS) issued by the Comptroller General of the United States (1994 Revision)."

Prior to 1998, CDE had never performed a QCR of CACFP sole-source funding audits completed by CPA's. The CPA audit reports received only a "desk review." CDE desk reviews consisted of an examination of the audit report to verify that the required components were included. However, desk reviews did not examine the supporting workpapers to ensure they met OMB Circular A-133 requirements and were conducted in accordance with GAS.

The External Audit Unit should have selected audit reports for a QCR which would have provided a representative sample of the audits completed by CPA's. The QCR should have included reviews of the audit reports, workpapers, and any other necessary documentation, as well as interviews with the audit organizations staff. Additionally,

⁴⁰ Government Auditing Standards, Issued by the Comptroller General of the United States, 1994 Revision, Section 3.32.

⁴¹ 7 CFR 3015.70 (a), dated January 14, 1986.

a written report should have been prepared by the External Audit Unit communicating the results of the QCR.⁴²

We judgmentally selected five CPA audits of CACFP sponsors based either on the size of the sponsor meal claims that the CPA reviewed or on concerns by either CDE or OIG. The purpose of our review was to determine if the CPA audits were performed in accordance with GAS and other applicable regulations.

We examined the workpapers of three of the CACFP audit reports performed by CPA's and determined the reports and corresponding workpapers met standards. Prior to our review of the fourth CPA selected, the CPA was referred to the California Department of Consumer Affairs Division of Investigations by CDE for substandard audit work. We took no further action.

For the fifth CPA selected, we determined the CPA did not meet Government auditing standards. Specifically, the audit was not designed to provide reasonable assurance of sponsor compliance with laws and regulations, there was no documentation that the audit steps were performed, and workpapers did not contain sufficient information to support the auditor's conclusions and judgments. Therefore, we referred this CPA to the American Institute of Certified Public Accountants Professional Ethics Division and the California Department of Consumer Affairs Division of Investigations for substandard audit work.

CDE's desk reviews only tested the audit reports' compliance with reporting standards and OMB Circular A-133 presentation requirements. These reviews did not ensure that CPA audits met the applicable auditing standards and complied with program requirements. To supplement this desk review process, QCR's of the CPA's workpapers should be performed on a representative sample of the CPA audits to ensure auditing standards and program requirements are met.

⁴² Government Auditing Standards, Issued by the Comptroller General of the United States, 1994 Revision, Sections 3.34(d)-3.34(f).

RECOMMENDATION NO. 3

Instruct the CDE to perform quality control reviews on a representative sample of CACFP audits completed by certified public accountants.

FNS Response

In its written response to the official draft report, dated July 27, 1999, FNS agreed with this recommendation.

OIG Position

To accept FNS' management decision on this recommendation, we will need to be advised of the date when the CDE expects to begin performing quality control reviews on a representative sample of CACFP audits completed by certified public accountants.

FINDING NO. 4

AUDIT FOLLOWUP WAS INADEQUATE

The CDE did not perform adequate followup on findings in audits. There were no formal procedures to ensure that recommendations were acted on and that corrective action had been implemented. As a result, there was no assurance that sponsors were complying with CACFP laws and

regulations.

Regulations state, "Recipients must establish a system for...following up on the results of subrecipients audits [to] assure timely and appropriate resolution of audit findings and recommendations."⁴³ Further, "Documentation of supervisory assistance activities including reviews conducted, corrective actions prescribed, and follow-up efforts, shall be maintained on file by the State agency."⁴⁴

Government auditing standards note that "Auditors should follow-up on significant findings and recommendations from previous audits

⁴³ 7 CFR 3015.77 (a)(4) and (a)(7), dated January 14, 1986.

⁴⁴ 7 CFR 226.6 (l), dated January 1, 1995.

that could affect the audit objectives. They should do this to determine whether timely and appropriate corrective actions have been taken by auditee officials. Much of the benefit from audit work is not in the findings reported or the recommendations made, but in their effective resolution. Auditee management is responsible for resolving audit findings and recommendations, and having a process to track their status can help it fulfill this responsibility."⁴⁵ CDE should ensure corrective action has been implemented by auditee management.

CDE did not have formal written followup procedures to ensure that corrective action had been implemented for audits. The Audit Closure Unit received corrective action plans (CAP) from the sponsors, and action was taken only on monetary findings. Once all monetary action had been implemented, the file was closed.

We reviewed five CDE audit files and the corresponding audit closure files to determine if any followup had been performed. None of the audits we reviewed documented that followup was performed to ensure that corrective action was implemented. According to an audit closure analyst, the auditor is to complete followup with the agency.

For one of the audits, the sponsor submitted a CAP that stated the disallowed procedures were still uncorrected, pending additional information. The auditor who performed this audit stated he telephoned the sponsor to answer her questions, but all communication with her was verbal. There was never any written communication, nor did the sponsor submit a revised CAP.

Furthermore, the audit closure analyst for this sponsor gave a copy of the CAP to the auditor, who inadvertently placed the file in the closed file cabinet instead of the accounts receivable file cabinet. Thus, the file was closed without any documentation that the total overpayment had been collected. We performed additional audit procedures and confirmed that the overpayment had been paid.

⁴⁵ Government Auditing Standards, Issued by the Comptroller General of the United States, 1994 Revision, Sections 6.12-6.13.

During our review of CDE workpapers we also found that potential material findings were not brought forward to the audit report and no additional audit work was performed. We also found no evidence that the CAP for these sponsors was ever implemented.

Additionally, one audit report stated that the prior audit's recommendations had been implemented. However, during our review we noted that some of the same findings were repeated in the current audit report. The auditor acknowledged that it was an error to report that the recommendations had been implemented. There was no evidence that action was taken by CDE on repeat findings.

Based on our observations and inquiries, we determined an examination of the prior administrative review and/or audit report was the only followup performed by CDE. However, this was rarely documented in the workpapers. Although, administrative reviewers may have examined the prior review performed, by their own admission they did not meet with audit staff, review audit reports, or review audit workpapers before they conducted the next administrative review. Conversely, auditors did not always examine the latest administrative review or audit report.

CDE officials stated that as of February 1998, they have established clear and comprehensive procedures for staff to take corrective action and follow up on conducted reviews. They also said they have established program policy committees that regularly meet to ensure proper followup, and they have instituted new monitoring procedures to ensure the proper implementation of corrective action. However, we have not received any documentation to support that the actions and procedures have been implemented.

RECOMMENDATION NO. 4

Instruct the CDE to appoint a responsible audit official to certify corrective action has been implemented for required program-specific CACFP audits.

FNS Response

In its written response to the official draft report, dated July 27, 1999, FNS agreed with this recommendation.

OIG Position

To accept FNS' management decision on this recommendation, we will need to be advised of the date when the CDE expects to appoint a responsible audit official to certify corrective action has been implemented for required program-specific CACFP audits.

EXHIBIT A - LOCATIONS VISITED

ORGANIZATION/ENTITY	LOCATION
FNS Western Regional Office	San Francisco, California
<p><u>California Department of Education (CDE)</u> Child and Nutrition and Food Distribution Division External Audits Unit Administrative Services Unit Field Services Unit Child Care Food Program Unit Adult Day Care Food and Special Projects Unit Accounting Office Information Systems</p>	Sacramento, California
California Bureau of State Audits	Sacramento, California
<p><u>Certified Public Accountants</u> For Pacific Enrichment Incorporated and FRAMAX For Community Business Improvement Association For Children's Spectrum</p>	Modesto, California Beverly Hills, California Los Angeles, California

EXHIBIT B - CDE AUDIT DEFICIENCIES

NO.	DEFICIENCIES	CF Services	Friends Educational Child Care Services	Crossroads Child Care Services	Monterey Bay Agency	Aladdin Child Care Services
AUDIT PROGRAM						
1	Did not verify retainment of advance funds in an interest bearing account.	X			X	
2	Audit program not specific to CACFP requirements.	X	X	X	X	X
3	Steps skipped, incorrect referencing and audit procedures not followed.	X	X	X	X	X
AUDIT WORKPAPERS						
4	Limited documentation of sample selection.	X	X	X	X	X
5	Limited documentation of internal control structure.	X	X	X	X	X
6	No discussion of the internal control weaknesses.	X	X	X		X
7	Inadequate internal control questionnaire.	X	X	X	X	X
8	Schedules were not adequately cross-referenced.		X			X
9	Did not review prior year findings.		X			X
10	Inadequate documentation of results of cash advance requirement.	X		X		
11	Workpapers did not stand alone.	X	X	X	X	X
12	Lack of explanation of symbols and markings.			X	X	
13	Did not disclose the effect of disallowed costs.					X
14	Did not document review of personnel records.	X		X	X	X

EXHIBIT B - CDE AUDIT DEFICIENCIES

NO.	DEFICIENCIES	CF Services	Friends Educational Child Care Services	Crossroads Child Care Services	Monterey Bay Agency	Aladdin Child Care Services
15	Most recent administrative review report not included.		X	X	X	
AUDIT METHODOLOGY						
16	Risk analysis was not performed.	X	X	X	X	X
17	Did not expand testing when circumstances dictated.					X
18	Materiality not addressed.	X	X	X	X	X
19	Did not verify advance funds were issued in a timely manner.	X		X		
20	Did not sufficiently verify timeliness of payments to providers.	X	X			X
21	Prior year findings not corrected.			X		
22	Did not report questionable expenses.					X
23	Did not verify budget transfer limits.			X	X	X
24	Meal cash advance used to pay for administrative expenses.	X				
AUDIT REPORTS						
25	Material noncompliance not emphasized or explained in report.	X		X		X
26	Opinion not supported by W/P's.	X				X
27	Going-concern issue never addressed.	X				X
28	Reportable conditions on internal control structure not in report.	X	X	X		X
29	Did not disclose extent of problems.					X

EXHIBIT B - CDE AUDIT DEFICIENCIES

NO.	DEFICIENCIES	CF Services	Friends Educational Child Care Services	Crossroads Child Care Services	Monterey Bay Agency	Aladdin Child Care Services
QUALITY CONTROL REVIEWS						
30	Errors related to lack of proof-reading and accuracy of data.	X	X	X	X	X
31	Included incorrect administrative review report.		X			
32	Lack of documentation indicating managerial review.	X	X	X	X	X
33	Lack of documentation to show internal QCR was conducted.	X	X	X	X	X
34	No documentation that external QCR was conducted.	X	X	X	X	X
STAFF QUALIFICATIONS						
35	Errors related to lack of training or qualifications.	X	X	X	X	X
36	Appearance of lack of independence.					X
TOTALS		24	20	23	18	28

**EXHIBIT C - FOOD AND NUTRITION SERVICE'S WRITTEN
RESPONSE TO THE DRAFT REPORT**



United States Department of Agriculture
Food and Nutrition Service

Western Region

Reply to
Attn of: WFM-200

JUL 27 1999

Subject: Child and Adult Care Food Program - Quality of Audit Work, California
Department of Education, Audit 27601-9-SF

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

This is to provide our comments on the official draft audit report, dated June 2, 1999.

We suggest on pages ii and 6, the report be re-worded to specify the audit universe was comprised of only those institutions solely receiving CACFP funds, and not "all required audits" which implies a larger universe of audit reports.

In working with CDE on completion of audit backlogs, it will be important to know the exact universe of audits. We request a listing of sponsor audits and their status as of the official audit draft date. To ease review of the report, we suggest the language in finding 1 be re-worded or clarified with an exhibit which shows the universe for each year:

1. Number of CACFP only audits required;
2. Number of CACFP audits completed by CDE and by CPAs;
3. Number of CACFP audits not done;
4. Number of CACFP audits assigned to CDE auditors and to CPAs and the number completed by each;
5. Timeliness of each audit type of audit report (CDE or CPA).

Recommendations 1a and 1b of this audit, are closely related to recommendation 1b of audit 27601-8-SF and to recommendation 2a of audit 27601-6-SF (respectively). Recommendation 1a calls for the resolution of 189 backlogged audits; through recommendation 1b (27601-8-SF) we have asked for and received the CDE's audit plan. Recommendation 1b calls for a tracking system to assure all audits are completed; through recommendation 2a (27601-6-SF), we have requested a management accountability process be implemented (attached July 26, 1999 letter to CDE). We believe a management accountability process may encompass the need for a tracking system, and will work with the State to incorporate this in their corrective action plan. Based on

FORM FCS-606 (3-96)


550 Kearny St. ■Room 400 ■San Francisco, CA 94108-2518

**EXHIBIT C - FOOD AND NUTRITION SERVICE'S WRITTEN
RESPONSE TO THE DRAFT REPORT**

these actions and plans, we request management decision for both recommendations 1a and 1b.

We are in concurrence with the remaining recommendations and findings in the audit.

If you have any questions, please call Martin Tom at (415) 705-1341, extension 239.


JAMES NORDIN
Regional Director
Financial Management
Western Region

Attachment

cc: Janet Allen, RD, SNP

**EXHIBIT C - FOOD AND NUTRITION SERVICE'S WRITTEN
RESPONSE TO THE DRAFT REPORT**



**United States
Department of
Agriculture**

Food and
Nutrition
Service

Western Region

550 Kearny St.
Room 400
San Francisco, CA
94108-2518

Ms. Marilyn Briggs, Director
Child Nutrition Program and Food Distribution Division
Department of Education
P.O. Box 944272
Sacramento, CA 9244-2720

JUL 26 1999

Dear Ms. Briggs:

On May 27, 1999, we sent our letter of determination concerning audit number 27601-6-SF, Child and Adult Care Food Program - State Agency Oversight by the California Department of Education (CDE). We indicated that for Recommendation 2a of the report, FNS would tie audit corrective action to related recommendations from the March 1999 Management Evaluation (ME) report. Since issuance of the ME report has been delayed, and because of the limited time FNS and the State have to reach agreement on corrective action, we are amending how we will achieve management decision for this recommendation.

Recommendation 2a called for the CDE to establish a management and accountability process which ensures coordination between the Child Nutrition and Food Distribution Division and the Audits and Investigations Division. The recommendation stems from the level of coordination of key information from budget analysis, administrative reviews, and audit done by CDE or independent auditors. In fact, the other recommendations in the audit point to the need for the budget, review and audit processes (broadly summarized below) to be integrated.

Budget Analysis Elements

- 1) Identify and question unallowable items of cost;
- 2) Identify when approved amounts are exceeded;
- 3) Send and receive information which affects any of the three related functions.

Administrative Review Elements

- 1) Administrative findings are communicated timely;
- 2) Follow-up actions to administrative findings are fully resolved timely;
- 3) Dollar assessments are resolved timely;
- 4) Results from dollar, administrative, and follow-up actions are coordinated among the three functions.

AN EQUAL OPPORTUNITY EMPLOYER

**EXHIBIT C - FOOD AND NUTRITION SERVICE'S WRITTEN
RESPONSE TO THE DRAFT REPORT**

Audit Corrective Action Elements

1. Audits and their results are timely issued;
2. Follow up action is taken timely;
3. Results from budget or administrative reviews are incorporated into audit work;
4. Results or findings from audits are communicated among the three functions.

To address recommendation 2a, we ask that you provide within 45 days, a corrective action plan and procedures which specifically show how management accountability will be implemented across the above functions. In improving accountability, the CDE should consider how its management will in a timely manner, know whether the above information exchanges are occurring; whether the information is being acted upon; and if problems occur whether the issues are corrected promptly. The State may elect to use monitoring, contractual remedies (for independent audits) or employee performance management systems to assure problems are corrected promptly. CDE may provide an alternative means of achieving management accountability, however, within 30 days of FNS' approval of corrective action, the CDE should implement the accountability procedures. Completion of implementation must be within 1 year of the start of implementation.

If you have any questions, please call Martin Tom at (415) 705-1341, extension 239.

Sincerely,



JAMES NORDIN
Regional Director
Financial Management
Western Region

cc: Janet Allen, RD, SNP