



U. S. Department of Agriculture

Office of Inspector General

Audit Report

**Food and Nutrition Service
Child and Adult Care Food Program
Administration of 2-Percent Funds
State of California**

**Audit Report No.
27601-8-SF
MARCH 1999**





UNITED STATES DEPARTMENT OF AGRICULTURE
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DATE: March 29, 1999

REPLY TO
ATTN OF: 27601-8-SF

SUBJECT: Child and Adult Care Food Program
Administration of 2-Percent Funds
State of California

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

This report presents the results of our audit of the Child and Adult Care Food Program, Administration of 2-Percent Funds by the State of California. Your written response to the draft report is included as exhibit E 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. Please follow your internal agency procedures in forwarding final action correspondence to OCFO.

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

SAM W. CURRIE
Regional Inspector General
for Audit

EXECUTIVE SUMMARY

FOOD AND NUTRITION SERVICE CHILD AND ADULT CARE FOOD PROGRAM ADMINISTRATION OF 2-PERCENT FUNDS STATE OF CALIFORNIA AUDIT REPORT NO. 27601-8-SF

PURPOSE

This report presents the results of our review of the State of California's administration of Child and Adult Care Food Program (CACFP) 2-percent funds. These funds are referred to as 2-percent funds because regulations allow up to an amount equal to 2-percent of the funds expended on the program in each State to be used for audit and review purposes. The funds are made available for the State agency to conduct audits and program reviews of the organizations that participate in the program.¹

We reviewed the controls over the 2-percent funds expended for audits and administrative reviews by the State agency. The purpose of our audit was to determine if the California Department of Education's (CDE) use of 2-percent funds was in compliance with applicable laws and regulations. In California, the Food and Nutrition Service (FNS) Western Regional Office administers the program through an agreement with CDE.

CDE expended 2-percent funds totaling \$2,137,099 in fiscal year 1995; \$2,171,874 in fiscal year 1996; \$2,379,399 in fiscal year 1997 and \$2,542,189 in fiscal year 1998.

RESULTS IN BRIEF

We questioned over \$5.5 million of the 2-percent funds claimed by CDE during fiscal years 1995 through 1998. These funds were either ineligible or unsupported. Approximately \$1.6 million was used to pay salaries and benefits for administrative review personnel even though all required audits had not been completed. The CACFP prohibits the State agency from claiming the expenses of administrative review personnel before all required audits have been completed. During this period, CDE had not completed over 180 of its required audits of CACFP sponsors.

CDE also claimed approximately \$3.9 million for personnel costs of auditors who also worked on other non-CACFP programs. It was impossible for us to determine how many hours, if any, were eligible for 2-percent funding.

On April 29, 1998, we issued a Management Alert notifying FNS of the inappropriate use of the 2-percent funds. Fiscal Year 1998 was not included in the Management Alert.

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

KEY RECOMMENDATIONS

FNS should recover \$3,916,190 in unsupported personnel costs and \$1,604,364 in improper costs charged to the CACFP 2-percent funding.

In addition, FNS should instruct CDE to establish documented procedures to ensure that all required audits are completed before charging administrative review costs to 2-percent funding. FNS should also instruct CDE to establish documented procedures for an equitable distribution of costs between its various programs and to maintain adequate support for time charged to these programs.

AGENCY POSITION

In its February 16, 1999, written response to the 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 E.

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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 (sponsors) which act as a liaison between the State agency and participating day care homes and centers. 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. To accomplish these audits and reviews, at the time of our audit, the CACFP made available to each State agency an amount equal to two percent of the CACFP reimbursement provided to institutions within the State. These funds were 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.

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

The audit funding level to each State agency for a fiscal year is based on 2-percent of the State's CACFP reimbursement provided to institutions during the second preceding fiscal year. In fiscal year 1997, \$17.1 million of 2-percent funds were expended nationwide. Of that total, almost \$2.4 million was expended by the CDE.

OBJECTIVES

Our audit objective was to determine if CDE's use of 2-percent funds was in compliance with applicable laws and regulations.

SCOPE

We reviewed the controls over funds expended for audits and administrative reviews by the CDE and the allowability of the use of these funds.

The CDE was reimbursed for 2-percent fund expenditures totaling \$2,137,099 in fiscal year 1995; \$2,171,874 in fiscal year 1996; \$2,379,399 in fiscal year 1997; and \$2,542,189 in fiscal year 1998. These expenditures should have been used to conduct audits and administrative reviews of the CACFP.

We reviewed 100 percent of State personnel costs charged to the 2-percent audit funding. The personnel costs totaled \$1,260,377 for fiscal year 1995; \$1,330,379 for fiscal year 1996; \$1,422,803 for fiscal year 1997; and, at the time of our audit, \$1,506,994 for fiscal year 1998. We also judgmentally selected for review non-personnel, 2-percent fund expenditures during fiscal years 1995 through 1998.

Audit work was performed from October 1997 through November 1998 at the FNS Western Regional Office in San Francisco, California and the CDE in Sacramento, California (see exhibit B for a listing of audit sites).

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

METHODOLOGY

To accomplish our objectives, 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 and Single Audit reports to identify previous issues, and (3) management evaluations to determine if FNS adequately monitored CDE expenditures and followed up on reported deficiencies.
- At CDE, we conducted interviews with officials to determine the State's oversight and monitoring responsibilities and use of 2-percent funds.
- We reconciled year end financial reports (SF-269) and reviewed 2-percent fund budgets and determined the appropriateness of 2 percent fund expenditures. We reviewed 100 percent of personnel costs (obtained from microfiche) and judgmentally selected other administrative costs to determine if they were allowable and supportable.

FINDINGS AND RECOMMENDATIONS

I. CDE CHARGED IMPROPER AND UNSUPPORTED COSTS TO 2-PERCENT FUNDS

For fiscal years 1995-1998, CDE improperly used 2-percent funds to pay salaries and benefits for administrative review personnel even though all required program-specific audits had not been completed. In addition, CDE did not maintain adequate support for its charges to the 2-percent fund for audit personnel who may have been working on multiple programs.

FNS grants audit funds for the expense of conducting and reviewing CACFP audits, and administrative reviews. After all required audits have been completed the State agency may use any remaining funds to conduct administrative reviews.

We identified questionable claims totaling approximately \$5.5 million, including improper charges for administrative reviews of approximately \$1.6 million, and unsupported charges for audit personnel of approximately \$3.9 million. In total, we questioned about 60 percent of the 2-percent funding CDE received for fiscal years 1995 through 1998.

On April 29, 1998, we issued a Management Alert notifying FNS of the inappropriate use of the 2-percent funds. FNS responded on May 12, 1998, and issued a letter to the CDE on May 11, 1998, which summarized the findings and recommendations and asked the CDE to begin corrective action. In addition, FNS advised CDE of its intent to bill for the recovery of the \$4 million in questioned costs for fiscal years 1995-1997, once this audit report is released. Fiscal year 1998 was not included in the Management Alert.

FINDING NO. 1

CDE CHARGED IMPROPER COSTS TO 2-PERCENT FUNDING FOR ADMINISTRATIVE REVIEWERS

For fiscal years 1995 through 1998, CDE improperly used 2-percent funds to pay salaries and benefits for administrative review personnel. These charges were improper because CDE had not completed all its required audits of CACFP sponsors. The CACFP prohibits the State agency from claiming the expenses of administrative review personnel before all required audits have been completed. As a result, the CDE improperly charged \$1,604,364 to the CACFP (see exhibit C).

In addition to the State administrative expense funds that States use to pay the normal costs of administering the CACFP, State agencies receive 2-percent audit funding for conducting audits and administrative reviews of CACFP sponsors and centers. The funding level for the 2-percent audit funds is

limited to 2-percent of the State's CACFP reimbursement provided to institutions during the second preceding fiscal year. According to FNS regulations the State agency may use any funds remaining after all required audits have been performed to conduct administrative reviews of institutions² (emphasis added).

Administrative reviews and audits examine some of the same program compliance areas. An administrative review evaluates eligibility and meal requirement compliance, and financial and meal accountability. However, an audit is performed in accordance with GAS and is much larger in scope than an administrative review.

The CDE reviewers examine a sponsor's records including participant eligibility, meal claim reimbursement, meal requirements, and license capacity. A limited review of the current year's budget is also performed. The scope of CDE administrative reviews is always the most recent month for which the sponsor has submitted its final claim. In addition, followup is to be performed for issues identified in the previous administrative review.

An audit examines the sponsor's program and accounting records and an opinion is issued based on the examination. Auditors follow an audit program which details procedures to perform. CDE audits generally consist of examining a sample of program and accounting records for three months of the scope year. In addition, an audit determines the extent and impact of noncompliance issues on meal reimbursement claims.

As reported in our Management Alert, dated April 29, 1998, we determined CDE had not completed over 140 of its required program-specific audits of CACFP sponsors. Fiscal Year 1998 was not included in the Management Alert. Including fiscal year 1998, CDE had not completed over 180 of its required audits.

Program regulations require that all audits must be completed before the costs of administrative review personnel can be charged to 2-percent funding. The audits should be completed and 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

A letter from FNS dated October 14, 1998, also stated that "Costs can only be charged to 2-percent funds when the state's audit requirement has been performed. Additionally, audit staff participating in the fiscal portion of CACFP reviews is still considered administrative review activity."⁴

For the 1994-1995 program year, we found no evidence that 68 audits from a population of 122 required audits were ever completed. For the 1995-1996 program year, we found no evidence that 78 audits from a population of 118 required

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

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

⁴ FNS letter dated October 14, 1998, regarding Two Percent Audit Funds.

audits were ever completed. Lastly, for the 1996-1997 program year, it appeared that 43 audits from a population of 56 required audits were not completed.

The following chart shows the total administrative review hours and dollars charged to the 2-percent fund:

2-Percent Funding	FY 1995	FY 1996	FY 1997	FY 1998	Total
Number of Personnel Who Charged	8	8	7	12	13 ⁵
Administrative Review Hours Charged	14,389	15,205	14,650	8,756	53,000
Administrative Review Dollars Charged (Salaries and Benefits)	\$429,744	\$457,936	\$448,086	\$268,598	\$1,604,364

CDE officials told us that administrative review personnel were unaware that auditors had not completed all program-specific audits and were also unaware that they could not charge their time to the 2-percent fund. We concluded that the CDE should not have charged any expenditures for its administrative reviews to 2-percent funds because a significant portion of its audits had not been completed.

RECOMMENDATION NO. 1a

Recover \$1,604,364 from the CDE in reviewer costs charged improperly to the CACFP 2-percent fund during fiscal years 1995 through 1998.

FNS Response

In its written response to the draft report, dated February 16, 1999, FNS agreed to bill the CDE for the questioned cost within 15 days of receipt of the final audit report.

OIG Position

To accept FNS' management decision on this recommendation, we will need a copy of the bill for collection of \$1,604,364 from the CDE.

RECOMMENDATION NO. 1b

Instruct the CDE to establish procedures to ensure all required audits are completed, or will be completed during the

⁵ This is the total number of administrative review personnel who charged to the program over the four years. Some of the same staff charged each year.

required time frames, before charging administrative review salaries to 2-percent funding.

FNS Response

In its written response to the draft report, dated February 16, 1999, FNS stated that *"The state is currently developing its Audit Plan for the EAIU [External Audits and Investigations Unit]. FNS has reviewed two drafts to date. This plan addresses issues pertaining to this finding. A final draft should be issued by March 5. We will follow up with the state to ensure that this plan is effectively implemented and adhered to during our March 8-12 Child Nutrition Management Evaluation. We will also request periodic reports to be submitted to this office by the EAIU which will allow us to determine the state's continued compliance."*

OIG Position

To accept FNS' management decision on this recommendation, we will need to be advised of the date when the CDE expects to implement formal procedures to ensure all required audits are completed, or will be completed during the required time frames, before charging administrative review salaries to 2-percent funding.

FINDING NO. 2

CDE CHARGED UNSUPPORTED COSTS TO 2-PERCENT FUNDING FOR AUDIT STAFF

CDE was unable to adequately support expenses charged to the 2-percent funding for audit personnel who may have been working on multiple programs. These charges were unsupported because the CDE did not have an adequate system in place or a cost allocation plan to support personnel charges to CACFP and non-CACFP programs. As a

result, the CDE charged \$3,916,109 in unsupported personnel expenses to the CACFP (see exhibit D).

OMB Circular A-87⁶, Attachment B, states "Salaries and wages of employees chargeable to more than one program or other cost objective will be supported by appropriate time distribution records. The method used should produce an equitable distribution of time and effort." In the May 1995 revision, the Circular further states "to be allowable under federal awards, costs must ... be adequately documented."

States are awarded 2-percent audit funds, which are restricted to payment of audit and review costs.⁷ However, we found that CDE did not have a system in place or a cost assignment procedure to adequately support expenses charged to the 2-percent funding source for audit personnel who were working on multiple programs.

⁶ OMB Circular A-87 dated February 1985 promulgates cost principles for State, local and Indian tribal governments.

⁷ 7 CFR 226.4(h), dated January 1, 1995.

We concluded that members of the audit staff, who were involved in audits of multiple programs such as the National School Lunch Program, School Breakfast Program, Summer Food Program, CACFP, and the Child Development Program did not adequately support their time charged to audits of the CACFP. While the first four programs are USDA programs, the Child Development Program is not a USDA-funded program.

CDE officials told us that during fiscal year 1996, most of the CDE audit staff were devoted to reducing the backlog of Child Development Division audits. We also interviewed a number of audit staff employees who were unable to provide us with any documentation to support their time charged to the 2-percent fund. In all likelihood, these individuals worked some time on CACFP and, therefore, would have been eligible to charge some time to 2-percent. It was impossible for us to determine how many hours, if any, were eligible for 2-percent funding.

The CDE audit staff submitted monthly time sheets showing the number of hours worked on each program. In many instances the monthly time sheets were signed by both the employee and the supervisor prior to the end of the month. Also, the monthly time sheets were preprinted with the 2-percent funding code for most of the audit staff. Therefore, unless a staff member manually changed the preprinted funding code on the time sheet, all time charged would automatically default to the 2-percent funding code. We found that for many employees who were apparently working on multiple programs, the default code was primarily used.

In January 1998, the audit staff began preparing time sheets which show the number of hours worked on each audit. However, the time sheets still do not show which program(s) are to be charged. Therefore, it is still impossible for us to determine how many hours were eligible for 2-percent funding.

Some specific examples of questionable charges to CACFP are as follows:

1. One hundred percent of one audit manager's time in fiscal year 1996 was charged to the CACFP 2-percent funding code, even though he was primarily responsible for auditing and monitoring the Child Development Program (which is a U.S. Department of Health and Human Service program).
2. Another example is that of a retired annuitant who was working exclusively in the Summer Food Service Program Unit in fiscal year 1997 and charged his time to the 2-percent fund. The time sheet was signed by the Summer Food Service Program Unit manager, but we were unable to find any evidence to support the time charged to 2-percent funding.
3. One auditor stated that he worked on audits of all nutrition programs, including the CACFP, but he did not formally track his hours spent per program. This auditor charged 100 percent of his time to the 2-percent fund in fiscal year 1995. In fiscal year 1996 he charged 88 percent, and in fiscal year 1997 he charged 82 percent.

4. The audit files, maintained at the CDE, include a data entry sheet that indicated the review hours spent on each program. We found for one audit, an auditor recorded on the data entry sheet that he completed a review of a CPA audit and spent 3.8 hours on CDD and 1 hour on the CACFP. However, we could not reconcile this to the auditor's time sheet because all his time for this day was charged as overtime to the 2-percent fund.
5. Two other auditors stated they estimated the number of hours spent on CACFP audits. Another auditor was on sick leave for the first six months of fiscal year 1995 (October 1994 - March 1995) and his salary was paid using 2-percent funds. This auditor was also on sick leave for at least the eight months prior to the beginning of fiscal year 1995 (February 1994 - September 1994). However, there were no records available to justify why all his sick leave hours were charged to 2-percent funding.
6. Another auditor stated he had been on loan to Adult Education since 1995. He had worked on some CACFP audits, but did not maintain a tracking system. This auditor charged 1,155 hours, or 56 percent, to the 2-percent fund in fiscal year 1997. In fiscal year 1996 he charged 1,311, or 63 percent, and in fiscal year 1995 he charged 2,070, or 99 percent. According to the auditor, he believed the Child Nutrition Food Distribution Division charged Adult Education for his services.

The audit manager told us he assigned some of the required program-specific audits to his staff. Required audits not assigned to audit staff were to be completed by a CPA. We found little evidence to indicate that audit staff had actually performed the audits assigned to them. For example, in program year 1995-1996, we found that the audit staff had only completed 1 of the 20 assigned audits. For program years 1994-1995 and 1996-1997 no audits were ever assigned to the CDE audit staff.

In addition, for required audits completed by CPAs, the audit staff were to conduct "desk reviews" of these audit reports. The objectives of a desk review are to (1) assure that audit reports meet applicable reporting standards and OMB Circular A-113 requirements, (2) identify any followup audit work needed, (3) identify reports for potential quality control reviews, and (4) identify issues that may require management attention. However, for program year 1996-1997 the CDE only completed 13 of 56 CACFP desk reviews. For program year 1995-1996 they completed 40 of 52 CACFP desk reviews and for program year 1994-1995 they completed 54 of 64 CACFP desk reviews.

We concluded the CDE did not have an effective allocation system to support activities performed by audit staff members and cannot adequately support its charges to 2-percent funding.

The total audit hours, dollars, and the number of personnel who charged 2-percent funding is as follows:

2-Percent Funding	FY 1995	FY 1996	FY 1997	FY 1998	Total
Number of Audit Personnel Who Charged	21	27	32	38	46 ⁸
Audit Hours Charged	29,269	30,088	34,706	43,481	137,544
Audit Dollars Charged (Salaries and Benefits)	\$830,633	\$872,443	\$974,717	\$1,238,397	\$3,916,190

RECOMMENDATION NO. 2a

Recover \$3,916,190 from the CDE for unsupported costs charged to the CACFP 2-percent fund during fiscal years 1995 through 1998. Collect in full, unless the CDE can fully support the time that the audit staff worked on CACFP audits.

FNS Response

In its written response to the draft report, dated February 16, 1999, FNS agreed to bill the CDE for the questioned cost within 15 days of receipt of the final audit report.

⁸ This is the total number of different audit staff personnel who charged time to the program over the four year period.

OIG Position

To accept FNS' management decision on this recommendation, we will need a copy of the bill for collection of \$3,916,190 from the CDE.

RECOMMENDATION NO. 2b

Instruct the CDE to prepare and implement a written cost assignment procedure to produce an equitable distribution of time and effort and maintain adequate support for time charged with appropriate time distribution records.

FNS Response

In its written response to the draft report, dated February 16, 1999, FNS stated that *"The state has already begun developing cost assignment procedures which address this finding. We will follow up with the state during our March Child Nutrition Management Evaluation to ensure proper implementation of these procedures. We will instruct the state, within 15 days of receipt of the final audit, to maintain appropriate time and effort records and to retroactively apply the cost assignment procedure for Fiscal Year 1999."*

OIG Position

To accept FNS' management decision on this recommendation, we will need to be advised of the estimated completion date of the CACFP Management Evaluation which will determine if the CDE has developed and implemented an acceptable cost assignment procedure.

EXHIBIT A - SUMMARY OF MONETARY RESULTS

RECOMMENDATION NUMBER	DESCRIPTION	AMOUNT	CATEGORY
1a	Improper Costs Charged to 2-percent Funding for Administrative Reviewers	\$1,604,364	Questioned Costs - Recovery Recommended
2a	Unsupported Costs Charged to 2-percent Funding for Audit Staff	\$3,916,190	Unsupported Costs - Recovery Recommended
TOTAL MONETARY RESULTS		\$5,520,554	

EXHIBIT B - LOCATIONS VISITED

ORGANIZATION/ENTITY	LOCATION
FNS Western Regional Office	San Francisco, California
California Department of Education (CDE) 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	Sacramento, California

EXHIBIT C - IMPROPER COSTS CHARGED TO TWO PERCENT FUNDING FOR ADMINISTRATIVE REVIEWERS

Employee	FY 95	FY 96	FY 97	FY 98	Total
01	\$64,890.54	\$66,254.18	\$66,579.31	\$50,545.17	\$248,269.20
02	5,217.86	62,709.06	62,944.35	42,218.46	173,089.73
03	58,965.18	65,862.94	66,089.13	44,117.78	235,035.03
04	62,273.68	15,501.97			77,775.65
05	55,635.52	62,193.11	63,713.86	41,357.79	222,900.28
06	61,019.74	62,299.64	62,548.87	41,738.78	227,607.03
07	61,150.57	62,531.58	62,684.87	31,667.25	218,034.27
08	60,591.04			774.73	61,365.77
09		60,583.10	63,526.07	6,023.21	130,132.38
47				212.93	212.93
48				1,045.64	1,045.64
49				8,659.73	8,659.73
50				236.16	236.13
Total	\$429,744.13	\$457,935.58	\$448,086.46	\$268,597.60	\$1,604,363.77

EXHIBIT D - UNSUPPORTED COSTS CHARGED TO TWO PERCENT FUNDING FOR AUDIT STAFF

Employee	FY 95	FY 96	FY 97	FY 98	Total
10	\$8,869.65				\$8,869.65
11	66,033.32	\$41,312.30	\$36,689.68	45,435.67	\$189,470.97
12	17,861.30	16,554.91	22,728.74	20,593.62	\$77,738.57
13	50,873.70	52,325.28	61,505.09	64,692.03	\$229,396.10
14	39,993.03	38,547.09	39,496.79	29,952.50	\$147,989.41
15	21,400.06	19,674.82	25,093.04	32,598.20	\$98,766.12
16	45,243.41		1,695.84	5,184.43	\$52,123.68
17	31,751.55				\$31,751.55
18	41,682.42	52,003.56	58,945.08	62,974.94	\$215,606.00
19	66,508.09	66,773.25	63,625.71	47,971.72	\$244,878.77
20	27,616.17	3,539.04			\$31,155.21
21	25,750.61	27,213.12	25,696.73	23,846.12	\$102,506.58
22	3,607.05	20,210.31	19,028.58	51,596.37	\$94,442.31
23	39,190.90	72,972.62	56,788.03	31,908.43	\$200,859.98
24	21,804.15	15,360.74			\$37,164.89
25	61,301.12	54,881.22	51,012.90	63,040.26	\$230,235.50
26	35,905.08	48,336.10	50,884.65	48,884.04	\$184,009.87
27	68,153.63	49,886.10	57,134.61	54,107.99	\$229,282.33
28	62,009.77	68,172.04	2.80	9,365.66	\$139,550.27
29	69,447.03	68,638.18	71,102.51	70,672.99	\$279,860.71
30	25,630.84	29,150.85	32,990.82	42,151.66	\$129,924.17
31		14,920.97	18,355.78	23,085.34	\$56,362.09
32		3,355.16			\$3,355.16
33		12,260.43	24,699.29	5,323.76	\$42,283.48
34		15,416.18	21,834.08		\$37,250.26
35		805.19	864.30		\$1,669.49
36		1,162.78	12,106.79		\$13,269.57
37		41,315.74	61,523.20	80,849.21	\$183,688.15

EXHIBIT D - UNSUPPORTED COSTS CHARGED TO TWO PERCENT FUNDING FOR AUDIT STAFF

Employee	FY 95	FY 96	FY 97	FY 98	Total
38		30,422.22	64,764.21	74,025.33	\$169,211.76
39		7,233.29	24,478.60	5,145.94	\$36,857.83
40			1,443.93	11,543.53	\$12,987.46
41			18,860.90	27,548.26	\$46,409.16
42			13,439.80	21,290.75	\$34,730.55
43			9,603.64	46,098.75	\$55,702.39
44			12,184.60	22,062.50	\$34,247.10
45			9,958.36	18,733.83	\$28,692.19
46			6,177.89	12,399.32	\$18,577.21
51				50,779.00	\$50,779.00
52				21,419.05	\$21,419.05
53				12,733.39	\$12,733.39
54				2,875.46	\$2,875.46
55				35,934.72	\$35,934.72
56				1,129.05	\$1,129.05
57				33,329.40	\$33,329.40
58				23,814.78	\$23,814.78
59				3,298.82	\$3,298.82
Total	\$830,632.88	\$872,443.49	\$974,716.97	\$1,238,396.82	\$3,916,190.16

EXHIBIT E - FNS' WRITTEN RESPONSE TO THE DRAFT REPORT



United States Department of Agriculture
Food and Nutrition Service

FEB 16 1999

Western Region

Reply to
Attn of: WFM-200

Subject: Child and Adult Care Food Program, (CACFP), Audit 27601-8-SF
2-Percent Fund Expenditures, State of California

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

This is to provide our comments on the official draft audit.

Agency Position for Key Recommendations

Upon receipt of the final audit, FNS will bill the state for all questioned costs. The state is currently developing its Audit Plan for the External Audits and Investigations Unit (EAIU) which establishes state procedures for the performance of all required audits before it assigns administrative review costs to the 2-percent audit fund. FNS will ensure the state properly implements these procedures. The state has already begun to develop and implement a means to document and support audit costs appropriately charged to the 2-percent audit fund. FNS will instruct the state, within 15 days of receipt of the final audit, to maintain appropriate time and effort records and to retroactively apply the cost assignment procedure for Fiscal Year 1999.

Comment on Finding 1: Page 6 describes the number of required audits which the state did not perform. However, on page 11 (finding 2) the report speaks in terms of "assigned audits" that were not completed. Since these numbers do not match, we suggest that the report language be revised to specify that the number of unperformed assigned audits is actually a subset of the overall number of unperformed required audits.

Additionally, many sections of the audit report refer to the state's obligation to perform all required "program-specific audits." While we understand that the audit findings focus on required audits of only those agencies which received funding from a single source (CACFP), and that these agencies normally receive program-specific audits, the state's audit requirement does encompass all audits above the threshold. Since the total number of required audits for each fiscal year is greater than the figures contained in this report, we feel the report should include a more thorough explanation of its scope in this respect.

FORM FCS-606 (3-96)

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

EXHIBIT E - FNS' WRITTEN RESPONSE TO THE DRAFT REPORT

Sam W. Currie
Regional Inspector General

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Finding 1, Recommendation 1a: Recover \$1,604,364 from the California Department of Education in reviewer costs charged improperly to the Child and Adult Care Food Program (CACFP) 2-percent fund during FY's 1995 through 1998.

FNS Response: FNS will bill the state for the questioned cost within 15 days of receipt of the final audit.

Finding 1, Recommendation 1b: Instruct the California Department of Education to establish procedures to ensure all required program-specific audits are completed, or will be completed during the required time frames, before charging administrative review salaries to 2-percent funding.

FNS Response: The state is currently developing its Audit Plan for the EAIU. FNS has reviewed two drafts to date. This plan addresses issues pertaining to this finding. A final draft should be issued by March 5. We will follow up with the state to ensure that this plan is effectively implemented and adhered to during our March 8-12 Child Nutrition Management Evaluation. We will also request periodic reports to be submitted to this office by the EAIU which will allow us to determine the state's continued compliance.

Finding 2, Recommendation 2a: Recover \$3,916,190 from the California Department of Education in unsupported costs charged to the CACFP 2-percent fund during FY's 1995 through 1998. Collect in full, unless the California Department of Education can fully support the time that these individuals worked on CACFP audits.

FNS Response: FNS will bill the State for the questioned cost within 15 days of receipt of the final audit.

Finding 2, Recommendation 2b: Instruct the California Department of Education to prepare a written cost allocation plan to produce an equitable distribution of time and effort and maintain adequate support for time charged with appropriate time distribution records.

FNS Response: The state has already begun developing cost assignment procedures which address this finding. We will follow up with the state during our March Child Nutrition Management Evaluation to ensure proper implementation of these procedures. We will instruct the state, within 15 days of receipt of the final audit, to maintain appropriate time and effort records and to retroactively apply the cost assignment procedure for Fiscal Year 1999.

EXHIBIT E - FNS' WRITTEN RESPONSE TO THE DRAFT REPORT

Sam W. Currie
Regional Inspector General

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Agency Editorial Comments

Finding 1, Recommendation 1b: We believe this recommendation should be revised to eliminate reference to "program-specific" audits, since the state must establish procedures to ensure that all required audits are performed.

Finding 2, Recommendation 2b: We believe that the recommendation should replace the term "cost allocation plan" with the term "cost assignment procedure", which we understand to be a more accurate description of the required process.

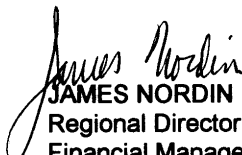
Page 2, second paragraph under the section "Scope": In the last sentence, the report states that 2-percent audit funds were used "to conduct audits and administrative reviews of the CACFP." Since the OIG's position is that, in fact, not all 2-percent audit expenditures were actually used to perform CACFP audits, perhaps this sentence should be revised.

Page 5, third full paragraph, line 4: Change to read, "The scope of CDE administrative reviews is always the most recent month..."

Page 5, last paragraph: Change to read, "Program regulations require that all audits must be completed before the costs..."

Please concur with our management decision for all recommendations.

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


JAMES NORDIN
Regional Director
Financial Management
Western Region

cc: Janet Allen, RD, SNP