



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

DATE: 02/02/2010

REPLY TO

ATTN OF: 27703-1-HQ

TO: Julie Paradis  
Administrator  
Food and Nutrition Service

ATTN: Lael Lubing  
Director  
Grants Management Division

FROM: Rod DeSmet /s/  
Acting Assistant Inspector  
General for Audit

SUBJECT: American Recovery and Reinvestment Act of 2009 Equipment Assistance Grants

Public Law 111-5, the American Recovery and Reinvestment Act of 2009 (ARRA) was signed into law by President Obama on February 17, 2009. The U.S. Department of Agriculture (USDA) received \$28 billion in funding under the American Recovery and Reinvestment Act of 2009 (ARRA) in a number of program areas, including a one-time appropriation of \$100 million for equipment assistance to school food authorities (SFAs) participating in the Food and Nutrition Service (FNS) National School Lunch Program (NSLP). The funds will be used to purchase, renovate, or replace food service equipment and will be awarded through a competitive grant application process. As stipulated in the ARRA, the States shall provide competitive grants to SFAs based upon the need for equipment assistance in participating schools, with priority given to schools where over 50 percent of the students are eligible for free or reduced price meals under the National School Lunch Act.

NSLP is a federally assisted meal program involving over 101,000 public and non profit private schools and residential child care institutions. The FNS national office provides policy direction to its seven regional offices. The regional offices communicate national office policies to State Agencies and ensure that the State Agencies operate the program in accordance with the ARRA and Office of Management and Budget (OMB) guidance. State Agencies (SA) are generally state-level education or health agencies. The SA works with school food authorities who are responsible for the day to day operations of the NSLP.

OIG's objectives are to evaluate FNS' oversight of NSLP equipment assistance grant funds. This memorandum documents the results of our work through January 2010. Additional memoranda may follow if other issues are identified during the course of our audit. Issues identified in these memoranda will be compiled into a formal report. To accomplish our objectives, we will continue to assess the program's policies and procedures, as well as its internal controls. We will also continue to perform site visits at selected SFAs and schools. Issues addressed in this report resulted from reviews, interviews, and site visits at FNS' National Office, Southeast and Southwest Regional Offices, and five SA offices.<sup>1</sup>

We reviewed the grant application processes used by SFAs and learned that the SAs assigned a score to each application based on criteria established by the SA. Each state we reviewed used a different set of criteria. We discussed FNS regional office oversight processes with FNS regional office personnel and found that they did not review or obtain an understanding of the competitive grant application process for their respective states. We also found that the FNS National Office did not issue guidance requiring the regional offices to conduct a review or obtain an understanding of their respective SAs' competitive grant application processes. As a result, FNS cannot ensure that NSLP equipment assistance grants are competitively awarded based upon the need for equipment assistance, with priority given to schools in which not less than 50 percent of the students are eligible for free or reduced price meals. To verify this, we reviewed the grant application evaluation process for five states. During this review, we noted that SAs had implemented questionable grant application evaluation processes. Specifically, we noted that New Mexico awarded grants based on the number of students participating in the program, rather than the number of students eligible for free or reduced price meals; South Carolina did not include need as a criteria in their grant evaluation process; and Tennessee awarded grants to schools with lower scores on their application over schools that had higher scores.

ARRA requires that States shall provide competitive grants to SFAs based upon the need for equipment assistance in participating schools, with priority given to schools in which not less than 50 percent of the students are eligible for free or reduced price meals under the NSLA. On April 3, 2009, OMB issued M-09-15, *Updated Implementing Guidance for ARRA of 2009*. OMB M-09-15 Section 5 provides guidance on how agencies are to plan, implement, oversee, and report grants and cooperative agreements. Subsection 4 of Section 5 – Grants and Cooperative Agreements requires agencies receiving ARRA funds to take steps, beyond standard practice, to initiate additional oversight mechanisms in order to mitigate the unique implementation risks of the ARRA.

As a result of OIG discussions with FNS, Memorandum SP-12-2010 was issued on January 8, 2010, to regional and state directors responsible for NSLP. SP-12-2010 instructed SAs to reallocate all unspent NSLP equipment assistance grant funds to the next applicant approved through the initial competitive grant application process. As of December 31, 2009, the five states we reviewed were going to reallocate a total of \$376,092 in unspent ARRA funds.

When we discussed our finding with FNS National Office officials, they noted that the grants were part of an overall effort to stimulate the economy. USDA departmental officials encouraged all agencies to spend the ARRA funds quickly, thus the timeframes for ARRA implementation were much tighter than normal. As a result, FNS officials did not perform a pre-award

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<sup>1</sup> We visited South Carolina, Tennessee, Texas, Oklahoma, and New Mexico.

examination of the state competitive process because they believed it would delay spending. We recognize that reviewing each SA grant application evaluation process may be resource intensive, and suggested that FNS regional offices could consider a risk based approach in determining which SAs should be reviewed.

We discussed this issue with FNS NSLP program and financial management officials in December. They generally agreed with our finding. In light of unliquidated funds being made available for SA reallocation, we recommend that:

FNS should provide the necessary oversight to ensure that the remaining funds to be awarded are based upon the need for equipment assistance in participating schools, with priority given to schools in which not less than 50 percent of the students are eligible for free or reduced price meals under the National School Lunch Act.

Please provide a written response within 5 days that outlines your corrective action on this matter. If you have any questions, please contact me at (202) 720-6945, or have a member of your staff contact Jane Bannon, Division Director, IT Audit Operations and Departmental Administration, at (202) 720-7845.

# **USDA'S**

## **Food and Nutrition Service**

### **RESPONSE TO AUDIT REPORT**

**United States  
Department of  
Agriculture**

Food and  
Nutrition  
Service

3101 Park  
Center Drive

Alexandria, VA  
22302-1500

**DATE:** February 23, 2010

**SUBJECT:** Food and Nutrition Service (FNS) Response to the Office of Inspector General (OIG) American Recovery and Reinvestment Act of 2009 (ARRA) Fast Report

**TO:** Ron DeSmet  
Acting Assistant Inspector  
General for Audit

**ATTN:** Jane Bannon  
Director  
IT Audit Operations and Departmental Administration

The purpose of this memorandum is to respond to the Office of Inspector General's (OIG) *Fast Report* regarding ARRA National School Lunch Program (NSLP) Equipment Assistance Grants, dated February 2, 2010. FNS supports OIG's objectives to ensure State agencies (SA), school food authorities (SFA), and schools are acting responsibly and within the parameters of ARRA. However, FNS strongly disagrees with OIG's two fundamental contentions – that FNS did not conduct adequate oversight of the grant award process and that States' grant processes did not ensure that grants were competitively awarded based upon need for equipment assistance, with priority given to schools with fifty percent or more students eligible for free or reduced price meals.

First, OIG asserts that FNS did not review or obtain an understanding of the States' competitive grant application process. During the States' competitive grants process for ARRA funding, FNS provided on-going support and guidance to SAs through multiple policy memos, Frequently Asked Questions (FAQs), and technical assistance phone calls, to ensure each State and FNS had a clear understanding of the ARRA competitive grant award process. Given that ARRA did not prescribe a specific competitive grant process, States were instructed to follow the same laws, regulations, principles, procedures, and practices in awarding these grants with the ARRA funds as they were required to follow in awarding other grants within their State. Individual State laws and regulations are specifically designed to ensure fair and open competition exists within the awarding process. In addition to this expectation, FNS provided further guidance to SAs outlining the mandated criteria imposed by ARRA (i.e., equipment need and the 50 percent or more free and reduced-price eligibility) which States were required to integrate in the competitive grants process.

OMB guidance M-09-15, dated April 3, 2009, Subsection 4 of Section 5 requires agencies receiving ARRA funds to take steps, beyond standard practice, to initiate additional oversight mechanisms in order to mitigate the unique implementation risks of ARRA. As mentioned in the previous paragraph, the technical assistance and guidance

FNS provided to SAs over the course of the ARRA process more than satisfied this requirement. Therefore, FNS disagrees with the *Fast Report* assertion that it did not undertake additional oversight measures beyond the normal grant processes to ensure accountability and program integrity. The report states that FNS should have performed a “pre-award examination” of the States’ competitive grants process prior to implementation. We believe the oversight implemented by FNS should not be minimized, and ensured the goal of stimulating the American economy by swiftly awarding these funds, as mandated by the ARRA.

Second, OIG’s *Fast Report* asserts that SAs employed questionable competitive processes for awarding equipment grants. The ARRA required States to award these equipment funds on a competitive basis based on need for equipment assistance; and to give priority to schools with at least 50 percent of students eligible for free or reduced-price meals. FNS does not believe that the awards process in any of the three States reviewed was inconsistent with these statutory requirements. Specifically:

### **South Carolina (SC)**

It was reported that SC did not include ‘need’ as a criterion in the grant evaluation process. SC’s application process requires applicants to indicate which of the four (4) focus areas will be addressed with the purchase and installation of the specified equipment. If the narrative statement includes at least one of the four focus areas, then the need is validated and the applicant receives an additional five (5) points in the selection process. The application also requests applicants to indicate the age of the existing equipment, which additionally demonstrates that the ‘need’ criterion was addressed in the grant award process.

### **Tennessee (TN)**

OIG suggests that TN did not follow ARRA guidelines by awarding grants to schools with lower scores on their application over schools that had higher scores. TN chose to prioritize eligible schools’ within each SFA, then funded their neediest schools. Thus while the States RFA was structured to afford each SFA within the State the opportunity to receive some level of ARRA funding, TN process did give priority to low income schools. The ARRA did not require that only the lowest-income schools in the State receive funds. Rather, it requires that States give priority to schools meeting the 50 percent free or reduced price threshold, which TN did. Therefore, contrary to OIG’s assertion of the state’s questionable use of a competitive grants process, FNS believes the statutory requirements of the ARRA were met by TN and not violated, as OIG asserts. We note all but one of the schools receiving equipment grants had 50% or more of students at free or reduced price.

### **New Mexico (NM)**

NM awarded grants based on the number of students participating in the program rather than the number of students eligible for free or reduced-price meals. After further investigation of the NM process by FNS, it was determined that this issue arose during the execution of the grants, rather than reflecting a flaw in the established competitive process, which OIG affirmed was structured properly. FNS is working closely with NM management staff to correct the problem in executing the process.

For the reasons noted above, FNS believes OIG's recommendation that FNS provide additional oversight in the award of the remaining funds in FY 2010 unwarranted and not supported by the findings presented in the report. It is also worth noting it is not a timely recommendation, as the process in FY 2010 is underway nor a prudent use of limited administrative resources.

If you would like to further discuss our position regarding your *Fast Report*, please contact the Child Nutrition Division office at 703-305-2590.

/s/

Julia Paradis  
Administrator

cc: Ron Vogel, SNP  
Cindy Long, CND  
Lynn Rodgers, CND  
Lael Lubing, GFPD  
Mark Porter, GFPD  
Mel Pickrell, SWRO  
Sara Harding, SERO