



U.S. Department of Agriculture



Office of Inspector General
Great Plains Region

Audit Report

**Food and Nutrition Service
National School Lunch Program
Unified School District 257
Iola, Kansas**

**Report No. 27010-15-KC
October 2003**



UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL - AUDIT
Great Plains Region
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DATE: March 26, 2004

REPLY TO

ATTN OF: 27010-15-KC

SUBJECT: National School Lunch Program – Unified School District 257,
Iola, Kansas

TO: Darlene Barnes
Acting Regional Administrator
Food and Nutrition Service
1244 Speer Boulevard, Suite 903
Denver, CO 80204

This report presents the results of our audit of the National School Lunch Program (NSLP)¹ as operated by Unified School District 257. This district served as the local school food authority (SFA) under an agreement with the Kansas State Department of Education (KSDE), which served as the State agency (SA). We evaluated policies and procedures over meal accountability and oversight of the program operation to include the accuracy of collections and accounting processes and the use of program funds. We found the Annual Financial Status Summary submitted to the SA was inaccurate. The SFA officials did not perform cost analyses prior to contracting with the purchasing cooperative, the SFA incorrectly allocated the purchasing cooperative administrative fee, and the purchasing cooperative did not publicly advertise for bids. Also, the SFA did not use available reports as a management control over meal accountability. FNS' October 3, 2003, written response to the draft report shows general concurrence with our recommendations (see exhibit A).

BACKGROUND:

The KSDE serves as the SA for administering the program within the State, and the United States Department of Agriculture's Food and Nutrition Service (FNS) serves as the program's funding agency. For school year 2001/2002 operations, the SFA submitted claims totaling about \$330,500² in FNS reimbursement and about \$9,500 in SA reimbursement. The SFA, located in Iola, Kansas, is responsible for operating the

¹ Includes the School Breakfast Program (SBP).

² SFA received FNS reimbursement under the NSLP, SBP, and After School Care Snack Program. Our review was limited to the NSLP and SBP.

NSLP in accordance with regulations. Each SA is required to enter into a written agreement with FNS to administer the NSLP/SBP, and each SA enters into agreements with SFA's to oversee day-to-day operations.

On June 4, 1946, Congress passed the National School Lunch Act,³ now the Richard B. Russell National School Lunch Act (the Act), which authorizes Federal school lunch assistance. Section 4 of the Act authorizes general cash assistance payments for all lunches served to children in accordance with the provisions of the NSLP and additional special cash assistance for lunches served under the NSLP to children determined eligible for free or reduced-price lunches. The States are reimbursed at various rates per lunch, depending on whether the child was served a free, reduced-price, or full-price (paid) lunch. The fiscal year 2002 funding for the NSLP was \$6 billion for meal reimbursements of approximately 4.7 billion lunches. The Kansas SA received approximately \$58 million for the NSLP and \$14 million for the SBP in Federal reimbursements for fiscal year 2002. For school year 2001/2002, Kansas provided State funds of approximately \$2.5 million to SFA's.

OBJECTIVES:

The objectives of our audit were to evaluate controls over the administration of the NSLP and SBP. We evaluated policies and procedures over meal accountability and oversight of program operation. To accomplish this, we determined (1) the accuracy of collections and accounting for reimbursed meals, (2) the accounting and use of program funds relating to the SFA's procurement of goods and services, and (3) the accounting for the SFA's school food service operations.

SCOPE AND METHODOLOGY:

Our review primarily covered NSLP/SBP operations from July 1, 2001, through December 31, 2002, concentrating on operations since July 1, 2002. However, records for other periods were reviewed, as deemed necessary. We performed audit work at the FNS Regional office, Kansas SA, and the SFA in Iola, Kansas. We selected the SFA based on its location. Audit work was performed at the SFA during March and April 2003. We reviewed NSLP/SBP operations at all seven schools and made observations at one elementary school. Our audit was performed in accordance with Government Auditing Standards.

To accomplish our review objectives, we reviewed FNS, SA, and SFA regulations, policies, procedures, manuals, and instructions governing NSLP/SBP operations, and interviewed officials at each level. We also reviewed the SA's most recent administrative review of the SFA's NSLP/SBP operations and the SFA's corrective actions taken in response to the administrative review findings and recommendations. We also (1) evaluated the SFA's procedures used to gather and consolidate monthly meal claims and determined whether reports were verified for accuracy, (2) evaluated edit check controls used to assure the reasonableness of claims for reimbursement, (3) reviewed the SFA's accounting system, which included a review of program funds

³ 42 U.S. Code 1751.

and interest on those funds, (4) analyzed the SFA's methods used for procurement of goods and services, and (5) analyzed the monitoring efforts of the SFA through a review of the onsite accountability reviews conducted during school year 2001/2002.

FINDINGS:

Finding No. 1:

We found the SFA did not properly allocate revenue and expenses according to the prescribed State Chart of Accounts. In general, these conditions occurred because the SFA's personnel were unaware of Federal and State requirements and because SFA personnel did not have adequate training to fully use the capabilities of their meal counting system, including optimizing the use of summary reports. As a result, reports to the SA were in error, because of the use of improper accounting procedures.

Federal regulations require that internal controls must maintain effective control and accountability for all grants and subgrants, cash, real and personal property, and other assets. The grantee and subgrantees must adequately safeguard all such property and assure that it is used solely for the authorized purposes.⁴

- a. The SFA commingled a la carte sales with reimbursable meal sales. The SFA improperly combined a la carte sales from students' meal card/accounts with reimbursable meal sales, although the SFA's automated system used for counting meals had the capability to record these sales separately. The SFA was not aware of the prescribed State Chart of Accounts, and they did not use the available capabilities of their automated system to separate sales. As a result, the revenue ledgers were inaccurate and the Annual Financial Status Summary submitted to the SA was inaccurate. Additionally, because of corrupted computer data files, the exact amount of a la carte sales from students' meal card/accounts could not be determined.

SA procedures require that student reimbursable meal sales be separately reported from a la cart sales.⁵

We asked SFA personnel to generate reports from the automated meal counting system. They replied they had not received recent training or specific training focused on report queries. They also could not explain all the functions the automated system could perform. The SFA personnel advised that they were not aware if the system could separate a la carte sales (purchased with students' meal card/accounts) from reimbursable meal sales. However, the vendor of the automated system told us that the system could separate the sales. He also stated the system could provide various summary reports that could be used to analyze revenue and meal count information.

⁴ 7 CFR 3016.20(b)(3).

⁵ Accountability and Record-Keeping for the School Nutrition Programs (July 2002), page 17.

- b. The SFA misallocated snack program reimbursement. The SFA incorrectly allocated all snack program reimbursement to Account 1614 (Student Sales Snacks) on the financial status summaries instead of allocating the Federal grant reimbursement of about \$24,470 to Account 1990 (Miscellaneous) and Federal snack reimbursements of about \$6,870 to Account 4550 (Child Nutrition Programs) on the financial status summaries. The SFA officials were not aware of the prescribed State Chart of Accounts and, as a result, the Annual Financial Status Summary submitted to the SA was inaccurate.

SA procedures require that revenue from other local sources be reported as Account 1990 (Miscellaneous) and Federal reimbursements be reported in Account 4550 (Federal Sources – Child Nutrition Programs).⁶

- c. The SFA did not allocate the fee charged by the purchasing cooperative to the correct account. The purchasing cooperative required its vendors to include the purchasing cooperative's administrative/handling fee (2 percent of purchases) in the vendors' bid prices for each item. While the SFA was aware of the percentage rate charged by the purchasing cooperative, the SFA did not separately identify the cooperative charges, which were included in the vendors' billings. We estimated the SFA's account for the cost of food and nonfood supplies was overstated about \$3,700, because of the SFA's practice of not separating the administrative/handling fee from food costs.

The SA's accounting handbook shows administrative/handling fees should be recorded in a separate account from food purchases.⁷ FNS officials advised the administrative fee should be separated to ensure the fee is properly treated as a nonfood expense.

Recommendation No. 1:

Instruct the SA to require the SFA to develop procedures to separately record reimbursable meal sales from a la carte sales, properly allocate snack program reimbursements, and properly allocate the administrative/handling fee in the food service account, as specified by the SA. The SFA should also be encouraged to obtain sufficient training to enable personnel to fully use the capabilities of their meal counting system, including optimizing the use of summary reports from the automated system to manage the program.

FNS Response:

The FNS response to the draft report showed FNS concurred with the recommendation and will instruct the SA to require the SFA to complete the recommended actions.

⁶ Accountability and Record-Keeping for the School Nutrition Programs (July 2002), pages 17-18.

⁷ Accountability and Record-Keeping for the School Nutrition Programs (July 2002), page 19.

OIG Position:

We can accept the management decision once we receive specific timeframes for the completion of the proposed actions.

Finding No. 2:

The SFA did not ensure its purchasing cooperative publicly advertised for bids (newspapers, Internet, etc.) in purchasing for food and nonfood supplies, as is required with purchases over \$10,000. According to officials of the purchasing cooperative, invitations to bid were directly solicited from current suppliers and they were unaware of the Federal and State regulations. As a result, the cooperative's procurements did not assure maximum open and free competition. Also, the SFA did not perform the required cost analysis before using the services of a purchasing cooperative, as they were unaware of the regulations requiring the analysis. As a result, the SFA may not have recognized a possible cost savings.

Federal regulations⁸ require "procurement by sealed bids (formal advertising). Bids are publicly solicited and a firm-fixed-price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest in price." The SA requires, "For procurement of services or supplies costing in aggregate in excess of \$10,000, competitive sealed bids (formal advertising) are publicly solicited or a Request for Proposal is publicized."⁹ The Iola, Kansas, SFA spent \$124,562 in food purchases and \$8,334 in nonfood purchases during the 2001/2002 school year.¹⁰

We did not note any specific SA requirements that purchasing cooperatives had to follow with respect to those provisions contained in agreements with food service management companies. In contrast, the SA had specified that certain required provisions be included in contracts between SFA's and food service management companies, including provisions for Equal Employment Opportunity, access to books and records, and record retention.¹¹ Officials of the SFA stated that there was no written contract with the cooperative, and the written agreement was limited to describing the administrative fee. We believe there needs to be a written contract between SFA's and cooperatives covering all applicable Federal and State requirements.

In addition, a cost analysis or price comparison was not prepared before the SFA agreed to use the services of the purchasing cooperative, as required under SA policies

⁸ 7 CFR 3016.36(d)(2).

⁹ KSDE Food Service Facts Handbook, Chapter 8.

¹⁰ FNS officials stated that one standard for aggregation is to count purchases from a single source aggregated over the period of a year. However, as long as the agency doing the procurement is not disaggregating its procurements with the purpose of avoiding the requirements for performing formal procurements, the period of time for aggregation may be shorter, even much shorter, than a year. In such cases where shorter aggregation periods result in procurement dollar values that are under the formal procurement thresholds, the use of simple procurement procedures is justified.

¹¹ KSDE Food Service Facts Handbook, Chapter 8.

and guidelines. SA procedures¹² require schools to perform some form of cost or price analysis in connection with every purchase. The cost analysis or price comparison could have resulted in identifying possible savings to the SFA.

Recommendation No. 2:

Require the SA to coordinate with the SFA to develop a written contract with the purchasing cooperative and ensure this purchasing cooperative complies with the contract terms and applicable Federal and State procurement requirements. Require the SA to instruct the SFA to perform a cost analysis or price comparison to determine the most economical means for obtaining the products currently obtained through the purchasing cooperative.

FNS Response:

The FNS response to the draft report showed FNS concurred with the recommendation and will require the SA to coordinate with the SFA to complete the recommended actions.

OIG Position:

We can accept the management decision once we receive specific timeframes for the completion of the proposed actions.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing corrective actions taken or planned and the timeframes for accomplishing final action. Please note that the regulation requires management decisions to be reached on all findings and recommendations within 6 months from the date of report issuance.

We appreciate the assistance provided to us during our review.

/s/ Herbert E. Carpenter for

DENNIS J. GANNON
Regional Inspector General
for Audit

¹² KSDE Purchasing for Child Nutrition Programs.

EXHIBIT A – FNS RESPONSE TO THE DRAFT REPORT



United States
Department of
Agriculture

Food and
Nutrition
Service

Mountain
Plains
Region

1244 Speer Boulevard
Denver, CO
80204-2581

Reply to
Attn of:

MPSN-200

October 3, 2003

Subject: Audit Report No. 27010-15-KC, National School Lunch Program-Unified School District
257, Iola, Kansas

To: Dennis J. Gannon
Regional Inspector General for Audit
Office of Inspector General
P.O. Box 293
Kansas City, Missouri 64114-3302

We concur with Recommendation No. 1, and will instruct the State agency (SA) to require the school food authority (SFA) to develop procedures to separately record reimbursable meal sales from a la carte sales, properly allocate snack program reimbursements, and properly allocate the administrative/handling fee in the food service account, as specified by the SA. The SFA should also be encouraged to obtain sufficient training to enable personnel to fully use the capabilities of their meal counting system including optimizing the use of summary reports from the automated system to manage the program.

We concur with Recommendation No. 2 and will require the SA to coordinate with the SFA to develop a written contract with the purchasing cooperative and ensure this purchasing cooperative complies with the contract terms and applicable Federal and State procurement requirements. We will also require the SA to instruct the SFA to perform a cost analysis or price comparison to determine the most economical means for obtaining the products currently obtained through the purchasing cooperative.

If you have any questions, please contact Joe Fisher at (303) 844-0355.

Darlene Sanchez

DARLENE SANCHEZ
Regional Director
Special Nutrition Programs