



U.S. Department of Agriculture



Office of Inspector General
Great Plains Region

Audit Report

**Food and Nutrition Service
National School Lunch Program
Odessa R-VII School District
Odessa, Missouri**

**Report No. 27010-19-KC
February 2004**



UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL - AUDIT
Great Plains Region
8930 Ward Parkway, Suite 3016
Kansas City, Missouri 64114-3302
TEL: 816.926.7667 FAX: 816.926.7676



DATE: February 18, 2004

REPLY TO
ATTN OF: 27010-19-KC

SUBJECT: National School Lunch Program – Odessa R-VII School District, Odessa, Missouri

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

This report presents the results of the subject audit. Your written response, dated February 5, 2004, to the official draft report has been incorporated into the Findings and Recommendations section of the report, where appropriate. The text of the response is attached as exhibit C. Your reply expressed agreement with the recommendations; however, we were unable to reach management decisions on the recommendations. The Findings and Recommendations section of the report explains those actions necessary for us to consider management decisions on Recommendations Nos. 1, 2, 3, and 4. In general, we will need to be advised of the specific actions completed or planned along with acceptable and specific dates for completing the recommended actions. In addition, the claim amounts determined to be improper must be recovered or an accounts receivable established.

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, and final action should be completed within 1 year of management decision.

We appreciate the assistance provided to us during our review.

/s/

DENNIS J. GANNON
Regional Inspector General
for Audit

Executive Summary

Food and Nutrition Service, National School Lunch Program, Odessa, Missouri (Audit Report No. 27010-19-KC)

Results in Brief

This report presents the results of our audit of the National School Lunch Program (NSLP)¹ as operated by Odessa R-VII School District. This district served as the local school food authority (SFA) under an agreement with the Missouri Department of Elementary and Secondary Education, which served as the State agency. The United States Department of Agriculture's (USDA) Food and Nutrition Service (FNS) served as the funding agency. For school year 2001/2002 operations, the SFA claimed about \$229,000 in FNS NSLP/SBP reimbursement and about \$5,800 in State agency reimbursement.

Our objectives were to evaluate the SFA's meal accountability, procurement, accounting systems, and management controls that were designed to provide reasonable assurance as to the accuracy of its meal claims and reimbursement for school years 2001/2002 and 2002/2003 through December 31, 2002.

We found the SFA had not effectively monitored meal accountability procedures for the meals claimed for the children participating in the daycare program. As a result, the SFA received about \$1,200 in Federal reimbursement funds for excess meals. The SFA did not have procedures in place to ensure the food service program received proper credit for USDA-donated commodities. The SFA's accounting procedures did not include crediting a pro rata share of interest earned from investments to the food service account.

Recommendations In Brief

We recommend that FNS instruct the State agency to require the SFA to (1) establish procedures and monitor meal claims to ensure only eligible meals are reported for reimbursement, (2) correct the overclaim, (3) perform beginning and ending inventory counts and reconciliations to ensure the SFA receives proper credit for donated commodities used by the Food Service Management Company (FSMC), and (4) establish procedures to credit the school food service account with a prorated share of the investment income.

FNS Response

Although the agency response showed FNS officials concurred with the recommendations, it did not provide sufficient information to reach management decisions on any of the recommendations. We incorporated their comments in the applicable sections of the report and attached a copy of the comments as exhibit C.

¹ Also includes the School Breakfast Program (SBP).

OIG Position

The Findings and Recommendations section of the report explains those actions necessary for us to consider management decisions on Recommendations Nos. 1, 2, 3, and 4. In order to reach management decisions, we will need to be advised of the specific actions completed or planned along with acceptable dates for completing the contemplated actions and evidence of actions taken to recover the improper claims.

Abbreviations Used in This Report

the Act	Richard B. Russell National School Lunch Act
CFR	Code of Federal Regulations
FNS	Food and Nutrition Service
FSMC	Food Service Management Company
NSLP	National School Lunch Program
OIG	Office of Inspector General
POS	Point of Service
RFP	Requests for Proposal
SBP	School Breakfast Program
SFA	School Food Authority
USDA	United States Department of Agriculture

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Background and Objectives

Background

On June 4, 1946, Congress passed the National School Lunch Act,² now the Richard B. Russell National School Lunch Act (the Act), which authorizes Federal school lunch assistance. The intent of the Act, as amended December 29, 2001, is to safeguard the health and well-being of the Nation's children by providing them with nutritious foods and to encourage the domestic consumption of nutritious agricultural commodities and other foods. This is accomplished by assisting States, through grants-in-aid and other means, in providing an adequate supply of food and facilities for the establishment, maintenance, operation, and expansion of nonprofit school lunch programs.

The Act, as amended, authorizes the payment of general and special assistance funds to States based upon the number and category of lunches served. Section 4 of the Act authorizes general cash assistance payment for all lunches served to children in accordance with the provisions of the National School Lunch Program (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. Eligibility of children for free or reduced-price lunches is based upon their family's household size and income, as listed in the Food and Nutrition Service (FNS) Income Eligibility Guidelines, which are reviewed annually.

FNS is the United States Department of Agriculture (USDA) agency responsible for administering the NSLP/School Breakfast Program (SBP). FNS is headquartered in Alexandria, Virginia, and has seven regional offices nationwide. The FNS Mountain Plains Regional Office, located in Denver, Colorado, is responsible for monitoring and overseeing operations in Missouri. The Missouri Department of Elementary and Secondary Education, Division of Administrative and Financial Services – School Foods, serves as the State agency and is responsible for overseeing program operations within Missouri. The School Food Authority (SFA) located in Odessa, Missouri, is responsible for operating the NSLP in accordance with regulations. Each State agency is required to enter into a written agreement with FNS to administer the NSLP/SBP, and each State agency enters into agreements with SFAs to oversee day-to-day operations. The SFA administered the NSLP/SBP in four public schools and operated a daycare program at one of the schools. The SFA contracted with a commercial Food Service Management Company (FSMC) to prepare the meals.

² 42 U.S. Code 1751.

The fiscal year 2002 funding for the NSLP was \$6 billion for meal reimbursements of approximately 4.7 billion lunches. The Missouri State agency received approximately \$104.5 million for the NSLP, \$28.7 million for the SBP, \$1 million for the after school snack program, and \$400,000 for the special milk program in Federal reimbursements for school year 2001/2002. For school year 2001/2002, Missouri provided State funds of approximately \$2.3 million to SFAs. For school year 2001/2002 operations, the SFA received about \$229,000 in FNS NSLP/SBP reimbursement and about \$5,800 in State agency reimbursement.

The general NSLP requirements are codified in Title 7, Code of Federal Regulations (CFR) 210. Requirements for determining eligibility for free and reduced-price meals and free milk are codified in 7 CFR 245. In accordance with 7 CFR 250, USDA also provides donated foods to SFAs to assist in operating the nonprofit lunch program. The Missouri State agency provides actual commodities to each public school participating in the NSLP/SBP, with the exception of one district. Generally, schools must collect applications on an annual basis from households of enrolled children and make annual determinations of their eligibility for free or reduced-price meals. These schools must also count the number of free, reduced-price, and paid meals served at the point of service (POS) on a daily basis.

Objectives

The objectives of our review 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 evaluated (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 account.

Findings and Recommendations

Section 1. Internal Controls Over the NSLP/SBP

Finding 1

Internal Controls Needed to be Strengthened

The SFA claimed Federal reimbursement for excess meals served to children participating in the daycare program. This occurred because SFA officials did not perform a POS³ count for the meals obtained for the daycare children. As a result, the SFA collected about \$1,200 in Federal reimbursement funds for meals not eligible for reimbursement during the 2001/2002 and 2002/2003 school years. In addition, the SFA lacked adequate internal controls to ensure the FSMC properly credited the food service program for the value of USDA-donated commodities. This occurred because the SFA allowed the FSMC to perform the beginning and ending inventories and determine the credits without performing oversight or independent reconciliations.

a. Excess Meals Claimed for Federal Reimbursement.

The SFA claimed reimbursement for excess meals served to children participating in the daycare program. This occurred because SFA officials did not perform a POS count for daycare program meals obtained at the McQuerry Elementary School. Further, SFA officials did not monitor the claims for reimbursement for the daycare children at any point in the claims process. As a result, the SFA received about \$1,200 in Federal reimbursements for the questionable meals claimed during the 2001/2002 and 2002/2003 school years.

Federal regulations require the SFA to ensure that Claims for Reimbursement do not request payment for any excess lunches produced, or non-Program lunches (i.e., a la carte or adult lunches), or for more than one meal supplement per child per day.⁴ Federal regulations state SFAs should plan and prepare breakfasts on the basis of participation trends, with the objective of providing one breakfast per child per day.⁵ Federal regulations state the State agency may authorize alternatives to the POS lunch counts provided that such alternatives result in accurate, reliable counts of the number of free, reduced-price, and paid lunches served, respectively, for each serving day.⁶

³ The POS is defined as the point in the food service operation where a determination can accurately be made that a reimbursable free, reduced-price, or paid lunch has been served to an eligible child.

⁴ 7 CFR 210.7(c)(1)(ii)(B)(v).

⁵ 7 CFR 220.9(a).

⁶ 7 CFR 210.7(c)(2)(i).

SFA officials did not include a review of the meals served at the daycare during the required onsite review, and there were no other internal controls in place for verifying the number of meals actually served to the daycare children. Normally, the daycare ordered meals from the FSMC and picked up the meals at the elementary school. Daycare personnel said that additional meals were ordered and combined into a family-style serving. The meal counts were based on meals ordered rather than eligible children actually in attendance and eating. We found that the SFA did not use a POS count or monitor the meals ordered by the daycare to ensure that only one meal per eligible child in attendance was ordered and claimed for reimbursement.

The SFA did not plan and prepare breakfasts on the basis of participation trends, in that daycare personnel ordered more meals per day than actual students who were enrolled in the daycare program. For example, during the month of April 2002, 34 eligible students were enrolled in the daycare program. During this month, 39 meals were ordered every day for breakfast and lunch, with an excess of at least 5 breakfasts and 5 lunches ordered per day. In some cases, meals were ordered and claimed for students with an established practice of arriving after breakfast was served or leaving before lunch was served. We obtained documentation of attendance (by name) for the audit period to determine how many meals were served to eligible children in attendance at the daycare. We questioned about \$1,200 in Federal reimbursement funds for meals not supported by attendance records (see exhibits A and B). Our questioned costs include all breakfasts claimed which exceeded the actual attendance of eligible students because the daycare consistently ordered more breakfasts than there were eligible students expected to eat.⁷

b. The SFA Did Not Monitor Credits for USDA-Donated Commodities.

The SFA did not follow or monitor contract stipulations related to use of donated commodities used by the FSMC. The SFA had no procedures in place to conduct physical inventories of commodities or perform independent reconciliations to verify that it received proper credit for the commodities. As a result, the SFA was not following the terms of the amended contract⁸ (which had been approved by the State agency) and was relying solely on the FSMC to determine the amount of the credit for commodities with an estimated value of \$49,000 received during the year.

⁷ The Agency noted that SFAs are to plan for and prepare breakfasts on the basis of participation trends, with the objective of providing one breakfast per child per day. Further, any excess breakfasts that are prepared may be served to eligible children and may be claimed for reimbursement.

⁸ A contract addendum, dated August 5, 2002, provided that a yearend reconciliation shall be conducted by the SFA to ensure and verify that the correct and proper credit has been received for the full value of all USDA-donated foods used by the FSMC. The addendum also provided for the SFA to conduct annual reviews of storage facilities, including a physical inventory reconciled with the inventory records maintained by the SFA and FSMC.

We did not review activities prior to the 2002/2003 school year because this issue was reported in Audit Report No. 27601-12-KC issued in May 2001.

Federal regulations require that the SFA shall ensure that all federally-donated foods received by the SFA and made available to the FSMC accrue only to the benefit of the SFA's nonprofit school food service and are fully utilized therein.⁹ Federal regulations require that the contract between the SFA and FSMC shall expressly provide that any donated foods received by the SFA and made available to the FSMC shall be utilized solely for the purpose of providing benefits for the SFA's food service operation, and it shall be the responsibility of the SFA to demonstrate that the full value of all donated foods is used solely for the benefit of the SFA.¹⁰ Federal regulations require grantees and subgrantees to maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders.¹¹

It is the SFA's responsibility to perform a reconciliation of the inventory counts and have documentation of resolution of any discrepancies. Our analysis of available records for the value of donated commodities compared to the credit given to the SFA was inconclusive, due to the lack of documentation and independent inventory counts.

Recommendation No. 1

Instruct the State agency to require the SFA to correct the overclaim for the daycare meals that were ineligible for reimbursement.

FNS Response.

FNS concurred with Recommendation No. 1.

OIG Position.

In order to consider management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the SFA will be completed and provided evidence the improper costs have been recovered or established as an accounts receivable.

⁹ 7 CFR 210.16(a)(6).

¹⁰ 7 CFR 250.12(d).

¹¹ 7 CFR 3016.36(b)(2).

Recommendation No. 2

Instruct the State agency to provide instructions to the SFA on requirements and actions to be taken to establish a POS or appropriate alternative POS at the daycare meal-serving site. Instruct the State agency to require the SFA to include the daycare meal-serving site as part of the onsite reviews to ensure that reimbursement is not claimed for ineligible meals.

FNS Response.

FNS concurred with Recommendation No. 2.

OIG Position.

In order to consider management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the SFA will be completed.

Recommendation No. 3

Instruct the State agency to require the SFA to perform independent beginning and ending commodity inventory counts. Require the SFA to reconcile the beginning and ending commodity inventory counts with the FSMC and State agency inventory records and to ensure proper credits have been received from the FSMC. Instruct the State agency to require the SFA to restore any deficiencies in commodity credits for the 2002/2003 school year to the food service account, dependent on available records.

FNS Response.

FNS concurred with Recommendation No. 3.

OIG Position.

In order to consider management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the SFA will be completed and provided evidence of the recovered costs for the unaccounted commodities.

Finding 2

Procedures Were Not in Effect to Prorate Investment Income to the Food Service Fund

The school food service account was not being credited a prorated share of interest earned from investments. According to SFA officials, this occurred because the State agency did not provide instructions to the SFA to allocate investment income to the school food service account. As a result, the funds

received for the benefit of the school lunch program are creating revenue (interest income) from balances maintained in the food service fund, but such revenue is not reflected in the food service accounts.

Federal regulations¹² require that a prorated share of interest earned from investments should be credited to the school food service account.

We noted the district's general fund checking account earned monthly interest rates ranging from 2.02 percent to 2.53 percent. Also, a money market checking account yielded 2.00 percent interest. The closing cash balance for the school food service fund for school year 2001/2002 was \$188,574, which would have earned monthly interest of \$314 using a 2.00 percent rate. SFA officials stated the school district did not transfer general funds to the food service program; however, the district did not charge the food service program for indirect costs (i.e., gas, electric, trash service, etc.). Therefore, we did not determine the questioned costs for the interest income attributable to the food service fund. However, we believe the district should have procedures in place to credit the school food service fund for its share of the investment income.

Recommendation No. 4

Instruct the State agency to require the SFA to establish procedures to credit the school food service account with a pro rata share of the school district's investment income.

FNS Response.

FNS concurred with Recommendation No. 4.

OIG Position.

In order to consider management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the SFA will be completed.

¹² The Federal regulation's definition of revenue shows that a prorated share of interest earned from investments should be credited to the school food service's account (7 CFR 210.2).

Scope and Methodology

Our review primarily covered NSLP/SBP operations July 1, 2001, to May 31, 2003, 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 and the SFA in Odessa, Missouri. We selected Odessa R-VII School District based on its location and because the SFA used an FSMC. Fieldwork was performed during the period May through July 2003.

In school years 2001/2002 and 2002/2003 there were two elementary schools, a daycare within the elementary school, one middle school, and one high school. We reviewed NSLP/SBP claims at all four schools and the daycare and made observations at each elementary school, the daycare, the middle school, and the high school. Our audit was performed in accordance with Government Auditing Standards.

To accomplish our review objectives, we reviewed FNS, State agency, and SFA regulations, policies, procedures, manuals, and instructions governing NSLP/SBP operations. We also reviewed the State agency'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. The following audit procedures were also performed:

- Interviewed officials from the State agency, SFA, and FSMC, in order to obtain an overview of their method of operation for the NSLP/SBP;
- Evaluated the SFA's procedures used to gather and consolidate monthly meal claims and whether reports are verified for accuracy;
- Evaluated edit check controls used to assure the reasonableness of claims for reimbursement when daily meal counts, by category, exceeded average daily attendance;
- Reviewed the SFA's accounting system, which included a review of program funds and interest on those funds;
- Analyzed the monitoring efforts of the SFA through a review of the onsite accountability reviews conducted during school years 2001/2002 and 2002/2003;
- Reviewed the SFA's procedures for issuing Requests for Proposal (RFP) and contracts with the FSMC to operate the nonprofit food service;

- Reviewed the most recent RFP/contract and addendum with the FSMC, including the credit given for commodities;
- Compared the number of meals claimed (for the audit period) by the SFA to the State agency to the number of meals billed by the FSMC on their monthly invoices; and
- Compared the amount of commodities used by the FSMC to the amount of credit given to the SFA for commodities.

Exhibit A – Summary of Monetary Results

Exhibit A – Page 1 of 1

Finding No.	Description	Amount	Category
1	SFA Overclaimed Meals for Daycare	\$1,209	<u>1/</u>

1/ Unsupported Costs, Recovery Recommended.

Exhibit B – Reconciliation of Daycare Meals

Exhibit B – Page 1 of 1

Daycare Overclaimed Reimbursements					
2001/2002 School Year	Meals Claimed for Reimbursement	Actual Attendance	Difference in Attendance and Claimed	Meal Rate	Total* (Difference times Rate)
Lunch	6,660	4,094	2,566	\$0.20	\$513
Breakfast	6,549	3,982	2,567	\$0.21	<u>\$539</u>
					\$1052
2002/2003 School Year					
Lunch	2,042	1,257	785	\$0.20	<u>\$157</u>
	Total Overclaimed Reimbursement				\$1,209

*Rounded.

Exhibit C – FNS Reply to Official Draft

Exhibit C – Page 1 of 1



United States
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Nutrition
Service

Mountain
Plains
Region

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

Reply to
Attn of: 27010-19-KC

FEB 05 2004

Subject: Official Draft – Audit Report No. 27010-19-KC, National School Programs –
Odessa R-VII School District, Odessa, Missouri

To: Dennis J. Gannon
Regional Director General for Audit
Office of Inspector General
8930 Ward Parkway, Suit 3016
Kansas City, Missouri 64114-3302

We concur with Recommendations Nos. 1, 2, 3, and 4. If you have any questions, please
contact Gerald Stankorb at (303) 844-0354.

Darlene Sanchez
DARLENE SANCHEZ
Regional Director
Special Nutrition Programs