



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

Food and Nutrition Service
National School Lunch Program
Nova Charter School Southeast
Dallas, Texas



**Audit Report No.
27010-6-Te
September 2003**



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL
Southwest Region - Audit
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DATE: September 24, 2003

REPLY TO
ATTN OF: 27010-6-Te

SUBJECT: Accountability and Oversight of the National School Lunch Program –
Nova Charter School Southeast, Dallas, Texas

TO: William Ludwig
Regional Administrator
Food and Nutrition Service
Dallas, TX

ATTN: Ronald Rhodes
Regional Director
Special Nutrition Programs

We conducted an audit of the National School Lunch Program (NSLP) as administrated by Nova Charter School Southeast, Dallas, Texas, also known as the School Food Authority (SFA). The purpose of the NSLP is to provide nutritionally balanced, low-cost or free lunches to schoolchildren and encourage better eating habits.

We reviewed the SFA's procedures to ensure the propriety of (1) meal claims, (2) the application and verification process for determining student eligibility, (3) individual school monitoring, (4) program fund investments, and (5) program procurements.

Although required by Federal regulations, the SFA did not have controls in place to correctly identify the number of free and reduced-price lunches claimed for reimbursement. Further, we found weaknesses in SFA's meal counting and claiming system. As a result, there was limited assurance that the claims submitted for reimbursements were accurate. For the other stated objectives, program fund investments and program procurements, we found no material problems.

We recommend the Food and Nutrition Service (FNS) direct the Texas Department of Agriculture (TDA) to require the SFA to establish internal controls to ensure the accuracy of meal counts recorded on monthly reimbursement claims and conduct a followup review to ensure the SFA has implemented internal control procedures.

BACKGROUND

On June 4, 1946, Congress passed the National School Lunch Act (42 U.S.C. 1751), now the Richard B. Russell National School Lunch Act (Act), as amended December 29, 2001, authorizing Federal assistance to the States in the establishment, maintenance, and operation of school lunch programs. The Act established the NSLP to safeguard the health and well-being of the Nation's children and to encourage the domestic consumption of nutritious agricultural commodities. The program provides Federal assistance to help public and nonprofit private schools of high school grade or under, as well as public nonprofit private residential childcare institutions, that serve nutritious lunches to children.

NSLP is usually administered through a State's Department of Education (known as the State agency) that has the responsibility for administration of the NSLP. In the State of Texas, the NSLP is administered by two agencies, TDA and the Texas Department of Human Services (TDHS). The administration of the NSLP was moved from the Texas Education Agency (TEA) to the TDA in July 2003. TDA administers the NSLP in charter and public schools, while the TDHS administers the NSLP in private schools and residential childcare institutions. This audit concentrated on the administration of the NSLP with regards to this particular SFA.

The State agency is required to enter into a written agreement with the FNS for the administration of the NSLP Statewide, and written agreements with the SFA for local administration. The State agency is also required to perform administrative reviews covering both critical and general areas that include, but are not limited to, meal claims, eligibility determinations, and use of program funds. Administrative reviews generally include two parts, the coordinated review effort and school meals initiative. FNS Regional Office personnel may participate in these reviews. SFAs are responsible for the administration of the program at the local school district level. Individual schools are responsible for the onsite operation of the NSLP, including the implementation of adequate meal accountability systems and the review and approval of student applications for free and reduced-price meals. The State agency and the SFAs are responsible for reviewing the monthly meal claims to ensure that the number of meals claimed is limited to the number of approved students in each category, adjusted to reflect the average daily attendance.

The fiscal year 2002 funding for NSLP was \$5.8 billion for meal reimbursements of approximately 6 billion lunches. The fiscal year 2003 estimated funding is \$6 billion in meal reimbursements. For the school year (SY) 2001/2002, the State of Texas had an NSLP enrollment of 4.2 million and reimbursements of \$800 million, and the SFA operated 1 school with an enrollment of 249 students and reimbursements of \$48,926.

OBJECTIVES

The objectives of this audit were to evaluate the SFA's procedures to ensure the propriety of (1) meal claims, (2) the application and verification process for determining

student eligibility, (3) individual school monitoring, (4) program fund investments, and (5) program procurements.

SCOPE AND METHODOLOGY

Audit work was performed at the FNS Regional Office in Dallas, Texas, the Texas Education Agency (TEA) in Austin, Texas, and the SFA in Dallas, Texas. The SFA was selected based on a recommendation from TEA because the reimbursement claims it submitted on numerous occasions did not clear all the edit checks for processing. Our fieldwork was conducted between October and December 2002. The period covered by the audit included NSLP operations for the current SY (2002/2003) for September, October, and November 2002.

In order to evaluate meal claims, we examined points of service sheets, monthly reimbursement claims, daily meal worksheets, average daily attendance reports, and observed meal services. We evaluated individual school monitoring by reviewing the SFA's onsite reviews and the child nutrition program administrator's manual. Regarding program fund investments, we limited our review to evaluating policies, procedures, controls and interviewing with the food service manager and the accountant. To evaluate procurement procedures, we limited our review to examining independent audit reports, invoices, canceled checks and bank statements. Further, we visited the food service management company through which purchases for the NSLP were made. To more completely address the objectives, we reviewed the FNS and TEA regulations, policies, and procedures relating to the NSLP, and discussed with FNS and TEA personnel any concerns they had with program operations, and conducted interviews with the child nutrition program director and child nutrition program administrative assistants.

The audit was conducted in accordance with Government Auditing Standards. Accordingly, the audit included such tests of program and accounting records as considered necessary to meet the audit objectives.

FINDINGS

Claims for reimbursement did not reconcile to supporting documentation. SFA did not have controls in place to ensure that its claims for reimbursement were accurate. As a result, there was no assurance that SFA's claims for reimbursement were accurate.

Federal regulations¹ state that claims for reimbursement are to be based on lunch counts taken daily at the point of service, which correctly identify the number of free, reduced-price and paid lunches served to eligible children. The counts are to be correctly recorded, consolidated, and reported on the claims for reimbursement, and SFAs are to ensure that claims for reimbursement do not request payment for any excess lunches produced. Further, Federal regulations² state that the SFA shall establish internal controls

¹ 7 Code of Federal Regulations, section 210.7(c)(1)(iii)(iv)(v), revised January 2002.

² 7 Code of Federal Regulations, section 210.8(a), revised January 2002.

to ensure the accuracy of lunch counts prior to submission of the claims for reimbursement.

SFA used points of service sheets to record the number of children who received lunch. The points of service sheets are lists of student names by grade level with a specific marking next to each name indicating the status of the lunch to be received. As the child received his/her lunch, the line attendant checked off the child's name. The SFA officials stated that the points of service sheets were totaled on a daily basis. At the end of each month, the points of service sheets totals were transferred to a daily meal worksheet. The totals from the daily worksheets were used as supporting documentation for the basic reimbursement claims submitted to the TEA.

For the test period September 30, 2002, through November 29, 2002, we found weaknesses in SFA's meal counting and claiming system. We compared the daily meal totals on the points of service sheets to the meal claims for September, October, and November 2002. We found 862 more meals on the points of service sheets than were claimed. When questioned concerning the inconsistencies, SFA personnel agreed that the meal count on the reimbursement claims were less than the meal count totals on the points of service sheets.

Specifically, SFA officials explained they had experienced a change in several positions in the administration of the school for SY 2002/2003, including the food service manager. In October 2002, TEA personnel made a visit to SFA and assisted SFA with inputting the September reimbursement claim because the new food service manager had not yet received access to input the claim. TEA personnel asked the SFA staff whether they had verified the point of service sheets to approved applications. The SFA staff person said that she had continued to use the point of service sheets from the prior food service manager and did not verify that the sheets included only student names with approved applications on file. TEA personnel found incorrect totals on the point of service sheet as well as missing applications for some students, which accounted for the lower number of meals claimed for September. The SFA staff person explained that she had obtained access to input SFA's reimbursement claims in December 2002. SFA officials input the reimbursement claims for October and November 2002. These officials did not have an explanation for the discrepancy between the meal counts on the point of service sheets and reimbursement claims for the later months.

The SFA staff person stated that because TEA personnel explained the verification procedures during their October 2002 visit, she decided to verify student eligibility. The SFA staff person stated she verified student eligibility for the month of November and revised the points of service sheets to agree with the names of students with approved applications on file. However, when we compared the names on the point of service sheets, for the month of November to the approved applications, we found 38 students that did not have an approved application on file continued to receive free and reduced-price lunches. During the exit conference, the SFA staff person agreed that 38 students on the revised point of service sheets did not have approved applications on file, but she could not offer an explanation as to why the revised point of service sheets were incorrect.

Because of the inconsistencies between the point of service sheets and basic reimbursement claims and approved applications, there was limited assurance the claims submitted were accurate. We concluded there should be a second party review of the reconciliation process.

We did not calculate the possible underclaim associated with these discrepancies, because of the likelihood that some of the meals on the point of service sheets were for students that did not have approved applications. Further, we did not calculate the possible overpayment because of the likelihood that some of the meals not claimed were for students not eligible to receive free and reduced-priced meals.

RECOMMENDATIONS

We recommend that FNSRO direct TDA to (1) require SFA to establish internal controls (such as second party reviews) that will ensure the accuracy of meal counts recorded on monthly reimbursement claims; and (2) conduct a followup review to ensure the SFA has implemented internal control procedures.

FNS Response

The FNS concurred with all the recommendations stated above.

OIG Position

We do not accept FNS management decision. To reach a management decision for the recommendations above, we need documentation showing the specific corrective action to be taken and the timeframe within which the corrective action will be completed.

In accordance with Department Regulation 1720-1, please furnish a reply within 60 days describing corrective actions taken or planned and the timeframe for implementing the recommendations for which management decisions have not yet been reached. Please note that the regulation requires management decisions to be reached on all findings and recommendations within a maximum of 6 months from report issuance and final action to be taken within one year of each management decision. Please follow your internal agency procedures in forwarding final action to the Office of the Chief Financial Officer.

We appreciate the assistance provided to us during the review.

/s/TRM
TIMOTHY R. MILLIKEN
Regional Inspector General
for Audit

EXHIBIT A – FNS RESPONSE



United States Department of Agriculture
Food and Nutrition Service

Southwest Region


Reply to
Attn of: SWSN:220

September 4, 2003

Subject: Official Drafts of Audit Reports 27010-6-Te and 27010-7-Te

To: Timothy R. Milliken
Regional Inspector General for Audit

This is to provide our concurrence with the audit findings and recommendations in the official drafts of audits 27010-6-Te, Accountability and Oversight of the National School Lunch Program - Nova Charter School Southeast, Dallas, TX and 27010-7-Te, Accountability and Oversight of the National School Lunch Program - Lake Worth Independent School District, Lake Worth, TX.


RONALD J. RHODES
Regional Director
Special Nutrition Programs