



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

Food and Nutrition Service
National School Lunch Program
Lake Worth Independent School District
Fort Worth, Texas



**Audit Report No.
27010-7-Te
September 2003**



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL
Southwest Region - Audit
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DATE: September 23, 2003

REPLY TO

ATTN OF: 27010-7-Te

SUBJECT: Accountability and Oversight of the National School Lunch Program –
Lake Worth Independent School District, Lake Worth, 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 administered by the Lake Worth Independent School District in Lake Worth, 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.

We found that the SFA arbitrarily adjusted the Texas Education Agency (TEA) approved base-year percentages in August and September of 2002 because SFA personnel believed meal claims exceeded the maximum amount of meals they could claim. Further, our comparison of meal service records to attendance records for September 2002 showed that the SFA claimed more meals than supported by daily attendance records. As a result, the SFA's claims for reimbursement were not accurate. Except for the above-mentioned issue dealing with the inaccuracy of meal claims, we found no issues with the other stated objectives.

We recommend that the Food and Nutrition Service (FNS) direct the Texas Department of Agriculture (TDA) to verify the accuracy of the SFA's meals claimed for school year (SY) 2002/2003 and recover any excess payments. We also recommend that FNS review base-year percentages and determine if the percentages need to be modified. Further, we recommend that FNS direct the TDA to train the SFA and conduct a followup review to ensure the SFA has implemented internal control procedures as outlined in FNS Provision 2 guidance, including comparison of daily meal counts to attendance adjusted enrollment.

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 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. A coordinated review effort and a review of compliance with nutrition standards are conducted at each SFA. 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 the 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 SY 2001/2002, the State of Texas had a NSLP enrollment of 4.2 million and reimbursements of \$800 million, and the SFA operated 4 schools with an enrollment of 2,185 students and reimbursements of \$821,290.

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 TEA in Austin, Texas, and the SFA in Lake Worth, Texas. The SFA was selected because it is a Provision 2 school district. Provision 2 is a special assistance alternative designed to reduce application burdens and simplify meal-counting procedures. Our fieldwork was conducted between October 2002 and March 2003. The period covered by the audit included the NSLP operations for SY 2002/2003 for August, September, and October 2002.

In order to evaluate meal claims, we examined monthly reimbursement claims, average daily attendance reports, basic meal claims and daily records, and observed meal services. Because this was a Provision 2 school, we accepted the student eligibility documentation as presented by the SFA, which is not required to verify eligibility annually. 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 the cafeteria manager and business manager. To evaluate procurement procedures, we limited our review to examining independent audit reports and visiting the cooperative 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

The SFA, a Provision 2 school district, arbitrarily adjusted its base-year percentages prior to the submission of reimbursement claims because SFA personnel believed meal claims exceeded the maximum amount of meals they could claim. As a result, the SFA's claims for reimbursement were not accurate.

During the first year, or base year, the Provision 2 school makes eligibility determinations and takes meal counts by type. During the next 3 years, the school makes no new eligibility determinations and counts only the number of reimbursable meals served each day. Reimbursement during these years is determined by applying the percentage for free, reduced-price, and paid meals served during the corresponding month of the base year to the total meal count for the claiming month.¹ An SFA may continue to use the base-year percentages for an indefinite period as long as the socioeconomic status of the student population has remained the same, declined or increased by 5 percent or less.

In addition to regulations,² FNS has published guidance for State agencies and SFAs, which includes meal counting and claiming procedures for Provision 2 school districts. The guidance explains SFAs' internal control requirements and claims review processes in nonbase years. The guidance emphasizes the requirement that SFAs perform edit checks daily, not monthly, and that SFAs compare each school's daily meal counts against the number of enrolled students times an attendance factor. The guidance also states that if the edit check comparison shows more total meals claimed than the attendance-adjusted enrollment, then the SFA officials need to follow up with the school to determine the cause before submitting claims for reimbursement to the State agency.

The TEA child nutrition manual, in accordance with Federal regulations, states that during nonbase years the total monthly meal counts will be multiplied by the percentage for free, reduced-price, and paid meals established in the corresponding base year to determine the amount of the reimbursement. This will form the school district's reimbursement claim for the month.

In accordance with regulations, TEA approved the base-year percentages that the SFA submitted for SY 1997/1998 under Provision 2. However, when we tested the August and September 2002 claims, we found that the SFA's child nutrition director had arbitrarily adjusted the approved base-year percentages prior to submitting the claims for reimbursement. The director had performed monthly edit checks and found that the number of students claimed exceeded the maximum amount of meals they could claim for that month. SFA was not performing a daily edit check of meal counts and instead of following up with schools to determine corrective action, or if necessary, justifying the numbers to TEA as required by FNS procedures, the SFA altered base-year percentages as a way of not overclaiming.

¹ Title 7, Code of Federal Regulations, section 245.9(b)(3)(i), revised January 2002.

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

The SFA child nutrition director stated that they did not inform TEA of their decision to lower percentages because they were afraid TEA would ask them to recalculate base-year percentages. The director thought that the problem with reimbursement claims was due to base-year percentages being set too high, and stated that they would rather accept lost revenue than recalculate the base-year percentages.

We did not determine whether the base-year percentages were set too high. However, we did compare the number of meals served at the four schools to the official attendance numbers the SFA submitted to the TEA. For September, we found 68 more breakfasts and lunches claimed than supported by the daily attendance records. For example, on September 23, 2002, the official attendance reported to the TEA for the middle school was 457 students. However, the SFA claimed reimbursement for the middle school for 474 students counted at point of service, 17 more than official attendance.

The practice of arbitrarily changing base-year percentages could result in the TEA being unaware of other claim manipulations. If there have been significant changes in the socioeconomic status of the student population, then the SFA should submit revised base-year percentages to TEA. The child nutrition director stated that the accuracy of attendance numbers had always been a concern. Accurate attendance numbers and effective internal controls are necessary to ensure that reimbursement claims are not overstated.

RECOMMENDATIONS

We recommend that FNSRO direct the TDA to:

1. Verify the accuracy of the SFA meals claimed for SY 2002/2003 and recover any excess payments;
2. review base-year percentages and determine if the percentages need to be modified;
3. train the SFA on how to prepare reimbursement claims in accordance with FNS Provision 2 guidance, including comparison of daily meal counts to attendance adjusted enrollment; and
4. conduct a followup review to ensure SFA has implemented internal control procedures as outlined in FNS Provision 2 guidance.

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, the timeframe within which the corrective action will be completed, and documentation that the amounts determined to be owed the Government have been collected.

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 1 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 TO DRAFT REPORT



United States Department of Agriculture
Food and Nutrition Service

Southwest Region

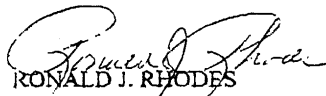
Reply to
Attn of: SWSN:220

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