



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

Food and Nutrition Service
Accountability and Oversight of the
National School Lunch Program
St. Margaret Mary's School
San Antonio, Texas



**Audit Report No.
27010-8-Te
September 2003**



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL
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DATE: September 30, 2003

REPLY TO
ATTN OF: 27010-8-Te

SUBJECT: Accountability and Oversight of the National School Lunch Program -
St. Margaret Mary's School, San Antonio, Texas

TO: William Ludwig
Regional Administrator
Food and Nutrition Service

ATTN: Ronald Rhodes
Regional Director
Special Nutrition Programs

This report presents the results of our audit of the National School Lunch Program (NSLP) as administered by the St Margaret Mary's School, in San Antonio, 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 that will encourage better eating habits.

We reviewed 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 did not have controls in place to ensure the accuracy of the point of service meal counts. For example, we found that the SFA incorrectly subtotaled the point of service sheets. As a result, there is reduced assurance that the claims for reimbursement are accurate. Also, the SFA did not follow procedures to procure their goods and services, and there was no separation of duties in the cafeteria operations. As a result, the SFA could not guarantee that all purchases were made at the best cost, nor was the risk of error or fraud adequately controlled over the SFA's program funds. For the other stated objectives, application and verification process for determining student eligibility and individual school monitoring, we found no material weaknesses.

We recommend that the Food and Nutrition Service (FNS) direct the Texas Department of Human Services (TDHS) to require the SFA to establish internal controls to ensure the accuracy of meal counts recorded on monthly reimbursement claims and to conduct a

followup review to ensure the SFA has implemented internal control procedures. We also recommend that FNS should direct the TDHS to require the SFA to follow the procurement procedures outlined in the Federal regulations. Finally, we recommend that the FNS direct the TDHS to require the SFA to establish a separation of duties.

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, 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.

The 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, the Texas Department of Agriculture (TDA) and the TDHS. The administration of the NSLP was moved from the Texas Education Agency 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. The FNS Regional Office personnel may participate in these reviews. The 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 reduce-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 the school year (SY) 2001/2002, the State of Texas had a NSLP enrollment of 4.2 million and reimbursements of \$800 million, and the SFA operated

one school with an enrollment of up to 215 students and reimbursements of almost \$11,000.

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 TDHS State Office in Austin, Texas, and the SFA in San Antonio, Texas. The SFA was selected based on adverse conditions noted during TDHS' 2000 administrative review. Our fieldwork was conducted from February through July 2003. The period covered by the audit included the NSLP operations for SY 2002/2003 for August 2002 through January 2003.

In order to evaluate meal claims, we examined point of service and meal claim reports and observed meal services. We reviewed approved applications for free and reduced-price lunches to validate student eligibility. Since this SFA was a single campus, there was no responsibility to perform separate monitoring functions. Regarding investment of program funds, we limited our review to interviewing the cafeteria manager, principal, and bookkeeper and examining monthly bank statements. To evaluate procurement procedures, we limited our review to examining purchase receipts and other correspondence and documents. To more completely address the objectives, we reviewed the FNS and the TDHS regulations, policies, and procedures relating to the NSLP and discussed any concerns regarding program operations with the FNS and TDHS personnel.

The audit was conducted in accordance with the Government Auditing Standards issued by the Comptroller General of the United States. Accordingly, the audit included such tests of program and accounting records as necessary to meet the audit objectives.

FINDINGS

Finding No. 1

Meal service records did not support the SFA claims for reimbursement. This occurred because the SFA did not have internal controls in place to ensure the accuracy of point of service meal counts. As a result, there is reduced assurance the SFA's claims for reimbursement are accurate.

Federal regulations¹ state that the SFA shall establish internal controls to ensure the accuracy of lunch counts prior to submission of the claims for reimbursement. Further, federal regulations² 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. The SFAs are to ensure that claims for reimbursement do not request payment for any excess lunches produced.

The SFA used point of service sheets to record the number of children who received lunch. The point of service sheets are lists of student names by classroom. Names were highlighted in green or yellow to indicate the status of lunch to be received. As the child received his/her lunch, the line attendant checked off the child's name. The SFA official stated that the point of service sheets were subtotaled on a daily basis. The subtotals were transferred to a daily production worksheet and used as supporting documentation for the reimbursement claims submitted to the TDHS.

Our review of claims files for the period September 2002 through November 2002, found that the SFA inaccurately subtotaled the point of service sheets, which resulted in lunches being under claimed by an immaterial amount on the monthly reimbursement for the three-month period.

The cafeteria staff manager stated that no other staff members wanted to assist her in performing cafeteria operations and there is no additional review performed on her lunch count totals, despite the fact that prior year audits and program reviews cited the need for them. The principal was aware of this and advised that the other cafeteria staff members only wanted the responsibility of planning, preparing, and serving meals. We concluded that the cafeteria staff manager is the only person that has NSLP responsibilities and that a second party needs to verify the accuracy of monthly meal claims.

The effect of a single party review for the NSLP documentation has led to erroneous information being submitted to the State agency for reimbursement. The SFA needs to establish a process that will ensure that meals claimed for reimbursement are supported by accurate meal counts.

Recommendation No. 1

Direct the TDHS to require the SFA to establish internal controls, such as second party reviews, which will ensure the accuracy of monthly meal count claims recorded on monthly reimbursement claims.

¹ Title 7, Code of Federal Regulations (CFR), section 210.8(a), revised January 2002.

² 7 CFR, section 210.7(c)(1)(iii-v), revised January 2002.

Recommendation No. 2

Direct the TDHS to conduct a followup review to ensure the SFA has implemented internal control procedures.

Finding No. 2

The SFA did not follow procedures that require all procurement of goods and services be made competitive. The SFA officials advised they were not aware of these procedures. As a result, there was no assurance that the SFA's purchases were made at the best cost.

Federal regulations³ state that all procurement transactions, regardless of whether by sealed bids or by negotiation and without regard to dollar value shall be conducted in a manner that provides maximum open and free competition. The TDHS' Handbook⁴ requires the SFA to publicly advertise, with adequate purchasing descriptions, sealed bids, negotiations, and public openings of \$10,000 and over (example: milk for the entire year rather than one week or month). The Handbook also states that procurements of less than \$10,000 can be conducted under less formal small-purchase procedures (e.g., with documented price quotes from three or more qualified sources), but these are still competitive procurements.

We determined the SFA did not have any contracts with vendors but primarily purchased from two vendors, Ben E. Keith, Inc. and Borden, Inc. When questioned concerning procurement procedures, the SFA officials responded that they used Ben E. Keith, Inc., because the previous cafeteria manager always used this vendor and that they used Borden, Inc., because the Archdiocese of San Antonio requested that milk and other beverages be purchased from this vendor. The SFA officials added that they were not aware of additional price quotes. By reviewing receipts for the SY 2002/2003, we determined that the SFA purchased a total of \$1,960.43 from Ben E. Keith, Inc. and \$3,774.01 from Borden, Inc.

Recommendation No. 3

Direct the TDHS to require the SFA to establish internal controls to ensure that procurement procedures outlined in the Federal regulations are followed. Specifically, the SFA should obtain price quotes from three or more qualified sources.

Finding No. 3

The SFA did not have a separation of duties in the daily operations of the cafeteria. The principal did not ensure that the responsibilities of the cafeteria functions were assigned among the other staff members. Specifically, the principal did not ensure that no one

³ 7 CFR, section 3019.43, revised January 2002.

⁴ NSLP/School Breakfast Program Handbook for SFA, chapter 7, Procurement.

person had complete control over any transaction from initialization to completion. As a result, there is a lack of control over the SFA's program funds.

The U.S. General Accounting Office Standards for Internal Control in the Federal Government⁵ state that key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. It further states that this should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. The General Accounting Office concluded that no one individual should control all key aspects of a transaction or event.

We reviewed the SFA's bank statements, receipts, and disbursements for the period August 2002 through January 2003, and found no discrepancies in the cafeteria's accounting system. However, the cafeteria staff manager stated that she was responsible for collecting and recording the lunch money received, depositing the collections, conducting point of service meal counts, consolidating lunch counts, filing claims for reimbursement, and writing/signing all checks including her own payroll check. The principal stated that he was unaware that the cafeteria staff manager was writing and signing her own payroll checks. To his understanding, the church's bookkeeper issued the payroll checks. The bookkeeper advised that she was responsible for performing the monthly bank statement reconciliation.

The principal stated that only one cafeteria staff member was trained and experienced in operating the cafeteria and adhering to the NSLP regulations. The principal informed us that the head cook served as cafeteria manager over all of the cafeteria operations until the previous manager returned in October 2002. He was aware of this and advised that the other cafeteria staff members including the head cook only wanted the responsibility of planning, preparing, and serving meals.

Because only one individual was generally in control of all transactions from beginning to end, there is a greater risk for money to be lost or misappropriated. Therefore, the SFA should establish a distinct separation of duties including procedures for second-party reviews of all transactions and two parties signing all checks written.

Recommendation No. 4

Direct the TDHS to require the SFA to establish a separation of duties. Specifically, the SFA should establish a separation between the management and custody of assets, conduct second-party reviews of all transactions, and establish accounting procedures which require two signatures on all checks written.

Please provide a written response within 30 days describing the actions taken to address our recommendations. Note that Departmental regulations require that a management

⁵ U.S. General Accounting Office: Standards for Internal Control in the Federal Government dated November 1999.

decision be reached on the recommendations within a maximum of 6 months from report issuance.

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 above recommendations, we need documentation showing the specific corrective action to be taken, and the timeframe within which the corrective action will be completed.

We appreciate the courtesies and cooperation extended to our staff during this 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

Subject: Official Draft of Audit Report 27010-8-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 draft of audit 27010-8-Te, Accountability and Oversight of the National School Lunch Program - St. Margaret Mary's School, San Antonio, Texas.


RONALD J. RHODES
Regional Director
Special Nutrition Programs