



U.S. Department of Agriculture



**Office of Inspector General
Western Region**

Audit Report

**Food and Nutrition Service
Summer Food Service Program
State of Nevada**

**Report No. 27099-31-SF
August 2004**



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Western Region - Audit

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San Francisco, California 94105

TEL: 415-744-2851 FAX: 415-744-2871



DATE: August 24, 2004

REPLY TO

ATTN OF: 27-099-31-SF

SUBJECT: Summer Food Service Program
State of Nevada

TO: Allen Ng
Regional Administrator
Western Region
Food and Nutrition Service

ATTN: Kathleen Burks
Director of Financial Management

This report presents the results of our review of a Summer Food Service Program sponsor in the State of Nevada. Your written response to the draft report is included as exhibit B to the report. Based on the information provided in the response, we agreed with the proposed action. In order to reach management decision for Recommendation no. 1, we will need documentation to indicate that an account receivable has been established.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective action taken or planned and the timeframe for implementation of the recommendation for which management decision has not yet been reached. Please note that the regulation requires a management decision to be reached on all recommendations within a maximum of 6 months from report issuance.

We appreciate the cooperation and assistance provided by your staff during our audit.

\s\

SAM W. CURRIE

Regional Inspector General
for Audit

Executive Summary

Food and Nutrition Service - Summer Food Service Program - State of Nevada

Results in Brief

This report presents the results of our audit of the Nevada Department of Education's (NDE) internal audit of and subsequent claim against one of its Summer Food Service Program (SFSP) sponsors. We conducted this audit in response to a whistleblower complaint that alleged a number of improprieties in NDE's audit of the sponsor.

During our audit, nothing came to our attention to validate the allegations made by the whistleblower. However, we did find that an NDE internal auditor did not recommend that a claim be established against the sponsor for failing to justify its August and September 2001 claims, which totaled \$229,964. The NDE auditor mistakenly believed that an internal memorandum precluded the establishment of a claim for these two months. We concluded that NDE should not have excluded these months from the audit.

Recommendations In Brief

We recommend that the Food and Nutrition Service (FNS) instruct the Nevada Department of Education to revise its current claim against the sponsor to reflect the additional questioned costs of \$229,964.

Agency Response

In its written response dated August 13, 2004, the Food and Nutrition Service concurred with the report finding and recommendation. The complete written response is shown in exhibit B of the audit report.

OIG Position

We agreed with the Food and Nutrition Service's proposed action. In order to reach management decision, we will need documentation to indicate that an account receivable has been established.

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Background and Objective

Background

The Summer Food Service Program (SFSP) helps children from lower-income families have nutritious meals when school is out. Section 13 of the National School Lunch Act (42 U.S.C. 1761) authorized the Secretary of Agriculture to assist States through grants-in-aid to conduct nonprofit food service programs for children during the summer months, May through September, and at other approved times.

The U.S. Department of Agriculture's Food and Nutrition Service (FNS) administers SFSP at the national level while the Nevada Department of Education (NDE) does so for the State of Nevada. Locally, sponsoring organizations train staff, prepare meals, supervise delivery, monitor feeding sites, and perform other day-to-day activities. The sponsors are reimbursed for their expenses based on meals served and documented costs. Program expenditures nationwide for fiscal years 2001, 2002, and 2003¹ were \$246 million, \$252 million, and \$257 million, respectively.

Based on a whistleblower complaint received on January 5, 2004, the Office of Inspector General (OIG) reviewed NDE's claim against one SFSP sponsor. The complaint alleged that NDE (a) failed to finalize an audit report that would have required the sponsor to return about \$700,000 in fraudulently obtained Federal funds, and (b) altered its records to hide the theft of these funds.

Objective

The objectives of this audit were to evaluate the complaint, and determine whether NDE correctly billed a sponsor for overpayments.

See the Scope and Methodology section at the end of this report for details of our audit methodology.

¹ Fiscal year 2003 data is preliminary as of February 2004

Finding and Recommendation

Section 1 Overpayment

Finding 1

NDE Needs to Revise Its Claim Against The Sponsor

An NDE auditor did not recommend that a claim be established for all of the overpayments made to a SFSP sponsor. The auditor misinterpreted an internal memorandum to preclude the recovery of overpayments to the sponsor for the months of August and September 2001. As a result, the audit and NDE's consequent bill did not include a claim for two months' overpayments, which totaled \$229,964. NDE needs to revise its claim against this sponsor to include these overpayments.

Federal regulations² require State agencies to disallow any portion of a claim for reimbursement and recover any payment to a sponsor if a sponsor's records do not justify all costs and meals claimed.

NDE conducted a review of the sponsor, and used the results of the review as a basis for establishing a claim against the sponsor. The auditor summarized his review in a memorandum, dated December 15, 2003, to the Deputy Superintendent of Fiscal Services. In that memorandum, the auditor recommended that a claim be established against the sponsor for \$230,230. The Deputy Superintendent concurred with that recommendation and billed the sponsor. However, the auditor did not recommend collecting the overpayments made to the sponsor for the August (\$128,022) and September (\$101,942) 2001 claims totaling \$229,964, even though there was no supporting documentation to justify the claims.

The auditor stated that he was aware that the sponsor did not have any records but an internal memorandum, dated January 7, 2002, prohibited him from recommending that a claim be established for these two months. The memorandum stated: "...we recommend the suspension of all further payments to (the sponsor) them until we are able to have a meeting with you to discuss the findings...". Our review of the memorandum noted that all payments to the sponsor were to be suspended until the audit was completed. The memorandum did not preclude the auditor from recommending that a claim be established against the sponsor for failing to justify its' August and September 2001 claims.

NDE agreed that based on our review of the internal memorandum and the regulations, a claim should be established against the sponsor for not

² 7 CFR § 225.12 (a) dated January 1, 2003

justifying its August and September 2001 claims. FNS concurred that NDE should establish a claim against a sponsor if they are unable to justify a claim.

In February 2004, NDE established a claim against the sponsor for \$230,230. However, NDE's request for repayment was returned as undeliverable. Accordingly, we recommend that NDE revise its claim to reflect the additional questioned costs of \$229,964 and re-bill the sponsor for the total questioned costs of \$460,194.

Recommendation No. 1

Instruct NDE to revise its claim to reflect the additional questioned costs of \$229,964 and re-bill the sponsor.

Agency Response In its written response to the draft report, dated August 13, 2004, FNS concurred with the finding and recommendation. FNS agreed to instruct NDE to re-bill the sponsor and revise its claim to reflect the additional questioned costs of \$229,964.

OIG Position We agreed with FNS' proposed action. In order to reach management decision, we will need documentation to indicate that an account receivable has been established.

Scope and Methodology

We reviewed the documentation used by NDE for its audit of the sponsor, Jump Start, Inc., for the period October 1, 2000, to November 30, 2001. Audit fieldwork was performed in March of 2004.

To accomplish our audit objectives, we performed audit work at the FNS Regional Office in San Francisco, California, and the NDE in Carson City, Nevada.

To complete our objectives, we performed the following steps and procedures:

- We obtained and reviewed all applicable laws and regulations relating to administering and operating the SFSP.
- We met with the complainant to obtain an understanding of the allegations and to obtain additional background information.
- We spoke to the complainant's former supervisor to obtain a further understanding of the allegations and to obtain additional background information.

At the FNS regional office:

- We interviewed FNS regional office officials to obtain their opinion on the allegations identified in the complaint and NDE's administration of the SFSP.
- We reviewed the latest management evaluation report completed by the FNS regional office in fiscal year 2001 on NDE's administration of the SFSP.
- We reviewed correspondence pertaining to the sponsor, Jump Start, Inc.

At the NDE office:

- We interviewed NDE officials to obtain their opinion on the allegations identified in the complaint and to obtain background information on specific sites identified in the complaint.
- We reviewed files to determine the delays NDE encountered in completing the audit of the sponsor.
- We reconciled the amount identified in the whistleblower complaint with the claim established against the sponsor.
- We reviewed the documentation and workpapers NDE used to prepare the final audit report to determine if the amount billed to the sponsor was accurate and supported.

- We also interviewed NDE officials to obtain the related payment information and to understand the SFSP computer system.

Our audit was conducted in accordance with generally accepted Government auditing standards.

Exhibit A – Summary of Monetary Results

Exhibit A – Page 1 of 1

Recommendation Number	Description	Amount	Category
1	NDE needs to revise its claim against the sponsor to reflect additional questioned costs	\$229,964	Questioned Costs – Recovery Recommended

Exhibit B – FNS Response to Draft Report

Exhibit B – Page 1 of 1



United States Department of Agriculture
Food and Nutrition Service

Western Region

Reply to
Attn of: 270099-31-SF
Subject: Summer Food Service Program – State of Nevada
To: Sam W. Currie
Regional Inspector General for Audit
Office of Inspector General

AUG 13 2004

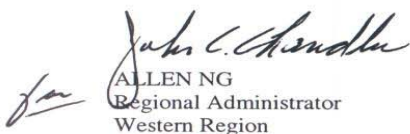
This responds to your memorandum dated July 23, 2004, requesting our comments on the official draft report of the subject audit.

Recommendation No. 1 – Instruct NDE to revise its claim to reflect the additional questioned costs of \$229,964 and re-bill the sponsor.

FNS Response:

FNS concurs with the finding and recommendation. We will instruct NDE to re-bill the sponsor and revise its claim to reflect the additional questioned costs of \$229,964.

If you have any questions, please call Etta Britton of our financial management staff at (415) 705-1332, extension 225.


ALLEN NG
Regional Administrator
Western Region

cc: Janet Allen, RD, SNP, WRO
Kathleen Burks, FM, WRO

Informational copies of this report have been distributed to:

Agency Liaison Officer, FNS	(3)
Government Accountability Office	(1)
Office of Management and Budget	(1)
Office of the Chief Financial Officer	
Director, Planning and Accountability Division	(1)