



U.S. Department of Agriculture



Office of Inspector General
Great Plains Region

Audit Report

**Food and Nutrition Service
National School Lunch Program
Unified School District 341
Oskaloosa, Kansas**

**Report No. 27010-17-KC
October 2003**



UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL - AUDIT
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DATE: March 26, 2004

REPLY TO
ATTN OF: 27010-17-KC

SUBJECT: National School Lunch Program – Unified School District 341,
Oskaloosa, Kansas

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

This report presents the results of the subject audit. The written response, dated October 3, 2003, 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 A. The reply expressed agreement with the recommendations. The Findings and Recommendations section of the report explains those actions necessary for us to consider management decisions on Recommendations Nos. 1 and 2. In general, we will need to be advised of the specific actions completed or planned along with acceptable dates for completing the proposed actions.

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.

We appreciate the assistance provided to us during our review.

/s/ Herbert E. Carpenter for

DENNIS J. GANNON
Regional Inspector General
for Audit

Executive Summary

**Food and Nutrition Service, National School Lunch Program, Oskaloosa, Kansas
(Audit Report No. 27010-17-KC)**

Results in Brief

This report presents the results of our audit of the National School Lunch Program (NSLP),¹ as operated by Unified School District 341. This district served as the local school food authority (SFA) under an agreement with the Kansas State Department of Education (KSDE), which served as the State agency (SA). 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 \$104,000 in FNS NSLP/SBP reimbursement and about \$4,300 in SA 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 that the SFA needed to improve management controls related to its accounting systems and procurement. We identified no exceptions related to the SFA's meal accountability and accuracy of its meal claims.

Reports to the SA were incorrect because SFA officials did not properly complete monthly financial status summaries as required, made errors in recording revenue and reimbursement amounts, improperly used estimated rather than actual amounts to make corrections to accounts, did not properly account for Head Start Program sales revenue, and recorded Federal reimbursement funds received for the Summer Food Service Program (SFSP) as State funds. In addition, there were no controls in place to ensure the SFA's purchasing cooperative was required to or followed State and Federal procurement requirements.

Recommendations In Brief

We recommended that FNS require the SA to direct the SFA to strengthen accounting controls by periodically monitoring activities to ensure accounting for revenues for reimbursable student sales and sales to the Head Start Program are properly accomplished, the monthly financial status summaries are timely completed, and all Federal revenues are recorded in the proper account, as specified by the SA. We also recommended that the SA be required to coordinate with the SFA to develop a written contract with the purchasing cooperative and to ensure the purchasing cooperative complies with the contract terms and applicable Federal and State procurement requirements.

¹ Also includes the School Breakfast Program (SBP).

FNS Response

The agency response showed FNS officials concurred with the recommendations. We incorporated their comments in the applicable sections of the report and attached a copy of the comments as exhibit A.

OIG Position

The Findings and Recommendations section of the report explains those actions necessary for us to consider management decisions on Recommendations Nos. 1 and 2. In order to reach management decisions, we will need to be advised of the specific actions completed or planned along with acceptable timeframes for completing the proposed actions.

Abbreviations Used in This Report

the Act	Richard B. Russell National School Lunch Act
CFR	Code of Federal Regulations
FNS	Food and Nutrition Service
KSDE	Kansas State Department of Education
NSLP	National School Lunch Program
OIG	Office of Inspector General
SA	State Agency
SBP	School Breakfast Program
SFA	School Food Authority
SFSP	Summer Food Service Program
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). The FNS Mountain Plains Regional Office, located in Denver, Colorado, is responsible for monitoring and overseeing operations in Kansas. The Kansas State Department of Education (KSDE) serves as the State agency (SA) and is responsible for overseeing program operations within Kansas. The School Food Authority (SFA) located in Oskaloosa, Kansas, is responsible for operating the NSLP in accordance with regulations. Each SA is required to enter into a written agreement with FNS to administer the NSLP/SBP and each SA enters into agreements with SFA's to oversee day-to-day operations. The SFA administered the NSLP/SBP in three public schools.

The fiscal year 2002 funding for the NSLP was \$6 billion for meal reimbursements of approximately 4.7 billion lunches. The Kansas SA

² 42 U.S. Code 1751.

received approximately \$58 million for the NSLP and \$14 million for the SBP in Federal reimbursements for fiscal year 2002. For school year 2001/2002, Kansas provided State funds of approximately \$2.5 million to SFA's.

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 SFA's to assist in operating the nonprofit lunch program. The Kansas SA generally provides cash in lieu of actual commodities. 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 on a daily basis or use an approved alternative method.

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 agency 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

Finding 1

SFA Did Not Complete Monthly Financial Status Summaries And Properly Record Revenues

The monthly financial status summary reports to the SA were not prepared in accordance with procedures, and the SFA did not ensure it properly accounted for lunch program funds, as specified by the SA. This occurred because SFA personnel were not fully aware of SA requirements, made errors in recording revenue and reimbursements received, and recorded estimated amounts, rather than actual amounts, in its accounting system. As a result, the SFA overstated revenue from student sales by about \$9,300 for school year 2001/2002. In addition, the SFA improperly offset \$8,700 in revenue received from Head Start Program sales against expenses and improperly recorded over \$3,800 of Federal reimbursements received for the Summer Food Service Program (SFSP) as State funds.

SA instructions require the SFA to prepare a monthly financial status summary for each calendar month of the fiscal year, to record revenue for student sales of reimbursable meals in separate accounts from revenue received from nonreimbursable meals, to report revenue from other sources as miscellaneous revenue, and to report revenue from Federal sources under Account 4550 (Child Nutrition Programs) on the monthly and annual financial status summary reports.³

a. Required Monthly Financial Status Summary Was Not Prepared And Student Sales Were Improperly Recorded.

We found that the revenue accounts for reimbursable meals⁴ had more funds recorded as revenue than could be attributed to the meals sold to students. According to SFA officials, they normally made accounting entries to transfer revenue to the proper accounts at the end of each month, because they initially recorded all revenue (except Head Start reimbursements) in the food service fund's miscellaneous revenue Account 1990 (Miscellaneous). However, SFA officials stated they had noticed revenues were lower in the student lunch and breakfast accounts than the prior year. Upon review, the officials determined the monthend

³ KSDE Accountability and Record-Keeping for the School Nutrition Programs, p. 17 and 18.

⁴ Account 1611 (Student Sales, School Lunch Program) and Account 1612 (Student Sales, School Breakfast Program).

transfers were not completed for 2 months during the school year. SFA officials then improperly used estimated amounts as the basis to transfer additional funds to the accounts.

The SFA used an internal report (monthly money summary) instead of the monthly financial status summaries to determine the transfers. SFA officials stated they did not prepare the monthly financial status summaries since the SA does not require the SFA to submit the forms (the monthly forms are to be prepared but only the annual report is required to be sent to the SA). We believe that had the SFA prepared the monthly financial status summaries, the cited condition would have been promptly detected.

We were able to obtain documentation for the correct amounts that should have been transferred and determined the student lunch and breakfast accounts⁵ were overstated by about \$9,300 for the 2001/2002 school year.

b. Head Start Program Revenue Improperly Recorded.

Our review of the food service account revealed that SFA officials had recorded approximately \$8,700 of revenues received from the contract to provide meals for the Head Start Program as an offset to the expense Account 630 (Food and Milk). The SA informed us that revenues from the Head Start Program are to be reported as miscellaneous revenue under Account 1990 (Miscellaneous). As a result of offsetting revenues against expenditures, the SFA underreported revenues and expenditures by about \$8,700 for the 2001/2002 school year.

c. Federal Funds Recorded as State Funds.

The SFA recorded Federal SFSP reimbursements as State reimbursements. SFA officials stated the form received from the SA did not contain a breakdown of the source of the funds. Therefore, the SFA incorrectly recorded the SFSP funds as State funds, resulting in the SFA underreporting Federal reimbursements and overreporting State funding by over \$3,800.

SA officials noted that all SFSP reimbursement funds were from Federal sources and should be accounted for as “Federal” on the monthly and annual financial status summary reports.

⁵ Account 1611 (Student Sales, School Lunch Program) and Account 1612 (Student Sales, School Breakfast Program).

The SFA stated they would start completing the monthly financial status summaries, start recording the Head Start Revenues under miscellaneous revenue, and start recording the SFSP revenue as Federal reimbursements.

Recommendation No. 1

Instruct the SA to require the SFA to strengthen accounting controls by periodically monitoring activities to ensure accounting for revenues for reimbursable student sales and sales to the Head Start Program are properly accomplished, the monthly financial status summaries are timely completed, and all Federal revenues are recorded in the proper account, as specified by the SA.

FNS Response.

FNS concurred with Recommendation No. 1 and will instruct the SA to require the SFA to complete the recommended actions.

OIG Position.

We can accept the management decision once we receive specific timeframes for the completion of the proposed actions.

Finding 2

Agreement with Purchasing Cooperative Did Not Specify Requirements

The SFA purchased through a purchasing cooperative without a written contract or specifying those required provisions to be followed to ensure its procurements met all applicable Federal and State requirements. In addition, the SFA did not require that the purchasing cooperative solicit bids to obtain the lowest prices. In general, this condition occurred because the SFA's personnel were unaware of Federal and State requirements. As a result, there was a lack of assurance that procurements maximized competition and resulted in the lowest cost to the SFA.

Federal regulations⁶ require "procurement by sealed bids (formal advertising). Bids are publicly solicited and a firm-fixed-price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest in price." The SA requires, "For procurement of services or supplies costing in aggregate in excess of

⁶ 7 CFR 3016.36(d)(2).

\$10,000, competitive sealed bids (formal advertising) are publicly solicited or a Request for Proposal is publicized.”⁷

The SFA did not ensure the purchasing cooperative publicly advertised for bids (newspapers, internet, etc.) in purchasing food and nonfood supplies, according to requirements. According to officials of the purchasing cooperative, invitations to bid were directly solicited from current suppliers and they were unaware of the Federal and State regulations. As a result, the cooperative’s procurements, totaling over \$100,000 for food and nonfood for school year 2001/2002, did not assure maximum open and free competition. However, we believe formal procurement procedures should be used in this case, because documents from the purchasing cooperative showed that food purchases for winter delivery totaled approximately \$300,000 with one successful bidder being awarded over \$216,000 of this amount.

During our review, we did not note any specific SA requirements that purchasing cooperatives had to follow when compared to those provisions contained in agreements with food service management companies. In contrast, the SA had specified that certain provisions be included in contracts between SFA’s and food service management companies, including provisions for Equal Employment Opportunity, access to books and records, and record retention.⁸ Officials of the SFA said there was no written contract with the cooperative and a written agreement with the cooperative was limited to describing only the administrative fee allowed. We believe there needs to be a written agreement between SFA’s and cooperatives covering all applicable Federal and State requirements.

SFA officials said they had initiated corrective actions by obtaining a list of State and Federal requirements and had met with the Board of Education to discuss developing an appropriate written contract containing those requirements with the purchasing cooperative.

Recommendation No. 2

Require the SA to coordinate with the SFA to develop a written contract with the purchasing cooperative and ensure this purchasing cooperative complies with the contract terms and applicable Federal and State procurement requirements.

⁷ KSDE Food Service Facts Handbook, Chapter 8, dated fall of 1999.

⁸ KSDE Food Service Facts Handbook, Chapter 8, dated fall of 1999.

FNS Response.

FNS concurred with Recommendation No. 2 and will require the SA to coordinate with the SFA to complete the recommended actions.

OIG Position.

We can accept the management decision once we receive specific timeframes for the completion of the proposed actions.

Scope and Methodology

Our review primarily covered NSLP/SBP operations July 1, 2001, to December 31, 2002, 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, Kansas SA, and the SFA in Oskaloosa, Kansas. We selected the SFA based on its location and its use of a purchasing cooperative. Audit work was performed during the period March through April 2003.

We reviewed NSLP/SBP operations at all three schools and made observations at each school. Our audit was performed in accordance with Government Auditing Standards.

To accomplish our review objectives, we reviewed FNS, SA, and SFA regulations, policies, procedures, manuals, and instructions governing NSLP/SBP operations. We also reviewed the SA'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 SFA and SA in order to obtain an overview of their method of operation of 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;
- Reviewed the SFA's accounting system, which included a review of program funds and interest on those funds;
- Analyzed the SFA's methods used for procurement of goods and services; and
- Analyzed the monitoring efforts of the SFA through a review of the onsite accountability reviews conducted during school year 2001/2002.

Exhibit A – FNS Response to the Draft Report

Exhibit A – Page 1 of 1



United States
Department of
Agriculture

Food and
Nutrition
Service

Mountain
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Reply to
Attn of:

MPSN-200

October 3, 2003

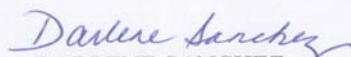
Subject: Audit Report No. 27010-17-KC, National School Lunch Program-Unified School District
341, Oskaloosa, Kansas

To: Dennis J. Gannon
Regional Inspector General for Audit
Office of Inspector General
P.O. Box 293
Kansas City, Missouri 64114-3302

We concur with Recommendation No. 1, and will instruct the State agency (SA) to require the school food authority (SFA) to strengthen accounting controls by periodically monitoring activities to ensure accounting for revenues for reimbursable student sales and sales to the Head Start Program are properly accomplished, the monthly financial status summaries are timely completed, and all Federal revenues are recorded in the proper account, as specified by the SA.

We concur with Recommendation No. 2 and will require the SA to coordinate with the SFA to develop a written contract with the purchasing cooperative and ensure this purchasing cooperative complies with the contract terms and applicable Federal and State procurement requirements.

If you have any questions, please contact Joe Fisher at (303) 844-0355.


DARLENE SANCHEZ
Regional Director
Special Nutrition Programs

FORM FCS-607 (4-95)