



United States Department of Agriculture



OFFICE OF INSPECTOR GENERAL

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Summer Food Service Program (SFSP)–Texas Sponsor Cost–Interim Report

Audit Report 27004-0003-21 (1)

OBJECTIVE

The ongoing audit is evaluating the adequacy of TDA's oversight of sponsor claims to SFSP in Texas and sponsor compliance with program regulations and policies related to the reimbursement of sponsor claims. This report provides interim results from our audit of SFSP in Texas on sponsor compliance with SFSP regulations and policies related to the reimbursement of sponsor claims.

REVIEWED

Our audit focused on the oversight of SFSP sponsor activities in Texas. We interviewed TDA officials regarding oversight actions implemented. We also assessed sponsors' records such as bank statements, vendor receipts, and meal count sheets to evaluate sponsor compliance with Federal program regulations.

RECOMMENDS

We recommended that FNS ensure that TDA: (1) reviews records supporting the \$110,670 paid in program year 2016 to the two sponsors and recover any unsubstantiated amounts, and (2) determines if the sponsors declared seriously deficient should be deferred, or begin the process of terminating the sponsors from SFSP.

OIG found that two Texas SFSP sponsors did not substantiate more than \$110,000 paid to them in program year 2016.

WHAT OIG FOUND

Two Texas Summer Food Service Program (SFSP) sponsors did not provide all documentation to support reimbursements received for claims paid to them for meals served in program year 2016. The claims amounted to more than \$110,000. The Texas Department of Agriculture (TDA) provides Federal reimbursement to participating sponsors to cover the cost of preparing and serving meals as well as administrative costs related to program activities.

Federal regulations require sponsors to maintain documents to support the costs and meals associated with all SFSP claims for 3 years.

We sent two memoranda, with set deadlines, to TDA requesting documentation from sponsors to support program year 2016 reimbursements. TDA made additional requests to the two sponsors for records to substantiate the more than \$110,000 paid to them by TDA in program year 2016. Neither sponsor complied with our deadlines or TDA's additional requests for documentation. As a result, in June 2017, TDA officials notified the sponsors that they were seriously deficient in the management of SFSP. The sponsors did send the records to TDA, but not until June 20, 2017. Because the records were not accessible at the time of our requests, we do not plan to review the records as part of our audit.

FNS officials concurred with our findings and recommendations, and we accepted management decision on both recommendations.



United States Department of
Agriculture Office of Inspector General
Washington, D.C. 20250



DATE: September 7, 2017

AUDIT
NUMBER: 27004-0003-21 (1)

TO: Brandon Lipps
Administrator
Food and Nutrition Service

ATTN: Mark Porter
Director
Office of Internal Controls, Audits and Investigations

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Summer Food Service Program –Texas Sponsor Cost – Interim Report

This interim report presents the results of the subject audit. Your written response to the official draft report, received on August 16, 2017, is included in its entirety at the end of this report. Your response and the Office of Inspector General's (OIG) position are incorporated into the relevant sections of the report. Based on your written response, we are accepting management decision for all audit recommendations in the report, and no further response to this office is necessary.

In accordance with Departmental Regulation 1720-1, final action needs to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report. For agencies other than the Office of the Chief Financial Officer (OCFO), please follow your internal agency procedures in forwarding final action correspondence to OCFO.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This interim report contains publicly available information and will be posted in its entirety to our website (<http://www.usda.gov/oig>) in the near future.

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Background and Objectives

Background

The Food and Nutrition Service (FNS) administers the Summer Food Service Program (SFSP) to provide nutritious meals to children, ages 18 years and younger, who are from needy areas during periods when area schools are closed for vacation. SFSP provides free meals that meet Federal nutrition guidelines to children at approved sites sponsored by schools or nonprofit organizations.

As the Federal awarding agency, FNS is responsible for the administration and oversight of SFSP. FNS awards SFSP funding to State agencies, which are responsible for administering the program. The State agencies sub-award SFSP funds to sponsors (approved public or private nonprofit sponsoring organizations).¹ Our audit focused on the oversight of SFSP sponsor activities in Texas. In fiscal year 2016, Texas was the third largest State in the country, in terms of SFSP outlays, just behind New York and Florida.

The Texas Department of Agriculture (TDA) is responsible for administering SFSP within Texas. TDA's responsibilities include developing and disseminating state policy for the administration of SFSP, reviewing and approving sponsor applications to participate, monitoring sponsor SFSP operations, providing sufficient technical assistance and guidance to sponsors, and establishing a financial management system.

TDA provides Federal reimbursement to participating sponsors to cover the cost of preparing and serving meals and for administrative costs related to program activities. FNS regulations generally limited SFSP reimbursement to the number of reimbursable meals served, multiplied by the sum of administrative and operational rates. FNS annually establishes separate per-meal rates for operating and administrative costs. Sponsors may either prepare the meals themselves on-site or at a central kitchen, or purchase meals from a vendor.

In program year 2016, TDA approved 378 sponsors and reimbursed over \$38 million in SFSP claims to those sponsors. Sponsors who apply to participate in the SFSP, and are approved by TDA, are responsible for managing program operations for one or multiple feeding sites, maintaining accurate financial and accounting records, including support for all costs of operating SFSP, and providing meals that meet program requirements.

¹ 7 CFR 225.2 defines a sponsor as a public or private nonprofit school food authority; a public or private nonprofit residential summer camp; a unit of local, municipal, county or State government; a public or private nonprofit college or university currently participating in the National Youth Sports Program; or a private nonprofit organization which develops a special summer or other school vacation program providing food service similar to that made available to children during the school year under the National School Lunch and School Breakfast Programs and which is approved to participate in SFSP.

Objectives

The overall objectives of our ongoing audit are to evaluate (1) the adequacy of TDA's oversight of sponsor claims to SFSP in Texas and (2) sponsor compliance with SFSP regulations and policies related to the reimbursement of sponsor claims. This report provides interim results from our audit of SFSP and, in particular, sponsor compliance with SFSP regulations and policies related to the reimbursement of sponsor claims.

Section 1: Unsubstantiated Claims

Finding 1: SFSP Sponsors Did Not Substantiate 2016 Reimbursement Claims

Two SFSP sponsors in Texas did not provide all documentation to support meal claim reimbursements received for meals served in June, July, and August of program year 2016. TDA made several requests to the sponsors for the records. We concluded that these sponsors were noncompliant with SFSP regulations that required them to support costs associated with the reimbursements. The sponsors did not substantiate over \$110,000 paid to them by TDA in program year 2016.

Federal regulations require that sponsors maintain records to justify all costs and meals claimed for at least 3 years after the end of the fiscal year of operation—longer if required by the State agency. These records must be accessible to Federal and State agency personnel for audit and review purposes.²

On April 4, 2017, we issued a memorandum to TDA requesting that it inform 10 sponsors selected for our audit to provide documentation to support claims submitted in program year 2016. Three days later, TDA attached a letter to our memorandum and sent it to the sponsors. TDA's letter specified that the sponsors were to provide the requested documentation no later than April 21, 2017. Two sponsors (Sponsor A and Sponsor B) did not comply by the April 21, 2017, deadline. In the subsequent weeks, TDA made additional attempts to collect the documentation from the sponsors. However, in that time, neither sponsor submitted any documentation.

On May 25, 2017, we issued a subsequent memorandum to TDA requesting agency officials to notify these two sponsors that they had a final deadline of June 2, 2017, to provide the requested documentation. TDA officials drafted a letter based on our memorandum and sent it to the sponsors on May 26, 2017. However, the two sponsors did not comply with the June 2, 2017, deadline.

Sponsor A did not respond to our request to provide documentation supporting any of its costs and meals claimed in 2016. TDA approved the sponsor to operate 11 sites to provide free meals to children during the summer vacation in program year 2016. The sponsor served over 9,000 reimbursable meals, and TDA reimbursed over \$33,000 to the sponsor. In August 2016, TDA conducted an administrative review of the sponsor and identified 13 issues with the SFSP

² 7 CFR 225.15(c) states that sponsors shall maintain accurate records, which justify all costs and meals claimed. Failure to maintain such records may be grounds for denial of reimbursement for meals served and/or administrative costs claimed during the period covered by the records in question. The sponsor's records shall be available at all times for inspection and audit by representatives of the Secretary, the Comptroller General of the United States, and the State agency for a period of 3 years following the date of submission of the final claim for reimbursement for the fiscal year.

operation at approved sites.³ TDA found that the sponsor did not have an adequate financial system, did not maintain adequate records, did not accurately count and claim meals served, and claimed unallowable expenses.⁴ Because of the issues identified, TDA declared the sponsor seriously deficient in August 2016.⁵ TDA required the sponsor to submit a corrective action document for each issue. This document described the sponsor's plan to correct deficiencies identified during the administrative review. TDA assessed the corrective action plan submitted by the sponsor and determined that, if implemented, the correction action would fully and permanently correct the serious deficiency. TDA officials temporarily deferred the sponsor's status of seriously deficient until program year 2017, when they could conduct a follow-up administrative review to verify that the sponsor had taken appropriate corrective actions.⁶ However, the sponsor did not complete the application process to participate in SFSP in program year 2017. Therefore, TDA did not conduct a follow-up administrative review.

Sponsor B provided records to us for the month of June 2016, but not for the months of July and August 2016. The sponsor claimed that it served almost 25,000 meals between July and August 2016. TDA reimbursed the sponsor over \$77,000 for those meals and other costs associated with serving the meals. The sponsor operated 10 sites during program year 2016 and was operating in program year 2017.

On June 2, 2017, Sponsor B sent an email to TDA officials and OIG indicating that it had mailed the July and August 2016 records to TDA. The sponsor's email also included a copy of a United States Postal Service (USPS) priority mail-shipping label to support that statement. On June 9, 2017, we contacted TDA officials regarding their receipt of the records. They informed us that they had not received the records. We subsequently contacted USPS and used the tracking number from the sponsor's email to determine the status of the shipment. A USPS official informed us that the sponsor had purchased a priority mail-shipping label, but had not used the label to send a package.

Federal regulations require sponsors to maintain documents to support the costs and meals associated with all SFSP claims.⁷ The documents include, but are not limited to, records of daily meal counts, the cost of food used in the meals, the cost of nonfood supplies used to prepare the meals, the cost of food service space, and the cost for labor related to preparing and serving the

³ TDA, 2016 SFSP Supplemental Handbook, § 8, "Program Integrity" (June 2016) states that an administrative review is an examination conducted by TDA or USDA of sponsors and sites to determine compliance with program requirements. The results are provided in writing to the sponsor.

⁴ The unallowable items included pizza and a payment for an auto title loan. The sponsor also used the book keeping services of iBookandAudit.com. The book keeping service was not procured properly, resulting in the expended money being an unallowable cost.

⁵ Regulations define seriously deficient as the status of a sponsor that has been determined to be non-compliant in one or more aspects in its operation of the program.

⁶ TDA, 2016 SFSP Supplemental Handbook, § 8, "Program Integrity" (June 2016) states that the agency may temporarily defer or postpone the serious deficiency process until or unless the agency determines that the serious deficiency or serious deficiencies were not fully and permanently corrected.

⁷ 7 CFR § 225.15(c).

meals. State agencies can declare sponsors who do not maintain such records seriously deficient in the operation of SFSP. If the sponsor fails to fully and permanently correct the serious deficiency, the State agency may begin the process of terminating the sponsor from SFSP and excluding it from future participation.

FNS' guidelines require State agencies to declare sponsors seriously deficient when sponsors do not provide records to support that reimbursements received are for allowable Child Nutrition Program costs. FNS' guidelines require sponsors to perform corrective action before they can participate in the program again. These guidelines also require that the State agency recover all reimbursements to sponsors during the period in question.⁸

We met with FNS and TDA officials on June 8, 2017 and June 12, 2017. We informed those officials about our analysis and conclusions. Overall, we concluded that the sponsors did not comply with program requirements to maintain records to support costs associated with over \$110,000 in claim reimbursements they received in program year 2016. At the time, we recommended that FNS ensure that TDA declares the sponsors seriously deficient and remove them from SFSP. In addition, we suggested that FNS ensure TDA recover the unsubstantiated claims of over \$110,000 paid to the sponsors in program year 2016. They agreed with our conclusions, and TDA officials took immediate action to notify the sponsors of their noncompliance with program operations.

TDA officials notified Sponsor A and Sponsor B that they were seriously deficient in the management of SFSP on June 8, 2017 and June 13, 2017, respectively. They required the sponsors to fully correct all deficiencies and submit documentation of corrective actions by June 23 and June 28, 2017, respectively. They also informed the sponsors that not correcting the deficiencies identified would result in the termination of the sponsors' permanent agreement to participate in SFSP. In addition, they informed each sponsor that they were disallowing all reimbursements received for meals directly affected by their noncompliance.

On June 20, 2017, several days after TDA notified Sponsor A and Sponsor B that they were seriously deficient, the sponsors provided the records we requested to TDA. Because the records were not accessible at the time of our request, we do not plan to review the records as part of our review. Instead, we recommend that FNS ensure TDA to review the records and determine if the meals claimed and costs associated with the sponsors' reimbursements are supported and allowable. Further, we recommend that TDA take action to recover any unallowable or unsupported costs and meals claimed. Finally, we recommend that TDA make a determination whether the two sponsors should have their seriously deficient status temporarily deferred, be declared seriously deficient for other operational or administrative noncompliances, or begin the process of terminating the sponsors from SFSP and excluding them from future participation.

⁸ Administration Guide Summer Food Service Program, Chapter 9: Program Costs and Reimbursements (March 2016).

Recommendation 1

Ensure that the Texas Department of Agriculture (TDA) reviews records supporting the \$110,670 paid in program year 2016 to the two sponsors, and recover funds paid to the two sponsors for costs that TDA determines are not supported and allowable.

Agency Response

In its August 16, 2017, response, FNS concurs with the recommendation and will ensure that the TDA reviews the supporting records for the two sponsors in question and recovers funds paid to them that are determined to be unallowable. Based on the discussion draft for the interim report issued on July 21, 2017, FNS went ahead and formally notified the TDA of the need to review these records and that the State agency is potentially liable for returning these funds to FNS based on the outcome of their review.

Additionally, FNS would like to acknowledge that the TDA was quick to take action with these two sponsors immediately upon notification from OIG and FNS about the issues identified. Following their normal operating procedures and prior to the release of any formal report, on June 8 and June 13, 2017, the TDA declared both sponsors seriously deficient in the management of the SFSP. Several days later both sponsors then provided records originally requested by OIG to the TDA, and the State agency is currently in the process of reviewing those documents to determine if the sponsor's reimbursements are supported and allowable. If this review results in any unallowable reimbursements, the TDA will bill the sponsors for the determined amount and provide documentation to support recovery of any funds to FNS. The estimated completion date is December 31, 2017.

OIG Position

We accept management decision for this recommendation.

Recommendation 2

Ensure TDA makes a determination whether the two sponsors should have their seriously deficient status temporarily deferred, be declared seriously deficient for other operational or administrative noncompliances, or terminated from participating in SFSP.

Agency Response

In its August 16, 2017, response, FNS concurs with the recommendation. As described in the FNS response to recommendation 1, the TDA is currently in the process of reviewing records provided by the two sponsors to determine if their 2016 reimbursements were supported and allowable. In addition to recovering any reimbursements determined to be unallowable, TDA will also determine for each sponsor if their seriously deficient status should be temporarily

deferred, if they should be declared seriously deficient for other operational or administrative non-compliances, or if they should be terminated from participating in the SFSP. FNS will monitor TDA's progress as they complete this review to ensure a final determination of each sponsor's status is in compliance with applicable FNS regulations and guidance. The estimated completion date is December 31, 2017.

OIG Position

We accept management decision for this recommendation.

Scope and Methodology

We began fieldwork on January 30, 2017. On June 6, 2017, we determined it was necessary to issue an interim report due to the two sponsors' lack of compliance with SFSP requirements.^{9, 10} We performed fieldwork at the FNS Southwest Regional Office in Dallas, followed by our initial audit work at TDA's office in Austin, Texas. Our audit focused on the most recent program year, program year 2016, where TDA reimbursed SFSP claims to sponsors.

To accomplish our audit objectives, we performed the following:

- Reviewed applicable laws, regulations, and agency procedures concerning SFSP.
- Interviewed TDA officials regarding oversight actions implemented to ensure sponsor claims comply with Federal program regulations and policies. In addition, we interviewed TDA officials to gain an understanding of their seriously deficient process and administrative reviews.
- Non-statistically selected 10 sponsors that participated in SFSP to review their claims for reimbursement. We selected the sponsors based on our analysis of the number of serving sites operated by each sponsor, the estimated time OIG would need to conduct a thorough review of sponsor records and overall costs, and proximity to our field office in order to facilitate a more timely completion of audit fieldwork.
- Developed a performance template to assist in reviewing TDA's controls over SFSP claims for the 10 sponsors in our sample.
- Requested and started assessment of sampled sponsors' records and supporting documentation such as bank statements, vendor receipts, and meal count sheets to evaluate the accuracy of claims submitted and sponsor compliance with Federal program regulations.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our finding and conclusion based on our audit objectives. We have not completed our information technology work at this time; however, we will include our conclusions on this area in our final report.

⁹ Two SFSP sponsors did not provide all documentation to support meal claim reimbursements received for June, July, and August of program year 2016.

¹⁰ We are continuing fieldwork, and we will issue a final report at the completion of our audit.

Abbreviations

FNS	Food and Nutrition Service
OIG	Office of Inspector General
SFSP	Summer Food Service Program
TDA	Texas Department of Agriculture
USDA.....	United States Department of Agriculture
USPS.....	United States Postal Service

Exhibit A: Summary of Monetary Results

Exhibit A summarizes the monetary results for our audit report by finding and recommendation number.

Finding	Recommendation	Description	Amount	Category
1	1	Sponsors did not provide records to support SFSP claim reimbursement.	\$110,669.93	Questioned Costs– Recovery Recommended
Total			\$110,669.93	

Exhibit B: Noncompliant Sponsors

Sponsor A..... [REDACTED]
Sponsor B..... [REDACTED]

**USDA'S
FOOD AND NUTRITION SERVICE
RESPONSE TO AUDIT REPORT**



**United States
Department of
Agriculture**

Food and
Nutrition
Service

3101 Park
Center Drive

Alexandria, VA
22302-1500

DATE: August 18, 2017

AUDIT
NUMBER: 27004-0003-21-1

TO: Gil H. Harden
Assistant Inspector General for Audit

FROM: /s/ <Rich Lucas> (for): Brandon Lipps
Administrator
Food and Nutrition Service

SUBJECT: Summer Food Service Program – Texas Sponsor Cost – Interim Report

This letter responds to the official draft report for audit number 27004-0003-21 (1), Summer Food Service Program (SFSP) – Texas Sponsor Cost – Interim Report. Specifically, the Food and Nutrition Service (FNS) is responding to the two recommendations in the report.

OIG Recommendation 1:

Ensure that the Texas Department of Agriculture (TDA) reviews records supporting the \$110,670 paid in program year 2016 to the two sponsors, and recover funds paid to the two sponsors for cost that TDA determines is not supported and allowable.

FNS Response:

FNS concurs with the recommendation and will ensure that the TDA reviews the supporting records for the two sponsors in question and recovers funds paid to them that are determined to be unallowable. Based on the discussion draft for the interim report issued on July 21, 2017, FNS went ahead and formally notified the TDA of the need to review these records and that the State agency is potentially liable for returning these funds to FNS based on the outcome of their review. Please see attached for a copy of this formal notification.

Additionally, FNS would like to acknowledge that the TDA was quick to take action with these two sponsors immediately upon notification from OIG and FNS about the issues identified. Following their normal operating procedures and prior to the release of any formal report, on June 8 and June 13, 2017, the TDA declared both sponsors seriously deficient in the management of the SFSP. Several days later both sponsors then provided records originally requested by OIG to the TDA, and the State agency is currently in the process of reviewing those documents to determine if the sponsor's reimbursements are supported and allowable. If this review results in any unallowable

reimbursements, the TDA will bill the sponsors for the determined amount and provide documentation to support recovery of any funds to FNS.

Estimated Completion Date:

December 31, 2017

OIG Recommendation 2:

Ensure TDA makes a determination whether the two sponsors should have their seriously deficient status temporarily deferred, be declared seriously deficient for other operational or administrative non-compliances, or terminated from participating in SFSP.

FNS Response:

FNS concurs with the recommendation. As described in the FNS response to recommendation 1, the TDA is currently in the process of reviewing records provided by the two sponsors to determine if their 2016 reimbursements were supported and allowable. In addition to recovering any reimbursements determined to be unallowable, TDA will also determine for each sponsor if their seriously deficient status should be temporarily deferred, if they should be declared seriously deficient for other operational or administrative non-compliances, or if they should be terminated from participating in the SFSP. FNS will monitor TDA's progress as they complete this review to ensure a final determination of each sponsor's status is in compliance with applicable FNS regulations and guidance.

Estimated Completion Date: December 31, 2017

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