

IMPORTANT NOTICE

This audit report contains sensitive information that has been redacted for public release, due to privacy concerns.

Summer Food Service Program in Texas—Sponsor Costs

Audit Report 27004-0003-21

OIG reviewed potentially high-risk sponsors participating in Texas' SFSP to determine if they were complying with program requirements. We reported our separate findings in both an interim report, dated September 2017, and this final report.

OBJECTIVE

Focusing on potentially high-risk sponsors, we evaluated the adequacy of the Texas State agency's oversight of SFSP sponsors' claims and compliance with program regulations and policies related to the reimbursement of meal claims.

REVIEWED

We non-statistically sampled 10 of 378 sponsors from the State agency's 2016 application and reimbursement data. These sponsors were selected as they were at high risk for receiving ineligible reimbursements. As we reported in Interim Report 27004-0003-21(1), two of these sponsors refused to provide documentation and were subsequently referred for investigative evaluation.

RECOMMENDS

We made 19 recommendations for FNS and the State agency to improve their oversight of SFSP, take action against noncompliant sponsors, and review and recover ineligible program payments. We also recommended that the State agency develop a security plan for its software and refer all terminated sponsors to OIG for investigative evaluation.

WHAT OIG FOUND

Administered by the Food and Nutrition Service (FNS), the Summer Food Service Program (SFSP) provides nutritious meals for children in low-income areas when school is not in session. In Texas, the Texas Department of Agriculture (State agency) oversees and reimburses sponsors for serving SFSP meals. The Office of Inspector General (OIG) reviewed eight potentially high-risk Texas SFSP sponsors. Our audit identified multiple problems with FNS and the State agency's administration of SFSP:

- All eight sponsors we reviewed were not compliant with SFSP requirements. Of the 702,953 total meals claimed in program year 2016 by the eight sponsors, 217,040 (31 percent) were ineligible for reimbursement.
- Analysis of program year 2016 data identified 10 sponsors in Texas' SFSP who served ineligible meals at 16 sites.
- The State agency had not developed a security plan to protect the TX-UNPS software application and its stored SFSP data.
- The State agency, without a comprehensive review, approved large cash advance payments to three of the eight potentially high-risk sponsors that improperly administered SFSP in program year 2016.
- In fiscal years 2015 and 2016, FNS did not refer 10 of 15 terminated sponsors to OIG for criminal investigation.

Our audit identified over \$737,000 in total SFSP costs that consisted of unallowable meals, unallowable costs, unsupported costs, and other questionable reimbursements. Of the over \$2 million in total reimbursement payments received by the eight high-risk sponsors in 2016, 32 percent were for meals ineligible for reimbursement.

FNS officials concurred with our findings and recommendations, and we accepted management decision on all 19 recommendations.



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



DATE: March 14, 2019

AUDIT
NUMBER: 27004-0003-21

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 in Texas – Sponsor Costs

This report presents the results of the subject audit. Your written response to the official draft is included in its entirety at the end of the report. We have incorporated excerpts from your response, and the Office of Inspector General's (OIG) position, into the relevant sections of the report. Based on your written response, we are accepting management decision for all 19 audit recommendations in the report, and no further response to this office is necessary. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer (OCFO).

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.

Your written response to the official draft report stated that OIG had not included a footnote in the audit report, as agreed during the exit conference. The footnote was supposed to acknowledge that a sponsor altered records after the Texas Department of Agriculture (TDA) had conducted its review, and that TDA was in compliance with all review procedures. We agreed to include such a footnote in the final report as long as TDA provided documentation to support that the sponsor altered records after TDA's review. In addition, we requested that TDA provide records it obtained from the sponsor and reviewed to corroborate statements that the records provided by the sponsor to TDA were different from the records the sponsor provided to us. However,

despite multiple requests made to TDA officials, they did not provide any documentation to support their statements. Therefore, we could not corroborate TDA's statements and, as a result, did not include the footnote in the report.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This 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 National School Lunch Act authorized the Summer Food Service Program (SFSP)¹ to provide free meals to children in needy areas when school is not in session.² In fiscal year (FY) 2016, SFSP provided roughly \$472 million to serve approximately 153 million meals and snacks to needy children at nearly 48,000 sites. In FY 2016, 378 sponsors participated in Texas' SFSP. These sponsors operated approximately 4,200 sites and received SFSP reimbursements totaling more than \$38 million, making it the third largest State in terms of SFSP funding—just behind New York and Florida.

The Food and Nutrition Service (FNS) and State agencies administer SFSP. FNS awards SFSP funding to State agencies and provides oversight to ensure that States properly administer and monitor the program. According to Federal regulations and FNS instructions, the State agencies are then responsible for multiple activities such as:

- performing adequate outreach to ensure communities are aware of SFSP;
- disseminating Federal and State policy for SFSP administration;
- establishing a financial management system;³
- reviewing and approving sponsor applications;
- reimbursing sponsors for meals served to eligible children at approved sites;
- monitoring sponsors and sites by conducting administrative reviews at least every 3 years that examine program records and observe site meal service operations to ensure staff meet program requirements; and
- providing sufficient technical assistance and guidance to sponsors.

In Texas, the Texas Department of Agriculture (State agency) is responsible for these activities. The State agency reimburses sponsors for serving SFSP meals (breakfast, lunch, supper, or

¹ In 1946, Congress signed into law the National School Lunch Act, now the Richard B. Russell National School Lunch Act (NSLA), which first established the National School Lunch Program. NSLA has been amended several times, most recently in 2017. In 1968, Section 13 of the NSLA was amended to pilot SFSP, which became a separate, permanent program in 1975.

² SFSP regulations define “children” as (a) persons 18 years of age and under, and (b) persons over 18 years of age who are determined by a State educational agency or a local public educational agency of a State to be mentally or physically handicapped and who participate in a public or nonprofit private school program established for the mentally or physically handicapped. 7 C.F.R. § 225.2.

³ Each State agency shall establish a financial management system, in accordance with 2 C.F.R. part 200, subpart D and E, and USDA implementing regulations 2 C.F.R. part 400 and part 415, as applicable, and FNS guidance, to identify allowable program costs and to establish standards for sponsor recordkeeping and reporting. The State agency shall provide guidance on these financial management standards to each sponsor. 7 C.F.R. § 225.7(f).

snacks) that meet program meal requirements.⁴ The reimbursements are based on the number of eligible meals served multiplied by a designated rate.⁵

SFSP sponsors manage sites that provide the meals to children. Sponsors include school food authorities or public or private nonprofit organizations (such as schools and community centers) that could manage multiple State-approved sites. Sponsors must operate their food service in accordance with Federal and State SFSP requirements, including:

- properly accounting for program funds and ensuring program costs are allowable;
- maintaining accurate records that justify all costs and meals claimed for 3 years;
- only claiming SFSP meals for reimbursements that meet program requirements;
- monitoring site compliance with program requirements;
- meeting training requirements for their administrative and site personnel;
- maintaining proper sanitation and health standards in accordance with State and local laws;
- retaining financial and administrative responsibility for their program operations; and
- meeting program outreach requirements.

The sponsors' sites provide SFSP meals free to children. Sites are eligible to participate in the program if they are located in low-income areas or serve children who meet eligibility requirements.⁶ Most sites are categorized as either *open*, with meals available to all children in the area, *restricted open*, when attendance is limited for safety or control reasons, or *closed enrolled*, where only specified groups of children are served.

The State agency in Texas uses the Texas Unified Nutrition Programs System (TX-UNPS) to approve sponsor applications; pay meal claims; track amounts owed to the State agency from overpaid sponsors; hold information obtained in sponsor and site reviews, review reports, sponsor corrective action plans and supporting documentation; and process other information. TX-UNPS is web-based software that provides administrators, State users, and contracting entities with access to applications, claims, and related nutrition program functions for the School Nutrition Program, the Child and Adult Care Food Program, SFSP, and the Food Distribution Program.

⁴ The program regulations include charts documenting the minimum requirements for meals served to children in SFSP. These requirements are presented as required food components. There are four categories of food components: (1) vegetables and fruits, (2) bread and bread alternates, (3) milk, and (4) meat and meat alternates. Not all components are required for all meal types. The regulations also include a few exceptions to and variations from the meal pattern. 7 C.F.R. § 225.16 (d-f).

⁵ The designated rate is set each year by the Richard B. Russell National School Lunch Act, which incorporates the Consumer Price Index. The rates for rural and self-preparation sites are higher for each meal type than for all other types of sites. Additionally, the rates for sites in Alaska and Hawaii are higher than for sites in the continental United States.

⁶ "Low-income" is defined as the attendance area of a school or other geographic area where at least 50 percent of the enrolled children have been determined eligible for free or reduced-price school meals under the National School Lunch Program and the School Breakfast Program. This determination may be made with school data, recent census data available, or information provided from a department of welfare or zoning commission, or other approved sources.

Objectives

Our audit objectives were to evaluate (1) the adequacy of the State agency's oversight of sponsor claims to SFSP in Texas and (2) sponsors' compliance with program regulations and policies related to the reimbursement of sponsor claims. We reviewed sponsor claims and evaluated the State agency's oversight to ensure claims were accurate and in compliance with Federal program regulations.

Specifically, this audit identified and evaluated a sample of 10 potentially high-risk sponsors to determine their compliance with program regulations and policies related to the reimbursement of sponsor claims. The sponsors were non-statistically identified and selected because data indicated that they were high-risk for receiving reimbursements for non-reimbursable meals.⁷ Findings associated with these sponsors present only our evaluation of the specific sponsors and is not intended to reflect the entire universe of sponsors approved to participate in the SFSP in Texas.

OIG initiated another audit in the State of Texas to determine whether Texas had adequate controls in place to reasonably ensure that SFSP was operating under program requirements. OIG evaluated the adequacy of the State agency's controls over SFSP sponsors and determined if non-statistically selected sponsors and sites were in compliance with program requirements. At this time, we have not yet issued the report for Audit Number 27004-0004-21, *Texas' Controls Over Summer Food Service Program*.

⁷ Non-statistical sampling method is the selection of a test group that is based on the examiner's judgment as opposed to a formal statistical method. We established factors to identify and select 10 of 378 approved sponsors for SFSP 2016 to assess their compliance with SFSP regulations. We describe the factors we established to identify and select high-risk sponsors in Finding 1 and the Scope and Methodology section of the report.

Finding 1: Texas State Agency Needs to Improve its SFSP Administrative Review Process for High-Risk Sponsors

Of the eight potentially high-risk sponsors we selected for review, we concluded that all eight were not compliant with a number of SFSP requirements. Overall, we determined that 217,040 of the 702,953 total SFSP meals the eight sponsors claimed in program year 2016 (31 percent) were not eligible for reimbursement. In our view, the State agency did not detect the ineligible claims because they did not perform additional oversight processes focused on high-risk sponsors to mitigate sponsor actions that could result in the misuse of funds. As a result, the State agency reimbursed approximately \$646,000 (of over \$2 million paid to the sponsors in program year 2016) for ineligible meals, as well as \$13,705 in unsupported expenses and \$9,960 in unallowable expenses.⁸

Federal regulations require State agencies to review sponsors and sites to ensure compliance with program regulations and any other applicable instructions issued by the Department.⁹ Further, Federal and SFSP guidelines require the State agency to conduct administrative reviews of sponsors' program operations. These reviews are designed to ensure that a sponsor's overall program is operating according to requirements and the results of these reviews may affect the amount of reimbursement a sponsor will receive.¹⁰

As part of OIG's broad and ongoing review of SFSP, we selected a sample of eight potentially high-risk sponsors in Texas to test their compliance with program regulations and policies. We identified and selected sponsors whose data indicated they were at a high risk for receiving reimbursements for non-reimbursable meals. We determined that the criteria for these risk factors included sponsors with duplicate or similar site addresses; entity or site linkage between previously terminated sponsors and participating sponsors; entity linkage between food service, milk, and juice vendors and other participating sponsors; and meal service end times that were 15 minutes or less before the start of a second meal service.

Based on our review, we determined that 31 percent of the total SFSP meals claimed by the eight potentially high-risk sponsors were not eligible for reimbursement. One sponsor, for example, altered milk and juice receipts to be reimbursed over \$289,000 for 101,220 ineligible meals. In order to arrive at this conclusion, we analyzed the sponsor's receipts for program purchases, such as food and equipment, and identified inconsistencies such as changes in price for the same item and unreasonable price amounts. We then met with the vendor, who provided information that led us to conclude that the sponsor had altered the receipts to increase the amount of milk and juice purchased. Table 1 illustrates these ineligible meal reimbursements.

⁸ OIG originally selected 10 sponsors for review. Of these 10 sponsors, 2 did not provide documentation to support meal claim reimbursements as we reported in Interim Report 27004-0003-21 (1), *Summer Food Service Program—Texas Sponsor Cost—Interim Report*, issued in September 2017, and were subsequently referred for investigative evaluation. Our audit continued with the eight remaining sponsors in our sample.

⁹ 7 CFR § 225.7(d)(2).

¹⁰ Administration Guide Summer Food Service Program, Chapter 8: Program Integrity (March 2016).

Table 1. Ineligible Meal Reimbursements for Sampled Sponsors in Finding 1.

Sponsor	Number of Ineligible Meals	Total Amount of Non-Reimbursable Meals	Reason for Ineligibility
A	20,496	\$50,309	Insufficient milk and juice purchases; ¹¹ meals not supported by production records
B	61,569	\$211,305	Insufficient milk and food purchases; inadequate food components ¹²
C	26,234	\$75,725	Potentially fraudulent milk and food purchases; inadequate food components
D	1,127	\$2,705	Insufficient milk and food purchases; inadequate food components; meals disallowed by State agency during site review but still claimed by sponsor
E	2,048	\$6,987	Insufficient milk purchases; daily meal count records do not reconcile to claims in TX-UNPS or daily meal count records are missing
F	260	\$554	Meals claimed on days not approved by State agency
G	101,220	\$289,254	Potentially fraudulent milk purchases; insufficient juice purchases
H	4,086	\$9,198	Insufficient milk purchases; meals claimed on days not approved by State agency
Total	217,040	\$646,037	

In addition, we uncovered \$13,705 in unsupported SFSP costs and \$9,960 in unallowable SFSP costs. Specifically, we identified non-food purchases and expenses the sponsors claimed that were either unallowable according to SFSP guidelines, or were allowable but the sponsor lacked documentation to support the expense.¹³ Consequently, over \$669,000 of the over \$2 million in reimbursement payments to the eight sponsors were for ineligible meals and unallowable costs.¹⁴

¹¹ Insufficient purchases are instances where sponsors did not provide sufficient documentation to demonstrate purchases of either enough milk or food to support their total claim for reimbursement.

¹² A “food component” is one of the food groups that comprises a reimbursable meal. These food groups consist of (1) vegetables and fruits, (2) bread and bread alternates, (3) milk, and (4) meat and meat alternates. Each meal type has certain component requirements and the meals claimed in this category did not meet all the component requirements to be a reimbursable meal. For example, one sponsor served meals that did not meet the required 6 ounce serving size for the fruit and vegetable component.

¹³ For example, one sponsor claimed a traffic ticket as a program expense. This is unallowable per SFSP guidelines.

¹⁴ In addition to the issues noted above, many of these sponsors had additional ineligible meals or other areas of noncompliance including, but not limited to, daily meal count forms (daily meal count forms are the required documents sites use to take a point-of-service meal count) not reconciling to claim totals in TX-UNPS and

Although the State agency complied with Federal regulations and conducted administrative reviews of sponsors' program operations—235 of the 378 sponsors approved in 2016—the State's reviews were not sufficient to uncover the problems we found. Five of the eight sponsors in our audit were included in these administrative reviews in 2016, yet the reviewers did not identify any of the serious problems we detected.

Our review differed from the State agency's administrative review in a number of ways, which enabled us to identify several significant issues that the State agency did not. For example, the State agency only reconciles one month of milk purchases to the number of children the sponsor claimed it fed to ensure the sponsor purchased enough milk. In contrast, for six of eight sponsors in our sample, we reconciled the entire summer's milk purchases to the number of meals the sponsor claimed, and we found that all six of the sponsors did not purchase enough milk.

Additionally, a step within the State agency administrative review process requires reviewers to evaluate records of meals served at a selection of sites during a selected review period (typically one month) to determine if sponsor records of the number of meals served supports the sponsors' reimbursement claims submitted in TX-UNPS.¹⁵ However, if the sponsor has not submitted a reimbursement claim at the time of the State agency's administrative review, the State agency reviewer is not required to complete this step.

During the administrative review of three sponsors in our sample, the State agency did not perform a reconciliation of the three sponsors' meal records to reimbursement claims because the sponsors had not submitted their reimbursement claims at the time of the review. However, our review of the sponsors' records identified that the sponsors claimed more meals for reimbursement than their records supported. We conclude that in instances when a sponsor has not yet submitted a claim, the State agency should review a sponsor's prior years reimbursement claims to determine if the sponsor claimed ineligible meals the previous summer. This would enable the State agency to ensure program noncompliance does not go unidentified and reduce the risk of fraud, waste, and abuse to SFSP.

State agency officials¹⁶ explained that they do not have the resources to review sponsors as thoroughly as OIG. Thus, they were unable to detect serious problems similar to those we identified during our audit. We maintain, however, that the process we used to identify and select potentially high-risk sponsors could be easily replicated by the agency. Further, through adequate risk management, agencies can concentrate efforts towards key points of failure and reduce or eliminate the potential for disruptive events, such as allowing non-compliant sponsors to participate in the program and issuing reimbursements for ineligible meals. We also maintain that the State agency could strengthen its current administrative review process by taking the following steps:

inadequate financial systems. We discuss these additional discrepancies in later findings. See exhibits C and D for a full listing of all noncompliance issues identified for each sponsor.

¹⁵ Contracting Entity Review Tool 2016, p. 1 & 7.

¹⁶ Officials we spoke with that held managerial positions are described as State agency officials throughout the report. These officials include, but are not limited to, Administrators, Directors, and Assistant Directors.

- establish procedures similar to the ones we used to identify sponsors that pose a high-risk of submitting claims for ineligible meals;
- perform additional procedures to mitigate the risk that high-risk sponsors pose to program integrity (such as (1) validating milk receipts for the entire program year for sponsors identified as high risk,¹⁷ and (2) reconciling daily meal counts of a prior year to meals claimed in TX-UNPS if no claims have already been submitted during a current year's review);
- establish oversight controls to ensure that review officials are consistently identifying waste, fraud, and abuse, including advising review officials to document and maintain key analyses performed, such as milk analysis and meal count reconciliation;
- advise management to review the results of key analyses for high-risk sponsors;
- develop written guidance for vendor verification; and
- advise review officials to document the results of their reviews to allow third-party review.

In brief, the State agency could greatly improve its administrative review process and make better use of its limited resources by adding procedures that focus on sponsors who are identified as potentially high risk. Following our analytic approach should help the State agency identify sponsors who should be more carefully scrutinized. While State agencies are not, at present, required to review sponsors based on risk, the Office of Management and Budget (OMB) and USDA require Federal agencies to integrate and coordinate risk management and strong and effective internal control into existing business activities, which includes identifying emerging risks and designing control activities to respond to risks identified and protect program resources from waste, fraud, and mismanagement.^{18, 19} FNS should expand its guidance to select sponsors for administrative review to include procedures to assess and identify risk factors that can be used to identify high-risk sponsors with a potential for noncompliance.

Overall, we concluded that FNS and the State agency should take steps to ensure that reviews of high-risk sponsors are more effective and therefore more likely to identify the types of errors we identified during our audit. For those sponsors we determined received reimbursement for ineligible meals, the State agency should review costs of over \$669,000 and recover any unsupported and unallowable costs; this includes approximately \$646,000 in unallowable SFSP reimbursements, over \$13,000 of unsupported costs, and over \$9,000 in unallowable costs. If necessary, the State agency should take action, following Federal regulations, and declare the sponsors seriously deficient, and if the deficiencies are not fully and permanently corrected, terminate their participation in SFSP.²⁰ FNS and the State agency should also take appropriate steps to strengthen the effectiveness of the administrative review process.

¹⁷ The State agency currently validates milk for a test period, typically a month. However, since we identified a shortage of milk purchases for almost every sponsor we sampled, the State agency should review an entire summer's (typically 4 months) worth of milk purchase data to better determine sponsor compliance with the program.

¹⁸ Departmental Manual 1110-02, USDA Management Control Manual, dated November 29, 2002, p. 2.

¹⁹ OMB A-123, Management's Responsibility for Enterprise Risk Management and Internal Control, dated July 15, 2016, p. 12.

²⁰ 7 CFR § 225.18(b)(2).

Recommendation 1

Develop guidance for States to continually assess and identify risk factors. Specifically, this process should include procedures to identify sponsors that are high-risk and to select a sample of those potentially high-risk sponsors for administrative review.

Agency Response

In its December 6, 2018, response FNS concurred with the recommendation. FNS has SFSP State Agency Monitor Guide (page 13), “State agencies are encouraged to use risk analysis for identifying the additional sponsor reviews needed. Risk factors may include continual non-compliance issues from prior years and high meal claims when compared with sponsors having similar enrollment. Sponsors having many facilities and large participation should also be considered for election of additional reviews since more Program funds are at risk. This suggested order is one approach; each State agency may determine their own approach to ensure regulatory review requirements are met.” FNS completed this in February 2017.

OIG Position

We accept management decision for this recommendation.

Recommendation 2

Develop guidance to direct the State agency to establish additional administrative review procedures for high-risk sponsors. For example, procedures for reviewing high-risk sponsors’ prior year SFSP reimbursement claims if the sponsor had not been reviewed in the previous program year, or for verifying receipts through vendor verification reviews. The procedures should state that reviewers must document the results of these reviews, including the determination that there are no findings.

Agency Response

In its December 6, 2018, response FNS concurred with the recommendation. FNS has established guidance in its *SFSP State Agency Monitor Guide* (page 13), “State agencies are encouraged to use risk analysis for identifying the additional sponsor reviews needed. Risk factors may include continual non-compliance issues from prior years and high meal claims when compared with sponsors having similar enrollment. Sponsors having many facilities and large participation should also be considered for election of additional reviews since more Program funds are at risk. This suggested order is one approach; each State agency may determine their own approach to ensure regulatory review requirements are met.” The guide specifies (page 25) that, “The State agency is responsible for developing a monitoring system (per §225.7(d)(4) which includes forms to collect data from the review. The review forms must include all required areas of review and all required areas must be fully completed. FNS completed this in February 2017.

OIG Position

We accept management decision for this recommendation.

Recommendation 3

Develop guidance to direct the State agency to revise its current milk review process for high-risk sponsors. Specifically, the State agency should validate milk receipts for the entire program year for sponsors identified as high risk. When the administrative review is conducted at the beginning of the program year, the State agency should review previous program year milk invoices.

Agency Response

In its December 6, 2018, response FNS concurred with the recommendation. FNS will work with the State agency. While there are no Federal requirements to conduct milk reviews, FNS encourages best practices and will encourage TDA to consider revising its current review process for high risk sponsors to include reviewing milk invoices for the entire program year for sponsors identified as high risk. If administrative reviews are conducted at the beginning of the program year when documentation is not yet available for review, TDA should review invoices from the previous program year. The estimated completion date is May 31, 2019.

OIG Position

We accept management decision for this recommendation.

Recommendation 4

Develop guidance to direct the State agency to require its reviewers to perform a reconciliation of daily meal counts to meals claimed in TX-UNPS for all administrative reviews. If the administrative review is conducted when no claims have been submitted, require reviewers to examine prior year meal claims if current year meal claims have not been filed in TX-UNPS.

Agency Response

In its December 6, 2018, response FNS concurred with the recommendation. FNS states in its *SFSP State Agency Monitor Guide* (page 31) that, “If the sponsor has submitted a claim for reimbursement, the State agency monitor must review the meal count documentation used to consolidate monthly meal counts and must validate at least one month’s claim.” This review is completed “for each meal on a daily basis for the claim month.” The guide also specifies that, “If a claim has not been submitted, the State agency monitor should examine meal count information for the period of review and, if feasible, verify the most recent claim submitted by the sponsor.” This would include examining a prior year meal claim if a current year meal claim has not yet been submitted. FNS will direct TDA to include in its guidance to its review staff to

conduct a reconciliation of meals counts during its administrative reviews. The estimated completion date is August 31, 2019.

OIG Position

We accept management decision for this recommendation.

Recommendation 5

Direct the State agency to review questioned costs of \$646,037 related to 217,040 non-reimbursable meals, associated with the eight sponsors in our audit and recover costs determined to be unsupported. Where necessary, declare identified sponsors seriously deficient and, if the deficiencies are not fully and permanently corrected, terminate their participation in SFSP.

Agency Response

In its December 6, 2018, response FNS concurred with the recommendation and will direct TDA to review the questioned costs identified by OIG. If confirmed by the State's follow-up review, TDA will attempt to recover any unsupported SFSP costs that were confirmed. The estimated completion date is November 30, 2019.

OIG Position

We accept management decision for this recommendation.

Recommendation 6

Direct the State agency to review unsupported costs of \$13,705 associated with the eight sponsors in our audit and recover costs determined to be unsupported.

Agency Response

In its December 6, 2018, response FNS concurred with the recommendation and will direct TDA to review the unsupported costs identified by OIG. If confirmed by the State's follow-up review, TDA will attempt to recover any unsupported SFSP costs that were confirmed. The estimated completion date is November 30, 2019.

OIG Position

We accept management decision for this recommendation.

Recommendation 7

Request the State agency to review unallowable costs of \$9,960 associated with the eight sponsors in our audit and recover costs determined to be unsupported.

Agency Response

In its December 6, 2018, response FNS concurred with the recommendation and will request TDA to review the unallowable costs identified by OIG. If confirmed by the State's follow-up review, TDA will attempt to recover any unsupported SFSP costs that were confirmed. The estimated completion date is November 30, 2019.

OIG Position

We accept management decision for this recommendation.

Finding 2: Texas State Agency Needs to Strengthen Controls to Minimize Reimbursement of Ineligible Meals

In addition to the detailed review of potentially high-risk sponsors we presented in Finding 1, we also performed an analysis of all sponsors who participated in Texas' SFSP in 2016. Although this analysis did not involve the verification of milk and other receipts, we determined that 10 of the 378 sponsors served ineligible meals at 16 sites.²¹ Our analysis identified sponsors who were operating at the same site for the same meal (duplicate sites), sponsors who served meals at sites where service times overlapped, and sponsors who served unallowable meal combinations at sites. The State agency had controls in place that should have detected these types of program violations; however, the agency had not documented all of the controls and could not provide support that the controls it had established were consistently applied.²² As a result, the State agency reimbursed sponsors over \$67,000 for ineligible meals.

A number of Federal regulations stipulate requirements for SFSP meals to be reimbursable. For example, according to these regulations, the area that a sponsor's site proposes to serve cannot be served in whole or in part by another site unless it can be demonstrated, to the satisfaction of the State agency, that each site will serve children not served by any other site in the same area for the same meal.²³ Sponsors are also required to list the types of meals (breakfast, lunch, supper, or snack) they will serve and the times of meal services as part of their application to participate in SFSP. State agencies are responsible for reviewing this information to determine the eligibility of proposed meal service sites.²⁴ Lastly, according to regulations, serving lunch and supper on the same day is not an allowable combination.²⁵

We determined, however, that 10 sponsors served a total of 19,089 ineligible meals at 16 sites and were reimbursed over \$67,000 to which they were not entitled. The following table illustrates the reasons we considered these meals ineligible.

Table 2. Ineligible Meal Reimbursements for Sponsors in Finding 2.

Sponsor(s)	Number of Ineligible Meals	Total Amount of Non-Reimbursable Meals	Reason for Ineligibility
F	9,214	\$34,506	Unallowable meal combination
I	1,887	\$7,067	Overlapping meal times
J	2,878	\$10,778	Overlapping meal times
K	2,483	\$9,299	Overlapping meal times

²¹ Of the 10 sponsors, 3 were part of our selected sample; however, the ineligible meals for those 3 sample sponsors were not included in the total questionable meals presented in Finding 1.

²² In 2016, the State agency's duplicate site review process was not documented. During the course of our audit, the State agency provided us evidence that these procedures were documented in February 2018.

²³ 7 CFR § 225.6(d) (1) (ii).

²⁴ 7 CFR § 225.6(c) (2) (B).

²⁵ 7 CFR § 225.16(b)).

Sponsor(s)	Number of Ineligible Meals	Total Amount of Non-Reimbursable Meals	Reason for Ineligibility
A	280	\$248	Duplicate site
B and L	34	\$118	Duplicate site
J and M	2,202	\$5,478	Duplicate site
N and O	111	\$409	Duplicate site
Total	19,089	\$67,903	

The State agency had controls in place that should have detected these types of program violations, but we determined that not all of those controls were documented and the State agency could not provide support that they were consistently applied.

Duplicate Sites

Our analysis of 2016 reimbursement data identified four sites where two sponsors were approved to operate their sites at the same location for the same meal service. However, the State agency did not identify these sites as violating program rules.²⁶ Since regulations prohibit duplicate sites, the State potentially reimbursed the sponsors 2,627 meals at an unallowable cost of \$6,253.²⁷

To detect sites where multiple sponsors were operating at the same location for the same meal, the State agency said it uses a contract specialist to generate, on a weekly basis, a report of approved meal service sites and identify sites with duplicate names and addresses. The State agency also said that it disallows one of the sites from operating if an investigation determines that they are indeed duplicate. However, State agency officials stated that, at the time of our review, the duplicate review procedures were not documented and they could not support that the reviews were consistently completed during SFSP months. State agency officials could only support that they performed reviews to identify duplicate sponsors through June 20, 2016, and acknowledged that they did not identify these duplicate sites due to an oversight error when they conducted their reviews.

Overlapping Meal Times

Our analysis of 2016 reimbursement data identified three sites that were approved to serve lunch before the breakfast service was complete. For example, one site served both breakfast and lunch from 9:30 a.m. to 10:30 a.m. Since overlapping meal service times is unallowable, the State potentially reimbursed over 7,248 meals at an unallowable cost of \$27,144.

To detect overlapping meal times, State agency officials informed us they manually reviewed each sponsor's 2016 application to ensure multiple meal service times did not overlap. They stated they simply made an error when they approved sites with overlapping meal service times.

²⁶ In one instance, it was the same sponsor with two sites listed at the same location.

²⁷ To calculate unallowable meals, we selected the duplicate site that served the lesser number of meals.

We found other instances showing overlapping meal service times apart from the three previously noted; however, these were due to sponsors' typographical errors.²⁸ While the typographical errors did not result in unallowable reimbursements, they do highlight the need for the State agency to strengthen its controls and update its processes. As the applications are already filled out within TX-UNPS prior to any State agency review, we maintain that, by adding an edit check within TX-UNPS that would flag overlapping meal times, the State agency could address this issue.

Unallowable Meal Combinations

During our fieldwork, we found that Sponsor F circumvented the unallowable meal combination of serving lunch and supper at the same site by changing the site's name and in some cases also altering the presentation of the address. In one instance, the State agency even informed the sponsor that it could not serve certain meals at certain locations; however, the sponsor still served those meals at the specified locations and the State agency reimbursed the sponsor for those claims. In another instance, the State agency identified one of the sites serving an unallowable meal combination during its duplicate analysis and had the sponsor close one of the meal services.²⁹ However, the State agency did not ensure the sponsor did not claim reimbursement for the unallowable meals served prior to being detected, as the State agency stated there is no control in place to prevent the prior unallowable meals from being reimbursed. The sponsor had nine duplicate sites that served lunch and supper—each of which the State agency approved—that resulted in 9,214 unallowable meals reimbursed for \$34,506.

As this sponsor was essentially running duplicate sites, the State agency could use the same procedures noted above to discover these types of duplicates. However, in this instance the State agency did not identify all of these duplicate sites because its current search functions do not include “fuzzy” duplicate searches.^{30, 31} Further, for the duplicates they did identify, State officials stated they did not follow up to ensure sites were being closed within the required 3 days due to an error and had not established controls to ensure closed sites did not claim the unallowable meals served prior to detection.

Overall, we concluded that the State agency reimbursed 19,089 ineligible meals totaling \$67,903 for 16 sites that either were duplicate sites, had overlapping service times, or served unallowable meal combinations.

²⁸ Typographical errors were caused by sponsors using incorrect abbreviations. For example, a sponsor would denote breakfast from 8:00 a.m. to 9:00 p.m. and lunch from 12:00 p.m. to 1:00 p.m., causing a false overlap since breakfast would in actuality end at 9:00 a.m.

²⁹ Serving both lunch and supper at the same site.

³⁰ Microsoft Excel is able to match a wide variety of errors through its fuzzy duplicate function—including spelling mistakes, abbreviations, synonyms, and added/missing data. For instance, it might detect that the rows “Mr. Andrew Hill,” “Hill, Andrew R.,” and “Andy Hill” all refer to the same underlying entity and are duplicate.

³¹ Federal regulations assign State agencies the responsibility to review Sponsor applications and determine the eligibility of proposed meal service sites (7 CFR § 225.6(c) (2) (B)). Federal regulations do not require State agencies to use the fuzzy duplicate search function to determine the eligibility of proposed meal service sites.

Recommendation 8

Direct the State agency to review questioned costs of \$34,506 paid to the sponsor in our audit that claimed 9,214 non-reimbursable meals and recover costs determined to be unsupported.

Agency Response

In its December 6, 2018, response FNS concurred with the recommendation and will direct TDA to review the questioned costs identified by OIG. If confirmed by the State's follow-up review, TDA will attempt to recover any unsupported SFSP costs that were confirmed. The estimated completion date is November 30, 2019.

OIG Position

We accept management decision for this recommendation.

Recommendation 9

Direct the State agency to determine if the other nine sponsors claimed \$33,397 in non-reimbursable meals identified by our audit. The State agency should recover any amount it determines is unallowable.

Agency Response

In its December 6, 2018, response FNS concurred with the recommendation and will direct TDA to determine if the meals identified by OIG were non-reimbursable. If confirmed by the State's follow-up review, TDA will attempt to recover any unallowable SFSP reimbursements.

In cases of overlapping meal times, FNS notes that it is necessary to be physically at the site observing the meal service to validate that more than one meal type was actually served at the same time. Technical assistance would be the appropriate corrective action for overlapping meal times listed on a sponsor's application; meals would not be disallowed resulting in fiscal action for an incorrect meal time listed on an application.

For "duplicate" sites that are identified based on records and not direct observation, technical assistance would be appropriate and meals would not be disallowed. The estimated completion date is November 30, 2019.

OIG Position

We accept management decision for this recommendation.

Recommendation 10

Advise the State agency to revise current procedures to expand how it searches for duplicate sites (for example, using the Excel “fuzzy” duplicates function), retain information on all duplicate sites identified, and document any corresponding actions taken.

Agency Response

In its December 6, 2018, response FNS concurred with the recommendation and will encourage TDA to work jointly with FNS on its current procedures in how it searches for duplicate sites, retains information on all duplicate sites identified, and documents any actions taken as a result of the search. TDA will assess the feasibility of establishing a more robust duplicate site identification process and the viability of using the “fuzzy” duplicates function in Excel. TDA has expressed that there are potential limitations with both financial and staffing resources to implement a more robust system. The estimated completion date is August 31, 2019.

OIG Position

We accept management decision for this recommendation.

Recommendation 11

Advise the State agency to revise its procedures to ensure that sponsors identified with a duplicate site are closed within three business days, per State agency policy, and do not claim non-reimbursable meals served prior to the date of identification.

Agency Response

In its December 6, 2018, response FNS concurred with the recommendation and will work with the State agency. While there is no regulatory requirement to close duplicate sites within three business days, FNS will advise TDA to follow its State policy to ensure that a duplicate site that is confirmed is promptly removed from Program participation and any claims for non-reimbursable meals served prior to the date of identification are disallowed. The estimated completion date is April 30, 2019.

OIG Position

We accept management decision for this recommendation.

Recommendation 12

Advise the State agency to develop and implement an edit check or input control within TX-UNPS, or other mitigating control, that flags any overlapping meal times and requires justification prior to approval of a sponsor’s application.

Agency Response

In its December 6, 2018, response FNS concurred with the recommendation and will advise TDA to consider developing and implementing an edit check or input control within TX-UNPS or other control that flags overlapping meal times. An update to the TX-UNPS system would require a third party for this type of enhancement request. The estimated completion date is November 30, 2019.

OIG Position

We accept management decision for this recommendation.

Finding 3: The State Agency Needs a Security Plan Specific to TX-UNPS

The State agency had not developed a security plan to protect the TX-UNPS software application and the SFSP data it contains. State agency officials were aware of Federal guidelines encouraging State agencies to establish a security plan to protect the information system, but they did not provide a specific reason why they had not established one for TX-UNPS. Without an adequate plan to protect the security of its applications, the State agency cannot ensure the safety and integrity of the information it stores, including SFSP sponsors' personally identifiable information.

To ensure State agency officials adequately secure their information systems, Federal guidelines encourage State agencies to establish a system security plan.³² The system security plan provides an overview of the security requirements and the controls established to protect agency information systems.³³ For example, a security plan would include controls related to system access, security awareness and training, maintaining a system audit trail, and monitoring the system to detect malicious activity, as well as other compensating controls. Further, a system security plan describes the responsibilities of individuals who access the system. Although the State agency had not established a security plan for TX-UNPS, it had implemented some security standards related to TX-UNPS, including security rights controls related to system access.

To assess the reliability of data we obtained from TX-UNPS, we evaluated the controls the State agency established to ensure the data contained in TX-UNPS and used to administer the SFSP are reliable. We determined, however, that the State agency did not have a system security plan for TX-UNPS that fully defined (1) policy and procedures for preventing unauthorized access and modification of SFSP data and (2) policy and procedures for reviewing and validating data accuracy. In December 2016, the Texas Department of Information Resources (DIR) performed a risk assessment of TX-UNPS to assess the security of its system. DIR concluded that the State agency failed to meet security requirements including critical milestones defining the technical security control processes necessary for compliance with State and Federal laws and regulations.

In addition, DIR performed vulnerability scans in 2016 and 2017,³⁴ which disclosed potential vulnerabilities in TX-UNPS that could cause data loss or theft. These included, but were not limited to, the possibility to view, modify, or delete database entries and tables, and steal user login information. To correct issues identified during the risk assessment, DIR recommended that the State agency implement a formal process for agency officials and third parties to authorize access to information resources, redesign and upgrade infrastructure to compartmentalize processes and data stores, turn on auditing and logs, and implement monitoring tools.

The potential identified vulnerabilities further indicate the State agency's need to formalize and establish a system security plan that establishes and assigns responsibilities to State agency

³² National Institute of Standards and Technology Special Publication 800-53 Revision 4, *Security and Privacy Controls for Federal Information Systems and Organizations*.

³³ National Institute of Standards and Technology 800-18 Revision 1, *Guide for Developing Security Plans for Federal Information Systems*.

³⁴ A vulnerability scan is an inspection of a computer or network to detect, identify, and classify system weaknesses.

officials for responding to security vulnerabilities. State agency officials understood the discussion regarding the TX-UNPS specific security plan and informed us they are evaluating the risks and recommendations identified through the DIR vulnerability testing. However, at the time of our audit, they had not established a timeframe for implementing DIR's recommendations.

We concluded that the State agency needs to develop a TX-UNPS-specific security plan to address security concerns identified by DIR's risk assessments and security scans. An adequate security plan would ensure that SFSP data in TX-UNPS remain reliable and participant data are protected. Further, since the State agency does not have physical access to servers where the application is housed, it should work with its third-party vendor to ensure implementation of applicable security controls.

Recommendation 13

Request the State agency to develop a system security plan for TX-UNPS using the risk assessment and recommendations provided by Texas Department of Information Resources (DIR) and aligned with the agency-specific security plan. Implement application security controls to mitigate vulnerabilities to the system and improve data integrity.

Agency Response

In its December 6, 2018, response FNS concurred with the recommendation and will request TDA to develop a system security plan for TX-UNPS using the risk assessment and recommendations provided by Texas Department of Information Resources (DIR) and aligned with the agency specific security plan. FNS will request TDA to implement application security controls to mitigate vulnerabilities to the system and improve data integrity. The estimated completion date is August 31, 2019.

OIG Position

We accept management decision for this recommendation.

Recommendation 14

Request that the State agency work with its third-party vendor to ensure implementation of applicable security controls identified through its assessment.

Agency Response

In its December 6, 2018, response FNS concurred with the recommendation and will request TDA to work with its third party vendor (TX-UNPS) to ensure implementation of applicable security controls identified through its assessment. The estimated completion date is August 31, 2019.

OIG Position

We accept management decision for this recommendation.

Finding 4: FNS and the State Agencies Need to Improve the Approval Process for Advance Payments

The State agency approved large cash advance payments to three of the eight potentially high-risk sponsors we determined had not properly administered SFSP in 2016. Although regulations require State agencies to confirm that sponsors possess sufficient administrative and managerial capability to receive advance payments greater than \$40,000, the State agency approved these advances without comprehensive review. This occurred because FNS has not provided the States with definitive guidance concerning how they should determine if sponsors have sufficient administrative and managerial capability to justify large advance payments. Without an adequate assessment of relevant information for approving advance payment amounts, the State agency paid a total of \$800,000 in advances to sponsors that did not demonstrate the administrative capability to justify large advance payments.

Federal regulations allow State agencies to make advance payments to sponsors in order to assist them in meeting operating costs and administrative expenses.³⁵ The advance payments are to be made based on the State agency’s best possible estimate from the sponsors’ requested amounts and any other available data. Under no circumstances may the advance payments exceed the amount estimated by the State agency to be needed by the sponsor to meet operating or administrative costs.³⁶ The sum of the advance payment shall not exceed \$40,000 unless the sponsor demonstrates sufficient administrative and managerial capability to justify a larger payment.³⁷ However, regulations and FNS guidance do not detail the standards for “sufficient administrative and managerial capability” and they do not specify how the State agencies should determine if a particular sponsor has the capability to administer an amount greater than \$40,000.

In our audit of the potentially eight high-risk sponsors, we determined that three sponsors received an advance payment of more than \$40,000 from 2016 to 2017.

Table 3. Cash Advances of \$40,000 or More Paid to Sampled Sponsor

Sponsor	Advance Month/Year	Amount
B	June 2016	\$125,000
B	July 2016	\$125,000
F	June 2016	\$60,000
F	July 2016	\$75,000
F	August 2016	\$40,000
F	June 2017	\$70,000
F	July 2017	\$125,000
F	August 2017	\$40,000
G	June 2016	\$60,000

³⁵ 7 CFR § 225.9(c).

³⁶ 7 CFR § 225.9(c)(3).

³⁷ 7 CFR § 225.9(c)(4).

Sponsor	Advance Month/Year	Amount
G	July 2016	\$80,000
Total		\$800,000

Because the State agency should have reviewed each of these sponsors to determine if they could demonstrate sufficient administrative and managerial capability to administer the larger sums, we sought to verify how their reviews were conducted.

We determined that the State agency did conduct these reviews. State agency officials informed us that they determine the reasonableness of the amount of an advance payment based on the sponsor’s history and past participation in SFSP. They reviewed sponsor participation history, including items such as type of sponsor, number of sites the sponsor operates, type of meal service sites, average daily participation, number of days the sponsor serves, and prior year reimbursements/advances. However, the State agency did not consider factors such as administrative review findings and corrective action plans from prior years, nor prior year unused reimbursements³⁸ reported on the sponsor’s current application, to evaluate the sponsors’ financial need and ability to manage and administer large advance payments greater than \$40,000. Further, State agency staff did not document the basis for their determination that the sponsors demonstrated the capability to manage advance payments greater than \$40,000. We concluded that, by considering these factors, State agency staff will have more relevant information to evaluate the administrative and managerial capability of sponsors. With this information, State agency staff will be better able to determine sponsors’ financial responsibility when justifying large advance payments.

State agency officials informed us that, although they do not review unused reimbursement data, prior administrative review findings, and corrective action plans before approval of advance payments, they did not believe they were out of compliance with SFSP regulations regarding the approval of advance payments. State agency officials informed us that regulations do not specify information it should consider to determine the administrative and managerial capabilities of sponsors requesting advance payments. Further, FNS had not developed specific guidance on how State agencies determine if a sponsor has sufficient capability to administer large advance payments.

As part of our audit, we took additional steps to determine if the three sponsors’ administrative and managerial capability justified advance payments greater than \$40,000 and examined prior year administrative reviews and corrective action plans, and assessed unused reimbursements the sponsor reported from the prior year. We determined:

- Sponsor B—In 2015, prior to advances paid to the sponsor in 2016, the State agency performed an administrative review of this sponsor and found the sponsor’s financial records did not clearly show how indirect costs were identified and allocated, and that the

³⁸ FNS defines “unused reimbursements” as reimbursement funds remaining when a sponsor receives more reimbursement funds than it uses for the Program.

sponsor's monthly consolidated meal count reports were not consistent with the records of the number of meals served daily.

- Sponsor F—Prior to the advances granted to the sponsor in 2016, the State agency performed an administrative review of the sponsor in 2015 and determined that the sponsor did not provide a complete and current general ledger and lacked an adequate financial tracking system including supporting documentation. In addition, the sponsor did not have a plan to either prepare or order enough meals to serve to children at each site. During our field work, we also discovered that the sponsor had over \$57,800 in unused reimbursements prior to requesting advances in 2017.
- Sponsor G—Prior to the advances granted to the sponsor in 2016, the State agency performed an administrative review of the sponsor in 2015 and determined that the sponsor did not have an adequate financial management system showing fiscal integrity and accountability for program transactions. Further, the State agency identified more than \$38,000 in unused reimbursements available to start the program year activities. In its corrective action plan in response to the 2015 administrative review, the sponsor indicated it would use the funds for start-up costs in 2016, but the State agency did not consider these funds when it approved and provided the advances.

As described in Findings 1 and 2, the three sponsors claimed reimbursement for ineligible meals, as well as unallowable and questioned costs, totaling \$556,255. We concluded that these three sponsors should have received additional scrutiny before the State agency granted advance payments greater than \$40,000.

We maintain that FNS should provide State agencies with specific guidance on how the States are to determine if a sponsor has sufficient capability to administer these larger sums. That guidance should require that the State agency should review all relevant, available information about the sponsors before approving advance payments, including prior year administrative review findings and corrective actions and the amount of unused reimbursements available from prior years. The guidance should also indicate that reviewers should document their justifications for approving larger advance payments.

Recommendation 15

Develop and disseminate specific guidance for reviewing requests for large advance payments, specifically concerning how the State agencies are to determine if a sponsor has sufficient capability to administer these larger sums.

Agency Response

In its December 6, 2018, response FNS concurred with the recommendation. SFSP regulations provide State agency discretion to “determine that a larger payment is necessary for the effective operation of the Program and the sponsor demonstrates sufficient administrative and managerial capability to justify a larger payment.” FNS will work with TDA to develop internal controls for

documenting and justifying advance payments larger than \$40,000. The estimated completion date is September 30, 2019.

OIG Position

We accept management decision for this recommendation.

Recommendation 16

Ensure this guidance requires that reviewers consider prior year administrative findings and the amount of unused reimbursements available from prior years.

Agency Response

In its December 6, 2018, response FNS concurred with the recommendation and will request TDA to include in its internal controls that State agency review staff consider prior year administrative findings and the amount of unused reimbursements available from prior years when justifying advance payments larger than \$40,000. The estimated completion date is September 30, 2019.

OIG Position

We accept management decision for this recommendation.

Recommendation 17

Ensure this guidance requires that reviewers should document their justifications for approving advance payments.

Agency Response

In its December 6, 2018, response FNS concurred with the recommendation and will work with TDA to ensure that if advanced payments above the \$40,000 limit are approved that the justifications are documented. The estimated completion date is September 30, 2019.

OIG Position

We accept management decision for this recommendation.

Finding 5: FNS Needs to Refer Sponsors Suspected of Fraud to OIG for Investigative Evaluations

In FYs 2015 and 2016, the State agency terminated 15 sponsors from participation in SFSP for suspicion of fraudulent activity. However, FNS only referred 5 of the 15 sponsors to OIG for investigative evaluation. This occurred because FNS had not established a formal process and agency procedures to refer all known or suspected violations of SFSP law or regulations to OIG, as required by Departmental regulations. As a result, these sponsors were able to receive almost \$925,000 in reimbursements without facing legal repercussions for their potential criminal behavior. Moreover, since these sponsors were not referred to OIG for investigative evaluation, they were potentially able to participate in other government programs.

USDA Departmental regulations require agency officials to expeditiously report instances of known or suspected violations of law or regulations to OIG.³⁹

In 2015 and 2016, the State agency terminated the program participation of 15 sponsors for various violations of SFSP regulations that included, but were not limited to:

- Sponsors submitting claims for reimbursement payments for more meals than they actually served;
- Sponsors providing false receipts to support SFSP expenditures reported to the State agency;
- Sponsors' records of milk and food purchases that did not support the number of meals claimed for reimbursement payment; and
- Sponsors' financial records that were inaccurate or falsified.

FNS officials informed us that they had not referred the 10 sponsors for investigative evaluation because the alleged misuse of funds did not meet the monetary level typically accepted for prosecution by U.S. Attorney Offices. We discussed the issue with management from OIG Investigations and were told that no monetary thresholds have been established for determining whether to investigate alleged violations of SFSP regulations. OIG can establish thresholds with agencies for investigative evaluation; however, those thresholds are established and communicated to agencies based on guidelines from the Department of Justice and its specific U.S. Attorney Offices.

In addition, we confirmed with OIG and FNS officials that there was no formal process in place to refer cases of alleged violations of SFSP regulations to OIG. While it is understood that not all potential fraud can be investigated, FNS and OIG Investigations should work together to establish the protocols and reporting mechanism for sharing information on potential fraud as it comes to the attention of FNS. We concluded that FNS should establish procedures that require its officials to refer known violations of law and SFSP regulations to OIG. We also recommend that FNS work with OIG to establish a process to facilitate how FNS will refer SFSP matters to OIG for investigative evaluation.

³⁹ Departmental Regulations 1700-002, "OIG Organization and Procedures," dated June 17, 1997, Section 7 f.

Recommendation 18

Develop and implement formal procedures that require agency officials to expeditiously refer sponsors who are known to or are suspected to have violated SFSP laws or regulations to OIG for investigative evaluation.

Agency Response

In its December 6, 2018, response FNS concurred with the recommendation. FNS understands that where thresholds have been established, they have been created by the U.S. Attorneys' offices, and not by OIG, and that FNS referrals to OIG Investigations should not be limited based on monetary thresholds. Therefore, we concur with this recommendation. FNS will reach out to OIG Investigations to initiate a discussion to reach a mutual agreement, through a Memorandum of Understanding (MOU) or similar vehicle, to develop a process for referral of potential fraud to OIG Investigations for consideration of prosecution. The estimated completion date is September 30, 2019.

OIG Position

We accept management decision for this recommendation.

Recommendation 19

Coordinate with OIG Investigations to establish a process to refer SFSP violations of law and regulations to OIG for investigative evaluation.

Agency Response

In its December 6, 2018, response FNS concurred with the recommendation and will reach out to OIG Investigations to initiate a discussion to reach a mutual agreement, through a MOU or similar vehicle, to develop a process for referral of potential fraud to OIG Investigations for consideration of prosecution. The estimated completion date is September 30, 2019.

OIG Position

We accept management decision for this recommendation.

Scope and Methodology

We conducted an audit of Texas' administration of SFSP and sponsors' compliance with program regulations and policies. The scope of our audit work covered program activities in 2016,⁴⁰ with site observations in August 2017. We began fieldwork on January 30, 2017. To accomplish our objectives, we performed fieldwork at the FNS Southwest Regional Office in Dallas, followed by our initial audit work at the State agency's office in Austin, Texas. We also reviewed 10 non-statistically selected sponsors⁴¹ and 7 non-statistically selected meal service sites.

We non-statistically selected 10 of Texas' 378 SFSP sponsors from 2016 to assess their compliance with SFSP regulations related to their reimbursement claims. We identified and selected the sponsors based on four risk factors determined through our analysis of current SFSP regulations and consultation with OIG Investigations, whose reimbursement data indicated the sponsors were at high risk for receiving reimbursements for non-reimbursable meals. We determined risk factors such as:

- Sponsors with site addresses that were duplicate and/or similar;
- Entity or site linkage between previously terminated sponsors and the participating sponsor;
- Entity linkage between food service, milk, and juice vendors and other participating sponsors; and
- Meal service end times that were 15 minutes or less before the start of a second meal service.

Using the risk factors above, we analyzed 2016 participant data using Audit Command Language software and non-statistically selected 10 potentially high-risk sponsors. In addition, we used Audit Command Language to analyze the entire program year 2016 participant data provided by the State agency to identify meals being served at duplicate sites or sponsors that had overlapping meal times.

In developing findings for this report, we:

- Reviewed applicable laws, regulations, and Federal and State policies and procedures concerning SFSP.
- Developed a worksheet that included specific procedures to assess State administration and sponsor and site compliance with program guidelines.
- Interviewed State agency officials regarding their administration of SFSP and oversight of sponsors and sites. In addition, we interviewed State agency officials regarding their process to declare sponsors seriously deficient and how they perform administrative reviews.

⁴⁰ When deemed necessary we also looked at prior and subsequent years.

⁴¹ Of the 10 sponsors, 2 did not respond to OIG's or the State agency's request for documentation. OIG referred the two sponsors to OIG Investigations for further review and reported their noncompliance in Interim Report 27004-0003-21(1).

- Reviewed 15 records the State agency sent to FNS on terminated sponsors with critical SFSP violations.
- Reviewed and assessed State records and supporting documentation such as sponsor/site SFSP applications and State SFSP administrative reviews for selected sponsors.
- Interviewed selected sponsors' staff regarding their administration and oversight of SFSP.
- Visited vendors that sponsors used and compared sponsors' provided receipts with actual vendor documentation.
- Conducted site visits and observed SFSP meal services.
- Interviewed selected sites' staff regarding their administration of SFSP meal services.
- Reviewed and assessed sampled sponsors' records and supporting documentation such as financial statements, receipts, and meal count sheets to evaluate the permissibility of sponsor costs, accuracy of claims submitted, and sponsor and site compliance with SFSP regulations and requirements.

During the course of our audit, we identified and assessed primary information technology systems employed by the State agency that were applicable to our audit to determine if any had policies, procedures, or controls related to our objective of assessing the agency's oversight of sponsor claims. We also interviewed State agency officials to obtain additional clarification regarding the implementation and use of information technology systems. Our efforts focused on providing reasonable assurance that the State agency's data did not contain significant errors that would undermine the credibility of our analyses and conclusions. However, we did not review, analyze, or verify the system's general and application controls.

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 the evidence we obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Abbreviations

C.F.R.	Code of Federal Regulations
DIR.	Department of Information Resources
DOJ.	Department of Justice
FNS	Food and Nutrition Service
FY	fiscal year
GAO	Government Accountability Office
OIG	Office of Inspector General
OMB	Office of Management and Budget
SFSP	Summer Food Service Program
TX-UNPS	Texas Unified Nutrition Programs System

Exhibit A: Summary of Monetary Results

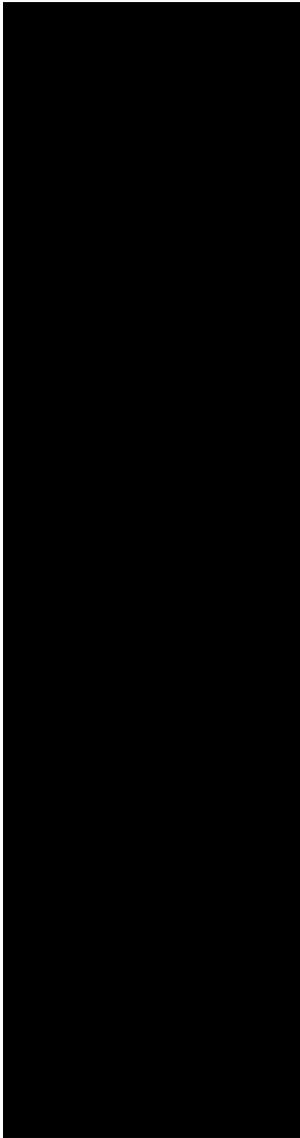
This exhibit summarizes the monetary results of our audit by finding and recommendation number.

Finding	Recommendation	Description	Category	Amount
1	5	Unallowable SFSP Reimbursements	Questioned Costs, Recovery Recommended	\$646,037
1	6	Unsupported SFSP Costs	Questioned Costs, Recovery Recommended	\$13,705
1	7	Unallowable SFSP Costs	Questioned Costs, Recovery Recommended	\$9,960
2	8	Unallowable SFSP Reimbursements	Questioned Costs, Recovery Recommended	\$34,506
2	9	Questionable SFSP Reimbursements	Questioned Costs, Recovery Recommended	\$33,397
Total Monetary Results				\$737,605⁴²

⁴² Please note that a correction has been made to the total monetary results of exhibit A. When initially published, the total monetary results of exhibit A was incorrectly reported as \$737,603. The correct total is actually \$737,605, and that correction has been made to exhibit A.

Exhibit B: Sponsor Locations

This exhibit shows the State agency name and sponsor and site locations visited.

STATE AGENCY NAME	LOCATION
Texas Department of Agriculture	Austin, Texas
Sponsor A* Sponsor B* Sponsor C Site C1** Sponsor D* Sponsor E*** Sponsor F* Sponsor G Site G1 Site G2 Site G3 Site G4 Sponsor H Site H1 Site H2** Sponsor I* Sponsor J* Sponsor K* Sponsor L* Sponsor M* Sponsor N* Sponsor O*	

*Did not visit sponsor or sponsor's sites.

**Site was not operational at time of site visit.

***Sponsor visit only.

Exhibit C: Sponsor Noncompliance Issues

This exhibit shows sponsor noncompliance issues and associated dollar amounts uncovered during our audit and reported in Finding 1. During our audit, we identified multiple issues that caused meals and program costs to be ineligible for reimbursement. Within this exhibit, for clarity's sake, we provide a category-by-category description of noncompliance issues and how they contribute to the overall dollar amount (\$669,703) of non-reimbursable meals reported in Finding 1.

Issue	Sponsor A	Sponsor B	Sponsor C	Sponsor D	Sponsor E	Sponsor F	Sponsor G	Sponsor H
Potentially Fraudulent Milk Purchases	-	-	\$71,205	-	-	-	\$280,359	-
Potentially Fraudulent Food Purchases	-	-	\$3,680	-	-	-	-	-
Insufficient ⁴³ Milk Purchases	\$42,094	\$40,886	-	\$1,192	\$6,985	-	-	\$8,074
Insufficient Food Purchases		\$646		\$967				
Insufficient Juice Purchases	\$8,203	-	-	-	-	-	\$8,895	-
Daily Meal Count Records Do Not Reconcile To Claims In TX-UNPS	_ ⁴⁴	_ ⁴⁵	_ ⁴³	_ ⁴³	\$2	-	_ ⁴³	-
Meals Not Supported By Production Records	\$12	-	-					
Inadequate Food Components ⁴⁶	_ ⁴³	\$169,773	\$840	\$452	-	-	-	-

⁴³ "Insufficient purchases" are instances in which the sponsors did not purchase either enough milk or food to support their total claims.

⁴⁴ We captured the associated dollar value of these noncompliance issues for this specific sponsor in the insufficient milk category and fraudulent milk purchase category. Therefore, to prevent double counting, we did not include that dollar value in our total of \$669,703.

⁴⁵ We identified sponsors with daily meal count records that did not reconcile to the number of meals claimed for reimbursement. However, this sponsor's meal count records supported that the sponsor claimed fewer meals for reimbursement than its records supported. We did not capture these under-claims in our exhibit because regulations do not exist that prohibit a sponsor from claiming fewer meals for reimbursement than records indicate were actually served to children.

⁴⁶ The meals claimed in this category did not meet all the component requirements to be a reimbursable meal.

Issue	Sponsor A	Sponsor B	Sponsor C	Sponsor D	Sponsor E	Sponsor F	Sponsor G	Sponsor H
Meals Claimed On Days Not Approved By State Agency	-	-	_43	-	-	\$554	-	\$1,124
Meals Disallowed By State Agency During Site Review but Still Claimed by Sponsor	-	-	-	\$94	-	-	-	-
Inadequate Meal Deliver Time ⁴⁷	-	-	_43	-	_48	-	-	-
Inadequate Financial System	_49	-	_48	_48	-	_48	_48	_48
SFSP Unallowable Cost ⁵⁰	-	\$75	-	-	-	-	\$6,855	\$3,030
SFSP Unsupported Cost ⁵¹	-	-	-	-	-	-	\$13,705	-
Duplicate Sites	-	-	-	-	-	\$34,506 ₅₂	-	-
Meals Served as Snacks but Claimed as Breakfasts ⁵³	-	-	-	-	-	-	_43	-
Site Visit Noncompliance Observed	-	-	-	-	-	-	_54	_53

⁴⁷ SFSP's Administrative Guide requires that sponsor sites without adequate facilities for holding meals within the temperature ranges established by State or local health ordinances must receive all meals not more than 1 hour before the beginning of the meal service.

⁴⁸ The sponsor delivered meals towards the end of the State agency approved meal service time. Since we were not at that site during the meal service, we cannot quantify how many meals were served outside of the approved meal service time.

⁴⁹ During our audit, we identified these noncompliance issues. However, the noncompliance issues cannot be quantified with an associated dollar value.

⁵⁰ Unallowable costs are costs for which program funds may not be used.

⁵¹ The sponsor did not provide sufficient documentation for costs charged to SFSP.

⁵² We did not include this dollar figure in the Finding 1 total of \$669,703 because we reported this amount as non-reimbursable in Finding 2.

⁵³ The State agency approved the sponsor to serve breakfast; however, the sponsor served snacks and claimed the meals for reimbursement as breakfast. In addition, breakfast meals require different food components to be eligible for reimbursement than snacks require. Therefore, we determined these meals were not eligible for reimbursement.

⁵⁴ We observed site noncompliance issues during our site visits in program year 2017. However, we could not determine an associated value as the sponsor had not submitted a claim for reimbursement at the time of our review.

Issue	Sponsor A	Sponsor B	Sponsor C	Sponsor D	Sponsor E	Sponsor F	Sponsor G	Sponsor H
Sponsor Did Not Document How they Used Unused Reimbursements From Prior Year	-	-	-	-	-	-	_48	_48
Food Inventory Records Not Prepared ⁵⁵	-	-	-	-	-	-	_48	_48
Total	\$50,309	\$211,380	\$75,725	\$2,705	\$6,987	\$35,601	\$309,814	\$12,228
Grand Total								\$669,703

⁵⁵ Records to support the cost of food used did not include detailed inventory records.

Exhibit D: Total Non-Reimbursable Meals

This exhibit shows the total non-reimbursable meals served by each sponsor reported in Finding 1. During our audit, we identified multiple issues that caused meals claimed by sponsors to be non-reimbursable. Within this exhibit, for clarity's sake, we provide a category-by-category description of how these meals contributed to the overall 217,040 non-reimbursable meals reported in Finding 1.

Noncompliance Issue	Sponsor A	Sponsor B	Sponsor C	Sponsor D	Sponsor E	Sponsor F	Sponsor G	Sponsor H
Potentially Fraudulent Milk Purchases	-	-	21,140	-	-	-	91,197	-
Potentially Fraudulent Food Purchases	-	-	6,288 ⁵⁶	-	-	-	-	-
Insufficient ⁵⁷ Milk Purchases	11,240	14,799	-	559	2,046	-	-	3,786
Insufficient Food Purchases or no CN labels	-	427	-	331	-	-	-	-
Insufficient Juice Purchases	9,243	-	-	-	-	-	10,023	-
Daily Meal Count Records Do not Reconcile to Claims in TX-UNPS	5,295 ⁵⁸	- ⁵⁹	33 ⁵⁷	4 ⁵⁷	15 ⁶⁰	-	32,973 ⁵⁷	-
Meals not Supported by Production Records	13	-	-	-	-	-	-	-

⁵⁶ We identified 2,141 of the 6,288 non-reimbursable meals in this category as also non-reimbursable in the potentially fraudulent milk category. To prevent the overlap and double counting of non-reimbursable meals, we did not include 2,141 meals identified in this category in our overall 217,040 non-reimbursable meals.

⁵⁷ Insufficient purchases are instances in which the sponsors did not purchase either enough milk and/or food to support their total claims.

⁵⁸ We also captured the meal totals for this category as non-reimbursable meals in the insufficient milk category and fraudulent milk purchase category. Therefore, to prevent double counting non-reimbursable meals, we did not include the meals identified in this category in our overall 217,040 meals.

⁵⁹ We identified sponsors whose daily meal count records did not reconcile to the number of meals claimed for reimbursement. However, this sponsor's meal count records supported that the sponsor claimed fewer meals for reimbursement than its records supported. We did not capture these under-claims in our exhibit because regulations do not exist that prohibit sponsors from claiming fewer meals for reimbursement than their records indicate they actually served.

⁶⁰ We also identified 13 of the 15 non-reimbursable meals in this category as non-reimbursable in the insufficient milk category. To prevent the overlap and double counting of non-reimbursable meals, we did not include the 13 meals in this category in our overall 217,040 non-reimbursable meals.

Inadequate Food Components ⁶¹	400 ⁵⁷	46,343	2,660 ⁶²	212	-	-	-	-
Meals Claimed on Days not Approved by State Agency	-	-	101 ⁵⁷	-	-	260	-	300
Meals Disallowed by State Agency During Site Review but Still Claimed by Sponsor	-	-	-	25	-	-	-	-
Inadequate Meal Deliver Time ⁶³	-	-	1,909 ⁵⁷	-	NA	-	-	-
Meals Served at Duplicate Sites	-	-	-	-	-	9,214 ⁶⁴	-	-
Meals served as Snacks but Claimed as Breakfasts ⁶⁵	-	-	-	-	-	-	5,532 ⁵⁷	-
Subtotal	26,191	61,569	32,131	1,131	2,061	9,474	139,725	4,086
Less Double Count Meals	(5,695)	(0)	(5,897)	(4)	(13)	(9,214)	(38,505)	(0)
Totals Non-Reimbursable Meals	20,496	61,569	26,234	1,127	2,048	260	101,220	4,086
Grand Total								217,040

⁶¹ A food component is one of the food groups that comprise a reimbursable meal.

⁶² We also identified 1,713 of the 2,660 non-reimbursable meals in this category as non-reimbursable in the potentially fraudulent milk category. To prevent the overlap and double counting of non-reimbursable meals, we did not include 1,713 meals identified in this category in our overall 217,040 non-reimbursable meals.

⁶³ SFSP's Administrative Guide requires that sites without adequate facilities for holding meals within the temperature ranges established by State or local health ordinances must receive all meals not more than one hour before the beginning of the meal service.

⁶⁴ We did not include these meals as non-reimbursable meals in Finding 1 because we reported these meals as non-reimbursable in Finding 2.

⁶⁵ The State agency approved the sponsor to serve breakfast; however, the sponsor served snacks and claimed the meals for reimbursement as breakfast. The reimbursement rate for breakfast meals are higher than the reimbursement rate for snacks (difference between breakfast rate and snack rate is \$1.245 per meal). In addition, breakfast meals require different food components to be eligible for reimbursement than snacks require. Therefore, we determined these meals were not eligible for reimbursement.

**AGENCY'S
RESPONSE TO AUDIT REPORT**



**United States
Department of
Agriculture**

Food and
Nutrition
Service

3101 Park
Center Drive

Alexandria, VA
22302-1500

DATE: December 6, 2018

AUDIT
NUMBER: 27004-0003-21

TO: Gil H. Harden
Assistant Inspector General for Audit

FROM: Brandon Lipps /s/
Administrator
Food and Nutrition Service

SUBJECT: Summer Food Service Program in Texas – Sponsor Costs

This letter responds to the official draft report for audit number 27004-0003-21, Summer Food Service Program in Texas – Sponsor Costs. Specifically, the Food and Nutrition Service (FNS) is responding to the 19 recommendations in the report.

FNS acknowledges the importance of State agency (SA) controls in order to maintain public trust in the program and to ensure that the full value of program resources are used to serve healthy meals to children.

In working with the Texas Department of Agriculture (TDA) to prepare this response, some of the recommendations pertained to TDA improving its Administrative Review (AR) process. FNS wants to ensure that the readers of this report understand the difference between an AR and performance audit such as this one performed by OIG.

There are different expectations and resource requirements of ARs compared to performance audits conducted in accordance with *Government Auditing Standards* (GAS). An AR is an assessment designed to ensure that all participating sponsors and agencies comply with the federal and state program requirements of the SFSP. The AR process is intended to provide technical assistance balanced with an assessment of program compliance conducted in a condensed time frame. Accordingly, ARs are completed with focused procedures and smaller sample sizes.

A performance audit conducted in accordance with GAS is an examination level engagement designed to provide findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. A performance audit generally includes larger sample sizes spanning a longer time period with more comprehensive procedures. Additionally, performance audits typically require significantly more staff resources to perform than are available for the performance of ARs.

The AR process is intentionally designed to be limited in scope and breadth when compared to a performance audit conducted in accordance with GAS. Therefore, the

results and supporting documentation are not comparable and should not be expected to reflect the same outcomes or level of detail.

OIG Recommendation 1:

Develop guidance for States to continually assess and identify risk factors. Specifically, this process should include procedures to identify sponsors that are high risk and to select a sample of those potentially high-risk sponsors for administrative review.

FNS Response:

FNS concurs with the recommendation. FNS has established guidance in its SFSP State Agency Monitor Guide (page 13), “State agencies are encouraged to use risk analysis for identifying the additional sponsor reviews needed. Risk factors may include continual non-compliance issues from prior years and high meal claims when compared with sponsors having similar enrollment. Sponsors having many facilities and large participation should also be considered for election of additional reviews since more Program funds are at risk. This suggested order is one approach; each State agency may determine their own approach to ensure regulatory review requirements are met.”

Estimated Completion Date:

Complete

OIG Recommendation 2:

Develop guidance to direct the State agency to establish additional administrative review procedures for high-risk sponsors. For example, procedures for reviewing high-risk sponsors’ prior year SFSP reimbursement claims if the sponsor had not been reviewed in the previous program year, or for verifying receipts through vendor verification reviews. The procedures should state that reviewers must document the results of these reviews, including the determination that there are no findings.

FNS Response:

FNS concurs with the recommendation. FNS has established guidance in its *SFSP State Agency Monitor Guide* (page 13), “State agencies are encouraged to use risk analysis for identifying the additional sponsor reviews needed. Risk factors may include continual non-compliance issues from prior years and high meal claims when compared with sponsors having similar enrollment. Sponsors having many facilities and large participation should also be considered for election of additional reviews since more Program funds are at risk. This suggested order is one approach; each State agency may determine their own approach to ensure regulatory review requirements are met.” The

guide specifies (page 25) that, “The State agency is responsible for developing a monitoring system (per §225.7(d)(4) which includes forms to collect data from the review. The review forms must include all required areas of review and all required areas must be fully completed.”

Estimated Completion Date:

Complete

OIG Recommendation 3:

Develop guidance to direct the State agency to revise its current milk review process for high-risk sponsors. Specifically, the State agency should validate milk receipts for the entire program year for sponsors identified as high risk. When the administrative review is conducted at the beginning of the program year, the State agency should review previous program year milk invoices.

FNS Response:

FNS will work with the State agency. While there are no Federal requirements to conduct milk reviews, FNS encourages best practices and will encourage TDA to consider revising its current review process for high risk sponsors to include reviewing milk invoices for the entire program year for sponsors identified as high risk. If administrative reviews are conducted at the beginning of the program year when documentation is not yet available for review, TDA should review invoices from the previous program year.

Estimated Completion Date:

May 31, 2019

OIG Recommendation 4:

Develop guidance to direct the State agency to require its reviewers to perform a reconciliation of daily meal counts to meals claimed in TX-UNPS for all administrative reviews. If the administrative review is conducted when no claims have been submitted, require reviewers to examine prior year meal claims if current year meal claims have not been filed in TX-UNPS.

FNS Response:

FNS concurs with the recommendation. FNS states in its *SFSP State Agency Monitor Guide* (page 31) that, “If the sponsor has submitted a claim for reimbursement, the State agency monitor must review the meal count documentation used to consolidate monthly

meal counts and must validate at least one month's claim." This review is completed "for each meal on a daily basis for the claim month." The guide also specifies that, "If a claim has not been submitted, the State agency monitor should examine meal count information for the period of review and, if feasible, verify the most recent claim submitted by the sponsor." This would include examining a prior year meal claim if a current year meal claim has not yet been submitted. FNS will direct TDA to include in its guidance to its review staff to conduct a reconciliation of meals counts during its administrative reviews.

Estimated Completion Date:

August 31, 2019

OIG Recommendation 5:

Direct the State agency to review questioned costs of \$646,055 related to 217,045 non-reimbursable meals, associated with the eight sponsors in our audit and recover costs determined to be unsupported. Where necessary, declare identified sponsors seriously deficient and, if the deficiencies are not fully and permanently corrected, terminate their participation in SFSP.

FNS Response:

FNS concurs with the recommendation and will direct TDA to review the questioned costs identified by OIG (*pending OIG provided work papers clearly identifying the unsupported costs*). If confirmed by the State's follow-up review, TDA will attempt to recover any unsupported SFSP costs that were confirmed.

It should be noted that there is no Federal requirement that States validate invoices to determine if invoices are legitimate due to burden and resource limitations. While invoices are reviewed with the intent to ensure enough food was purchased for the meals served/claimed, administrative reviews are limited in scope in comparison with OIG performance reviews. TDA does conduct validation reviews for some sponsors similar to what was done by OIG and takes corrective action when false information is identified. If the corrective action plan is insufficient, a serious deficiency determination is issued to the sponsor and if not fully and permanently corrected, the sponsor receives a notice of intent to terminate and is terminated. For example, sponsor G went through this established process for the sponsor receipts that did not match vendor documentation noted by OIG, which resulted in the sponsor's termination from the SFSP. OIG stated in a meeting with FNS that a footnote would be included in the audit report acknowledging that a sponsor altered records after TDA had conducted its review and that TDA was in compliance with all review procedures.

Estimated Completion Date:

November 30, 2019*

*Dependent upon finalization of OIG report and full FNS/TDA review of OIG work papers received by FNS.

OIG Recommendation 6:

Direct the State agency to review unsupported costs of \$13,705 associated with the eight sponsors in our audit and recover costs determined to be unsupported.

FNS Response:

FNS concurs with the recommendation and will direct TDA to review the unsupported costs identified by OIG (*pending OIG provided work papers clearly identifying the unsupported costs*). If confirmed by the State's follow-up review, TDA will attempt to recover any unsupported SFSP costs that were confirmed.

Estimated Completion Date:

November 30, 2019*

*Dependent upon finalization of OIG report and full FNS/TDA review of OIG work papers received by FNS.

OIG Recommendation 7:

Request the State agency to review unallowable costs of \$9,960 associated with the eight sponsors in our audit and recover costs determined to be unsupported.

FNS Response:

FNS concurs with the recommendation and will request TDA to review the unallowable costs identified by OIG (*pending OIG provided work papers clearly identifying the unsupported costs*). If confirmed by the State's follow-up review, TDA will attempt to recover any unsupported SFSP costs that were confirmed.

Estimated Completion Date:

November 30, 2019*

*Dependent upon finalization of OIG report and full FNS/TDA review of OIG work papers received by FNS.

OIG Recommendation 8:

Direct the State agency to review questioned costs of \$34,506 paid to the sponsor in our audit that claimed 9,214 non-reimbursable meals and recover costs determined to be unsupported.

FNS Response:

FNS concurs with the recommendation and will direct TDA to review the questioned costs identified by OIG (*pending OIG provided work papers clearly identifying the unsupported costs*). If confirmed by the State's follow-up review, TDA will attempt to recover any unsupported SFSP costs that were confirmed.

Estimated Completion Date:

November 30, 2019*

*Dependent upon finalization of OIG report and full FNS/TDA review of OIG work papers received by FNS.

OIG Recommendation 9:

Direct the State agency to determine if the other nine sponsors claimed \$33,397 in non-reimbursable meals identified by our audit. The State agency should recover any amount it determines is unallowable.

FNS Response:

FNS concurs with the recommendation and will direct TDA to determine if the meals identified by OIG were non-reimbursable (*pending OIG provided work papers clearly identifying any non-reimbursable meals*). If confirmed by the State's follow-up review, TDA will attempt to recover any unallowable SFSP reimbursements.

In cases of overlapping meal times, FNS notes that it is necessary to be physically at the site observing the meal service to validate that more than one meal type was actually served at the same time. Technical assistance would be the appropriate corrective action for overlapping meal times listed on a sponsor's application; meals would not be disallowed resulting in fiscal action for an incorrect meal time listed on an application.

In cases of more than one site operating at the same address, SFPS regulations define a site as “a physical location at which a sponsor provides a food service to children.” Requirements do not limit a site to a singular address. State agencies have the discretion to approve sites based on specific knowledge of the community and any physical barriers that limit access. FNS guidance (SFSP Admin Guide - page 33) specifies, “To support the greatest Program participation and access, it may be appropriate for States to allow sites in relatively close physical proximity to operate in the community, each serving its own participants. Sponsors should be able to explain why differences in the population of children they intend to serve require multiple sites in close proximity to each other. Sites may also be close in proximity but separated by a physical barrier that limits access.” Meals served to different populations of eligible children at approved sites in close proximity would not be disallowed. For “duplicate” sites that are identified based on records and not direct observation, technical assistance would be appropriate and meals would not be disallowed.

Estimated Completion Date:

November 30, 2019*

*Dependent upon finalization of OIG report and full FNS/TDA review of OIG work papers received by FNS.

OIG Recommendation 10:

Advise the State agency to revise current procedures to expand how it searches for duplicate sites (for example, using the Excel “fuzzy” duplicates function), retain information on all duplicate sites identified, and document any corresponding actions taken.

FNS Response:

FNS concurs with the recommendation and will encourage TDA to work jointly with FNS on its current procedures in how it searches for duplicate sites, retains information on all duplicate sites identified, and documents any actions taken as a result of the search. TDA will assess the feasibility of establishing a more robust duplicate site identification process and the viability of using the “fuzzy” duplicates function in Excel. TDA has expressed that there are potential limitations with both financial and staffing resources to implement a more robust system.

Estimated Completion Date:

August 31, 2019

OIG Recommendation 11:

Advise the State agency to revise its procedures to ensure that sponsors identified with a duplicate site are closed within three business days, per State agency policy, and do not claim non-reimbursable meals served prior to the date of identification.

FNS Response:

FNS will work with the State agency. While there is no regulatory requirement to close duplicate sites within three business days, FNS will advise TDA to follow its State policy to ensure that a duplicate site that is confirmed is promptly removed from Program participation and any claims for non-reimbursable meals served prior to the date of identification are disallowed.

Estimated Completion Date:

April 30, 2019

OIG Recommendation 12:

Advise the State agency to develop and implement an edit check or input control within TX-UNPS, or other mitigating control, that flags any overlapping meal times and requires justification prior to approval of a sponsor's application.

FNS Response:

FNS concurs with the recommendation and will advise TDA to consider developing and implementing an edit check or input control within TX-UNPS or other control that flags overlapping meal times. An update to the TX-UNPS system would require a third party for this type of enhancement request.

Estimated Completion Date:

November 30, 2019*

*Pending factors outside of TDA's control.

Recommendation 13:

Request the State agency to develop a system security plan for TX-UNPS using the risk assessment and recommendations provided by Texas Department of Information Resources (DIR) and aligned with the agency specific security plan. Implement

application security controls to mitigate vulnerabilities to the system and improve data integrity.

FNS Response:

FNS concurs with the recommendation and will request TDA to develop a system security plan for TX-UNPS using the risk assessment and recommendations provided by Texas Department of Information Resources (DIR) and aligned with the agency specific security plan. FNS will request TDA to implement application security controls to mitigate vulnerabilities to the system and improve data integrity.

Estimated Completion Date:

August 31, 2019

Recommendation 14:

Request that the State agency work with its third-party vendor to ensure implementation of applicable security controls identified through its assessment.

FNS Response:

FNS concurs with the recommendation and will request TDA to work with its third party vendor (TX-UNPS) to ensure implementation of applicable security controls identified through its assessment.

Estimated Completion Date:

August 31, 2019

Recommendation 15:

Develop and disseminate specific guidance for reviewing requests for large advance payments, specifically concerning how the State agencies are to determine if a sponsor has sufficient capability to administer these larger sums.

FNS Response:

SFSP regulations provide State agency discretion to “determine that a larger payment is necessary for the effective operation of the Program and the sponsor demonstrates sufficient administrative and managerial capability to justify a larger payment.” FNS will work with TDA to develop internal controls for documenting and justifying advance payments larger than \$40,000.

Estimated Completion Date:

September 30, 2019

Recommendation 16:

Ensure this guidance requires that reviewers consider prior year administrative findings and the amount of unused reimbursements available from prior years.

FNS Response:

FNS concurs with the recommendation and will request TDA to include in its internal controls that State agency review staff consider prior year administrative findings and the amount of unused reimbursements available from prior years when justifying advance payments larger than \$40,000.

Estimated Completion Date:

September 30, 2019

Recommendation 17:

Ensure this guidance requires that reviewers should document their justifications for approving advance payments.

FNS Response:

FNS concurs with the recommendation and will work with TDA to ensure that if advanced payments above the \$40,000 limit are approved that the justifications are documented.

Estimated Completion Date:

September 30, 2019

Recommendation 18:

Develop and implement formal procedures that require agency officials to expeditiously refer sponsors who are known to or are suspected to have violated SFSP laws or regulations to OIG for investigative evaluation.

FNS Response:

FNS decisions not to refer items to OIG Investigations cited in the report reflected a long-established understanding that referrals below existing monetary thresholds would not be pursued. We believed that understanding was consistent with OIG's expectations regarding referrals. As recently as September 26, 2018, testimony provided to the House Committee on Oversight and Government Reform, by OIG's Assistant Inspector General for Investigations included the following statement: "One key factor in determining whether to initiate an investigation involves discussions with the respective U.S. Attorney's Office or other prosecutors to determine their willingness to prosecute an individual if the allegations of criminal activity can be proven. Each U.S. Attorney's Office and other prosecutors across the country have differing requirements and thresholds for prosecution."

FNS understands that where thresholds have been established, they have been created by the U.S. Attorneys' offices, and not by OIG, and that FNS referrals to OIG Investigations should not be limited based on monetary thresholds. Therefore we concur with this recommendation. FNS will reach out to OIG Investigations to initiate a discussion to reach a mutual agreement, through a Memorandum of Understanding (MOU) or similar vehicle, to develop a process for referral of potential fraud to OIG Investigations for consideration of prosecution.

Estimated Completion Date:

September 30, 2019

Recommendation 19:

Coordinate with OIG Investigations to establish a process to refer SFSP violations of law and regulations to OIG for investigative evaluation.

FNS Response:

FNS decisions not to refer items to OIG Investigations cited in the report reflected a long-established understanding that referrals below existing monetary thresholds would not be pursued. We believed that understanding was consistent with OIG's expectations regarding referrals. As recently as September 26, 2018, testimony provided to the House Committee on Oversight and Government Reform, by OIG's Assistant Inspector General for Investigations included the following statement: "One key factor in determining whether to initiate an investigation involves discussions with the respective U.S. Attorney's Office or other prosecutors to determine their willingness to prosecute an individual if the allegations of criminal activity can be proven. Each U.S. Attorney's

Gil Harden
Page 12

Office and other prosecutors across the country have differing requirements and thresholds for prosecution.”

FNS concurs with this recommendation, and will reach out to OIG Investigations to initiate a discussion to reach a mutual agreement, through a MOU or similar vehicle, to develop a process for referral of potential fraud to OIG Investigations for consideration of prosecution.

Estimated Completion Date:

September 30, 2019

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