



United States Department of Agriculture



OFFICE OF INSPECTOR GENERAL

IMPORTANT NOTICE

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

Texas' Controls Over Summer Food Service Program

Audit Report 27004-0004-21

OIG audited the Texas State agency's controls for operating under SFSP requirements and sponsor and site compliance with those requirements.

OBJECTIVE

Our audit objective was to determine whether Texas had adequate controls in place to reasonably ensure that SFSP was operating under program requirements. Specifically, our objective was to (1) evaluate the adequacy of the State agency's controls over SFSP sponsors and (2) determine if selected sponsors and sites were in compliance with program requirements.

REVIEWED

For the State agency's administration of SFSP from fiscal years 2014–2016, we non-statistically selected 5 sponsors, and conducted 9 complete announced site visits and 14 confirmation site visits during the SFSP meal service in the summer of 2017.

RECOMMENDS

We recommended that FNS direct the State agency to develop and implement application and administrative review procedures to identify and address sponsor noncompliance, confirm and recover unallowable costs, and direct identified sponsors to provide additional training to staff and ensure appropriate monitoring of their sites.

WHAT OIG FOUND

The Summer Food Service Program (SFSP) provides nutritious meals for children in low-income areas when school is not in session. The Texas Department of Agriculture (State agency) oversees and reimburses sponsors for providing the Food and Nutrition Service's (FNS) SFSP meals. During the Office of Inspector General's (OIG) review of five SFSP sponsors in Texas, we identified a number of issues related to how the State agency approves, monitors, and reimburses the meals these sponsors served.

- **Approving sponsors**—the State agency approved sponsor meal site participation levels that exceeded the historical attendance at these sites. Because the State agency approved meal service levels that exceeded sponsors' historical operations, sponsors could, without further scrutiny, inflate the number of meals claimed and receive reimbursements for more meals than reasonable.
- **Monitoring sponsors**—the State agency did not sufficiently monitor and evaluate the performance of its staff when it conducted administrative reviews. As a result, the State agency cannot ensure that its staff consistently identified issues of noncompliance. Consequently, we identified more than \$253,000 of questionable costs and approximately \$28,000 for non-reimbursable meals in 2016.
- **Reimbursing sponsors**—the State agency reimbursed SFSP sponsors who did not operate some of their sites in accordance with SFSP regulations and requirements.

The issues OIG identified could impair program integrity and interfere with SFSP's ability to serve needy children during the summer months. FNS generally agreed with our recommendations and we accepted management decision on all 17 recommendations.



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



DATE: March 14, 2019

AUDIT
NUMBER: 27004-0004-21

TO: Brandon Lipps
Administrator
Food and Nutrition Service

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

FROM: Gil Harden
Assistant Inspector General for Audit

SUBJECT: Texas' Controls Over Summer Food Service Program

This report presents the results of the subject audit. Your written responses to the official draft are included in its entirety at the end of the report. We have incorporated excerpts from your responses, and the Office of Inspector General's (OIG) position, into the relevant sections of the report. Based on your written responses, we are accepting management decision on all 17 audit recommendations in this report. 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 OCFO, please follow your internal agency procedures in forwarding final action correspondence to OCFO.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This 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 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 2018. In 1968, Section 13 of 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 reimbursement 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 enrolled children are served.

Objectives

Our audit objective was to determine whether the Texas Department of Agriculture had adequate controls in place to reasonably ensure that SFSP was operating under program requirements. Specifically, our objective was to (1) evaluate the adequacy of the State agency's controls over SFSP sponsors and (2) determine if selected sponsors and sites were in compliance with program requirements.

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 a legislative formula that incorporates the Consumer Price Index. The rates for rural and self-preparation sites are higher for each meal type than 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" means 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.

This audit was one in a series of recent audits related to SFSP. It was performed in conjunction with similar audits of the States of California, Florida, and New York. During the course of these State reviews, interim reports were issued to provide results regarding sponsor compliance with SFSP regulations and policies related to State and local food requirements.⁷ Additionally, we performed an audit of FNS to determine whether FNS had adequate controls in place to reasonably ensure SFSP was complying with program regulations and other requirements.⁸ Upon completion of the State audits,⁹ we will consider the results with the issues we identified in our FNS audit and provide an assessment of the overall program in the final rollup SFSP audit report of this series.

⁷ *Texas' Controls Over Summer Food Service Program Interim Report* (Audit Report 27004-0004-21 (1), Nov. 2017); *California's Controls Over Summer Food Service Program Interim Report* (Audit Report 27004-0001-41 (1), Sept. 2017); *Florida's Controls Over Summer Food Service Program Interim Report* (Audit Report 27004-0001-31 (1), Sept. 2017); and *New York's Controls Over Summer Food Service Program Interim Report* (Audit Report 27004-0001-23 (1), Nov. 2017).

⁸ *FNS Controls Over Summer Food Service Program* (Audit Report 27601-0004-41, Mar. 2018).

⁹ OIG initiated another audit in the State of Texas to review the adequacy of the State agency's monitoring of sponsor claims for SFSP in Texas. Specifically, OIG reviewed a sample of sponsors with a higher risk of noncompliance with program regulations and policies related to the reimbursement of sponsor claims. The anticipated report release for Audit Number 27004-0003-21, *Summer Food Service Program in Texas—Sponsor Costs* is January 2019.

Finding 1: Texas State Agency Needs to Improve its Sponsor Approval Process for SFSP

During our examination of records for five SFSP sponsors in Texas,¹⁰ we determined that the State agency approved sponsor applications that did not accurately reflect the performance of their SFSP operations. Specifically, the State agency approved sponsor meal site participation levels that exceeded the historical attendance at sponsor meal site locations and approved sponsor budgets with costs that were not reasonable,¹¹ necessary,¹² and allowable.¹³ This occurred because the State agency did not consider all factors required by its guidance when evaluating the reasonableness of site participation levels proposed by sponsors. In addition, FNS had not established definitive guidance for States to follow concerning how to evaluate if budgeted costs submitted as part of SFSP applications were reasonable, necessary, and allowable. Because the State agency approved meal service levels that exceeded sponsors' historical operations, sponsors could, without further scrutiny, inflate the number of meals claimed and receive reimbursements for more meals than reasonable for their operations. Further, when the State agency approves unreasonable budgets, sponsors could charge costs that are unallowable. Those costs are at an increased risk of not being detected by the State agency.

As part of the State agency's application process to participate in SFSP, sponsors are required to estimate the average daily participation (ADP) of children for each site they propose to operate during the summer months. State agency guidance requires its staff to review the ADP proposed by the sponsors to determine its reasonableness prior to approval of the application. The State agency can adjust the ADP the sponsor proposes during the State agency's application review process if State agency staff determines the proposed ADP is not reasonable. One factor the State agency has established to help determine the reasonableness of the ADP proposed by the sponsor prior to approval of its application is the historical records of attendance at each site. Based on the ADP the State agency approves and the number of serving days the sponsor plans to serve SFSP meals at each meal site, the State agency establishes the maximum meal service level at each site. The sponsor may seek an increase to the approved maximum meal service level for its meal sites by demonstrating that attendance exceeds the sites' approved levels.

In addition, Federal regulations require the State agency to review each applicant's budget as part of the application approval process in order to assess the applicant's ability to operate in

¹⁰ The sample was non-statistically chosen after we implemented certain parameters (as described in our Scope and Methodology section).

¹¹ A cost is "reasonable" if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the same circumstances (2 CFR 200.404).

¹² A cost is "necessary" if it is required for the operation of the program and must be essential to fulfill regulatory requirements for proper and efficient administration of the program (Texas Department of Agriculture, Procedures for Review of SFSP Application Packet, pg. 19).

¹³ "Allowable costs" are costs that are properly documented, and necessary and reasonable for the proper and efficient administration of the program and not specifically prohibited by Federal regulations, including 2 C.F.R. 200.403.

compliance with SFSP regulations within their projected reimbursement.^{14, 15} In approving the applicant's budget, the State agency must ensure that proposed costs are reasonable, necessary, and allowable. The State agency also uses these budgets during administrative reviews to assess sponsor compliance with program requirements.

Accurate assessments of sponsors' eligibility to participate in SFSP are critical components of program integrity. Before a sponsor can participate in SFSP, the sponsor must submit a complete application and provide the required supporting documents for review and approval by State agency staff. In 2016, the State agency approved 387 sponsors¹⁶ to participate in SFSP. We reviewed records and site applications for five of those sponsors, and determined that the State agency approved maximum meal service levels that exceeded the actual¹⁷ and historical¹⁸ participation at the sites by more than 20 percent. Further, the State agency approved sponsor budgets that were not reflective of historical reimbursements or costs.

The State Agency Approved Unsupported Maximum Meal Service Levels

During the State agency's application review process, the State agency will approve a maximum number of meals sponsors can claim for reimbursement each month at each site the State agency approves sponsors to operate. To determine the maximum meal service level at sites the State agency approves sponsors to operate, the State agency must first evaluate the reasonableness of the ADP the sponsor submits as part of its application. The State agency guidance requires staff to examine the ADP proposed by the sponsors using factors such as, but not limited to, the following:

- The number of children the site can safely accommodate;
- The adequacy of the meal preparation facilities to prepare meals;
- The historical record of attendance at the site; and
- The number of children living in the area of the site and that are likely to participate.

Based on the ADP the State agency approves multiplied by the number of days a site will operate, the State agency establishes the maximum meals that the sponsor can claim monthly at each meal site. The State agency established the maximum meal service levels at sites to reduce the risk that sponsors claim reimbursements for more meals than the number of children who are likely to participate.

¹⁴ 7 C.F.R. §225.6(b)(7).

¹⁵ Projected reimbursements are based on the sponsor's sites projected ADP multiplied by projected serving days and the reimbursement rate per meal.

¹⁶ Of the 387 approved sponsors, 378 participated in SFSP and received reimbursement for meals served. These sponsors managed 3,794 sites in June 2016; 3,220 sites in July 2016; and 2,228 sites in August 2016 that provided SFSP meal services to children.

¹⁷ This analysis was conducted for the 116 sites that we examined during our audit.

¹⁸ This analysis was conducted for 5 sites at each of the 5 sponsors; 25 of the 116 sites we reviewed during our audit. We reviewed 25 sites at the sponsors that operated in both 2015 and 2016, and compared the ADP in 2015 to the maximum meal service level approved in 2016.

Although the State agency established the above controls to determine the reasonableness of the ADP proposed by sponsors and the maximum meal service for each approved meal site, the State agency did not ensure that its staff considered all criteria, such as historical data, from the procedures it established. State agency officials¹⁹ informed us that they based their determination of the reasonableness of the ADP on one factor in their guidance—the number of children the site can safely accommodate. To determine the maximum meal service level, State agency officials stated they would approve up to a 20 percent increase over the ADP sponsors proposed for each meal site in their application. However, at the time of our review, the State agency had not documented this as a factor in how it determines the maximum meal service level.

While the capacity of meal sites to safely accommodate children is an important factor to consider in determining the reasonableness of sponsors' proposed ADP, that information alone is not enough to make an adequate assessment of the level of participation at the site and determine the site's maximum meal service level. State agency officials understood that the maximum meal service levels they approved were high; however, State officials stated that they focused on the capacity of a facility to accommodate children because they did not want to limit the sponsors' ability to serve more children if the capacity of the meal site allowed it. However, current State agency guidance allows sponsors to request an adjustment of the maximum meal service level prior to submitting their reimbursement claims, by demonstrating that the meal participation at a site exceeds the maximum service level. By establishing maximum meal service levels that are significantly higher than the ADP, the State agency creates a risk that sponsors can increase the number of meals claimed without further scrutiny prior to payment.²⁰

We selected five sites for each of the five sponsors in our sample that operated both in 2015 and 2016 and examined the meal services (breakfast, lunch, and snack) to determine whether the State agency approved 2016 maximum meal service levels were reasonable and within 20 percent of the 2015 historical ADP for each meal service. Overall, we determined that 21 of 25 sites the sponsors operated in both 2015 and 2016 had approved maximum meal service levels that were more than 20 percent higher than the State agency's suggested threshold.²¹ (See Table 1 below.)

¹⁹ 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.

²⁰ Sponsors' meal records are reviewed during an administrative review. The State agency is required to conduct an administrative review of sponsors once every 3 years.

²¹ The State agency stated that it will increase the ADP at sites up to 20 percent to establish the maximum meal service level at approved meal sites.

Table 1: 2016 Sites Where Approved ADP Did Not Reflect Historical Participation

Meal Service Type	Number of Sites that Claimed Meals, per Meal Service, in 2015²²	Number of Sites, per Meal Service, Where Approved 2016 Maximum Meal Service Levels Exceeded Actual 2015 ADP, per Meal Service, by More Than 20 Percent	Percentage of Sites Reviewed, per Meal Service, Where Approved 2016 ADP Exceeded Historical Participation by More Than 20 Percent
Breakfast	11	10	91%
Lunch	25	20	80%
Snack	6	6	100%

On average, the State agency approved these sites to operate in 2016 with meal service levels that exceeded actual 2015 ADP on average by 252 percent for breakfast, 194 percent for lunch, and 131 percent for snack.

In one instance, State agency staff approved a maximum of 600 lunches to be served daily in 2016 at a sponsor’s meal service site, although average participation during lunch in 2015 was 47 lunches per day. Likewise, the sponsor submitted the same estimate in 2017 and was re-approved by the State agency for a maximum of 600 lunches daily, even though the site’s historical average supported that 191 lunches per day were served on average in July 2016. When we visited the site during a lunch service in July 2017, we observed the site serve 60 lunches. Because the State agency approved a maximum meal service level that was significantly higher than the historical participation at the site, the State agency is less likely to determine if the sponsor is claiming more meals than necessary to feed children eligible for the program.²³

We determined that the State agency has reduced assurance that its control to prevent sponsors from over-claiming meals by establishing a maximum meal service level at sponsor sites is effective. For the State agency to have adequate assurance, the State agency should ensure that its staff consider factors it has established—such as the historical participation of children at sponsor sites—to adequately assess site participation levels prior to approval.

²² The 25 sites we reviewed served various combinations of meals, including breakfast and lunch and lunch and snack. The ADP and approved meal service levels varied by type of meal service.

²³ During our review of the sample sponsors, we found various instances when daily meal records did not support the number of meals claimed for reimbursement. See Finding 2.

The State Agency Approved Sponsor Applications with Unrealistic Budgets and Unallowable Costs

SFSP regulations require State agencies to review each sponsor's administrative and operating budget prior to approval to participate in SFSP in order to assess the sponsor's ability to operate in compliance with regulations and within its projected reimbursement.²⁴ Based on the number of sites and children the sponsor estimates to serve, as well as other relevant factors, SFSP regulations require State agency staff to determine if the projected costs are reasonable, necessary, and allowable. However, FNS has not established definitive guidance that States should follow concerning how to evaluate if budgeted costs submitted as part of SFSP applications are reasonable, necessary, and allowable. Even though it would be a best practice, FNS guidance does not require States to use historical reimbursement data or prior administrative review findings to assess if projected budget costs are reasonable, necessary, and allowable. Without such an assessment, State agency staff cannot effectively evaluate the adequacy of budgeted costs prior to approving sponsors to participate in SFSP.

For example, the State agency approved a returning sponsor²⁵ to operate in 2016 with a budget that was 125 percent higher than the prior year's actual reimbursement, despite being approved to operate 23 sites, an increase of only 3 sites from the prior year.²⁶ Additionally, the State agency approved the sponsor's 2016 application without questioning or requesting additional documentation to support its budget, even though the State agency identified during its administrative reviews in 2014 and 2015 that the sponsor charged unallowable costs to the program. Ultimately, our audit of the sponsor's costs in 2016 disclosed that over \$51,000 of the almost \$100,000 the sponsor budgeted for administrative expenses, such as labor costs, were a combination of unallowable and questionable costs and that the sponsor's budgeted costs were over-stated compared to historical costs and historical reimbursements. Because guidance had not been established to consider prior year actual reimbursements and prior administrative review findings, the State agency did not question the large variance between costs budgeted in 2016 compared to actual reimbursements received in 2015. As a result, State agency staff did not have sufficient information to make a determination that budgeted costs were reasonable, necessary, and allowable prior to approving the sponsor to participate in SFSP.

State agency officials informed us they did not use historical reimbursement data when reviewing the budget because they did not want to limit the sponsors' proposed cost estimates to reimbursements they received in the prior year. OIG is not asking the State agency to limit sponsor's budget estimates to reimbursements received in the prior year. However, we do conclude that historical reimbursement data can provide a baseline to assess if the costs proposed by the sponsor are reasonable based on past performance. Obtaining justification for any increases could minimize the risk that funds used for unallowable costs go undetected. Further, we conclude that issues of noncompliance identified in prior administrative reviews are key to assessing if the costs proposed by the sponsor are reasonable, necessary, and allowable. State

²⁴ The State agency's computer system automatically calculates the sponsors' projected reimbursements based on the projected average daily participation for their sites, number of serving days, and meal reimbursement rates.

²⁵ This sponsor was not categorized as high-risk, despite having multiple non-compliance issues in the past.

²⁶ The sponsor increased its 2016 site participation by 15 percent from 2015.

agency officials stated that, prior to approving the budget, they do consider prior noncompliances if notified by the compliance coordinator of significant operational growth, operational issues, and other noncompliance issues. However, the State agency did not provide any documentation to support it established a process to review prior administrative reviews.

As discussed above, the State agency could have reduced the risk of providing reimbursement for ineligible meals if it ensured that staff followed procedures to establish the approved ADP based on historical data. Additionally, the State agency could have reduced the risk of funds used for unallowable costs if it had reviewed prior year administrative review findings to determine if sponsors had included unallowable costs in their applications. State agency officials' position was that because regulations did not specifically require them to review prior year administrative review findings to assess if costs submitted as part of sponsors' budgets are reasonable, necessary, and allowable, they had complied with SFSP regulations regarding the approval of sponsor budgets. However, State agency officials understood that their SFSP application review and approval process could be improved. It is important that the State agency identify potential noncompliance as early in the process as possible to achieve the desired results of effective stewardship of program resources and reduce the potential for abuse of program funds intended to feed children in low-income areas.

To improve the State agency's application review process, FNS should direct the State agency to ensure that its policy requires staff to evaluate the historical attendance record to determine a reasonable ADP for sponsors' sites. FNS should direct the State agency to formally define and revise policies to include a definition of the reasonable range (for example, 20 percent)²⁷ for which meal service levels can exceed the historical daily average. FNS should direct the State agency to document the assessment of the approved ADP and justifications for any deviations from established procedures to assess the ADP of meal sites. Additionally, FNS should establish guidance for States to consider (such as prior year reimbursements and prior administrative review findings) to evaluate and approve sponsor budgets. Finally, FNS should request State agency staff to verify that unallowable costs identified during a sponsor's most recent administrative review are not included as costs submitted in its budget. If necessary, FNS should require State agency staff to request additional information to make this determination.

Recommendation 1

Direct the State agency to ensure that its staff follows its policy that requires staff to examine the reasonableness of ADP based on additional factors such as the historical record of attendance.

Agency Response

FNS concurs with the recommendation and will direct TDA to follow its policy that requires staff to examine the reasonableness of Average Daily Participation (ADP) based on historical

²⁷ State agency officials informed us that they recommend approval of up to a 20 percent increase over the ADP sponsors expect at their meal service site and submit in their application to determine the maximum meal service level they approve.

attendance. TDA currently uses a robust risk-based approach that considers several factors including historical ADP data, facility capacity, and also includes review and verification of certain data elements by its State teams. TDA has agreed to strengthen the approach by reminding staff of the process which includes historical ADP review and to document examination of these factors.

The estimated completion date for this action is July 31, 2019.

OIG Position

We accept FNS' management decision for this recommendation.

Recommendation 2

Request the State agency to establish a reasonable range by which the ADP it approves can exceed the historical average of meals served per day.

Agency Response

FNS concurs with the recommendation and will direct TDA to document the established reasonable range for ADP, which TDA has currently set at 20 percent above historical ADP averages, as discussed in the response to Recommendation 1. Based on Federal Regulations at 7 CFR 225.6(d)(2), this range must apply to vended sites; other site types (e.g., self-prep) are not included. However, FNS will encourage TDA to apply the ADP range for all sites, per TDA's established policy.

The estimated completion date for this action is May 31, 2019.

OIG Position

We accept FNS' management decision for this recommendation.

Recommendation 3

Request the State agency to revise current policies to include the definition of the reasonable range that the ADP it approves can exceed the historical average of meals served per day established in Recommendation 2. Establish a requirement that staff document justifications for any deviations.

Agency Response

FNS concurs with the recommendation and will request TDA revise its current policies to include defining a reasonable range for approving an ADP that exceeds the historical average of meals served per day, requiring staff to document justifications for any deviations.

The estimated completion date for this action is May 31, 2019.

OIG Position

We accept FNS' management decision for this recommendation.

Recommendation 4

Request the State agency to document its assessment of the approved ADP and justifications for any deviations from established procedures to assess the ADP of meal sites.

Agency Response

FNS concurs with the recommendation and will request that TDA develop a process for documenting any deviations from its established procedures, should any deviations occur.

The estimated completion date for this action is August 31, 2019.

OIG Position

We accept FNS' management decision for this recommendation.

Recommendation 5

Establish guidance that details information State agencies should consider during its evaluation and approval of sponsors' budgets (such as consideration of prior year reimbursements and prior administrative review findings).

Agency Response

FNS concurs with the recommendation and will establish guidance for SFSP State agencies to utilize during evaluation and approval of sponsor budgets.

The estimated completion date for this action is March 31, 2019.

OIG Position

We accept FNS' management decision for this recommendation.

Recommendation 6

Request the State agency to require its staff to verify that unallowable costs identified during a sponsor's most recent administrative review are not included as costs submitted in its budget. If necessary, require agency staff to request additional information to make this determination.

Agency Response

FNS concurs with the recommendation and will request TDA review sponsor budgets for any unallowable costs that were identified during a sponsor's most recent administrative review to ensure identified unallowable costs are not approved in the next year's budget.

The estimated completion date for this action is June 30, 2019.

OIG Position

We accept FNS' management decision for this recommendation.

Finding 2: Texas State Agency Needs to Strengthen its Administrative Review of SFSP

We could not validate the conclusion presented in the State agency's administrative review of sponsor compliance with program regulations. This occurred because the State agency's procedures did not always specify documentation that State agency staff should review and retain to adequately assess and support conclusions that sponsors complied with program regulations. As a result, the State agency cannot ensure that its staff consistently identify issues of noncompliance. Consequently, we identified more than \$253,000 of questionable costs and approximately \$28,000 for non-reimbursable meals in 2016.²⁸

Federal regulations require the State agency to review sponsors and sites to ensure compliance with program regulations and any other applicable instructions issued by the Department.²⁹ Further, the State agency must design controls that can be used for effective monitoring,³⁰ evaluation of performance, and to support management decision making³¹ to protect program resources from waste, fraud, and mismanagement.³²

The State agency's primary monitoring control to ensure SFSP integrity is its SFSP sponsor administrative reviews. The State agency conducts sponsor reviews at least once every 3 years to evaluate the adequacy of the sponsors' SFSP operations. The administrative review is guided by a comprehensive questionnaire that includes over 100 questions covering the programs' functional areas, such as sponsors' SFSP operations, oversight, and financial management. The administrative review also includes site visits to 10 percent of the sponsors' sites, or one site, whichever number is greater. The State agency staff interviews sponsors about their administrative processes, reviews documentation, and verifies both the correctness and compliance with regulations and guidance. The administrative review process includes planning and preparing for the review, conducting the review, and documenting the results of the review. If the State agency identifies issues during its administrative reviews, the sponsor is required to submit a corrective action plan. The State agency will review the plans and approve or deny them. The State agency conducted an administrative review for each of the five sponsors in our sample during our audit scope period.

Although the State agency created a process intended to fully assess the adequacy of the sponsors' administration of SFSP, we determined that the administrative reviews did not contain

²⁸ Throughout this finding, sponsors had multiple issues that caused questionable costs or payments for non-reimbursable meals. Total questionable costs were over \$253,000, and payments were made for approximately \$28,000 in non-reimbursable meals. For clarity's sake, we have isolated these noncompliance issues. Please see Exhibit A for a description of how these noncompliance issues contributed to the total questionable costs and non-reimbursable meals.

²⁹ 7 C.F.R. § 225.7(d)(2).

³⁰ Government Accountability Office (GAO), *Standards for Internal Controls* 13.04 (Sept. 2014), pg. 6 and pg. 59.

³¹ GAO, *Standards for Internal Controls* OV2.21 (Sept. 2014), pg. 13.

³² GAO, *Standards for Internal Controls* (Sept. 2014), pg. 40.

sufficient information to determine how staff reached conclusions that sponsors were in compliance with SFSP requirements. While State agency staff documented their work when they identified SFSP noncompliances, they lacked documentation to support their conclusions for the rest of the work performed. For example, if the State agency staff completed the 100-question administrative review for a sponsor and issued findings for two noncompliance issues, the staff only documented the conclusion for those two noncompliance issues, but provided few, if any, details to support the affirmative conclusions for the other 98 questions. Therefore, State agency managers and third parties cannot effectively monitor and evaluate the performance of their staff and the accuracy of their determinations. In this case, we identified noncompliance issues such as unallowable costs, incomplete meals claimed, unsupported claimed meals, meals served on non-approved days, inadequate financial management, and insufficient followup on corrective action plans. These issues went undetected or uncorrected by the State agency for the sponsors in our audit sample.

The State Agency Did Not Identify Unallowable or Questionable Costs

In 2016, the State agency conducted administrative reviews of two of our sampled sponsors and did not identify any questionable costs. However, our review of the sponsors' 2016 records determined that their labor cost expenses were questionable because the expenses were not supported by sufficient documentation, such as timesheets. For example, all five sponsors, including the two reviewed by the State in 2016, charged labor costs to SFSP without ensuring they had adequate documentation such as timesheets that supported the amount of time spent on allowable SFSP activities. In total, nearly \$160,000 of the \$253,000 questionable costs we identified were attributed to unsupported and/or questionable labor costs. When we asked State agency officials about the questionable labor costs, they agreed that sponsors must be able to support labor costs with documentation, such as timesheets and other payroll records.

In addition to the State agency reviewing labor costs, it also reviews vendor invoices and receipts to assess whether they are reasonable, necessary, and allowable. During the State agency 2015 administrative review of one sponsor, State agency staff did not identify all food-related questionable costs. However, during our review of the sponsor's 2014 through 2016 vendor invoices and receipts, we identified items like fruit roll-ups and pudding that did not meet FNS meal pattern requirements and were questionable costs. This amounted to about \$4,000 worth of questionable food cost items charged to SFSP in 2016.³³ When we asked State agency officials about this matter, they understood that such food items did not meet program requirements and were unallowable costs to the program.

³³ The \$4,000 is a portion of the \$253,000 in total questionable costs we identified for all five sponsors in 2016.



Left: In 2016, one sponsor charged about \$4,000 for pudding and other snack items, which is an unallowable cost according to SFSP requirements.

Below: Entire SFSP meal plus pudding. Photos by OIG.



Because State agency staff records did not contain information to lead third-party reviewers to the same conclusions concerning how they determined sponsors were in compliance with program requirements, State agency staff conclusions could not be supported. Further, the State agency cannot evaluate the performance of its staff to identify noncompliances and provide training when necessary.

State Agency Reimbursed Sponsors for Incomplete Meals

A complete reimbursable SFSP meal (breakfast,³⁴ lunch, or supper) must contain specific food components: (1) vegetables and fruits, (2) bread and bread alternates, (3) milk, and (4) meat and meat alternates.³⁵ As part of the State agency's administrative review, agency staff are required to compare the documentation of total milk purchased, milk donations, and recycled milk to the total number of meals claimed as served by the sponsor.³⁶ If the number of individual servings of milk purchased, donated, and recycled is less than the meals the sponsor claimed as served, the State agency is required to disallow those meals. The State agency reviewed two of the sampled sponsors in 2016 and determined that each sponsor had enough milk to support its meal counts. However, our audit determined that one of the sponsors did not have enough milk for 2,724 meals. When we examined the State agency's administrative review records, we determined that the State agency's documentation did not contain information to support its conclusion that the sponsor had milk receipts to support that sufficient milk was purchased for each meal served that required a milk component. Overall, we determined that three of the five sponsors in our sample did not have enough milk. The State agency reimbursed them for a total of about \$23,000 of the approximately \$28,000 we identified as non-reimbursable meals.³⁷

State Agency Reimbursed Sponsors for Unsupported Meals

The State agency administrative review procedures require staff to assess whether sponsors properly reconcile their daily meal count records and submit accurate meal claims each month. The State agency conducted administrative reviews for two of the sampled sponsors in 2016 and did not report any findings related to meal claim reconciliation. Our audit disclosed that all five sponsors did not accurately reconcile their 2016 meal claims. In one instance, a sponsor was reimbursed for 158 meals that its meal count records did not support. However, since the State agency documentation did not contain information to support its conclusion, we were unable to determine why its administrative review did not detect the excessive meal claims this sponsor submitted.

³⁴ For lunch and supper, a sponsor must serve all four components for the meals to be reimbursable. The sponsor is not required to serve a meat or meat alternate for breakfast to be considered a reimbursable meal.

³⁵ Sponsors that do not use the "offer versus serve" policy should have milk receipts that support the total number of meals claimed.

³⁶ The State agency requires this comparison for sponsors with self-preparation sites and/or vended sites with milk purchased separately.

³⁷ The State agency did not have sufficient records available to make a determination on the adequacy of its review.

State Agency Reimbursed Sponsors for Meals Served on Unapproved Days

FNS guidance requires its staff to reconcile the number of meals claimed for a month to supporting documentation. However, the State agency's administrative site review procedures do not instruct its staff to verify that meals served and claimed for reimbursement by sponsors are served on days the State agency approved.

We identified two sponsors that claimed meals on unapproved days. For example, one sponsor had several sites that were approved to serve meals Monday through Thursday, but the sites claimed meals on a Friday. As a result, the State agency paid the sponsor for 1,116 non-reimbursable meals. When we brought this matter to State agency officials' attention, they understood that the meals would be non-reimbursable but stated that if the agency staff had identified that meals were served and claimed for unapproved days, the State agency would have allowed the sponsor to update its application to allow reimbursement of the meals. However, the State agency had not established controls to make this assessment and therefore did not identify this issue during its review.

State Agency Did Not Identify Incomplete or Inaccurate Financial Reporting

FNS guidance requires State agencies to review sponsors' financial records such as invoices and receipts, bank statements, and checking account ledgers to ensure the fiscal integrity of the SFSP funds paid to the sponsor.³⁸ During an administrative review, the State agency is required to determine if the sponsor is able to demonstrate adequate financial management. The State agency concluded all five sponsors in our sample had adequate financial management records during the most recent administrative reviews.³⁹

However, our review of the five sponsors' financial management records disclosed that the sponsors had inaccurate or incomplete financial records in 2016. The State agency reviewed two of the sample sponsors in 2016 and determined that both sponsors' financial management records were in accordance with SFSP requirements. We reviewed the two sponsors' 2016 financial management records and did not reach the same conclusion. For example, the State agency concluded one sponsor had adequate financial records during its 2016 administrative review. In this case, we determined that the sponsor's 2016 financial records were not accurate and did not include all SFSP expenses that the sponsor incurred, such as expenses for food.

In addition, the State agency also conducted an administrative review of the remaining three sponsors in our sample in 2015. The State agency concluded during its review that the three sponsors had adequate financial management records. However, we assessed the adequacy of one of the three sponsor's 2015 financial records and determined that the sponsor's financial records did not accurately track all SFSP expenses, such as mileage and food expenses. We also determined that the sponsor's 2016 financial records did not correspond with bank statements or invoices. Overall, State agency staff concluded that the five sponsor's financial management of

³⁸ USDA FNS, *State Agency Monitor Guide, Summer Food Service Program (2016)*, pg. 34.

³⁹ The State agency reviewed three of the selected sponsors in 2015 and the other two sponsors in 2016.

SFSP was adequate, but did not provide any information to determine how they reached this conclusion.

State Agency Did Not Properly Document Followup of Sponsors' Prior Corrective Action Plans

If State agency staff identify findings or corrective actions during the course of an administrative review, they require the sponsor to provide a written corrective action plan that provides sufficient detail regarding the steps to be taken to correct the deficiencies. The plan should be detailed enough so that any subsequent review can clearly determine whether the deficiencies were fully and permanently corrected. The State agency may conduct followup reviews to determine if deficiencies were fully and permanently corrected. If the problem persists, the State agency may declare the sponsor seriously deficient.⁴⁰ However, the State agency's administrative review procedures do not require agency staff to document their assessment of corrective actions during a followup administrative review.

State agency staff reported findings for three of the five sponsors in their administrative reviews that occurred during our scope period. However, they did not sufficiently document the effectiveness of sponsors' corrective actions. For example, in 2014, the State agency issued a finding for unallowable labor costs for one of its sponsors. The sponsor was required to submit documentation such as bank statements to support that it returned approximately \$63,000 in unallowable costs to the SFSP account as part of its 2015 application. While the State agency conducted a followup review of the sponsor in 2015, the review's supporting documentation did not include evidence that it verified the \$63,000 was returned to the sponsor's SFSP account with non-Federal funds. The State agency and the sponsor were unable to provide documentation showing that the \$63,000 was returned to the SFSP account in 2016. Since the State agency does not retain documentation that supports how agency staff determines conclusions during an administrative review, we question how the State agency concluded the sponsor was compliant with program requirements.

We discussed these issues with the State agency officials, who generally understood our findings. However, they stated that they did not require their staff to maintain documentation to support conclusions where the results of their analysis did not result in a noncompliance due to the timeframe required to complete administrative reviews and the number of administrative reviews they have to conduct throughout the summer. We are not recommending that the State agency obtain documentation to support all conclusions it makes regarding sponsors' compliance with SFSP requirements. However, the State agency should establish controls that will provide an audit trail to effectively monitor the performance of its administrative staff in identifying SFSP noncompliance. Federal requirements require the State agency to design controls that can be used for effective monitoring,⁴¹ evaluation of performance, and to support management

⁴⁰ The "seriously deficient" process is intended to ensure compliance with FNS regulations and guidance and to protect program integrity. It protects program integrity by allowing State agencies a process by which sponsors that have not corrected noncompliance issues may be terminated for cause in accordance with Federal regulations.

⁴¹ GAO, *Standards for Internal Controls* 13.04 (Sept. 2014), pg. 6 and pg. 59.

decision making⁴² to protect program resources from waste, fraud, and mismanagement.⁴³ The State agency's current process does not allow for effective evaluation of performance. By only requiring State agency officials to maintain documentation to support the findings and observations included in the administrative reports, the State agency created a monitoring control that was largely undocumented for most of the administrative review.

The State agency should strengthen the design of its administrative review process to include sufficient information or documentation to support agency staff's assessments of sponsors' compliance with program requirements and the adequacy of sponsors' SFSP administration and oversight. These administrative review documents should contain sufficient information to enable State agency managers not associated with the reviews, as well as external parties, to determine if the administrative review was properly conducted and the conclusions are valid.

Additionally, the State agency should develop procedures for its management to evaluate the administrative review tests performed, the analysis conducted, and the basis for and accuracy of the administrative review staff conclusions. To ensure consistent reviews, the State agency should train its staff on how to implement the new guidance established to include supporting their conclusions made during an administrative review, and documenting records or transactions they tested to verify the sponsor processes. Lastly, the State agency should evaluate and confirm the roughly \$253,000 in questionable costs and the approximately \$28,000 in questionable meal claims.

Recommendation 7

Request the State agency to develop and implement guidance on how agency staff are to support conclusions made during administrative reviews. The guidance should include procedures to document what records or transactions they tested to verify the adequacy of sponsor processes, or the basis for its staff's conclusions that sponsors complied with SFSP regulations.

Agency Response

FNS concurs with the recommendation and will request TDA to maintain documentation supporting conclusions made during SFSP administrative reviews, as well as establish review procedures that provide guidance to SFSP administrative review staff on documenting conclusions.

The estimated completion date for this action is October 31, 2019.

OIG Position

We accept FNS' management decision for this recommendation.

⁴² GAO, *Standards for Internal Controls* OV2.21 (Sept. 2014), pg. 13.

⁴³ GAO, *Standards for Internal Controls* (Sept. 2014), pg. 40.

Recommendation 8

Request the State agency to train its staff on how to implement the new guidance established in the above recommendation.

Agency Response

FNS concurs with the recommendation and will request TDA provide training to staff conducting SFSP administrative reviews on implementing review procedures for maintaining supporting documentation for conclusions.

The estimated completion date for this action is October 31, 2019.

OIG Position

We accept FNS' management decision for this recommendation.

Recommendation 9

Request the State agency to develop an oversight review process for State agency management to periodically evaluate the administrative reviews to ensure agency staff's conclusions are supported.

Agency Response

FNS concurs with the recommendation and will request that TDA include, in their existing administrative review oversight process, procedures on periodic evaluation of supporting documentation for reviewers' conclusions.

The estimated completion date for this action is November 30, 2018.

OIG Position

We accept FNS' management decision for this recommendation.

Recommendation 10

Direct the State agency to review the sponsors' unsupported meals claimed totaling \$28,201 identified by OIG and recover any disallowed SFSP reimbursements from the sponsors.

Agency Response

FNS concurs with the recommendation and will direct TDA to work jointly with FNS to review unsupported meals identified by OIG. If confirmed by the State's follow-up review, TDA will attempt to recover any disallowed SFSP reimbursements that were confirmed.

The estimated completion date for this action is October 31, 2019.

OIG Position

We accept FNS' management decision for this recommendation.

Recommendation 11

Direct the State agency to review the sponsors' questionable costs totaling \$253,369 identified by OIG and recover any disallowed expenditures from the sponsors.

Agency Response

FNS concurs with the recommendation and will direct TDA to work jointly with FNS to review questionable costs identified by OIG. If unallowable costs are confirmed by the State's follow-up review, TDA will attempt to recover any disallowed SFSP expenditures.

The estimated completion date for this action is October 31, 2019.

OIG Position

We accept FNS' management decision for this recommendation.

Recommendation 12

Direct the State agency to develop and implement additional review questions to identify if sponsors are claiming meals for reimbursement on days the State agency has not approved to serve. In addition, the State agency should include in its guidance instructions for its staff to expand their analysis if they determine that meals have been claimed for reimbursement on unapproved days.

Agency Response

FNS concurs with the recommendation. Although TDA has a review question to identify meals claimed on unapproved days, FNS will request TDA consider implementing additional review questions. TDA will enhance the review instructions for SFSP administrative review staff to

include more detailed review steps to identify if sponsors are claiming meals served on days not approved.

The estimated completion date for this action is October 31, 2019.

OIG Position

We accept FNS' management decision for this recommendation.

Finding 3: SFSP Sponsors Did Not Adequately Monitor SFSP Sites

The State agency reimburses SFSP sponsors, who may operate several sites, based solely on the sponsors' meal service site meal counts. During our site visits, we found that the five SFSP sponsors we reviewed did not operate some of their sites in accordance with SFSP regulations and requirements. Two of the 13 types of noncompliance⁴⁴ observed resulted in sponsor site staff recording 53 ineligible meals as reimbursable. This occurred because sponsors did not adequately train meal service site staff or monitor meal service site operations. As a result, the State agency reimbursed four sponsors approximately \$201 in questionable SFSP reimbursements for meals served on a single day. Furthermore, the issues we identified could potentially represent significant deficiencies for these sites.

For SFSP meals to be reimbursable, sponsors must ensure sites count only eligible SFSP meals served to children in accordance with program requirements. These reimbursement requirements include regulatory provisions as well as FNS guidance. Additionally, FNS guidance outlines specific procedures to help ensure sponsors comply with reimbursement requirements.

We observed program noncompliance issues at 19 of the 21 sponsor sites we visited. In total, we identified 48 instances of SFSP noncompliance issues that included food safety violations,⁴⁵ meals missing required components, and meals served outside approved times.

Meals Missing Required Components

SFSP regulations require SFSP meals to include specific food components such as fruits, vegetables, milk, and meat and/or meat alternatives in order to be reimbursable. Three of the 21 meal service sites we observed served meals to children that did not include either milk or fruit. Consequently, the children at these sites did not receive well-balanced meals as required by the program. In total, these meal service sites improperly counted 32 meals, which represent about \$122 of questionable meals that were not reimbursable.

Meals Served Outside Approved Service Times

Meals served outside the meal service time approved by the State agency are not eligible for reimbursement.⁴⁶ Sponsors are required to train meal service site staff and monitor meal service operations to ensure meal service sites they operate serve meals within the meal service time the State agency has approved. However, we identified one sponsor's site staff recorded that 25 reimbursable meals were served during the approved meal service time when we observed only 7 reimbursable meals served to children served during the meal service. The site staff stated it was not uncommon for them to serve and

⁴⁴ This number represents noncompliances observed during sites visits and site confirmations.

⁴⁵ We reported the food safety violation in an interim report—Audit Number 27004-0004-21 (1), *Texas' Controls Over Summer Food Service—Interim Report*, Sept. 2017. A site approved to serve summer meals to children did not have proper equipment available to hold food, prior to serving, at an adequate food temperature.

⁴⁶ 7 C.F.R. § 225.16(c)(3).

claim meals outside their approved meal service time. Although the sponsor agreed that the meal service site staff was out of compliance with SFSP requirements and stated that they would not claim the meals as reimbursable, we were not able to verify if the sponsor included the 18 ineligible meals in their reimbursement claim because the claim was not submitted during our visit. Overall, during our site visits, two meal service sites counted 21 non-reimbursable meals served outside approved service times as reimbursable. Therefore, these meal service sites improperly counted 21 meals, which represent about \$79 of questionable meals that were not reimbursable.

The site noncompliance issues we identified occurred, in part, because the sponsors did not ensure site staff were knowledgeable of program requirements and able to carry out program responsibilities.⁴⁷ In 2016, two sponsors in our sample did not ensure that 10 of their 23 sites had trained supervisors as required.⁴⁸ Further, when we visited 2 of those 10 sites in 2017, the site supervisors did not ensure that certain basic program requirements, such as proper completion of meal count forms and verifying the number and adequacy of meals delivered, were conducted.

The site noncompliance issues also occurred because sponsors did not train their monitors to adhere to certain SFSP sponsor monitoring guidelines; as a result, sponsor monitors did not adequately perform their monitoring duties. Sponsors employ monitors to ensure sites operate in accordance with SFSP guidance and requirements. The monitors conduct site reviews, complete monitoring reports documenting compliance or noncompliance with SFSP requirements, and work with site staff to correct any problems identified and provide additional training as necessary. However, we determined that some sponsors did not adequately train site monitors to assess site operations.

For example, we reviewed documentation of two site reviews performed by one of our sampled sponsor's monitors during the first four weeks of operation in 2015. As part of a review, the State agency requires the monitor to document whether the meal service site staff counted and checked the adequacy of meals upon delivery. One site review form documented that the monitor arrived after the meal service was scheduled to begin; therefore, we conclude the monitor did not arrive in time to observe the entire meal service, including meal delivery. When we asked the sponsor why the monitor did not observe delivery, the sponsor stated that he was not aware that monitors were required to be present and observe the meal delivery. In order to answer the monitoring questions pertaining to whether the site staff counted and confirmed the number of meals delivered before they signed the delivery receipt, the sponsor also told us that he instructed his site monitors to ask the site supervisor for a response to the questions. However, SFSP guidance for site monitors specifically notes the site monitor must observe delivery or preparation of meals, service of meals, consumption of meals, cleanup after meals, and completion of site meal count paperwork to ensure the site is operating in accordance with SFSP guidance. Consequently, these monitors were not trained to understand and implement

⁴⁷ 7 C.F.R. § 225.15(d)(1).

⁴⁸ Federal regulations require sponsors to provide training to site personnel, and FNS guidance specifies that the training must include site supervisors as well as food service personnel.

certain SFSP requirements. Issues of noncompliance that should have been corrected may have gone undetected during their review.

Finally, sponsors did not maintain a reasonable level of monitoring, as required. Federal regulations require sponsors to conduct at least one monitoring review during “the first four weeks of operation” and then maintain a reasonable level of monitoring throughout the program operation.⁴⁹ However, four of the five sponsors in our sample only conducted monitoring reviews of the ten meal service sites we selected for site visits during the first four weeks of operation in 2016 program year and did not conduct any other monitoring visits throughout the summer. We conclude that these sponsors did not maintain a reasonable level of site monitoring, and ensure sites complied with program requirements.

We discussed these issues with State agency officials who generally understood our findings. To improve sponsor monitoring of SFSP operations, the State agency should direct the identified sponsors to: (1) provide additional enhanced SFSP training to its site staff, (2) provide specialized training that includes monitors’ duties and responsibilities as prescribed by the *FNS Sponsor Monitor’s Guide* to site monitors that visit and monitor sites, and (3) establish a reasonable level of program monitoring they will conduct throughout the program and document the results of those reviews.⁵⁰ The State agency should monitor and assess the identified sponsors’ enhanced site training, specialized site monitor training, and increased level of site monitoring to ensure the identified sponsors’ compliance. The State agency should also determine if the identified sponsors received approximately \$201 of reimbursements for the 53 meals we identified as non-reimbursable and determine if the reimbursements should be recovered.

Recommendation 13

Request the State agency to ensure identified sponsors provide additional, enhanced SFSP training to site staff to ensure staff have sufficient knowledge of program requirements when operating sites and serving meals.

Agency Response

FNS concurs with the recommendation. FNS will direct TDA to ensure identified sponsors are providing training to site staff in accordance with 7 CFR 225.15(d), which outlines sponsor responsibilities for training and monitoring site personnel and operations. In addition, FNS will request TDA to ensure identified sponsors provide additional, enhanced training to site staff to ensure staff have sufficient knowledge of program requirements when operating sites and serving meals.

The estimated completion date for this action is August 31, 2019.

⁴⁹ 7 C.F.R. § 225.15(d)(3).

⁵⁰ The level of program monitoring should be set based on how FNS defines “reasonable.”

OIG Position

We accept FNS' management decision for this recommendation.

Recommendation 14

Request the State agency to direct identified sponsors to provide specialized training that includes monitors' duties and responsibilities as prescribed by the *FNS Sponsor Monitor's Guide* to site monitors that visit and monitor site operations.

Agency Response

FNS concurs with the recommendation. FNS will encourage TDA to require identified sponsors to provide specialized training for site monitors to ensure monitors' duties are performed as prescribed by the *FNS Sponsor Monitor's Guide*.

The estimated completion date for this action is August 31, 2019.

OIG Position

We accept FNS' management decision for this recommendation.

Recommendation 15

Request the State agency to direct identified sponsors to establish a reasonable level of monitoring they will conduct, beyond the initial review conducted during the first four weeks, to oversee its SFSP operations throughout the program. Direct the sponsors to document the results of the review.

Agency Response

FNS concurs with the recommendation. FNS will work with TDA to ensure that the identified sponsors are meeting the sponsor monitoring requirements outlined in 7 CFR 225.15(d)(3). FNS will encourage TDA to require identified sponsors perform site reviews as federally required, including additional reviews as necessary to ensure ongoing compliance throughout program operations.

The estimated completion date for this action is October 31, 2019.

OIG Position

We accept FNS' management decision for this recommendation.

Recommendation 16

Direct the State agency to monitor and assess the identified sponsors' enhanced site training, specialized site monitor training, and increased level of site monitoring to ensure the identified sponsors' compliance.

Agency Response

FNS concurs with the recommendation. While there is no regulatory requirement to do so, FNS will encourage TDA to monitor and assess identified sponsors' implementation of enhanced site and monitor trainings, as well as, increased site monitoring.

The estimated completion date for this action is October 31, 2019.

OIG Position

We accept FNS' management decision for this recommendation.

Recommendation 17

Direct the State agency to determine if the four identified sponsors received approximately \$201 in reimbursements for the 53 meals we identified as non-reimbursable during site observations. The State agency should recover any reimbursements paid to sponsors for those non-reimbursable meals identified by our review.⁵¹

Agency Response

FNS concurs with the recommendation. FNS will direct TDA to evaluate the sponsor's meal claims to determine whether any portion of the claim was unallowable. TDA will recover the portion of the sponsors' claims determined to be unallowable following the procedures outlined in 7 CFR 225.12.

The estimated completion date for this action is October 31, 2019.

OIG Position

We accept FNS' management decision for this recommendation.

⁵¹ 7 C.F.R. § 225.10 (c) allows the State agency to disregard overpayments which do not exceed \$100.

Scope and Methodology

We conducted an audit of the State of Texas' administration of SFSP. The scope of our audit work covered program activities from FYs 2014 through 2016 and site observations from June through August 2017. We began fieldwork in Texas in May 2017. To accomplish our objectives, we performed fieldwork at the Texas Department of Agriculture office in Austin and at 5 non-statistically selected sponsors⁵² and 23 non-statistically selected sites (9 complete announced site visits and 14 confirmation site visits).⁵³

We non-statistically selected 5 of Texas' 378 sponsors based on SFSP reimbursement amounts, sponsor types, site types, site locations, and food service operations.⁵⁴ Ultimately, we non-statistically selected one sponsor from each of the following categories:

- Sponsor A: One sponsor that was a school food authority;
- Sponsor B: One non-profit sponsor that had rural, open sites;
- Sponsor C: One non-profit sponsor that had urban, open sites;
- Sponsor D: One non-profit sponsor that had vended, open sites; and
- Sponsor E: One non-profit sponsor that had self-preparation, open sites.

We also non-statistically selected two sites for each sponsor based on the SFSP reimbursement amounts and corresponding site location and food service characteristics, if possible. For example, for Sponsor B, we would select two rural sites that had the highest SFSP reimbursements in 2016. If a selected site was not operational at the time of our visit, we selected an alternative site with similar characteristics, if possible.⁵⁵ If there was no alternative site with similar characteristics, then we selected a site based on the highest SFSP reimbursement. During our fieldwork, one of our five sponsors selected for review only had one of the two selected sites operational. Consequently, we conducted 9 site visits in all instead of 10.

For each selected sponsor, we also conducted additional site confirmation visits based on sites that were operational at the time of our fieldwork and within the time/distance parameters of our selected sites or sponsors' offices, which was approximately a 10-mile or 10-minute travel radius. In total, we conducted 14 confirmation site visits for the 5 sponsors selected for review. Twelve of these confirmation site visits occurred during the SFSP meal service. We found the remaining two site confirmations were not participating in SFSP in 2017.

⁵² For a list of sampled sponsor locations, see Exhibit B.

⁵³ "Complete announced visits" means site visits where auditors observed the sites' complete meal service and where sponsors were notified of the date and time of our visits. "Confirmation site visit" means site visits where auditors conducted limited site visits to confirm if the sites were operational.

⁵⁴ We limited sponsor types to one school food authority and four nonprofits. We limited site types to open sites, site locations included rural or urban, and food service operations include vended or self-prepared.

⁵⁵ Selected sites may not have been operational due to the timing of our fieldwork and the site's period of operations or the sponsor may not operate the selected site in 2017.

In developing findings for this report, we:

- Reviewed applicable laws, regulations, and Federal and State policies and procedures concerning SFSP.
- Developed three checklists 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.
- 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 sponsor central kitchens and observed SFSP meal preparations.
- Conducted site visits and observed site 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 did not solely rely on information from any agency information system. We conducted limited verification of information generated by the State agency's computer system. Conclusions on the information system will be reported in *Summer Food Service Program in Texas—Sponsor Costs*, Audit Number 27004-0003-21.⁵⁶

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 objectives.

⁵⁶ We anticipate the audit report for Audit Number 27004-0003-21, *Summer Food Service Program in Texas—Sponsor Costs* to be issued by January 2019.

Abbreviations

ADP.....	average daily participation
C.F.R.....	Code of Federal Regulations
FNS.....	Food and Nutrition Service
FY.....	fiscal year
GAO.....	Government Accountability Office
NSLA.....	Richard B. Russell National School Lunch Act
OIG.....	Office of Inspector General
SFSP.....	Summer Food Service Program
USDA.....	United States Department of Agriculture

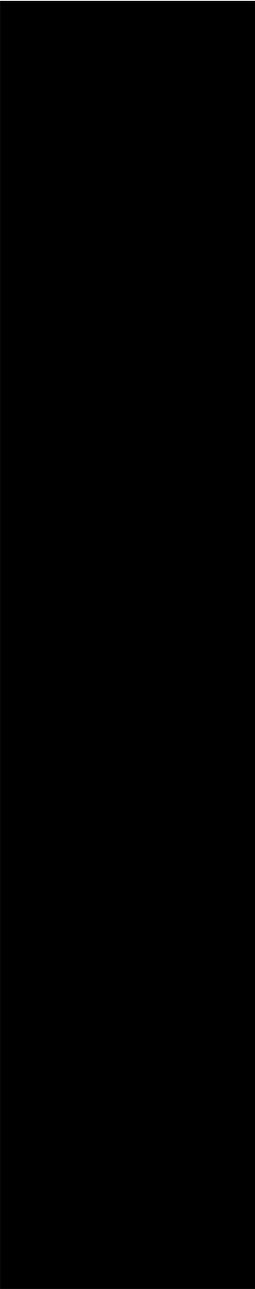
Exhibit A: Summary of Monetary Results

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

Finding	Recommendation	Description	Category	Amount
2	10	Unsupported SFSP Reimbursements	Questioned Costs, Recovery Recommended	\$28,201
2	11	Questionable SFSP Costs	Questioned Costs, Recovery Recommended	\$253,369
3	17	Questionable SFSP Reimbursements	Questioned Costs, Recovery Recommended	\$201
TOTAL MONETARY RESULTS				\$281,771

Exhibit B: Audit Sites Visited

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

STATE AGENCY NAME	LOCATION
Texas Department of Agriculture	Austin, Texas
<p>Sponsor A Site A1 Site A2 Site A3 Site A4 Site A5</p> <p>Sponsor B Site B1 Site B2 Site B3* Site B4* Site B5</p> <p>Sponsor C Site C1 Site C2 Site C3 Site C4 Site C4</p> <p>Sponsor D Site D1* Site D2 Site D3 Site D4 Site D5</p> <p>Sponsor E Site E1 Site E2 Site E3 Site E4</p>	

*Site was not operational at time of site visit.

Exhibit C: Sponsor Noncompliance Issues

This exhibit lists the categories of noncompliance issues for each sponsor selected for review.

No.	Noncompliance Issue	Sponsors				
		Sponsor A	Sponsor B	Sponsor C	Sponsor D	Sponsor E
1	Unallowable/Questionable Costs	X	X	X	X	X
2	Unsupported/Reimbursements— Insufficient Milk Recorded			X	X	X
3	Unsupported/Reimbursements— Overclaimed Meals	X	X	X	X	X
4	Unsupported/Reimbursements— Meals Recorded on Unapproved Days	X	X			
5	Incomplete/Inaccurate Financial Reporting	X	X	X	X	X
6	Lack Corrective Action Follow up on Prior Administrative Reviews		X		X	

Exhibit D: Site Noncompliance Issues

This exhibit summarizes the site noncompliance issues we observed during our site visits.

Noncompliance Issue	Sponsor A	Sponsor B	Sponsor C	Sponsor D	Sponsor E	Total
Meals missing required food components (such as milk, or fruits and vegetables)		1	1	1		3
Meals counted prior to point of service		1	1	1	1	4
Inaccurate meal count forms		1		1		2
Meals consumed offsite	1					1
Meals served outside of approved meal service times	1		1			2
Food safety violations*		1				1
Adequacy and number of meals delivered not verified					1	1
Adults consuming meal components	3					3
Inadequate meal supervision	3		1			4
Inadequate or incomplete delivery receipts		2				2
Site staff unaware of meal service caps			3			3
Improper disposal of food			1			1
Site supervisor not present onsite			2			2
Total	8	6	10	3	2	29
*This noncompliance issue was reported in Audit Report 27004-0004-21(1), <i>Texas Controls Over Summer Food Service Program Interim Report</i> , Sept. 2017.						

**AGENCY
RESPONSES TO AUDIT REPORT**

United States
Department of
Agriculture

Food and
Nutrition
Service

3101 Park
Center Drive

Alexandria, VA
22302-1500



DATE: November 20, 2018

AUDIT

NUMBER: 27004-0004-21

TO: Gil H. Harden
Assistant Inspector General for Audit

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

SUBJECT: Texas' Controls Over Summer Food Service Program

This letter responds to the official draft report for audit number 27004-0004-21, Texas' Controls Over Summer Food Service Program. Specifically, the Food and Nutrition Service (FNS) is responding to the 17 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:

Direct the State agency to ensure that its staff follow its policy that requires staff to examine the reasonableness of ADP based on additional factors such as the historical record of attendance.

FNS Response:

FNS concurs with the recommendation and will direct TDA to follow its policy that requires staff to examine the reasonableness of Average Daily Participation (ADP) based on historical attendance. TDA currently uses a robust risk-based approach that considers several factors including historical ADP data, facility capacity, and also includes review and verification of certain data elements by their State teams. TDA has agreed to strengthen the approach by reminding staff of the process which includes historical ADP review and to document examination of these factors.

Estimated Completion Date:

July 31, 2019

OIG Recommendation 2:

Request the State agency to establish a reasonable range by which the ADP they approve can exceed the historical average of meals served per day.

FNS Response:

FNS concurs with the recommendation and will request TDA establish a reasonable range for approving an ADP that exceeds the historical average of meals served per day. This range would apply for vended sites which have a regulatory requirement for maximum number of meals to be determined using historical participation data.

Estimated Completion Date:

May 31, 2019

OIG Recommendation 3:

Request the State agency to revise current policies to include the definition of the reasonable range that the ADP it approves can exceed the historical average of meals

served per day established in Recommendation 2. Establish a requirement that staff document justifications for any deviations.

FNS Response:

FNS concurs with the recommendation and will request TDA revise its current policies to include defining a reasonable range for approving an ADP that exceeds the historical average of meals served per day, requiring staff to document justifications for any deviations.

Estimated Completion Date:

May 31, 2019

OIG Recommendation 4:

Request the State agency to document its assessment of approved ADP and justifications for any deviations from established procedures to assess the ADP of meal sites.

FNS Response:

FNS concurs with the recommendation and will request that TDA develop a process for documenting any deviations from its established procedures, should any deviations occur.

Estimated Completion Date:

August 31, 2019

OIG Recommendation 5:

Establish guidance that details information State agencies should consider during its evaluation and approval sponsors' budgets (such as consideration of prior year reimbursements and prior administrative review findings).

FNS Response:

FNS concurs with the recommendation and will establish guidance for SFSP State agencies to utilize during evaluation and approval of sponsor budgets.

Estimated Completion Date:

March 31, 2019

OIG Recommendation 6:

Request the State agency to require its staff to verify that unallowable costs identified during a sponsor's most recent administrative review are not included as costs submitted in its budget. If necessary, require agency staff to request additional information to make this determination.

FNS Response:

FNS concurs with the recommendation and will request TDA review sponsor budgets for any unallowable costs that were identified during a sponsor's most recent administrative review to ensure identified unallowable costs are not approved in the next year's budget.

Estimated Completion Date:

June 30, 2019

OIG Recommendation 7:

Request the State agency to develop and implement guidance on how agency staff are to support conclusions made during administrative reviews. The guidance should include procedures to document what records or transactions they tested to verify the adequacy of sponsor processes, or the basis for its staff's conclusions that sponsors complied with SFSP regulations.

FNS Response:

FNS concurs with the recommendation and will request TDA maintain documentation supporting conclusions made during SFSP administrative reviews, as well as, establish review procedures that provide guidance to SFSP administrative review staff on documenting conclusions.

Estimated Completion Date:

October 31, 2019

OIG Recommendation 8:

Request the State agency to train its staff on how to implement the new guidance established in the above recommendation.

FNS Response:

FNS concurs with the recommendation and will request TDA provide training to staff conducting SFSP administrative reviews on implementing review procedures for maintaining supporting documentation for conclusions.

Estimated Completion Date:

October 31, 2019

OIG Recommendation 9:

Request the State agency to develop an oversight review process for State agency management to periodically evaluate the administrative reviews to ensure agency staff's conclusions are supported.

FNS Response:

FNS concurs with the recommendation and will request that TDA include, in their existing administrative review oversight process, procedures on periodic evaluation of supporting documentation for reviewers' conclusions.

TDA has staff outside the compliance team that already provide objective periodic evaluation of administrative reviews. The Program Improvement section assesses review data to identify common findings, sponsor training needs and gaps in processes. The Quality Assurance and Quality Control section assesses the completeness, thoroughness and compliance of administrative reviews. TDA has restructured its compliance sections to enhance and strengthen review oversight within the compliance sections. This structure change along with additional documentation of actions performed by compliance staff along with objective periodic sampling of reviews effectively addresses this recommendation. The new structure is effective in November 2018.

Estimated Completion Date:

November 30, 2018

OIG Recommendation 10:

Direct the State agency to review the sponsors' unsupported meals claimed totaling \$28,055 identified by OIG, and recover any disallowed SFSP reimbursements from the sponsors.

FNS Response:

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

Estimated Completion Date:

October 31, 2019*

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

OIG Recommendation 11:

Direct the State agency to review the sponsors' questionable costs totaling \$253,369 identified by OIG, and recover any disallowed expenditures from the sponsors.

FNS Response:

FNS concurs with the recommendation and will direct TDA to work jointly with FNS to review questionable costs identified by OIG (*pending OIG provided work papers clearly identifying the costs in question*). If unallowable costs are confirmed by the State's follow-up review, TDA will attempt to recover any disallowed SFSP expenditures.

Estimated Completion Date:

October 31, 2019*

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

OIG Recommendation 12:

Direct the State agency to develop and implement additional review questions to identify if sponsors are claiming meals for reimbursement on days the State agency has not approved to serve. In addition, the State agency should include in its guidance instructions for its staff to expand their analysis if they determine that meals have been claimed for reimbursement on unapproved days.

FNS Response:

FNS concurs with the recommendation. Although TDA has a review question to identify meals claimed on unapproved days, FNS will request TDA consider implementing additional review questions. TDA will enhance the review instructions for SFSP administrative review staff to include more detailed review steps to identify if sponsors are claiming meals served on days not approved.

Estimated Completion Date:

October 31, 2019

Recommendation 13:

Request the State agency to ensure identified sponsors provide additional, enhanced SFSP training to site staff to ensure staff have sufficient knowledge of program requirements when operating sites and serving meals.

FNS Response:

FNS concurs with the recommendation. FNS will direct TDA to ensure identified sponsors are providing training to site staff in accordance with 7 CFR 225.15(d), which outlines sponsor responsibilities for training and monitoring site personnel and operations. In addition, FNS will request TDA to ensure identified sponsors provide additional, enhanced training to site staff to ensure staff have sufficient knowledge of program requirements when operating sites and serving meals.

Estimated Completion Date:

August 31, 2019

Recommendation 14:

Request the State agency to direct identified sponsors to provide specialized training that includes monitors' duties and responsibilities as prescribed by the FNS Sponsor Monitor's Guide to site monitors that visit and monitor site operations.

FNS Response:

FNS concurs with the recommendation. FNS will encourage TDA to require identified sponsors to provide specialized training for site monitors to ensure monitors' duties are performed as prescribed by the FNS Sponsor Monitor's Guide.

Estimated Completion Date:

August 31, 2019

Recommendation 15:

Request the State agency to direct identified sponsors to establish a reasonable level of monitoring they will conduct, beyond the initial review conducted during the first four weeks, to oversee their SFSP operations throughout the program. Direct the sponsors to document the results of the review.

FNS Response:

FNS concurs with the recommendation. FNS will work with TDA to ensure that the identified sponsors are meeting the sponsor monitoring requirements outlined in 7 CFR 225.15(d)(3). FNS will encourage TDA to require identified sponsors perform site reviews as federally required, including additional reviews as necessary to ensure ongoing compliance throughout program operations.

Estimated Completion Date:

October 31, 2019

Recommendation 16:

Direct the State agency to monitor and assess the identified sponsors' enhanced site training, specialized site monitor training, and increased level of site monitoring to ensure the identified sponsors' compliance.

FNS Response:

FNS concurs with the recommendation. While there is no regulatory requirement to do so, FNS will encourage TDA to monitor and assess identified sponsors' implementation of enhanced site and monitor trainings, as well as, increased site monitoring.

Estimated Completion Date:

October 31, 2019

Recommendation 17:

Direct the State agency to determine if the four identified sponsors received approximately \$201 in reimbursements for the 53 meals we identified as non-

Gil Harden
Page 9

reimbursable during site observations. The State agency should recover any reimbursements paid to sponsors for those non-reimbursable meals identified by our review.

FNS Response:

FNS concurs with the recommendation. FNS will direct TDA to evaluate the sponsor's meal claims to determine whether any portion of the claim was unallowable. TDA will recover the portion of the sponsors' claims determined to be unallowable following the procedures outlined in 7 CFR 225.12.

Estimated Completion Date:

October 31, 2019



**United States
Department of
Agriculture**

Food and
Nutrition
Service

3101 Park
Center Drive

Alexandria, VA
22302-1500

DATE: February 21, 2019

AUDIT
NUMBER: 27004-0004-21

TO: Gil H. Harden
Assistant Inspector General for Audit

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

SUBJECT: Texas' Controls Over Summer Food Service Program

This letter responds to the official draft report for audit number 27004-0004-21, Texas' Controls Over Summer Food Service Program. Specifically, the Food and Nutrition Service (FNS) is providing a revised response to recommendation 2 in order to achieve management decision. The below includes the original FNS response as well as the revised response that was agreed to by OIG as of December 20, 2018.

OIG Recommendation 2:

Request the State agency to establish a reasonable range by which the ADP they approve can exceed the historical average of meals served per day.

FNS Response Dated November 20, 2018:

FNS concurs with the recommendation and will request TDA establish a reasonable range for approving an ADP that exceeds the historical average of meals served per day. This range would apply for vended sites which have a regulatory requirement for maximum number of meals to be determined using historical participation data.

Revised FNS Response Agreed to as of December 20, 2018:

FNS concurs with the recommendation and will direct TDA to document the established reasonable range for ADP, which TDA has currently set at 20 percent above historical ADP averages, as discussed in the response to Recommendation 1. Based on Federal Regulations at 7 CFR 225.6(d)(2), this range must apply to vended sites; other site types (e.g., self-prep) are not included. However, FNS will encourage TDA to apply the ADP range for all sites, per TDA's established policy.

Estimated Completion Date:

May 31, 2019

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