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OFFICE OF INSPECTOR GENERAL



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DATE: September 30, 2019

FAV
NUMBER: 27026-0001-31

TO: Stanley McMichael
Associate Chief Financial Officer
Office of the Chief Financial Officer

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Final Action Verification for Audit of FNS National School Lunch and School
Breakfast Programs

The Office of Inspector General (OIG) completed a final action verification of all 10 recommendations in our April 28, 2015, report on *Food and Nutrition Service (FNS) National School Lunch and School Breakfast Programs* (Audit Report 27601-0001-41). Final action verification determines whether the final action documentation the agency provides to the Office of the Chief Financial Officer (OCFO) supports the agency's management decision reached with OIG.^{1, 2} Our objective was to determine whether the documentation FNS provided OCFO was sufficient to close the recommendations made in Audit Report 27601-0001-41.

In a memorandum dated June 21, 2016, OCFO reported to FNS that it closed all of the recommendations, and we concur with this decision.

¹ *Final action* is the completion of all actions that management has concluded, in its management decision, are necessary with respect to the findings and recommendations included in an audit report. DR 1720-001, 6g(1), Audit Follow-up and Management Decision (Nov. 2, 2011).

² *Management decision* is an agreement between agency management and OIG on the action(s) taken or to be taken to address a finding and recommendations cited in an audit report. The management decision must include the agreed-upon dollar amount affecting the recommendations and an estimated completion date unless all corrective action is completed by the time agreement is reached. DR 1720-001, 6i, Audit Follow-up and Management Decision (Nov. 2, 2011).

Background

Our report, *FNS – National School Lunch and School Breakfast Programs*,³ made 10 recommendations to improve FNS controls to ensure children met eligibility requirements for free and reduced meals.

OIG and FNS reached management decision on all 10 recommendations on April 28, 2015. A memorandum dated May 13, 2015, detailed what FNS needed to implement in order to achieve final action on all recommendations.

In accordance with Departmental Regulation (DR) 1720-001,⁴ OCFO has the responsibility to determine final action for recommendation(s) where OIG has agreed to management decision. As such, OCFO evaluates agency-provided documentation to support planned corrective actions and to determine if final action has occurred.

Scope and Methodology

The scope of this final action verification was limited to determining whether FNS' plan of action for all of the recommendations in the subject report was completed in accordance with the management decisions reached on May 13, 2015. To accomplish our objective, we reviewed documentation FNS submitted to OCFO. We did not perform internal control testing or make site visits to determine whether the underlying deficiencies that were initially identified had been corrected. In addition, we did not provide an opinion on the results of the implementation or effectiveness of each recommendation. This final action verification was conducted in accordance with our internal guidance IG-7710, *Nonaudit Work and Final Action Verification Guidance and Procedures*. As a result, this final action verification was not conducted in accordance with *Generally Accepted Government Auditing Standards*, issued by the Comptroller General of the United States or the *Quality Standards for Inspection and Evaluation*, issued by the Council of the Inspectors General for Integrity and Efficiency. However, before we performed the non-audit service, we determined that it would not impair our independence to perform audits, inspections, attestation engagements, or any other future or ongoing reviews of the subject.

Results of Final Action Verification

We determined that FNS provided sufficient documentation to OCFO to close the 10 recommendations we made in our April 28, 2015, audit report on FNS' National School Lunch and School Breakfast Programs. The table summarizes the action FNS took with respect to each recommendation.

We informed FNS officials of the results of this final action verification.

³ Audit Report 27601-0001-41, *FNS—National School Lunch and School Breakfast Programs*, (Apr. 28, 2015).

⁴ DR 1720-001, 7d(1-9), Audit Follow-up and Management Decision (Nov. 2, 2011).

Rec. No.	Recommendation	Action Taken
1	In consultation with the Office of the General Counsel, determine if FNS has the authority to modify existing regulations so that households are required to submit income documentation with applications for free or reduced-price meals. Based on this determination, take the appropriate actions to revise the programs' documentation requirements.	FNS decided to pursue improved program integrity and reduced improper payments through means other than modifying existing regulations. FNS provided a copy of a revised prototype paper application for free and reduced price school meals.
2	Develop a strategy, in collaboration with State agencies, for School Food Authorities (SFAs) to verify for cause applications of households, which were found to have misreported income information on their prior year's applications.	FNS provided a copy of its Eligibility Manual for School Meals, updated for the 2015–2016 school year, which includes a section on verification for cause.
3	Update current regulations and guidance with the criteria explaining what constitutes a questionable application, including any additional instances of when verifications for cause are required. Ensure State agencies and SFAs are trained on the new criteria.	FNS provided a copy of its Eligibility Manual for School Meals, updated for the 2015–2016 school year. It also provided a copy of the final rule establishing Professional Standards for State and Local School Nutrition Programs Personnel as Required by the Healthy, Hunger-Free Kids Act of 2010, Fed. Reg. Vol. 80, No. 40 (Mar. 2, 2015), which sets regulatory requirements for training, including on administrative practices, such as application and verification procedures.
4	FNS should consider a policy requiring SFAs to verify for cause any application from a household when the household's application from the prior year was denied as a result of the prior year's annual verification process.	FNS provided a copy of its Eligibility Manual for School Meals, updated for the 2015–2016 school year, a copy of the FNS Administrative Review Manual, updated in August 2015 for the 2015–2016 school year, and documentation that it consulted with the Department's Office of the General Counsel.

5	Provide specific guidance to State agencies to ensure they adequately monitor the SFAs' net cash resources as required by FNS regulations.	FNS provided a copy of the updated FNS Administrative Review Manual it issued to all State agencies in August 2015 for school year 2015–2016, which includes updates in the "Resource Management" section.
6	Instruct the Delaware Department of Education to review all SFAs' net cash resources and appropriately address the \$4.8 million in excess net cash resources.	FNS provided documentation that it worked with the Delaware Department of Education to review all SFAs' net cash resources, determined if a recovery of funds was necessary, and provided justification that collection of any monetary amount is not needed.
7	Issue a reminder to State agencies that prior approval authority for treating capital expenditures as direct costs has been delegated to them and require them to establish a process to fulfill this requirement.	FNS provided a copy of Policy Memorandum SP 31-2014, State Agency Prior Approval Process for SFA Equipment Purchases, issued March 28, 2014. The memo reinforces the Government-wide requirements cited in 2 CFR Part 225 (Cost Principles for State, Local, and Indian Tribal Governments), Appendix B, section 15 (<i>Equipment and other capital expenditures</i>) and details steps necessary to administer this Federal prior approval requirement.
8	Instruct the State agencies to work with the 20 SFAs to review nearly \$6 million of capital expenditures incurred in SY 2011–2012 and determine if those costs are truly allowable; if unallowable costs are determined, the State agencies need to recover the costs.	FNS provided documentation that it worked with the State agencies responsible for the 20 SFAs and determined that all equipment purchases incurred would have been allowable had previous approval been sought and granted, and that all of the purchases were necessary, reasonable, and allocable uses of the funds. It also provided justification that, rather than create a financial burden on the State agencies, FNS will not be recovering funds for these purchases.
9	Instruct the State agencies to recover \$166,933 in unallowable costs from two SFAs.	FNS provided justification for the monetary amounts not collected from the two SFAs.

10	Require the personnel with oversight responsibilities of the cafeteria fund at the State agencies and SFAs to be trained periodically on cafeteria fund management.	FNS provided a copy of the final rule, titled Professional Standards for School Nutrition Programs Personnel, effective July 1, 2015, which requires annual training hours for personnel with oversight responsibilities. FNS also provided a copy of FNS Policy Memorandum SP 39-2015, (June 26, 2015), which includes explanatory questions and answers related to the new rule, along with other resources to assist in implementing professional standards. Additionally, FNS provided documentation about school nutrition training materials, including courses on financial management, made available to all State agency and SFA personnel.
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cc: Mark Porter, Director, Office of Internal Controls, Audits and Investigations, FNS

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