



U.S. Department of Agriculture



Office of Inspector General  
Great Plains Region

# **Audit Report**

## **Food and Nutrition Service National School Lunch Program Unified School District 480 Liberal, Kansas**

Report No. 27010-22-KC  
September 2004



UNITED STATES DEPARTMENT OF AGRICULTURE  
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DATE: September 30, 2004

REPLY TO  
ATTN OF: 27010-22-KC

SUBJECT: National School Lunch Program – Unified School District 480, Liberal, Kansas

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

This report presents the results of the subject audit. Your written response, dated September 16, 2004, to the official draft report has been incorporated into the Findings and Recommendations section of this report, where appropriate. The text of the response is attached as exhibit D. Your reply expressed agreement with the recommendations; however, we were unable to reach management decisions on any of them. The Findings and Recommendations section of the report explains those actions necessary for us to reach management decisions on Recommendations Nos. 1 through 10. In general, we will need to be advised of the specific actions completed, or planned, along with acceptable timeframes for completing the proposed actions. In addition, the claim amounts determined to be improper must be recovered or an accounts receivable established. We incorporated your suggested wording for footnote 15 into the report.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing corrective actions taken or planned and the timeframes for accomplishing final action. Please note that the regulation requires management decisions to be reached on all findings and recommendations within 6 months from the date of report issuance, and final action should be completed within 1 year of management decision.

We appreciate the assistance provided to us during our review.

/s/

DENNIS J. GANNON  
Regional Inspector General  
for Audit

# **Executive Summary**

**Food and Nutrition Service, National School Lunch Program, Unified School District 480, Liberal, Kansas (Audit Report No. 27010-22-KC)**

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## **Results in Brief**

This report presents the results of our audit of the National School Lunch Program (NSLP) and School Breakfast Program (SBP), as administered by the Unified School District 480, Liberal, Kansas, the local school food authority (SFA). The Kansas State Department of Education served as the State agency, and the U.S. Department of Agriculture's (USDA) Food and Nutrition Service (FNS) served as the funding agency. For school year 2002/2003, the SFA received over \$1 million dollars in FNS reimbursement and about \$24,000 in State agency reimbursement.

We selected this SFA as one of a series of school audits conducted in Kansas. This selection was made judgmentally to address correspondence from individuals living in the school district who expressed concerns and complaints with the operation of the lunch program. This correspondence identified a number of concerns, including possible misuse of Federal funds.

The objectives of our review were to evaluate controls over the administration of the lunch and breakfast programs. We evaluated policies and procedures over meal accountability and oversight of program operations. To accomplish this, we evaluated (1) corrective actions to address previous State agency reviews, (2) the accuracy of collections and accounting for reimbursed meals, (3) the accounting and use of program funds relating to the SFA's procurement of goods and services, and (4) the accounting for the district's school food service account. We expanded our review to address those complaints concerning Federal requirements. Our review did not substantiate the complaints of misuse of school lunch funds or other concerns that there were major violations of Federal regulations.

However, the State agency had consistently found areas within the school food service program that needed improvement. When the State agency identified problem areas and discussed recommended corrective actions with food service personnel, the personnel would concur with the need for corrective actions, but meaningful and adequate corrective actions were generally not taken.<sup>1</sup> The State agency, through specified corrective actions, gave the SFA guidance to correct the problems and strengthen weaknesses. However, the SFA did not exercise the necessary management oversight to ensure agency guidance was followed and needed corrective actions were effectively implemented. To illustrate, the State agency specifically

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<sup>1</sup> The attitude of the SFA management can be illustrated by a note in the State agency files that the SFA authorized representative said he usually dealt with individuals who complained about the food service by pulling \$1.50 out of his pocket and challenging the complainer to do better. He made similar comments to the Office of Inspector General (OIG) representatives.

requested the Food Service Director to ensure that food service contract language contained the elements required by the State. However, the Director did not do so. In three reviews, the State agency found counting and claiming problems in that meal counts were inaccurate and meal claims were incorrect and not supported. The State agency continuously worked with the SFA to correctly implement “offer-versus-serve”<sup>2</sup> and “NuMenus,” which is the menu system used by the SFA. The SFA continued to have difficulties in those areas. Our review found the SFA improperly implemented the “offer” meal option.

The SFA’s ongoing inability to implement corrective actions led to systemwide problems contributing to a school food service program dependent on transfers from the general fund. For example, in prior reviews, the State agency found counting and claiming problems and requested corrective action be taken to correct the problems. Our review found similar errors were still occurring, in that the SFA did not claim any of the meals served on March 3, 2003. This error resulted in an underclaim of about \$6,100. Errors in two other months resulted in additional underclaims of about \$400. In addition, omissions or inadequate edit checks resulted in questionable claims of about \$700.

Inadequate controls in accounting procedures resulted in a revenue adjustment of \$4,993 in school year 2000/2001 and a similar adjustment of \$2,933 in school year 2001/2002. Additionally, for two of the schools observed, the SFA did not correctly implement the meal options full service and “offer-versus-serve.”

In a prior review, the State agency also found problems with the procurement process and requested corrective action to correct the problems concerning contract language. We found that weaknesses existed in the SFA’s controls over the procurement process. For example, the SFA’s planned procurements were not publicly advertised and contracts did not contain termination provisions.

The report also contains a general comment that the SFA’s accounting procedures did not include crediting a prorated share of the interest earned from investments.

## **Recommendations In Brief**

We recommend that FNS require the State agency to provide the SFA additional oversight and supervision and, if corrective action is not forthcoming, then the State agency should consult with FNS and withhold program payments, if warranted.

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<sup>2</sup> A Federal regulation designed to reduce food waste. Schools that select the “offer” option must offer all food items to all students, and the students choose only those foods which they intend to eat. Schools that select the “serve” option serve the full portion of all food items to all students, and students may not decline any food item.

We also recommend that FNS require the State agency to direct the SFA to implement various management and internal controls over aspects relating to the accounting system and to provide the SFA with procedures to correct the internal control weaknesses in processing claims for Federal and State reimbursement and in its procurements for the school lunch program.

**FNS Response**

Although the agency response showed FNS officials concurred with the recommendations, it did not provide sufficient information to reach management decisions on any of the recommendations. We have incorporated applicable portions of the response, along with our position, in the Findings and Recommendations sections of the report. The FNS response is included in its entirety as exhibit D.

**OIG Position**

The Findings and Recommendations section of the report explains those actions necessary for us to reach management decisions on Recommendations Nos. 1 through 10. In order to reach management decisions, we will need to be advised of the specific actions completed or planned along with acceptable timeframes for completing the proposed actions.

### ***Abbreviations Used in This Report***

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Act	Richard B. Russell National School Lunch Act
CFR	Code of Federal Regulations
FNS	Food and Nutrition Service
NSLP	National School Lunch Program
OIG	Office of Inspector General
SBP	School Breakfast Program
SFA	School Food Authority
USDA	U.S. Department of Agriculture

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# ***Background and Objectives***

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## **Background**

On June 4, 1946, Congress passed the National School Lunch Act,<sup>3</sup> now the Richard B. Russell National School Lunch Act (Act), which authorizes Federal school lunch assistance. The intent of the Act, as amended December 29, 2001, is to safeguard the health and well-being of the Nation's children by providing them with nutritious foods and to encourage the domestic consumption of nutritious agricultural commodities and other foods. This is accomplished by assisting States, through grants-in-aid and other means, in providing an adequate supply of food and facilities for the establishment, maintenance, operation, and expansion of nonprofit school lunch programs.

The Act, as amended, authorizes the payment of general and special assistance funds to States, based upon the number and category of lunches served. Section 4 of the Act authorizes general cash assistance payments for all lunches served to children in accordance with the provisions of the National School Lunch Program (NSLP) and additional special cash assistance for lunches served under the NSLP to children determined eligible for free or reduced-price lunches. The States are reimbursed at various rates per lunch, depending on whether the child was served a free, reduced-price, or full-price (paid) lunch. Eligibility of children for free or reduced-price meals is based upon their family's household size and income, as listed in the Food and Nutrition Service (FNS) Income Eligibility Guidelines, which are reviewed annually.

FNS is the U.S. Department of Agriculture (USDA) agency responsible for administering the NSLP/School Breakfast Program (SBP). FNS has seven regional offices nationwide. The FNS Mountain Plains Regional Office, located in Denver, Colorado, is responsible for monitoring and overseeing operations in Kansas. The Kansas State Department of Education serves as the State agency and is responsible for overseeing program operations within Kansas. The school food authority (SFA), located in Liberal, Kansas, is responsible for operating the NSLP in accordance with regulations. Each State agency is required to enter into a written agreement with FNS to administer the NSLP/SBP, and each State agency enters into agreements with SFAs to oversee day-to-day operations. The SFA administered the NSLP/SBP in 12 schools.

The fiscal year 2002 funding for the NSLP was about \$6 billion for meal reimbursements of approximately 4.7 billion lunches. The Kansas State agency received approximately \$58 million for the NSLP and \$14 million for the SBP in Federal reimbursements for fiscal year 2002. For school year

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<sup>3</sup> 42 U.S. Code 1751.

2001/2002, Kansas provided State funds of approximately \$2.5 million to SFAs. For school year 2002/2003, the Liberal SFA received over \$1 million dollars in FNS reimbursement and about \$24,000 in State agency reimbursement.

The general NSLP requirements are codified in Title 7, Code of Federal Regulations (CFR) 210. Requirements for determining eligibility for free and reduced-price meals and free milk are codified in 7 CFR 245. In accordance with 7 CFR 250, USDA also provides donated foods to SFAs to assist in operating the nonprofit lunch program. The Kansas State agency provides cash in lieu of actual commodities to each public school participating in the NSLP/SBP. Generally, schools must collect applications on an annual basis from households of enrolled children and make annual determinations of their eligibility for free or reduced-price meals. These schools must also count the number of free, reduced-price, and paid meals served at the point of service on a daily basis.

## **Objectives**

The objectives of our review were to evaluate controls over the administration of the NSLP and SBP. We evaluated policies and procedures over meal accountability and oversight of program operation. To accomplish this, we evaluated (1) previous State agency reviews, (2) the accuracy of collections and accounting for reimbursed meals, (3) the accounting and use of program funds relating to the SFA's procurement of goods and services, and (4) the accounting for the SFA's school food service account.

# Findings and Recommendations

## Section 1. Pervasive Problems Recurring in the System

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### Finding 1

### Corrective Action Not Implemented

The SFA did not implement procedures and controls to correct and prevent the recurrence of the findings cited in previous State agency and Kansas Department of Health and Environment reviews. We attributed the continuing violations to a lack of oversight by the SFA's management and a lack of commitment by the managers to implement permanent corrective actions. We identified:

- Repeated violations of food temperature procedures, which reduced assurance that meals served were fully safe;
- Corrective actions recommended by the State agency were not implemented and additional inaccurate claims for reimbursement were submitted; and
- Procurement procedures recommended by the State agency to help assure the SFA purchased materials with program funds efficiently and economically were not implemented at the time of our review.

State agency requirements<sup>4</sup> provide that corrections must be made for any discrepancies found by health officials or the State agency.

State agency personnel advised that they were aware of fundamental weaknesses in the SFA's operation of the NSLP. The State agency had received and reviewed complaints similar to the complaints received by our office. The State agency had made numerous reviews and contacts to provide training and correct problems in the operation of the NSLP. In general, State agency employees believed the SFA made superficial corrections, but these actions did not prevent the observed problems from recurring. As a result, the NSLP remains vulnerable to misuse of funds, food safety risks, and a negative public perception.

#### Unsafe Food Handling Practices

The SFA did not correct a critical violation identified by the Kansas Department of Health and Environment and continued to serve food that had been sitting out too long and reached an unsafe temperature. As a result, potentially hazardous food could be served.

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<sup>4</sup> Kansas Department of Education 2003 Program Agreement for School Nutrition Programs.

Kansas Department of Health and Environment regulations<sup>5</sup> state that written procedures shall be maintained in the food establishment and made available to the regulatory authority upon request that ensure compliance with 3-501.19, Time as a Public Health Control, and 3-501.14, Cooling.

State agency requirements<sup>6</sup> state corrections must be made for any discrepancies found by health officials or the State agency. Adherence to proper sanitation, health, and food handling standards, in conformance with all applicable State agency guidance and State and local laws, is required.

During a previous inspection, dated April 3, 2003, an inspector from the Kansas Department of Health and Environment found that the SFA served food items kept at a temperature of 62.9 degrees. Kansas Department of Health and Environment regulations<sup>7</sup> require the food items be kept at a temperature of 41 degrees or less. The inspector issued the SFA corrective action in the form of a risk control plan. On the followup inspection, dated April 17, 2003, which occurred approximately 14 days later, the inspector found the same food temperature violation. (The inspector told us that this is considered a serious violation, which could result in shutting down the operation of the food service.)

We observed the SFA serving perishable food items not held on ice. The SFA stated the kitchen did not have ice machines and “Time as a Public Health Control”<sup>8</sup> was used to monitor food temperatures (this procedure limits the time that can pass after food is removed from the refrigerator). We asked the SFA for documentation which would show that “Time” was being used as a control. The SFA could not provide us with such documentation. We believe this is indicative that the SFA still was not properly controlling food temperature.

#### Inaccurate Claims for Reimbursement

The State agency identified counting and claiming errors during four reviews: (1) Coordinated Review Effort, dated February 4, 2000; (2) Coordinated Review Effort Followup review, dated June 14, 2000; (3) Onsite review, dated December 13, 2000; and (4) School Meal Initiative review, dated February 20, 2002. Based on the findings during our review, the SFA had not corrected the counting and claiming problems identified in the State agency reviews. Therefore, the SFA could not ensure the accuracy of monthly meal counts submitted to the State agency on the monthly Claim for Reimbursement forms.

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<sup>5</sup> Kansas Department of Health and Environment, Kansas Food Codes 3-501.19 and 3-501.14.

<sup>6</sup> Kansas Department of Education 2003 Program Agreement for School Nutrition Programs.

<sup>7</sup> Kansas Department of Health and Environment, Kansas Food Code 3-501.14, Cooling.

<sup>8</sup> Kansas Department of Health and Environment, Kansas Food Code 3-501.19, Time as a Public Health Control.

As shown in Finding No. 3, the SFA submitted an inaccurate Claim for Reimbursement to the State agency. SFA personnel told us they did not believe implementing adequate controls to ensure the accuracy of claims was necessary, although, in prior reviews, the State agency identified a lack of controls over meal counts and meal claims. Our current review similarly found that inadequate controls resulted in underclaims totaling \$6,542 and overclaims totaling \$694.

#### Inadequate Procurement Procedures

The SFA's contract administration system was inadequate to ensure vendors complied with the contract. The SFA trusted vendors to comply with bid pricing provisions and did not review invoices submitted to verify the prices charged. As a result, vendors charged prices in excess of those specified in the contract (see Finding 6).

The SFA also did not publicly advertise for bids and did not include a provision for termination in vendor contracts. This occurred because there was inadequate management oversight to ensure the SFA implemented bid and contract provisions, as required in the Kansas State Department of Education Food Service Facts Handbook – Fall 1999. As a result, the SFA could not assure products were purchased at the lowest cost from the lowest-cost vendor.

In a State agency onsite review, dated December 12, 2000, the SFA was asked to ensure procurement contracts contained required elements, as outlined in the Kansas State Department of Education Food Service Facts Handbook – Fall 1999. Publicly advertising for bids and a provision for termination were elements required by the handbook. We concluded the SFA had not adequately implemented the State agency's recommended corrective actions in this area and in other areas, as shown in other sections of the report.

#### **Recommendation No. 1**

Require the State agency to provide the SFA with intensive oversight and supervision and request the State agency to work with the SFA to implement appropriate management controls regarding procurement, meal counts, and meal claims. Require the State agency to verify that the SFA has correctly implemented effective procedures to correct the cited recurring and pervasive problems. If it is found that the conditions remain uncorrected, pursue with the State agency whether future program payments should be delayed, suspended, or denied, in part or in whole.

### **FNS Response.**

FNS concurred with Recommendation No. 1 and agreed to instruct the State agency to provide supervision to the SFA to complete the recommended actions and to verify the SFA has actually implemented corrective actions. If the conditions remain uncorrected, FNS will pursue with the State agency whether action should be taken on future program payments.

### **OIG Position.**

In order to reach management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the SFA will be completed and verified by the State agency including a decision on the need to take action on future program payments. Also, we need to be provided a description of the supervision measures the State agency intends to provide to the SFA.

## **Recommendation No. 2**

Require the State agency to instruct the SFA to immediately implement any corrective action necessary to conform to all food temperature requirements, and all other pertinent sanitation and health standards of the Kansas Department of Health and Environment. The State agency should work, with the Kansas Department of Health and Environment as appropriate, to ensure the SFA takes corrective action on all deficiencies and verify that the deficiencies have been corrected. If it is found that the conditions remain uncorrected, pursue with the State agency as necessary whether future program payments should be delayed, suspended, or denied, in part or in whole.

### **FNS Response.**

FNS concurred with Recommendation No. 2 and agreed to require the State agency to provide oversight to the SFA to complete the recommended actions. The State agency is to verify the deficiencies have been corrected, and if not, to take action on future program payments.

### **OIG Position.**

In order to reach management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the SFA will be completed and verified. Also, we need to be provided a description of the oversight measures the State agency intends to provide to the SFA.

## **Section 2. Controls Over the NSLP/SBP Meal Counts**

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The SFA did not perform the required self-evaluations because there was not adequate management oversight to ensure the SFA completed the reviews. As a result, the SFA was not able to identify and correct weaknesses within the school food service program.

Weaknesses existed in the SFA's controls over submitting claims for Federal and State reimbursements. More specifically, our audit identified the SFA did not submit a claim on the Claim for Reimbursement meals served on March 3, 2003. The error resulted in an underclaim of about \$6,100. Additional claiming errors in February and April resulted in an underclaim of about \$400. In addition, the SFA did not adequately perform edit checks<sup>9</sup> to ensure that the number of meals claimed did not exceed the maximum number of allowable meals. Thus, SFA received excess reimbursement of about \$700.

SFA also incorrectly implemented full service and "offer-versus-serve" meal options that resulted in inconsistent handling of meals counted as reimbursable meals.

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### **Finding 2**

#### **Reviews Not Actually Performed**

The SFA did not perform onsite reviews. This occurred because there was inadequate oversight by the SFA's management officials to ensure the responsible official completed the reviews. As a result, the SFA was not able to identify weaknesses within the school food service program and perform corrective action to correct the weaknesses.

State agency guidelines<sup>10</sup> require onsite reviews must be completed by February 1 each year. Federal internal control standards<sup>11</sup> also state management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management. One factor is the integrity and ethical values maintained and demonstrated by management and staff.

During the course of our review, an SFA food service employee admitted that she provided us documentation showing the SFA had completed onsite review forms, although the reviews had not actually been performed. The employee said onsite review forms were completed in May 2003, which were backdated to January 2003. The employee told us the SFA did not actually complete all the reviews because there was not enough time to complete a

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<sup>9</sup> A control designed to ensure that meal counts are not in excess of the number of children currently eligible/approved in each category.

<sup>10</sup> Kansas State Department of Education Food Service Facts Handbook – Fall 1999.

<sup>11</sup> GAO/AIMD-00-21.3.1.

review for each school. The official stated onsite reviews were performed on at least some schools, but the employee could not remember which schools were reviewed.

### **Recommendation No. 3**

Require the State agency to instruct the SFA to provide additional supervision over responsible employees to ensure that the SFA properly and timely submits onsite reviews, as required, and records documentation supporting completion of the onsite reviews. Require the State agency to periodically verify that the SFA has correctly implemented the procedures.

#### **FNS Response.**

FNS concurred with Recommendation No. 3 and agreed to require the State agency to provide oversight to the SFA to complete the recommended actions including verification the SFA has properly implemented the corrective procedures.

#### **OIG Position.**

In order to reach management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the SFA will be completed and verified. Also, we need to be provided a description of the oversight measures the State agency intends to provide to the SFA, including the frequency the State agency intends to perform them.

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### **Finding 3**

#### **Inadequate Controls in Place for Meal Counting and Meal Claiming**

The SFA's controls were inadequate to ensure the accuracy of monthly meal counts submitted to the State agency on the Claim for Reimbursement forms. Management oversight did not require the SFA to implement adequate meal accountability controls, although, in a prior finding, the State agency identified a lack of controls over meal counts and meal claims. Inadequate controls resulted in errors totaling about \$6,542 (see exhibits A and B).

Federal regulations<sup>12</sup> state the SFA shall establish internal controls which ensure the accuracy of lunch counts, prior to the submission of the monthly Claim for Reimbursement. At a minimum, these internal controls shall include: comparisons of daily free, reduced-price, and paid lunch counts against data which will assist in the identification of lunch counts in excess of the number of free, reduced-price, and paid lunches served each day to

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<sup>12</sup> 7 CFR 210.8(a).

children eligible for such lunches; and a system for following up on those lunch counts which suggest the likelihood of lunch counting problems.

Our audit identified the SFA did not claim meals served on March 3, 2003. However, the SFA's daily record of lunches showed the individual schools had served meals that day. We determined on March 3, 2003, there were 2,255 free lunches, 324 reduced-price lunches, and 793 paid lunches the SFA did not claim because of an error during the consolidation process. The SFA's error resulted in an underclaim of about \$6,100 for March. Additional errors identified in the consolidation processes resulted in underclaims of about \$100 for February 2003 and \$300 for April 2003.<sup>13 14</sup>

We reviewed the daily record of lunches served for each of the 12 schools within the Liberal School District, analyzed the number of meals supported by the sales activity report for each day during the selected months, and compared our totals with the number of meals claimed for reimbursement. We found the reimbursement claims did not always match the sales activity records for the period reviewed. To determine the reason for the differences, we then compared the number of meals documented on each school's daily record of lunches to the sales activity record. We determined that most of the differences resulted from errors when transferring number of meals from the sales activity report to the daily record of lunches. Because the daily record of lunches was inaccurate, the consolidation of data into Claim for Reimbursement was inaccurate.

#### **Recommendation No. 4**

Require the State agency to provide direction to the SFA on requirements and actions to be taken to correct the underclaims. Require the State agency to periodically verify that the SFA has correctly implemented the procedures adopted.

#### **FNS Response.**

FNS concurred with Recommendation No. 4 and agreed to require the State agency to provide oversight to the SFA to complete the recommended actions including verification the SFA has properly implemented the corrective procedures.

#### **OIG Position.**

In order to reach management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the SFA will

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<sup>13</sup> We also found errors in breakfast claims, but the amounts involved were so small that we considered them immaterial.

<sup>14</sup> We concentrated on meal counts in the months of February, March, and April 2003. Because of the errors we found, we reviewed for reasonability meal counts for all months in school year 2001/2002 and August 2002 through May 2003.

be completed and verified. We will also need evidence the underclaims have been corrected. Also, we need to be provided a description of the oversight measures the State agency intends to provide to the SFA, including the frequency the State agency intends to perform them.

## **Recommendation No. 5**

Request the State agency to require the SFA to implement controls that will ensure that Claim for Reimbursement forms are accurate and ensure meal reports and consolidations are always reviewed for accuracy and reconciled to the data from the automated meal accountability system. Require the State agency to periodically verify that the SFA has correctly implemented the procedures adopted.

### **FNS Response.**

FNS concurred with Recommendation No. 5 and agreed to require the State agency to provide oversight to the SFA to complete the recommended actions including verification the SFA has properly implemented the corrective procedures.

### **OIG Position.**

In order to reach management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the SFA will be completed and verified by the State agency. Also, we need to be provided a description of the oversight measures the State agency intends to provide to the SFA, including the frequency the State agency intends to perform them.

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## **Finding 4**

### **Edit Check Explanations Were Absent or Inadequate**

Edit checks<sup>15</sup> were missing explanations or had inadequate explanations of why meal counts were high or exceeded the attendance factor. An SFA official stated the SFA used a general comment for the edit check control because it was easier and faster than calling each cashier or school secretary and asking for a more specific reason why meal counts were high. Thus, the SFA received excessive reimbursements of \$694 (see exhibits A and C).

Federal regulations<sup>16</sup> state edit checks shall compare each school's daily counts of free, reduced-price, and paid lunches against the product of the

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<sup>15</sup> A control that is designed to ensure that daily meal counts that are in excess of the number of children currently eligible/approved in each category, adjusted by an attendance factor, are to be considered questionable, and must be investigated to see if meals have been counted in excess of the number actually served that day. If meal counting errors are found, they are to be corrected prior to submission of the claim for reimbursement. If no meal count errors are determined, the reason why the correct meal count exceeded the edit check control figure must be explained.

<sup>16</sup> 7 CFR 210.8(a)(3).

number of children in the school currently eligible for free, reduced-price, and paid lunches times an attendance factor.

Edit checks are used as a control to identify meal counting problems. An attendance factor is part of the edit check control. The attendance factor is a way of stating the relationship between attendance and enrollment. The factor is computed by dividing the average daily attendance by the enrollment.<sup>17</sup>

When performing an edit check, the edit check maximum for each meal category is compared to the number of meals served. If the number of meals served is greater than the edit check maximum, then the data must be reviewed for errors. If no errors are found, then an explanation for the excess must be documented.

For example, if the number of free eligible applications was 200, the attendance factor was .9492, and the number of free lunches served was 192, the edit check maximum is found by multiplying 200 times .9492, which equals 190. In our example, the number of free lunches served exceeded the edit check maximum. The daily sales activity report in our example was reviewed and no error was found. An explanation of the excess was documented as "High count because of popular menu, accountability rechecked, no errors noted."

We reviewed the SFA's 2001/2002 and 2002/2003 daily records of lunches for all schools to see if there were any days that had obvious errors. We determined that the edit checks were missing explanations or had an inadequate explanation of why meal counts were high or exceeded the attendance factor. The SFA used a general statement "100%" or "100% attendance" as an explanation of why the number of meals served exceeded the attendance factor. The SFA's edit check review was too superficial to actually detect errors.

The SFA's inadequate edit check review did not disclose an overclaim of 300 meals. The number of free meals included in the claim for November 18, 2002, was 496, and the edit check comment was "100% participation." However, the sales activity report showed only 196 free meals were served, which resulted in an overclaim of 300 meals. The number of students documented as eligible for free meals was only 212, while the edit check maximum (212 times .9492) was only 202. The error resulted in the SFA receiving excessive reimbursement of about \$700.<sup>18</sup>

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<sup>17</sup> The SFA may use the statewide average attendance factor of .9492 or the SFA may determine its own attendance factor. The Liberal SFA used the .9492 attendance factor.

<sup>18</sup> 300 free meals times \$2.16 (Federal reimbursement rate) + 300 free meals times .1525 (cash-in-lieu of commodities) = \$694.

## Recommendation No. 6

Instruct the State agency to provide the SFA with procedures to correct the cited overclaim. Instruct the State agency to require the SFA to implement controls that will ensure that edit checks are properly performed and always reviewed for accuracy. Require the State agency to periodically verify that the SFA has correctly implemented the procedures.

### FNS Response.

FNS concurred with Recommendation No. 6 and agreed to require the State agency to provide oversight to the SFA to complete the recommended actions including verification the SFA has properly implemented the corrective procedures.

### OIG Position.

In order to reach management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the SFA will be completed and verified. We also need to be provided evidence the improper payments have been corrected. Also, we need to be provided a description of the oversight measures the State agency intends to provide to the SFA, including the frequency the State agency intends to perform them.

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## Finding 5

### Incorrect Implementation of “Offer-versus-Serve”

The SFA incorrectly implemented the “offer” meal option,<sup>19</sup> because the SFA did not follow the requirements provided in the Kansas State Department of Education Food Service Facts Handbook – Fall 1999 and did not implement the requirements presented in a training meeting. As a result, students were not given the “offer” option of declining a menu item and meals counted as reimbursable meals were inconsistently handled.

State agency guidelines<sup>20</sup> require that an “offer” meal consists of a minimum of three menu items of which one item must be an entree and one item must be fluid milk. If only three items are offered, a student can decline a maximum of one item and that item can be milk. If more than three items are offered, a student can decline no more than two items.

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<sup>19</sup> A meal that consists of a minimum of three menu items of which one item must be an entrée and one item must be a fluid milk. If three menu items are offered, a maximum of one item can be declined. If more than three menu items are offered, a maximum of two items can be declined.

<sup>20</sup> Kansas State Department of Education Food Service Facts Handbook – Fall 1999.

### Incorrect Implementation of “Offer” Meal Option

With the assistance of a State agency Food Service Consultant, we observed the SFA incorrectly implementing the “offer” meal option at two schools. The State agency’s report showed that:

- (1) At one school, a sign was posted above the milk advising students that they must take milk with their meals. This is indicative of a “serve” program;
- (2) Cashiers were asked about the training they had received (from the SFA). They attended a meeting at the start of the year. An SFA official did not have any written documentation of this meeting, specifically regarding what training on “offer” was provided; and
- (3) Production records for these schools were weighted<sup>21</sup> as “serve” programs.

The State agency consultant further stated the SFA had a copy of the Kansas State Department of Education Food Service Facts Handbook – Fall 1999, which explained the requirements of “offer” vs. “serve” and the State agency had instructed SFA personnel on how to properly implement these provisions.

### Inconsistent Application of Full Service or “Offer vs. Serve” Meal Options

With the assistance of a State agency Food Service Consultant, we observed six meals that did not meet the full service lunch requirement. Three students did not take milk; and three trays did not contain celery or carrots. (The State agency report identified these meals as nonreimbursable meals.<sup>22</sup>) In contrast, we observed other meals missing one component of a full service meal, but for these meals the cashier required the students to take the missing component.

State agency guidelines<sup>23</sup> require schools that select the “serve” option to serve the full portion of all food items to all students, and students may not decline any food item.

The State agency’s correspondence to the SFA included corrective action to be taken. We included similar actions below, along with additional corrective actions we believe are necessary.

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<sup>21</sup> “Offer” meals require less production hours to prepare, and “serve” meals require more production hours to prepare. In this instance, the production records were reviewed and were determined indicative of a “serve” program.

<sup>22</sup> FNS personnel advised that if meals had a sufficient number of menu items to qualify as a reimbursable meal under the “offer vs. serve” option, then FNS would recognize the meals as reimbursable.

<sup>23</sup> Kansas State Department of Education Food Service Facts Handbook – Fall 1999.

## **Recommendation No. 7**

Require the State agency to instruct the SFA to correctly implement either the full service option or “offer-versus-serve.” If the SFA chooses to implement the full service meal option, require the SFA to amend the Program Agreement to reflect the change. Require the State agency to verify that the SFA has correctly implemented the procedures.

### **FNS Response.**

FNS concurred with Recommendation No. 7 and agreed to require the State agency to provide oversight to the SFA to complete the recommended actions including verification the SFA has properly implemented the corrective procedures.

### **OIG Position.**

In order to reach management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the SFA will be completed and the actions verified.

## **Recommendation No. 8**

Require the State agency to instruct the SFA to provide training to, and monitoring of, all cashiers on how to recognize a reimbursable meal under whichever meal service option the school is following, full service or "offer-versus-serve". Require the State agency to periodically review and verify that the SFA has correctly implemented the procedures.

### **FNS Response.**

FNS concurred with Recommendation No. 8 and agreed to require the State agency to provide oversight to the SFA to complete the recommended actions including verification the SFA has properly implemented the corrective procedures.

### **OIG Position.**

In order to reach management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the SFA will be completed and the actions verified. Also, we need to be provided a description of the oversight measures the State agency intends to provide to the SFA, including the frequency the State agency intends to perform them.

### Section 3. Controls Over Procurement of Goods

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#### Finding 6

#### Inadequate Controls Over Procurement Process and Contract Provisions

The SFA did not monitor vendor compliance with contract provisions, document solicitation of bids to help assure adequate competition, include all required terms in contracts, and maintain required documentation. This occurred because there was inadequate management oversight to ensure that procurements complied with applicable regulations and contract terms. Consequentially, some procurements may not have been made at competitive terms, and vendors charged prices in excess of those specified in the contract. For school year 2002/2003, the SFA spent about \$1 million in food purchases and about \$60,000 in nonfood purchases.

Federal regulations<sup>24</sup> require that grantees and subgrantees maintain a contract administration system which ensures that contractors perform in accordance with the terms, conditions, and specifications of their contracts or purchase orders. Federal regulations<sup>25</sup> require “procurement by sealed bids (formal advertising). Bids are publicly solicited and a firm-fixed-price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming with all the material terms and conditions of the invitation for bids, is the lowest in price.” The State agency requires, “For procurement of services or supplies costing in aggregate in excess of \$10,000, competitive sealed bids (formal advertising) are publicly solicited or a Request for Proposal is publicized.”<sup>26</sup>

#### Invoices Not Reviewed

An SFA official advised that the SFA was not reviewing invoices for correct pricing (i.e., the prices per invoices reflected vendor bid prices per the contract). The official provided further information that they trusted the vendors and that there was no monitoring process in place to ensure that vendors adhered to their contract and invoiced the SFA at the bid prices for products delivered. As a result, there was no assurance that invoices paid were correct.

We advised SFA officials that we had found some errors in pricing on vendor invoices during our review of the 2000/2001 through 2002/2003 school years. During the course of our audit, an SFA official started to review all invoices for price discrepancies. When the official found a discrepancy, the official notified the vendor and requested a sales credit. An SFA official stated the

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<sup>24</sup> 7 CFR 3016.36(b)(2).

<sup>25</sup> 7 CFR 3016.36(d)(2).

<sup>26</sup> Kansas State Department of Education Food Service Facts Handbook, Chapter 8.

SFA received sales credits for identified discrepancies. The total amount of the recoveries was unavailable because the review procedures had just started.

#### Bids Not Publicly Advertised

The SFA did not publicly advertise to notify interested vendors of the opportunity to provide bids on planned SFA procurements. This occurred because there was inadequate SFA management oversight to ensure the SFA implemented the State's requirements that bids be publicly solicited.<sup>27</sup> As a result, the SFA could not assure products were purchased from the lowest-cost vendor.

An SFA official stated vendors used in the past or vendors the SFA was familiar with received bid requests. The official further stated bid requests were not publicly advertised because the official did not want the administrative burden of working with a large number of vendors, especially unfamiliar vendors.

A State agency Food Service Consultant stated the SFA had been informed of the bid requirements outlined in the Kansas State Department of Education Food Service Facts. In a prior State agency onsite review, the SFA was directed to review procurement contracts to ensure the contracts contained the required elements, as outlined in the State's handbook, but the SFA did not implement corrective action.

#### Contracts Did Not Contain a Termination Provision

Vendor contracts, which were in excess of \$10,000, did not contain a provision for termination by the grantee. This occurred because there was inadequate management oversight to ensure the SFA implemented the termination provision, as required in the Kansas State Department of Education Food Service Facts Handbook – Fall 1999. As a result, the SFA could not terminate vendor contracts.

State agency guidelines<sup>28</sup> require contracts in excess of \$10,000 must contain provisions for termination by the grantee.

We reviewed the SFA's revised bid request, and we did not find a cancellation clause in the request.

The State agency Food Service Consultant stated the Kansas State Department of Education Food Service Facts Handbook – Fall 1999 contained the termination provision requirement. In a prior State

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<sup>27</sup> Kansas State Department of Education Food Service Facts Handbook – Fall 1999.

<sup>28</sup> Kansas State Department of Education Food Service Facts Handbook – Fall 1999.

agency onsite review, the SFA was directed to review procurement contracts to ensure the contracts contained the required elements, as outlined in the Kansas State Department of Education Food Service Facts Handbook – Fall 1999. The SFA did not implement corrective action.

#### Documentation Unavailable

The SFA could not provide adequate documentation to demonstrate that procurement functions related to bid requests, bids from vendors, vendor quotes, and vendor contracts had been performed in accordance with requirements. An SFA official was aware of the requirement to maintain records, but stated that the filing system used by the SFA was inadequate and complete records could not be located. As a result, the SFA could not provide adequate documentation that would assure products were purchased at the lowest cost from the lowest-cost vendor(s).

Federal regulations<sup>29</sup> require grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to, the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.

We requested to review documentation regarding requesting vendors to provide bids, vendor quotes received, and vendor contracts for school years 2000/2001, 2001/2002, and 2002/2003. The SFA was unable to provide us with the complete documentation we requested. An SFA official stated the documentation could not be found because the SFA filing system was inadequate. The SFA filing system was a room full of boxes containing records from past years' food service operations. The contents of the boxes were not clearly labeled.

An SFA official stated the SFA was not aware of the requirement to document vendor quotes. A State agency Food Service Consultant stated the information was given in a training seminar the SFA official had attended. During the course of our audit, the SFA started to document vendor quotes.

### **Recommendation No. 9**

Require the State agency to instruct the SFA to develop a contract administration system which would ensure that the SFA (1) verifies that vendors operated in accordance to their contract/agreement, (2) seeks competitive bids for planned procurements and fully documents the bids received, (3) includes a provision for termination in contracts, when required, and (4) maintains records sufficient to detail the significant history of a

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<sup>29</sup> 7 CFR 3016.36(b)(9).

procurement. Require the State agency to periodically monitor and verify that the SFA has correctly implemented the procedures.

**FNS Response.**

FNS concurred with Recommendation No. 9 and agreed to require the State agency to provide oversight to the SFA to complete the recommended actions including verification the SFA has properly implemented the corrective procedures.

**OIG Position.**

In order to reach management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the SFA will be completed and verified. Also, we need to be provided a description of the oversight measures the State agency intends to provide to the SFA, including the frequency the State agency intends to perform them.

## Section 4. Accounting Procedures and Controls

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### **Finding 7                      Inadequate Controls Resulted in Inaccurate Accounting Transactions**

The SFA did not accurately complete the monthly financial reports required by the State agency. This occurred because control procedures were not designed properly to ensure a timely and accurate recording of revenue transactions. An SFA official noticed the financial reports did not reconcile and made an adjusting entry without supporting detail (plugged adjustments) in 2 of the 3 school years reviewed. As a result, apparent irreconcilable differences could result in negative perception of the program.

Our review of the annual financial status summary report reconciled to the general ledger for 2001/2002 showed that the line items in the Annual Financial Status Summary reports to the State agency were broken out differently than the SFA budget amounts. This difference led individuals living in the school district to question whether school lunch funds were inappropriately used. (We found no evidence to substantiate the complaints of misuse of school lunch funds.)

State agency guidelines<sup>30</sup> state the SFA should answer the following questions to ensure the district has proper controls and know the strengths and weaknesses of the food service program: Are receipts and expenditure reports, as well as profit and loss statements, prepared monthly? Are monthly expenses and revenues compared with prior month's and year's totals? Are frequent audits conducted to ensure the accuracy of reported information (revenue totals reflect cash sales and accurate claims for reimbursement and expenses reflect only allowable costs)?

An SFA official stated the Annual Financial Status Summary was completed by totaling all of the monthly financial status summaries and transferring the totals to the annual summary. The official further stated a reconciliation was performed between the Annual Financial Status Summary and the revenue and expense ledgers. However, the official's corrective actions resulting from the reconciliation negated the effectiveness of this control. If the records did not reconcile, an SFA official made adjustments (usually revenue adjustments) to the Annual Financial Status Summary reports for the amounts of the differences. The official could not explain the specific causes of the errors that created the need for adjustments.

For example, in June 2001, a revenue adjustment of \$4,993 was made to reconcile differences between the Annual Financial Status Summary and the revenue ledger. In July 2002, a similar revenue adjustment of \$2,934 was

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<sup>30</sup> Kansas State Department of Education Food Service Facts Handbook – Fall 1999.

made to achieve reconciliation. However, there was no documentation showing the reason for the difference or justification for the adjustment made.

The SFA realized there was a control weakness in how revenue was recorded and accounted for. For school year 2002/2003, the SFA took action to correct the control weakness by creating two separate miscellaneous income accounts in the revenue ledger, where previously there was only one, and developing a control whereby all revenue posted in the two accounts was also recorded in the food service monthly revenue reports.

For school year 2002/2003, we found that the revenue line items on the Annual Financial Status Summary reconciled to the general revenue ledger and school lunch fund. The corrective action taken by the SFA corrected the control weakness we found in school years 2000/2001 and 2001/2002. Because of the potential for other errors in the system, we believe it is important that the SFA continue to complete reconciliations for all accounts, not just revenue, on a monthly basis to timely identify and correct errors.

#### **Recommendation No. 10**

Require the State agency to instruct the SFA to develop control procedures to review financial status summary reports at the end of each month for accuracy and to immediately correct any errors identified. Require the State agency to verify that the SFA has correctly implemented the procedures.

#### **FNS Response.**

FNS concurred with Recommendation No. 10 and agreed to require the State agency to provide oversight to the SFA to complete the recommended actions including verification the SFA has properly implemented the corrective procedures.

#### **OIG Position.**

In order to reach management decision, we need to be notified of the proposed dates when the recommended actions to be taken by the SFA will be completed and verified. Also, we need to be provided a description of the oversight measures the State agency intends to provide to the SFA, including the frequency the State agency intends to perform them.

# General Comments

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## **No Procedures to Prorate All Interest Income to the Food Service Fund**

The SFA did not have policies or accounting procedures in effect to credit the school food service account with its prorated share of interest earned on funds within the school food service account. The SFA was aware of the Federal regulation<sup>31</sup> requiring interest to be prorated to the food service fund. We did not attempt to calculate the amount of interest to be prorated by the SFA because the food service account's average balance was too small to have earned any significant interest. However, we believe that if interest earnings increase, SFA should have procedures in place to ensure earnings from the balance in the school food service account are properly recognized in the SFA's accounting system.

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<sup>31</sup> 7 CFR 210.2 definition of revenue shows that a prorated share of interest earned from investments should be credited to the school food service's account.

# ***Scope and Methodology***

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Our review primarily covered NSLP/SBP operations July 1, 2000, to June 30, 2003. However, we reviewed records for other periods, as deemed necessary. We performed audit work at the FNS Regional office in Denver, Colorado, the Kansas State agency in Topeka, Kansas, and the SFA in Liberal, Kansas. The review at the SFA was initiated in September 2003. We selected this SFA as one of a series of school audits conducted in Kansas. Our selection of this SFA also addressed correspondence from individuals living in the school district expressing concerns and complaints with the operation of the NSLP. We conducted interviews of relevant persons to determine the validity of the concerns.

In school years 2000/2001, 2001/2002, and 2002/2003, there were seven elementary schools, two intermediate schools, two middle schools, and one high school. We reviewed NSLP/SBP claims of all 12 schools and observed lunchroom operations at 1 intermediate school and 1 middle school. We performed our audit in accordance with Government Auditing Standards.

To accomplish our review objectives, we reviewed FNS, State agency, and SFA regulations, policies, procedures, manuals, and instructions governing NSLP/SBP operations. We also reviewed the State agency's most recent administrative review of the SFA's NSLP/SBP operations and the SFA's corrective actions taken in response to the administrative review findings and recommendations. We concentrated on meal counts in the months of February, March, and April 2003. Because of the errors we found, we reviewed for reasonability meal counts for all months in school year 2001/2002 and August 2002 through May 2003. The following audit procedures were also performed:

- Interviewed officials from the State agency and SFA in order to obtain an overview of their method of operation for the NSLP/SBP and any special supervision given the SFA;
- Evaluated the SFA's procedures used to gather and consolidate monthly meal claims and whether reports were verified for accuracy;
- Evaluated edit check controls used to assure the reasonableness of claims for reimbursement when daily meal counts, by category, exceeded average daily attendance;
- Reviewed the SFA's accounting system, which included a review of program funds and interest on those funds;
- Reviewed the SFA's procurement procedures; and

- Received assistance from a State agency Food Service Consultant with procurement, meal observations, and State agency reviews.

## **Exhibit A – Summary of Monetary Results**

Exhibit A – Page 1 of 1

Finding No.	Description	Amount	Category
3	SFA Underclaimed Lunch Reimbursements for 3 Months	\$6,542	<u>1/</u>
4	SFA Overclaimed Lunch Reimbursements for 1 Month	\$694	<u>2/</u>

1/ Underclaim.

2/ Questioned costs, recovery recommended.

## Exhibit B – SFA Errors in Accumulating Lunch Meal Counts

Exhibit B – Page 1 of 1

	Paid	Free	Reduced	Total Underclaim
<b>February 2003</b>				
Reimbursement Claim	15,828	38,930	6,296	
Sales Activity Report	15,812	38,970	6306	
Difference	16	-40	-10	
Federal Rate	\$0.22	\$2.16	\$1.76	
Cash-in-Lieu	\$0.1525	\$0.1525	\$0.1525	
Total	\$5.96	(\$92.50)	(\$19.13)	(\$111.63) <sup>32</sup>

	Paid	Free	Reduced	Total Underclaim
<b>March 2003</b>				
Reimbursement Claim	10,092	24,571	4,119	
Sales Activity Report	10,885	26,826	4,443	
Difference	-793	-2,255	-324	
Federal Rate	\$0.22	\$2.16	\$1.76	
Cash-in-Lieu	\$0.1525	\$0.1525	\$0.1525	
Total	(\$295.39)	(\$5,214.69)	(\$619.65)	(\$6,129.73)

	Paid	Free	Reduced	Total Underclaim
<b>April 2003</b>				
Reimbursement Claim	15,151	37,772	6,338	
Sales Activity Report	15,174	37,896	6,341	
Difference	-23	-124	-3	
Federal Rate	\$0.22	\$2.16	\$1.76	
Cash-in-Lieu	\$0.1525	\$0.1525	\$0.1525	
Total	(\$8.57)	(\$286.75)	(\$5.74)	(\$301.06)

<b>TOTAL LUNCH UNDERCLAIMED</b>	<b>\$6,542<sup>33</sup></b>
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<sup>32</sup> We did not include in our calculations those overclaim errors that would have resulted in an adjustment of less than \$6.

<sup>33</sup> Rounded.

# Exhibit C – Edit Check Errors

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	Paid	Free	Reduced	Total Overclaim
<b>November 18, 2002</b>				
Monthly Consolidated Meal Claim	43	496	25	
Daily Sales Activity Report	43	196	25	
Difference	0	300	0	
Federal Rate	\$0.22	\$2.16	\$1.76	
Cash-in-Lieu	\$0.1525	\$0.1525	\$0.1525	
Total	\$0.00	\$693.75	\$0.00	\$693.75

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<b>TOTAL LUNCH OVERCLAIMED</b>	<b>\$694<sup>34</sup></b>
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<sup>34</sup> Rounded.

# Exhibit D – FNS Reply to Official Draft

Exhibit D – Page 1 of 3



United States  
Department of  
Agriculture

Food and  
Nutrition  
Service

Mountain  
Plains  
Region

1244 Speer Boulevard, Suite 903  
Denver, Colorado 80204-3585

Reply to  
Attn of: MPSN-1:

SEP 16 2004

Subject: Audit Report No. 27010-22-KC, National School Lunch Program –  
Unified School District 480, Liberal, Kansas

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

We concur with Recommendation No. 1, and will instruct the State agency (SA) to provide the school food authority (SFA) with intensive oversight and supervision and request the SA to work with the SFA to implement appropriate management controls regarding procurement, meal counts, and meal claims. We will also require the SA to verify that the SFA has correctly implemented effective procedures to correct the cited recurring and pervasive problems. If it is found that the conditions remain uncorrected, we will pursue with the SA whether future program payments should be delayed, suspended or denied in part or in whole.

We concur with Recommendation No. 2 and will require the SA to instruct the SFA to immediately implement any corrective action necessary to conform to all food temperature requirements and all other pertinent sanitation and health standards of the Kansas Department of Health and Environment. We agree that the SA should work, with the Kansas Department of Health and Environment as appropriate, to ensure the SFA takes corrective action on all deficiencies and verify that the deficiencies have been corrected. If it is found that the conditions remain uncorrected, we will pursue with the SA as necessary whether future program payments should be delayed, suspended or denied in part or in whole.

We concur with Recommendation 3 and will require the SA to instruct the SFA to provide additional supervision over responsible employees to ensure that the SFA properly and timely submits onsite reviews, as required, and records documentation supporting completion of the onsite reviews. We will require the SA to periodically verify that the SFA has correctly implemented the procedures until the SFA has done so.

We concur with Recommendation 4 and will require the SA to provide direction to the SFA on requirements and actions to be taken to correct the underclaims. We will require the SA to periodically verify that the SFA has correctly implemented the procedures adopted until the SFA has done so.

Dennis J. Gannon

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We concur with Recommendation 5 and will request the SA to require the SFA to implement controls that will ensure that Claim for Reimbursement forms are accurate and ensure meal reports and consolidations are always reviewed for accuracy and reconciled to the data from the automated meal accountability system. We will require the SA to periodically verify that the SFA has correctly implemented the procedures adopted, until the SFA has done so.

We would like to point out that the statement in footnote 15 on page 10 of the report is incorrect. A correct statement of the performance of this edit-check “control” would be: “A control that is designed to ensure that daily meal counts that are in excess of the number of children currently eligible/approved in each category, adjusted by an attendance factor, are to be considered questionable, and must be investigated to see if meals have been counted in excess of the number actually served that day. If meal counting errors are found, they are to be corrected prior to submission of the claim for reimbursement. If no meal count errors are determined, the reason why the correct meal count exceeded the edit-check control figure must be explained.”

We concur with Recommendation 6 and will instruct the SA to provide the SFA with procedures to correct the cited overclaim. We will instruct the SA to require the SFA to implement controls that will ensure that edit checks are properly performed and always reviewed for accuracy. We will require the SA to periodically verify that the SFA has correctly implemented the procedures, until the SFA has done so.

We concur with Recommendation 7 and will require the SA to instruct the SFA to correctly implement either the full service option or “offer-versus-serve.” If the SFA chooses to implement the full service meal option, the SA will require the SFA to amend the Program Agreement to reflect the change. We will require the SA to verify that the SFA has correctly implemented the procedures.

We concur with Recommendation 8 and will require the SA to instruct the SFA to provide training to, and monitoring of, all cashiers on how to recognize a reimbursable meal under whichever meal service option the school is following, full service or “offer-versus-serve.” We will require the SA to periodically review and verify that the SFA has correctly implemented the procedure, until the SFA has done so.

We concur with Recommendation 9 and will require the SA to instruct the SFA to develop a contract administration system which would ensure that the SFA (1) verifies that vendors operated in accordance with their contract/agreement, (2) seeks competitive bids for planned procurements and fully documents the bids received, (3) includes a provision for termination in contracts, when required, and (4) maintains records sufficient to detail the significant history of a procurement. Require the SA to periodically monitor and verify that the SFA has corrected the procedures, until the SFA has done so.

## **Exhibit D – FNS Reply to Official Draft**

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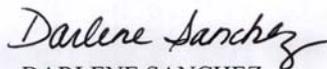
Exhibit D – Page 3 of 3

Dennis J. Gannon

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We concur with Recommendation 10 and will require the SA to instruct the SFA to develop control procedures to review financial status summary reports at the end of each month for accuracy and to immediately correct any errors identified. We will require the SA to verify that the SFA has correctly implemented the procedures.

If you have any questions, please contact [ ].

  
DARLENE SANCHEZ  
Regional Director  
Special Nutrition Programs