U.S. Department of Agriculture

Office of Inspector General
Midwest Region

Audit Report

Bellwood SFA's Administration of the National School Lunch Program

Report No.
27010-0016-Ch
December 2003

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Midwest Region - Audit
111 North Canal Street, Suite 1130
Chicago, Illinois 60606

DATE: December 3, 2003

REPY TO
ATTN. OF: 27010-16-Ch

SUBJECT: Bellwood SFA's Administration of the National School Lunch Program

TO: Ollice C. Holden
Regional Administrator
Food and Nutrition Service
77 West Jackson Boulevard, 20th Floor
Chicago, IL 60604

ATTN: Frank Suchy
Chief Fiscal/State Systems

This report presents the results of our audit of the Bellwood SFA's Administration of the National School Lunch Program. The Food and Nutrition Service's response to the official draft, received November 14, 2003, is included in its entirety as exhibit D, with excerpts and the Office of Inspector General's position incorporated into the Findings and Recommendations section of the report.

Based on the information contained in your response, we have reached management decisions on all Recommendations Nos. 1 through 14 in the report, and therefore no further correspondence with our office is necessary. However, please follow your agency's internal procedures in forwarding documentation for final actions to the Office of the Chief Financial Officer. In accordance with Department Regulation 1720-1, final action is to be taken within 1 year of each management decision.

If you have any questions please have a member of your staff contact Dennis J Boedigheimer, Assistant Regional Inspector General, at 353-1356.

/S/
EDWARD R. KRIVUS
Regional Inspector General

Attachment

cc: Office of the Chief Financial Officer
(w/attachment and a copy of
above-mentioned memorandum)

Stephen Fowkes, Director
Food and Marketing Division

Executive Summary

Bellwood SFA's Administration of the National School Lunch Program

Results in Brief

Through a written agreement with the Illinois State Board of Education, the Bellwood School Food Authority (SFA) administers the National School Lunch Program (NSLP) for seven schools in Bellwood, Illinois. Our audit disclosed serious deficiencies in the Bellwood SFA's administration of the NSLP, ranging from its oversight of menu planning and meal counting procedures at individual schools to its procurement of goods and services for the food service program.

We determined that the SFA improperly claimed over 71,911 meals during school years 2002 and 2003. We found that applications were not maintained for every meal claimed as free or reduced-price and the meal counting systems did not yield accurate totals. We also found that the SFA's milk purchases were inconsistent with providing a nutritious meal to every eligible student. We attributed these violations to the SFA not understanding important NSLP requirements regarding: the retention of free and reduced-price applications, the need to serve a well-balanced meal that included milk, and conducting effective oversight reviews of its schools lunch service. As a result, we questioned $136,138 in NSLP reimbursements.

We also determined that the SFA's procurement procedures did not comply with Federal or State requirements. The procurement of vended meal services in school year 2003, restricted competition by placing unreasonable and unnecessary requirements on potential bidders. For procurement actions in school year 2002, the SFA did not maintain documents, such as bid requests and school board meeting minutes in approving and awarding the bid. As a result, the SFA spent over $600,000 in NSLP funds to pay for goods and services that may not have been the lowest responsive and responsible bidder.

Recommendations In Brief

We recommend that the Food and Nutrition Service require the State agency to institute a claim against the SFA for the $136,138 it received as reimbursement for meals it could not support or that did not meet with NSLP requirements. We also recommend that the State agency ensure that the SFA establishes controls and implements adequate meal counting and claiming systems, and reviews those systems for accuracy and document the implementation of corrective actions. Finally, the State agency must provide the SFA with procurement training and conduct reviews necessary to ensure the SFA adheres to Federal or State procurement requirements.

Agency Response

In its response to the official draft dated November 14, 2003, FNS agreed with all Recommendations Nos. 1 through 14. A summary of FNS' response to each recommendation can be found within the Findings and Recommendations section of this report. The FNS response is included in its entirety as exhibit D of this audit report.

OIG Position

Based on FNS' response, we have reached management decisions on all Recommendations Nos. 1 through 14. Requirements for Final Action are listed under OIG Position for each recommendation within the Findings and Recommendations section of the report.

Abbreviations Used in This Report

ADA	Average Daily Attendance
FNS	Food and Nutrition Service
FSIS	Food Safety and Inspection Service
NSLP	National School Lunch Program
OIG	Office of Inspector General
SFA	School Food Authority
USDA	United States Department of Agriculture

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Background and Objectives

Background

In 1946, Congress established the National School Lunch Program (NSLP) to safeguard the health and well-being of the Nation's children and to encourage the domestic consumption of agricultural commodities.[1] Administered by the U.S. Department of Agriculture's (USDA) Food and Nutrition Service (FNS), the NSLP provides funding and donated commodities to the States in order to benefit schools' nonprofit food service.

Under written agreements with FNS, State agencies, typically State Educational Departments, oversee the NSLP and assist school food authorities (SFAs) in operating the program at the local level. Using FNS funds, State agencies reimburse their SFAs monthly based on the number and type of meals they claim. Although meals provided through the NSLP are available to all students, some students are eligible to receive reduced-price or free meals based on their family's size and income level.

SFA oversight includes establishing menu plans, providing nutritious and well-balanced meals that included milk, and conducting onsite reviews to ensure that schools comply with NSLP requirements. Federal regulations require each SFA to establish internal controls to ensure the accuracy of meal counts prior to submitting claims for reimbursement. In addition, each SFA must: 1) compare its schools' daily meal counts against data that will assist in identifying excessive claims; 2) annually perform at least one onsite review of each school's lunch counting and claiming system; and 3) promptly follow up with corrective actions whenever the claims review process suggests the likelihood of meal counting errors or other problems.

While Federal regulations allow SFAs to procure goods and services to support their food service operations, they must ensure that any purchases made with NSLP funds comply with Federal, State, and local procurement requirements.

Objectives

The objectives of this audit were to determine whether the Bellwood SFA's controls over the administration of the NSLP were sufficient. Specially, we evaluated whether adequate meal accountability systems were in place at the individual schools, and whether the SFA's internal controls ensured that only eligible students received free and reduced-price meals. In addition, we reviewed the procedures for accounting and use of program funds relating to SFA's procurement of goods and services.

[1] Congress passed the National School Lunch Act (42 U.S.C. 1751) on June 4, 1946. The Act is now the Richard B. Russell National School Lunch Act, as amended October 23, 2002.

Findings and Recommendations

Section 1. Bellwood SFA's Management and Monitoring of the NSLP

For school years 2002 and 2003, the SFA claimed that it served more than 600,000 meals to students at its seven schools, receiving over one million dollars in Federal reimbursements. According to the SFA, about 65 percent of the students were eligible to receive free or reduced-price meals, which qualified the SFA to receive enhanced NSLP reimbursements.

During school years 2002 and 2003, however, the SFA did not adhere to several important NSLP requirements. We found that the SFA over claimed meals, did not ensure a nutritious meal for every eligible student, and its schools' meal counting systems did not yield accurate totals. We attributed these violations to the SFA not understanding important NSLP requirements regarding: the retention of free and reduced-price applications, the need to serve a well-balanced and nutritious meal, and conducting effective oversight reviews of its schools lunch service. As a result, we questioned the 71,911 meals claimed representing $136,138 in NSLP reimbursements.

Finding 1 SFA Could Not Support All Free and Reduced-Price Meal Claims

From August 2001 through June 2003, the SFA claimed more free and reduced-price meals than it could support. Federal regulations[2] require SFAs to maintain documentation substantiating student eligibility for free and reduced-price meals and to compare each school's daily meal count against the product of the number of children eligible by category (free, reduced, and paid) times the average daily attendance. Because the SFA did not keep all student applications on file or compare the number of applications to the number of meals claimed for reimbursement, it received excess Federal funds totaling $136,138.

We reviewed the SFA's procedures for obtaining and maintaining student NSLP applications. Although the SFA's procedures were not documented, it was clear, through memorandums and discussions with SFA officials that obtaining a student application was required in claiming a free or reduced-price meal. In accordance with Federal regulations, the SFA required its schools to collect from each student an application including the student's name, grade, and family size and income. If more than one child from the same family applied, the SFA directed schools to make a copy of the family's application for each additional child.

[2] 7 CFR 245.6 (e) and 7 CFR 210.8 (a)(3)

Despite these requirements, we found that the SFA claimed more free and reduced-price meals than the number of student applications maintained at all but one of its seven schools. For school year 2002, we counted 808 free and reduced-price applications at 4 of the 7 schools, but found they claimed an average of 817 meals per day. The over claims increased dramatically in school year 2003, with 6 of the 7 school claiming 1,357 meals per day while maintaining only 1,268 free and reduced-price applications. Upon comparing the number of applications to the average daily meal claim for these schools, we found that, on average, the schools claimed about 49 meals per day more than the number of applications on file. Our review disclosed that the six schools had claimed 65,781 free and 6,130 reduced-price meals more than they could support.[3]

We determined the dollar effect of the excess claims by multiplying the number of over-claimed meals to the applicable reimbursement rate for each school year as follows:

Meal Category	School Year 2002	School Year 2003
Free	$2.11	$2.16
Reduced-Price	$1.71	$1.76
Paid	$0.22	$0.22

Since the SFA could claim all meals as paid, we calculated the discrepancy by multiplying the number of over-claimed meals by the applicable rate less the paid rate. For example, the rate for free meals over-claimed in school year 2003 would be $2.16 less $0.22, or $1.94 for each meal. During school year 2002, the SFA over-claimed 17,667 free and 673 reduced-price meals, and it over-claimed 48,114 free and 5,457 reduced-price meals the following year. The over-claimed meals represented $34,393 in Federal reimbursements for school year 2002 and $101,745 for school year 2003, totaling $136,138 in excess reimbursements.

For school year 2002, the SFA could not explain why the number of applications maintained by its schools did not correspond to the number of meals claimed. However, a senior SFA official stated that, although obtaining NSLP applications from students was a problem that year, applications were a part of the SFA's overall school registration process in school year 2003.

For school year 2003, SFA officials explained that the State agency had given them the wrong NSLP applications, which they learned after they had already distributed the forms to students. After recalling the first set of applications,

[3] To determine the total number of meals over-claimed for each month, we compared the total free and reduced-price meals claimed to the maximum number of meals allowed. According to Federal regulations, the maximum number of meals allowed is calculated by multiplying the total number of applications, by category, by a school's average daily attendance and number of serving days per month.

they were unable to get all of the corrected applications back from the families. The SFA was not overly concerned because, according to a senior SFA official, the State agency informed them that they needed to maintain only 3 percent of the applications on file. However, the SFA officials to whom we spoke could not name the State agency official who provided that information nor could they produce documentation that collaborated the assertion. State agency officials told us that they never asked any SFA to recall applications in school year 2003 and that all applications must be kept on file.

Recommendation No. 1

Require the State agency to collect $136,138 in excess reimbursements for meals the SFA claimed but could not support.

Agency Response.

In its response dated November 14, 2003, FNS agreed with our recommendation and provided a bill for collection to the State agency. As of November 10, 2003 the State agency submitted a request for payment to the SFA for $136,138 in excess reimbursements. Prior to January 1, 2004, the State agency must remit those funds to FNS.

OIG Position.

We accept FNS' management decision. For Final Action, provide to the OCFO the documentation necessary to prove that payment was received.

Recommendation No. 2

Require the State agency to ensure that the SFA collects and maintains an application for each child whose meal was claimed as free and reduced-price and that it compares those applications to the number of meals claimed.

Agency Response.

In its response dated November 14, 2003, FNS agreed with our recommendation and stated that a mandatory in-service training will be held at the SFA before January 30, 2004, where the State agency will present key regulatory requirements and publications to SFA staff. In addition, the State agency will conduct a review during school year 2004 of all the SFA's schools to ensure applications are collected, maintained, and used in comparing each school's claim.

OIG Position.

We accept FNS' management decision. For Final Action, FNS needs to provide the OCFO with the training agenda to ensure the application and claim reviews processes were discussed.

Finding 2 SFA's Milk Purchases Inconsistent with Providing a Nutritious Meal

The SFA offered milk as one of its meal components, but based on its milk purchases; only 60 percent of the meals served could have contained a carton of milk. A student does not have to take a carton of milk under offer versus serve option of the enhanced food-based menu planning approach, but schools must offer milk and ensure it provides a nutritious and well-balanced meal.[4] The State agency had cited the SFA in recent administrative reviews for not meeting nutrition standards and not offering all the daily minimum meal components. As a result, we question whether the nearly 30,000 meals served without milk during school year 2003, met NSLP nutrition standards and meal pattern requirements.

Out of the seven schools' average daily enrollment of over 2,800 students, all of whom were eligible to participate in the NSLP, we determined that, on average, the SFA purchased only about 1,600 cartons of milk. This equates to about 60 percent of the milk required to offer each eligible student one carton of milk. We also determined that the SFA's claim exceeded its milk purchases by 29,641 meals for the period August 2002 through February 2003. During that time, the SFA received Federal reimbursement for 215,841 meals but purchased only 186,200 individual cartons of milk. Considering that a well-balanced meal contains three servings from the milk group per day,[5] we questioned whether dietary guidelines were met when the SFA did not purchase milk for 40 percent of its eligible students.

Serving nutritious and well-balanced meals was also a concern noted by the State agency during its administrative and follow-up reviews conducted during school years 1999 and 2000. During the administrative review, State agency officials cited the SFA for not meeting nutrition standards or meal pattern requirements. In the State agency's follow-up to that review it cited the SFA for not offering all the daily minimum required components, and reiterated that a reimbursable lunch must offer a meat, two servings of vegetables, grains, and milk in the required serving size.

[4] 7 CFR 210.10 (a)(1) and (k)(6)
[5] Nutrition and Your Health: Dietary Guidelines for Americans, U.S. Food and Drug Administration Center for Food Safety and Applied Nutrition, HHS/USDA Report, 1995, as amended 2000.

Overall, the SFA was unable to provide assurance that it was aware of the requirements in what constituted a nutritious and well-balanced meal. We discussed both the discrepancies in milk purchases and the results of our observations at individual schools with SFA officials and school food service personnel. SFA and school officials stated that they were not aware of what constituted a reimbursable meal. In addition, based on the results of the administrative reviews and the SFA's milk purchases, there was a lack of assurance that the SFA was aware whether they had met nutrition and meal pattern requirements. Additional follow-up is needed to ensure the SFA receives adequate technical assistance on its requirements in providing a well-balanced and nutritious meal to students.

Recommendation No. 3

Require the State agency to perform a nutritional analysis at the SFA to ensure that students are receiving well-balanced and nutritious meals.

Agency Response.

In its response dated November 14, 2003, FNS agreed with our recommendation and stated that a School Meals Initiative review will be performed during the school year 2004. Based on the review results, the State agency will provide the technical assistance necessary to the SFA staff to ensure menus meet meal pattern and nutrient standard requirements.

OIG Position.

We accept FNS' management decision. For Final Action, FNS needs to provide the OCFO with the results of the School Meals Initiative review and a list of the technical assistance provided.

Recommendation No. 4

Require the State agency to provide technical assistance to the SFA in making purchasing decisions and methods to encourage students to take the meal components necessary to meet dietary guidelines.

Agency Response.

In its response dated November 14, 2003, FNS agreed with our recommendation and stated that technical assistance will be provided to SFA staff through a combination of the mandatory in-service training and the School Meals Initiative review. The State agency will cover purchasing decisions and methods the SFA can use to encourage students to take all the

meal components to meet dietary guidelines. All training and reviews will be completed by September 1, 2004.

OIG Position.

We accept FNS' management decision. For Final Action, FNS needs to provide the OCFO with the training agenda to ensure that purchasing decisions and dietary guidelines were discussed.

Finding 3 More Effective Oversight Needed to Ensure Compliance with NSLP Requirements

The SFA did not effectively review meal counting and claiming procedures at its schools. Federal regulations 7 CFR 210.8 (a)(1-4) require SFAs to review each school's meal counting and claiming system and to ensure that schools implement any necessary corrective actions within 45 days of the review. In addition, Federal regulations 7 CFR 210.8(a)(3)(i) require SFAs to perform edit checks, which involve a comparison of each school's daily counts against the number of students eligible, multiplied by an attendance factor.

Because the SFA had not established controls to ensure that the schools' systems yielded accurate totals, over 60 meals were miscounted as reimbursable in one serving day during our audit. Considering that there are 170 serving days per year, the SFA could have received excess reimbursements of nearly $22,000 based on its historical claiming percentages for free, reduced-price, and paid meals.

Edit Checks Not Performed

We found that the SFA did not evaluate each of its schools' monthly meal claims to determine the reasonableness of the amounts claimed. Using data regarding enrollment, average daily attendance (ADA), and the highest number of eligible students by category, the SFA should have been able to detect unreasonable claims.

For example, if the SFA had reviewed each school's data and performed the necessary calculations, it would have found that six of its seven schools claimed ADA percentages well below 90 percent, with one as low as 44 percent. This would mean that on average only 44 percent of its students actually attended school. We re-calculated that school's ADA percentage, based on enrollment and attendance reports, and determined that it should have reported a 91 percent ADA. We also re-calculated the SFA's ADA for

all schools, using October 31 data,[6] and determined that the average ADA was between 94 and 95 percent for school years 2002 and 2003. However, based on the schools' calculations the SFA's ADA was 82 and 75 percent for school years 2002 and 2003, respectively. With such a low ADA percentage, the schools' meal claims exceeded the maximum amount of meals allowed. Even though an SFA is required to investigate why a school would exceed the maximum amount of meals allowed, this SFA's oversight was ineffective in ensuring a reasonable claim.

2003 Onsite Review Ineffective

Although the SFA did not perform an onsite review of each school during school year 2002, it did evaluate the accuracy of schools' meal counting and claiming systems in 2003. The SFA's review forms indicated that its meal counting systems at most of the schools would yield accurate results. However, our observations at each school during the week of May 5, 2003, disclosed much different results.

Using a questionnaire similar to the one used by the SFA for its onsite reviews in January 2003, we attended a meal service at each school. Identical to the form found in the State agency's NSLP Key Regulatory Requirements and Sample Forms, our review form listed key questions designed to determine whether a school's meal counting and claiming system would ensure accurate meal totals. We compared the results documented by the SFA during its review to our own observations.

ONSITE REVIEW FORM **Questions Asked at All 7 Schools**	**Number of Schools SFA Documented Meeting This Requirement**	**Number of Schools OIG Observed Meeting this Requirement**
1. Are meal counts taken at the point of service?	6	5
2. Are only reimbursable meals counted?	7	3
3. Does the meal count system prevent overt identification?	7	5
4. Does the meal count system provide an acceptable and accurate count?	4	4
5. Are daily meal counts correctly totaled and recorded?	5	4

As the above table indicates, the SFA recognized the same problems with the internal controls used to ensure the accuracy of meal counts. Although the

[6] 7 CFR 245.6a (a) states that verification activity shall be based on the number of approved applications on file as of October 31.

SFA documented problems, it did not indicate whether schools had implemented corrective actions. Based on our observations in May 2003, the same schools continued to employ inadequate controls over its meal counting systems.

A key control in ensuring an accurate meal counting system is to count each meal at the end of the food service line, however, we observed an employee at one school collecting a student's meal ticket before they received a lunch. At two other schools, children deposited tickets in a container at the end of the line without a school official present to verify that the meals qualified as reimbursable. The schools counted the number of tickets after the lunch period. In both cases, school officials placed meal tickets from students absent that day in the same container as students that received a meal. Therefore, students that were absent on a particular day were counted as receiving a meal and subsequently claimed for reimbursement. At another school, an official at the end of the service line did not consider whether all meal components were present before counting a meal as reimbursable. Meals counted for reimbursement at this school included a single apple or a slice of pizza.

In contrast, we counted reimbursable meals only if they met NSLP requirements; that is, if they contained at least three menu items. We then compared our count to the schools' count for that day, and found that four of the seven schools did not match our totals. At one school, we counted 217 reimbursable meals while the school counted 280, a 23 percent error. In total, our observations of one day's worth of meals at each school revealed a discrepancy of 67 meals, which equates to a 4 percent error rate. (See exhibit C). With 170 serving days, the SFA could over claim 11,390 meals per year. Based on the SFA's historical percentage of free, reduced-price, and paid meals claimed, the SFA could receive $21,805 in excess reimbursements.

In addition to discrepancies in meal counts, two of the schools employed procedures that overtly identified students who were eligible for free and reduced-price meals.[7] One of the schools identified eligible students through a numbering system, while the other school labeled students eligible for free meals with a blue ticket and reduced-priced eligible students with a pink ticket.

According to an SFA official, the district was aware that it had been cited by State agency and single audit reviews for non-compliance in conducting onsite reviews. Although the SFA documented its review for school year 2003, it did not ensure that three of its schools implemented corrective actions within the required 45 days and, in fact, had not remedied the

[7] These two schools' procedures contradicted 7 CFR 245.8 (b) that states, there shall be no overt identification of any children.

problems more than 90 days later. Even though the SFA had completed the onsite review form, it had not established controls to ensure that schools corrected the problems noted in a timely manner.

Recommendation No. 5

Require the State agency to ensure that the SFA reviews and corrects its schools' meal counting and claiming procedures to prevent them from claiming non-reimbursable meals.

Agency Response.

In its response dated November 14, 2003, FNS agreed with our recommendation and stated that during the Coordinated Review Effort, scheduled to be performed during school year 2004, the State agency will ensure the SFA reviewed and corrected its meal counting and claiming procedures to prevent over claiming of non-reimbursable meals. The State agency will conduct additional reviews and training if their reviews indicates continued problems with its meal counting and claiming process.

OIG Position.

We accept FNS' management decision. For Final Action, FNS needs to provide the OCFO with the results of the Coordinated Review Effort and the additional training or reviews planned.

Recommendation No. 6

Require the State agency to provide comprehensive training to SFA and school food service officials in utilizing school enrollment and attendance data to assist in properly completing meal count edit checks.

Agency Response.

In its response dated November 14, 2003, FNS agreed with our recommendation and stated that after the mandatory in-service training, the State agency will conduct a Coordinated Review Effort, scheduled to be performed during school year 2004, and will ensure that SFA officials properly use the meal count edit check procedure. The State agency will conduct additional reviews and training if their reviews indicates continued problems with completing the meal count edit check procedure.

OIG Position.

We accept FNS' management decision. For Final Action, FNS needs to provide the OCFO with the results of the Coordinated Review Effort

regarding the meal count edit check procedure and the additional training or reviews planned.

Recommendation No. 7

Require the State agency to ensure that the SFA establishes controls to promptly follow up with its schools to ensure that corrective actions are adequate and implemented in a timely manner.

Agency Response.

In its response dated November 14, 2003, FNS agreed with our recommendation and stated that through a combination of the mandatory in-service training and Coordinated Review Effort, the State agency will ensure that the SFA established controls to promptly follow-up on corrective actions. The State agency will conduct additional reviews and training if there was an indication that problem with the SFA's follow-up procedures still exists.

OIG Position.

We accept FNS' management decision. For Final Action, FNS needs to provide the OCFO with the results of the Coordinated Review Effort regarding the SFA's follow-up to corrective actions and the additional training or reviews planned.

Recommendation No. 8

Require the State agency to review SFA operations to ensure that the SFA implemented approved point of service methods and an adequate method to identify and count students that are eligible to receive free or reduced-price meals.

Agency Response.

In its response dated November 14, 2003, FNS agreed with our recommendation and stated that when the State agency conducts its Coordinated Review Effort, it will ensure the SFA implemented approved point of service methods in counting reimbursable meals. The State agency will conduct additional reviews and training if their reviews indicates continued problems with the SFA's method to identify and count students that are eligible to receive free and reduced-price meals.

OIG Position.

We accept FNS' management decision. For Final Action, FNS needs to provide the OCFO with the results of the Coordinated Review Effort regarding the SFA's point of service methods and the additional training or reviews planned.

In school year 2002 and previous years, the SFA ran its own food service operation and procured individual items from various suppliers. Beginning in school year 2003, the SFA opted to contract with a for-profit company to provide vended meals. In both years, the SFA violated state and Federal requirements by using unauthorized procurement procedures.

In school year 2003, the SFA's procurement of vended meal services restricted competition by placing unreasonable and unnecessary requirements on potential bidders. As a result, the SFA used food service funds to pay for program meals that it could not ensure were provided at the lowest price. In school year 2002, the SFA did not maintain necessary documents for purchases it made in support of its food service program. In the two school years combined, the SFA used over $600,000 in NSLP funds to pay what may not have been the lowest responsive and responsible bidders.

Finding 4 SFA's Bid Proposal for Vended Meals Did Not Meet State or Federal Requirements

The SFA used a bid proposal for vended meal service which did not meet Federal and State criteria in key areas, including bid bonding, the vendor's facility inspection procedures, and the vendor's use of USDA-donated commodities. By adding and omitting language, the SFA modified the State agency's prototype proposal in ways that restricted competition and violated Federal and State procurement requirements. Furthermore, the SFA failed to contact the State agency regarding the altered bid proposal. As a result, the SFA entered into an inappropriate contract that required over $400,000 in program funds to pay vendor costs and under-utilized about $4,000 in USDA-donated commodities.

The SFA sought bids from for-profit firms to provide vended meals, but retained responsibility for ensuring that food operations complied with NSLP standards. Even though an SFA may develop its own bid proposal, with State agency approval, the proposal must meet Federal and State requirements. In particular, Federal standards forbid placing unreasonable requirements on vendors and requiring excessive bonding in order to qualify to do business.

Bid Proposal Required Unreasonable Bonding and Facility Inspections

In its bid proposal, the SFA added a bid bond requirement of 10 percent, double the limit set by the State agency. In addition, the proposal stated that a vendor's production facility must be owned and operated by the vendor and

continuously inspected by the USDA "Food Safety and Quality Service."[8] We determined that the added requirements were both unreasonable and restrictive because they eliminated vendors that leased their production facilities. Additionally, according to Food Safety and Inspection Service (FSIS) policies, only firms that slaughter meat and poultry can have an inspector continually on its premises. Although FSIS inspects other types of vendors, that type of inspection does not provide continuous monitoring of vendors premises, but simply makes it subject to inspection.

Although one of the two vendors in attendance at the pre-bid meeting had some type of FSIS inspection, it was not continuous. According to an agency official, FSIS did not use the term continuous inspection. However, this term was used by both the SFA in its proposal and by another SFA that used this same vendor, who was eventually awarded the bid. The second vendor, that did not have an FSIS inspected facility, asked the SFA for an amendment to the bid proposal, specifically to remove the continuous inspection requirement, the SFA refused. The second vendor then decided not to bid since it could not meet the requirements in the SFA's proposal.

Bid Proposal Forfeited Credit for USDA-Donated Commodities

Besides adding unreasonable requirements to its bid proposal, the SFA omitted important State requirements related to USDA-donated commodities used to prepare vended meals. Specifically, the SFA omitted language that requires a vendor to pay all costs related to processing USDA-donated commodities for use in vended meals. Since the bid proposal became the contract for the vended meals, the SFA assumed responsibility for paying processing costs. Although the SFA received credit for the value of USDA-donated commodities used by the vendor, the vendor deducted its processing costs from the credit. We calculated that the SFA should have received $561 for USDA-donated ground beef that the vendor used to prepare school meals. However, the vendor deducted $313 in processing costs from the total value of the beef, crediting the SFA only $248.

In addition to flaws with the contract itself, the SFA did not enforce the contract term requiring the vendor to use USDA-donated commodities to the fullest extent possible. In the vendor's reply to the SFA's bid proposal, it agreed to use 14 different USDA-donated commodities, but through May 2003, the vendor used only one, the ground beef mentioned above. If the SFA had ensured that the vendor used all of the commodities in inventory according to the contract, it could have realized an additional $3,772 in commodity credits. Including the $313 lost to processing costs, the SFA did not receive benefit for over $4,085 in USDA-donated commodities.

[8] The SFA could not explain what the "Food Safety and Quality Service" was, but we later determined that they were referring to USDA's Food Safety and Inspection Service (FSIS).

Although SFA officials stated that they had the best interest of the district in mind when developing the bid proposal, they admitted that they did not contact the State agency for its approval. Instead, SFA officials explained that they had developed the proposal based on proposals obtained from other SFAs in the Chicago area.[9] SFA officials said that they added the restrictive portions, such as excessive bid bonding and continuous USDA inspection, in order to benefit the district. However, by creating a bid proposal that did not comply with Federal and State procurement requirements, the SFA could not ensure that it had secured the lowest, qualified bidder to provide vended meals at its schools.

Recommendation No. 9

Require the State agency to ensure that the contracts the SFA enters into meet the terms listed in the State agency prototype, and the SFA does not extend any contracts that do not meet Federal or State requirements.

Agency Response.

In its response dated November 14, 2003, FNS agreed with our recommendation and the State agency will review, by December 15, 2003, the SFA's current vended meals contract for compliance with requirements. If the State agency review discloses that, the contract does not meet requirements it will work with and provide the technical assistance necessary to meet Federal and State requirements.

OIG Position.

We accept FNS' management decision. For Final Action, FNS needs to provide the OCFO with the results of the State agency's contract review and the additional technical assistance planned.

Recommendation No. 10

Require the State agency to ensure that the SFA receives commodity credits and that the vendor utilizes USDA-donated commodities to the fullest extent possible in its lunch operations.

Agency Response.

In its response dated November 14, 2003, FNS agreed with our recommendation and stated that by December 15, 2003, the State agency will contact the SFA to obtain all documents necessary to confirm that the SFA

[9] When we asked SFA officials to identify the USDA "Food Safety and Quality Service," they were unable to do so because they had copied the name from another SFA's bid proposal.

received proper commodity credits and the vendor is fully utilizing USDA-donated commodities. If their desk review indicates continued problems, the State agency will provide the SFA with additional training and expand the scope of its review.

OIG Position.

We accept FNS' management decision. For Final Action, FNS needs to provide the OCFO with the results of the State agency's document review of commodity credits and the additional amounts sought from the vendor.

Recommendation No. 11

Require the State agency to provide the SFA with the procurement requirements and to reinforce the SFA's responsibilities in entering into procurement actions using program funds.

Agency Response.

In its response dated November 14, 2003, FNS agreed with our recommendation and stated that a mandatory in-service training will be held at the SFA, where the State agency will present key regulatory requirements and publications to SFA staff. These requirements and publications will include resource material and reinforce the SFA's responsibilities in entering into procurement actions with program funds.

OIG Position.

We accept FNS' management decision. For Final Action, FNS needs to provide the OCFO with the training agenda to ensure that procurement and SFA responsibilities in procuring goods and services with program funds were discussed.

Finding 5 SFA Purchased Over $200,000 in Goods in Violation of State and Federal Requirements

During school year 2002, the SFA operated its own food service, meaning that it purchased food and other items served to students using program funds. In that year, the SFA procured the majority of its food service items from a single supplier, using $225,995 in school food service funds without adhering to State and Federal procurement requirements.

Federal procurement regulations[10] require SFAs to publicly advertise and solicit bids, to publicly open sealed bids, and to award contracts in writing to the lowest responsive and responsible bidder. The State's procurement standards also require SFAs to maintain written selection procedures. According to both Federal and State requirements, SFAs must maintain sufficient documentation to support any of their procurement actions that involve over $100,000 in Federal funds.

During our review in May 2003, we found that the SFA had not maintained significant documentation to support applicability of its procurement actions, including the major contract noted above. Federal procurement regulations[11] require an SFA to retain all pertinent documents for a period of three years. Since the SFA procured services for school year 2002, the SFA should have retained documents such as advertisements requesting bids, school board meeting minutes approving the winning bid, the written bid award to the supplier, and the suppliers' responses for both the accepted and rejected bids. Based on this lack of documentation, we requested the SFA's written procurement procedures to determine if they coincided with Federal and State requirements. The SFA stated that it had procedures, but they were not documented in writing.

In 1999, the SFA was cited for not having written procurement procedures during a State agency administrative review. The administrative review noted that the SFA had not established procedures for making purchases in excess of $10,000 and did not maintain records that detailed the procurement procedures that were followed. In August 1999, the SFA responded to the State's procurement finding, and stated that written procurement procedures will be established during the current month. However, during our review in May 2003, we found the SFA had neither established written procurement procedures, nor maintained adequate documentation to support its history of procurement.

According to an SFA official, the SFA made its major purchases through the sealed bid process, which involved announcement of bids in the newspaper, public opening of the bids, and approval of the selected bid by the school board. Although we repeatedly requested documents to back up the procurement practices SFA claimed it exercised, SFA officials were unable to provide them. Without supporting documentation, we were unable to determine if the SFA had properly solicited, reviewed, and awarded its contracts. Considering the SFA's history in not complying with promised corrective actions, additional training and reviews are needed to ensure the SFA adheres to procurement requirements.

[10] 7 CFR 3016.36 (d)(2)
[11] 7 CFR 3016.42 (a) through (c)

Recommendation No. 12

Require the State agency to provide the SFA with training on both Federal and State procurement requirements.

Agency Response.

In its response dated November 14, 2003, FNS agreed with our recommendation and stated that a mandatory in-service training will be held at the SFA, where the State agency will present key regulatory requirements and resource material on conducting both Federal and State procurement actions with program funds.

OIG Position.

We accept FNS' management decision. For Final Action, FNS needs to provide the OCFO with the training agenda to ensure that procurement and SFA responsibilities in procuring goods and services with program funds were discussed.

Recommendation No. 13

Require the State agency to ensure that the SFA develops and implements written procurement procedures that include the establishment of controls in maintaining documentation in compliance with Federal or State requirements.

Agency Response.

In its response dated November 14, 2003, FNS agreed with our recommendation and the State agency will request, by December 15, 2003, that the SFA submit written procurement procedures for review. In addition, the State agency will ensure, during its Coordinated Review Effort, that the SFA implemented those procurement procedures. If the State agency review discloses that the procedures were not implemented, it will provide SFA officials with additional training and follow-up reviews will be scheduled.

OIG Position.

We accept FNS' management decision. For Final Action, FNS needs to provide the OCFO with the results of the State agency's review of the SFA's procurement procedures and the additional training or reviews planned.

Recommendation No. 14

Require the State agency to provide the necessary follow-up reviews to ensure that the SFA implements timely corrective actions.

Agency Response.

In its response dated November 14, 2003, FNS agreed with our recommendation and the State agency will ensure, during its Coordinated Review Effort, that the SFA implemented timely corrective actions. If the State agency review discloses that the timely corrective actions were not implemented, it will provide SFA officials with additional training and follow-up reviews will be scheduled.

OIG Position.

We accept FNS' management decision. For Final Action, FNS needs to provide the OCFO with the results of the Coordinated Review Effort regarding the SFA's implementation of corrective actions and the additional training or reviews planned.

Scope and Methodology

We performed our audit fieldwork during April and May 2003 at the Bellwood SFA, District 88, located in Bellwood, Illinois. Additional fieldwork was performed in August 2003 to obtain the balance of SFA's claims submitted for March through June 2003. The SFA was selected for review based on significant problems noted in both the State agency's administrative review and A-133 Single Audit reports.

We performed our review at the SFA and conducted site visits to all seven of its schools that participated in the NSLP. (See exhibit B.) We initially reviewed the SFA's operations for school year 2003, but expanded our review to include school year 2002 based on concerns disclosed during fieldwork.

The audit was conducted in accordance with Generally Accepted Government Auditing Standards. To accomplish our objectives we:

- Reviewed regulations, policies, and procedures governing the NSLP;
- Interviewed FNS regional and State agency officials to obtain an overview of the NSLP operation in Illinois and identify any specific concerns or program issues;
- Reviewed the results of both the State agency's administrative review and A-133 Single Audit coverage to determine which SFA to review;
- Counted the number of free and reduced-price applications maintained by the SFA and compared that total to its monthly claims for school years 2002 and 2003 to determine any over-claim amounts;
- Evaluated the SFA's onsite review and follow-up procedures for its schools' meal accountability systems to determine whether internal controls were established and functioning;
- Examined accounting records to ensure that the SFA's internal controls were sufficient to ensure proper use of program funds;
- Reviewed and evaluated the SFA's purchases of goods and services to ensure that its procurement practices facilitated open and free competition and resulted in the best price; and
- Performed site visits to the SFA's seven schools that operated under the NSLP to determine whether adequate meal accountability systems were in place.

Exhibit A – Summary of Monetary Results

FINDING NUMBER	DESCRIPTION	AMOUNT	CATEGORY
1	Unsupported NSLP Meals Claimed by SFA	$136,138	Questioned Costs: Recovery Recommended
4	USDA Donated Commodities Not Used to Benefit SFA	$4,085	Funds To Be Put To Better Use: Management or Operating Improvement Savings
TOTAL		**$140,223**	

Exhibit B – Enrollment and ADA of Schools Visited

SCHOOL NAME	School Year 2002				School Year 2003			
	ENROLLMENT	No. of Applications Counted by OIG		ADA	ENROLLMENT	No. of Applications Counted by OIG		ADA
		Free	Reduced-Price			Free	Reduced-Price	
Grant	595	265	93	96%	611	228	76	97%
Lincoln Elementary	355	255	40	95%	334	287	28	95%
Lincoln Primary	168	89	40	94%	154	67	21	93%
McKinley	510	312	54	94%	508	306	14	94%
Thurgood Marshall	397	185	28	92%	261	143	40	96%
Wilson Elementary	303	119	52	92%	224	45	13	95%
Roosevelt Jr. High	562	277	70	92%	695	335	127	95%
ENTIRE DISTRICT	**2,890**	**1,502**	**377**	**94%**	**2,787**	**1,411**	**319**	**95%**

ADA = Average Daily Attendance

Exhibit C – *Meal Counting Problems Observed on the Day of Our Visit During the Week of May 5, 2003*

School Name	Meals Counted by School	Eligible Meals Counted by OIG	Number of Meals School Count Exceeded OIG Count	Problems Noted
Grant	429	429	-	None
Lincoln Elementary	284	284	-	None
Lincoln Primary	127	128	-[12]	Counted Tickets Instead of Actual Student Meals Served
McKinley	335	332	3	Counted Incomplete Meals
Thurgood Marshall	192	191	1[13]	Counted Tickets Instead of Actual Student Meals Served / Tickets from Absentee Students Co-Mingled with Lunch Count / Counted Incomplete Meals
Wilson Elementary	180	184	-[14]	Tickets from Absentee Students Co-Mingled with Lunch Count
Roosevelt Jr. High	280	217	63	Counted Incomplete Meals
TOTALS	**1,827**	**1,765**	**67**	

[12] School's count was less than OIG count by one meal. This school did not count meals at point of service, and therefore did not ensure every meal counted contained all components required for a reimbursable meal.
[13] Of the 192 meals the school counted, 34 meals did not contain milk as one of its components.
[14] School's count was less than OIG count by four meals.

United States Department of Agriculture

Food and Nutrition Service

Midwest Region

77 W. Jackson Blvd.
20th Floor
Chicago, IL
60604-3591

November 14, 2003

Mr. Edward R. Krivus, Regional Inspector General
Office of Inspector General
Midwest Regional Office
111 North Canal Street, Suite 1130
Chicago, Illinois 60606-1130

Dear Mr. Krivus:

We have received the Official Draft Report entitled," Bellwood's SFA's Administration of the National School Lunch Program," Audit Report No. 27010-16-Ch. We address each recommendation below.

Recommendation No. 1 – Require the State agency to collect $136,138 in excess reimbursements for meals the SFA claimed but could not support.

FNS agrees with this recommendation.

State Agency Response: The Illinois State Board of Education (ISBE) has sent a request for payment to the Bellwood School District 88 to collect $136,138 in excess reimbursements for meals the school food authority (SFA) claimed but could not support. Payment will be due to FNS by January 1, 2004.

Recommendation No. 2 - Require the State agency to ensure that the SFA collects and maintains an application for each child whose meal was claimed as free and reduced-price and that it compares those applications to the number of meals claimed.

FNS agrees with this recommendation.

State Agency Response: ISBE will present key regulatory requirements and publications training to school food authority staff, during a mandatory in-service meeting at the district, prior to January 30, 2004. ISBE will perform a Coordinated Review Effort (CRE) review during the 2003-2004 school year for all SFA sites to ensure the SFA collects and maintains an application for each child whose meal was claimed as free and reduced-price, and it compares those applications to the number of meals claimed.

The estimated completion date will be September 1, 2004.

Recommendation No. 3 – Require the State agency to perform a nutritional analysis at the SFA to ensure that students are receiving well-balanced and nutritious meals.

FNS agrees with this recommendation.

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State Agency Response: A School Meals Initiative (SMI) review will be performed during the 2003-2004 school year for all SFA sites. Based on the results of the SMI review, technical assistance will be given to SFA personnel to ensure that menus meet meal pattern and nutrient standard requirements.

The estimated completion date will be September 1, 2004.

Recommendation No. 4 – Require the State agency to provide technical assistance to the SFA in making purchasing decisions and methods to encourage students to take the meal components necessary to meet dietary guidelines.

FNS agrees with this recommendation.

State Agency Response: ISBE will present key regulatory requirements and publications training to school food authority staff, during a mandatory in-service meeting at the district, prior to January 30, 2004, and based on the results of the SMI review, ISBE will provide technical assistance to the SFA during the 2003-2004 school year in making purchasing decisions and methods to encourage students to take the meal components necessary to meet dietary guidelines.

The estimated completion date will be September 1, 2004.

Recommendation No. 5 – Require the State agency to ensure that the SFA reviews and corrects its schools' meal counting and claiming procedures to prevent them from claiming non-reimbursable meals.

FNS agrees with this recommendation.

State Agency Response: After the key regulatory requirements and publication training conducted prior to January 30, 2004 for the SFA staff, ISBE will also perform a CRE review during the 2003-2004 school year for all SFA sites to ensure that the SFA reviews and corrects its schools' meal counting and claiming procedures to prevent them from claiming non-reimbursable meals. If the review indicates continued problems additional training and follow-up will be scheduled.

The estimated completion date will be September 1, 2004.

Recommendation No. 6 – Require the State agency to provide comprehensive training to SFA and school food service officials in utilizing school enrollment and attendance data to assist in properly completing meal count edit checks.

FNS agrees with this recommendation.

State Agency Response: After the key regulatory requirements and publication training for the SFA staff prior to January 30, 2004, ISBE will perform a CRE review during the 2003-2004 school year for all SFA sites to ensure that the SFA and school food service officials utilize school enrollment and attendance data to assist in properly completing meal count edit checks. If the review indicates continued problems, additional training and follow-up will be scheduled.

The estimated completion date will be September 1, 2004.

Recommendation No. 7 – Require the State agency to ensure that the SFA establishes controls to promptly follow up with its schools to ensure that corrective actions are adequate and implemented in a timely manner.

FNS agrees with this recommendation.

State Agency Response: After the key regulatory requirements and publication training conducted by January 30, 2004 for the SFA staff, ISBE will perform a CRE review during the 2003-2004 school year at all SFA sites to ensure that the SFA establishes controls to promptly follow up with its schools to ensure that corrective actions are adequate and implemented in a timely manner. If the review indicates continued problems additional training and follow-up will be scheduled.

The estimated completion date will be September 1, 2004.

Recommendation No. 8 – Require the State agency to review SFA operations to ensure that the SFA implemented approved point of service methods and an adequate method to identify and count students that are eligible to receive free or reduced-price meals.

FNS agrees with this recommendation.

State Agency Response: After the key regulatory requirements and publications training conducted prior to January 30, 2004 for the SFA staff, ISBE will perform a CRE review during the 2003-2004 school year at all SFA sites to ensure that the SFA has implemented approved point of service methods and an adequate method to identify and count students that are eligible to receive free or reduced-price meals. If the review indicates continued problems, additional training and follow-up will be scheduled.

The estimated completion date will be September 1, 2004.

Recommendation No. 9 – Require the State agency to ensure that the contracts the SFA enters into meet the terms listed in the State agency prototype, and the SFA does not extend any contracts that do not meet Federal or State requirements.

FNS agrees with this recommendation.

State Agency Response: By December 15, 2003, ISBE will review the SFA's current vended meals contract for compliance with federal and state requirements. If the contract does not meet federal and state requirements, ISBE will work with the SFA in utilizing the State agency prototype and provide assistance in meeting federal and state requirements.

The estimated completion date will be September 1, 2004.

Recommendation No. 10 – Require the State agency to ensure that the SFA receives commodity credits and the vendor utilizes USDA-donated commodities to the fullest extent possible in its lunch operations.

FNS agrees with this recommendation.

State Agency Response: By December 15, 2003, ISBE will contact the SFA to obtain invoices and records to conduct a review that confirms the SFA is receiving commodity credits and the vendor is utilizing USDA donated commodities to the fullest extent possible in its lunch operations. If the review indicates continued problems, training will be provided and the scope of the review will be expanded.

The estimated completion date will be September 1, 2004.

Recommendation No. 11 – Require the state agency to provide the SFA with the procurement requirements and to reinforce the SFA's responsibilities in entering into procurement actions using program funds. The estimated completion date will be September 1, 2004.

FNS agrees with this recommendation.

State Agency Response: Through the key regulatory requirements and publications training conducted prior to January 30, 2004 for the SFA staff, ISBE will provide the SFA with procurement requirements and resource material and will reinforce the SFA's responsibilities in entering into procurement actions using program funds. The estimated completion date will be September 1, 2004.

Recommendation No. 12 – Require the state agency to provide the SFA with training on both Federal and state procurement requirements.

FNS agrees with this recommendation.

State Agency Response: Through the key regulatory requirements and publications training conducted prior to January 30, 2004, for the SFA staff, ISBE will provide the SFA with training and resource material on both federal and state procurement requirements.

The estimated completion date will be September 1, 2004.

Recommendation No. 13 – Require the State agency to ensure that the SFA develops and implements written procurement procedures that include the establishment of controls in maintaining documentation in compliance with Federal and State requirements.

FNS agrees with this recommendation.

State Agency Response: By December 15, 2003, ISBE will request the SFA to submit for review, written procurement procedures that include the establishment of controls in maintaining documentation in compliance with federal and state requirements. During the CRE review conducted at the district, ISBE staff will confirm that the SFA has implemented the procedures. If the review shows the SFA has not implemented the written procurement procedures, additional training and follow-up will be scheduled.

The estimated completion date will be September 1, 2004.

Recommendation No. 14 – Require the State agency to provide the necessary follow-up reviews to ensure that the SFA implements timely corrective actions.

FNS agrees with this recommendation.

State Agency Response: During the CRE review conducted at the district, ISBE staff will confirm that the SFA has implemented timely corrective actions. If the review fails to show the SFA has implemented timely corrective actions, additional training and follow-up will be scheduled.

The estimated completion date will be September 1, 2004.

FNS has reviewed and also agrees with Exhibits A, B and C of the Official Draft Report.

If you have any additional questions, please contact Adele Greco at 312-886-4652.

Sincerely,

FRANK SUCHY
Chief
Fiscal/State Systems
Financial Management

Informational copies of this report have been distributed to:

Agency Liaison Officer (3)
General Accounting Office (1)
Office of Management and Budget (1)
Office of the Chief Financial Officer
  Director, Planning and Accountability Division (1)
OIG Headquarters
  Director, AFD (2)
  OIG File Copy (1)