



U.S. Department of Agriculture
Office of Inspector General
Great Plains Region
Audit Report

Food and Nutrition Service
National School Lunch Program
Atchison County Community Schools
Effingham, Kansas



Report No.
27010-9-KC
June 2003



UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL - AUDIT
Great Plains Region
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DATE: June 3, 2003

REPLY TO

ATTN OF: 27010-9-KC

SUBJECT: National School Lunch Program – Atchison County Community Schools,
Effingham, Kansas

TO: William E. Ludwig
Regional Administrator
Food and Nutrition Service
1244 Speer Boulevard, Suite 903
Denver, CO 80204

This report presents the results of our audit of the National School Lunch Program (NSLP)¹, as operated by Atchison County Community Schools. This district served as the local school food authority (SFA) under an agreement with the Kansas State Department of Education (KSDE), which served as the State agency (SA). We evaluated policies and procedures over meal accountability and oversight of the program operation to include the accuracy of collections, accounting processes, and the use of program funds. We found SFA personnel were unaware of onsite accountability procedures and two schools did not follow program agreement requirements. Food service program records were not being retained for the required period at one school. The SFA's own internal reviews were delayed and did not identify the noncompliance by the individual schools. Also, the SFA's accounting procedures did not include crediting to the food service account a prorated share of interest earned from investments. We found no exceptions related to procurement activities.

BACKGROUND:

The KSDE serves as the SA, administering the program within the State, and the U.S. Department of Agriculture's (USDA) Food and Nutrition Service (FNS) serves as the program's funding agency. For school year 2001/2002 operations, the SFA received about \$140,000 in FNS reimbursement and about \$5,600 in SA reimbursement. Each SA is required to enter into a written agreement with FNS to administer the NSLP/School Breakfast Program (SBP) and each SA enters into agreements with SFA's to oversee day-to-day operations. The SFA, located in Effingham, Kansas, is responsible for operating the NSLP in

¹ Also includes the School Breakfast Program (SBP).

accordance with regulations. The SFA administered the NSLP/SBP in five public schools in the Atchison County area.

On June 4, 1946, Congress passed the National School Lunch Act,² now the Richard B. Russell National School Lunch Act, which authorizes Federal school lunch assistance. Section 4 of the Act authorizes general cash assistance payment for all lunches served to children, in accordance with the provisions of the 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. The fiscal year (FY) 2002 funding for the NSLP was \$6 billion for meal reimbursements of approximately 4.7 billion lunches. The Kansas SA received approximately \$58 million for the NSLP and \$14 million for the SBP in Federal reimbursements for FY 2002. For school year 2001/2002, Kansas provided State funds of approximately \$2.5 million to SFA's.

OBJECTIVES:

The objectives of our audit 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 determined (1) the accuracy of collections and accounting for reimbursed meals, (2) the accounting and use of program funds relating to the SFA's procurement of goods and services, and (3) the accounting for the SFA's school food service operations.

SCOPE AND METHODOLOGY:

Our review primarily covered NSLP/SBP operations July 1, 2001, through November 30, 2002, concentrating on operations since July 1, 2002. However, records for other periods were reviewed, as deemed necessary. We performed audit work at the FNS Regional office, Kansas SA, and the SFA in Effingham, Kansas. Audit work was performed at the SFA during December 2002. We reviewed NSLP/SBP operations for all five schools and made observations at two of the three elementary schools. Our audit was performed in accordance with Government auditing standards.

To accomplish our review objectives, we reviewed FNS, SA, and SFA regulations, policies, procedures, manuals, and instructions governing NSLP/SBP operations, and interviewed officials at each level. We also reviewed the SA'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 also (1) evaluated the SFA's procedures used to gather and consolidate monthly meal claims and whether reports were verified for accuracy, (2) evaluated edit check controls used to assure the reasonableness of claims for reimbursement and calculated the financial impact when daily meal counts, by category, exceeded average daily attendance, (3) reviewed the SFA's accounting system, which included a review of program funds and interest earned on those funds, (4) analyzed the SFA's methods

² 42 U.S. Code 1751.

used for procurement of goods and services and the SFA's process in monitoring the contract terms and conditions of awarded vendors, and (5) analyzed the monitoring efforts of the SFA through a review of the onsite accountability reviews conducted during school year 2001/2002.

FINDINGS:

Finding No. 1:

The SFA did not have adequate procedures in place to ensure that noncompliance with program agreement requirements would be detected or prevented during the onsite review process. This occurred because the SFA had not effectively monitored schools in its jurisdiction to ensure that the approved meal accountability systems were in place and that the schools were following the program agreement. As a result, food service personnel at two of the three elementary schools were unaware of onsite accountability procedures and were not following them, as stated in the program agreement, and one school was not retaining program records, as required.

Federal regulations³ require the SFA to perform an onsite monitoring review of meal counting and claiming systems used at each school under its jurisdiction annually, by February 1. The regulation also requires the SFA to ensure that the school's claim is based on the counting system authorized by the SA.⁴

We informed the SFA officials that the accountability procedures being used differed from the program agreement, and the SFA officials were not aware of the incorrect accountability procedures taking place or that required program records were not being retained.

- a. Onsite reviews did not meet requirements and disclose deficiencies. The Food Service Director completed an onsite accountability review at all five schools for school year 2001-2002 on February 7, 2002, which was after the required February 1 deadline. In addition, the onsite review was not signed by the SFA authorized representative or the Food Service Director who performed the review.

The onsite accountability review included a requirement to determine if the system observed matched the system as submitted to the KSDE. We found that the SFA reviewer showed that for all five schools the collection and accountability procedures matched the program agreement. However, as shown below, we observed two schools' accountability procedures that did not match those stated in the program agreement and the SFA review did not detect these conditions.

The onsite review was the Food Service Director's first time conducting the review and the Director did not adequately execute the review due to

³ 7 CFR 210.8(a)(1).

⁴ The agreement between the KSDE and the SFA, as permitted under 7 CFR 210.19(e), is more restrictive than Federal regulations governing counting and claiming procedures under 7 CFR 210.7(c), by requiring each SFA to identify the specific counting and claiming system(s) used at each participating school.

inexperience. The Food Service Director stated that the review for the current school year would be completed by February 1, 2003, and properly signed.

- b. Meal accountability procedures not followed. Meal accountability procedures observed at two schools were not consistent with the program agreement.

Federal regulations⁵ require the SFA to enter into an agreement with the SA. KSDE Food Service Facts Handbook – 1999 states that an authorized representative of the SFA must assure that the local program complies with the program agreement between the SFA and SA. The program agreement for Cummings and Lancaster Elementary Schools includes accountability procedures that state, “At the end of the serving line, a cashier or teacher uses a coded roster to checkoff or scan the name or number of each student served a reimbursable meal.⁶ The cashier uses the roster or the computer to determine the daily count by category.”

We observed at Lancaster Elementary School a roster being checked at the beginning of the lunch line to determine the daily count by category. Cummings Elementary School food service program also utilized a roster that was completed before the lunch period began. The Cummings Elementary School lunch supervisor completed the roster by collecting the teacher’s morning attendance and lunch count records. These procedures allow for students to leave before the lunch period and still be claimed, resulting in an over claim. An SA official stated that Cummings Elementary meal accountability procedures are not point of service, as required by the agreement.

Food service employees at both schools stated that accountability procedures have always been performed as we observed and the Food Service Director had never questioned these procedures.

- c. Food service program records were not being retained at one school. The SFA had not effectively monitored schools in its jurisdiction to ensure that recordkeeping requirements were being met. As a result, there was decreased assurance that meal counts were adequate because the records were not available for review, as required.

Federal regulations⁷ require SFA records shall be retained for a period of 3 years after the date of submission of the final claim for reimbursement for the FY. KSDE Food Service Facts Handbook – 1999 and the program agreement require that menu production records and records, which document the amount of money received as State and Federal reimbursement, must be retained for 5 years plus the current year.

⁵ 7 CFR 210.9(b).

⁶ The agreement between the KSDE and the SFA, as permitted under 7 CFR 210.19(e), is more restrictive than Federal regulations governing counting and claiming procedures under 7 CFR 210.7(c), by requiring each SFA to identify the specific counting and claiming system(s) used at each participating school.

⁷ 7 CFR 210.23(c).

Through interviews with a Lancaster Elementary official, we determined food service records (rosters, daily records of lunches/breakfasts served, and record of money collected) were destroyed at the end of each school year. A school official was not aware of the 5-year recordkeeping requirement. The SFA officials were not aware that the Lancaster official was destroying records. The SFA officials stated that it is school board policy to request written permission before destroying any records.

Recommendation No. 1:

Require the SA to direct the SFA to ensure that onsite accountability reviews are completed timely and signed, as required, and that additional oversight of monitoring visits is provided to ensure they detect and prevent noncompliance with program requirements or problems. Require the SA to direct the SFA to ensure the local program complies with the record retention requirement, as stated in the program agreement between the SFA and SA.

Agency Response:

The FNS response (attached as exhibit A) showed the agency concurred with Recommendation No. 1 and will direct the SA to ensure that the SFA conducts their onsite accountability reviews in a timely manner and that additional oversight of monitoring visits is provided to ensure they detect and prevent noncompliance. In addition, the SA will direct the SFA to comply with the records retention requirements.

OIG Position:

We can accept the management decision once we receive specific timeframes for the completion of the proposed action.

Finding No. 2:

The SFA did not credit the school food service account with a prorated share of interest earned from investments. According to the SFA, the SA had never instructed them to allocate interest to the school food service account. As a result, the interest from the school food service account deposited in the general fund was understated. The closing cash balances for school year 2001-2002 ranged from approximately \$65,000 to \$135,000 and the interest rates earned on the district's investment account ranged from 1.43 percent to 3.47 percent. We estimated the earned monthly interest that should have been credited to be between \$77 and \$390 per month.

The Federal regulations definition of revenue shows that a prorated share of earnings from investments should be credited to the school food services account.⁸

The SFA invested all surpluses in an interest bearing investment account. The SFA placed all interest earned from investment accounts into either a capital outlay fund or a

⁸ 7 CFR 210.2.

scholarship fund. The capital outlay fund was used for equipment, construction, improvements, etc. Because the SFA historically transferred general funds that would exceed the interest earned from investments to the food service account, we are not questioning any costs but the earnings from the balance of the school food service account should be recognized in the SFA's accounting system.

Recommendation No. 2:

Require the SA to instruct the SFA to credit the school food service account with its prorated share of the investment income.

Agency Response:

FNS concurred with Recommendation No. 2 and will require the SA to instruct the SFA to credit the food service account with its prorated share of the investment income.

OIG Position:

We can accept the management decision once we receive specific timeframes for the completion of the proposed action.

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.

We appreciate the assistance provided to us during our review.

/s/

DENNIS J. GANNON
Regional Inspector General
for Audit

EXHIBIT A – FNS RESPONSE TO THE DRAFT REPORT



United States
Department of
Agriculture

Food and
Nutrition
Service

Mountain
Plains
Region

1244 Speer Boulevard
Denver, CO
80204-2581

MAY 08 2003

Reply to
Attn of: MPSN-200

Subject: Audit Report No. 27010-9-KC, National School Lunch Program--
Atchison County Community Schools, Effingham, 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 direct the State Agency (SA) to ensure that the school food authority (SFA) conducts their onsite accountability reviews in a timely manner and that additional oversight of monitoring visits is provided to ensure they detect and prevent noncompliance. In addition, the SA will direct the SFA to comply with the records retention requirements.

We also concur with Recommendation No. 2 and will require the SA to instruct the SFA to credit the food service account with its prorated share of the investment income.

If you have any questions, please contact Gerald Stankorb at (303) 844-0355.

DARLENE SANCHEZ
Regional Director
Special Nutrition Programs