



U.S. Department of Agriculture



Office of Inspector General
Midwest Region

Audit Report

Monitoring of CACFP Sponsor, Collaborative Network, Toledo, Ohio

Report No. 27601-37-CH
February 2009



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Midwest Region – Audit

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REPLY TO

ATTN. OF: 27601-0037-Ch

TO: Ollice Holden
Regional Administrator
Food and Nutrition Service

THROUGH: Marva Mosley
Director, Financial Management

FROM: John W. Pepper /s/
Acting Regional Inspector General

SUBJECT: Monitoring of CACFP Sponsor, Collaborative Network, Toledo, Ohio

This report presents the results of our audit of the Child and Adult Care Food Program as operated by Collaborative Network of Toledo, Ohio. The purpose of the audit was to evaluate allegations of non-compliance with program regulations. To accomplish this, we evaluated whether Collaborative Network had fulfilled its administrative and financial responsibility for program funds.

Your agency's response to the official draft report, dated February 13, 2009, 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 response, we have reached management decision on all recommendations in the report. Please follow your agency's internal procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

We appreciate the cooperation and assistance provided by your staff during this audit.

Executive Summary

Monitoring of CACFP Sponsor, Collaborative Network, Toledo, Ohio

Results in Brief

This report presents the results of our audit of the Food and Nutrition Service's (FNS) Child and Adult Care Food Program (CACFP) as administered by the State agency (SA), the Ohio Department of Education and Collaborative Network (CN) of Toledo, Ohio, as the sponsoring organization. Our objectives were to determine the validity of allegations¹ against CN regarding non-compliance for program regulations and its impact on CACFP. We evaluated whether CN fulfilled its administrative and financial responsibility for CACFP funds according to FNS instructions, program regulations, and the SA's policies and procedures. Besides CACFP, CN also administered several other programs as part of its operations.

A complaint made to OIG in December 2007 alleged that CN had commingled funds, kited² checks, processed employee payroll untimely on at least three occasions, and retained three employees without an adequate source of program income to meet their payroll. We determined FNS regulations allowed the commingling of accounts under certain circumstances and we found no evidence that employees had been paid late. Although CN did not kite checks, we found the sponsor did not always pay its providers timely and because of CN's negative cash flow the integrity of the sponsor's CACFP funds were at risk.

We determined CN's financial viability to be in question because of the sponsor's negative cash flow, which occurred when the cash outflows during a period were higher than the cash inflows during the same period. Specifically, we determined the sponsor (1) used \$195,469 in CACFP funds to pay non-program expenses, (2) increased an existing line of credit (to \$150,000) by improperly using CACFP funds as collateral, (3) obtained \$85,000 in operating loans from unallowable³ sources, and (4) performed accounting functions that did not adhere to Generally Accepted Accounting Principles (GAAP).

Further, we noted that CN paid day care home providers up to 16 days late on 7 different occasions because it had used CACFP's provider reimbursement funds as operating funds to offset its negative cash flow.

We discussed CN's financial viability with FNS officials who agreed that CN borrowed CACFP funds to meet its monthly operating expenses. Since CN eventually paid CACFP administrative and operating expenses using funds from the sponsor's other grant funds, FNS would not require CN to reimburse

¹ OIG Hotline complaint

² An illegal scheme whereby a false line of credit is established by exchanging worthless checks between two banks.

³ Not bona-fide lenders

the \$195,469 in full. However, CN would be required to reimburse the CACFP funds used for unallowable costs totaling \$12,436 for improper loan principal and interest payments, improper allocation of administrative costs, and unallowable late fees claimed for reimbursement. We agree with this action.

Our review also disclosed another contributing factor that caused the CACFP to operate in a negative cash flow condition. CN had operated the CACFP at a loss of \$12,599 over the scope of our review, October 2006 through February 2008. Overall, between 2003 and 2006, CN had operated with losses in 3 of 4 years that totaled \$114,501. Based on the results of our review the SA, the Ohio Department of Education, and the Food and Nutrition Service (FNS) also question CN's financial viability.

During the audit, we also concluded that the SA had not properly documented a monitoring review of CN performed in 2005. The SA failed to provide a report to the sponsor and inform the sponsor of a fiscal action for overclaims totaling \$22,136. The SA was unable to ensure the debt was ever established or collected from CN.

Recommendations In Brief

We recommended that FNS instruct the SA to require CN to (1) establish one bank account for only CACFP, (2) exclude CACFP operational and advance administrative funds as collateral for the line of credit, and (3) restrict the sources of loans to bona fide lenders. We recommended FNS instruct the SA to ensure CN adheres to GAAP in its financial transactions and reporting, and that FNS instruct the SA to collect \$12,436 (see exhibit A) from CN.

We also recommended that FNS ensure the SA collects the overclaims by CN totaling \$22,136 and implement corrective actions required by the SA to resolve any issues or problems.

Agency Response

In their response, dated February 13, 2009, agency officials agreed with all of the findings and recommendations in the report. The officials have taken corrective action on some of the recommendations, while actions on other recommendations are underway. We have incorporated applicable portions of the response, along with our position, in the Findings and Recommendations section of this report. The agency's response is included in its entirety as exhibit D of the report.

OIG Position

We agree with the corrective actions FNS has taken, or plans to take, and have reached management decision on all recommendations in the report.

Abbreviations Used in This Report

CACFP	Child and Adult Care Food Program
CFR	Code of Federal Regulations
CN	Collaborative Network
FNS	Food and Nutrition Service
FNSRO	Food and Nutrition Service Regional Office
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
ME	Management Evaluation
NSLA	National School Lunch Act
ODE	Ohio Department of Education
OIG	Office of Inspector General
P.L.	Public Law
SA	State Agency
SAE	State Administrative Expense
USDA	United States Department of Agriculture

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Background and Objectives

Background

Collaborative Network, (CN) located in Toledo, Ohio, is a sponsoring organization for day care provider homes that serve meals to children enrolled in the U.S. Department of Agriculture's (USDA) Child and Adult Care Food Program (CACFP). Collaborative Network was formed in 1987 and began operating CACFP on October 1, 2002. In 2007, Collaborative Network received meal reimbursements totaling \$979,784 to pass on to its day care home providers and also received \$177,162 for its administrative costs.

CACFP is authorized under Section 17 of the National School Lunch Act (NSLA) (42 United States Code 1766)⁴. Program regulations are issued by USDA under 7 Code of Federal Regulation (C.F.R.) part 226. CACFP plays a vital role in improving the quality of day care and making it more affordable for many low-income families. Nationwide, each day, 2.9 million children receive nutritious meals and snacks through CACFP. The program also provides meals and snacks to 86,000 adults that receive care in nonresidential adult day care centers. CACFP further extends its services by providing meals to children residing in emergency shelters, as well as snacks and suppers to children participating in eligible after school care programs.

USDA's Food and Nutrition Service (FNS) administers CACFP through grants to States. The program is administered within most States by the State's educational agency. In Ohio, the Ohio Department of Education is the responsible State agency (SA). FNS makes State Administrative Expense (SAE) funds available to SAs for administrative expenses incurred in supervising and giving technical assistance to institutions participating in CACFP.

Independent centers and sponsoring organizations enter into agreements with their administering SAs to assume administrative and financial responsibility for CACFP operations. Collaborative Network, a sponsoring organization, began participating in the CACFP on October 1, 2002, and is a sponsor for day care homes. Day care homes must be licensed or approved to provide day care services.

Sponsoring organizations, such as CN, must submit accurate monthly claims for reimbursement to their administering agencies. Sponsoring organizations are responsible for maintaining records and sufficient supporting documentation to demonstrate that CACFP costs claimed have been incurred, are allocable to the program, and comply with the SA's financial

⁴ Section 17, National School Lunch Act (42 United States Code 1766), as amended by P.L. 110-246, dated October 1, 2008.

management requirements. The sponsoring organization must apply consistent use of Generally Accepted Accounting Principles (GAAP).

A complaint made to the Office of Inspector General (OIG) Hotline in December 2007 alleged that CN had commingled funds, kited checks, processed employee payroll untimely on at least three occasions, and retained three employees without an adequate source of program income to meet their payroll.

We also coordinated the work performed in this audit with OIG's Western Region. They are conducting an audit to evaluate corrective actions taken as a result of a prior nationwide audit effort in 1999. We provided them the results of this audit to aid in assessing the impact of corrective actions taken in that audit on the CACFP.

Objectives

The objective of this audit was to determine the validity of allegations against CN and their impact on CACFP. Our audit evaluated if the sponsor adequately fulfilled its administrative and financial responsibilities for the CACFP funds according to FNS regulations and State policies and procedures.

Findings and Recommendations

Section 1 - Integrity of CACFP Jeopardized by Sponsor's Negative Cash Flow

CN's financial viability was compromised because of its persistent negative cash flow.⁵ From October 2006 through February 2008, CN's cash account had a negative balance 25 times. To offset the negative cash flow, CN took inappropriate actions that jeopardized the integrity of CACFP as administered by CN and resulted in meal reimbursements to providers being paid up to 16 days late. Specifically, we determined the sponsor had (1) used CACFP funds to pay non-program expenses, (2) obtained a line of credit improperly using CACFP funds as collateral, and (3) obtained loans from unallowable sources to pay its operating costs. This also resulted in the sponsor claiming costs for unallowable items totaling \$11,401.

In the past few years, CN lost a number of day care home providers that either changed sponsors or discontinued participation in the program. In fiscal year (FY) 2006, CN had sponsored 360 day care providers; however, by FY 2008, that number had dropped (50 percent) to 179. As the number of day care home providers decreased, CN incurred a corresponding loss in CACFP administrative funding. Our review of CN's general ledger determined that within the 17-month period from October 2006 through February 2008, CN's cash account balance reached a negative position 25 times. During those times, the account remained negative an average of 7.9 days with an average negative balance of \$24,547.

State agency (SA) officials recognized that CN was losing providers and tried to help CN adjust to the decrease in administrative funding by informing CN's home providers that they could not transfer to another sponsoring organization until the end of the fiscal year. The SA believed this extra time would allow CN to revise its budget and maintain the CACFP program. However, through our analysis of CN's financial records, we noted that CN did not make the required effort to revise its administrative budget to compensate for loss of income as evidenced by the entity's continued negative cash flow, and the need to obtain additional funding over and above administrative funds.

We determined the CACFP is not a self-sustaining program within CN because of the accumulated loss of administrative funds that, over a 17-month period from October 2006 through February 2008, totaled \$12,599. Additionally, our examination of CN's independent audit reports for FYs 2003 through 2006 disclosed an accumulated operating loss for the sponsor in the amount of \$114,501.

⁵ Negative cash flow is commonly defined as a situation where cash outflows during a period are higher than the cash inflows during the same period.

Finding 1

CACFP Funds Used for Non-program Expenses

Between October 2006 and February 2008, CN used CACFP funds to improperly pay for \$195,469 in non-program expenses to meet its overall monthly operating expenses (see exhibit B). CN's checking account commingled CACFP funds with funds of its other grant programs. The sponsor paid any bills that were due with whatever funds were available in its commingled checking account. This compromised the CACFP's integrity because sufficient funds were not always available to timely reimburse the day care home providers for the meals they had served.

FNS instructions⁶ permit commingled accounts under CACFP, but the integrity of the CACFP funds must remain intact and they can only be used for program purposes or allowable costs. The instructions require sponsoring organizations to fund unallowable costs from non-program sources.⁷

Our analysis of CN's banking and accounting records disclosed that CN paid its monthly operating expenses from one commingled checking account. This allowed CN to use \$195,469 in CACFP funding for expenses relating to other grant programs and to pay unallowable costs. For example, \$5,023 of CACFP funds were used for repayment of an unallowable line of credit, and \$6,378 was used to repay unallowable loans from non bona-fide lenders. (These unallowable costs are discussed in the following findings of this section.) CN paid whatever expenses were due with whatever funds were available at the time, regardless of the source of the funds.

The commingled account allowed CN to continue paying monthly expenses despite a negative cash flow. However, it did so at the cost of delaying payments to providers. CACFP regulations require sponsoring organizations to make reimbursement payments to providers within five business days of receipt of funds from the State agency.⁸ Because it had used CACFP funds to pay for non-program expenses, we noted CN had paid providers up to 16 days late, on 7 separate occasions (see exhibit C).

During the audit, we discussed CN's situation with FNS officials. Based on our discussions, FNS officials stated that while CN had borrowed from CACFP funds to pay other non-program costs, the CACFP funds were eventually replaced by using other grant sources to pay CACFP expenses. Therefore, CN would be responsible for reimbursing the SA for only the unallowable costs that total \$12,436 (see exhibit A).

⁶ FNS Instruction 796-2 Revision 3 (IX B 3 b)

⁷ FNS Instruction 796-2 Revision 3 (VIII G)

⁸ 7 C.F.R. 226.16 (h)

We concluded that CN's use of its commingled checking account compromised the integrity of CACFP. Requiring CN to maintain a separate bank account for CACFP reimbursements and expenditures would better assure the proper use of program funds as well as timely provider reimbursements. FNS officials concurred.

Recommendation 1

Instruct the SA to require CN to maintain a separate bank account for CACFP reimbursements and expenditures to better ensure the integrity of the program.

Agency Response

FNS agreed with the recommendation. The SA provided FNS with the documentation it received October 1, 2008, from the bank confirming CN had established a business checking account and a separate CACFP checking account.

OIG Position

We accept FNS' management decision.

Finding 2

Program Funds Collateralized for Line of Credit

CN maintained a line of credit with its bank that improperly secured CACFP funds as collateral for its debt. Once the line of credit had been fully exhausted, CN was only able to make the interest payments due. The executive director stated she had not been aware that CACFP funds had been included as collateral. As a result, CN left CACFP funds vulnerable.

In 2000, prior to beginning participation in CACFP, CN obtained a \$100,000 line of credit from its bank. CN used the line of credit for operating expenses when funding from its sources was not timely received. When CN began operating CACFP in 2002, any CACFP funds on deposit with the bank became part of the collateral for the line of credit. The promissory note, signed by the executive director in 2000, described collateral for the debt as all accounts "whether now owned or hereafter acquired."

FNS instructions prohibit the use of CACFP administrative advances and provider reimbursement as collateral to secure loans under any circumstances.⁹

⁹ FNS Instruction 796-2 Revision 3 (IX D 8)

However, in 2005, CN increased the line of credit to \$150,000 and the executive director signed another promissory note with the same requirement, securing the debt with all accounts, which would include CACFP funds based on the description of the collateral mentioned above.

We determined that CN used the line of credit for day-to-day operating expenses, but CN's continuing negative cash flow (as discussed in Finding 1) caused the line of credit to be depleted. By April 2007, CN exhausted the principal and, that same month, began making interest-only payments on the line of credit. During the period of our review, from October 2006 through February 2008, CN paid \$19,532 in principal and interest payments on the line of credit. CACFP funds were used to pay \$5,023 of the \$19,532. The payment of principal and interest on the unapproved line of credit was not an allowable CACFP cost according to FNS (see exhibit A).

When we discussed the issue of collateral with the executive director, she stated she would attempt to remove CACFP funds as collateral because CN's other grant sources, totaling over \$500,000, would be sufficient to secure the loan without including CACFP.

Because CACFP funds were subject to confiscation by the bank, CN compromised the integrity of CACFP. Therefore, SA should require CN to take steps to exclude CACFP funds as collateral for the line of credit or remove CACFP funds from control of the bank.

Recommendation 2

Instruct the SA to require CN to immediately obtain the exclusion of CACFP funds as collateral for the line of credit.

Agency Response

FNS agreed with the recommendation. The SA provided FNS with a letter from CN's bank, dated October 1, 2008, confirming that CN had completed the process of securing a line of credit, which does not include CACFP funds as collateral.

OIG Position

We accept FNS' management decision.

Recommendation 3

Instruct the SA to collect \$5,023 from CN for unallowable principal and interest payments on the line of credit.

Agency Response

The SA sent FNS a copy of a “Demand Notice” to CN requesting payment by March 20, 2009, for the specified amount of \$5,023. FNS will verify the actual collection of these funds during an on-site management evaluation of the SA scheduled for the week of April 27, 2009.

OIG Position

We accept FNS’ management decision.

Finding 3

Operating Loans Obtained from Unallowable Sources

CN obtained \$85,000 in no-interest loans from sources that were not bona fide lenders after it exhausted its \$150,000 line of credit. Because CN was unable to meet its monthly operating expenses, it borrowed funds from a for-profit business entity and from CN’s Executive Director to offset its negative cash flow. The executive director stated that previous experience in the non-profit area led her to believe that CN could borrow funds at no interest on a temporary basis. However, FNS instructions require that all loans must be obtained from bona-fide lending institutions¹⁰ and less-than-arms length transactions require specific prior written approval.¹¹ As a result, the use of CACFP funds to repay the improper loans jeopardized the integrity of the CACFP. These loans from unallowable sources further evidenced the lack of CN’s operating funds because of decreased administrative funding due to its loss of providers.

Our review disclosed a contributing factor that caused the CACFP to operate in a negative cash flow condition. CN had operated the CACFP at a loss of \$12,599 over the scope of our review, October 2006 through February 2008. Overall, between 2003 and 2006, CN had operated with losses in 3 of 4 years that totaled \$114,501. This occurred because CN lost a number of day care home providers that either changed sponsors or discontinued participation in the program. In fiscal year (FY) 2006, CN had sponsored 360 day care providers; however, by FY 2008, that number had dropped (50 percent) to 179. As the number of day care home providers decreased, CN incurred a

¹⁰ FNS Instruction 796-2 Revision 3 (IX D 8)

¹¹ FNS Instruction 796-2 Revision 3, Exhibit A, T

corresponding loss in CACFP administrative funding. Our review of CN's general ledger determined that within the 17-month period from October 2006 through February 2008, CN's cash account balance reached a negative position 25 times. During those times, the account remained negative an average of 7.9 days with an average negative balance of \$24,547.

In an attempt to pay monthly expenses and to keep CN from failing financially because of its negative cash flow, CN obtained multiple loans from unallowable sources. CN obtained loans totaling \$72,000 from a for-profit business entity between March 13, 2007, and June 28, 2007. In addition, CN obtained loans from its executive director totaling \$13,000, between May 11, 2007, and August 29, 2007. The for-profit business entity was not a lending institution, and therefore not an allowable source of funds. Also because the executive director was an officer of the sponsor, the loans are considered less-than-arms length transactions that required prior written approval by FNS and the SA. This approval had not been requested. FNS officials concurred that this was not allowable.

CN repaid all loans obtained from the for-profit business entity, but we determined that it used at least \$5,378 in CACFP funds to do so. The loans were improper and their repayment was an unallowable cost to CACFP. CN had only partially repaid the executive director, but had used \$1,000 of CACFP funding. Because the loans were less-than-arms length transactions that were obtained without prior SA and FNS approval, their repayment with CACFP funds were unallowable costs.

CN must immediately discontinue its practice of making unallowable loan payments with Program funds. FNS should also require the sponsor to reimburse CACFP \$6,378 for loan payments made to sources that were not bona fide lenders (see exhibit A).

Recommendation 4

Instruct the SA to obtain \$6,378 from CN for the unallowable loan repayments.

Agency Response

The SA sent FNS a copy of a "Demand Notice" to CN requesting payment by March 20, 2009, for the specified amount of \$6,378. FNS will verify the actual collection of these funds during an on-site management evaluation of the SA scheduled for the week of April 27, 2009.

OIG Position

We accept FNS' management decision.

Recommendation 5

Instruct the SA to require CN to restrict its loan sources to third party lending institutions.

Agency Response

FNS agreed with the recommendation. The SA provided FNS with a copy of its request for CN to develop a Board approved policy statement restricting loan sources to third party lending institutions on February 13, 2009. FNS will verify actual compliance during an onsite management evaluation of the SA scheduled for the week of April 27, 2009.

OIG Position

We accept FNS' management decision.

Section 2: Accounting Methodologies Not According to Generally Accepted Accounting Principles

Finding 4

Income and Administrative Expenses Were Overstated

CN did not maintain its financial records according to Generally Accepted Accounting Principles (GAAP),¹² the rules and procedures that govern accounting for financial transactions. We found that CN had not properly differentiated between miscellaneous income, receivables and liabilities and that this resulted in CN overstating its income. We also noted that CN had not always properly allocated administrative costs to CACFP or they had claimed unallowable costs. FNS instructions require that sponsors' accounting methodologies conform to GAAP.¹³ They also state that administrative costs incurred during the conduct of CACFP business can be reimbursed only if the costs are allowable and are properly allocated.¹⁴ These errors occurred because CN's staff was not sufficiently familiar with accounting principles. As a result, CN's FY 2007 recorded income overstated its financial statements by \$85,400 and CN erroneously claimed \$1,035 in unallowable administrative expenses.

Failure to Follow GAAP Overstated Income in Financial Statements

CN did not properly differentiate between miscellaneous income, receivables and liabilities. CN had obtained loans of \$72,000 from a for-profit entity and other loans in the amount of \$13,000 from its executive director (see Finding 3). The sponsor recorded the loans as miscellaneous income, thereby increasing income in its financial statements. However, these loans did not increase income, but only increased available cash. These loans were actually liabilities, money that CN owed to others. GAAP requires that transfers of assets or cash, that are not contributions to a non-profit organization, must be set up as a liability to the recipient if it is payable.¹⁵

Also, in January 2007, a \$4,510 debt owed to CN by an employee fired for theft was not established as a receivable. The employee had repaid \$400 to date, but CN recorded this payment as miscellaneous income, again increasing CN's income on its financial statements. CN should have recorded this type of transaction as a receivable because it was money owed to CN.

¹² Generally Accepted Accounting Principles (GAAP) are accounting rules used to prepare, present, and report financial statements for a variety of entities, including non-profit organizations.

¹³ FNS Instruction 796-2 Revision 3 (VII A)

¹⁴ FNS Instruction 796-2 Revision 3 (VII A 3 i)

¹⁵ Financial Accounting Standard 136 PP 17 (b)

These failures to comply with GAAP inflated CN's FY 2007 income on its financial statement by \$85,400, and presented a distorted picture of CN's financial viability. In order to responsibly manage its finances, CN needs to adhere to GAAP's guidelines for non-profit entities.

Costs Improperly Allocated

CN also improperly allocated administrative expenses. Specifically, we found it had (1) incorrectly allocated the cost of its single audit, (2) allocated the full amount of service charges for its bank account to CACFP, and (3) charged CACFP for late fees that were incurred. FNS instructions state that administrative costs incurred during the conduct of CACFP business can be reimbursed if the costs are considered allowable and are properly allocated.¹⁶ The SA reimbursed CN based on actual administrative expenditures.

CN was billed \$7,500 for its FY 2006 single audit and, because of its negative cash flow, also incurred an additional \$375 in late fees before payment was made. CN allocated 75 percent of the audit invoice and late fees to CACFP administrative expenses. CN charged CACFP \$5,625 ($\$7,500 \times 75\%$) for the audit cost and \$281 ($\$375 \times 75\%$) for late fees. CN could not provide us with the basis for this allocation. FNS instructions require that audit costs be allocated according to the comparison of CACFP expenses to total expenses.¹⁷ We determined the allocation for the single audit should have been calculated at 68 percent or \$5,100 and therefore CACFP was overcharged \$525 ($\$5,625 - \$5,100$). FNS instructions also state that late fees are not allowable as administrative expenses.¹⁸ Therefore, the \$281 in late fees charged to CACFP was improper.

CN also claimed \$617.48 for bank fees from May 2007 through February 2008, but did not allocate any portion of these fees to its other grant programs. FNS instructions require that only the share of costs that benefit the program be assigned as program costs.¹⁹ CN should have allocated a portion of the bank fees to its other grant programs that benefited in the same percentage as the audit fees. We determined that only \$419.89 ($\$617.48 \times 68\%$) should have been charged to the CACFP and the balance of \$198 ($\$617.48 - \$419.89 = \197.59 rounded to \$198.00) should have been distributed to other grant programs it administered. CN's failure to allocate bank fees resulted in the CACFP being overcharged by \$198.

Because it often lacked sufficient cash, CN incurred other late payment fees from vendors. We reviewed invoices from October 2007 through February 2008 and noted five additional invoices that included late fees totaling \$31.

¹⁶ FNS Instruction 796-2 Revision 3 (VII A 3 i)

¹⁷ FNS Instruction 796-2 Revision 3 (VIII I 4 a 1)

¹⁸ FNS Instruction 796-2 Revision 3 (VIII I 5)

¹⁹ FNS Instruction 796-2 Revision 3 (VII) B

CN claimed the \$31 in late fees as administrative costs; however, these costs were not allowable and resulted in CN overstating its administrative costs.

Overall, CN inflated its administrative costs by failing to properly allocate audit costs and bank fees totaling \$723 (\$525 + \$198) and by claiming late fees totaling \$312 (\$281 + \$31) that were not allowable costs for the CACFP (see exhibit A).

Recommendation 6

Instruct the SA to ensure CN revises its accounting methodology to adhere to GAAP for non-profit entities.

Agency Response

FNS agreed with the recommendation. The SA sent FNS a copy of a letter, dated, February 13, 2009, requiring CN to revise its accounting methodology and to adhere to GAAP for non-profit entities. FNS will verify actual compliance during an onsite management evaluation of the SA scheduled for the week of April 27, 2009. Additionally, FNS will require the SA to review the implementation and effectiveness of CN's accounting methodologies.

OIG Position

We accept FNS' management decision.

Recommendation 7

Require the SA to collect \$723 for improperly allocated costs.

Agency Response

The SA sent FNS a copy of a "Demand Notice" to CN requesting payment by March 20, 2009, for the specified amount of \$723. FNS will verify the actual collection of these funds during an on-site management evaluation of the SA scheduled for the week of April 27, 2009.

OIG Position

We accept FNS' management decision.

Recommendation 8

Require the SA to collect \$312 for unallowable late fees.

Agency Response

The SA sent FNS a copy of a “Demand Notice” to CN requesting payment by March 20, 2009, for the specified amount of \$312. FNS will verify the actual collection of these funds during an on-site management evaluation of the SA scheduled for the week of April 27, 2009.

OIG Position

We accept FNS’ management decision.

Section 3: State Agency Did Not Provide Adequate Oversight for CACFP Sponsoring Organizations

Finding 5

State Agency Did Not Retain Adequate Documentation of Sponsor's Monitoring Reviews

The SA was unable to provide documentation of its monitoring review performed of CN in 2005 and could not confirm if fiscal action was taken against CN for provider meal reimbursement overclaims totaling \$22,136. SA officials stated that its review staff had failed to document the review and had failed to notify the sponsor of its results. No further explanation could be provided. Because of this, CN had never been apprised of any findings or of corrective actions it needed to take in response to those findings. CN had also not been informed of the provider overclaims and did not know if the SA ever recovered the overclaim amounts through reductions in administrative reimbursement. As a result, it is not known if corrective actions required to address review findings would have obviated any of the deficiencies we identified. Additionally, SA could not provide documentation that they had collected the debt of \$22,136 from CN.

FNS regulations require that all sponsoring organizations with more than 100 facilities be reviewed by the administering SA at least once every two years.²⁰ The regulations require the SA to maintain documentation of supervisory assistance actions, including the reviews conducted, corrective actions prescribed, and follow-up efforts undertaken.²¹ The SA explained that because of an inadequate number of staff, it was unable to perform all the required monitoring reviews, and stated that a prior administration had either destroyed or never generated some of the monitoring reports. In particular, the SA did not retain the results of its monitoring review of CN performed in 2005 and failed to disclose the results of its findings to CN, which included a fiscal action against CN for meal reimbursement overclaims by providers in the amount of \$22,136. Because of the SA's lack of followup and record retention, CN was not notified of any problems that needed corrective actions and was not aware of provider overclaims.

Additionally, the SA could not confirm if action had been taken against CN to collect the overclaims and if it had been collected by decreases in administrative funding. SA officials said that because records showed CN currently had a zero balance owed to the SA, they could only assume that the overclaim had been repaid. The SA explained that the repayment for the fiscal action would have been made through decreases in CN's monthly administrative funding that the SA provided; therefore CN would not have

²⁰ 7 C.F.R. 226.6 (m) (6) (ii)

²¹ 7 C.F.R. 226.6 (m) (1)

made a direct payment to the SA and, possibly, was unaware of the fiscal action against it. CN's Executive Director stated that she had been interviewed by SA staff about the time the review was performed, but she had not received a report and was not aware fiscal action should have been taken for meal reimbursement overclaims. We assessed the administrative payments to CN in 2005 and 2006, but did not identify any payments the SA had reduced. The payments were consistent and appeared to be reasonable for the size of the sponsor. Therefore, we cannot concur that the SA collected payment from CN through decreases in administrative funding.

The Food and Nutrition Service's Regional Office (FNSRO) performed a Management Evaluation (ME) of the SA's administration of the CACFP in March 2007 and identified that the SA was not timely conducting the required monitoring reviews of sponsoring organizations (at least every 3 years), that some review documentation was missing or incomplete, and that some review reports were not issued in a timely manner. As a result, to ensure the integrity of the CACFP, FNS required the SA to take corrective actions to ensure that monitoring review reports were sent to the sponsors in a timely manner, review records were maintained on file, and the required review cycle was met. SA officials stated they had reconstructed a review log back to 2003 to be used to help ensure sponsors reviews are completed when due. They also notified FNSRO that additional staff had been hired. The SA's Associate Director for Child Nutrition explained that the SA is currently on-track for completing 33.3 percent of the required monitoring reviews for its sponsoring organizations in FY 2008, but that the SA is struggling to meet monitoring requirements because of the lack of staff and the growth of CACFP in the state.

The timely performance of monitoring reviews by the SA is a longstanding problem. In addition to the ME that FNSRO conducted in 2007, the failure to timely monitor sponsors in the State was also reported in a 2004 ME. An OIG audit, issued in January 2002,²² also reported that the SA had failed to timely monitor CACFP sponsors, completing reviews of less than 20 percent of its sponsors when at least 33 percent was required. At that time, SA officials attributed their failure to a lack of staff.

Without timely, properly documented reviews, the SA cannot provide assurance that CACFP funds are being used effectively and efficiently for program purposes. Because this has been a recurring problem, FNSRO must act to ensure the actions reportedly taken by the SA in response to the 2007 ME are effective. In addition, FNSRO must ensure the SA has recovered the \$22,136 of provider overclaims identified for CN in 2005.

²² Audit report 27002-14-Ch, State Agencies' Oversight of the Child and Adult Care Food Program, issued January 14, 2002.

Recommendation 9

Require the SA to determine if the \$22,136 in overclaims reported for CN providers have been collected. If not, require the SA to initiate action to complete the recovery.

Agency Response

The SA sent FNS a copy of a “Demand Notice” to CN requesting payment of \$22,136 for overclaims by March 20, 2009. FNS will verify the actual collection of these funds during an on-site management evaluation of the SA scheduled for the week of April 27, 2009.

OIG Position

We accept FNS’ management decision.

Recommendation 10

Ensure that corrective actions taken by the SA to complete monitoring reviews as required, maintain review documentation, and issue timely reports, in response to the 2007 ME, effectively address and correct the problems reported.

Agency Response

FNS agreed with the recommendation. FNS will perform a focused management evaluation for the SA the week of April 27, 2009. FNS will closely examine the effectiveness of the SA’s monitoring systems and procedures to ensure compliance with previously identified 2007 corrective actions and OIG recommendations.

OIG Position

We accept FNS’ management decision.

Scope and Methodology

During FY 2007, the State of Ohio received \$17.7 million for CACFP day care home meal reimbursements and an additional \$3 million in State administrative expenses. CN received almost \$1 million for meal reimbursements and an additional \$170,000 for administrative expenses. The sponsor provided oversight for approximately 259 day care homes in FY 2007 and 179 in FY 2008, as of July 2008.

Our audit covered FY 2007 and 2008, and other periods as noted below. Our assessment of CN's financial operations included October 2006 through February 2008. Fieldwork was conducted at the FNSRO in Chicago, Illinois; the SA, the Ohio Department of Education in Columbus, Ohio; the sponsor, CN, in Toledo, Ohio; and at judgmentally selected day care home providers.

To accomplish our objectives we reviewed regulations, policies and procedures governing CACFP, including the interim rule published by FNS in the Federal Register on January 1, 2007.

At the FNSRO:

- Interviewed FNSRO officials to determine the controls used to monitor the State agency, sponsoring organizations, and providers.
- Examined records, reports, correspondence and documentation related to the SA's oversight of sponsoring organizations and centers in Ohio, including CN, and its day care home providers.

At the SA:

- Evaluated the SA's compliance with required sponsor's reviews and required corrective actions.
- Assessed the SA's compliance with single audits.
- Interviewed officials to determine their oversight of CN and to gain familiarity with the CACFP's procedures at the State.

At the sponsor we:

- Assessed CN's cash position through its general ledger.
- Analyzed CN's cash account, payroll records, and bank records.
- Evaluated CN's process for reviewing meal claim data submitted by its providers.
- Assessed documentation related to the monitoring and training of day care home providers by CN.
- Reviewed CN's monitoring process of providers.
- Examined provider reimbursements to determine if CN paid its providers timely.
- Interviewed CN's Executive Director to determine the cause of the negative cash flow.
- Examined CN's bank account to determine if CN commingled source grant funds.
- Reviewed CN's independent audit reports from FY 2003 to FY 2006.
- Judgmentally selected 50 of 151 day care home providers from the December 2007 meal claims to determine compliance with CACFP regulations by using the following criteria: (1) number of days claimed, (2) large dollar amount claimed, (3) large number of children claimed, (4) small amount dollar claimed, (5) average attendance similar to daily attendance, (6) similar or inconsistent claims compared to other months, and (7) providers suggested for review by Collaborative Network.

At the providers we:

- Conducted home visits to observe meal operation and ensure compliance with CACFP requirements for recordkeeping, meal reimbursements, and the nutritional content of meals.
- Interviewed providers regarding meal service operation and familiarity with CACFP's rules and regulations.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Exhibit A – Summary of Monetary Results

Finding Number	Recommendation Number	Description	Amount	Monetary Results
Finding 2	3	Principal and interest payments on an unallowable line of credit	\$5,023	Questioned Costs – Recovery Recommended
Finding 3	4	Unallowable payments to non-bona fide lenders	\$6,378	Questioned Costs – Recovery Recommended
Finding 4	7	Improperly allocated costs	\$ 723	Questioned Costs – Recovery Recommended
Finding 4	8	Unallowable late fees paid on invoices	\$ 312	Questioned Costs – Recovery Recommended
Finding 5	9	Fiscal action for meal reimbursement overclaims	\$22,136	Questioned Costs – Recovery Recommended
TOTAL MONETARY RESULTS			\$34,572	

Exhibit B – Non-program Expenses Paid with CACFP Funds

Exhibit B – Page 1 of 1

Date Paid	Amount²³
12/21/06	\$15,000.00
02/09/07	6,901.29
02/10/07	754.56
02/12/07	8,000.00
03/29/07	25,000.00
06/01/07	30,471.29
06/04/07	76.00
09/01/07	608.52
09/04/07	1,000.00
11/16/07	2,643.52
11/19/07	76.00
11/20/07	147.20
11/21/07	90.00
11/26/07	3,520.17
11/30/07	22,164.07
12/01/07	639.46
12/03/07	1,166.73
12/04/07	1,952.51
01/01/08	574.62
01/09/08	828.66
01/11/08	11,233.94
01/14/08	76.00
01/15/08	2,542.79
01/16/08	1,060.42
01/18/08	180.00
01/20/08	147.20
01/23/08	490.81
01/24/08	166.50
01/25/08	16,805.48
01/28/08	2,874.80
01/31/08	2,182.01
02/20/08	6,402.63
02/22/08	24,110.85
02/25/08	76.00
02/28/08	5,504.82
Total	\$195,468.85

²³ Amounts listed comprised payments for expenses of other programs administered by the sponsor.

Exhibit C – Dates Collaborative Network Paid Providers Late

Exhibit C – Page 1 of 1

Number of late occasions	Claim month	Date State paid CN	Date CN paid providers	Number of days CN paid providers late
1	July 2007	9/14/2007	10/01/2007	6
2	Oct 2007	12/18/2007	01/03/2008	5
3	Nov 2007	01/07/2008	01/23/2008	6
4	Nov 2007	01/07/2008	02/06/2008	16
5	Nov 2007	01/17/2008	02/13/2008	13
6	Dec 2007	01/17/2008	02/06/2008	8
7	Dec 2007	01/25/2008	02/13/2008	8



**United States
Department of
Agriculture**

FEB 18 2009

Food and
Nutrition
Service

Midwest Region

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

Mr. Paul T. Keating, Acting Regional Inspector General
Office of Inspector General
Midwest Region - Audit
111 North Canal Street, Suite 1130
Chicago, IL 60606-7295

Dear Mr. Keating:

We received the Official Draft Audit Report number 27601-0037-CH entitled, "Monitoring of CACFP Sponsor, Collaborative Network, Toledo, Ohio". Below is a response to each recommendation.

Recommendation 1:

Instruct the SA to require CN to maintain a separate bank account for CACFP reimbursements and expenditures to better ensure the integrity of the program.

FNS agrees with this recommendation.

The SA reported that corrective action was completed by CN and support documentation was received on October 1, 2008, which shows the establishment of two separate checking accounts for CACFP. The SA submitted to the Midwest Regional Office (MWRO) documentation from Huntington Bank that verified the establishment of a business account and a CACFP account.

Completion Date: October 1, 2008

Recommendation 2:

Instruct the SA to require CN to immediately obtain the exclusion of CACFP funds as collateral for the line of credit.

FNS agrees with this recommendation.

The SA informed the MWRO that CN has completed the process of securing a line of credit, which does not include CACFP funds. The SA provided the MWRO with a letter from Huntington Bank dated October 1, 2008 stating the change has been made.

Completion Date: October 1, 2008

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Recommendation 3:

Instruct the SA to collect \$5,023 from CN for unallowable principal and interest payments on the line of credit.

FNS agrees with this recommendation.

The SA responded by sending a “Demand Notice” to CN requesting payment by March 20, 2009 for the specified amount of \$5,023. The MWRO received a copy of this collection notice dated February 13, 2009 for \$34,572 which included the \$5,023 as a line item. The MWRO will verify the actual collection of these funds during an upcoming on-site ME of OH SA scheduled for the week of April 27, 2009.

Estimated Completion Date: March 20, 2009

Recommendation 4:

Instruct the SA to obtain \$6,378 from CN for the unallowable loan repayments.

FNS agrees with this recommendation.

The SA responded by sending a “Demand Notice” to CN requesting payment by March 20, 2009 for the specified amount of \$6,378. The MWRO received a copy of this collection notice dated February 13, 2009 for \$34,572 which included the \$6,378 as a line item. The MWRO will verify the actual collection of these funds during an upcoming on-site ME of OH SA scheduled for the week of April 27, 2009.

Estimated Completion Date: March 20, 2009

Recommendation 5:

Instruct the SA to require CN to restrict its loan sources to third party lending institutions.

FNS agrees with this recommendation.

The SA requested CN to develop a Board approved policy statement restricting loan sources to third party lending institutions. The MWRO received and reviewed the attached SA letter to CN dated February 13, 2009 requiring full compliance with this recommendation. The MWRO CACFP staff plans to verify actual compliance with this recommendation during an upcoming on-site Management Evaluation (ME) of OH SA scheduled for the week of April 27, 2009.

Estimated Completion Date: May 1, 2009

Recommendation 6:

Instruct the SA to ensure CN revises its accounting methodology to adhere to GAAP for non-profit entities.

FNS agrees with this recommendation.

The SA requested CN to revise its accounting methodology to adhere to GAAP for non-profit entities. The MWRO received a copy of the attached SA letter dated February 13, 2009 requesting full compliance by CN with this recommendation. The MWRO CACFP staff plans to verify actual compliance with this recommendation during an upcoming on-site ME of OH SA scheduled for the week of April 27, 2009. In addition, the MWRO will require the SA to review implementation and effectiveness of the revised CN accounting methodologies throughout the SA monitoring process of CN.

Estimated Completion Date: May 1, 2009

Recommendation 7:

Require the SA to collect \$723 for improperly allocated costs.

FNS agrees with this recommendation.

The SA responded by sending a “Demand Notice” to CN requesting payment by March 20, 2009 for the specified amount of \$723. The MWRO received a copy of this collection notice dated February 13, 2009 for \$34,572 which included the \$723 as a line item. The MWRO will verify the actual collection of these funds during an upcoming on-site ME of OH SA scheduled for the week of April 27, 2009.

Estimated Completion Date: March 20, 2009

Recommendation 8:

Require the SA to collect \$312 for unallowable late fees.

FNS agrees with this recommendation.

The SA responded by sending a “Demand Notice” to CN requesting payment by March 20, 2009 for the specified amount of \$312. The MWRO received a copy of this collection notice dated February 13, 2009 for \$34,572 which included the \$312 as a line item. The MWRO will verify the actual collection of these funds during an upcoming on-site ME of OH SA scheduled for the week of April 27, 2009.

Estimated Completion Date: March 20, 2009

Recommendation 9:

Require the SA to determine if the \$22,136 in overclaims reported for CN providers have been collected. If not, require the SA to initiate action to complete the recovery.

FNS agrees with this recommendation.

The SA informed the MWRO that the \$22,136 in overclaims has not been collected from CN. As a result, the SA sent a “Demand Notice” to CN requesting payment of \$22,136 by March 20, 2009. The MWRO received a copy of this collection notice dated February 13, 2009 for \$34,572 which included the \$22,136 as a line item. The MWRO will verify

the actual collection of these funds during an upcoming on-site ME of OH SA scheduled for the week of April 27, 2009.

Estimated Completion Date: March 20, 2009

Recommendation 10:

Ensure that corrective actions taken by the SA to complete monitoring reviews as required, maintain review documentation, and issue timely reports, in response to the 2007 ME, effectively address and correct the problems reported.

FNS agrees with this recommendation.

The MWRO has scheduled a CACFP Focused ME for Ohio during the week of April 27, 2009. As part of the Focused ME, the MWRO CACFP team plans to closely examine effectiveness of the SA monitoring systems and procedures to ensure compliance with the previously identified 2007 ME corrective actions and the OIG recommendation.

In response to Recommendation 10, the SA submitted status updates on previous monitoring action plans associated with the 2007 ME. The MWRO is reviewing the effectiveness of these updates.

Estimated Completion Date: August 17, 2009

Enclosed is a copy of the State agency's response dated February 6, 2009 to the Official Draft Audit Report and the MWRO attached letter dated January 15, 2009. Some additional information contained in this letter was obtained from State officials during e-mail exchanges and discussions.

If you have any questions or concerns, please contact Jacqueline Pipitone (312-353-6662) or Maged Hanafi (312-886-4665).

Sincerely,



JULIE MIKKELSON
Regional Director
Special Nutrition Programs

Attachments
cc: Marva Mosley, Director, Financial Management



JAN 15 2009

**United States
Department of
Agriculture**

Food and
Nutrition
Service

Midwest Region

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

Mr. Todd Barnhouse, Director
Office of Safety, Health and Nutrition
Ohio Department of Education
25 S. Front Street, Mail Stop 303
Columbus, OH 43215-4183

Dear Mr. Barnhouse:

Attached is a copy of the Official Draft Report No. 27601-0037-CH. The audit report, prepared by the U.S. Department of Agriculture's Office of Inspector General is entitled "Monitoring of CACFP Sponsor, Collaborative Network, Toledo, Ohio".

The audit recommendations are:

Recommendation 1: Instruct the SA to require CN to maintain a separate bank account for CACFP reimbursements and expenditures to better ensure the integrity of the program.

Recommendation 2: Instruct the SA to require CN to immediately obtain the exclusion of CACFP funds as collateral for the line of credit.

Recommendation 3: Instruct the SA to collect \$5,023 from CN for unallowable principal and interest payments on the line of credit.

Recommendation 4: Instruct the SA to obtain \$6,378 from CN for the unallowable loan repayments.

Recommendation 5: Instruct the SA to require CN to restrict its loan sources to third party lending institutions.

Recommendation 6: Instruct the SA to ensure CN revises its accounting methodology to adhere to GAAP for non-profit entities.

Recommendation 7: Require the SA to collect \$723 for improperly allocated costs.

Recommendation 8: Require the SA to collect \$312 for unallowable late fees.

Recommendation 9: Require the SA to determine if the \$22,136 in overclaims reported for CN providers have been collected. If not, require the SA to initiate action to complete the recovery.

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Recommendation 10: Ensure that corrective actions taken by the SA to complete monitoring reviews as required, maintain review documentation, and issue timely reports, in response to the 2007 ME, effectively address and correct the problems reported.

FNS agrees with the recommendations.

We are requesting that the Ohio Department of Education provide our office with a written response to the audit report by January 30, 2009. That response should include a description of the corrective actions taken or planned for all recommendations, including timeframes for significant milestones, if applicable, and the expected completion dates of each corrective action. For those recommendations requiring SA collection please provide us with a copy of the dunning letter or collection invoice.

If you have any questions or concerns, please contact Maged Hanafi (312-886-4665) or Jacqueline Pipitone (312-353-6662).

Sincerely,


JULIE MIKKELSON
Regional Director
Special Nutrition Programs

Attachments

cc: Cecelia Torok, Ohio State Department of Education
Marva Mosley, Director, Financial Management, MWRO

Exhibit D – Agency Response



Ted Strickland, Governor
Deborah S. Delisle, Superintendent of Public Instruction

February 6, 2009

Ms. Julie Mikkelson, Regional Director
Special Nutrition Programs
USDA Food and Nutrition Service -Midwest Region
77 W Jackson Boulevard, 20th floor
Chicago, Illinois 60604

Dear Ms. Mikkelson:

The Ohio Department of Education, Office for Safety, Health and Nutrition, (state agency (SA), Child and Adult Care Food Program staff, conducted a Management Evaluation of Collaborative Network (CN) on 7/21/08. The ME included known follow up to the OIG audit. As a result the following corrective action was obtained from the review and approval. Corrective action not collected at the time of the ME will be obtained by the SA as stated in this document.

Finding 1

Recommendation 1: Instruct the SA to Require CN to maintain a separate bank account for CACFP reimbursements and expenditures to better ensure the integrity of the program

State Agency Response: Corrective Action was completed by CN and support documentation was received by the SA on 10/17/08 that shows the initiation of two separate checking accounts being established for CACFP use. See Attachments A1 and 2, letter from Huntington Bank dated 10/1/08 stating the establishment of a business account and a CACFP account.

Finding 2

Recommendation 2: Instruct the SA to require CN to immediately obtain the exclusion of CACFP funds as collateral for the line of credit.

State Agency Response: CN has completed the process of securing a line of credit that does not include CACFP funds. Please see Attachment B, Letter from Huntington Bank dated October 1, 2008 stating the change has been made.

Recommendation 3: Instruct the SA to collect \$5,023 from CN for unallowable principal and interest payments on the line of credit.

State Agency Response: The request for repayment is included in the invoice included in this response. The invoice will be released to CN upon final approval from USDA. Return payment will be transferred to USDA upon receipt. Attachment D

Finding 3

Recommendation 4: Instruct the SA to obtain \$6,378 from CN for unallowable loan repayments.

State Agency Response: The request for repayment is included in the invoice included in this response. The invoice will be released to CN upon final approval from USDA. Return payment will be transferred to USDA upon receipt. Attachment D

25 South Front Street (877) 644-6338
Columbus, Ohio 43215 (888) 886-0181 (TTY)
education.ohio.gov

Exhibit D – Agency Response

Ms. Julie Mikkelson
Page 2
February 6, 2009

Recommendation 5: Instruct the State Agency to require CN to restrict its loan sources to third party lending institutions.

State Agency Response: The State Agency will request from CN a copy of a board approved policy statement restricting loan sources to third party lending institutions. Receipt to SA will be set at 30 days from CN receipt of request.

Finding 4:

Recommendation 6: Instruct the SA to ensure CN revises its accounting methodology to adhere to GAAP for non-profit entities.

State Agency Response: CN will be required to submit, within 30 days of the receipt of this report, to ODE their agency accounting methodology for review. The SA will be working in cooperation with ODE Grants Management Office to review and evaluate CN's single audit to make sure that the account procedures meet or exceed the recommendations covered in the OIG audit per GAAP guidance.

Recommendation 7: Require the SA to collect \$723 for improperly allocated costs.

State Agency Response: The request for repayment is included in the invoice included in this response. The invoice will be released to CN upon final approval from USDA. Return payment will be transferred to USDA upon receipt. Attachment D

Recommendation 8: Require the SA to collect \$312 for unallowable late fees.

State Agency Response: The request for repayment is included in the invoice included in this response. The invoice will be released to CN upon final approval from USDA. Return payment will be transferred to USDA upon receipt. Attachment D

Recommendation 9: Require the SA to determine if the \$22,136 in overclaims reported for CN providers have been collected. If not, require the SA to initiate action to complete the recovery.

State Agency Response: There is no evidence that the overclaim reported from the 2005 ME of CN was collected. The amount will be recovered as part of this Audit repayment process and is included as part of the invoice to be released to CN upon final approval of this report. Attachment D

Recommendation 10: Ensure that corrective actions taken by the SA to complete monitoring reviews as required, maintain review documentation, and issue timely reports, in response to the 2007 ME, effectively address and correct the problems reported.

State Agency Response: As stated in the 2007 ME, SA corrective action response1C Monitoring, the SA is utilizing the recently established monitoring task check sheet. See Attachment C. In addition the SA has set timelines for review completion and fiscal action processing to ensure that all activity is finalized by the end of each fiscal year.

Sincerely,

Todd Barnhouse
Director
Office for Safety, Health and Nutrition

CT:jlc

Enclosures



Ted Strickland, Governor
Deborah S. Delisle, Superintendent of Public Instruction

February 13, 2009

Ms. Meliss Klorer, Executive Director
Collaborative Network (CN)
P.O. Box 976
Toledo, Ohio 43697

Dear Ms. Klorer:

Re: USDA Office of Inspector General (OIG) Audit

The following information and corrective action is required as a result of the USDA, OIG audit of the Child and Adult Care Food Program, Family Day Care Component. OIG reviewed program operation over the span of October 2006 through February 2008.

Several recommendations resulted in timely correction by Collaborative Network. The corrective action items and repayment of USDA funds included in this document are still outstanding and must be attended to immediately upon receipt of this letter.

Finding 1: Operating Loans Obtained from Unallowable Sources

CN obtained \$85,000 in no-interest loans from sources that were not bona fide lenders after it exhausted its \$150,000 line of credit. Because CN was unable to meet its monthly operating expenses, it borrowed funds from a for-profit business entity and from CN's Executive Director to offset its negative cash flow. The executive director stated that previous experience in the non-profit area led her to believe that CN could borrow funds at no interest on a temporary basis. However, FNS instructions require that all loans must be obtained from bona fide lending institutions and less-than-arms length transactions require specific prior written approval. As a result, the use of CACFP funds to repay the improper loans jeopardized the integrity of the CACFP. These loans from unallowable sources further evidenced the lack of CN's operation funds because of decreased administrative funding due to its loss of providers.

Corrective Action: Due March 20, 2009

Please submit to the Ohio Department of Education, Office for Safety, Health and Nutrition a copy of a board approved policy statement restricting loan sources to third party lending institutions.

25 South Front Street (877) 644-6338
Columbus, Ohio 43215 (888) 886-0181 (TTY)
education.ohio.gov

Ms. Meliss Klorer
Page 2
February 11, 2009

Finding 2: Failure to Follow GAAP

CN did not maintain its financial records according to Generally Accepted Accounting Principles (GAAP), rules and procedures that govern accounting for financial transactions. OIG found the CN had not properly differentiated between miscellaneous income, receivables and liabilities and that this resulted in CN overstating its income. OIG also noted that CN had not always properly allocated administrative costs to CACFP or they had claimed unallowable costs. FNS instructions require that sponsors' accounting methodologies conform to GAAP. They also state that administrative costs incurred during the conduct of CACFP business can be reimbursed only if the costs are allowable and are properly allocated. These errors occurred because CN's staff was not sufficiently familiar with accounting principles. As a Result CN's FY 2007 record income overstated its financial statements by \$85,400 and CN erroneously claimed \$1,035 in unallowable administrative expenses.

CN did not properly differentiate between miscellaneous income, receivables and liabilities. CN had obtained loans of \$72,000 from a for-profit entity and other loans in the amount of \$13,000 from its executive director. The sponsor recorded the loans as miscellaneous income, thereby increasing income in its financial statements. However, these loans did not increase income, but only increased available cash. These loans were actually liabilities, money the AN owed to others. GAAP requires that transfers of assets or cash, that are not contributions to a non-profit organization, must be set up as a liability to the recipient if it is payable.

Corrective Action

CN must submit, by March 20, 2009, to ODE their agency accounting methodology for review. The SA will be working in cooperation with ODE Grants Management Office to review and evaluate CN's single audit to make sure that the account procedures meet or exceed the recommendations covered in the OIG audit per GAAP guidance.

Finding 3: Repayment of CACFP funds

As a result of the OIG audit and findings related to the administration of CACFP funds a total of \$34,572.00 must be repaid as stated on the enclosed invoice. The total must be repaid via check by March 20, 2009.

Sincerely,

Cecelia Torok
Associate Director
Office for Safety, Health and Nutrition

CT:jlc

Exhibit D – Agency Response



Ted Strickland, Governor
Deborah S. Delisle, Superintendent of Public Instruction

Office for Safety, Health and Nutrition
Cecelia Torok
Associate Director of Nutrition Programs
25 S Front St MS 303
Columbus Ohio 43215-4104

Date: 2/13/09

2/13/2009

Collaborative Network
P. O. Box 976
Toledo, Ohio 43697-0976

Demand Notice

DATE	DESCRIPTION	AMOUNT DUE
FY2005	Unallowable principal & interest payments on line of credit	\$ 5,023.00
	Unallowable loan re-payments	\$ 6,378.00
	Improperly allocated costs	\$ 723.00
	Unallowable late fees	\$ 312.00
	Over claims reported for CN providers	\$22,136.00
Payment is due March 20, 2009		
IRN: 146811		\$ 34,572.00

FUND: 3L60

RE: Overpayment

MAKE CHECK PAYABLE TO TREASURER OF STATE, CNS ACCOUNT.
MAIL WITH ONE COPY OF THIS INVOICE TO:
OHIO DEPARTMENT OF EDUCATION, CSFC Safety, Health and Nutrition
25 SOUTH FRONT STREET, Mail Stop 303.
COLUMBUS, OHIO 43215-4104

25 South Front Street (877) 644-6338
Columbus, Ohio 43215 (888) 886-0181 (TTY)
education.ohio.gov

Informational copies of this report have been distributed to:

Administrator, FNS MWRO	(6)
Agency Liaison Officer	(3)
Office of the Chief Financial Officer	(1)
Director, Planning and Accountability Division	
General Accounting Office	(1)
Office of Management and Budget	(1)