



District of Columbia Office of the State Superintendent of Education

Fiscal Year 2015

Child Nutrition Programs

Financial Management Review

September 2015

EXECUTIVE SUMMARY

**Financial Management Review
Child Nutrition Programs
District of Columbia
Office of State Superintendent of Education
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The Financial Management Review (FMR) is this office's ongoing assessment of your agency's financial administration of the Child Nutrition Programs (CNP). The FMR provides the Mid-Atlantic Regional Office (MARO) staff the opportunity to observe and evaluate the State agency's processes and procedures for complying with the requirements outlined in FNS regulations and policy. Additionally, the FMR is an opportunity for FNS staff to provide any technical assistance regarding new regulations and policy interpretations that may be needed.

MARO conducted an FMR of the CNP as administered by the District of Columbia's (DC) Office of the State Superintendent of Education (OSSE) during the week of July 27, 2015 at the DC OSSE office located in Washington, District of Columbia. Details on the areas selected for review are explained in the scope and methodology section of the report.

The main objective of the review was to determine compliance with Federal financial regulations, policies, laws, contracts, grant agreements, and other requirements applicable to the federally funded CNP. Compliance with these requirements is the responsibility of the State agency (SA).

The report contains ten findings related to internal controls and practices. Seven findings identify the need to develop or revise procedures to ensure compliance with FNS program meal participation or financial status report requirements for accuracy and timeliness. Three findings require the submission of financial status reports to correct reporting errors within FNS program accounts and ensure compliance with regulatory requirements. Although these three findings do not result in the recovery of funds, internal practices and procedures must be strengthened to ensure the necessary compliance.

Since findings are designed to correct regulatory deficiencies in the State agency's administration of the CNP, corrective actions plans are required and must be submitted to FNS within sixty (60) calendar days of the receipt of the FMR report. The corrective action plans must include specific time frames for implementing procedures to resolve deficiencies cited.

The findings require the State agency to:

1. Develop procedures to ensure the timely submission of FNS program meal participation reports;
2. Develop procedures to ensure compliance with time reporting system requirements for employees working on more than one cost objective and submit a financial status report to adjust budgeted employee time to actual time;

3. Update procedures to reflect details to accurately process claims for each separate FNS program;
4. Develop procedures describing the methodology for preparing FNS program financial status reports;
5. Revise and expand procedures for revising FNS program meal participation reports including the sub-grantee debt collection process and return of funds to FNS;
6. Update procedures to address the calculation of Severe Need Breakfast, Performance Based Reimbursement and Bonus Reimbursement and the process for calculating estimated meals on the 30 day meal participation report;
7. Develop procedures to accurately determine sub-grantee eligibility for the School Breakfast Program severe need reimbursement, assess accuracy of guidance and determine if additional sub-grantees are eligible for increased reimbursement;
8. Revise procedures to include the reporting and recovery of advances issued to sub-grantees and adjust reporting on financial status reports;
9. Develop procedures to ensure sub-grantee interest earned on FNS funds is returned; and
10. Comply with regulatory requirement for use of Summer Food Service Program (SFSP) Health Inspection funds and adjust financial status reports as needed.

INTRODUCTION

An entrance conference was conducted on Monday, July 27, 2015. The review was conducted at the DC OSSE located in Washington, DC. This report is based on the results of the on-site review of files and discussions with members of the State agency Child Nutrition Programs (CNP) staff. An exit conference was held on Friday, July 31, 2015 to provide a summary of the work performed at the State agency and to discuss any anticipated findings, observations and required corrective actions.

OBJECTIVE

The main objective of this review was to determine State agency compliance with Federal financial regulations, policies, laws, contracts, grant agreements, and other requirements applicable to federally funded Child Nutrition Programs.

SCOPE AND METHODOLOGY

The FMR was conducted in accordance with the procedures and requirements set forth in the FNS Financial Management Review (FMR) Guide. It included the DC OSSE financial operations for Federal Fiscal Year (FY) as of the second quarter of FY 2015 (i.e. October 2014 – March 2015). The following areas were addressed during the review:

- Examined expenditures and unpaid obligations reported on the Financial Status Report (FNS-777) for the second quarter FY 2015 for the School Lunch Program (NSLP), School

Breakfast Program (SBP), Child and Adult Care Food Program (CACFP), Summer Food Service Program (SFSP) and the State Administrative Expenses (SAE) categories. We also examined the Annual Report of State Revenue Matching (FNS-13) for School Year 2013 (SY 2013). Costs reported on the second quarter FY 2015 FNS-777, and SY 2013 FNS-13 reports were traced to summary records and source documentation and examined for a sampling of costs that consisted of 24 transactions totaling \$34,513.11 in administrative costs and 34 records totaling \$156,773.58 in reimbursements for the review period. The total count of transactions for the review period were 2,310 totaling \$17,994,555.25 in transactions. The sample set was extracted from all transaction records from the CFS (statewide accounting system) for the review period for the Division of Food and Nutrition.

- Reviewed procedures for reporting meal counts (actual and estimated) on the FNS-10 (NSLP/SBP), FNS-44 (CACFP), and FNS-418 (SFSP) reports to determine their adequacy.
- Reviewed procedures for establishing and collecting claims for overpayments to school food authorities and CACFP sponsors and how funds are returned to FNS.
- Verified that total outlays and unpaid obligations reported on the FNS-777 reconciled with State agency financial management system.
- Verified that SAE costs are allowable and consistent with the SAE Plan.
- Reviewed sample source documentation and completed spread sheets on payroll costs, contract payments, supplies, travel expenses, etc.; verified that costs are allowable according to 2 CFR 225 and program regulations, properly supported with source documentation, charged in the correct fiscal year, and properly allocated to the program.
- Determined that a system is in place to ensure that costs are charged to the Federal fiscal year that the obligation was incurred. Traced elements of cost to source documentation to determine if fiscal year integrity is adhered to by the State agency.
- Identified persons whose salaries are charged in whole or part to SAE. Confirmed via interviews, review of job descriptions and organizational charts that the charges are allowable. Determined if time study requirements of 2 CFR 225 are being met.
- Verified that post-closeout procedures are being followed and evaluated timeliness of requests and returns.

Given the limited nature of this type of review, it must be understood that such reviews are not intended to detect all problems in a grantee's fiscal system. Such reviews are designed to provide reasonable assurance that the level of expenditures reported is supported by an operating financial system.

Key FMR participants during the onsite visit to the SA offices:

DC OSSE

- Paris Saunders – Agency Fiscal Officer
- Rhoma Battle – Fiscal Manager
- Lindsey Palmer – Schools Program Manager
- Alemayehu Awas – Accounting Officer

USDA, FNS, Mid-Atlantic Regional Office

- Michael Fiorelli – Grants Management Specialist
- Lau Sheung Dong – Grants Management Specialist
- Rachel McCullough – Grants Management Specialist

CHILD NUTRITION PROGRAMS

Finding #1 (F-15-4271): The State Claims System does not maintain all the required meal claim data. The State Agency does not have procedures to ensure the timely submission of Federal program reports. Written procedures on claims did not include how the SA establishes claims against subgrantees. [7 CFR 210.5(c);7 CFR 210.8(b);7 CFR 210.8(c);7 CFR 215.10(b);7 CFR 220.11(b);7 CFR 225.9(d);7 CFR 226.7(d);7 CFR 226.7(k);7 CFR 225.8 (b)]

Background:

Prior to the on site visit the review team examined the FNS program meal participation reports submitted by the State agency for the National School Lunch and Breakfast Programs (FNS-10), the Child and Adult Care Food Program (FNS-44) and the Summer Food Service Program (FNS-418) through the second quarter FY 2015. It was determined that nine reports were submitted late as follows: for the FNS-10, the December 90 day, February 30 day, and February 90 day reports; for the FNS-44, the October 30 day, February 90 day, and March 90 day reports and; for the FNS-418, the October 30 day, February 90 day, and March 90 day reports. Discussions with the State agency revealed that the delays were caused by the absence of back up personnel since only one person had access to the FNS Food Programs Reporting System (FPRS) to certify reports. Reviewers also determined that the State agency did not have written procedures describing the process for establishing claims against subgrantees.

Required Corrective Action: The State Agency must ensure that the Claims System captures all claims data necessary to process the payment. The State Agency must have procedures in place to ensure that employees know when the program reports are due. Written procedures addressing the establishment claims against subgrantees must be added to the existing written procedures on claims.

The procedures submitted to FNS must detail the process for assigning back up responsibilities for timely submission of FNS program meal participation reports into FPRS.

In addition, the State agency must immediately take action to designate back up personnel to certify FNS program meal participation reports into FPRS.

Finding #2 (F-11-4002): State agency employees working on more than one cost objective do not complete time distribution records in accordance with Federal requirements. [OMB Circular A-87, Attachment B, Paragraph 8.h]

Background:

The Office of State Superintendent of Education (OSSE) employees working on Federal and non-federal programs had variances between budgeted and actual hours worked. Nine of the 48 employees employed from October 2014 to June 2015 had variances of greater than 10% from budgeted to actual time charged for employees that worked multiple cost objectives related to FNS programs. In addition, OSSE had a FY 2014 overdraw of \$45,662.82 at the time of the Fresh Fruit and Vegetable Program (FFVP) closeout. Reviewers were advised this overdraw was created by an error in salary coding and the absence of quarterly adjustments. Conversations with the Agency Fiscal Officer revealed that the State agency has initiated the planning phase to implement procedures for quarterly adjustments.

Required Corrective Action: The State agency must implement procedures to ensure compliance with time distribution requirements or request approval of a substitute system for allocating personnel costs.

The written procedures must be submitted to FNS and detail how the OSSE time and effort reporting is monitored for FNS programs and address the process for quarterly adjustments.

The State agency must report the adjustments for OSSE employees working on multiple cost objectives on the final FY 2015 financial status report for FFVP (SF-425) due to FNS on December 29, 2015, the final FY 2015 financial status

report for Child Nutrition Programs (FNS-777) due to FNS on January 30, 2016 and on the fourth quarter FY 2015 financial status report for State Administrative Expense (FNS-777 SAE) report due to FNS on October 30, 2015. The remarks section of the reports must be annotated to reflect the total adjustment by FNS program and documentation submitted to support the adjustments.

Finding #3 (F-17-4361): The grantee was unable to provide evidence that the grantee exercises control over payments to subgrantees. [41 CFR 105-71.121]

Background:

The State agency was able to demonstrate reasonable controls over payments to subgrantees since they had hired a contractor to help with the development of the State's *Standard Operating Procedures Guide*. However, although the *Guide* was detailed and well written with respect to claims processing, it did not address the details specific to each FNS program claim. Additional information is needed in the *Guide* to identify the differences between School Programs, Child and Adult Care Food Program and Summer Food Service Program claims processing.

Required Corrective Action: The grantee must develop written procedures to insure that the grantee will exercise control over payments to subgrantees.

The *Standard Operating Procedures Guide* must be updated to address the details for processing each FNS program claim for School Programs, CACFP and SFSP and the *Guide* submitted to FNS.

Finding #4 (F-11-4041): The State agency lacks written procedures describing their methodology for preparing financial reports. [7 CFR 3016.20]

Background:

After evaluating OSSE procedures, the reviewers determined that the methodology for reporting unliquidated obligations was not accurate. The State agency was only including unpaid and pending claims from the State agency's claims payment system, Nutrition Services Applications and Claims Processing System (NSACPS), as unliquidated obligations. However, the State agency must also include a methodology for estimating the number of meals and related reimbursement for late reporting sponsors and include the amount as an unpaid obligation on the quarterly financial status report. In addition, written procedures must be developed to document the process for developing and reporting unliquidated obligations on the quarterly financial status report (SF-425/FNS-777).

Required Corrective Action: The State agency must develop and implement written procedures describing their methodology for preparing financial reports.

The procedures developed and submitted to FNS must also include a description of the coordination between the OSSE and Office of the Chief Financial Officer related to the calculation of claim amounts for non-reporting sponsors.

NSLP, CHILD NUTRITION PROGRAMS

Finding #5 (F-17-4390): The grantee does not have developed written procedures to establish claims against subgrantees when warranted. [7 CFR 226.14(a)]

Background:

The State agency has developed *Policies and Procedures for Collecting Over-Claims* for the CACFP and SFSP but not the National School Lunch or Breakfast Programs. Additionally, the procedures do not include the guidelines for revising FNS program meal participation and financial status reports nor do they include a description of the process followed by the Chief Fiscal Officer (OCFO) for returning funds to FNS.

Required Corrective Action: The grantee must develop and make available to subgrantees written procedures to establish claims against subgrantees when warranted.

The current *Policies and Procedures for Collecting Over-Claims* must be revised to describe your agency's process for revising FNS program meal participation and financial status reports for CACFP and SFSP and submitted to FNS. The revision must also identify the debt collection process for the National School Lunch and Breakfast Programs and incorporate the processes and procedures utilized by the OCFO to return funds to FNS.

NSLP

Finding #6 (F-11-4042): The State agency's written procedures for report preparation were out dated and inaccurate. [7 CFR 3016.20]

Background:

Although the State agency had written procedures for preparing FNS program meal participation reports, the procedures were not specific to the FNS-10 (National School Lunch and Breakfast Program) as it relates to how the categories of Severe Need Breakfast, Performance Based Reimbursement (additional Healthy Hunger Free Kids Act (HHFKA) reimbursement), and Bonus Reimbursement are calculated and reported. Two bullets (7 and 9) referred to the Child and Adult Care Food Program (CACFP) At-Risk Meals, which is related to the FNS-44, not the FNS-10. Furthermore, the written procedures provided did not include instructions on how meals are estimated and reported on the 30 day reports.

Required Corrective Action: The State agency must update written reporting procedures to accurately reflect current processes.

The procedures must be submitted to FNS and address how Severe Need Breakfast, Performance Based Reimbursement and Bonus Reimbursement are calculated and reported on the monthly FNS-10 report and describe the process for developing estimates of meals served by sponsors that have not yet submitted a reimbursement claim.

SBP

Finding #7 (F-15-4285): The SA did not have adequate procedures to determine grantee eligibility for SBP severe need reimbursement. [7 CFR 220.9(d);7 CFR 220.9(e)]

Background:

The State agency's written procedures for identifying Severe Need Breakfast Program schools is inadequate. The *Methodology for Severe Need Breakfast Eligibility* is missing key information including how the State agency reaches out to schools who have not responded to requests for data (e.g., three levels of follow-up calls by Program staff) and how severe need eligible schools are identified in the claims payment system, Nutrition Services Applications and Claims Processing System (NSACPS). In addition, a review of the *School Food Authority (SFA) Request for Severe Need Breakfast Reimbursement Rate* memo (Rev 7/2015) which is distributed to SFAs as eligibility guidance provides inaccurate information for new SFAs. The memo states that "*new SFAs must have 75% or more free and/or reduced price eligible students...*". This statement is inconsistent with FNS policy which has an eligibility threshold of 40%.

Required Corrective Action: The SA must develop adequate procedures to allow staff to determine the eligibility of grantees for SBP severe need reimbursement.

The procedures used by the State agency must be revised to encompass the entirety of the severe eligibility process, from

data collection through claim payment system identification, and submitted to FNS.

The *School Food Authority (SFA) Request for Severe Need Breakfast Reimbursement Rate* memo issued by the State agency must be revised to comply with the FNS eligibility threshold of 40% for new SFAs with a copy submitted to FNS.

The State agency must evaluate the new SFAs approved and determine if any are eligible for the severe need rate and advise FNS of the results of the evaluation. FNS will determine any additional corrective actions based on the documentation submitted.

SFSP, CACFP

Finding #8 (F-8-8951): The State agency is not accurately reporting advances to sub-grantees on the FNS-777 and/or FNS-777-SAE. [7 CFR 246.1;7 CFR Part 225 Summer Food Service Program]

Background:

After evaluating the second quarter FY 2015 Child Nutrition Programs (SF-425/FNS-777) and State Administrative Expense (SF-425/FNS-777) financial status reports, the review team determined that the State agency had not reported an advance issued to a CACFP sponsor for \$14,308.67. This amount represented both CACFP Food and CACFP Sponsor Administrative funds. All advances to CACFP and Summer Food Service Program (SFSP) sponsors must be reported on the quarterly financial status reports as they are issued to sponsors and reduced as they are recovered from monthly reimbursement claim. This is another area which must be detailed in the State agency's *Standard Operating Procedures Guide*.

Required Corrective Action: The State agency needs to revise any necessary financial status reports (FNS-777 and/or FNS-777-SAE) that accurately reflects advances to sub-grantees.

The adjustments to advances must be included on the the fourth quarter FY 2015 Child Nutrition Programs financial status report (SF-425/FNS-777) due to FNS on October 30, 2015. The remarks section of the report must be annotated to reflect the amount/reporting category adjusted for advances.

In addition, your agency must revise the *Standard Operating Procedures Guide* to address the reporting and recovery of advances on the quarterly financial status reports with a copy submitted to FNS.

CACFP

Finding #9 (F-17-4366): The grantee could not provide evidence that the grantee holds subgrantees accountable for interest earned on advances to them. [7 CFR 3016.21(h)(2);7 CFR 3019.22(k);7 CFR 3019.22(l)]

Background:

The review team noted that a Not-For-Profit Organization CACFP sponsor received an advance for FY 2015 for a total of \$14,308.67 (\$10,860.20 Operational + \$3,448.47 Administrative). After interviewing the claims specialist, the review team determined that OSSE does not have an adequate process in place for monitoring interest earned on advances.

Required Corrective Action: The grantee must develop written procedures to insure that the grantee holds subgrantees accountable for interest earned on advances to them.

These procedures must include language that identifies how the State agency monitors interest earned on program advances, how the State agency advises sponsors on how to remit or utilize interest, and how the State agency plans on

remitting funds to FNS or Department Health and Human Services.

SFSP

Finding #10 (F-8-8952): The State agency is charging unallowable costs to the Summer Food Service Program (SFSP) Health Inspection funding category. [7 CFR 225.5]

Background:

By examining the State agency's 485 Payroll Report from September 21, 2014 through June 27, 2015, the review team determine that staff hours were charged to the SFSP Health Inspection fund. The report indicated that a total of \$2,674 in salary and fringe benefits for six OSSE employees was charged to the SFSP Health Inspection account. According to 7 CFR 225.5 (f) "Health Inspection funds shall be used solely to enable State or local health departments or other governmental agencies charged with health inspection functions to carry out health inspections and meal quality tests, provided if these agencies cannot perform such inspections or tests, the State agency may use the funds to contract with an independent agency to conduct the inspection or meal quality tests." At the time of our review, there was no evidence that staff charged to the SFSP Health Inspection account met the regulatory criteria for the use of these funds.

Required Corrective Action: The State agency must revise the FNS-777 to accurately reflect allowable costs for SFSP Health Inspection.

The State agency must discontinue the practice of charging employee salaries to the SFSP Health Inspection account and provide FNS with assurances that only allowable costs are charged.

The necessary adjustments to the SFSP Health Inspection account must be included on the fourth quarter FY 2015 Child Nutrition Programs (SF-425/FNS-777) financial status report due to FNS on October 30, 2015. The remarks section of the report must be annotated to reflect the total adjustment and the categories adjusted.