



United States Department of Agriculture  
Office of Inspector General





United States Department of Agriculture  
Office of Inspector General  
Washington, D.C. 20250



DATE: February 15, 2012

AUDIT  
NUMBER: 27703-0001-HQ

TO: Audrey Rowe  
Administrator  
Food and Nutrition Service

ATTN: Mark Porter  
Acting Director  
Office of Internal Control, Audits and Investigations

FROM: Gil H. Harden  
Assistant Inspector General  
for Audit

SUBJECT: American Recovery and Reinvestment Act of 2009 National School  
Lunch Program Equipment Assistance Grants

This report presents the results of the subject review. Your written response to the official draft report, dated January 24, 2012, is included in its entirety at the end of the report. Your response to the recommendation and the Office of Inspector General's position are incorporated into the report. Based on your written response, we are accepting your management decision for the recommendation in the report and no further response to us is necessary.

Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer, Director, Planning and Accountability Division. In accordance with Departmental Regulation 1720-1, final action needs to be taken within 1 year of management decision to prevent being listed in the Department's annual Performance and Accountability Report.

We appreciate the courtesies and cooperation extended to us by members of your staff during this audit.



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# American Recovery and Reinvestment Act of 2009, Nutrition School Lunch Program Equipment Assistance Grants

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## Executive Summary

The American Recovery and Reinvestment Act of 2009 (Recovery Act) allocated \$100 million in grant funds to the National School Lunch Program (NSLP), which is administered by the Food and Nutrition Service (FNS). These grants allowed schools to purchase and renovate their food service equipment. The Recovery Act mandated that the equipment assistance grants be competitively awarded on the basis of need, with priority given to schools in which at least half the students are eligible for free or reduced price meals. Our audit evaluated FNS' national and regional oversight of the grants, focusing on the effectiveness of controls. Based on our review of 11 school food authorities (SFA) in 5 States, we found that the FNS national office (NO) did not create adequate, proactive controls to ensure that grants were awarded based on Recovery Act criteria and accurate data, and did not ensure timely reporting on Recovery.gov.<sup>1</sup>

The FNS regional offices (RO) did not review the grant award processes created by State Agencies (SA) before the Recovery Act funds were awarded. The NO stated it did not require ROs to perform a pre-award review because they wanted to comply with the Recovery Act's goal of swiftly allocating funds. As a result, three of the five States in our review awarded over \$5 million in grants, utilizing processes that did not fully meet the Recovery Act's criteria.<sup>2</sup>

For Recovery Act funds, the Office of Management and Budget (OMB) required oversight steps beyond standard practice.<sup>3</sup> Additional OMB guidance required that internal controls be developed with "systematic and proactive measures."<sup>4</sup> A review of SA grant award processes and completed award applications would have provided ROs with a better opportunity to ensure compliance.

Specifically, we found:

- New Mexico used inaccurate data to rank and award Recovery Act funds to its schools.<sup>5</sup> After OIG identified this, the SA reallocated the remaining funds, \$98,000, to eligible schools that were initially denied funds based on the inaccurate data.
- South Carolina did not use the required criterion of "equipment need" in its grant award evaluations, and also placed an unauthorized cap on the amount of funds that a single SFA could receive.

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<sup>1</sup> This audit report presents the results of phases 1 and 2, as described in the Department of Agriculture (USDA) OIG's Recovery Act audit plan.

<sup>2</sup> FNS allocated \$924,743 to New Mexico, \$1,836,195 to South Carolina, and \$2,275,738 to Tennessee in equipment assistance grant funds.

<sup>3</sup> OMB, M-09-15 *Updated Implementing Guidance for ARRA of 2009*, April 3, 2009.

<sup>4</sup> OMB, A-123 *Management's Responsibility for Internal Control*, December 21, 2004.

<sup>5</sup> The award process New Mexico created adequately took into account schools' need for a piece of equipment. However, when this process was implemented, New Mexico used incorrect data to rank schools, which caused the criterion of need to not be fully accounted for.

- Tennessee did not conduct a competitive process to award grants based on need and free or reduced price meal participation. Instead, it awarded one grant to every SFA in the State. We identified 39 highly ranked schools that were denied \$739,000 in grants because lower ranked schools received funds.

In addition, the NO incorrectly reported Recovery Act spending data on Recovery.gov for the State of New Mexico. The NO reported incorrect outlay data on the Financial Activity Report because, according to New Mexico SA officials, the State's system used to accumulate equipment purchasing data for reporting was not functioning properly. New Mexico's equipment assistance grant outlays were understated on Recovery.gov for a period of 5 months, resulting in this information not being reported to the public in a timely manner. OMB's Recovery Act guidance requires reporting to be updated on a weekly basis to give Congress and taxpayers the ability to track and monitor all Recovery funds with the level of transparency and accountability envisioned in the Act.<sup>6</sup>

We issued one Fast Report to FNS, dated February 2, 2010, stating that FNS did not review the award processes created by the States, and therefore could not ensure that all grants would be distributed based on Recovery Act criteria. We recommended that FNS should provide the necessary oversight to ensure that the remaining funds are awarded based upon the need for equipment assistance in participating schools, with priority given to schools in which not less than 50 percent of the students are eligible for free or reduced price meals under the National School Lunch Act. In its official response to our Fast Report,<sup>7</sup> dated February 23, 2010, FNS stated it was working closely with New Mexico SA officials to correct the problem in executing the process. FNS also stated that it provided States with sufficient support and guidance to ensure each RO and SA had a clear understanding of the grant requirements. NO officials also stated they believed that performing a pre-award review would delay spending.

Based on our analysis, however, some level of pre-award review was possible.<sup>8</sup> The NO released guidance on how to conduct the award process on March 9, 2009, and many States were able to release their grant application forms and award processes within two weeks of receiving this guidance. Though NO guidance strongly encouraged SAs to complete the entire award process to SFAs by June 8, 2009, ROs had more than 2 months to review the grant application forms and selection methods before they were released to SFAs.

This report incorporates the issues noted in the Fast Report and is based on additional information obtained as part of our fieldwork. During our fieldwork, we noted that Recovery.gov indicated that all States disbursed the NSLP Recovery Act equipment assistance grants as of September 2011. We also noted that SAs, included in our review, changed allocation methods, providing funds to schools that had not received assistance, and FNS took effective measures to correct the Recovery Act reporting of expenditures in New Mexico. Based on these changes, we modified the recommendation noted in the Fast Report.

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<sup>6</sup> OMB, M-09-15 *Updated Implementing Guidance for ARRA of 2009*, April 3, 2009.

<sup>7</sup> OIG's Fast Report 27703-0001-HQ (1) was issued February 3, 2010.

<sup>8</sup> FNS received Recovery Act funding for equipment assistance grants in March 2009. The Recovery Act required that funds be obligated by September 30, 2009.

## **Recommendation Summary**

FNS should continue to update and implement adequate, proactive controls within its standard competitive grant award processes, identifying areas that can be strengthened. This should include procedures (as prescribed by FNS) to review selected requests for applications and grant award evaluation processes prior to the SAs releasing the applications to potential subgrantees. As noted during the course of this review, FNS took effective measures to correct the Recovery Act reporting of expenditures in New Mexico; therefore, we are not issuing a recommendation with the second finding contained in this report.

## **Agency Response**

FNS supports the recommendation contained in this report and agreed to update the current Management Evaluation process conducted by ROs to include a review of the requests for applications and grant award evaluation processes prior to the SAs releasing the applications to potential subgrantees. FNS estimates that corrective action will be completed by November 30, 2012.

## **OIG Position**

We accept FNS' management decision for the recommendation.

# Background and Objectives

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## Background

NSLP is a Federally-assisted meal program operating in over 101,000 public and non profit private schools and residential child care institutions in 55 U.S. States and territories.<sup>9</sup> The FNS NO provides policy direction to its seven ROs, which ensure that SAs operate the program in accordance with Recovery Act and OMB guidance.<sup>10</sup> SAs, in turn, work with the local SFAs responsible for the day-to-day operations of NSLP.

The Recovery Act was signed into law on February 17, 2009. The Recovery Act's purposes included preserving and creating jobs, swiftly allocating funds to promote economic recovery, and assisting those most impacted by the recession. USDA received \$28 billion in Recovery Act funding for a number of program areas, including a one-time appropriation of \$100 million in grants for SFAs participating in NSLP to purchase, renovate, or replace food service equipment.<sup>11</sup>

To receive funds, SFAs applied for NSLP equipment assistance grants through their respective SAs. The Recovery Act stipulated that the competitive grant process be based upon the need for equipment assistance in participating schools, with priority given to schools in which not less than 50 percent of the students are eligible for free or reduced price meals under NSLP. While adhering to these criteria, States were able to develop their own particular processes for the grant competitions.<sup>12</sup>

Congress emphasized the need for accountability and transparency in the expenditure of Recovery Act funds. OMB issued guidance requiring Federal agencies to establish rigorous internal controls, oversight mechanisms, and other approaches to meet the accountability objectives of the Recovery Act. FNS' controls over standard grant programs include financial management reviews and management evaluations, which provide procedures for reviewing grant awards. FNS applied these standard controls for this one-time, Recovery Act grant program.

## Objectives

Our role, as mandated by the Recovery Act, is to conduct oversight of activities funded by the Recovery Act. The purpose of our audit was to evaluate FNS' oversight of NSLP equipment assistance grant funds to determine whether appropriate controls existed, were suitably designed, and operated effectively to ensure the funds would be used for their intended purpose.<sup>13</sup>

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<sup>9</sup> *The Richard B. Russell School Lunch Act* created NSLP in 1946.

<sup>10</sup> SAs responsible for NSLP administration are generally the State-level education or health agencies. U.S. territories also received grant funds.

<sup>11</sup> FNS allocated funds to States based on their school meal administrative expense allocation for 2009.

<sup>12</sup> FNS instructed States to follow the same laws, regulations, principles, procedures, and practices in awarding grants with Recovery Act funds as they were required to follow in awarding other grants within their State.

<sup>13</sup> This audit report presents the results of phases 1 and 2, as described in USDA OIG's Recovery Act audit plan.

## **Finding 1: FNS Should Strengthen its Oversight of Grant Award Processes**

Three out of five States that we reviewed did not award Recovery Act grants based on “equipment need.” This occurred because FNS ROs did not review the State grant award applications and evaluation process prior to the State releasing the applications to the SFAs for completion. In addition, FNS NO officials stated that performing pre-award reviews would not be a good use of already stretched resources. As a result, this increased the risk that grants were awarded to ineligible applicants and that eligible applicants were denied grant funds.

The Recovery Act stipulated that States competitively award grants based on “the need for equipment assistance in participating schools,” with priority given to schools in which not less than 50 percent of the students are eligible for free or reduced price meals. For general oversight, OMB issued a memorandum requiring agencies receiving Recovery Act funds to take steps beyond standard practice to mitigate the unique implementation risks of the Recovery Act. It also states that agencies should initiate additional measures to address higher risk areas.<sup>14</sup> Other OMB guidance states that agencies must take “systematic and proactive measures” to develop internal controls.<sup>15</sup>

NO officials stated they believed that performing a pre-award review would delay spending. While the pace set by the Recovery Act required swift action, FNS put too much emphasis on quickly expending funds. Based on our analysis, OIG believes that some form of pre-award review was possible.<sup>16</sup> The NO released guidance as to how to conduct the award process on March 9, 2009, and many States were able to release their grant application forms and award processes within 2 weeks of receiving this guidance. Tennessee was able to release its grant application form within 11 days of receiving this guidance on March 20. Given the NO’s own award process deadline of June 8, ROs had more than 2 months to review the grant application forms and selection methods before they were released to SFAs. A review of the forms and award processes created by States could have helped mitigate, if not prevent, the problems detailed in this report.

In addition, grant monitoring efforts were performed after the grants were awarded. The NO did provide guidance to SAs regarding how the award process should be run and used telephone calls and e-mail to discuss questions and concerns in an effort to communicate its expectations. FNS also provided “Frequently Asked Questions” sheets that specifically addressed SFA grant applications.<sup>17</sup> In addition, the NO performed financial management reviews and management evaluations to determine whether grant funds were used appropriately. These reviews are good controls; however, they would not prevent FNS from awarding Recovery Act grant funds to States that did not develop a competitive grant award process, as stipulated by the Recovery Act.

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<sup>14</sup> OMB M-09-15, *Updated Implementing Guidance for ARRA of 2009*, April 3, 2009.

<sup>15</sup> OMB A-123, *Management’s Responsibility for Internal Control*, December 21, 2004.

<sup>16</sup> FNS received Recovery Act funding for equipment assistance grants in March 2009. The Recovery Act required the funds to be obligated by September 30, 2009, while FNS guidance, SP 18-2009, strongly encouraged SAs to complete the entire award process to SFAs by June 8, 2009.

<sup>17</sup> The NO issued SP 18-2009 providing guidance to all ROs and SAs on topics such as SFA grant applications, award timelines, and reporting requirements.

## **New Mexico Used Unsupported Data to Rank Schools Rather than Equipment Need**

New Mexico did not award the Recovery Act funding to SFAs based on a demonstrated need for the requested equipment. Rather, New Mexico awarded the Recovery Act grants based solely on the eligibility percentages<sup>18</sup> and we found these percentages to be inaccurate.

OIG found discrepancies in 75 percent of the Recovery Act grants awarded in New Mexico. We reviewed all 107 grant award documents in New Mexico and noted differences between the official SA records and the eligibility percentages reported on the grant applications. For example, one school reported an eligibility percentage of 48 on its grant application. We verified that this figure was accurate by comparing it to the official SA system of record. However, the grant evaluation form, which is the document used for Recovery Act awards selection, reflected an unsupported eligibility percentage of 98. We requested documentation to support the eligibility change from 48 percent on the application to 98 percent on the evaluation form, but we were told it did not exist and could not be provided.

SA officials reported that the eligibility rates were changed in an effort to use the most accurate data; however, no documentation was provided or available to support the changed eligibility percentages. Schools' eligibility percentages were overstated in 46 of the 107 grants we reviewed in New Mexico. A total of 16 schools had their eligibility percentages understated, which meant that they were given a lower ranking than their actual ranking. We were unable to verify the accuracy of the changed eligibility percentages because they were not supported by the official system of record.

In January 2010, we informed FNS' Southwest RO of these issues, and FNS raised the issue to the New Mexico Public Education Department. The New Mexico Public Education Department worked with the RO to recalculate the awards. During a routine reallocation of unspent funds, the Public Education Department used the corrected rankings to reallocate \$98,000 to eligible schools that were initially denied funds.

## **South Carolina did not Adequately Evaluate Equipment Need**

South Carolina created a grant application form that did not include equipment need as a criterion or basis to determine applicant eligibility. In addition, South Carolina imposed an unauthorized cap of \$25,000 on equipment applications for each SFA. A South Carolina SA official noted that their State Department of Education wanted to ensure that the majority of the grant funds would not go to one large school district.

In March 2009, NO issued guidance<sup>19</sup> stating that each SFA participating in NSLP is eligible to submit an application to receive a NSLP equipment assistance grant. The applications were to define the equipment being requested, classify, and categorize the

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<sup>18</sup> Eligibility percentages represent the number of students in each participating school that are qualified to receive free or reduced priced meals.

<sup>19</sup> The NO issued SP 18-2009 to all ROs and SAs.

reason for requesting the equipment into one of four specified areas, and define the award criteria.

The NO guidance specified that the request should assist in improving one of the aspects of the food program: 1) the quality of school foodservice meals that meet the dietary guidelines, 2) the safety of food served in the school meal programs, 3) the overall energy strategy of the school foodservices operations, or 4) allow SFAs to support expanded participation in a school meal program.<sup>20</sup>

South Carolina's application required the SFA to check off which of these objectives were met through the purchase of a piece of equipment. The equipment was to be listed on the forms in order of most needed to the least needed. However, qualitative information, such as how the equipment would help address the specific need or the condition of existing equipment, was not required. In addition, the selection criteria South Carolina provided to its grant evaluators did not list equipment need as a criterion. The SA had to evaluate each grant application form, assigning points based on the percentages of free and reduced meal eligibility rates, useful life of the equipment being purchased, and a check off box indicating there was some need.

FNS stated that the equipment grant application does ask for the age of existing equipment; therefore, the need criterion is addressed. However, age alone does not necessarily define need. Some equipment can be in good working order for many years and not require replacement. If ROs reviewed the application form before the SA released it to the applicants, ROs would have had the opportunity to see that equipment need information was not being requested on the form.

On February 2, 2010, OIG issued a Fast Report noting that FNS' Southeast and Southwest ROs did not review the grant application process for their respective SAs. The NO disagreed with our conclusion that equipment need was not considered in the equipment grant award decision making process and stated that, if at least one focus area was included on the application, then the criterion of need would be demonstrated. However, by reviewing the below grant application form, we determined that South Carolina's grant application form did not provide the SA grant application form evaluator with enough information to determine whether one applicant demonstrated a greater equipment need than another applicant.

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<sup>20</sup> The NO guidance, SP 18-2009, suggested four "focus areas."

**Figure 1: Page from the South Carolina Grant Application Form<sup>21</sup>**

This shows the section of the form the NO was referring to when it discussed the inclusion of specified “focus areas.” We have flagged Section E with an arrow. This section illustrates the section of the application that did not validate the criterion of equipment need, as no space for narrative justification is provided.

**2009 Equipment Assistance Formula Subgrant**

Office of School Food Services and Nutrition  
Equipment Information and Budget Page

FOR SCDE USE ONLY  
Date Received: \_\_\_\_\_  
Received By: \_\_\_\_\_

**Equipment Information and Budget Page**

Name of Applicant: \_\_\_\_\_

Please complete the information requested below for each item to be purchased for each school.

Note: Applications listing equipment not on the South Carolina State Equipment Contract must provide detailed, written invoices and documentation including dates and written assurances from the potential vendors that the equipment can be procured in the required timeframe and that the infrastructure—electricity, drainage, voltage, width of doorway, etc.—are conducive for the immediate installation and operation of the equipment.

Please provide items in rank order of need (Item #1 is the item most needed to be purchased):	Total Cost
1. Name of Equipment Item to be Purchased: _____	\$
A. Name of school to be served with item: _____	
B. Cost per item: _____ Number of items to be purchased: _____	
C. <input type="checkbox"/> New equipment <input type="checkbox"/> Replacement of existing equipment Age of the existing equipment: _____	
D. Is this piece of equipment listed on the SC Equipment Contract? <input type="checkbox"/> Yes <input type="checkbox"/> No	
E. Use/Focus of Equipment: <input type="checkbox"/> Improving the quality of school foodservice meals that meet dietary guidelines <input type="checkbox"/> Improves the safety of food served in the school meal program <input type="checkbox"/> Support expended participation in a school meal program	

In addition, as a result of South Carolina imposing a ceiling for equipment requests, we noted 55 applications were denied. Further, 24 of these applications were denied funding because they pushed the SFA total above the \$25,000 award limitation, an amount that was not specified in FNS guidance or the Recovery Act. The denied equipment requests totaled \$265,000. Based on discussions with SA officials, the reason for the cap was to ensure that one or two SFAs would not receive the bulk of the grant funds. More emphasis was placed on ensuring that as many SFAs received grant funds as possible, rather than awarding the funds using a competitive process based on equipment need, as required by the Recovery Act.

<sup>21</sup> Figure 1 shows the section of the form FNS was referring to. We have flagged Section E, which illustrates that the focus area section of the application did not validate the criterion of equipment need.

## **Tennessee Denied Funding to Schools that Demonstrated a Greater Need for Equipment**

Tennessee granted a portion of Recovery Act funds to every SFA, rather than to just those that demonstrated the greatest need for the funding. While Tennessee's applications included need as a criterion, its process for awarding grants did not take this fully into account. Instead, Tennessee awarded a Recovery Act grant to every SFA in the State. The Tennessee State Director of the School Nutrition Program said that it was trying to spread the funding around the State as much as possible by allowing each school district to have only one piece of kitchen equipment purchased with the Recovery Act funds.

Tennessee used a two-step process to award equipment assistance grants. First, the SFAs were required to prioritize each piece of equipment requested from priority one to priority four. The SA divided these requests into four pools based on the four priority levels. For the second step, the SA ranked each request within its respective pool separately, using the Recovery Act criteria of need and eligibility percentages.

Initially, this appears to be a reasonable approach. However, according to Tennessee SA officials, it was decided to award a grant to every SFA's priority one request, regardless of its ranking, in an effort to ensure each SFA received a portion of the grant funds. By using this process for the initial grant award allotment, Tennessee only had enough funds for the first priority pool. As a result, one school from each SFA received one piece of equipment. This system allowed the lowest-ranked SFA to receive Recovery Act funds for its priority one request. SFAs with a high rank based on need and eligibility percentages also only received their priority one request—even if they documented the need for more equipment.

In its response to our Fast Report, FNS stated that Tennessee's method was fair and met the Recovery Act's criteria. FNS noted that all but one school that received equipment grants had at least half their students eligible for free or reduced price lunches. We agree that Tennessee gave priority to schools with 50 percent or more participation percentage. However, the Recovery Act criterion of need was not sufficiently taken into account. Tennessee's SA received 202 NSLP equipment requests. We found that 39 of these 202 equipment requests were denied even though they had higher rankings than schools that received the grants.<sup>22</sup> For instance, a high school was denied its request for a \$24,000 industrial dishwasher, while an elementary school—which was ranked lower than the high school—was awarded a \$41,680 industrial dishwasher.<sup>23</sup>

In February 2010, Tennessee identified unspent funds that were available for reallocation. During this reallocation, Tennessee changed its previous approach and distributed grants based on ranking, rather than by priority pool. As a result, eight schools that were not previously awarded funds received \$141,000 in grants.

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<sup>22</sup> The equipment in these 39 denied requests totaled \$739,000.

<sup>23</sup> Based on the point system devised by Tennessee's SA, the high school had a total point score of 39, while the elementary school had a score of 37.

In addition to the State-specific problems, our Fast Report also found that the NO did not issue guidance requiring ROs to review SA grant award processes. NO officials stated that they believed they needed to get the funding out to the public as quickly as possible and believed a pre-award application review was not necessary and was too costly. As a result, FNS could not ensure that all States competitively awarded equipment assistance funds in accordance with Recovery Act criteria and OMB and FNS guidance. In response to our Fast Report, FNS stated that the additional guidance and technical assistance it gave to SAs fulfilled OMB's requirement of going "beyond standard practice." We noted that FNS did increase the number of regularly scheduled financial management reviews and management evaluations, and updated these review processes to include Recovery Act-specific steps.<sup>24</sup> However, the reviews for fiscal year 2009—when all the Recovery Act equipment award processes occurred, did not include NSLP-specific steps.<sup>25</sup> No proactive reviews that would have examined the NSLP grant application processes were conducted prior to the grants being awarded. Reactive steps performed during the financial management reviews and management evaluations, such as reviewing equipment purchases to ensure that they were authorized, are good internal controls. However, they can only be performed after the grant funds are awarded and spent, leaving an agency without suitable recourse options other than attempting to recover the funds from the SAs.

OIG recommended in the Fast Report, issued February 2, 2010, that FNS should provide the necessary oversight to ensure that the remaining funds to be awarded are based upon the need for equipment assistance in participating schools, with priority given to schools in which not less than 50 percent of the students are eligible for free or reduced price meals under the National School Lunch Act. During the continuation of the audit, we noted that SAs that were included in this review changed allocation methods, providing funds to schools that had not received assistance and that all NSLP Recovery Act equipment assistance grants have been disbursed as of September 2011. Based on these changes, we modified the recommendation noted in the Fast Report.

FNS employed the same controls in disbursing the Recovery Act funds that it had in place for its standard competitive grant programs. These controls do not include a pre-award review of State grant applications. Because OMB required agencies to go beyond standard practice to mitigate risks in Recovery Act programs, we believe that ROs should have reviewed the SA award criteria and application forms prior to their release to schools. Without such a review, FNS could not ensure that the awards adhered to authorizing legislation and agency guidance. FNS should implement proactive, pre-award reviews within its standard competitive grant award processes, identifying areas that can be strengthened.

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<sup>24</sup> FNS' May 2009 *American Recovery and Reinvestment Act Plan* describes FNS' plan to address the specific oversight needs of the Recovery Act.

<sup>25</sup> The reviews focused primarily on FNS' Supplemental Nutritional Assistance Program.

## **Recommendation 1**

FNS should continue to update and implement adequate, proactive controls within its standard competitive grant award processes, identifying areas that can be strengthened. This should include procedures (as prescribed by FNS) to review selected requests for applications and grant award evaluation processes prior to the SAs releasing the applications to potential subgrantees.

## **Agency Response**

FNS supports this recommendation and agreed to update the current Management Evaluation process conducted by ROs to include a review of the requests for applications and grant award evaluation processes prior to the SAs releasing the applications to potential subgrantees. FNS estimates that corrective action will be completed by November 30, 2012.

## **OIG Position**

We accept FNS' management decision for the recommendation.

## **Finding 2: FNS Should Ensure Accurate and Timely Recovery Act Reporting**

The FNS NO incorrectly reported Recovery Act spending data on Recovery.gov for one of the five States in our review for a period of five months, resulting in this information not being reported to the public in a timely manner. We found that New Mexico's SFAs started spending Recovery Act funds in July 2009; however, the Financial Activity Report on Recovery.gov reflected zero dollars spent on equipment grants until December 2009. The SA continued to report that it had not spent any equipment assistance funds because the financial system New Mexico used to track equipment purchases was not operating effectively. As a result, FNS' equipment assistance grant outlays reported on Recovery.gov, were inaccurate and untimely.

OMB's Recovery Act guidance, *Updated Implementing Guidance for ARRA of 2009*, requires reporting to be updated on a weekly basis to enable Congress and taxpayers the ability to track and monitor all Recovery funds with the level of transparency and accountability envisioned in the Act.<sup>26</sup>

The FNS RO requested the SA to explain why zero dollars were being reported for New Mexico's grant payments. The SA did not respond to FNS' requests until OIG's involvement in November 2009. RO officials informed us that they contacted State officials several times via email and telephone, but received no response. Shortly afterwards, the New Mexico SA changed the personnel responsible for its reporting. According to RO officials, communication with the New Mexico SA has improved and the reporting issue has been resolved.

Based on the FNS official response to our Fast Report,<sup>27</sup> dated February 23, 2010, FNS stated it was working closely with New Mexico SA officials to correct the problem in executing the process. We monitored this issue noted and confirmed that FNS has since taken effective measures to correct the Recovery Act reporting of expenditures in New Mexico. In addition, the Financial Activity Report on Recovery.gov indicates that all NSLP Recovery Act equipment assistance grants have been disbursed as of September 2011. Accordingly, we are making no recommendations on this finding.

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<sup>26</sup> OMB, M-09-15 *Updated Implementing Guidance for ARRA of 2009*, April 3, 2009.

<sup>27</sup> OIG's Fast Report 27703-0001-HQ (1) was issued February 3, 2010.

## Scope and Methodology

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We conducted audit work at the FNS NO and the Southeast and Southwest ROs. We also conducted audit work at SAs and their respective SFAs.<sup>28</sup> We selected South Carolina, Texas, and Tennessee, based on the volume of their Recovery Act grant award obligations,<sup>29</sup> discussions with NSLP program officials, and overall OIG geographical audit coverage. New Mexico was included because we noted reporting problems on FNS' October 9, 2009, Financial and Activity Report, and because FNS identified the State as the highest risk<sup>30</sup> in its fiscal year 2010 management evaluation risk assessment. Oklahoma was selected because it distributed funds directly to schools, instead of reimbursing them after purchases were made, which differed from the process used by other States in our review. While we visited two SFAs in our sampled States, in New Mexico we visited three. We increased the number of SFAs visited in New Mexico after we found grant award data inconsistencies during our fieldwork. In total, the SAs we reviewed accounted for 18 percent of the \$100 million in Recovery Act NSLP equipment assistance grant funds. As part of this audit, we assessed FNS' internal control system, reviewed how it was implemented, and tested it to determine if it was effective.

We conducted interviews with FNS national and regional officials and SA and SFA program personnel; examined policies and procedures; reviewed documentation related to the grant award process; and visually verified equipment purchased. We performed fieldwork from September 2009 through September 2011 and during that time, on February 2, 2010, issued a Fast Report to FNS.

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.

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<sup>28</sup> We reviewed the following SFAs in five States: New Mexico (Grady, Mosquero, Portales); Oklahoma (Duncan, Lawton); South Carolina (Charleston, Georgetown/Andrews); Tennessee (Oak Ridge, Memphis); and Texas (Bonham, Roosevelt).

<sup>29</sup> FNS allocated \$924,743 to New Mexico, \$1,836,195 to South Carolina, and \$2,275,738 to Tennessee in equipment assistance grant funds.

<sup>30</sup> New Mexico's risk rating of 103 indicated possible noncompliance with NSLP program requirements and was the highest rating assigned to a SA.

## Abbreviations

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FNS .....	Food and Nutrition Service
NO.....	National Office
NSLP.....	National School Lunch Program
OIG .....	Office of Inspector General
OMB .....	Office of Management and Budget
RO .....	Regional Office
SA .....	State Agency
SFA .....	School Food Authority
USDA.....	Department of Agriculture

**USDA'S  
FOOD AND NUTRITION SERVICES'  
RESPONSE TO AUDIT REPORT**





**United States  
Department of  
Agriculture**

Food and  
Nutrition  
Service

3101 Park  
Center Drive  
Room 712

Alexandria, VA  
22302-1500

DATE: January 24, 2012

AUDIT  
NUMBER: 27703-01-HQ

TO: Gil H. Harden  
Assistant Inspector General for Audit

FROM: Audrey Rowe /S/  
Administrator  
Food and Nutrition Service

SUBJECT: American Recovery and Reinvestment Act of 2009 National School  
Lunch Program Equipment Assistance Grants

This letter responds to the official draft report for audit report number 27703-01-HQ, American Recovery and Reinvestment Act of 2009 National School Lunch Program (NSLP) Equipment Assistance Grants. FNS supports OIG's objectives to ensure State agencies (SA), school food authorities (SFA), and schools were acting responsibly and within the parameters of ARRA. However, FNS strongly disagrees with OIG's two fundamental contentions – that FNS did not conduct adequate oversight of the grant award process and that States' grant processes did not ensure that grants were competitively awarded based upon need for equipment assistance, with priority given to schools with fifty percent or more students eligible for free or reduced price meals.

FNS does see merit in continuous improvement of proactive controls within its competitive grant award processes, identifying areas that can be strengthened. Therefore, FNS planned actions along with the proposed date of implementation are specified below.

#### **OIG Recommendation 1:**

FNS should continue to update and implement adequate, proactive controls within its standard competitive grant award processes, identifying areas that can be strengthened. This should include procedures (as prescribed by FNS) to review selected requests for applications (RFAs) and grant award evaluation processes prior to the SAs releasing the applications to potential subgrantees.

#### **Food and Nutrition Service Response:**

FNS supports this recommendation. FNS will update the current Management Evaluation (ME) process conducted by Regional Offices (ROs) to include a review of the grant implementation procedures of a grantee. Updates will include the

strengthening of the ME Guidance to include a review of the SA grant RFA, applicable work plan, and a comparison of implementation procedures with the actual procedures executed. During a ME, if FNS reviewers determine that: 1) exceptions to the grant RFA were made during grant execution; and 2) potential grant awards to the SA are pending, the RO will develop appropriate corrective action plans which could include submission of documentation for selected future grant awards to the RO for review and approval prior to implementation. This documentation may include RFAs and grant award evaluation processes prior to the SAs releasing the applications to potential subgrantees.

**Estimated Completion Date: November 30, 2012**

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