

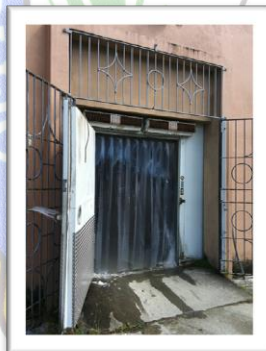
THE UNITED STATES VIRGIN ISLANDS
OFFICE OF THE VIRGIN ISLANDS INSPECTOR GENERAL



St. Thomas Warehouse



Current St. Croix Warehouse



St. Thomas Cold Storage



Old St. Croix Warehouse

AUDIT OF THE
DEPARTMENT OF EDUCATION'S
INVENTORY CONTROLS
OVER THE SCHOOL LUNCH PROGRAM

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Sending Written Documents to:

**Office of the Virgin Islands Inspector General
2315 Kronprindsens Gade # 75
St. Thomas, Virgin Islands 00802**

E-Mail:

taskforce@viig.org



STEVEN VAN BEVERHOUDT
V.I. INSPECTOR GENERAL

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS
OFFICE OF THE V. I. INSPECTOR GENERAL

2315 Kronprindsens Gade #75, Charlotte Amalie, St. Thomas, V. I. 00802-6468
No 1. Commercial Building, Lagoon Street Complex, Frederiksted, St. Croix, V. I. 00840

Tel: (340) 774-3388 STT
(340) 778-9012 STX
Fax: (340) 774-6431 STT
(340) 719-8051 STX

EXECUTIVE SUMMARY

The following summarizes the major findings from the Audit of the Department of Education's (Education) Inventory Controls Over the School Lunch Program (AR-01-40-17).

Finding 1: Inventory Management (pages 7 to 23)

- ✓ Complete, accurate, and current records of receipt, distribution and warehousing of inventory were not kept.
- ✓ Inventory records were modified or adjusted without proper written justification.
- ✓ Education officials were negligent in securing and accounting for inventory received, delivered, stored, and/or used at district warehouses and schools.
- ✓ Monthly and annual inventory reconciliations were not regularly conducted as required.
- ✓ Warehouse duties were not properly segregated.
- ✓ School inventory management practices in the districts were not uniform and consistent with federal and state requirements.
- ✓ Education officials did not accurately know the actual total values and quantities of inventory on hand as of specific times.
- ✓ School Lunch Program inventory was susceptible to the risk of loss due to negligence or unauthorized use.
- ✓

Finding 2: Ordering (pages 25 to 31)

- ✓ An ineffective and inefficient system for ordering food items and planning cycle menus was used.
- ✓ There were no written and uniform procedures for placing orders and accounting for inventory.
- ✓ Education officials were using a menu planning system that was primarily based on existing warehouse inventory rather than on prearranged menu cycles.
- ✓ Education officials could not properly forecast and plan the ordering of food items to meet monthly cycle menu requirements.

Finding 3: Consulting Contract/Food Service Software (pages 33 to 36)

- ✓ Key recommendations made by a management and consulting firm were not implemented.
- ✓ Education officials did not ensure the timely and complete installation and implementation of food service management software.
- ✓ Education officials did not ensure that warehouse and school personnel had been given sufficient training to use the software.
- ✓ More than \$920,000 has been expended for consulting services and food management software and Education officials did not aggressively resolved issues to improve School Lunch Program operations.

Finding 4: Monitoring and Oversight (pages 37 to 42)

- ✓ Education officials at all levels of the department have failed in their responsibility to ensure that the School Lunch Program was functioning in an efficient and effective manner.
- ✓ As a result an inefficient and ineffective School Lunch Program has continued for decades, and unless significant improvements are made, the School Lunch Program will continue to be susceptible to fraud, waste and abuse.



STEVEN VAN BEVERHOUDT
V.I. INSPECTOR GENERAL

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OFFICE OF THE V. I. INSPECTOR GENERAL

2315 Kronprindsens Gade #75, Charlotte Amalie, St. Thomas, V. I. 00802-6468
No 1. Commercial Building, Lagoon Street Complex, Frederiksted, St. Croix, V. I. 00840

Tel: (340) 774-3388 STT
(340) 778-9012 STX
Fax: (340) 774-6431 STT
(340) 719-8051 STX

June 30, 2017

Honorable Kenneth E. Mapp
Governor of the Virgin Islands
Government House
21-22 Kongens Gade
Charlotte Amalie, Virgin Islands 00802

Honorable Myron D. Jackson
Senate President
32nd Legislature
Capital Building
Charlotte Amalie, Virgin Islands 00802

Dear Governor Mapp and Senator Jackson:

This report contains the results of our audit of the Department of Education's (Education) inventory controls over the School Lunch Program. The audit objectives were to determine if Education: (i) administered its inventory systems for the School Lunch Program in accordance with established criteria; and, (ii) had controls in place to effectively safeguard and monitor School Lunch Program inventories.

We found that Education officials did not adequately administer and manage the School Lunch Program inventory systems in accordance with established criteria and best practices. In addition, they did not adequately implement proper internal controls and safeguards to protect the inventory from the risk of loss due to fraud, theft, or negligence. Although there were some recent changes in the administration and management of the School Lunch Program, significant deficiencies still exist. Specifically, the audit found that Education officials: (i) did not maintain complete, accurate, consistent and current records of the receipt, distribution, and warehousing of inventory; (ii) modified or adjusted inventory records without proper or written justification; (iii) were negligent in securing and accounting for inventory received, delivered, stored, and/or used at district warehouses and schools; (iv) did not always conduct monthly and annual inventory reconciliations as required; (v) did not properly segregate warehouse duties; (vi) did not ensure that schools' inventory management practices in the districts were uniform and consistent with federal and state requirements; (vii) used a system for ordering food items and planning cycle menus that was ineffective and inefficient; (viii) did not implement key recommendations made by a management and consulting firm; (ix) did not ensure the timely and complete installation and implementation of food service management software; (x) did not ensure that warehouse and school personnel had been given sufficient training to use the software; and, (xi) have failed at all levels of the department in their responsibility to ensure that the School Lunch Program was functioning in an efficient and effective manner.

We attributed these conditions to Education officials: (i) not following federal requirements for maintaining book inventory records and accounting for the receipt, distribution, and storage of School Lunch Program inventory; (ii) not properly monitoring the inventory management practices of the Authorities, warehouses and schools to ensure compliance with federal and state requirements; (iii) not properly segregating warehouse duties; (iv) not ensuring that there are written and uniform procedures for placing orders and accounting for inventory; (v) using a menu planning system that was primarily based on existing warehouse inventory rather than on prearranged menu cycles; (vi) not providing adequate follow-up to ensure that required corrective measures addressed to the Authorities by the State Office were resolved in a timely manner; (vii) not following through in implementing recommendations made by the consulting firm in a timely manner; (viii) not timely addressing the network server issues; (ix) not properly assessing the computer skills and qualifications of Education personnel to provide the appropriate training; (x) at both district Insular Superintendent Offices lack of involvement in overseeing, managing and providing guidelines to their respective School Lunch Program personnel to ensure that their respective inventory systems ran effectively and efficiently; and, (xi) at the State Office failing to follow-up and ensure that the Authorities implemented monitoring procedures to administer their inventory systems in accordance with prescribed laws, and rules and regulations.

As a result: (i) Education officials did not accurately know the actual total values and quantities of inventory on hand as of specific times; (ii) School Lunch Program inventory was susceptible to the risk of loss due to negligence or unauthorized use; (iii) Education officials could not properly forecast and plan the ordering of food items to meet monthly cycle menu requirements; (iv) students participating in the School Lunch Program may not have been receiving meals with the nutritional value and requirements specified by the federal government; (v) Education officials expended more than \$920,000 for consulting services and food management software and have not aggressively resolved issues to improve School Lunch Program operations; and, (vi) an inefficient and ineffective School Lunch Program has continued for decades, and unless significant improvements are made, the School Lunch Program will continue to be susceptible to fraud, waste and abuse.

We made several recommendations to address the conditions and causes cited in the report. Education officials were kept informed of serious conditions found during our audit and have started initiating corrective actions to address our findings and recommendations. Our recommendations addressed the following areas: (i) inventory management; (ii) inventory forecasting and ordering; (iii) program administration; (iv) a management and consulting services contract; and, (v) acquisition of food service management software.

An exit conference was held on April 12, 2017, and there was general agreement with the findings and recommendations in the report. Education submitted a response on June 2, 2017 and it is included as Appendix I beginning on page 43 of this report.

If you require additional information, please call me at 774-3388.

Sincerely,

A handwritten signature in blue ink that reads "Steven van Beverhoudt".

Steven van Beverhoudt, CFE, CGFM
V. I. Inspector General

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INTRODUCTION

BACKGROUND

The Richard B. Russell National School Lunch Act of 1946 (42 U.S. Code 1751, et seq.) authorized and established the National School Lunch Program (School Lunch Program) to safeguard the health and well-being of the Nation's children and to encourage the domestic consumption of nutritious agricultural food items. Provisions were also made under the National School Lunch Act for the Child and Adult Care Food Program, which includes the At-Risk After-School Snacks Program. The Child Nutrition Act of 1966, established to strengthen and expand the goals of the National School Lunch Act, authorized assistance for the School Breakfast Program and the Special Milk Program.

The Food and Nutrition Service, an agency of the United States Department of Agriculture (USDA), administers the various programs and provides oversight through its seven regional offices. The Food and Nutrition Service provides federal assistance in cash, through meal reimbursements, and USDA-donated food items to state agencies and local school food authorities. This is accomplished by a written agreement between the Food and Nutrition Service and the state agency, usually a state's educational agency, which administers the programs in their respective state. The related school food authority participating in the programs is then required to execute agreements with the state educational agency.

Food and Nutrition Service regional offices and state agencies are required to review each program through monitoring and to assist the related school food authorities in their operation of the School Lunch Program. Food and Nutrition Service regional offices conduct periodic reviews, called Management Evaluation, of each state agency. State agencies, in turn, perform reviews, called the Coordinated Review Effort, of each related school food authority at least once every 5 years.

Under Title 17 Section 140(b) of the Virgin Islands Code (Code), the Department of Education (Education) is designated as the state agency for the administration of the School Lunch Program. The Code further designates the Commissioner of Education, in consultation with the respective Insular Superintendents, with the responsibility for establishing within each district, a School Food Authority (Authority) within the meaning of applicable Federal law.

The Insular Superintendents are responsible for overseeing and administering the operations of the Authority in their districts. Key officials that assist in directly administering the School Lunch Program include deputy superintendents, district directors, and warehouse managers. The deputy superintendents are delegated by the Insular Superintendents with direct oversight of the School Lunch Program in each district. The district directors are given the responsibility of the day-to-day operations of each district's School Lunch Program to include planning, administering, directing, assessing, implementing and evaluating all aspects in order to meet the educational and nutritional needs of children. The warehouse managers are given the management responsibility of administering and supervising the work of related district warehouses. They are responsible for the receipt, warehousing, and distribution of food items to

schools. They are also required to ensure that proper controls are in place to manage and account for inventory.

Education also established the Office of Special Nutrition Programs (State Office) to monitor the Authorities to ensure compliance with established policies and procedures, and to serve as a liaison between Education and the Food and Nutrition Service. The State Director is the lead administrator for the State Office.

The nutritional programs administered by Education include:

- National School Lunch Program
- School Breakfast Program
- Special Milk Program
- Child and Adult Care Program
- Summer Food Service Program
- Fresh Fruit and Vegetable Program

All of the above programs, except the Child and Adult Care Food Program and Fresh Fruit and Vegetable Program, are administered by the Insular Superintendents through their respective district Authorities.

Through the 2014 school year, there were 28 public and private base schools in the St. Thomas/St. John and St. Croix districts that participate in the School Lunch Program (Currently there are a total of 27 bases school in both districts.). Base schools are defined as schools that store and prepare School Lunch Program meals. In Fiscal Years 2013 through 2015, Education expended about \$10 million annually in federal and local funds under the School Lunch Program. The following table summarizes federal and local expenditures, as shown on the Government's financial management system (ERP), for each district from Fiscal Year 2013 to Fiscal Year 2015.

Name	FY2013	FY2014	FY2015
School Lunch - STT/STJ Federal	\$3,625,550	\$3,859,669	\$2,971,487
School Lunch – STX Federal	3,199,844	2,787,746	2,543,127
School Lunch - STT/STJ Local	1,505,173	1,638,131	1,861,526
School Lunch - STX Local	1,917,335	2,088,515	2,161,176
Total	\$10,247,902	\$10,374,061	\$9,537,316

OBJECTIVES, SCOPE, AND METHODOLOGY

The audit objectives were to determine if Education: (i) administered its inventory systems for the School Lunch Program in accordance with established criteria; and, (ii) had controls in place to effectively safeguard and monitor School Lunch Program inventories.

The audit was limited to the National School Lunch Program and the School Breakfast Program as administered by Education during Fiscal Years 2013 and 2014. In examining Education's annual physical inventory practices, we expanded the scope to include Fiscal Years 2009 through 2014. In addition, we assessed the current status, through Fiscal Year 2016, of the School Lunch Program by interviewing Education officials to determine if conditions have changed since our work in the field had been completed.

To accomplish our objectives, we examined provisions of the Code and the Code of Federal Regulations (C.F.R.), USDA policy memorandums, the Virgin Islands Department of Education Office of Special Nutrition Programs Policy and Procedures Manual (December 30, 2011) (Procedures Manual), requisitions and purchase orders, receiving, distribution and book inventory records and reports, cycle menus, food production records, vendor contracts and reports, and other available supporting documents. We also examined best practices related to inventory management and ordering.

As part of our audit, we evaluated inventory management to include ordering procedures and processes, monitoring, and key administrative functions. We interviewed officials and personnel from Education, to include: the State Office, each Insular Superintendent's Office, each district warehouse, and selected school. We evaluated the internal controls over the various inventory management functions controlled by the State Office, and the St. Thomas/St. John and the St. Croix districts to the extent necessary to accomplish the audit objectives. Weaknesses in internal controls are discussed in the Audit Results section of the report. During the audit, Education officials were advised of significant internal control risks in the inventory management processes.

We non-statistically selected and visited 27 public and private base schools in the St. Thomas/St. John and St. Croix districts to determine if school kitchen managers were properly managing and accounting for inventory at their schools. To achieve our objective, we conducted inventory tests at the schools which consisted of non-statistically selecting 5 food items listed on each school's last received delivery ticket, physically counting the selected food items, and reconciling the book balances of the food items with their physical inventory balances.

In addition, we non-statistically selected five schools in each district and analyzed their production records to determine if the Authorities had provided them with the necessary inventory items to meet a planned monthly cycle menu.

We conducted this performance audit in accordance with the “Government Auditing Standards” issued by the Comptroller General of the United States. Those standards required 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. Accordingly, we performed such tests of records and performed other auditing procedures that were considered necessary under the circumstances. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

PRIOR AUDIT COVERAGE

We are unaware of any audits conducted on Education’s School Lunch Program within the past 5 years.

AUDIT RESULTS

CONCLUSIONS

Education officials did not adequately administer and manage the School Lunch Program inventory systems in accordance with established criteria and best practices. In addition, they did not adequately implement proper internal controls and safeguards to protect the inventory from the risk of loss due to fraud, theft, or negligence. Although there were some recent changes in the administration and management of the School Lunch Program, significant deficiencies still exist. Specifically, the audit found that Education officials: (i) did not maintain complete, accurate, consistent and current records of the receipt, distribution, and warehousing of inventory; (ii) modified or adjusted inventory records without proper or written justification; (iii) were negligent in securing and accounting for inventory received, delivered, stored, and/or used at district warehouses and schools; (iv) did not always conduct monthly and annual inventory reconciliations as required; (v) did not properly segregate warehouse duties; (vi) did not ensure that schools' inventory management practices in the districts were uniform and consistent with federal and state requirements; (vii) used a system for ordering food items and planning cycle menus that was ineffective and inefficient; (viii) did not implement key recommendations made by a management and consulting firm; (ix) did not ensure the timely and complete installation and implementation of food service management software; (x) did not ensure that warehouse and school personnel had been given sufficient training to use the software; and, (xi) have failed at all levels of the department in their responsibility to ensure that the School Lunch Program was functioning in an efficient and effective manner.

We attributed these conditions to Education officials: (i) not following federal requirements for maintaining book inventory records and accounting for the receipt, distribution, and storage of School Lunch Program inventory; (ii) not properly monitoring the inventory management practices of the Authorities, warehouses and schools to ensure compliance with federal and state requirements; (iii) not properly segregating warehouse duties; (iv) not ensuring that there are written and uniform procedures for placing orders and accounting for inventory; (v) using a menu planning system that was primarily based on existing warehouse inventory rather than on prearranged menu cycles; (vi) not providing adequate follow-up to ensure that required corrective measures addressed to the Authorities by the State Office were resolved in a timely manner; (vii) not following through in implementing recommendations made by the consulting firm in a timely manner; (viii) not timely addressing the network server issues; (ix) not properly assessing the computer skills and qualifications of Education personnel to provide the appropriate training; (x) at both district Insular Superintendent Offices lack of involvement in overseeing, managing and providing guidelines to their respective School Lunch Program personnel to ensure that their respective inventory systems ran effectively and efficiently; and, (xi) at the State Office failing to follow-up and ensure that the Authorities implemented monitoring procedures to administer their inventory systems in accordance with prescribed laws, and rules and regulations.

As a result: (i) Education officials did not accurately know the actual total values and quantities of inventory on hand as of specific times; (ii) School Lunch Program inventory was susceptible to the risk of loss due to negligence or unauthorized use; (iii) Education officials could not properly forecast and plan the ordering of food items to meet monthly cycle menu requirements; (iv) students participating in the School Lunch Program may not have been receiving meals with the nutritional value and requirements specified by the federal government; (v) Education officials expended more than \$920,000 for consulting services and food management software and have not aggressively resolved issues to improve School Lunch Program operations; and, (vi) an inefficient and ineffective School Lunch Program has continued for decades, and unless significant improvements are made, the School Lunch Program will continue to be susceptible to fraud, waste and abuse.

We made several recommendations to address the conditions and causes cited in the report. Education officials were kept informed of serious conditions found during our audit and have started initiating corrective actions to address our findings and recommendations. Our recommendations addressed the following areas: (i) inventory management; (ii) inventory forecasting and ordering; (iii) program administration; (iv) a management and consulting services contract; and, (v) acquisition of food service management software.

FINDING 1: INVENTORY MANAGEMENT

Education officials did not adequately manage School Lunch Program inventory in accordance with established criteria and best practices. In addition, proper internal controls and safeguards were not implemented to protect the inventory from the risk of loss due to fraud, theft, or negligence. Specifically, the audit found that Education officials: (i) did not maintain complete, accurate, consistent, and current records of the receipt, distribution, and warehousing of inventory; (ii) modified or adjusted inventory records without proper or written justification; (iii) were negligent in securing and accounting for inventory received, delivered, stored, and/or used at district warehouses and schools; (iv) did not always conduct monthly and annual inventory reconciliations as required; (v) did not properly segregate warehouse duties; and, (vi) did not ensure that schools' inventory management practices in the districts were uniform and consistent with federal and state requirements.

We attributed these conditions to Education officials: (i) not following federal requirements for maintaining book inventory records and accounting for the receipt, distribution, and storage of School Lunch Program inventory; (ii) not properly monitoring the inventory management practices of the Authorities' warehouses and schools to ensure compliance with federal and state requirements; (iii) not properly segregating warehouse duties; and, (iv) not ensuring that there are written and uniform procedures for placing orders and accounting for inventory.

As a result: (i) Education officials did not have reliable information regarding the actual total values and quantities of inventory on hand during specific times; (ii) School Lunch Program inventory was vulnerable to the risk of loss due to negligence or unauthorized use; and, (iii) poor inventory practices resulted in the inability to properly forecast and plan the ordering of food items to meet monthly cycle menus.

Background

Title 7 of the C.F.R. § 250.16, requires state agencies to maintain complete and accurate records with respect to the receipt, distribution/use and inventory of donated foods. Title 7 C.F.R. § 250.14 states that there must be assurance that an inventory system is maintained and an annual physical inventory conducted and reconciled with the inventory records.

USDA Policy Memorandum FD-058 states that the food distribution regulations require that an annual physical inventory be conducted at all storage facilities at the distributing agency or sub-distributing agency level. The regulations also require that complete inventory records be maintained by all such storage facilities. When the required physical inventory is completed, the book inventory must be reconciled to the physical inventory. The regulations also require that storage facilities investigate any shortage of food quantities identified to determine the cause of the shortage. "Failure to completely investigate the shortage may be considered evidence that the shortage is the result of fraud, theft, or negligence and the storage facility may be held liable for the loss through the claims process." Regarding overages, their value must be determined and a grand total of overages recorded. This total of all overages can potentially be used as an offset against the total shortages identified as a result of the physical inventory.

As the state agency, Education, through its State Office, has established a Procedures Manual to promote accountability in School Lunch Program operations. It requires that the book inventory records “be kept accurate and current by maintaining and recording the movement of all food items stored within the School Food Authority warehouse.”¹ The manual requires that the Authorities conduct monthly physical inventories and that all discrepancies in book and physical inventory be investigated by the responsible Authority personnel. It also states that all losses must be logged and investigated by the Authority’s district director and warehouse manager. Written claim reports must be completed and submitted to the State Office. Regarding the distribution of inventory, the Authorities must conduct physical counts whenever food items have been removed to ensure that the quantity of dispatched products is accurate.

The Authorities maintain three types of inventory records for: (1) insular or locally purchased food items, (2) USDA donated foods (or federal food items), and (3) non-food items or supplies.

The Authorities account for the delivery or distribution of inventory items from the warehouse to schools on a form called a “cart check,” referred to in this report as a delivery ticket. In preparation for deliveries, warehouse staff complete the form, which lists the items, units, and quantities to be shipped. The warehouse manager signs the delivery ticket after verifying that the items loaded into delivery trucks match the items listed on the form in description and quantities. When deliveries are made to the schools, the kitchen managers verify receipt of the items, and then sign and note on the form the actual number received. In the St. Thomas district, after the deliveries to schools are completed, the drivers return the signed delivery tickets to the warehouse manager. The warehouse manager then gives them to the stock clerk to record the delivery information in book inventory records. In the St. Croix district, the drivers also return the delivery tickets to the warehouse manager. However, the warehouse manager records the delivery ticket information in the book records. Allowing the warehouse manager to also post to the book records is a conflict of duties. More is discussed on this under “Segregation of Duties” in this finding section of the report.

The Procedures Manual requires that kitchen managers keep daily records of the receipt, use, and stock balances of all inventory in a bookkeeping binder called the Daily Use of Food Record. The binder contains inventory sheets for each food item. Each sheet is made up of columns that document, along with the relevant dates, the beginning balance, receipt, use, and ending balance of each food item. In addition, kitchen managers are required to maintain a record of food served to students and other School Lunch Program participants on a document called the Production Record.

Warehouse Book Inventory Records

District warehouse personnel did not maintain proper and complete inventory records in accounting for local and federal food items. Records were not kept current or updated regularly,

¹ A book inventory record, also referred to as a book inventory in this report, provides a running balance of inventory received, issued, and on hand.

contained numerous computational errors, were modified or adjusted without written justification, and were not used to adequately and accurately track the movement of inventory to and from the district warehouses. In addition, the book inventory system did not provide adequate safeguards against the risk of data manipulation.

The deficiencies were observed in both the St. Thomas/St. John and St. Croix districts. Personnel in both districts were not using the book inventory system as a tool to effectively and continuously track and account for inventory. Due to the haphazard and careless manner in which the book inventory was maintained, Education officials did not have continuous, reliable information regarding the total value and quantities of inventory on hand as of specific times. This negatively impacted management's ability to properly forecast and plan the ordering of food items to meet school lunch monthly menu requirements. The findings related to the ordering process are discussed in more detail in Finding 2.

In addition, changes were made to book balances simply to agree with physical inventory count results. Differences between book inventory balances and physical inventory balances were not usually reconciled or investigated. For instance, a warehouse officer informed us that he used physical inventory count results as the primary way to update his records. He replaced food items' existing book inventory running balances with their physical inventory balances without doing any inventory reconciliation.

The accuracy and integrity of inventory records were not routinely tested or reviewed by management or other personnel. District employees tasked with recordkeeping functions operated in a "stand alone" manner. The records, which were kept in a variety of formats ranging from excel spreadsheets to departmental issued inventory forms, were controlled by the record keepers and not reviewed by management. This meant that there was a greater risk of exposure to data manipulation and errors not being detected. In the below subsections we give examples of exceptions we discovered in our audit of book inventory records maintained by warehouse personnel in each district. The exceptions include undetected calculation or book entry errors, unexplained adjustments, and unrecorded transactions.

St. Croix District. In the St. Croix district, book inventory records showed that the beginning available balance of an inventory item (cheese) on August 27, 2013 totaled 404 cases. Four cases were delivered to a public school that day. However, instead of reducing the available balance to 400 cases after the delivery, the record keeper kept the balance as 404 cases. The records also showed that an additional 4 cases of the item were delivered to another school that day. Again, the record keeper did not adjust the overall balance (the balance should have been 396 cases after both deliveries), the record keeper entered the new balance as 199 cases. No written justification or explanation was given in the records regarding why the item's new balance was reduced by 205 cases rather than by just 8.

In another example, the book records showed a running balance of 12 cases of breadsticks in the warehouse on September 10, 2013. The balance was subsequently adjusted from 12 cases to zero without any written explanation in the records for the adjustment. The 12

cases of breadsticks were valued at \$840.2. Additionally, inventory records showed a running balance of 22 cases of oats on November 4, 2013. According to the records, the warehouse delivered one case of oats on November 14, 2013. The new balance was correctly stated as 21 cases. However, the balance was later changed to zero without any explanation for the change.

The book records did not reflect or capture all warehouse inventory transactions. For example, receiving documents showed that the district warehouse had received 10 cases of seasoned salt from a vendor on October 10, 2013. However, the receiving transaction was not recorded in the book records.

Education's Procedures Manual requires that inventory records be adequately maintained for non-food items. However, this was not consistently done for some non-food items such as aluminum foil, paper towels, and disposable plates, bowls, and drinking cups. Although the individual dollar value for some of these items may seem inconsequential, the total collective dollar value is substantial. For example, a purchase order dated September 30, 2013 for 400 cases of plastic plates totaled \$12,180.

Since it was not a practice of management to review inventory records, nor were they provided with status inventory reports, these discrepancies would not be discovered or addressed. Ultimately the lack of supervision and review of records by management put inventory resources at risk of loss.

St. Thomas/St. John District. In the St. Thomas/St. John district, record keepers used physical inventory count results as the primary way to update their records. Differences between inventory records and physical inventories were not reconciled or investigated. We observed several instances of this practice. For instance, book inventory records showed a running balance for a particular brand of disposable containers as 370 cases as of August 13, 2013. On that date, the warehouse completed a physical inventory count which revealed an in-stock balance of 436 cases of the containers. Subsequently, warehouse personnel changed the book inventory balance of the item to 436 cases to match the physical inventory count results. The difference, which represented an overage of 66 cases, was not reviewed to determine the reasons for the overage.

In another example, as of August 14, 2013, records showed a running balance of 117 cases of Blueberry Pop Tarts. On August 14, 2013, the warehouse completed a physical inventory which revealed that only 57 cases of the item were in stock. The difference between the book entry amount of 117 cases and the physical inventory amount of 57 cases represented a shortage of 60 cases, the total value of which was \$1,956. Despite the shortage, warehouse personnel simply entered the physical inventory amount in the records as a running balance without trying to determine the reason for the difference.

Inventory Reconciliation

Education officials failed to adequately monitor the Authorities' inventory operations to help ensure compliance with federal and state inventory reconciliation requirements. Although

² Food items' costs have been rounded to the nearest dollar.

monthly and annual physical inventories were done, differences between the book inventory and the physical count results were not always reconciled and the required inventory reports were not always prepared. Shortages and overages were not investigated to determine the reason for the differences. Also, the failure of Education personnel to investigate overages meant that determinations were not made regarding whether shortages could potentially be offset by overages. In addition, the failure to reconcile and investigate differences between the book inventory and the physical inventory made doing monthly and annual physical inventories ineffective.

Monthly Physical Inventories. As part of Education's inventory system, the Authorities' warehouse personnel are required to perform physical inventory counts on a monthly basis. Monthly and annual physical inventories consist of counting of federal and locally purchased food items separately. Count results are accounted for separately in the book records. They are required to reconcile differences and submit monthly inventory reports to the State Office. However, we found that they were not performing inventory reconciliations or submitting monthly inventory reports to the State Office on a regular basis.

We observed and analyzed a monthly physical inventory count conducted at the St. Thomas/St. John district warehouse in January 2014. Count results showed significant differences between the book inventory and the physical inventory for several federal and locally purchased food items. The following schedule presents a sample of items for which differences represented shortages.

Food Item	Book Records	Physical Count	Shortage (Cases)	Total Value
Ground Turkey	312	288	24	\$2,347
Meatballs	71	56	15	1,343
Chicken Creole	40	1	39	3,413
Sunrise Bites Maple	9	1	8	276
Applesauce	58	51	7	195

The St. Thomas district warehouse did not reconcile or investigate the reasons for the January 2014 inventory discrepancies. Therefore, no official determination was made regarding the reasons for inventory shortages.

Warehouse personnel attributed the disparities to challenges in keeping accurate book inventory records. They indicated that inaccuracies in the records were due to personnel not entering information from delivery tickets in a timely manner. They also indicated that at times information was never recorded because delivery tickets had been misplaced by drivers or other warehouse personnel.

Another reason given for the book record inaccuracies was that warehouse personnel occasionally misidentified federal and locally purchased items during the delivery selection process. For instance, delivery ticket information might indicate that an item selected for delivery is a federal food item. However, personnel might instead select a similar item from the inventory that was actually locally purchased. This mistake would eventually affect the proper accounting of the two separate funding sources. For example, we noted that the St. Thomas

warehouse had cases of both federally funded tomato sauce as well as locally purchased tomato sauce. According to the warehouse manager, during a distribution, the locally purchased tomato sauce was selected since it was received into the warehouse first. However, the clerk who prepared the delivery ticket recorded the federally-purchased tomato sauce as distributed, instead of the locally purchased tomato sauce. This caused the book records for both items to be inaccurate.

In an interview, district warehouse management stated that the process of investigating the reasons for shortages and overages had been phased out and had not been done for about three years. In addition, the staff directly responsible for maintaining the book records indicated that when there are differences between the book records and the physical count they simply adjust the figures to match the physical count.

In a recent follow-up of each district's inventory management process, we found that nothing has changed regarding inventory management to ensure that the inventories at the two district warehouses are being adequately accounted for and safeguarded from theft, lost or misuse. Our updated review is discussed in more detail later in the section entitled "Update on Inventory Management" in this finding.

Annual Physical Inventories. In examining the State Office's annual physical inventory practices, we expanded the scope to include Fiscal Years 2009 through 2014. The expanded scope gave us additional perspective and information regarding the frequency and extent of physical inventories conducted by State Office personnel over several years. Our audit found that although State Office personnel had conducted annual physical inventories at the Authorities' district warehouses for Fiscal Years 2009 through 2014, documents provided showed that State Office personnel had performed inventory reconciliations only two times, in Fiscal Year 2009 for the St. Croix district warehouse and in Fiscal Year 2010 for the St. Thomas/St. John district warehouse.

Regarding the inventory reconciliation results, Education personnel issued two letter reports to the respective district warehouses. The 2009 report, which was addressed to the St. Croix Authority, provided written feedback on count results of 9 federal and 49 locally purchased food items stored at the warehouse. The report showed differences with all of the federal and locally purchased food items. The 2010 report was addressed to the St. Thomas Authority and documented findings related to the annual physical inventory count of 18 federal and 98 locally purchased food items at its warehouse. State Office personnel found disparities with 9 of the 18 or 50% of the federal food items and 84 of the 98 or 94% of the locally purchased food items. Apart from the 2009 and 2010 reports, the State Office did not issue any other reports to the Authorities related specifically to annual physical inventories conducted over the expanded scope period.

In response to our inquiries regarding why no other reports had been issued, State Office officials informed us that they had discontinued doing reconciliations after 2010 because of the inaction by the Authorities to correct prolonged recordkeeping deficiencies, which included the failure to keep book inventory records current. Education, as the state agency, is ultimately responsible for ensuring that the Authorities are in compliance with School Lunch Program

requirements. In addition, federal regulations state that reconciliations must be performed as part of the annual physical inventory procedures. As a result, Education does not have the option to opt out from doing them.

As discussed below, if proper reconciliations were performed as a part of the annual inventories in 2013 and 2014 the weaknesses in inventory management at the district warehouses would have been identified and could have been addressed.

Fiscal Year 2013 Inventories. We performed an inventory analysis to assess Education's management of School Lunch Program inventory in both districts. The test periods covered from the dates of the district warehouses' most recent monthly physical inventory prior to the annual count, to the dates of the State Office's annual physical inventories in both districts in Fiscal Year 2013. Using the district warehouses' most recent monthly physical inventory totals, prior to the annual count as the beginning balances; we tracked and recorded the movement of inventory to and from the warehouses up to the dates of the State Office's annual physical inventories. We then compared the updated book inventory balances and the State Office's annual physical inventory balances to determine if differences existed between the two.

At the time of our audit, the St. Thomas/St. John and the St. Croix districts' last monthly physical inventory counts were on August 12, 2013 and August 29, 2013, respectively. The State Office had conducted its annual physical inventories in the districts on September 17, 2013 and September 18, 2013, respectively. Our analyses results showed large differences between the book inventory and the annual physical inventory for certain products. For instance, the shortage for one of the St. Croix district warehouse food items (wheat macaroni) totaled 653 cases valued at \$19,296. Similarly, the overage for another food item (fruit cocktail) totaled 241 cases valued at \$9,929.

For the St. Thomas district warehouse, we found inventory discrepancies with 85% of the 13 federal and 51% of the 71 locally purchased food items. These discrepancies or differences represented unreconciled estimated shortages and overages exceeding \$25,000 and \$11,000, respectively.

As it pertains to the St. Croix district warehouse, we found inventory discrepancies with 91% of the 11 federal and 86% of the 65 locally purchased food items. The discrepancies represented unreconciled estimated shortages and overages exceeding \$50,000 and \$18,000, respectively.

The schedules below show samples of items from our analysis for which high differences existed between the book inventories and the annual physical inventory counts. The first schedule addresses shortages and the latter addresses overages found in both districts. Book and physical inventory balances include cases of items.

Schedule of Sample Items with Unreconciled Shortages

St. Croix District Warehouse								
Items	08-29-2013 Monthly Physical Count	Quantity Received	Quantity Distributed	Updated Book Inventory Balance	9-18-2013 Annual Inventory Count	Difference (Shortages)	Unit Price	Total Value
Beef Burgers	144	0	0	144	110	34	\$ 74.10	\$2,519
Crunch Mania	253	0	14	239	138	101	44.75	4,520
Grill Cheese Sandwich	126	0	32	94	31	63	49.00	3,087
Ground Beef	361	0	30	331	312	19	101.60	1,930
Tropical Fruit	785	0	124	661	599	62	38.75	2,402
Turkey Bologna	144	0	8	136	69	67	42.00	2,814
Wheat Macaroni	1266	0	58	1208	555	653	29.55	19,296
Whole Grain Spaghetti	873	0	63	810	727	83	31.00	2,573
St. Thomas District Warehouse								
Items	08-12-2013 Monthly Physical Count	Quantity Received	Quantity Distributed	Update Book Inventory Balance	9-17-2013 Annual Inventory Count	Difference (Shortages)	Unit Price	Total Value
Cut-Up Chicken	927	0	142	785	756	29	\$32.00	\$928
Elf Graham Crackers	121	143	1	263	151	112	30.80	3,450
Grape Juice	157	250	247	160	131	29	28.70	832
Kidney Beans	132	0	71	61	11	50	28.00	1,400
Margarine	137	0	12	125	23	102	48.00	4,896
Pancake Syrup	827	0	107	720	688	32	9.85	315
Tomato Sauce	352	0	17	335	286	49	12.72	623
Turkey Taco Filling	637	0	6	631	488	143	55.20	7,894

Schedule of Sample Items with Unreconciled Overages

St. Croix District Warehouse								
Items	08-29-2013 Monthly Physical Count	Quantity Received	Quantity Distributed	Update Book Inventory Balance	9-18-2013 Annual Inventory Count	Difference (Overages)	Unit Price	Total Value
Fruit Cocktail	524	0	108	416	657	241	\$ 41.20	\$9,929
Meat Balls	285	50	214	121	188	67	25.99	1,741
Potato Wedges	46	0	35	11	51	40	32.65	1,306
Rice Krispies	40	0	8	32	63	31	34.65	1,074
Slice Peaches	469	0	112	357	408	51	41.20	2,101
Garlic Powder	79	0	7	72	97	25	21.00	525
St. Thomas District Warehouse								
Items	08-12-2013 Monthly Physical Count	Quantity Received	Quantity Distributed	Updated Book Inventory Balance	9-17-2013 Annual Inventory Count	Difference (Overages)	Unit Price	Total Value
Milk-White	0	810	1282	810	894	84	\$9.42	\$791
Milk-Chocolate	0	1620	196	388	375	37	10.77	398
Tropical Fruit Salad	316	0	0	120	174	54	35.10	1,895
Zoo Animal Crackers	220	0	0	220	292	72	19.65	1,415

Fiscal Year 2014 Inventories. As part of our audit, we reviewed the differences the State Office had found between the book inventories and the annual physical inventories for Fiscal Year 2014. For certain food items, high differences existed between the two. Regarding the St. Croix district warehouse, overall differences were found with 29% or 4 of the 14 federal food items and 59% or 30 of the 74 locally purchased food items counted. The unreconciled shortages and overages totaled \$30,000 and \$20,000, respectively. Regarding the St. Thomas district, overall differences were found with 89% or 8 of the 9 federal food items and 75% or 62 of the 83 locally purchased food items counted. Unreconciled shortages and overages totaled \$50,000 and \$25,000, respectively.

The schedules below show samples of items with high differences as they relate to unreconciled shortages and overages. The first schedule pertains to the St. Croix district and the second to the St. Thomas/St. John district. The listed differences consist of cases of items.

ST. CROIX FY2014 PHYSICAL INVENTORY SHORTAGES				
Inventory Item	Book Inventory	Physical Count	Difference (Cases)	Total Value
Tuna Chunk Light	87	37	50	\$4,188
Whole Kernel Corn	111	70	40	1,328
Vegetarian Beans	169	96	73	1,920
Dark Kidney Beans	44	34	10	321
Beef Base	14	3	11	594
Brown Rice	587	520	67	603
Beef Patties	32	22	10	741
Griller Veggie Burgers	270	260	10	326
OVERAGES				
Inventory Item	Book Inventory	Physical Count	Difference (Cases)	Total Value
Soy Sauce	27	47	20	\$1,098
Strawberry Pop Tarts	90	101	11	359
Pineapple Chunks	75	101	26	818
Tomato Salsa	222	257	35	2,258

ST. THOMAS/ST JOHN FY2014 PHYSICAL INVENTORY SHORTAGES				
Inventory Item	Book Inventory	Physical Count	Difference (Cases)	Total Value
Wheat Macaroni	75	6	69	\$649
Ground Beef	560	521	39	5,304
Valencia Oranges	132	45	87	N/A
Barbeque Sauce	40	3	37	999
Beef Base	31	10	21	1,134
Beef Patties	133	38	95	12,445
Pepperoni Pizza	49	18	31	2,279
Romaine Lettuce	49	2	47	1,739
Tropical Fruit Salad	127	102	25	878
OVERAGES				
Inventory Item	Book Inventory	Physical Count	Difference (Cases)	Total Value
Broccoli Florets	347	370	23	\$715
Animal Crackers	130	162	32	629
Banana Milk	293	316	23	248
Plain Milk	1011	1232	143	1,347
Medium Salsa	324	292	28	N/A

Warehouse Inventory Distributions System

We found that the Authorities did not adequately account for inventory distributed from the warehouses to base schools. This was directly linked to ineffective controls over the inventory distribution process. Specifically, the Authorities did not ensure that proper supervision was provided to warehouse personnel, which impacted their ability to make certain that basic inventory distribution procedures were being followed. Education's Procedures Manual requires that specific warehouse personnel "consolidate daily physical count of all food items taken upon the shipment leaving the warehouse daily. After all food items have been pulled and the delivery vehicles have been loaded and dispatched, a physical count should have been conducted once more to ensure that the quantity of dispatched food items was in fact accurate." Our audit found that this verification procedure was not being performed by warehouse personnel. Consequently, this placed the Authorities at a disadvantage in properly accounting for School Lunch Program inventory.

The manual also requires that warehouse personnel cross check information on delivery tickets against information on a control list called "The Master Pick List." The control list consolidates information from multiple delivery tickets in order to properly account for delivery orders. The State Office had at one point required that warehouse personnel use the Master Pick List to account for inventory distributions. However, we found that warehouse personnel had not been using the Master Pick List. Instead, delivery tickets were the sole documents used for processing and delivering orders.

The Authorities' failure to adequately account for distributed inventory from the district warehouses made school food items vulnerable to the risk of unauthorized use. For instance, during our audit of inventory at a St. Thomas public school, we found that 1 of 8 cases of chicken that had been delivered to the school as per a signed delivery ticket was unaccounted for. The kitchen manager stated that one of the cooks had signed for receipt of the items while she was working at the serving line. She indicated that she would investigate the matter. About a week after our school visit, the kitchen manager informed us that warehouse personnel stated that they had inadvertently delivered only 7 cases of chicken although the delivery ticket listed eight. We were unable to verify the kitchen manager's account. However, the fact remains that neither the school nor the warehouse was aware that the case of chicken was unaccounted for until our audit of the school's inventory. If procedures had been adequately followed and proper supervision provided the warehouse and the school might have detected the delivery error.

We reviewed two disciplinary letters issued by a St. Thomas warehouse manager to two separate warehouse employees. Based on those two letters, there is a definite need for the Authorities to strengthen controls over School Lunch Program inventory.

In one of the letters dated April 3, 2013, the manager reprimanded a truck driver for what he labeled as "improper work habits." Among other concerns, the manager alleged that the employee had not accounted for 6 cases of inventory items (ground turkey, turkey sausages and green beans) that had been loaded into his truck for area public schools. He added that almost every week the employee loaded too many or too few food items into his truck. In the other letter dated April 4, 2013, the manager alleged that another truck driver had only delivered 2 of 3 cases

of a particular food item (blueberry pancakes) that had been loaded into his truck for delivery to a school. The letter stated that the employee was unable to account for the case of the missing item.

Segregation of Duties

The Authorities did not properly segregate warehouse duties in managing and accounting for inventory. Multiple tasks which should have been segregated were completed by single individuals. This gave them unrestricted control over the inventory. As a result, there is an increased risk that a fraud can be committed. This internal control weakness was observed in both the St. Thomas/St. John and St. Croix districts.

St. Croix District. At the time of our fieldwork, district officials informed us that staffing shortages contributed to individuals being assigned multiple tasks. Also, the Authority was lacking key leadership. For several months the Authority did not have a district director. We found that one employee was responsible for a number of key duties. The employee was tasked with ordering, receiving, and distributing inventory. In addition the employee maintained book records and performed monthly physical inventories and reconciliations. Other tasks included receiving order requests from school kitchen managers, preparing the delivery tickets and verifying the distribution or delivery of ordered food items to the schools.

As part of our follow-up on the current status of inventory management, we were informed that the St. Croix warehouse manager is no longer solely responsible for all functions of the inventory process. A receiving clerk was hired and is responsible for receiving all food items coming into the warehouse. In addition, the individual also maintains the daily book inventory. The warehouse manager continues to be responsible for preparing a delivery ticket for all items sent to the school kitchens. When the delivery tickets are returned to the warehouse manager they are forwarded to the receiving clerk who is responsible for updating and maintaining a daily book inventory.

While this is a significant improvement, the delivery tickets should not be returned to the warehouse manager. Instead they should be submitted to the receiving clerk. This will improve the internal controls on separation of duties.

In addition, the St. Croix District also hired a program manager, who is located in the Office of the Insular Superintendent and oversees all warehouse functions.

St. Thomas/St. John District. We encountered similar internal control issues in the St. Thomas/St. John district. The employee responsible for receiving all inventories was also responsible for maintaining the book inventory records. In addition, the same employee was responsible for performing physical counts of federal food items and reconciling them to the book record. For locally purchased food items, someone else did physical counts and the employee reconciled the book and physical inventories. However, the employee's duties were still not properly segregated. That employee maintained the book records and received all incoming inventory.

School Kitchen Inventory Management

As part of our audit, we visited 27 public and private base schools in the St. Thomas/St. John and St. Croix districts to determine if school kitchen managers were properly managing and accounting for inventory at their schools. Twelve of the 27 schools are in the St. Thomas/St. John district and comprise 10 public and 2 private schools. Fifteen of the 27 schools are in the St. Croix district and are all public schools. To achieve our objective, we conducted inventory tests at the schools by selecting 5 food items listed on each school's last received delivery ticket, performing physical counts of the selected food items, and reconciling the book balances of the food items with their physical inventory balances. The delivery tickets and Daily Use of Food Record were the main records reviewed in conducting our tests. The Daily Use of Food Record at certain schools was so poorly maintained that we could not use it to help verify the selected food items' inventory balances. In those instances, we reviewed other inventory documents as available to conduct our tests.

We found that a majority of the kitchen managers were not properly managing and accounting for inventory in their custody. The records maintained by most kitchen managers were not up-to-date. Of the 27 schools visited, the inventory records for 21, or 77%, were not current and in several cases poorly maintained. This applies to 10 of the 12 schools visited in the St. Thomas/St. John district and 11 of the 15 visited in the St. Croix district. The recordkeeping for the remaining 6 schools (2 in St. Thomas/St. John and 4 in St. Croix) was current.

For 10 of the 27 schools visited, the book inventory did not reconcile with the physical inventory for all 5 selected food items. For an additional 7 of the 27 schools, 4 of the 5 selected food items' book balances did not reconcile with their physical count balances. Together, 17 or 62% of the schools did not adequately account for either 4 or all 5 of the selected food items. The remaining 10 schools had the following: 8 had from 1 to 3 of 5 selected food items that could not be reconciled, and 2 schools had all 5 test items reconciled.

School Kitchen Record Keeping Practices

Most kitchen managers stated that they were unable to keep records current because of staffing shortages and their heavy workload in the kitchen. Others said that the Daily Use of Food Record as an inventory recording system was too cumbersome and time consuming. Two of those kitchen managers felt that they had not received sufficient training to track inventory using the Daily Use of Food Record. A practice we noticed was the use of notebooks and other unofficial methods to account for inventory. We noted that some kitchen managers used notebooks as books of original entry to track the receipt and use of food items with the intention of transferring the information to the Daily Use of Food Record. We, however, found that information in the notebooks was usually vague and incomplete. This could affect the accuracy and completeness of information transferred to the official inventory records. For example, during our visit to a St. Thomas school, the kitchen manager informed us that she kept a log of inventory activity in a personal copybook. Due to her busy schedule, she did not always have time to record what food items were used daily. Because the Daily Use of Food Record was poorly maintained, we used the inventory information recorded in the copybook to conduct our test of the selected food items. The book inventory (copybook) did not reconcile with the

physical inventory for 4 of the 5 selected items. For one item (pizza), although it was listed in the copybook, the kitchen manager did not record or keep track of its usage. When we inquired about this, she responded that she knew from memory how much of the item had been used on a daily basis.

At a St. Croix school, we observed that the kitchen manager had not entered any inventory information in the Daily Use of Food Record for any of the selected items in our spot check. When we inquired why, the kitchen manager said she does not record, in the daily record, the inventory activity of items that are used often. She added that the items selected for our sample were frequently used items. The kitchen manager, however, provided no other records that we could reliably use as a book inventory to attempt reconciliation with the physical inventory. At another St. Croix school, we faced a similar situation. We were unable to reconcile the book inventory with the physical count because no inventory activity had been posted in the daily records for any of the selected items.

School Inventory Policies and Procedures

Education officials provided irregular and inconsistent supervision to the Authorities. The two districts did not have written and uniform procedures for placing orders and accounting for inventory at the base schools. In certain instances, each district seemed to operate by its own set of “unwritten rules.” In contrast to its St. Croix district counterpart, the St. Thomas/St. John district implemented additional requirements for its schools. For instance, St. Thomas/St. John kitchen managers were required to use additional forms and reports for tracking inventory. In addition to completing the Daily Use of Food Form, each week the managers were required to physically count their inventory and document the balances on a form called the Weekly Inventory Form. They were also required to prepare a Monthly Inventory Report, which detailed in-stock balances and the quantities received and used each month for federal and locally purchased food items. Both the Weekly Inventory Form and the Monthly Inventory Reports were to be individually submitted to the St. Thomas/St. John warehouse manager on a weekly and monthly basis. When ordering food items, the kitchen managers were required to complete and submit an order form to the district warehouse called a Weekly Shopping List.

Except for the Daily Use of Food Form, St. Croix kitchen managers did not use any of the other above noted forms. Based on provided documents, there was no indication that they were required to do so. Education should have implemented written and uniform policies and procedures designed to improve the ordering process and accountability of inventory resources among schools in both districts.

Directly or indirectly allowing each district to operate by its own set of rules was certainly ineffective. For instance, St. Croix kitchen managers did not use order forms when ordering food items from the warehouse. They usually telephoned in their orders to a warehouse representative who would prepare a delivery ticket. This method left no paper trail of an official order request being initiated by the school, nor was it a reliable method for helping to ensure that orders were taken correctly.

A key control not consistently implemented was inventory reconciliation. As noted, St. Thomas schools were required to perform weekly counts of their inventory. However, this step did not constitute an inventory reconciliation. A reconciliation would mean that the book inventory was compared to the physical inventory, differences were investigated, and adjustments were made as necessary.

Kitchen managers informed us that their schools received periodic monitoring visits from officials of the respective Authorities and the State Office. However, we found that neither representatives from the Authorities nor the State Office conducted school reviews in a consistent manner. As it relates specifically to accounting for inventory balances, some kitchen managers said that visits consisted entirely of only reviewing inventory records, such as the Daily Use of Food Record and other records. Others said that visits involved reviewing inventory records and at times conducting inventory counts. However, we found no documentary evidence to show that Authority or State Office representatives were conducting or requiring inventory reconciliations.

As stated, school inventory records, for the most part, were not kept current and were disorganized. Kitchen managers did not properly manage and account for inventory in their custody. Controls were not in place that were designed to reduce the risk of inventory loss. We believe these deficiencies were linked to the quality of monitoring they received at the Authority and State Office level. Improving the way inventory is managed by the schools will result in a more effective and efficient ordering process, which is essential for meeting menu requirements and addressing the nutrition needs of students.

2016 Update on Inventory Management

We interviewed current Education officials from both the Insular Superintendent's Office and the State Office in order to receive an updated assessment of the inventory management of the School Lunch Program. We found that there has been no significant change in the management of the School Lunch Program inventories. While several administrative employees have been added or replaced, there are still serious internal control deficiencies that continue to jeopardize the effectiveness of the program and increase the risk that program inventories are not properly safeguarded to prevent theft, loss and misuse.

Inventory Count Process. The physical inventory count process continues to be an area of serious concern that does not achieve its intended purpose. The inventory counts are taken by employees involved in the day-to-day operations of the warehouse. In addition, no reconciliations of these counts are performed.

On St. Croix, the district implemented a new policy that a monthly physical inventory count has to be taken by employees by the 1st Friday of every month. The warehouse is provided a pre-formatted inventory count sheet that lists all the food items - federal and local items. Once the physical count is taken, the on hand quantity for each item is listed on the pre-formatted sheet. The completed inventory count sheet is forwarded to the receiving clerk. The receiving clerk re-enters the physical count for each item into a computerized version of the form. The warehouse manager is required to verify and sign that the information matches the counts

provided on the inventory sheet. Once the manager signs the form it is forwarded to the State Office. No other actions are taken.

In the St. Thomas/St. John district, the warehouse manager stated that the count is done along with the other warehouse workers. However the warehouse manager indicated that the workers are not counting properly. It was stated that they don't want to take the time to perform the count and sometimes get a count from a prior period and submits it as their count. In fact, the individual stated that sometimes the employees put any number on the count form so they can go sit down.

Inventory Reconciliation. None of the physical counts are reconciled or reviewed for accuracy or discrepancies. The monthly counts are simply taken to meet the requirement of taking a monthly count. Hence, the intended purpose of a physical count, which is to verify the accuracy of inventory records, identify sources of shrinkage and possible theft is lost without the proper reconciling and reviewing of inventory counts against book records and receiving reports/invoices.

On St. Croix, the monthly count is not reconciled with daily book records to determine potential differences between the physical count and the book inventory records. Even though the district implemented a new process that require the receiving clerk to maintain the daily perpetual inventory, when the monthly counts are submitted to this individual, the count is not cross-checked against daily book records. In addition, the district director also does not reconcile monthly inventory counts against book records or receiving and disbursement records.

On St. Thomas, the warehouse manager does not have confidence in the book inventory records. The drivers/delivery personnel counts were often incorrect which kept the warehouse manager from verifying the physical inventory counts.

Although the inventory count is submitted to the district director by the warehouse manager who expressed serious concerns with the physical count and book records, the district director claimed to us that the counts are reconciled and there weren't any major issues with the reconciliation nor were there any major differences between the physical count and the book records. This disconnection raises concern of the effectiveness of reviews and verification steps performed by the district director.

Annual Inventory Reconciliation. Subsequent to the completion of our audit field work, we were informed that the last annual count taken by the State Office was on September 15-16, 2015 on St. Thomas and on September 28-30, 2015 on St. Croix. It was claimed that the required reconciliations were completed by reviewing book inventory records to the physical count taken. It was stated that only small variances were noted after each count. No formal reports were prepared.

We have concerns over the method used in reconciling the annual inventory. In our opinion, the State Office's current method of doing the annual inventory and reconciliation is seriously flawed and does not give a true representation on the use of food items acquired under the School Lunch Program. The current method is only a "snap shot" showing that on the given

day, the counted inventory and the inventory recorded in the books agree. No reconciliation of the reported inventory amounts are done to verify the accuracy of the amounts recorded in the books. By not using the previous year's ending annual inventory balance and adding and subtracting acquisitions and distributions of the selected food items during the period to arrive at the expected book inventory amount for comparison to the physical inventory, the whole purpose of doing the annual inventory is useless. The current method provides a false assessment of the inventory management at the two district warehouses.

Policies and Procedures. Both Authorities continue to function without a comprehensive internal policy and procedures manual. On St. Croix, the district director implemented several inventory procedures but these procedures are limited in scope and do not address several important areas. For example, a two-page document called "Physical Inventory Procedures" does not address reconciliation of inventory counts or how discrepancies should be handled; another three-page document called "Warehouse Procedures" only details how often tasks are to be performed but does not define step by step how the activities in the warehouse should be carried out. The warehouse procedures for example, do not include procedures for issuing supplies to the schools; they do not include procedures for controlling stock movement; they do not include procedures for record keeping and the flow of documentation. Similarly, another two-page document called "Receiving Procedures" does not address how records are to be maintained or what types of receiving reports are to be maintained.

On St. Thomas, the district director indicated that policies and procedures were in the process of being created; however, this individual had only been in that role of district director for about 9 months. The individual was not provided with any guidelines for the operations of the School Lunch Program. Hence, the functions of the district director are performed by observing the processes in place and tweaking areas where improvement are needed.

Recommendations

We recommend that the Commissioner of Education:

1. Direct the State Director and Insular Superintendents to ensure that the district warehouses adequately account for the receipt, distribution, and warehousing of inventory.
2. Direct the State Director and Insular Superintendents to ensure that the Authorities adhere to federal and local requirements for maintaining book inventory records.
3. Direct the State Director and Insular Superintendents to ensure that warehouse book inventory records are reviewed by management, or appropriate personnel, for accuracy and integrity.
4. Direct the State Director and Insular Superintendents to ensure that their respective districts regularly conduct adequate inventory reconciliations and investigate differences between the book inventory records and the physical inventories.

5. Direct the Insular Superintendents to regularly monitor the inventory management practices of district warehouses and schools to ensure compliance with established federal and local requirements.
6. Direct the State Director and Insular Superintendents to ensure that warehouse duties are properly segregated.
7. Direct the Insular Superintendents to work together to implement written and uniform procedures for schools in both districts to follow when placing orders and accounting for inventory.

Department of Education's Response

The Commissioner of Education in her June 2, 2017 response indicated concurrence with the recommendations made in the report. Although the response does not address each recommendation individually, it does indirectly indicate that six of the seven recommendations made in this section of the report will be addressed in planned "reorganization of the SLP [School Lunch Program]", to include implementation of Standard Operating Procedures (SOPs), training of personnel of the Authorities.

The Commissioner further stated that the draft SOPs specifically directs the Insular Superintendents and the State Director "to provide proper oversight directing district warehouse personnel to adequately account for the receipt, distribution and warehousing of the inventory."

School Year 2017-2018 "will take [Education] into the monitoring, controlling and evaluating phase of the Leadership activities, processes, operational efficiencies and oversight" of the Authorities.

The seventh recommendation dealing with written and uniformed procedures for schools was not addressed.

V. I. Inspector General's Comments

The response indicated that the 2017-2018 School Year will begin the implementation stage of the planned "reorganization" of the School Lunch Program and the SOPs. Accordingly, we will consider the first six recommendations resolved but not yet implemented pending the results of the implementation and the final approval of the SOPs.

We will consider the seventh recommendation as unresolved, and again request that standardized procedures be developed for the schools to use in accounting for their respective inventories.

We do want to note that the SOPs do not mention how the Nutrikids software, once implemented, will be incorporated into the process.

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FINDING 2: ORDERING

Education used a system for ordering food items that was ineffective and inefficient. This was attributable to the system being based on existing warehouse inventory rather than on established prearranged cycle menus. In addition, the planning of cycle menus was not meeting the intended purpose because it was not timely. As a result, students participating in the special nutrition programs may not have been receiving meals with the nutritional requirements specified by the Federal Government.

Background

The adequacy of inventory management and the order process can determine whether state agencies meet federal requirements. Failure to meet the requirements may result in disqualification to receive cost reimbursements for meals served and other grant benefits. If the ordering process is dysfunctional, this may result in food shortages. Consequently, this presents a disservice to student participants who depend on School Lunch Program meals to help meet their nutritional needs. A large portion of School Lunch Program grant awards is earmarked for meal cost reimbursements to state agencies. Federally donated food is ordered by Education through its State Office based on specific USDA guidelines. Local food item orders are not initiated by the State Office but by the Authorities for their districts.

The Authorities' district directors are tasked with planning and preparing monthly cycle menus for district schools. A cycle menu is a series of menus planned for a specific period of time. At the end of the cycle the menus are repeated in the same order. This form of menu planning was intended to help the Authorities meet federal School Lunch Program requirements. Before finalization, planned cycle menus must be reviewed for nutritional correctness. Also, food items to be ordered to meet the related menus must be approved by the State Office.

Prior to October 2013, the district directors planned and prepared monthly menus based primarily on physical counts of inventory in stock. The directors then submitted the proposed menus to the State Office for review. After submission of the menus to the State Office, Authority personnel prepared requisitions, as necessary, to order additional local food items to meet menu requirements. To finalize the orders, funding approvals were required by Education's Business and State offices. Requisitions would then be converted into purchase orders, which were signed by officials of Education and the Department of Property and Procurement before sending to vendors for order fulfillments.

To establish stronger internal controls over the ordering process, Education implemented new procedures effective October 1, 2013. Among other things, the new procedures were specifically designed to ensure that correct quantities were being ordered and reduce certain overstock/understock conditions. One of the most significant changes was the introduction of a form called Requisition Food Ordering. This form listed the item description, the quantities desired, and the quantities approved for ordering by the State Office. The form, along with the proposed menu, related recipes, and the current inventory of the items being ordered, was to be submitted to the State Office by the 10th of the month for approval. State Office approval was required before the official requisition and purchase order forms could be processed.

The National Food Service Management Institute (Institute), a USDA-funded entity which provides guidance for child nutrition programs to improve their services, provides ordering best practices that are designed to help reduce the out of stock condition. One such practice includes sharing menus and expected order quantities with vendors in advance. The Institute also recommends establishing an ordering system that incorporates a “par (periodic automatic replenishment) value system” which sets minimum quantities of items to keep on hand. The par value is the amount needed to fulfill menu requirements for one ordering period, plus a small quantity of safety stock. Factors, such as storage space, frequency of deliveries, and vendor minimum orders should be taken into consideration.

Forecasting and Ordering

The system used by the Education for ordering food items and planning cycle menus was ineffective and inefficient. Menu planning was primarily based on existing warehouse inventory rather than on established prearranged menu cycles. Orders of food items were not made in a timely manner to meet menu requirements. Despite the implementation of new procedures in October 2013 (see Background of this finding section), there were areas of the menu planning and order processing system that still needed improvement. Although the 10th of each month was given as the date to submit the Requisition Food Ordering document, there were no procedures stating how far in advance menus were to be prepared and related orders approved and placed to ensure the availability of food items to meet specific monthly menu requirements. For example, the St. Thomas district director placed a particular local food item on the December 2013 menu to be served for breakfast on December 11, 2013. The Requisition Food Ordering form was dated October 28, 2013 and the corresponding purchase order was dated November 6, 2013. As of the date of the purchase order, warehouse book inventory records showed only 6 cases of the food item in stock. As a result, 70 additional cases were ordered. However, the order was not delivered by the vendor until December 11, 2013, the very date the item was planned to be served for breakfast on the menu. The date the requisition was submitted and the order placed may not have been sufficient time to ensure timely delivery of the item. A system in which menu cycles drive the order process is the best approach to meeting menu requirements. Guidelines and procedures must be established that dictate the advance planning of menus and ordering of food items to ensure that meal pattern requirements are met.

In another example, we found that Education had not followed its own ordering procedures. It allowed the ordering of items that were not listed on approved monthly menus. In addition to a departure from procedures, this ordering approach was arbitrary. On November 5, 2013, the St. Croix Authority prepared a Requisition Food Ordering form for 300 cases of pink salmon and 200 cases of tuna. The State Office made changes and approved the order for 100 cases of pink salmon and 175 cases of tuna. Based on provided records, the items were delivered to the warehouse and subsequently distributed to only some district schools in December 2013. The items were not listed on the November and December 2013 menus, or even on the January 2014 menu. Although the items were delivered in early December, school production records show that they were not used that month. Inventory delivered to the schools typically should have a short turnover because deliveries are intended to meet weekly menu serving requirements. The arbitrary nature of the order compromised inventory controls.

Inventory Stock Levels

Weak inventory controls at the district warehouses negatively impacted the Authorities' ability to maintain adequate inventory levels to meet menu requirements. As stated in Finding 1 of this report, warehouse personnel had not been properly maintaining book records and performing inventory reconciliations. Therefore, they were not properly accounting for inventory. We found that personnel at times would simply adjust their books to match physical inventory count results. They were not performing true inventory reconciliations which entailed making adjustments only after investigating and determining the reasons for differences between the book inventory and the physical inventory. Due to the weak inventory controls, there were no adequate reserves of food items on hand to meet monthly menu requirements.

For example, on a Requisition Food Ordering form dated November 5, 2013, the St. Croix district Authority requested approval from the State Office to order 150 cases of broccoli florets for the December monthly menu. The on hand quantity of the item was stated as zero on the form. There should have been a set minimum quantity of the item on hand to help meet demand. The inadequacy of the inventory management is seen in that warehouse book inventory records showed that there were 33 cases of broccoli florets in stock. On the same requisition form, the Authority had requested approval to order 60 cases of oats. Warehouse personnel also indicated on the form that the on hand balance of the item was zero. Book inventory records showed the balance as 22 cases and not zero. The discrepancy between the amount shown in the book inventory records and the amount shown on the requisition form further demonstrates the potential for fraud. This gives the impression that information provided on the form was superficial and unreliable. If on hand quantities of food items are not adequately reported to and monitored by the State Office, the order process will continue to be dysfunctional resulting in the Authorities ordering too many or too few products to meet menu requirements.

Par Value System. As previously stated, the National Food Service Management Institute, a USDA funded entity, recommends implementation of a "par value system" to improve services for child nutrition programs. In a report dated February 18, 2014, a consultant hired by Education also recommended that a "par value system" be established to help maintain adequate inventory levels. However, as of the fieldwork phase of this audit, Education had not provided any documentation showing that the recommendation had been implemented. The warehouses do not maintain a "par value system" to ensure that adequate and appropriate inventory levels were available to fulfill menu requirements. In addition, no criteria had been established governing re-order points for products and supplies based on set minimum quantities. Education officials responsible for the menu planning and inventory levels could not adequately coordinate the menu plan to account for the needed and timely delivery of stock items. This resulted in insufficient stock being available to sustain the monthly menus. Consequently, school kitchen managers had to alter the assigned daily menu frequently because food items were not readily available.

Meal Substitutions

The Authorities' inability to maintain adequate inventory levels resulted in food shortages. We found that kitchen managers had to regularly alter planned meal menus 2 to 3 times per week because certain food items were not available from the warehouse to meet daily menus.

During our audit, we analyzed inventory and production records for five schools in each district to determine if the Authorities had provided them with the necessary inventory items to meet the Authorities' September 2013 cycle menu. For the period reviewed, we found that kitchen managers had to use different inventory items than the ones listed on daily menus from 7 to 35 times because of the unavailability of planned food items. For instance, the September 11th lunch menu called for creole chicken to be served territory-wide as the protein for the meal. However, one of the five schools in our sample did not have enough chicken available in stock. Therefore, hamburger was served instead for some of the meals. At the same school, although the grain listed by the Authorities for the September 24th lunch menu was brown rice, whole wheat bread was served instead for all the meals because the school had no brown rice in stock. At another school, fish sticks were served to all the students even though the September 7th lunch menu had listed roasted chicken as the protein to be served on that date. The substitution occurred because the school had no chicken in stock. Habitually substituting menu items may affect the availability of other items needed to meet upcoming daily menus. In addition, this may result in Education not complying with federal nutritional requirements for student health. Also it can lead to the disallowances of meal reimbursements for noncompliance. Ultimately, it will be the student participants who are negatively impacted by the dysfunctional system. They may not receive meals with the nutritional requirements specified by the Federal Government.

The schedules below show the number of times the ten selected schools in the St. Thomas/St. John and St. Croix districts substituted items during September 2013. Five schools were selected from each district. As seen, food substitutions occurred more times in the St. Croix district.

St. Thomas/St. John District

Schools	A	B	C	D	E
Number of Menu Items Substituted During September 2013	10	14	7	15	8

St. Croix District

Schools	A	B	C	D	E
Number of Menu Items Substituted During September 2013	34	35	43	22	35

Food Buying Guide. The USDA publishes a Food Buying Guide (Guide) which is used by Education to estimate the right amount and appropriate type of food needed for its School Lunch Program. As part of our audit, we selected all the items for which substitutions were made at the five selected schools and used the Guide to ascertain the suggested minimum quantities of the

items needed before initiating the September 2013 cycle menu. Guide results were based on inputting the projected totals of daily student lunch participation at all district schools for the cycle menu period. We then compared the suggested minimum quantities as presented by the Guide to the book inventory balances of the substituted items to ascertain if the warehouse had sufficient inventory to meet cycle menu requirements.

The overall purpose of the test was to determine the adequacy of the warehouse in acquiring and stocking the substituted items in preparation for the cycle menu period. Test results supported our findings concerning Education's control weaknesses in managing, forecasting, and ordering School Lunch Program inventory. The difference between the suggested minimum quantities needed to cover the September 2013 cycle menu, and the book inventory balances for a number of the substituted items, was extensive. In the schedules below we provide, by district, the test results for 3 substituted items which had wide variances between their suggested minimum quantities and their actual in stock quantities. The schedules present the number of times the selected items were placed on the September 2013 cycle menu, the projected daily student lunch participation levels for all schools in each district, the estimated quantities of the items needed to meet the cycle menu requirements based on the Guide, and the items' book inventory record balances.

St. Croix District

Menu Item	Number of Times on Menu	Estimated Daily Student Lunch Participation Totals	Food Buying Guide Purchasing Estimates	Book Inventory Balances as of 08/31/2013
Baked Potato Wedges	3	5,380	91 - 30lb Bags	46 Bags
Cheese or Pepperoni Pizza	3	5,380	169 Boxes/96 pcs ea	101 Boxes
Carrots	4	5,380	193 Cases/ 30lbs ea	114 Cases

As shown, in the St. Croix district, daily lunch student participation was estimated at 5,380. For the potato wedges, which were on the September lunch menu three times, the stock balance prior to the implementation of the menu should have been at least 91, 30-pound bags of potato wedges based on the Food Buying Guide estimates. However, book inventory records showed that only 46, 30-pound bags were on hand. As it relates to the five St. Croix schools in our sample, all had to substitute potato wedges with another item at least once. Two of the schools had to use other food substitutes on all three occasions potato wedges were on the menu. We found that the warehouse had not received any shipments of the three items during September 2013.

St. Thomas/St. John District

Menu Item	Number of Times on Menu	Estimated Daily Student Lunch Participation Totals	Food Buying Guide Purchasing Estimates	Book Inventory Balances as of 08/31/2013
Creole Chicken	3	8,183	354 Cases/3-10lb bags ea	146 Cases
Green Beans	4	8,183	235Cases/12-20lb bags ea	90.42 Cases
Rotini	3	8,183	78Cases/20lbs ea	2.5 Cases

In the St. Thomas/St. John district, creole chicken was included on the September 2013 cycle menu for lunch three times. Based on the Food Buying Guide estimates, 354 cases were required to meet demand. However, only 146 cases were in inventory based on book records. Pertaining to the five St. Thomas/St. John district schools in our sample, three had to substitute another protein for creole chicken at least once, with one school making the substitution on at least two occasions. For all three items in our sample, the warehouse received no shipments during September 2013 to make up quantity deficiencies.

2016 Update on Ordering

We reviewed the current practice as it relates to ordering, and found little or no changes from what was seen during our field work and as reported in detail in this finding. Currently, the district directors are responsible for ordering food items. A par level of ordering is not implemented in any of the districts.

On St. Croix, monthly inventory reports are used to determine the quantity of orders. Even though a cycle menu is prepared, orders are placed for food items needed to meet the following month's menu instead of the quarterly cycle menu. Hence, every month, the menu has to be adjusted based on availability of food items at the warehouse. While, the district director indicated that the need for substitution of menu items has been reduced, it was indicated that there are times when the kitchen managers have had to substitute as a result of missing food items.

On St. Thomas, food items are ordered to replenish the inventory needed for the upcoming menu. The district director indicated that food items are ordered when the menu is prepared, two weeks before the new month. For example, the menu for October is prepared around September 15, and the order is placed at that time. This does not leave enough time for the district to properly fulfill menu requirements for low inventory items.

Both districts indicated that their warehouses were too small. Accordingly, they were limited in their ability to order far in advance. Yet, ordering too close to when items are needed also poses a challenge. One of the district directors, for example, indicated that 95% of the food items come from out of the territory. Thus, they have a challenge with orders taking 3 weeks on average and up to a month to arrive.

Recommendations

We recommend that the Commissioner of Education:

1. Direct the State Director to work with the Insular Superintendents to establish an ordering system that is based on cycle menus instead of existing warehouse inventories.
2. Direct the State Director to work with the Insular Superintendents to implement an inventory control system that is based on ensuring set minimum quantities of food items are on hand to help meet cycle menu requirements.

Department of Education's Response

It was indicated in the response that the current ordering systems has three steps: (i) State Office approval of the Authority's Requisition Food Ordering form; (ii) State Office approval of the cycle menu; and, (iii) an updated, reconciled physical and perpetual (book) inventory. Newly added steps include; (i) the development of an 8-week cycle menu, and (ii) a two-week PAR.

It was further indicated that the SOPs direct the Superintendents to manage the submission of the 8-week cycle, and once implemented will allow the monitoring of the two-week PAR.

V. I. Inspector General's Comments

Like the response to the first finding, the results of the implementation of the SOPs and the 2017-2018 School Year execution of the new action plan will show the extent of improvements to the School Lunch Program.

We are, however, concerned with the establishment of a 2-week PAR. As indicated in this report, and based on information provided by food suppliers, on average, a four-week period is required from the time an order is received by the vendor, until the merchandise arrives in the territory. We understand that the warehouses have limited space; however, we feel that a 2-week PAR may be too short, resulting in items not being in stock when needed in accordance with the menu cycle. In addition, the cycle menu should be shared with the vendors to help in anticipating when food items are going to be needed and reorder points can be established.

We are going to consider the recommendations resolved, but not implemented, pending the results of the 2017-2018 School Year implementation.

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FINDING 3: CONSULTING CONTRACT/FOOD SERVICE SOFTWARE

Education officials had not implemented key recommendations that were made by a management and consulting firm hired to help improve School Lunch Program operations. In addition, we found that due to network server issues at Education, the food service management software acquired was not operational. Also, warehouse and school personnel had not been given sufficient training to use the software. These conditions were attributable to Education officials not (i) following through in implementing recommendations made by the consulting firm in a timely manner, (ii) timely addressing the network server issues; and, (iii) properly assessing the computer skills and qualifications of Education personnel to provide the appropriate training. As a result, Education has expended more than \$920,000 for consulting services and food management software and has not aggressively resolved issues to improve School Lunch Program operations.

Background

Effective December 1, 2011, the Government executed a professional services contract with a company on behalf of Education to provide management and consulting services to assist the department in improving the operations of the School Lunch Program and the quality of the meals served to participating students. The consultant was to be originally compensated at an amount not to exceed \$661,326 over a 24 month period. However, the contract was later amended and the consultant received at least \$893,993 in compensation for professional services provided over a 33 month period. The consultant issued findings and recommendations related to a number of key functions of the School Lunch Program's operations, which included the department's management and accounting of School Lunch Program inventory and its ordering, delivery, and menu planning processes.

In May 2012, Education acquired food service management computer software that was recommended by the consultant to aid in the menu planning and inventory management processes. The software was purchased for \$26,092 and was installed on computers of various divisions of Education, to include offices of the Authorities and school kitchens territory-wide. According to Education officials, the purpose for acquiring the software program was to enable the districts to maintain readily accessible centralized databases of all inventories in their warehouses and schools. Authority officials would be able to efficiently and effectively track and account for inventory at all sites. School kitchen managers would be required to place orders for weekly menus and enter meal recipes using the software system.

Consulting Contract

Our audit found a number of the same School Lunch Program control weaknesses that had been reported by the consultant. As of the fieldwork phase of the audit, Education had not taken steps to address a majority of the recommendations made by the consultant. In assessment reports, the consultant stated that the department's inventory management system was inefficient and ineffective. It noted that there was no system in place to evaluate the accuracy of book inventory counts performed by warehouse personnel and school kitchen managers. It recommended that a process be established and implemented that measures the completeness and

accuracy of inventory counts. The consultant also noted that the department had weak internal controls over the receipt, distribution, and delivery of School Lunch Program inventory and needed to properly document these processes to maintain adequate chains of custody and accountability of resources. As reported, we found that internal control weaknesses still existed over the School Lunch Program inventory management and ordering systems.

Recognizing the schools' deficiencies in meeting monthly cycle menu requirements, the consultant recommended that Education develop a "par level system" for ensuring that set minimum quantities of food items are on hand in the warehouses to meet demand. To date, Education had not implemented a "par level system". Consequently, schools continued to have challenges meeting monthly cycle menu requirements partly due to insufficient warehouse inventories. The consultant noted that warehouse duties were not properly segregated and issued recommendations accordingly. As we reported, this problem still exists, exposing School Lunch Program inventory to the risk of loss. Another recommendation that Education did not adhere to was that St. Croix kitchen managers document and submit food item orders to the district warehouse instead of phoning them in.

Food Service Management Software

Network server implementation of the food service management software has been delayed. Education officials informed us that they planned to launch the software system during the 2013 to 2014 school year. However, the launch did not occur because, according to the officials, there were interconnectivity issues between Education's server and the software.

As a result, although the software was installed on individual computers throughout Education, inventory management and tracking information could not be shared over Education's network due to delays in addressing interconnectivity issues with the server. As stated, the purpose for acquiring the software was to create centralized databases that could readily provide information to key personnel to better manage and track School Lunch Program inventory. This would result in the elimination of some manual tasks performed by warehouse and school personnel.

We note that in addition to the software acquisition cost of \$26,092, Education was paying software maintenance costs of about \$10,016 annually. When consulting services contract costs are included, Education has paid more than \$920,000 for services and software, plus an annual license fee of about \$10,000, aimed at improving School Lunch Program operations. However, it has not taken full advantages of the services provided by the contractor, in that Education officials have not implemented their recommendations, and have yet to have a functioning automated food service management system.

Software Training. Education did not provide adequate training to personnel who were expected to use the food service management software. A proper assessment of their computer skills and qualifications was not done in order to provide the appropriate training. After the software was installed on Education computers, the consultant provided a one-day web-based training session to employees responsible for using the system. User manuals and additional training were given to a select number of kitchen managers and personnel so they could train other staff in the use and implementation of the software in all of the schools. However, the

selected kitchen managers said that they experienced challenges in providing training to other staff because of difficulties in accessing the software program installed on individual computers. Some of these kitchen managers said that they had challenges remembering the software instructions received because they were unable to put the training into practice in a timely manner.

In interviews with school staff, a number of kitchen managers indicated that they were not prepared to use the software system, saying the one-day training they received was insufficient. Some said that additional training was necessary because they had little or no computer skills. A district Insular Superintendent acknowledged that there were concerns about the adequacy of the computer skills of some kitchen managers, especially since their employment or promotion to the management position was not based on having such skills. However, no steps had been taken to find alternative ways for schools to adequately use the software system if kitchen managers were assessed to not have the required skills or qualifications to use it or operate a computer in general.

Update on Food Service Management Software

As of the issuance of this report, problems with the food service management software remained unresolved; however, Education officials indicated that they were in the process of implementing the use of the system. Presently, they were ensuring that all computers were functional and that the license fees were up-to-date.

Recommendations

We recommend that the Commissioner of Education:

1. Follow through in aggressively implementing recommendations made by the consulting and management firm.
2. Work with the appropriate personnel to take steps to resolve outstanding issues related to installation of the food service management software.
3. Assess the computer and software application skills of Education personnel and provide the appropriate training. If necessary, Education should explore alternatives to implementing the use of the software if it is determined that assigned personnel do not possess the minimum required computer skills and qualifications.

Department of Education's Response

The response to this section of the report indicated that the "experience" with the consulting firm "was terrible." The response cited the consultant's recommendation on the recommended type of food that should be used.

It was also indicated, that the consultant's recommendation that a food service management software (Nutrikids) be purchased and implemented was followed. Steps are

currently being taken to resolve the outstanding issues with the installation of the software. Training has been conducted with various users. In addition, assessments have been done to identify the computer skill levels of the users and additional training has been scheduled.

V. I. Inspector General's Comments

Although the consultant's recommendations on the type of food to be served were not received well by the students, there were many other good recommendations made by the consultant. We referenced them as a part of the report, and many of their observations were similar to our findings in this audit.

The consultant stated that Education's inventory management system was inefficient and ineffective. It noted that there was no system in place to evaluate the accuracy of book inventory counts performed by warehouse personnel and school kitchen managers. It recommended that a process be established and implemented that measures the completeness and accuracy of inventory counts. The consultant also noted that Education had weak internal controls over the receipt, distribution, and delivery of School Lunch Program inventory and needed to properly document these processes to maintain adequate chains of custody and accountability of resources.

Recognizing the schools' deficiencies in meeting monthly cycle menu requirements, the consultant recommended that Education develop a "par level system" for ensuring that set minimum quantities of food items are on hand in the warehouses to meet demand. The consultant also noted that warehouse duties were not properly segregated and issued recommendations accordingly.

Regarding the Nutrikids software and its implementation, we found no mention on how it will be integrated into the draft SOPs. Steps should be taken to include the software in the SOPs.

In addition, although the response indicated that additional training has been scheduled for kitchen managers who need additional training, we do recommend that alternatives be available to help those school kitchens that are, in addition to being short staffed, in need of extensive assistance in the use of computers.

Again, we will consider the recommendations resolved but not yet implemented pending the results of the 2017-2018 School Year implementation.

FINDING 4: MONITORING AND OVERSIGHT

Education officials at all levels of the department have failed in their responsibility to ensure that the School Lunch Program was functioning in an efficient and effective manner.

We attribute this to: (i) officials at both district Insular Superintendent Offices lack of involvement in overseeing, managing and providing guidelines to their respective School Lunch Program personnel to ensure that their respective inventory systems ran effectively and efficiently; and, (ii) the failure of State Office officials to follow-up and ensure that the Authorities implemented monitoring procedures to administer their inventory systems in accordance with prescribed laws, rules and regulations.

As a result an inefficient and ineffective School Lunch Program has continued for decades, and unless significant improvements are made, the School Lunch Program will continue to be susceptible to fraud, waste and abuse.

Background

Under Title 17, Chapter 13 Section 140 of the Code, the Commissioner of Education, in consultation with the respective Insular Superintendents, is responsible for designating within each district, an Authority. Education policies establish the Insular Superintendents as responsible for overseeing the School Lunch Program in each district. In addition, 7 C.F.R. 210.3(d) states that the authorities are responsible for the administration of the School Lunch Program in the respective schools.

The C.F.R. further states that state agencies must ensure that the authorities administer the School Lunch Program in accordance with the applicable requirements. In addition, 7 C.F.R. 210.19 stipulates that state agencies are to be responsible for ensuring School Lunch Program integrity at the authority level. 7 C.F.R. 210.18(k) requires corrective actions for any violations under areas of review.

In accordance with 7 C.F.R. 250.14, during its annual review, the distributing agencies, (state agency), and sub distributing agencies must take a physical inventory of their storage facilities. The physical inventory must be reconciled with each storage facility's book inventory. Corrective action on each deficiency noted during these inventories must be initiated immediately, and a written report of those corrective actions must be forwarded to the distributing agency.

7 C.F.R. 210.8 requires authorities to conduct annual on-site reviews, prior to February 1, in school districts with more than one school. In keeping with this requirement, Education created an on-site review form that included comprehensive steps to be covered during their review of the schools.

Prior Audit and Assessment

The weaknesses and deficiencies identified in the previous findings of this report are not new to Education officials. Over the past several decades, on at least two occasions an audit and an assessment was done of the School Lunch Program with similar findings.

U. S. Department of the Interior, Office of Inspector General 1999 Audit. The U. S. Department of the Interior, Office of Inspector General (OIG) on September 30, 1999, issued an audit report on “Selected Federal Grant Programs at the Department of Education”. The report addressed several findings relative to the School Lunch Program, which remain relevant and can be repeated verbatim in our audit. The OIG audit found that Education did not ensure that the School Lunch Program had adequate control over food and other commodities that included: (1) accurately recording incoming shipments and distributions of items; (2) accurately and continuously updating perpetual records; (3) periodically performing physical inventories of items on hand; (4) reconciling the result of the physical inventories within established timeframes; (5) submitting required inventory reports within established time frames; and, (6) ensuring adequate separation of duties amongst warehouse personnel. OIG made two recommendations that continue to be relevant today. They directed the Commissioner of Education to require the School Lunch Program to develop and implement standardized inventory control procedures for all warehouses that store food items. The inventory controls should include procedures establishing and continuously updating book inventory records; maintaining logs of incoming shipments of food items; preparing check cards to record acknowledgement of receipt of all food items distributed to the schools; performing monthly reconciliation of physical inventories to the book inventory records; and submitting monthly physical inventory reports to the State Office within the established 15-day time frame. The OIG also recommended that the Commissioner of Education require the School Lunch Program to assign tasks to warehouse personnel in such a manner as to segregate the primary duties and responsibilities of receiving, distributing, accounting for, and reporting on food and other items.

As our findings show, we found no evidence that significant progress or corrective actions had been made by Education officials to address any of the findings or implement the recommendations. As the findings in this report show, the School Lunch Program warehouses book inventory records continued to be inaccurate. Physical inventory counts were not performed consistently or reconciled to book records. When physical inventory counts were performed, School Lunch Program employees did not account for all items at the warehouse. In addition, the warehouse personnel functions were not adequately segregated.

Consulting Contract 2011 Assessment. In December 2011, Education entered into a contract with a firm to do an assessment of the School Lunch Program and to make recommendations on improving the efficiency of the operation.

In March 2012, the consultant issued findings and recommendations related to a number of key functions and areas of the School Lunch Program’s operations, which included the Education’s management and accounting of School Lunch Program inventory and its ordering, delivery, and menu planning processes. The consultant’s findings and recommendations are discussed in more detail in Finding 3 of this report.

Insular Superintendent's Office Monitoring

We found that although the Insular Superintendents on both island's district delegated direct oversight responsibility of the School Lunch Program to the Deputy Superintendents, neither one played any relevant role in its monitoring and management. The Deputy Superintendents simply limited their oversight responsibility to resolving staffing and equipment issues, emergencies and crisis intervention. In fact, we found that neither one (the Insular Superintendents nor Deputy Superintendents) requested periodic reports of the inventory system from the district directors. Basic day-to-day functions were performed in a disorganized manner since there were no guidelines or policies and procedure in place to provide direction to staff on how certain functions were to be performed.

Insular Superintendent's Office's Oversight. The tone at the top was set by the Insular Superintendent's Offices in that they took a hands-off approach to the day-to-day operations at the School Lunch Program warehouses. In spite of reports submitted by the State Office about concerns with the inventory management system, the Insular Superintendent's Offices performed very little oversight functions and ignored recommendations made by the State Office.

Involvement in Program Operations. On St. Thomas, the former Insular Superintendent stated that there were concerns that in many areas of the School Lunch Program the State Office had taken on the oversight responsibility. The former Insular Superintendent stated that there appeared to be some confusion on the role of the State Office. The former Insular Superintendent added that, where the State Office should be monitoring, at times they were the ones making decisions for the School Lunch Program. It was further said that the State Office was more involved in decision making regarding food items and giving directions to the School Lunch Program rather than on administering the program.

During our interviews, both Deputy Superintendents in the St. Thomas/St. John and St. Croix districts indicated that they mostly dealt with crisis situations such as malfunctioning equipment in the kitchen, staffing issues and providing transportation for foods to be delivered to the schools. However, when it came to actually managing and overseeing the School Lunch Program's daily functions, including inventory management, those were left to the State Office to address.

Based on documentation review, we found that the Insular Superintendent's Offices did not address repeated requests by the State Office to correct deficiencies found at the warehouses nor did they implement corrective measures and recommendations made by the State Office. For example, the State Office established monthly physical inventory requirements to be completed by the 10th of every month. However no one at the Insular Superintendent's Offices was ensuring that those requirements were implemented and/or followed. In fact, one of the Deputy Superintendents indicated that they were not sure who received monthly physical inventory reports or how the reports were used. The individual indicated that they had never seen a report addressing physical inventory counts nor did they have any communications with School Lunch Program employees addressing inventory issues. In fact, the individual indicated that they were not able to monitor inventory received or physically count the inventory at the warehouse, so they could not provide any assurance that the inventory was making it to the schools. This

response suggests that irrespective of the State Office's establishment of this monitoring requirement, the Insular Superintendent's Office did not have and failed to implement its' own internal requirements to monitor the condition and use of School Lunch Program inventories.

In February 19, 2009 and October 15, 2010 letters issued to officials of the St. Croix and St. Thomas Insular Superintendent Offices, respectively, the State Office recommended that the Authorities develop standard operating procedures to avoid conflicts of duties. The State Office also recommended that the Authorities comply with control measures put in place to ensure that food items are stored and handled in a manner that would prevent loss. They indicated that a cart check log, daily delivery route load list and daily warehouse master pick list be prepared and that they contain all transactions covering the distribution of all food items from the warehouses.

The letter to the St. Croix Insular Superintendent indicated that the St. Croix district was not in full compliance since Fiscal Year 2008 when during an inventory reconciliation, it was found that the warehouse was not completing the daily warehouse master pick list and the daily delivery route load list. During our audit fieldwork, we found no evidence that the recommendation was implemented.

District Director's Oversight. The Insular Superintendent's Office left the day-to-day operation of the School Lunch Program to the district directors. The district directors are responsible for planning, implementing, and evaluating all aspects of the School Lunch Program. As part of their duties, they are also responsible for ensuring that the inventory requirements are complied with. They are to investigate all discrepancies found in book and physical inventories and account for all losses in inventory during the reconciliation process.

As indicated previously, the Insular Superintendents delegated oversight responsibility to the Deputy Superintendents; however, we found no evidence that the Deputy Superintendents required reports or equivalent updates from the district directors. Instead, the only monthly reports required were those needed from all directors by the Insular Superintendents to report on performance goals and track performance indicators required quarterly by the Office of Management and Budget and to complete annual reports that are submitted to the Governor's Office. Those reports were sent directly to the Insular Superintendents with no input or review by the Deputy Superintendents.

During our interviews with the then Insular Superintendent on St. Croix, when asked what reports were required by the Office of the Insular Superintendent from the district director, we were told that the district director is ultimately responsible for the oversight and all the day-to-day operations. When issues arose, the district director would come to the Office of the Superintendent for assistance, guidance and support.

Effective oversight and management review of a program requires some form of reporting and review of the program to ensure that it is run efficiently. Hence, when the Insular Superintendent's Office is not aware nor does it require basic reporting of inventory management functions at the School Lunch Program, they cannot implement corrective actions or aid in implementing policies and procedures for efficient operations.

Staffing Functions. Employed under the supervision of the district directors are two school lunch program specialists (specialist) on St. Croix and one food program supervisor (supervisor) on St. Thomas, who are responsible to perform site visits at the various schools to ensure that the school kitchens are in compliance with federal requirements. These individuals also monitor and review reports prepared by kitchen managers, review the daily use of food record and conduct physical inventory counts of supplies on hand. However, we found that the Authorities did not establish guidelines and reporting requirement for the specialists or the supervisor to complete their day to day functions. There were numerous inconsistencies in how monitoring functions were performed, and documented. There were also no required policy and/or required corrective measures when follow-up reviews were performed. As a result, monitoring procedures that were intended to put in place internal control measures to account for and safeguard inventories did not achieve meaningful or quantifiable results especially since there were no corrective and disciplinary measures for failure to comply with requirements.

State Office Monitoring

We found that the State Office did very little in trying to ensure that corrective actions were implemented by the Authorities when they were informed of the continuous inventory discrepancies found at the School Lunch Program. The State Office also failed to enforce inventory management requirements at the School Lunch Program and monitor the book records to ensure that they were accurate and properly maintained. They did not follow up to ensure that the Insular Superintendents implemented corrective actions to bring the School Lunch Program into compliance.

Annual Physical Count. In accordance with federal requirements, State Office personnel performed physical counts of the inventory at the warehouses annually. They had reported significant discrepancies between the physical and book inventory to the Insular Superintendent's Offices. However, in 2012, the State Office reported that book records were not up-to-date and since no action had been taken to rectify the problem they basically stopped performing reconciliations and have not been reporting any findings to the Insular Superintendent's Offices. During an interview, the Deputy Superintendent, who had direct oversight over the School Lunch Program in the St. Croix District, indicated that she had never met with anyone from the State Office to address inventory deficiencies or concerns.

Monthly Physical Count. State Office officials also indicated that since the Authorities could not demonstrate proper inventory control procedures, they required that both districts submit monthly inventory to the State Office by the 10th of each month. However, the State Office did not seem to have enforced their own requirement as both district warehouses did not always complete the monthly physical count and reconciliations and/or submit it to the State Office on a timely basis.

7 C.F.R. 210.19 stipulates that state agencies are to be responsible for ensuring School Lunch Program integrity at the authority level. However, the continued failure of the Insular Superintendent's Offices and the State Office to enforce proper accounting and record-keeping makes it difficult for Education to provide reasonable assurance that the School Lunch Program inventories are being used for their intended purposes.

The “status quo” of the administration of the School Lunch Program will result in continued deficiencies and “crisis situations” to the detriment of the ultimate users-the students.

Recommendations

We recommend that the Commissioner of Education:

1. Provide the necessary supervision through the State Office to ensure that lingering unresolved issues are thoroughly followed up and are finally addressed by the Authorities.
2. Provide the necessary supervision to strengthen the working relationship between personnel of the State Office and the Authorities, encouraging the input of key personnel being affected by proposed changes.

Department of Education’s Response

The response to the two recommendations in this finding summarizes the responsibilities of the State Agency Director, the Superintendents, and the Authorities District Directors. Also included in the review process is the inclusion of Education’s Procurement Division to provide “independent audit and monitoring processes for USDA compliance.”

V. I. Inspector General’s Comments

The response to these recommendations through the proposed SOPs identifies the responsibilities of three levels of management and also includes additional monitoring by Education’s Procurement Division. The effectiveness of which will have to be monitored during the 2017-2018 School Year implementation of the proposed action plan.

We will consider the recommendations resolved but not yet implemented pending the results of the assessment of the action plan.

DEPARTMENT OF EDUCATION'S RESPONSE

RESPONSE REPORT

to the
Office of the Virgin Islands Inspector General



**Audit of the Department of Education's
Inventory Controls
over the
School Lunch Program**

Submitted by:
Sharon Ann McCollum, Ph.D.
Commissioner of Education
June 2, 2017

DEPARTMENT OF EDUCATION'S RESPONSE



THE VIRGIN ISLANDS
DEPARTMENT OF EDUCATION

Office of the Commissioner



Main:
1834 Kongens Gade, Charlotte Amalie
St. Thomas, U.S. Virgin Islands 00802-6746
Tel: 340/ 774-0100 • Fax: 340/ 779-7153

St. Croix:
2133 Hospital Street, Christiansted
St. Croix, U.S. Virgin Islands 00820-4665
Tel: 340/ 773-1095 • Fax: 340/ 773-9579

June 2, 2017

Steven Van Beverhoudt
Inspector General
V.I. Office of Inspector General
2315 Kronprindsens Gade #75 Charlotte Amalie
St. Thomas, U.S. Virgin Islands 00802-6468

Dear Inspector General Van Beverhoudt:

This report contains the Virgin Islands Department of Education's (VIDE) response to the findings and recommendations of the United States Virgin Islands Inspector General's Inventory Controls Audit Report (VIIGICAR) of the Department of Education's (Department) inventory controls over the School Lunch Program (SLP). The audit objectives were to determine if the Department: (I) administered its inventory systems for the SLP in accordance with established criteria; and, (II) had controls in place to effectively safeguard and monitor SLP inventories. The report found that VIDE officials did not adequately administer and manage the SLP inventory systems in accordance with established criteria and best practices. In addition, the report indicate that VIDE officials did not adequately implement proper internal controls and safeguards to protect the inventory from the risk of loss due to fraud, theft, or negligence.

The VIIGICAR further determined; "there were some recent changes in the administration and management of the SLP, significant deficiencies still exist; and VIDE officials failed at all levels in their responsibility to ensure that the SLP functioned in an efficient and effective manner." Your team made several recommendations to address the conditions and causes cited in the report; the recommendations addressed the following areas: (i) inventory management; (ii) inventory forecasting and ordering; (iii) program administration; (iv) a management and consulting services contract; and, (v) acquisition of food service management software.

The Department of Education concurs with the recommendations and findings provided by the VIIGICAR. The School Food Authorities (SFAs) are filled with inconsistent and ineffective, inventory management practices, ordering system, manual processes, and monitoring practices. Over time these practices have created an environment suitable for the risk of commodity loss due to fraud, theft, or negligence.

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Nevertheless, we are confident of three very relevant points that shouldn't be overlooked: (1) the efforts undertaken and continuing, to address the causes and conditions identified in the audit report, by the Department since March 2016, are not properly reflected in the report, (2) the environment and administration in place today, relative to the environment in which the audit was conducted is very different, and (3) the audit findings validate our plan of action, in the development of a 21st century SFA, compliant with federal and local policies and managed using best practices.

Please note, we are genuinely concerned by the statement, "*although there were some recent changes in the administration and management of the School Lunch Program, significant deficiencies still exist.*" This statement undermines the extent of the progress made by VIDE and the comprehensive strategies implemented, towards the development of a responsible and accountable SFA. Please allow me to adequately articulate and contextualize the ongoing work and the work that has been accomplished, which explicitly addresses our concerns with Inventory Management, Ordering, Consulting Contract/Food Service Software, and Monitoring and Oversight.

Although, we are in general agreement with the findings and recommendations shared with VIDE during an exit conference on April 12, 2017; VIDE's renewed collaboration and relationship building with the United States Department of Agriculture (USDA) began in March 2016, with the crafting of a Corrective Action Plan (CAP) to manage our activities; and designed to address the serious deficiencies identified by our administration, USDA past findings, and reflected in the 2009 – 2016 VIIGICAR. Mr. Anthony D. Thomas, Chief of Staff, was tasked with this project and asked to present a full accounting and evaluation of the SFAs personnel, technology, operations, processes and financial management. Our initial evaluation determined that the leadership at the State Nutrition office was inadequate and the relationship between the State and Districts were irreparably damaged. The State Agency's organizational culture lacked responsiveness to urgent matters requiring technical assistance, which directly affected the SFAs compliance. To change this culture, the State Agency Director was replaced by Ms. Belinda Sanderson in April 2016, a 16 year veteran of the nutrition program, and our transformation work began.

Our initial evaluation also revealed that the executive leadership was not familiar with, or had any direct knowledge of the School Food Program operations. Although, Chartwells had started developing policies and procedures it appears the policies and procedures were never completed or shared with the State Office personnel. On May 23-27, 2016, Mr. Thomas, Chief of Staff accompanied Director Sanderson to Puerto Rico to the Caribbean Area Office and to New Jersey to the Mid-Atlantic Region Office (MARO) on July 25-29, 2016 to meet and collaborate with USDA administrators, evaluate their operations, and participate in workshops encompassing guidelines for best practices in administration, financial management, and operational integrity of the School Food Authorities. Additionally, as my direct report, and familiar with our Strategic Performance Management initiative, he was also tasked with re-building the relationship between the State and District Offices. Although the audit report did not take into account

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VIDE's implementation plan, VIDE executive leadership designated School Year (SY) 2017-2018 in conjunction with the USDA CAP, as the official implementation date of our full cycle suite NUTRIKIDS system, SOPs i.e., Inventory Control and Management etc., and Strategic Performance Management initiative activities.

During the transition period, into SY 2017-2018 (*end of school year and opening of new school year*) "June 23, 2017 through September 1, 2017", our project plan executes the reorganization of the SLP... In July 2017, we will begin the unprecedented training for our SLP 12 month employees starting with our Superintendents, Directors, Warehouse Managers, and Office staff corresponding with newly developed SOPs, guidelines, operational oversight, and expectations of the SLP. On August 21, 2017, our Kitchen Managers will begin 80 hours of hands-on training on NUTRIKIDS, SOPs, and operational policies and expectations. We are confident that after we have implemented our reorganization steps, VIDE will have the systems and processes in place to: (I) ensure that inventory management best practices are implemented; (II) ensure that inventory forecasting and ordering best practices are implemented; (III) ensure that superintendents take ownership and accountability for the administration of the SLP; (IV) ensure that the recommendations made by the management and consulting firm are implemented; and (V) ensure that the food service management software (NUTRIKIDS) re-activated and upgraded by this administration is fully implemented.

If additional clarification is required, please feel free to call me at 774-0100. Thank you...

Regards,



Sharon Ann McCollum Ph.D.
Commissioner of Education

DEPARTMENT OF EDUCATION'S RESPONSE

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INTRODUCTION

In January 2016, Sharon Ann McCollum, Ph.D., the Commissioner of the Virgin Islands Department of Education (VIDE) was informed by the Insular Superintendents that the School Food Authorities would run-out of food at the end of the 2nd quarter of 2015-2016 School Year (SY) (March 30, 2016), due to a lack of sufficient funding. On February 8, 2016, VIDE Leadership was summoned before the 31st Legislature by Senator Jean Forde, Chairman of the Committee on Education and Workforce Development, to provide testimony. The team was asked to give a detailed accounting of the financial and operational matters affecting the School Lunch Program; to justify our request for additional funding for the Department's School Food Authorities (SFAs).

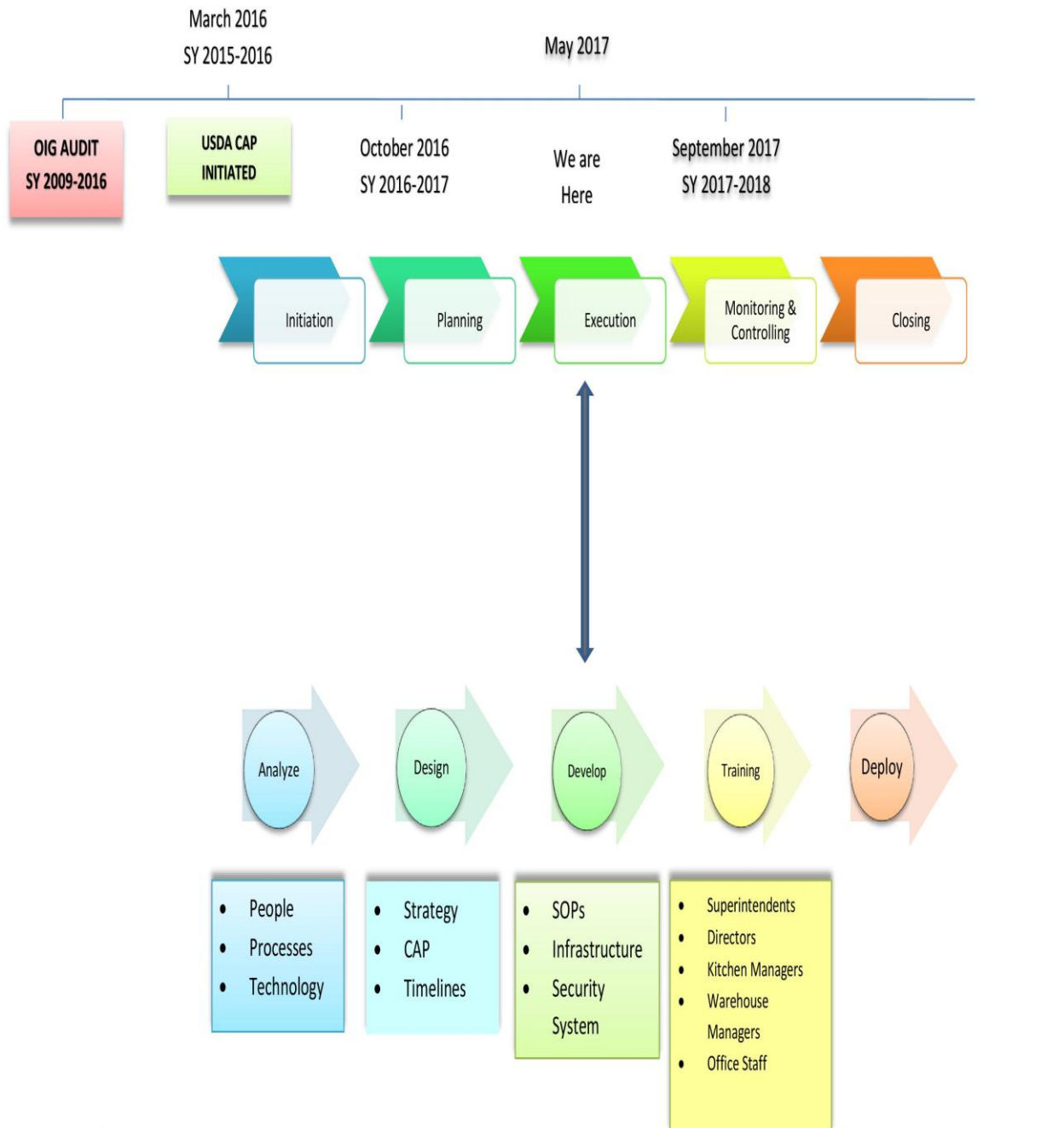
Mr. Anthony D. Thomas, Chief of Staff, was tasked by the Commissioner to provide a full accounting and evaluation of the SFAs personnel, technology, operations, processes and financial management. Our initial evaluation determined that the leadership at the State Nutrition office was inadequate and the relationship between the State and District was irreparably damaged. The State Office organizational culture lacked responsiveness to urgent matters requiring technical assistance, which directly affected the SFAs compliance.

To change this culture, the State Agency Director was replaced by Ms. Belinda Sanderson in April 2016; "a 16 year veteran of the nutrition program," and our transformation work began. Our initial evaluation revealed, that the Department's executive leadership was not familiar with, or had any direct knowledge of the School Food Program operations. Our initial efforts, were strategically designed, to build the confidence of the United States Department of Agriculture (USDA), in the ability and commitment of our Administration, to develop a School Food Authority with 21st century management best practices, was successful and resulted in the commencement on March 7, 2016, of a renewed Corrective Action Plan (CAP) with USDA Regional Office and direct discussions with the team of Ms. Patricia Dombroski; USDA's Food and Nutrition Service, Regional Administrator.

On May 23-27, 2016, our Chief of Staff accompanied Director Sanderson to Puerto Rico to the Caribbean Area Office and to New Jersey to the Mid-Atlantic Region Office (MARO) on July 25-29, 2016 to meet and collaborate with USDA administrators, evaluate their operations, and participate in workshops encompassing guidelines for best practices in administration, financial management, and operational integrity of the School Food Authorities. Additionally, as my Direct Report, and familiar with our Strategic Performance Management initiative, Mr. Thomas was also tasked with re-building the relationship between the State and District Offices.

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Project Timelines and Processes



DEPARTMENT OF EDUCATION'S RESPONSE

Superintendents 2017 Training Plan

FY 2017-2018									
SCHOOL FOOD AUTHORITY									
LEADERSHIP TRAINING PLAN									
					Training Team: Commissioner's Office				
Analyze – Design - Develop				Deliver – Evaluate – Adjust - Validate					
Who	What	When	Other	Who		When		How	Other
Owner	Topic	Due Date	Materials	Trainers	Participant(s)	Date	Duration	Method	Results
SN SFA SEA USDA	- Operational Overview - SA - SFA - NUTURKIDS - Reimbursable Meals - Allowable - Unallowable - Inventory Management - Meal Patterns - Cycle Menus - Financial Reporting - Progressive Discipline	July 2017 TBD	- Instructor's Script - Handouts - Booklets - Evaluation Form	- Anthony D. Thomas - Belinda Sanderson - Esther Izaak - Corey Lettsome	Insular Superintendents		16 hours	Presentation Hands-on	
SN SFA SEA USDA	- Operational Overview - NUTURKIDS - Reimbursable Meals - Allowable - Unallowable - Inventory Management - Meal Patterns - Cycle Menus - Financial Reporting	July 2017 TBD	- Instructor's Script - Handouts - Booklets - Evaluation Form	- Anthony D. Thomas - Belinda Sanderson - Esther Izaak - Corey Lettsome	Directors Warehouse Staff/ Managers Program Supervisors		24 hours	Face-to-face presentation & Hands-on	
		Aug. 21, 2017			Kitchen Managers		80 hrs.		
					Professional Training		120 hrs.		

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USDA Corrective Action Plan (CAP)

VIDE began a renewed relationship with USDA on March 7, 2016; to address non-compliance practices that includes much of the same findings of the Inspector General's audit report. As you may not be aware, the USDA CAP began with addressing a lack of collaborative involvement on both the State and District Levels. To address the non-compliance challenges, we first evaluated the State Agency's (SA) personnel, technology, and Processes. We learned that the SA did not: (1) provide the required technical assistance; (2) provide adequate monitoring; and (3) ignored their responsibilities to ensure compliance. After addressing the SA culture, we were able to evaluate the District's Personnel, Technology, and Processes.

CAP Steps Implemented:

a. Menu Planning

1. State Agency was given directives from Commissioner's Office to provide directions and technical assistance to SFAs.
 - a. To implement a central cycle menu
2. SFAs were given a March 30, 2016 deadline to submit a planned central cycle menus.
3. SFAs were given a deadline of September 2016 to submit a three month planned cycle menu for SY 2016-2017.
4. Superintendents given instructional oversight and technical support from Commissioner's Office and State Agency SY 2016-2017 (planning phase).
 - a. October 2016 District Meetings
 - b. Disciplines and Accountability hearings conducted
 - c. SA provided technical assistance and training
 - i. Inventory Counts & restarts
 - ii. Central Cycle Menu development
5. Superintendents are responsible for submitting Cycle Menus on June 5, 2017 to the State Agency for approval for SY 2017-2018 (execution phase).

b. Forecasting and Costing

1. State Agency was given directives from Commissioner's Office to provide directions and technical assistance to SFAs
2. SFAs were given a February 2016 deadline to provide a costing cycle menu (planning phase).

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- a. SFA Directors needed some assistance from SA and Commissioner's office.
 - i. Commissioner's office, SA, and Trainer provided technical assistance and OJT to Directors
3. SFAs were evaluated on March 30, 2016 on their ability to forecast and cost a planned central cycle menu.
 - a. Initially Directors felt it was unnecessary
 - b. Directors and Program Supervisors would not collaborate
 - c. SFAs refused to follow directives
 - d. SY 2016-2017 June 5th directive given to Superintendents
4. Superintendents given oversight and technical support from Commissioner's Office and State Agency.
5. Superintendents are responsible for submitting forecasting and costing of the Cycle Menus on June 5, 2017 to the State Agency for approval for SY 2017-2018 (execution phase).

c. Production Records

1. State Agency was given directives from Commissioner's Office to provide directions and technical assistance to SFAs
2. SFAs were tasked by (October) with ensuring that production records are evaluated randomly in SY 2016-2017 to promote accurate accounting of school Kitchen inventory (planning phase).
3. District supervisors task with evaluations and reporting were Mr. Roberts (STTJ) and Mr. Claxton (STX) (planning phase).
4. Spot checks and monitoring team created to increase accountability and compliance.

d. Monitoring

1. State Agency was given directives from Commissioner's Office to create a monitoring team to establish compliance.
2. Monitoring teams consisting of (SA & SFA personnel) were established (planning phase)
3. Monitoring team conducts on-the-spot checks to address non-compliant practices, provide immediate technical assistance and training, and evaluate operational integrity.
 - a. Training Manager – Esther Lynch Izaak
 - b. STX Director – Leah Christian (Oversight)
 - c. STTJ Director – Ishmael Todman (Oversight)
 - d. STTJ Supervisor - Keithroy Roberts

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- e. STX Supervisor – Milburn Claxton
- f. STX Nutrition Specialist Barnes
- g. SA Jevon Hanley
- h. SA Correy Lettsome
- 4. Spot check forms were designed and implemented for SY 2016-2017
- 5. District and State Agency Administrative review forms were aligned to address performance Gaps SY 2016-2017.
- 6. SOPs directing Superintendents oversight SY 2017-2018

e. Training

- 1. Training Manager position created
- 2. Training Schedule implemented and being followed
- 3. Training scheduled for Directors
- 4. Training Plan for SY 2017-2018 developed for implementation
 - a. Insular Superintendents
 - b. Directors
 - c. Warehouse Managers and Staff
 - d. Kitchen Managers

f. Physical Inventory

- 1. Physical inventory and Staff evaluated
- 2. Training provided by State Office
- 3. Draft SOPs prepared to manage physical inventory count for SY 2017-2018

g. Inventory Management

- 1. Standards and expectations established
- 2. Draft SOPs prepared to ensure proper inventory control

h. NUTRIKIDS

- 1. Purchased
- 2. Installed
- 3. Training Began

DEPARTMENT OF EDUCATION'S RESPONSE

The Commissioner's Responses to: Recommendations

Findings 1: Inventory Management

Let me convey from the onset that your findings validate our plan of action to develop a 21st Century School Food Authority (SFA). Our implementation plan is in its execution stage and will result in the implementation of SOPs, Insular Superintendent operational oversight training and training for the district's teams. Our project plan executes the reorganization of the SLP, which will result in a consistent and effective inventory management, inventory ordering, electronic processes, and monitoring practices, which creates an environment and actions suitable for internal controls and to safeguard commodities from loss due to fraud, theft, or negligence. The SY 2017-2018 will take the Department into the monitoring, controlling and evaluating phase of the Leadership activities, processes, operational efficiencies and oversight of the SFAs.

The State Director and Insular Superintendents are specifically directed through our written and uniform, draft Standard Operating Procedures (SOPs) to provide proper oversight directing district warehouse personnel to adequately account for the receipt, distribution, and warehousing of the inventory. This includes the Authorities adhering to federal and local requirements for maintaining a book inventory and inventory records. The Superintendents are responsible for ensuring that warehouse book inventory records are reviewed every quarter (3 months) by management, for accuracy and integrity. The State Agency Director must conduct a regularly scheduled independent physical inventory count, inventory reconciliation and is mandated to investigate differences between the book inventory records and the physical inventories. The SOP provides direction for inventory management best practices in district warehouses and schools to ensure compliance with established federal and local requirements and ensures that warehouse duties are properly segregated.

DEPARTMENT OF EDUCATION'S RESPONSE

Findings 2: Ordering

Currently the ordering system requires (3) steps... (1) School Food Authority submits to State Agency office a Requisition Food Ordering form for approval, (2) the SFA cycle menu approved by the State Agency and (3) an updated reconciled physical and perpetual inventory.

Our newly developed ordering system adds two additional steps and begins with (1) School Food Authority Director, Program Supervisor, and Administrative Assistant development of an 8 week central cycle menu for State Agency approval, and (2) the implementation of a two week PAR.

As directed by the Standard Operating Procedure (SOPs) Superintendents are responsible for managing the SFA directors and Program Supervisors submission of a forecasted (8 weeks cycle) Cycle menus initially by June 15, 2017 for 2017-2018 school year and annually thereafter. Once the SOPs are implemented the Superintendents will be able to properly monitor the activities of the District personnel and ensure a two week inventory PAR is established.

VIDE's SOPs enhance best practices to help reduce out of stock conditions:

- Planning cycle menus
- Ordering based on menus,
- Master listing, cycle menus and expected order quantities, will be shared with vendors in advance.
- Minimizing menu substitutions, and,
- Maintaining a low inventory (Two week) of menu items so ordering reflects usage

DEPARTMENT OF EDUCATION'S RESPONSE

Findings 3: Consulting Contract / Food Service Software

The Virgin Islands Department of Education (VIDE) partnered with the firm Chartwells and the experience was terrible. Chartwells suggested the use of pureed foods to reduce our costs. However, that impacted our participation rates because our students refused to consume those meals and our kitchen managers had difficulties preparing meals using those items. At this time, we have not attempted to consult with another firm because of cost and budget constraints. Our experience was not positive and did not go over well with our students and participation rates.

Nevertheless, we did take the advice of the firm to purchase and implement a food service management software. Our administration is aware of the challenges SFAs experienced initially in an attempt to implement the Food service software program. We are currently taking steps to resolve outstanding issues related to installation of the food service management software (NUTRIKIDS). NutriKids training has been conducted for Directors, Program Supervisors, Warehouse Managers, and Kitchen Managers. The School Food Directors have conducted an assessment and have further identified our kitchen managers who need additional computer skills support and have scheduled training. This will ensure that these individuals are given the additional computer training to possess the minimum required computer skills and qualifications.

DEPARTMENT OF EDUCATION'S RESPONSE

NUTRIKIDS Training Schedule

NUTRIKIDS FOOD SERVICE SOFTWARE TRAINING SCHEDULE			
Date & Time:	Participants:	Topics:	
May 8, 2017 9:00 – 11:00 AM Est. St. Thomas/St. John & St. Croix	• District Directors • Supervisors • Warehouse Managers • Receiving Officer • Training Manager	Getting Started Perpetual Inventory Training	
May 12, 2017 9:00 – 11:00 AM Est. St. Thomas/St. John & St. Croix	• District Directors • Supervisors • Warehouse Managers • Receiving Officer • Training Manager	Perpetual Inventory Purchasing & Transactions	
May 15, 2017 9:00 – 11:00 AM Est. St. Thomas/St. John	• District Director • Warehouse Manager • Receiving Officer • Training Manager	Perpetual Inventory Warehouse	
May 19, 2017 9:00 – 11:00 AM Est. St. Croix	• District Director • Warehouse Manager • Receiving Officer • Training Manager	Perpetual Inventory Warehouse	
May 22, 2017 9:00 – 11:00 AM Est. St. Thomas/St. John	• District Directors • Kitchen Managers • Supervisor • Training Manager	Perpetual Inventory Kitchen Manager	
May 23, 2017 9:00 – 11:00 AM Est. St. Croix	• District Directors • Kitchen Managers • Supervisor • Training Manager	Perpetual Inventory Kitchen Manager	
TBD 9:00 – 11:00 AM Est. St. Thomas/St. John & St. Croix	• District Directors • Supervisors • Kitchen Managers	Getting Started Menu Planning Production Records	
TBD 9:00 – 11:00 AM Est. St. Croix	• District Directors • Supervisors • Kitchen Managers	Menu Planning Production Records	
TBD 9:00 – 11:00 AM Est. St. Thomas/St. John	• District Directors • Supervisors • Kitchen Managers	Menu Planning Production Records	

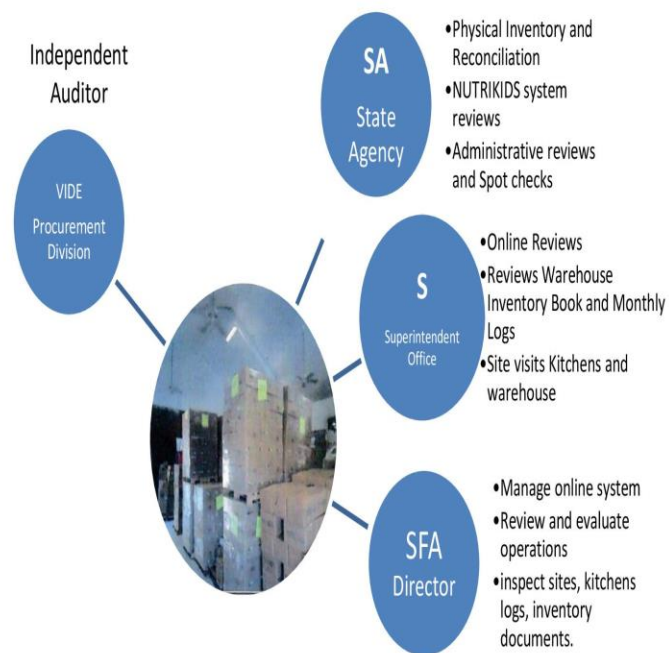
DEPARTMENT OF EDUCATION'S RESPONSE

Findings 4: Monitoring and Oversight

- **The State Agency Director** in accordance with 7 CFR 210.19 is responsible for conducting independent (1) Physical Inventory and Reconciliation by September 30th annually, (2) conduct online reviews of processes using NUTRIKIDS system, (3) perform quarterly spot checks at warehouses, and school kitchens, (4) conduct administrative reviews in accordance with 7 CFR 250.14, and (5) provide a report to the Commissioner's Office, and Superintendents identifying findings and expected corrective actions.
- **The Superintendents** in accordance with Title 17 Section 140(b) VI Code will follow a multi-step process to monitor inventory management practices by (1) participate annually in Commissioner's office trainings in July, (2) conduct online reviews of the processes using NUTRIKIDS system, (3) review warehouse quarterly physical inventory and monthly reports, (4) Site visits to Kitchens and warehouse to observe for policy requirements for federal and local compliance, (5) investigate all inconsistencies in the perpetual inventory and physical counts, and (6) discipline and hold employees accountable.
- **The SFA District Director** provides the day-to-day management and operations of the SFA, in conjunction with the Superintendents, and State Agency. The director manages the overall operations and reviews processes, inventory documents, and Kitchen logs. In accordance with Title 17 VI Code and 7 CFR 250 ... will (1) prior to February 1st annually an administrative review will be conducted, (2) Monthly reports are required articulating monitoring activities, spot checks findings, and corrective actions results.
- VIDE Procurement Division is responsible to provide independent audit and monitoring processes for USDA compliance.
 - Physical Inventory and Perpetual inventory reconciliations
 - Management and implementation of a security monitoring system

DEPARTMENT OF EDUCATION'S RESPONSE

Monitoring and Oversight Structure Chart



Please refer to SOP 1.1 Warehouse & Inventory Management, Sections 1.1.1 Cycle Menu Planning; 1.1.2 Physical Inventory; 1.1.3 Perpetual Inventory; 1.1.4 Receiving; 1.1.5 Distribution; 1.1.6 Inventory Reconciliation; and 1.1.7 Monitoring.

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ADDITIONAL INFORMATION NEEDED TO CLOSE RECOMMENDATIONS

<u>Recommendation Number and Status</u>	<u>Additional Information Needed</u>
Finding 1:	
1.1 Resolved, not implemented.	Provide a copy of the assessment of the 2017-2018 School Year implementation.
1.2 Resolved, not implemented.	Same as 1.1 above.
1.3 Resolved, not implemented.	Same as 1.1 above.
1.4 Resolved, not implemented.	Same as 1.1 above.
1.5 Resolved, not implemented.	Same as 1.1 above.
1.6 Resolved, not implemented.	Same as 1.1 above.
1.7 Unresolved.	Provide a copy of the SOPs relating to uniform policies and procedures in school kitchen inventories.
Finding 2:	
2.1 Resolved, not implemented.	Same as 1.1 above.
2.2 Resolved, not implemented.	Same as 1.1 above.
Finding 3:	
3.1 Resolved, not implemented.	Same as 1.1 above.
3.2 Resolved, not implemented.	Same as 1.1 above.
3.3 Resolved, not implemented.	Same as 1.1 above.
Finding 4:	
4.1 Resolved, not implemented.	Same as 1.1 above.
4.2 Resolved, not implemented.	Same as 1.1 above.

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