

State of Nevada
Governor's Finance Office
Division of Internal Audits

Audit Report

**Department of Agriculture
Food and Nutrition Division**

Report No. 16-02
January 2016

EXECUTIVE SUMMARY
Department of Agriculture,
Food and Nutrition Division

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**Objective: Do Fees Charged to School Districts
Cover State Costs of the
Commodity Food Distribution Program?**

Submit a New Fee Plan to USDA..... page 5

Submitting a new fee plan which aligns fees to offset direct ship and carrier delivery costs would ensure the Commodity Food Distribution Program (CFDP) is adequately funded and allow the state to cover its costs, enhance transparency, and more accurately distribute costs to the school districts. The state manages shipments of commodity foods to school districts in two ways, direct ship to urban school districts and carrier delivery to state warehouses for distribution to rural school districts. The state receives fees from urban school districts for administrative costs and from rural school districts for administrative, warehouse, and delivery costs. The fees do not reflect actual costs to the state for administering the program. In fiscal year 2015, the division collected about \$781,000 in fees although costs for administering the CFDP were almost \$1.12 million. The shortfall of \$339,000 was made up from \$189,000 from reserves and increased federal administrative allowances, and \$150,000 in overcharges to the urban school districts. Urban school districts paid 135 percent of their direct ship costs, while rural school districts paid 29 percent of the carrier delivery costs. Based on costs and the number of cases shipped to school districts, the direct ship fee would decrease from \$1.50 to \$1.11 per case for urban school districts and the carrier delivery fee would increase from \$2 - \$2.50 per case to \$9.36 per case for rural school districts. Adequately and accurately allocating costs to Nevada’s school districts would benefit the state by approximately \$339,000 annually.

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INTRODUCTION

At the direction of the Executive Branch Audit Committee, we conducted an audit of the Department of Agriculture (department), Food and Nutrition Division (division). Our audit addressed the following four questions:

- ✓ What is the division's role?
- ✓ What services must the division provide?
- ✓ Is the state the proper level of government to provide these services?
- ✓ If state government is the proper level of government, is the division carrying out its duties efficiently and effectively?

Our audit focused on the division's management of the Commodity Food Distribution Program for Nevada's school districts.

Department and Division's Role and Public Purpose

The department is comprised of five divisions: Food and Nutrition, Fiscal Administration, Animal Industry, Consumer Equitability, and Plant Industry. The fiscal year 2015 budget is approximately \$167.3 million. Exhibit I summarizes the department's budget.

Exhibit I

Department of Agriculture 2015 Budget

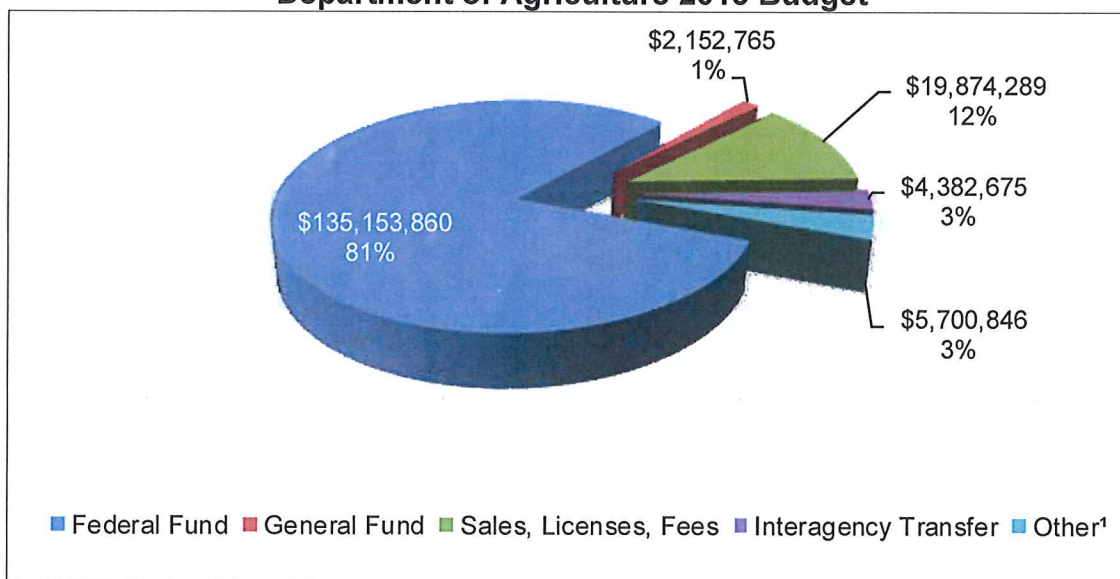


Table Note:

¹ Other includes balance forward from prior year.

The division was established during the 2013 Nevada Legislature and combined the Commodity Food Distribution Programs, Child Nutrition Programs, and the Nevada Dairy Commission. This allowed the state to more efficiently and effectively manage federal food and nutrition programs.

Division Administers Federal Nutrition Program for School Districts

The U.S. Department of Agriculture (USDA) Food and Nutrition Service acquires commodities through price support programs, surplus removal, and direct purchases from domestic markets. These commodities are distributed through the USDA Food Distribution Program to the states.

In Nevada, the Commodity Food Distribution Program (CFDP) is administered by the division with distribution warehouses in the Reno and Las Vegas areas. For fiscal year 2015, the CFDP budget was \$13.4 million. See Exhibit II.

Exhibit II

**Commodity Food Distribution Program
Funding Sources
Fiscal Year 2015**

Funding Sources	2015
Beginning Cash	\$ 1,126,569
Federal Receipts	\$ 2,024,650
Service & Handling Charges - A ¹	\$ 781,004
Service & Handling Charges - Other	\$ 6,698
Commodity Food Sales	\$ 10,793,845
Other Revenue ²	\$ 10,126
Total Funding Sources	\$ 14,742,892
Less Reversions	\$ 1,337,195
Total Funding Available	\$ 13,405,697

Source: State accounting system.

Table Notes:

¹ Fees received from Nevada school districts.

² Other revenue consists of misc. revenue, treasurer's interest distribution, and reimbursement of expenses.

Proper Level of Government

The state is the proper level of government to oversee and manage the federal commodity food distribution program because it relates to public policy and government funds.

Objectives and Scope

Our audit focused on the following objective:

- ✓ Do fees charged to school districts cover state costs of the Commodity Food Distribution Program?

We began the audit in January 2015. In the course of our work, we interviewed department and division staff and discussed processes inherent to the division's authorities. We reviewed department and division records for fiscal years 2014 and 2015, applicable policies and procedures, Nevada Revised Statutes (NRS), and other state and federal guidelines. We concluded field work and testing in November 2015.

We performed our audit in accordance with the *Standards for the Professional Practice of Internal Auditing*.

We express appreciation to the department director, division administrator, fiscal division administrator and their staff for their cooperation and assistance throughout the audit.

Contributors to this report included:

Warren Lowman
Executive Branch Audit Manager

Lynnette Aaron, CPA, MBA
Executive Branch Auditor

Department of Agriculture Response and Implementation Plan

We provided draft copies of this report to the department for review and comments. The department's comments have been considered in the preparation of this report and are included in Appendix A. In its response, the department accepted our recommendation. Appendix B includes a timetable to implement our recommendation.

NRS 353A.090 specifies within six months after the final report is issued to the Executive Branch Audit Committee, the Administrator of the Division of Internal Audits shall evaluate the steps the department has taken to implement the recommendation and shall determine whether the steps are achieving the desired results. The administrator shall report the six month follow-up results to the committee and department officials.

The following report contains our findings, conclusions, and recommendations.

Do Fees Charged to School Districts Cover State Costs of the Commodity Food Distribution Program?

The division should submit a new fee plan to USDA to cover state costs of the Commodity Food Distribution Program (CFDP). A new fee plan would allow the state to cover its costs, enhance transparency, and more accurately distribute costs to the school districts. This could benefit the state by approximately \$339,000 annually.

Submit New Fee Plan to Reflect Actual Costs

The current fee plan for the costs of administering the CFDP to Nevada school districts does not reflect actual costs. Total fees do not cover the cost of administering the CFDP for school districts. Additionally, in general, urban school districts are paying more than their costs and rural school districts are paying less.

Commodity Food Distribution Process

The division manages shipments of commodity foods to school districts in two ways, direct ship to urban school districts and carrier delivery to state warehouses for distribution to rural school districts. Urban school districts incur administrative costs while rural school districts incur administrative, warehouse, and delivery costs. Administrative costs consist of ordering for and invoicing school districts, and paying vendors. Exhibit III shows the commodity distribution process.

Exhibit III

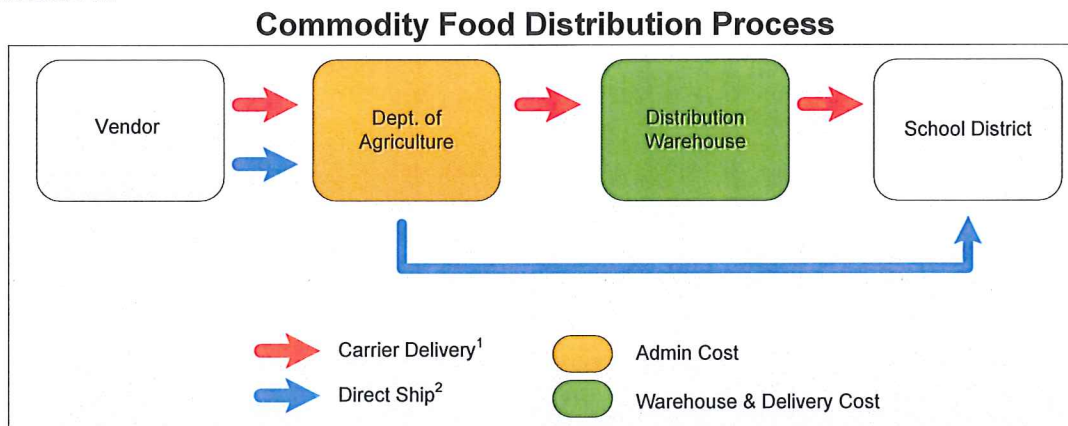


Table Notes:

¹ Carrier Delivery costs include: admin, warehouse, and delivery costs.

² Direct Ship costs include: admin.

Fees Do Not Reflect Costs

In fiscal year 2015, the division collected \$781,000 in fees from the school districts to administer the CFDP. See Exhibit IV.

Exhibit IV

**Fees Collected
Fiscal Year 2015**

School District	Amount
Clark County	\$ 536,000
Washoe County	\$ 102,000
Rural Counties	\$ 143,000
Total	\$ 781,000

The division's costs for administering the CFDP were almost \$1.12 million. The shortfall of \$339,000 was made up from \$189,000 from the reserve and increased federal administrative allowances, and \$150,000 in overcharges to the urban school districts.

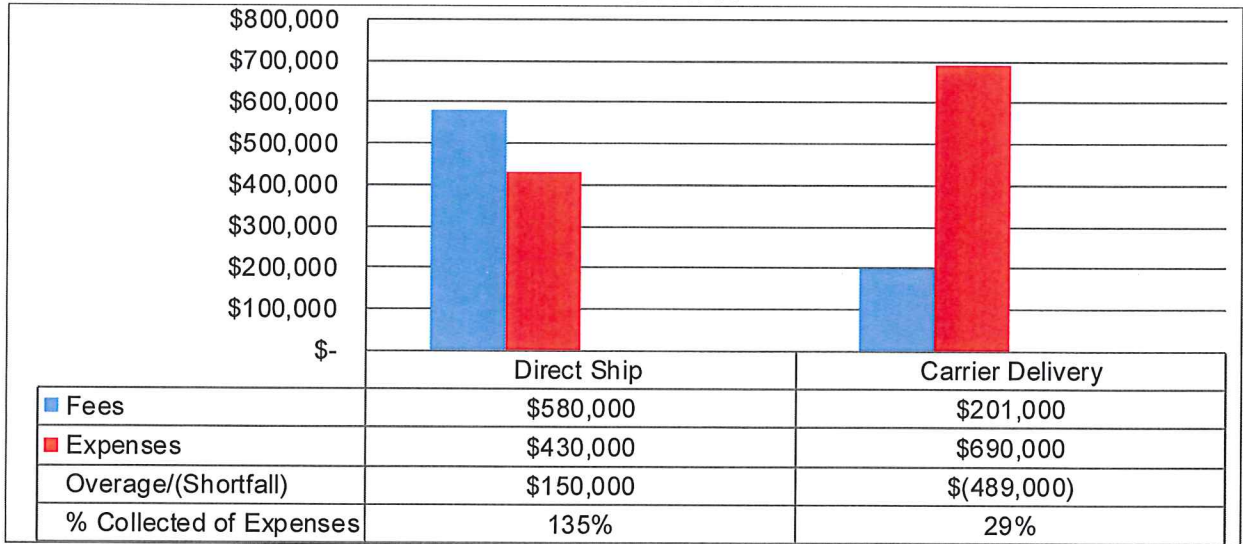
In fiscal year 2015, urban school districts accounted for approximately 90 percent of all commodity purchases and rural school districts accounted for approximately 10 percent of purchases. Washoe County school district receives 68 percent from direct ship and 32 percent from carrier delivery. Clark County school district receives almost 98 percent from direct ship.

Clark County school district receives 77 percent of all commodity purchases. Commodities are shipped directly to the Clark County school district from the vendors because the school district has its own warehouse and it is more efficient to ship large quantities. Commodities are shipped to rural school districts by carrier delivery from state warehouses and distributed in smaller quantities.

Total expenses for direct ship were approximately \$430,000. Total expenses for carrier delivery were \$690,000. Expenses for carrier delivery exceeded fees by \$489,000, whereas fees exceeded direct ship costs by \$150,000. Exhibit V shows the fees and expenses for direct ship and carrier delivery for fiscal year 2015.

Exhibit V

**Direct Ship vs. Carrier Delivery
Fiscal Year 2015**



Fee Plan is Outdated

Department staff indicated that the fee plan has been in effect for 20 years and has not been reviewed to determine if fees to each of the school districts are adequate and accurate to administer the food distribution program. The CFDP charges the following rates per case of a commodity:

- Direct ship: \$1.50
- Carrier delivery:
 - \$2.00 – Case weighing between 0-15 pounds
 - \$2.50 – Case weighing over 15 pounds

Based on costs and the number of cases shipped to school districts, the direct ship fee should be \$1.11 per case and the carrier delivery fee should be \$9.36 per case.¹ The cost will be lower for urban school districts because their fees were 135 percent of direct ship costs; the cost will be higher for rural school districts because their fees were only 29 percent of carrier delivery costs. Exhibit VI summarizes actual amount of fees collected and the estimated amount to cover CFDP costs.

¹ Direct ship fee: \$430,000/386,799 cases shipped = \$1.11 per case.
Carrier delivery fee: \$690,000/73,649 cases shipped = \$9.36 per case.

Exhibit VI

Estimated Fee Collection

School District	Amount	Estimated Amount
Clark County	\$ 536,000	\$ 454,000
Washoe County	\$ 102,000	\$ 212,000
Rural Counties	\$ 143,000	\$ 452,000
Total	\$ 781,000	\$ 1,118,000

The department should submit a new fee plan to the USDA that adequately and accurately allocates costs to Nevada’s school districts for managing the CFDP. Aligning fees to offset direct ship and carrier delivery costs would ensure the program is adequately funded. A new fee plan would allow the state to cover its costs, enhance transparency, and more accurately distribute costs to the school districts. This will benefit the state by approximately \$339,000 annually.

Recommendation

1. Submit a new fee plan to USDA.

Appendix A

Department of Agriculture Response and Implementation Plan

BRIAN SANDOVAL
Governor

STATE OF NEVADA

JAMES R. BARBEE
Director

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December 1, 2015

Steve Weinberger, Administrator
Nevada Department of Administration
Division of Internal Audits
209 East Musser Street, # 302
Carson City, NV 89701

Dear Steve Weinberger:

The Nevada Department of Agriculture (NDA) has reviewed the draft audit report received November 18, 2015 related to the Food and Nutrition Division's fees charged, pursuant to 7 CFR 250.15, to school districts to cover costs associated with the storage and distribution of donated foods. We appreciate the opportunity to review and provide comment on the draft audit report. In accordance with NRS 353A, this letter contains the NDA's response to the findings and recommendations in the report.

Recommendation #1: Submit a new fee plan to USDA

Response: The NDA agrees with this recommendation. In conversations with USDA and food commodity staff, the NDA has not been able to establish when the current fee structure was last approved. However, given your analysis, the declining reserve, and the merger of the Food Commodity Program into the NDA, we agree this fee needs to be reassessed. The NDA Food and Nutrition staff will review similar states' fee plans in December 2015 and bring together a group representing Nevada's school districts in January and February 2016, to develop an equitable fee structure for Nevada's school districts. NDA staff will submit the plan to the USDA by April 2016 with an anticipated approval to implement the new fee plan by July 1, 2016. The fee plan will address fees for direct shipment and carrier delivery to school districts and will address fees for rural districts with the goal of not creating an undue burden on rural school districts participating in the National School Lunch Program.

Again, we appreciate your staff's contribution and the opportunity to reevaluate our current service and handling fee structure.

Sincerely,

A handwritten signature in black ink, appearing to read "J. Barbee", with a long horizontal line extending to the right.

Jim R. Barbee
Director

Appendix B

Timetable for Implementing Audit Recommendations

In consultation with the department, the Division of Internal Audits categorized the recommendation contained within this report into an implementation time frame of less than six months. The department should begin taking steps to implement the recommendation as soon as possible. The department's target completion date is incorporated from Appendix A.

Recommendation with an anticipated implementation period of less than six months.

<u>Recommendation</u>	<u>Time Frame</u>
1. Submit a new fee plan to USDA. (page 8)	June 2016

The Division of Internal Audits shall evaluate the action taken by the department concerning report recommendations within six months from the issuance of this report. The Division of Internal Audits must report the results of its evaluation to the committee and the department.