



Date: October 2, 2019
To: David Jang, California Department of Education
From: Price Paige and Company, Internal Auditors for Fresno Unified School District
Re: ***FRESH FRUIT AND VEGETABLE PROGRAM FINAL REPORT***

Mr. Jang,

We have completed our investigation of the Fresno Unified School District's (the "District") Fresh Fruit and Vegetable Program ("FFVP"). The FFVP investigation was conducted as a result of a request by the District's Audit Committee in response to a vendor allegation that a competing vendor was overcharging the District for fruits and vegetables and that pricing was not in compliance with the awarded bid.

VENDOR INVOICE TESTING

During the 2015-16 school year, the District procured fruits and vegetables for the FFVP under a competitive bid for the first time. The successful bidder, 1st Quality Produce (the "Vendor"), was awarded the contract for that year with two additional one-year extensions available. The Vendor ultimately elected to extend the bid prices for the subsequent two periods (school years 2016-17 and 2017-18). The objective of our audit procedures was to determine whether there were any price discrepancies between what the Vendor originally bid on certain fruit and vegetable items compared to what the Vendor ultimately invoiced to the District.

Our review of the potential price discrepancies spanned over three fiscal years, from school year 2015-16 through 2017-18. All invoices for that three year period were reviewed. The total number of vendor invoices reviewed during that period was approximately 29,000. We compared the Vendor's itemized invoice, showing the individual fruit and vegetable items purchased, to the amount that was on the vendor's original bid. We have summarized the results of our testing into two separate categories: 1) Invoices with price differences from original bid and 2) Invoices for fruits and vegetables that were not included in the District's request for proposal or vendor original bid (substitute items).

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Invoices with Price Differences from Original Bid

Invoices summarized in this category represent fruit and vegetable items that were invoiced by the Vendor in which the item description matches what was on the bid, but the price does not. For example, if the original vendor bid states that an item was for “Apple Slices 2 oz.” for a cost of \$0.21/unit and the vendor invoiced this item description but charged \$0.28/unit, this was considered an exception and price discrepancy.

Invoices with Prices Not on Original Bid (Substitute Items)

Invoices summarized in this category represent fruit and vegetable items that were invoiced by the Vendor in which the exact item description was not on the original bid. The District and Vendor refer to these items as “substitute items”. For example, if the original bid states that an item was for “Apple Slices 2 oz.” for a cost of \$0.21/unit and the Vendor invoiced an item with the description of “Apple Slices Blended ½ Cup”, this was considered to be a substitute item since the item that was invoiced was not on the original bid. Due to the required flexible nature of the program, the District had significant purchases that were not on the original bid.

Preliminary Results of Price Testing

After analyzing and auditing approximately 29,000 vendor invoices between the three school years of 2015-16 through 2017-18, we have determined that price discrepancies do exist between what the Vendor originally bid compared to what the Vendor ultimately invoiced per item to the District. The total number of invoices reviewed, summarized per month, including the price discrepancies has been included in Exhibit A through C. Items that were purchased by the District that were not on the original bid are also summarized with totals indicating they were substitute items.

The total amount of potential price discrepancies categorized under “Invoices with price differences from original bid” was \$701,164.16 for the three school years indicated above. The total amount of substitute items purchased for which there was no bid totaled \$4,169,330.55 for the three school years indicated above.

1ST QUALITY INVOICE TESTING

The results of the vendor invoice testing above was shared with the vendor, 1st Quality Produce, outlining the items that have been identified as price discrepancies and substitute items. The Vendor has represented that these price discrepancies are actually substitute items, in which the Vendor delivered to the District, product that was different or had a different size/quantity than what was on the original 16-01 bid. During a conference call with the California Department of Education representatives on March 20, 2019, CDE agreed that we should further investigate and review a total of 15 invoices (from the original price discrepancy population) to determine if the vendor’s explanation was valid.

1st Quality Produce was receptive and cooperative in allowing us to review their supporting documentation and accounting software for the 15 items selected. We met with 1st Quality Produce’s representatives on April 10, 2019 to review the supporting documentation available and we have concluded our review. Below is a summary of the 15 item review, categorized as follows:

Cleared – Vendor invoices that are considered “cleared” are invoices that 1st Quality Produce had sufficient documentation and objective evidence to support the fact that a different item or quantity/size was delivered to the District, although the Vendor’s invoice indicated it was an item on the original 16-01 bid.

Results: We’ve determined that four (4) vendor invoices met this description and are considered cleared.

Cleared, revised pricing – Vendor invoices that are considered “cleared, revised pricing” are invoices in which 1st Quality Produce requested a pricing adjustment from the District, and that revised pricing matched what was invoiced by 1st Quality Produce.

Results: We’ve determined that two (2) vendor invoices met this description and are considered cleared, revised pricing, if the revised pricing is considered valid.

Uncleared – Vendor invoices that are considered “uncleared” are invoices that 1st Quality did not have sufficient and objective evidence to support the fact that a different item was delivered to the District. In many instances, 1st Quality Produce had internal software information and production records available for review, but we could not objectively substantiate that a different product or size/quantity was delivered to the District. 1st Quality Produce provided internal calculations that showed a larger quantity of product was delivered when compared to the original bid specifications. While those internal calculations appear to be reasonable and practical, they include assumptions and estimates that we could not objectively measure.

Results: We’ve determined that five (5) vendor invoices met this description and are considered uncleared.

Exceptions – Vendor invoices that are considered “exceptions” are invoices in which the item description matches what was on the original bid, and the vendor did not have sufficient evidence to support that a different item or quantity/size was delivered.

Results: We’ve determined that four (4) vendor invoices met this description and are considered exceptions.

DISTRICT'S PREVENTATIVE ACTION PLAN

The District recognizes the need to maintain strong internal controls to prevent these issues from reoccurring. The District has implemented a Preventative Action Plan to address these issues, some of which have already been implemented. Below is a summary of the Preventative Action Plan with key steps and implementation date.

Key Step	Implementation Date
1. Enhanced the bid specifications of Bid 19-08, (FFVP bid for 2018-19 FY) by expanding the number of items on the bid from 48 in the 2015 bid to 146. This should mitigate the need for “substitutions” without already having a pre-identified bid cost.	Board of Education approved award of Bid 19-08, Fresh Fruit and Vegetable Program on December 12, 2018
2. Modified the bid specification by utilizing more “standard” case counts, fruit sizes (i.e. small, medium, large) or weight designations. This should help improve order fulfillment and again mitigate the need for product substitutions. It will also allow staff to more effectively compare products received to bid pricing.	Board of Education approved award of Bid 19-08, Fresh Fruit and Vegetable Program on December 12, 2018
3. Award the rebid of the FFVP program to two vendors. The current bid, 19-08, was pre-grouped to split the participating school sites into geographic regions with the goal of approximately the same number of students in each region. The intent of this was to improve order fulfillment by reducing the ordering quantities borne by a single bidder and improve logistics by having each awarded group of schools in relative proximity of each other (delivery must be completed daily, early morning, within a designated window of time).	Board of Education approved award of Bid 19-08, Fresh Fruit and Vegetable Program on December 12, 2018
4. Vendor invoicing of the FFVP is provided to the District in electronic (Excel) format to improve the ability to monitor usage and identify potential invoicing discrepancies versus invoices on reams of paper (daily invoices for each of 57 schools).	Electronic (Excel) invoices from both FFVP vendors implemented as of January 7, 2019
5. Monitoring and review of the invoicing and payment process have been enhanced by the addition of staff and more layers of review. This team now includes a budget technician, an accountant, a district supervisor, business operations manager, and a food services director.	January 7, 2019
6. An email template has been developed to assist in communication by those monitoring and processing invoicing	January 8, 2019

7. Food Services administration will be working with site staff to develop protocols for receipt of fruit/vegetable orders received on a daily basis. This will assist in identifying order fulfillment/discrepancy issues and subsequent communication and reporting related to the item.	January 7, 2019
8. Concerns related to the intent to maximize annual grant funding (“use it or lose it”) drove some of the program decisions in the past. This will be minimized or eliminated going forward through staff training and more procurement training.	Staff will conduct weekly meetings with Food Services and Purchasing Departments to monitor procurement processes and internal controls.
9. The District's internal auditor has reviewed these proposed preventative measures to ensure that the procurement controls are adequate. District internal auditor will spot check implementation quarterly which may decrease to semiannually depending on the results of the monitoring.	The internal auditors have commenced their monitoring of the proposed preventative measures and has conducted spot checks during November 2018, confirming preventative measures are in place. The internal auditors will schedule additional spot checks on a semiannual basis during the current fiscal year. The first monitoring will commence the week of October 21 st and they expect to issue their monitoring report by the end of November 2019.
10. The District has drafted a temporary price increase protocol. This will ensure consistency and proper documentation to support invoices.	As of this date no price increases have been approved for the produce vendors. A temporary price increase protocol procedure is in the process of being finalized.
11. Food Services and Procurement staff have received training from outside experts that are consistent with all applicable laws and district policies.	Staff attended a two-day Procurement training provided by the Institute of Child Nutrition and the California Department of Education on January 24-25, 2019. Staff will continue to participate in training as they become available.
12. The District's internal auditor has communicated with the District’s audit committee and recommended that the District’s external auditors include the FFVP.	The Internal Auditors sent a letter on February 19, 2019 to the District’s external auditing firm, Crowe Horwath, advising them of the FFVP matter informing them to consider testing this program in the upcoming audit. The external auditors will include the FFVP in its audit of the District for the fiscal year 2018/2019.

13. The District will continue to communicate with the Public Integrity Unit of the District's attorney office as the District's investigation goes forward.	Implementation timeline forthcoming.
14. The District has self-reported the price discrepancies to California Department of Education and will continue to communicate regarding prior contract management deficiencies.	Communications and updates are being provided to California Department of Education on an on-going basis.

We have reviewed the above Preventative Action Plan to ensure the corrective actions properly address the risks identified in relation to the procurement, vendor invoicing and reconciliation process. We will continue conducting periodic monitoring of the FFVP to ensure that these issues do not reoccur.

Please feel free to contact us should there be any questions regarding this report.

Respectfully submitted,



Price Paige & Company
Internal Auditors of the Fresno Unified School District

cc: Lozano Smith LP
Fresno Unified School District

Fresno Unified School District
Fresh Fruit and Vegetable Program
For the Year Ended June 30, 2016
Exhibit A

Invoices with price differences from original bid:

	<u>Total Invoices</u>	<u>Invoices Without</u>		
	<u>Reviewed</u>	<u>Match</u>	<u>% Difference</u>	<u>\$ Difference</u>
August	365	209	57.26%	\$ 4,443.96
September	1,110	955	86.04%	23,604.53
October	1,260	680	53.97%	29,151.24
November	742	315	42.45%	27,881.53
December	798	371	46.49%	23,330.93
January	849	529	62.31%	45,115.64
February	959	591	61.63%	56,936.97
March	904	479	52.99%	45,177.00
April	1,118	420	37.57%	46,943.69
May	1,115	324	29.06%	24,341.26
June	233	80	34.33%	2,629.78
Total	9,453	4,953	52.40%	\$ 329,556.53

Invoices with prices not on original bid (substituted items):

	<u>Total Invoices</u>	<u>Invoices Without</u>		
	<u>Reviewed</u>	<u>Match</u>	<u>% Difference</u>	<u>\$ Difference</u>
August	365	104	28.49%	\$ 7,487.48
September	1,110	102	9.19%	8,420.04
October	1,260	580	46.03%	104,450.64
November	742	427	57.55%	74,143.28
December	798	427	53.51%	85,452.61
January	849	320	37.69%	59,836.62
February	959	368	38.37%	69,980.88
March	904	425	47.01%	84,056.90
April	1,118	698	62.43%	148,022.48
May	1,115	791	70.94%	262,912.14
June	233	153	65.67%	77,955.85
Total	9,453	4,395	46.49%	\$ 982,718.92

Fresno Unified School District
Fresh Fruit and Vegetable Program
For the Year Ended June 30, 2017
Exhibit B

Invoices with price differences from original bid:

	<u>Total Invoices</u>	<u>Invoices Without</u>		
	<u>Reviewed</u>	<u>Match</u>	<u>% Difference</u>	<u>\$ Difference</u>
August	456	285	62.50%	\$ 11,589.50
September	1,226	806	65.74%	14,770.68
October	1,179	228	19.34%	24,299.81
November	862	117	13.57%	8,415.97
December	681	56	8.22%	5,416.71
January	960	239	24.90%	28,560.17
February	950	392	41.26%	36,535.47
March	1,289	612	47.48%	73,143.02
April	782	234	29.92%	38,753.30
May	1,241	143	11.52%	41,389.22
June	200	-	0.00%	-
Total	9,826	3,112	31.67%	\$ 282,873.85

Invoices with prices not on original bid (substituted items):

	<u>Total Invoices</u>	<u>Invoices Without</u>		
	<u>Reviewed</u>	<u>Match</u>	<u>% Difference</u>	<u>\$ Difference</u>
August	456	171	37.50%	\$ 44,344.77
September	1,226	420	34.26%	36,080.73
October	1,179	951	80.66%	214,905.46
November	862	745	86.43%	165,550.09
December	681	625	91.78%	121,850.71
January	960	721	75.10%	144,123.69
February	950	558	58.74%	134,221.49
March	1,289	677	52.52%	167,860.30
April	782	548	70.08%	116,828.28
May	1,241	1,098	88.48%	308,549.32
June	200	200	100.00%	62,961.37
Total	9,826	6,714	68.33%	\$ 1,517,276.21

Fresno Unified School District
Fresh Fruit and Vegetable Program
For the Year Ended June 30, 2018
Exhibit C

Invoices with price differences from original bid:

	<u>Total Invoices</u>	<u>Invoices Without</u>		
	<u>Reviewed</u>	<u>Match</u>	<u>% Difference</u>	<u>\$ Difference</u>
August	138	-	0.00%	\$ -
September	1,228	-	0.00%	-
October	1,266	229	18.09%	13,179.98
November	838	309	36.87%	14,609.96
December	632	206	32.59%	13,022.55
January	973	281	28.88%	24,628.91
February	969	171	17.65%	16,908.84
March	975	57	5.85%	6,030.60
April	1,143	10	0.87%	352.94
May	1,183	-	0.00%	-
June	137	-	0.00%	-
Total	9,482	1,263	13.32%	\$ 88,733.78

Invoices with prices not on original bid (substituted items):

	<u>Total Invoices</u>	<u>Invoices Without</u>		
	<u>Reviewed</u>	<u>Match</u>	<u>% Difference</u>	<u>\$ Difference</u>
August	138	138	100.00%	\$ 29,905.81
September	1,228	1,228	100.00%	131,663.09
October	1,266	1,037	81.91%	170,576.68
November	838	529	63.13%	91,983.80
December	632	426	67.41%	70,398.64
January	973	692	71.12%	126,029.44
February	969	798	82.35%	146,911.92
March	975	917	94.05%	330,967.08
April	1,143	1,133	99.13%	247,485.11
May	1,183	1,183	100.00%	280,790.95
June	137	137	100.00%	42,622.90
Total	9,482	8,218	86.67%	\$ 1,669,335.42