

USDA to Investigate School Meal Rebates

Audit to examine procurement practices of major contractors

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Claims that food service contractors are withholding vendor rebates from public school districts where they operate meal programs will be investigated by the U.S. Dept. Of Agriculture, USDA Secretary Tom Vilsack has announced, according to *The Hill*, a Washington, DC newspaper.

The investigation follows a New York State case in which Sodexo, Inc. agreed to a \$20 million settlement last year of charges it had failed to credit vendor rebates to districts and some units of the State University. (*Dining Insights, Summer, 2010*)

Audit Starts In August

The USDA Inspector General's office will conduct an audit to "identify and evaluate the corrective actions" taken by the department and "to assess the effectiveness of prior efforts to control waste and fraud," Vilsack said, according to *The Hill*.

"OIG expects to begin work on the audit in August," Peter Feeney of the Office of Inspector General told *The Hill*.

The New York State Attorney General's office, which reached the \$20 million settlement with Sodexo, also is investigating the rebate practices of the other major food service contractors in that state.

Way of Life

Rebates, discounts, special allowances and other benefits ("indirect income") vendors and manufacturers of food, supplies and equipment provide to large buyers, including food service companies, are an ingrained part of the way they do business.

In the intensively competitive world of food service contracting, companies have consistently reduced the profit or management fees they disclose to clients, often to far below the 5% of sales they need to breakeven; as little as 2% or 3%. The rebates and undisclosed surcharges on employee fringe benefits and other cost items provide the profit.

While the New York State case showed rebates can equal up to 14% of purchases, the retention of rebates isn't illegal, unless it's prohibited in a contract or, as is the case with the School Nutrition Program, prohibited by law.