
CHILD NUTRITION CLUSTER

10.553	SCHOOL BREAKFAST PROGRAM
10.555	NATIONAL SCHOOL LUNCH PROGRAM
10.556	SPECIAL MILK PROGRAM FOR CHILDREN
10.555	AFTER SCHOOL SNACK PROGRAM
10.555	SEAMLESS SUMMER PROGRAM

State Project/Program: **CHILD NUTRITION PROGRAM**

U. S. Department of Agriculture

Federal Authorization: **10.553** – Child Nutrition Act of 1966, as amended, 42 U.S.C. 1773, 1779, Public Laws 104-193, 100-435, 99-661, 97-35.
10.555 – National School Lunch Act, as amended, 42 U.S.C. 1751-1769.
10.556 – Child Nutrition Act of 1966, as amended, 42 U.S.C. 1772 and 1779.

State Authorization:

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The auditor should not consider the Supplement to be “safe harbor” for identifying audit procedures to apply in a particular engagement, but the auditor should be prepared to justify departures from the suggested procedures. The auditor can consider the supplement a “safe harbor” for identification of compliance requirements to be tested if the auditor performs reasonable procedures to ensure that the requirements in the Supplement are current.

The grantor agency may elect to review audit working papers to determine that audit tests are adequate.

Auditors may request documentation of monitoring visits by the State Agencies.

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I. PROGRAM OBJECTIVES

The objectives of the National School Lunch Program (NSLP), School Breakfast Program (SBP), and the After School Snack Program (ASSP), Special Milk Program (SMP) and Seamless Summer Food Service Program (SSFSP) are to: (1) provide nutritionally-balanced low-cost or free meals to students and meals for students and to (2) encourage the domestic consumption of nutritious agricultural commodities. The N.C. Department of Public Instruction administers these programs through sub-recipient agencies including public and non-profit private schools, residential child care institutions, summer recreation programs; juvenile justice and other programs that serve the educational needs of children.

II. PROGRAM PROCEDURES

At the Federal level, these programs are administered by the Food and Nutrition Service (FNS) of the U.S. Department of Agriculture (USDA). FNS generally administers these programs through grants to State agencies. The State agencies, in turn, enter into agreements with sub-recipient organizations for local level program operation and the delivery of program benefits and services to eligible children. Funding consists of “General Assistance” payments for all meals served and additional “Special Assistance” for meals served free or at reduced price. State agencies use these funds to reimburse sub-recipient organizations under their oversight for meals served to eligible children.

III. COMPLIANCE REQUIREMENTS

B. Allowable Costs/Cost Principles

Compliance Requirement – Pursuant to U.S. Department of Education regulations 34 Code of Federal Regulations, Part 76.561(b), the State Education Agency must review and approve all LEA indirect cost proposals. Once the SEA has approved the indirect cost proposal, the rates may be applied to and charged to federal programs operating within the LEA.

Audit Objective – To determine that the indirect cost rate approved by the SEA is being properly charged to the LEA Child Nutrition program as well as other federal programs operating within the LEA.

Suggested Audit Procedure – Request the indirect cost rate that is being charged to the LEA Child Nutrition program and compare it to the rate that has been approved by the SEA. If the rate being charged is different, request a copy of the approval letter from the SEA authorizing the use of the rate being applied. The LEA may charge up to one hundred percent of the allowable indirect cost, or choose to charge a certain percentage of the amount; however, the actual indirect cost rate used in calculating the amount due should not be changed from the SEA approved rate.

Compliance Requirement – According to the OMB Circular A-87, indirect costs are those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the result achieved.

Indirect costs are the costs of the LEA Child Nutrition program in providing meals and/or snacks under the National School Lunch, School Breakfast, After School Snack, Special Milk and Seamless Summer Food Service Programs that are not easily identifiable with a particular objective or function.

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An example of an indirect cost is the cost of electricity. The Child Nutrition program uses electricity for cooking, meal preparation and refrigeration. However, electricity is also used within the school building for lighting, cooling, hot water, operating the school's copiers, the school's payroll system, and janitorial functions, all of which benefit both the school and the Child Nutrition program. In addition electricity is used for computer assisted instruction and audio-visual equipment which do not benefit the Child Nutrition program.

Audit Objective – To ensure that the LEA Child Nutrition program is not being charged for direct costs that are included in the calculation of the State approved indirect cost rate. The Child Nutrition program can pay up to one hundred percent indirect cost for allowable expenditures. (If an expense is included in the Unrestricted Indirect Cost Computation as an indirect cost, it may not be charged directly to the Child Nutrition program. The rate calculated by the SEA would be sufficient to cover these costs.)

Suggested Audit Procedure – Request a copy of the Unrestricted Indirect Cost Computation that was provided to the LEA by the SEA. Review the report for all costs that are to be covered under the indirect cost rate that was assigned. Calculate the amount of indirect cost due to the LEA by multiplying the approved indirect cost rate by the total of allowable expenses. Review the Child Nutrition program June 30th Trial Balance and FC1-A report to ensure that the program is not being charged direct costs that are included in the Unrestricted Indirect Cost Computation.

Compliance Requirement – In order for child nutrition programs to operate efficiently, the payment of indirect cost to the local board of education must be reflected in the original child nutrition budget and be approved. Any change in the amount that will be collected from the child nutrition program should be reflected in a budget amendment that has been approved by the local board.

(For your information: DPI will not allow indirect costs to be taken for a prior year after the DPI financial books are closed.)

Audit Objective – To determine that the payment of indirect cost to the local board of education was included in the initial board approved child nutrition budget.

Suggested Audit Procedure – Request a copy of the original Child Nutrition budget. Review the budget to determine if the cost of indirect cost will be paid to the local board of education. The expense should appear in the budget code [5-7200-035-392](#) (Indirect Cost). Any amount that the local board of education will not be collecting from the Child Nutrition program will be showing as revenue in budget code 5-4880-035 (Indirect Cost Allocated). The total figure that is paid to the district should not exceed the difference between Indirect Cost and Indirect Cost Allocated, unless there is a board approved indirect cost budget amendment.

Compliance Requirement – Federal regulations (7 CFR 210 and 220) do not allow federal funds to be used to purchase land, buildings or any other structural property. Federal funds may not be used to construct new buildings nor may they be used to renovate existing facilities.

Audit Objective – To ensure that federal funds received by the LEA Child Nutrition program are not being used to purchase land/buildings, or to pay for the construction of new facilities or the renovation of an existing cafeteria.

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Suggested Audit Procedure – Inquire of the LEA Child Nutrition Director if any existing cafeteria facilities have been renovated during the review period. For any renovation projects started or completed, determine which fund was responsible for the payment. If the audit determines that the LEA Child Nutrition program paid for the renovation of any cafeteria facility, the amount is to be refunded to the Child Nutrition program.

If the amount of the renovation project was included in the calculation of indirect cost that has been paid to the LEA, the amount paid is to be removed from the expenditures and the indirect cost is to be recalculated. Any over payment of indirect cost is also to be refunded.

Compliance Requirement – The Child Nutrition program should only show expenditures in the account codes that are approved for the program. The North Carolina Uniform Chart of Accounts has a list of the codes that are to be used for PRC 035.

Audit Objective – To determine whether the Child Nutrition program is only paying direct charges that are reflected in the approved list for PRC 035.

Suggested Audit Procedure – Request a copy of the Trial Balance for June 30th from the LEA Child Nutrition Director. Review the expenditure accounts that have been used for the review period. Any accounts that have been used that are not listed on the Uniform Chart of Accounts for PRC 035 (Child Nutrition) would be considered unallowable costs and the amounts should be refunded to the Child Nutrition program by the LEA local fund.

Compliance Requirement –Child Nutrition funds may not be used to pay for student meals when the meals are not prepared and served by the LEA’s Child Nutrition program. (Note: If the LEA has an Early/Middle College Program, the LEA may only claim federal reimbursement for meals that are prepared and served to students by the LEA’s Child Nutrition Program. In this case, the Child Nutrition program prepares, delivers and serves meals to students at the LEA’s designated school on the college/university campus. The LEA may not claim reimbursement for meals prepared and served by any other entity, including a college or university campus food service outlet. Local funds may be used to pay for meals for students who receive their meals from a college/university food service operation or any other source outside the LEA’s Child Nutrition program.)

Audit Objective – To determine that Child Nutrition funds have not been used to pay for meals that are not prepared and served to students by the LEA’s Child Nutrition program.

Suggested Audit Procedure – Inquire from the Child Nutrition Director the process that is used to provide meals to students who are enrolled in the Early/Middle College programs in the LEA. If the Child Nutrition program is serving meals and claiming federal reimbursement, the middle college must be an approved school site by the NCDPI. The meals must be prepared and served to the students by the Child Nutrition program, not by an entity located on the college campus. If meals are being served by the college/university campus and billed directly to the Child Nutrition program, the expense is an un-allowed expenditure and the money should be refunded to the Child Nutrition program from local fund.

C. Cash Management

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Compliance Requirement – The school food authority shall limit its net cash resources to an amount that does not exceed 3 months average expenditures for its nonprofit Child Nutrition program or that a plan has been developed by the LEA Child Nutrition Program and approved by the State Agency that will bring the operating balance into compliance. All excess funds are to be used solely for the enhancement of the LEA’s Child Nutrition Program.

Audit Objective – To determine that the LEA Child Nutrition Program’s net cash resources do not exceed 3 months average expenditures or that a plan has been developed by the LEA Child Nutrition Program and approved by the State agency to allow the program to have more than 3 months operating balance.

Suggested Audit Procedures – Determine the working capital. Working Capital is defined as the difference between current assets and current liabilities.

Current assets – The total of all assets not including, Inventory of Food, Inventory of Food-USDA Commodities, Inventory of Supplies, Fixed Assets (Equipment and Motor Vehicles).

Current liabilities – The total of all liabilities not including, Reserve for Depreciation, Investment in Fixed Assets-Local Funds and Fund Equity.

Calculate the number of operational months (Number of operational days for the year divided by 20).

Calculate total expenses.

Calculate average monthly cost (Total expenses divided by number of operational months).

Calculate the number of months operating balance (Average monthly cost divided into working capital).

Verify that the number of months operating balance does not exceed 3 months.

Verify that a written plan has been submitted to the State Agency by the LEA Child Nutrition program and that it has been approved for any operating balance in excess of the three months. (This recognizes the need for LEA Child Nutrition Programs to build a fund balance for the purchase of major food production, storage, delivery and service equipment.) An audit exception should be noted only when the Child Nutrition program exceeds the three month threshold and does not have plan approved by the State Agency for reducing the balance.

Compliance Requirement – The price of an adult meal should be sufficient to cover the cost to produce the meal. The LEA is not allowed to use federal funds to subsidize the cost of adult meals.

Audit Objective – To determine that the price of an adult meal covers the cost to produce the meal.

Suggested Audit Procedures – Request a copy of the June 4A Year to Date meal count report from the LEA’s computer software. (The adult meals and the SFSE employee meals will show on the LEA generated report.) Using this report, calculate the number of meal equivalents that were served using the following:

Lunch meal equivalents = Total of the following meal counts:

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Student Paid
Student Reduced
Student Free
Adult
SFSE (School Food Service Employee)

Breakfast meal equivalents = Total of the following meal counts divided by 2:

Regular Student Paid
Regular Student Reduced
Regular Student Free
Severe Need Student Paid
Severe Need Student Reduced
Severe Need Student Free

Adult

SFSE (School Food Service Employee)

After School Snack equivalents = Total of the following meal counts divided by 4:

Regular Student Paid
Regular Student Reduced
Regular Student Free
Area Eligible Free

Supplemental Sales equivalents = Total Supplemental Sales (Budget Code 5-4318) from June 30th FC1-A divided by \$3.00.

Using the June 30th FC1-A financial report calculate the total reimbursable costs for the year. The reimbursable cost is the sum of all expenses that the Child Nutrition program incurred. (This includes the expenses listed on FC1-A lines number 57 through [127](#).)

Using the same FC1-A report, calculate the additional revenue received by the Child Nutrition program. The revenue is the sum of the following revenue accounts:

5-4420 Rental of School Property
5-4430 Contributions and Donations
5-4450 Interest Earned on Investments
5-4490 Miscellaneous Revenue
5-4820 Disposition of School Fixed Assets
[5-4880 Indirect Cost Allocated](#)
5-4921 Transfer from State Public School Fund

Calculate the cost to prepare an adult meal by dividing the total reimbursable costs by the total meal equivalents.

Calculate the additional revenue per adult meal by dividing the total of additional revenue by the total meal equivalents.

Add the price of the adult meal to the additional revenue per meal to determine the revenue earned by the Child Nutrition program for each adult meal served.

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The total of revenue earned per adult meal must be the same or more than the cost to produce the meal in order to be in compliance. If the amount earned is less, the LEA should increase the cost of the adult meal or offer adults a-la-carte pricing for the items they purchase.

The LEA is responsible for reimbursing the difference in the meal price to the Child Nutrition Program. Multiply the number of adult meals served by the difference calculated in this requirement. (Not subject to the \$10,000 threshold).

Compliance Requirement – The number of meals served to adults at no charge should be limited Child Nutrition employees only. Any other school staff members should pay for the meals that they consume on a daily basis. This would include teachers, principals, custodians, and other district employees. This requirement also helps to ensure that federal funds are not being used to supplement adult meals.

Audit Objective – To determine that meals served at no cost are provided only to Child Nutrition district employees.

Suggested Audit Procedures – Inquire of the district the number of employees that are provided a free meal during the school day. Divide the total SFSE meals served (per the June 4-A Year to Date report—this report should be generated by the LEA’s software program) by the number of days of operation. The result should not be more than the number of Child Nutrition employees. Determine number of meals served to ineligible employees and calculate cost due to the Child Nutrition program from the local fund. (The cost would be determined by multiplying the adult meal price time the number of meals served.)

Compliance Requirement – USDA Policy 210.14 (a) states “Revenues received by the nonprofit school food service are to be used only for the operation and improvement of such food service...” According to USDA Policy Update 210.14-05: Misuse of Program Funds, Child Nutrition program may loan funds to the local school system as long as the amount of the loan is recovered. The LEA Child Nutrition program should also recover the amount of interest that was not generated to the program as a result of the loan.

Audit Objective – To determine that any loans of Child Nutrition funds have been repaid with interest.

Suggested Audit Procedures – Inquire of the LEA Child Nutrition Administrator and the LEA Finance officer to determine if there were any loans made during the review period to the local school district from Child Nutrition funds. Calculate the amount of interest that was not earned by the Child Nutrition program as a result of the loan. The amount of interest earned would be based on the amount loaned and the interest rate that the Child Nutrition program was earning at the time. Request documentation from the finance department showing where the funds have been returned to the Child Nutrition program. The repayment may be in the form of a check that has been deposited or by a bank transfer.

E. Eligibility

Compliance Requirement – To receive meals under the program(s), a person must meet the regulatory definition of “child.” This definition includes (1) a student of high school grade or under

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(as determined by the State educational agency) enrolled in an educational unit of high school grade or under, including students who are mentally or physically handicapped (as defined by the State) and who are participating in a school program established for the mentally or physically handicapped; and (2) a person who has not reached his/her 21st birthday and is enrolled in an RCCI. (7 CFR 210.2, 220.2)

To qualify a child for meals served free or at reduced price under the program(s), the child's family must submit an application to LEA. The application must be approved and maintained on file. The application establishes that the child's family income and family size place him/her within income eligibility standards issued by the State agency in accordance with guidelines published by FNS. (7 CFR 245.6)

Note: See additional guidelines provided by the DPI for free and reduced price application.

To qualify as a completed application the following information must be provided by the household to the LEA on a State approved free and reduced application.

Households with Food Stamp Assistance or WFCA (Work First Cash Assistance, formerly TANF):
Child's name.
Household's food stamp case number or WFCA case number.
Signature of an adult household member.

Other Households:

Child's name. Foster child indication, if applicable.

All other household member names. Foster child is a household of one.

Social security numbers of the adult family member who signs the application, or an indication that he/she doesn't have one. (The household member should check the appropriate box).

Amount of income received by each household member, identified by source, the frequency at which the income is received, and the total household income.

Signature of the adult household member completing the form.

If any required information has not been completed, and the information cannot be obtained from a sibling's application, the information must be completed before a free or reduced classification can be made. If the sibling application is used, it must be attached. The LEA may ask for other information; however, even if the household fails to provide any such additional information, an eligibility determination must be made without delay provided all required information is present.

Temporary approval can be given to applications in temporary economic situations (layoffs, strikes, disability, public assistance, and zero income). These situations require application follow-up by the approving authority within 45 days. If follow-up is not performed, this is an administrative error and no reclaim is assessed. Please refer to the "Free and Reduced Price Policy" for guidance in dealing with other applications that might be exceptions to the general rules.

Audit Objective – To determine that the children who receive benefits meet the definition of a child and that eligibility for free or reduced priced meals were determined correctly.

Suggested Audit Procedure – Examine LEA procedures for processing applications for free and reduced price meals to determine whether the procedures provide reasonable assurance that only children meeting the income eligibility guidelines published by FNS will be approved to receive

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meals free or at a reduced price. To perform this procedure, it will be necessary to obtain the FNS income eligibility guidelines.

Select a sample of applications on file at LEA or at schools under its jurisdiction. (The sample size should be the lesser of 100 or one-half of 1 percent of the total approved applications on file.) Inspect them to determine whether the LEA prescribed procedures for processing applications are being followed, calculated the questioned cost. If more than ten percent (10%) of the applications selected for review are determined to be incorrectly processed, an additional sample of applications must be selected. If it is determined that there is more than ten percent (10%) error in the two samples, calculate questioned costs for both samples.

Compliance Requirement – A LEA must verify the information presented on a sample of the applications that it has approved for free or reduced priced meals. An LEA is given instructions from the State Agency as to the method they are required to follow when selecting the verification sample. There are three types of selection methods that may be used. The first method is **Basic** which is defined as the lesser of 3,000 approved applications or 3 percent of total approved applications on file, all applications are randomly selected. The second method is **Alternate Random** which is defined as selecting a sample size of 3 percent of the error prone applications (monthly income within \$100 or annual income within \$1200 of the income eligibility limit for free or reduced price meals). The third method is **Alternate Focused**, which requires a sample consisting of approved applications from non-Food Stamp households claiming monthly income within \$100 or annual income within \$1200 of the income eligibility limit for free or reduced price meals and Food Stamp households. In focused sampling, the sample size is the sum of the following: (1) for non-Food Stamp households, the lesser of 1,000 or a figure equal to 1 percent of total approved applications (from all households) on file, and (2) for Food Stamp households, the lesser of 500 or 0.5 percent of approved applications on file from Food Stamp households. A State agency may, with prior FNS approval, assume from LEAs under its jurisdiction the responsibility for performing the verifications. (7 CFR 245.6a).

Audit Objective – To determine that the LEA successfully completed the free and reduced verification process as required by USDA.

Suggested Audit Procedure – Inquire from the LEA the method that is used to perform the verification function. Review the information that is used to select the households to be verified to ensure that the proper number of households is chosen. Verify that the selection list is determined on or before October 1st and that the process is completed on or before November 15th of the program year. Also verify that the result of the LEA's verification has been entered into the Verification Summary Report and has been submitted to the State agency on or before **March 3rd**.

F. Equipment and Real Property Management

Compliance Requirement – All equipment purchased for use in the Child Nutrition program must be added to the LEA's fixed asset inventory and depreciated.

Audit Objective – To determine that all assets purchased for use in the LEA Child Nutrition program are properly inventoried and depreciated.

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Suggested Audit Procedures – Review expenditure and receipt records and inquire of management to determine if any fixed assets were purchased. Review the LEA Child Nutrition program’s fixed asset inventory for any additions. Verify that depreciation expense was calculated correctly. Depreciation should be calculated and expensed on fixed assets that are currently being used by the Child Nutrition program to prepare and serve meals to students.

Compliance Requirement – All non-equipment fixed asset purchases using federal funds must have prior approval by the State agency. This includes the purchase of vehicles and any capital improvements.

Audit Objective – To determine that federal funds being used to purchase non-equipment items have prior approval from the State Agency.

Suggested Audit Procedures – Review the LEA Child Nutrition fixed asset purchases for the audit period. Request the State agency approval notification for any non-equipment items that have been recorded as a fixed asset.

Compliance Requirement – Equipment purchases made for newly constructed or renovated schools must have prior State Agency approval before federal funds may be used if the original cost of the equipment was included in the initial project budget.

Audit Objective – To determine that any equipment purchases for new construction of schools and/or renovated schools have prior approval from the State Agency. The State Agency must approve the use of any federal funds for equipment purchases for new construction.

Suggested Audit Procedures – Review the LEA Child Nutrition fixed asset purchases for the audit period. Request the State agency approval notification for any equipment purchases that have been recorded as a fixed asset at a new school or renovated school.

Compliance Requirement – Income received from the sale of surplus Child Nutrition equipment must be refunded to the Child Nutrition Program. The income must be used for the operation or improvement of the school food service program only.

Audit Objective – To determine that the income received from the sale of surplus Child Nutrition equipment was refunded to the Child Nutrition program as appropriate.

Suggested Audit Procedures – Review the listing of equipment that has been sold throughout the year. Determine the amount of funds received as a result of the sale of Child Nutrition equipment. Determine that the funds have been posted to the appropriate Child Nutrition banking account, by tracing checks to deposits made.

I. Procurement and Suspension and Debarment

Compliance Requirement – All purchases made with federal child nutrition funds and those funds generated by participation in the federal child nutrition programs, must be conducted in a free and open manner. “Free and open competition” must be the watch phrase of any and all purchases conducted on behalf of the National School Lunch, School Breakfast, After School Snack, Special Milk Program and the Seamless Summer Food Service Program.

Audit Objective – To determine that all purchases made with non-profit child nutrition program funds were made in a manner that ensures the purchases were made in a free and open manner and that federal regulations 7 CFR parts 210, 215, 220 and 3016 were followed for procurement transactions.

Suggested Audit Procedures – Examine the LEA procedures for compiling bid documents for public advertisement and that 7 CFR parts 210, 215, 220 and 3016 were followed as applicable to the programs being audited. Obtain copies of and review minutes of the local board of education regarding procurement bid processes and awards, minutes of bid openings, publications in which the bids were published, any correspondence regarding the bid process, the bid document as to what was bid and the response to the request for bids to determine that items bid match items within the bid response.

Examine the bid documents and awards to determine if proper signatures were obtained on all documents regarding the bid process.

Examine invoices to ensure that items bid match the items that were ultimately delivered to the LEA Child Nutrition program.

Examine the flow reports from the company that won the bid to determine that items delivered match the items bid and determine that prices and quantities match the bid document and the invoices.

Examine bid documents to ensure that the “Buy American” requirement of program regulations was followed. Trace data in selected reports to supporting documentation.

Review the LEA Child Nutrition program Procurement Manual to ensure that vendors are following delivery schedules as outlined in the bid process.

J. Program Income

Compliance Requirement – Pursuant to G.S. 115-443 idle funds may be invested. Interest earned from investment of Child Nutrition funds must be used only for the operation or improvement of the school food service programs.

Audit Objective – To determine that interest earned from the investment of Child Nutrition program funds is used only for the operation or improvement of the school food service program.

Suggested Audit Procedures – Review banking records and inquire of management to determine if Child Nutrition funds have been invested. Verify that bank reconciliations are performed on a periodic basis and that monthly balances are reconciled to the G/L. Verify that all interest earned from investments was deposited into the Child Nutrition bank account.

Compliance Requirement – Income received from providing catered meals for school related functions must be used only for the operation or improvement of the Child Nutrition program.

Audit Objective – To determine that income received from catered meals is used only in the Child Nutrition program.

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Suggested Procedures – Inquire of management and review accounting records to ascertain if program income was received.

If catered revenues were received, select a sample of receipts and trace them to deposits to determine if funds were deposited into the appropriate account.

Compliance Requirement –The Child Nutrition program *may* (at the district’s request) serve meals at no charge to all students that are enrolled in the More at Four Pre-K program. The district is responsible for reimbursing the meal price normally charged to the reduced and paid students directly to the Child Nutrition program. The Child Nutrition program should be sending a monthly invoice for reimbursement of the meals served.

Audit Objective – To determine that the LEA Child Nutrition Program has received payment for all More at Four Pre-k Meals served during the review period.

Suggested Audit Procedures – Request copies of invoices that have been prepared by the Child Nutrition program for the meals served to the More at Four Pre-K students. Request copies of the checks that have been received and deposited into the Child Nutrition account for the More at Four Pre-K Program meals. Any outstanding invoices should be paid to the Child Nutrition program by local funds.

L. Reporting

Compliance Requirement – The LEAs are required to report to the State agency monthly on meal participation data, meals served, etc. The report is due on or before the 10th of each month. The LEA is also required to report semi-annually year-to-date figures on the use of program funds. These reports are due on January 20th and July 20th. The LEA also needs to submit the Unit Summary of School Monthly Meal Participation (SFS 4A) detailing the participation data for the audit year. This report is a cumulative report that shows the count of all meals served from July through June. This report is due on July 20th. If any of the due dates fall on a weekend date (Saturday or Sunday), the LEA has until the following Monday to submit their report and still be considered as submitted on time.

State Board of Education Policy requires all LEA’s and Charter schools to submit nutrient analysis of school menus twice a year. The months of review are October and March. The information is to be submitted to the regional School Meals Initiative (SMI) Consultant. The October nutrient analysis is due no later than September 30th. The March nutrient analysis information is due no later than February 28th.

Audit Objective – To determine that required reports are completed accurately and on a timely basis.

Suggested Audit Procedures – Request sample copies of submitted reports and review for completeness and timeliness of submission. The new technology system provides the date the form was submitted along with the individual that entered the information into the system on the report. **If the district has not submitted the report on or before the due date, inquire if the LEA received an extension from the State Agency. (The extension may be a formal letter or an email and does not constitute an audit finding.)**

N. Special Tests and Provisions

Compliance Requirement – The application must be complete and eligibility must be determined correctly. Based upon all required information present on the application, and the current Income Eligibility Guidelines, the approving authority makes an eligibility determination and enters the following information on the application.

Category of eligibility, and reason if eligibility is denied.

Date of eligibility determination.

Signature or initials of approving authority.

Note: If the signature or initials are missing, and the application was classified correctly, the LEA should be cited for an administrative error rather than reclassifying the application. If a computer determines eligibility, the signature and date can be on the printout.

Audit Objective – To determine that eligibility for children eligible for free and reduced price lunches was correctly determined and that the applications for free and reduced price lunch are complete.

Suggested Audit Procedure – Cite Questioned Costs

Any free or reduced application found during the course of the audit not containing all required eligibility and classification information reflected above, must be reclassified as ineligible (denied). In the event classification of any application is changed per audit, a questioned cost should be identified. Questioned costs are determined by multiplying the difference between reimbursement rates for reported and verified classifications multiplied by the number of operating days the application had been in effect. For example, when an application that had been in effect for the entire 180 operating days of the regular school year is reclassified from free to denied, questioned cost pertaining to that application is established as follows: Find the difference between the free and denied (paid) reimbursement rates, times the number (180) operational days in effect. The current free, reduced, and denied (paid) reimbursement rates can be obtained from the School Food Service Reimbursement Form maintained on file by the unit being audited. The same process would be employed to establish questioned costs pertaining to those applications that may have been reclassified for any other reason, such as adjustment based upon Income Eligibility Guidelines. The overclaim is taken for the number of days that the student participated in a meal service while the misclassified application was in effect. If the participation is not readily determinable, and attendance records are not available, the school's attendance factor should be added to the questioned cost calculation.

In the event classification of any application is changed as a result of the audit, a questioned cost must be identified. See the following examples:

1) During the audit, a student's application was changed from reduced to denied. The student participated in a meal service 150 days during the year.

(Reduced Rate – Denied Rate) X 150 = Questioned Cost.

2) During the audit, a student's application was changed from free to denied. There are no participation records to identify the student and attendance records are not available. In this case, use

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the school's attendance factor, and allow 10 days for application processing. The school's attendance factor is 90%.

$[(\text{Free Rate} - \text{Denied Rate}) \times (180 \text{ days} - 10 \text{ days})] \times .90 = \text{Questioned Cost.}$

Please note that the follow are issues of Non-Compliance rather than Reclaims:

Application is missing determining officials' signature.

If the authorizing signature is missing from application, but all required information was obtained and the application was classified correctly.

Application missing required information. If required information, except WFCA/Food Stamp information can be obtained from a sibling's application.

Compliance Requirement – A completed, signed Memorandum of Agreement (MOA) must be completed any time the LEA Child Nutrition program releases the eligibility status of individual students approved for either free or reduced priced meals.

Audit Objective – To determine that the LEA is releasing student's individual meal eligibility status information only for USDA approved circumstances.

Suggested Audit Procedure – Inquire of the LEA's Child Nutrition Director the process that is used when a request is made for the eligibility status of students receiving free or reduced price meals. The LEA should provide a list of all departments/individuals to whom eligibility information was released. Review all Memorandum of Agreements (MOA) on file to ensure the LEA's Child Nutrition program has provided the information appropriately. If the information was released without a Memorandum of Agreement (MOA), the LEA should be cited for an audit exception.

Compliance Requirement – Federal regulations require all information regarding Free and Reduced Priced meal eligibility to be properly secured and available only to the LEA's Child Nutrition program. The information should reside on a secure computer server.

Audit Objective – To ensure student's free and reduced data is secure and not accessible by any department other than the LEA's Child Nutrition program.

Suggested Audit Procedure – Request evidence from the LEA that information from all free and reduced priced meal applications is residing on a secure computer server that is accessible only the Child Nutrition program. The LEA should give the name and location of the computer that is considered the Free and Reduced Priced Meal server.

Compliance Requirement – The portion of any sales tax refunds received that pertains to the Child Nutrition program must be refunded to the Child Nutrition program.

Audit Objective – To determine that sales tax refunds received were refunded to the Child Nutrition program as appropriate.

Suggested Audit Procedures – Review any sales tax refunds received and supporting documentation for the refund request. Determine that all refunds that pertain to the Child Nutrition program have been posted to the appropriate Child Nutrition banking account.

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Compliance Requirement – Pursuant to Federal Regulations 7 CFR 210.11, competitive foods are defined as any food sold in competition with the LEA Child Nutrition program to children in food service areas during the lunch period. The State agency and school food authorities are required to establish rules and regulations as necessary to control the sale of foods in competition with lunches served under the Program. The rules or regulations should prohibit the sale of foods of minimal nutritional value.

The North Carolina Board of Education has established the rules and regulations for competitive foods and is found in **Policy # EEO-S-000**. The policy states the following:

A la carte sales are limited to foods contributing to the nutritional well-being of the child and aiding in the establishment of good food habits. School food authorities and sponsoring organizations may provide these foods under the following conditions:

All food and beverage services provided for students during or before the established lunch period must be operated through the school food service department. The school food service department retains all receipts from the sale of these items. Sponsors must use all food service income for the purpose of the school's non-profit Child Nutrition programs.

Competitive food sales by a school of extra food items in the lunchroom or its general environs must be on a non-profit basis. "On a non-profit basis" means that the sponsor deposits income from the sale of such food items into the account of the school's non-profit Child Nutrition programs and uses the income solely for these programs. The school may sell extra food items after the established lunch hour is over, only with the approval of the LEA. The established lunch hour is over when the last pupil has been served for the day.

NC General Statute 115-264 also states that each school may, with the approval of the local board of education, sell soft drinks to students so long as soft drinks are not sold (i) during the lunch period, (ii) at elementary schools, or (iii) contrary to the requirements of the National School Lunch Program.

Audit Objective – To ensure that the LEA is following the rules established by the NC General Statute 115-264 and the NC State Board of Education Policy # EEO-S-000 regarding competitive foods.

Suggested Audit Procedure – Inquire of the LEA Child Nutrition Director the policy that is in force in the district to ensure that rules and regulations are being followed for competitive foods. Site visits should be made to several schools to ensure that vending machines owned and operated by the school are operating on timers and are operational only after the end of the designated lunch period. If foods and/or beverages are sold to students during the school day by any entity other than the Child Nutrition program (i.e. school-owned vending machines, school stores, fund-raising events, etc.), all revenues from these sales must be deposited into the Child Nutrition program account. (Note: it is permissible for Child Nutrition-owned vending machines to operate during the entire school day.) If it is determined that the district is in violation of the competitive foods regulations, the State agency will determine the repayment amount due from the LEA. The LEA's Child Nutrition department will not be responsible for reimbursing the funds, the repayment of funds will be charged to the LEA local fund.

Compliance Requirement – Pursuant to Federal Regulations 7 CFR 210.17, LEA Child Nutrition programs may receive State Matching funds to be used in the direct operation of the program,

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specifically for salaries and administrative expenditures. The revenues should be deposited directly into the LEA Child Nutrition program's account.

Audit Objective – To determine that the LEA Child Nutrition program has properly recorded the State Revenue Matching Funds it has received.

Suggested Audit Procedures – Inquire of the district the amount of state revenue match that has been received during the audit period. The Child Nutrition program should be recording the funds received to the following budget code 5-4921 Transfer from State Public School Fund. Ensure that the funds received have been expended for salaries and administrative expenditures by requesting detailed documentation from the LEA Child Nutrition program. (For example, if the funds are used for salary, require a list of the employees that were paid using these funds).

Compliance Requirement – The salary and benefits for employees who are dually employed by the LEA's Child Nutrition program and other departments within the school district should be prorated to ensure that each department is paying their fair share. Any employee who is employed by the Child Nutrition program and any other department within the LEA must complete a Personnel Activity Report on a monthly basis to report the amount of time and effort worked for the Child Nutrition program and the amount of time and effort that was worked for any other department(s).

The OMB A-87 Circular addresses the need to have completed Personnel Activity Report for dual employees (see excerpt from OMB A-87 Circular below)

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

- (a) More than one Federal award,
- (b) A Federal award and a non-Federal award,
- (c) An indirect cost activity and a direct cost activity,
- (d) Two or more indirect activities which are allocated using different allocation bases, or
- (e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
- (b) They must account for the total activity, for which each employee is compensated,
- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and

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(d) They must be signed by the employee.

(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:

(i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;

(ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and

(iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

Audit Objective – To ensure that the LEA Child Nutrition program is paying the appropriate percentage of salary and benefits for employees that are dually employed by the LEA. This includes any overtime that is earned by the dually employed employee.

Suggested Audit Procedure – Request the list of employees that are considered dually employed employees and review their Personnel Activity Reports to determine the percentage of salary, benefits and overtime that should be applied to the Child Nutrition program.

Request payroll reports for the combination employees and review them to ensure that the percentage recorded on their Personnel Activity Report has been properly charged to the Child Nutrition program.

***NOTE:** Any salaries or benefits that have been incorrectly charged to the CN program for dual employees must be refunded from local funds to the Child Nutrition program. A copy of the check or bank transfer must be provided to document that the overpayment has been corrected. (Not subject to the \$10,000 threshold requirement) This requirement should be reviewed each year regardless of where the Child Nutrition program falls in the federal review cycle.*

Compliance Requirement – Child Nutrition funds may only be used to pay salaries and benefits of employees that are directly involved in the operation of the Child Nutrition program. Any employee being paid one hundred percent from Child Nutrition funds must report to the Child Nutrition director.

Audit Objective – To ensure that the LEA's Child Nutrition program is only paying salary and benefits of eligible employees.

Suggested Audit Procedure – Request the entire list of employees that are paid from Child Nutrition funds and confirm that each individual is directly involved in the operation of the Child Nutrition program. Salaries and benefits paid for anyone outside the LEA's Child Nutrition department (example: maintenance department, finance department, technology department, human resources department, etc.) are unallowable. All LEA personnel paid from Child Nutrition funds must appear

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on the Child Nutrition program's Organization Chart. Local fund should refund all salary and benefits of any employee that has been inappropriately paid from Child Nutrition funds.

Compliance Requirement – According to the OMB A-87 Circular, LEA Child Nutrition programs are not allowed to use federal funds to offset meal charges to students or adults. The write-off of these outstanding balances is considered as a bad debt which is an unallowed use of funds. The LEA should have a board approved charge policy in place that defines how charges for meals will be handled. The LEA is not allowed to reduce the amount of revenue earned by the Child Nutrition program to clear the charges.

Audit Objective – To determine if the LEA and the Child Nutrition program are properly recording and collecting charge balances.

Suggested Audit Procedures – Request a copy of the local board approved Charged Meal Policy. Request a copy of the outstanding charge balances as of June 30th of the review period. *If all charges are not collected by June 30th, they become the financial responsibility of the district.* If the LEA policy is to carry the charge into the next school year, ensure that the balances have been brought forward. The amount of charges showing June 30th, should match to the amount of charges showing the day prior to school starting. *(Note: the previous school year charges must be paid to the CN program on or before September 30th.)* The Child Nutrition administrator should explain any differences in the amounts.

If the board policy is to clear charges at the end of the year, determine what district funds are being used to repay the Child Nutrition program. The district should provide documentation on how they handled the repayment. Request a copy of the check issued to the Child Nutrition program or a copy of the bank transfer.

In order to show that the funds have been repaid and not written off, request the number of meals that has been served to students by category and school type. The Child Nutrition Administrator should provide a list of the number of meals served at the elementary, middle and high school for breakfast and lunch.

Determine the projected amount of revenue by category by multiplying the number of meals served by the price charged. Compare the actual revenues reported on the FC1-A financial report to the projected revenue. Any discrepancies should be explained.

This requirement should be reviewed each year regardless of where the Child Nutrition program falls in the federal review cycle.

Compliance Requirement – The CN program may claim state reimbursement for breakfasts that are served to kindergarten students in certain schools based on the free and reduced percentage. The Kindergarten program was implemented in the 2000-01 school year and the total reimbursement is considered part of the required state match.

Audit Objective – To ensure that the LEA's Child Nutrition program is only claiming reimbursement for kindergarten breakfast served at allowed schools.

Suggested Audit Procedure – Request a copy of the official letter dated November 23, 1999 from DPI listing the schools were approved to receive state reimbursement for the district. Using the 4A Year to Date report, compare the list of schools claiming reimbursement for the kindergarten

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breakfast to the official letter. Note any discrepancies found, determine if NCDPI has approved the replacement of schools from the original list.