

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 as 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.

This compliance supplement must be used in conjunction with the OMB 2021 Compliance Supplement which will be issued in the summer. This includes “Part 3 - Compliance Requirements,” for the types that apply, “Part 6 - Internal Control,” and “Part 4 - Agency Program” requirements if the Agency issued guidance for a specific program. The OMB Compliance Supplement is Section A of the State Compliance Supplement.

I. PROGRAM OBJECTIVES

The objectives of the National School Lunch Program (NSLP), School Breakfast Program (SBP), After School Snack Program (ASSP), Special Milk Program (SMP) and Seamless Summer Option (SSO) are to: (1) provide nutritionally-balanced low-cost or free meals to students that support their optimal growth, development and academic performance and to (2) encourage the domestic consumption of nutritious agricultural commodities. The N.C. Department of Public Instruction, as the State Education Agency (SEA), administers these programs through sub-recipient agencies including traditional public schools, charter schools, non-profit private schools, residential childcare 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

Noted below in the following matrix are the types of compliance requirements that are applicable to the federal program. These Types are determined by the federal agency, noted as “Y,” on the “Matrix of Compliance Requirements” located in Part 2 of the OMB 2021 Compliance Supplement; however, the State Agency may have added the Type and this is noted by “Y.” If the State determines that the federal requirement does not apply at the local level or if the State modifies the federal requirements, this is noted in the supplement under the type of compliance requirement. If the federal and/or State agencies have determined that the type is not applicable, it is noted by “N.”

If the Matrix indicates “Y,” the auditor must determine if a particular type of compliance requirement has a direct and material effect on the federal program for the auditee. For each such compliance requirement subject to the audit, the auditor must use the OMB 2021 Compliance Supplement, Part 3

(which includes generic details about each compliance requirement other than Special Tests and Provisions) and Part 4 (which includes any program-specific requirements) to perform the audit.

CC	A	B	C	E	F	G	H	I	J	L	M	N
Cross Cutting Requirements	Activities Allowed or Unallowed	Allowable Costs/ Cost Principles	Cash Management	Eligibility	Equipment/ Real Property Management	Matching, Level of Effort, Earmarking	Period of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y

A. Activities Allowed or Unallowed

Sponsors are not required to separately report operating and administrative costs, although they must maintain records of them. Sponsor reimbursement is no longer related to operating and administrative cost comparisons; it is determined solely by applying the applicable meals times rates formula. Separate rates are used to compute reimbursement for operating and administrative costs, but a sponsor can use its entire reimbursement payment for any combination of operating and administrative costs (Title VII, Section 738 of Pub. L. No. 110-161, December 26, 2007).

B. Allowable Costs/Cost Principles

1. Compliance Requirement – Pursuant to U.S. Department of Education regulations 34 Code of Federal Regulations, Part 76.561(b), the SEA must review and approve all Local Education Agency (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 and/or sub-recipient agency. *The assessment of indirect cost must be accorded consistent treatment among all Federal programs in the sub-recipient agency in accordance with 2 CFR 200.*

Audit Objective – To determine whether the indirect cost rate approved by the SEA is being properly charged to the School Nutrition program as well as other Federal programs operating within the sub-recipient agency.

Suggested Audit Procedures – Request the indirect cost rate that is being charged to the sub-recipient agency’s School 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 sub-recipient agency 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 *may not be greater than the SEA approved rate.*

2. Compliance Requirement – According to 2 CFR 200, 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 sub-recipient agency's School Nutrition program in providing meals and/or snacks under the National School Lunch, School Breakfast, After School Snack, Special Milk and Seamless Summer Option Programs that are not easily identifiable with a particular objective or function.

An example of an indirect cost is the cost of electricity. The School Nutrition program uses electricity for food 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 School Nutrition program. In addition electricity is used for computer assisted instruction and audio-visual equipment which do not benefit the School Nutrition program.

Audit Objective – To ensure the sub-recipient agency's School Nutrition program is not being charged for direct costs that are included in the calculation of the SEA-approved indirect cost rate. The School 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 School Nutrition program. The rate calculated by the SEA would be sufficient to cover these costs.)

Suggested Audit Procedures – Request a copy of the Unrestricted Indirect Cost Computation that was provided to the Finance Officer of the sub-recipient agency 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 sub-recipient agency by multiplying the approved indirect cost rate by the total of allowable expenses. The allowable expenses for School Nutrition fall under the approved salary and benefit codes (object codes 100's and 200's, excluding Pension Expense 223), Workshop Travel (object code 312), Travel (object code 332) and Supplies and Materials (object code 411). Review the School Nutrition program June 30th Trial Balance to ensure that the program is not being charged direct costs that are included in the Unrestricted Indirect Cost Computation.

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

(For your information: DPI will not allow indirect costs to be taken for a prior year after the DPI financial books are closed; should the audit suggest indirect costs were taken from a prior year, you must contact the Assistant Director, School Nutrition Division, to report this unallowable use of Federal School Nutrition funds. The division's contact information is shown in Page 1 of this supplement.)

Audit Objective – To determine whether the payment of indirect cost to the local board of education was included in the initial board approved School Nutrition budget.

Suggested Audit Procedures – Request a copy of the original School Nutrition budget. Review the budget to determine if indirect cost will be assessed to the School Nutrition program by the local board of education. The expense should appear in the budget under the account code 5-8100-035-392 (Indirect Cost). The amount budgeted should not exceed the amount calculated by applying the approved Unrestricted Indirect Cost Rate to the allowable codes. (The School Nutrition budget should not include indirect cost unless the program has a minimum of one month's operating balance as defined in G.S. 115C-450.)

4. Compliance Requirement – In order for the School Nutrition program to be charged indirect cost, there must be a minimum of one month's operating balance as defined by the statute. The annual agreement to participate in the National School Lunch Program signed by the Superintendent, Finance Officer and School Nutrition Administrator indicates in Section B 3 d that assessment of indirect cost will promote financial solvency of the program and is consistent with G.S. 115C-450.

Audit Objective – To ensure the assessment of indirect cost to the School Nutrition program was in compliance with the annual agreement to participate in the National School Lunch Program and G.S. 115C-450.

Suggested Audit Procedures – Request a copy of the June 2016, June 2017 and June 2018 FC1-A's recap reports along with the current year's June 30th Trial Balance. The recap report provides the number of month's operating balance for the School Nutrition program. Using these reports, calculate the average month's operating balance based on the three years. Review the Trial Balance for the assessment of indirect cost. The expense for indirect cost should be posted in the general ledger in account code 5-8100-035-392. If the rolling average indicates less than one month's operating balance, any indirect cost paid by the School Nutrition program is to be refunded from the local account.

5. 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. In rare instances, the funds may be used to incorporate a structure that protects a walk-in cooler or freezer. These purchases should have prior approval from the State agency.

Audit Objective – To ensure Federal funds received by the LEA School 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. If the funds have been used, was prior approval given by the State agency.

Suggested Audit Procedures – Inquire of the sub-recipient agency's School Nutrition Administrator whether any existing school nutrition facilities (storage facilities, warehouse facilities, cafeteria or dining 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 sub-recipient agency's School Nutrition program paid for the renovation of any facility used by the school nutrition program without prior approval, the amount is to be refunded to the School Nutrition program account.

If the amount of the renovation project was included in the calculation of indirect cost that has been paid to the sub-recipient agency, 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 to the School Nutrition program account.

6. Compliance Requirement – The School 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.

The following expense codes are ALLOWABLE; per the Uniform Chart of Account all others are unallowable.

113	Nutrition Services - Salary - Director and/or Supervisor
151	Nutrition Services - Salary - Office Support
152	Technician
153	Administrative Specialist (Central Support)
165	Substitute - Non-Teaching
171	Nutrition Services - Salary - Driver
174	Nutrition Services - Salary - Cafeteria Workers
175	Skilled Trades
176	Nutrition Services - Salary - Manager
180	Nutrition Services – One Time Bonus
181	Nutrition Services - Supplementary Pay
183	Nutrition Services - Bonus Pay
184	Nutrition Services - Longevity Pay
185	Nutrition Services - Bonus Leave Pay
187	Nutrition Services – Salary Differential
188	Nutrition Services - Annual Leave Pay
189	Nutrition Services - Short Term Disability – First Six Months
196	Staff Development Participant Pay
199	Nutrition Services - Overtime Pay
210	Employer's Social Security Cost-Installment Accrual
211	Nutrition Services - Employer's Soc Sec - Regular
220	Employer's Retirement Cost-Installment Accrual
221	Nutrition Services - Employer's Retirement - Regular
223	Nutrition Services – Pension Expense
231	Nutrition Services - Employer's Hospitalization Ins
232	Nutrition Services - Employer's Workers' Comp Ins
233	Nutrition Services - Employer's Unemployment Ins
234	Nutrition Services - Employer's Dental Ins Cost
235	Nutrition Services - Employer's Life Insurance Cost
239	Nutrition Services - Other Insurance Cost
311	Nutrition Services - Contracted Services
312	Nutrition Services - Workshop Exp/Allowable Travel
313	Nutrition Services - Advertising Cost
314	Nutrition Services - Printing and Binding Fees
315	Reproduction Costs
316	Commercial Driver's License Medical Exam Expense
319	Other Professional/Technical Contract Services
321	Public Utilities – Electric Services – Requires State agency approval
326	Contracted Repairs and Maintenance
327	Nutrition Services - Rentals/Leases (SA approval REQUIRED)
329	Other Property Services (RECYCLING ONLY)

332	Nutrition Services - Travel Reimbursement
341	Nutrition Services - Telephone
342	Nutrition Services - Postage
344	Mobile Communication Costs
345	Nutrition Services - Security Monitoring (Limited to monitoring temp of cooler/freezers ONLY)
361	Nutrition Services - Membership Dues and Fees
362	Nutrition Services- Bank Service Fees (REQUIRES proof of proper procurement of service)
372	Nutrition Services - Insurance - Vehicle Liability
392	Nutrition Services - Indirect Cost
411	Nutrition Services - Supplies and Materials
418	Nutrition Services - Computer Software and Supplies
421	Fuel for Facilities – Propane Fuel for Cafeteria Equipment
422	Nutrition Services - Repair Parts, Materials & Labor
423	Nutrition Services - Gas/Diesel Fuel
424	Nutrition Services – Oil
425	Nutrition Services - Tires and Tubes
451	Nutrition Services - Food Purchase
452	Nutrition Services - USDA Commodity Foods
453	Nutrition Services - Food Processing Supplies
454	Nutrition Services - Inventory Loss
455	Nutrition Services - Meal Sales Discount
459	Other Food Purchases
461	Nutrition Services - Furniture and Equipment - Non Cap
462	Nutrition Services - Computer Equipment - Non Cap
471	Nutrition Services – Sales and Use Tax Expense
472	Nutrition Services - Sales and Use Tax Refund
541	Nutrition Services - Equipment Purchase – Capitalized
542	Nutrition Services - Computer Hardware Purchase - Capitalized
551	Nutrition Services - Vehicles Purchase (SA approval REQUIRED)
552	License and Title Fees
571	Nutrition Services – Depreciation

Audit Objective – To determine whether the School Nutrition program is paying direct charges that are reflected in the approved expense codes for PRC 035.

Suggested Audit Procedures – Request a copy of the Trial Balance for June 30th from the sub-recipient agency's School Nutrition Administrator. Review the expenditure accounts that have been used for the review period. Any accounts that have been used that are not listed above from the Uniform Chart of Accounts for PRC 035 (Child Nutrition) would be considered unallowable costs and the amounts must be refunded to the School Nutrition program account from the sub-recipient agency's local fund.

This requirement should be reviewed each year regardless of where the School Nutrition program falls in the Federal review cycle

7. Compliance Requirement – School Nutrition funds may not be used to pay for student meals when the meals are not prepared and served by the sub-recipient agency’s School Nutrition program. (Note: If an 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 School Nutrition program. In this case, the School 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 operation or other food-vending outlet, unless the entity is acting as an agent of the LEA with prior approval of the NCDPI. 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 School Nutrition program.)

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

Suggested Audit Procedure – Inquire from the School Nutrition Administrator the process that is used to provide meals to students who are enrolled in the Early/Middle College programs in the LEA. If the School 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 School 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 School Nutrition program, the expense is an unallowable expenditure and the money should be refunded to the School Nutrition program account from local funds.

8. Compliance Requirement – Workers Compensation Insurance Premium may be charged to the School Nutrition program for Fund 5 payroll only.

Audit Objective – To determine whether the expense charged to the School Nutrition program for workers compensation insurance is calculated correctly, and does not exceed 100% of the calculation.

Suggested Audit Procedures – Review the Audited Workers Compensation Premium to determine if the correct salary figures have been used to calculate the premium. Code 8868 College: Professional Employees Payroll is the Sum of lines 75, 76, 77 and 78 on the 6/30 FC1A. Code 9101 College: All other Employees Payroll is the Sum of line items 79 through 93 on the 6/30 FC1A.

Ask for the Initial Estimated Billing Invoice from the beginning of the policy period (July 1st) and multiply the totaled final Payrolls as listed on the 6/30 FC1A by the Rates as stated on the Estimated Billing Invoice. Apply the given modifiers and discounts to the initial premium. Check the Premium as calculated against the amount charged on line 100 of the 6/30 FC1A to determine if 100% or less of the calculated premium has been assessed.

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

C. Cash Management

1. Compliance Requirement – The non-profit School Nutrition account must limit its net cash resources to an amount that does not exceed three (3) months average expenditures in the School Nutrition program. Should net cash resources exceed this statutorily set amount, the sub-

recipient agency must have on file a plan that was developed by the sub-recipient agency's School Nutrition Administrator and approved by the School Nutrition Division of the NCDPI. The plan should describe how the sub-recipient agency's School Nutrition program will bring the net cash resource balance into compliance. All excess funds above the allowable three (3) month balance must be used solely for the enhancement of the sub-recipient agency's School Nutrition program and for no other purpose.

Audit Objective – To determine that the sub-recipient agency's School Nutrition program's net cash resources do not exceed three (3) months average expenditures OR that a plan has been developed by the sub-recipient's School Nutrition program and approved by the SEA to allow the program to have more than three (3) months operating balance.

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

Current assets – The total of all cash, petty cash and temporary investments

Current liabilities – The total of all liabilities, not including Reserve for Depreciation, Investment in Fixed Assets-Local Funds, Pension Liability, Other Post-Employment Benefit Liability, Deferred Inflows and Fund Equity.

Calculate the number of operational months (For June, this would be 9 months).

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 three (3) months.

Verify that a written plan has been submitted to the SEA by the sub-recipient agency's School Nutrition program and that it has been approved for any operating balance in excess of the three months. (This recognizes the need for the sub-recipient agency's School Nutrition program to build a cash reserve for the purchase of major food production, storage, delivery and service equipment.) An audit exception should be noted only when the School Nutrition program exceeds the three month threshold and does not have a written plan approved by the SEA for reducing the balance.

2. 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 whether the price of an adult meal fully 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 sub-recipient agency'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:
 Student Paid
 Student Reduced
 Student Free
 Adult
 SFSE (School Food Service Employee)
 Catered

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)
 Catered

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
 Catered

Supplemental Sales equivalents = Total Supplemental Sales (Budget Code 5-4318) from June 30th FC1-A divided by \$3.50.

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 School Nutrition program incurred. (This includes the expenses listed on FC1-A lines number 76-98 and 100 through 144.)

Using the same FC1-A report, calculate the additional revenue received by the School 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
 5-4922 Transfer from Local 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 School Nutrition program for each adult meal served.

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 sub-recipient agency must 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 School Nutrition program. Multiply the number of adult meals served by the difference calculated in this requirement. (Not subject to the \$10,000 threshold).

This requirement should be reviewed each year regardless of where the School Nutrition program falls in the Federal review cycle

3. Compliance Requirement – The number of meals served to adults at no charge should be limited to School Nutrition employees only. Any other school personnel must pay for the meals they consume on a daily basis. This requirement includes teachers, teacher assistants, principals, custodians, and other employees or the sub-recipient agency. This requirement also helps to ensure that Federal funds are not being used to supplement adult meals.

Audit Objective – To determine whether adult meals served at no cost are provided only to School Nutrition personnel who are directly employed by the sub-recipient agency's School Nutrition program.

Suggested Audit Procedures – Inquire of the sub-recipient agency's School Nutrition Administrator 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 School Nutrition employees. Determine number of meals served to ineligible employees and calculate cost due to the School Nutrition program from the local fund. (The cost would be determined by multiplying the adult meal price times the number of meals served.)

4. 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, School Nutrition program may loan funds to the local school system as long as the amount of the loan is recovered. The LEA School 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 whether the non-profit School Nutrition program has loaned money to the sub-recipient agency, whether the loan has been sufficiently documented, approved by the School Nutrition Division and whether the loans have been repaid to the non-profit School Nutrition account with interest.

Suggested Audit Procedures – School nutrition program funds may be loaned to the district on a short-term basis only (a school year). Inquire of the sub-recipient agency’s School Nutrition Administrator and the Finance Official to determine whether a loan was made during the review period to the sub-recipient agency using funds from the non-profit School Nutrition account. The district should pay interest at the prevailing loan rate. The loan agreement should contain such stipulations as the purpose, interest rate (simple or compounded), the repayment schedule for the principal and interest, and penalties for late payment. Request written documentation where the School Nutrition Administrator authorized the loan in advance; any written communication is acceptable. Calculate the amount of interest that was not earned by the School 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 School Nutrition program was earning on other investments (if any) at the time. Request documentation from the finance department showing where the funds have been returned to the School Nutrition program, with interest. The repayment may be in the form of a check that has been deposited or by a bank transfer.

5. Compliance Requirement – All School Nutrition programs must have a written cash management plan/policy that is consistent with G.S. 115C-422 and must demonstrate evidence of following the plan. Determine whether the written cash management plan includes specific provisions to prevent situations where cash is left unattended or unsecured. Determine whether deposits are required when the moneys on hand amount to as much as two hundred fifty dollars (\$250.00). Determine whether the plan/policy includes a provision to rotate cafeteria managers from their base school for a minimum period of time as a means of protecting the managers from undue speculation should theft occur. Determine if the plan/policy includes a provision to prevent the cafeteria manager from serving as the cashier on a routine basis.

Audit Objective – To determine that the School Nutrition programs at the individual schools are following the components of the written cash management plan and are taking all necessary and reasonable measures to prevent the theft of cash.

Suggested Audit Procedures – Obtain the district’s School Nutrition written Cash management Plan/Policy. Inquire of the School Nutrition Administrator whether the cash management plan implemented, as written, at each school site. Conduct a site review to observe actual cash transactions at the point of service and at the end of meal service. Determine whether cash is secured at all times, and whether all cash transactions are adequately documented and second party reviewed. Determine whether the cafeteria manager is serving as the cashier on a routine basis, and if so, whether the manager is rotated from one school to another for one or two weeks during the year.

This requirement should be reviewed each year regardless of where the School Nutrition program falls in the Federal review cycle

E. Eligibility

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

Children may qualify for meal benefits based on (1) categorical eligibility or (2) income eligibility. Categorically eligible children are those children who are automatically eligible for free meal benefits because they, or any household member, receive benefits under the three Assistance Programs including Food and Nutrition Services (FNS – formerly known as Food Stamps), Temporary Assistance for Needy Families (TANF or Work First) and/or the Food Distribution Program on Indian Reservations (FDPIR) or those children who are designated as members of “Other Source Categorically Eligible Programs” including designation as homeless/runaway, migrant, foster child, Federal or State-funded Head Start Program or the Federally-funded Even Start Program.

In many situations, a household application is used to issue free or reduced price meal benefits. The application must be approved and maintained on file. The application establishes that the child is (1) categorically eligible as indicated by the presence of a case number for the three Assistance Programs or (2) that the household income and household size place him/her within income eligibility standards issued by US Department of Agriculture in accordance with guidelines published by FNS. (7 CFR 245.6).

To qualify as a completed application the following information must be provided by the household to the sub-recipient agency on a SEA-approved free and reduced price meal application in each of the four areas described below:

(1) To qualify based on Assistance Programs including Food and Nutrition Services (FNS, formerly the Food Stamps Program) TANF/Work First or Food Distribution Program on Indian Reservations (FDPIR) a complete application must provide:

- Names of the children for whom the application is made;
- FNS, FDPIR or TANF case number, or other FDPIR identifier, for the child(ren) or for any household member listed on the application; and
- Signature of an adult household member.

(Note: These sources of categorical eligibility may be determined based on an application submitted by a household because these programs provide distinct case numbers. In all instances where a case number for an Assistance Program is used on an application, there must be the corresponding household member’s name. There are no “mixed households” under the Assistance Programs because if any member of the household receives benefits from any of the Assistance Programs, all children listed on the application are eligible for free meals. If income information is also provided, it should be ignored.)

(2) To qualify based on Other Source Categorical Eligibility (Except Foster Children)

Children may be categorically eligible due to *Other Source Categorical Eligibility* status through an application. Under this designation, an appropriate box on the application must be checked indicating the child’s status. The child is determined eligible for free meals and the LEA must then document the status with appropriate officials for each program. A complete application must provide:

- Names of children for whom application is made;
- Indication of child’s categorical eligibility status (a box for each category is shown on the application and households must check the appropriate one); and

- Signature of adult household member.

(3) To qualify based on Other Source Categorical Eligibility for Foster Children

A foster child whose care and placement is the responsibility of the State or who is placed by a court with a caretaker household is categorically eligible for free meals. A complete application must provide:

- Name of the foster child;
- Checked box indicating a child's foster care status; and
- Signature of an adult household member.

(4) For households applying for meal benefits for their children who are not:

- 1. Eligible through categorical eligibility under Assistance Programs;**
- 2. Eligible through Other Source Categorical Eligibility; or**
- 3. Foster children (as described in Items 1 – 3 on the prior pages)**

The household must submit an application and be determined eligible for meal benefits based on Household size and income. A complete application must provide:

- Names of all household members;
- Amount and source of current income for each member and the frequency of the income;
- Signature of an adult household member; and
- Last four digits of the social security number of the adult household member who signs the application or an indication that the household member does not have one.

(5) For household applications indicating “mixed eligibility sources”

On applications indicating mixed eligibility sources where some children are Other Source Categorically Eligible and some children are not, the LEA must process different eligibility statuses that may result from these applications. While the household cannot be required to submit multiple applications, the LEA may reproduce the application to accommodate more than one eligibility status or may process the application separately in a computer-based system.

After the Other Source Categorically Eligible children are determined eligible for free meal benefits, the LEA must then use the household's income and size (including children in the other source category) to determine if the non-categorically eligible children listed on the application are eligible for meal benefits.

In such mixed eligibility source households, Other Source Categorically Eligible children will receive free meal benefits even if other children listed on the application are determined either eligible for reduced price meals or ineligible for free or reduced price meal benefits. A complete mixed application must provide:

- Names of all household members;
- A checked box indicating the Other Source Categorical Eligibility status of a child; for a foster child, list any personal income made available to the foster child, and earned by the foster child as appropriate;
- Signature of an adult household member; and

- Last four digits of the social security number of the adult household member who signs the application or, an indication that the household member does not have a social security number.

(Note: There are no “mixed” households under the Federal Food Assistance Programs including FNS, TANS or FDPIR because if any member of the household receives benefits from any of the Assistance Programs, all children listed on the application are eligible for free meals. If income information is also provided, it should be ignored in issuing free meal benefits.)

Please refer to the *“Eligibility Manual for School Meals: Determining and Verifying Eligibility”* (June 2017) published by the Food and Nutrition Service of the US Department of Agriculture.

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

Suggested Audit Procedures – 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 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 smallest 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, calculate 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.

For any application found to be in error, request a point of sale transaction history for each child receiving the incorrect benefits. The report should provide the actual number of days the meals were reimbursed incorrectly. The number of meals should be multiplied by the difference in reimbursement rates. For example, if the student was approved for free meals but the application should have been reduced status, the number of meals would be multiplied by \$.30 for breakfast and \$.40 for lunch. Request a copy of the current reimbursement rates from the School Nutrition Administrator.

If the questioned costs for all applications are below the USDA threshold of \$600, no further action is required. If the questioned costs exceed the threshold, contact the School Nutrition Services at the NCDPI.

2. 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 SEA 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 **Standard** which is defined as the lesser of 3,000 approved applications or three (3) percent of total approved applications on file, all applications are randomly selected.

The second method is **Alternate One** which is defined as selecting a sample size of three (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 Two**, which requires a sample consisting of approved applications from non-Food and Nutrition Services (FNS, formerly the Food Stamps Program) and TANF/Work First households claiming monthly income within \$100 or annual income within \$1200 of the income eligibility limit for free or reduced-price meals and Food and Nutrition Services (FNS, formerly the Food Stamps Program) and TANF/Work First households. In focused sampling, the sample size is the sum of the following: (1) for non-Food and Nutrition Services (FNS, formerly the Food Stamps Program) and TANF/Work First 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 and Nutrition Services (FNS, formerly the Food Stamps Program) and TANF/Work First households, the lesser of 500 or 0.5 percent of approved applications on file from Food and Nutrition Services (FNS, formerly the Food Stamps Program) and TANF/Work First households.

A SEA 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 Procedures – 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. If November 15th falls on the weekend, the report due date is extended to Monday. 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 1st.

F. Equipment and Real Property Management

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

Audit Objective – To determine that all assets purchased with School Nutrition federal funds for use in the School Nutrition program are properly inventoried and depreciated.

Suggested Audit Procedures – Review expenditure and receipt records and inquire of management to determine if any fixed assets were purchased. Review the LEA School 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 School Nutrition program to prepare and serve meals to students.

2. Compliance Requirement – All non-equipment fixed asset purchases using Federal funds must have prior approval by the SEA. 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 SEA.

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

3. Compliance Requirement – Equipment purchases made for newly constructed or renovated schools must have prior SEA 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 SEA. The SEA must approve the use of any Federal funds for equipment purchases for new construction.

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

4. Compliance Requirement – Income received from the sale of surplus School Nutrition equipment must be refunded to the School 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 School Nutrition equipment was refunded to the School 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 School Nutrition equipment. Determine that the funds have been posted to the appropriate School Nutrition banking account, by tracing checks to deposits made.

5. Compliance Requirement - All equipment purchased for use in the School Nutrition program using funds from the SN Equipment Assistance Grant (PRC 053) must be added to the LEA's School Nutrition fixed asset inventory and recorded as Fund Equity-Contributed Capital.

Audit Objective - To determine that all assets purchased with SN Equipment Assistance Grant funds (PRC 053) for use in the LEA School Nutrition program are properly inventoried and recorded as Fund Equity-Contributed Capital.

Suggested Audit Procedures - Review the SN Fixed asset listing for all schools that obtained equipment with SN Equipment Assistance Grant funds. The equipment should have a fixed asset tag and be easily identifiable. The value of the equipment should be recorded in account code 5-2950 Fund Equity-Contributed Capital.

G. Matching

Compliance Requirement – The State is required to contribute State-appropriated funds to the School Nutrition program; the amount is determined by FNS and provided to the SEA in the Fall of each year. The matching requirement allows the School Nutrition program to receive

additional Section 4 Funding documented in the NSLA (National School Lunch Act) for the school year.

Audit Objective – To determine that the State Revenue Match requirement of at least \$45,000 has been transferred to the School Nutrition program. The requirement for match is documented in the NCDPI Allotment Policy Manual under Special Provisions (#5 see below).

Federal law requires a match for School Nutrition Supervisors. A State expenditure in excess of \$7 million is necessary for North Carolina to be eligible for Section 4 Federal funds. Beginning with the FY 2010-11, each LEA shall expend at least \$45,000, out of Central Office Administration, PRC 002 allocation or any other State funded PRC which allows coding to purpose code 7200 for School Nutrition expenses. The following purpose object combinations are in PRC 002 for meeting this mandate:

- School Nutrition Director and/or Supervisor 7200 - 113,
- Manager 7200 - 176, and
- The matching benefit codes 7200 - 211, 7200 - 221, 7200 - 231, or
- Utilize the Inter-fund Transfers to School Nutrition code 8400 – 715; funds transferred for this purpose may be used to pay the cost of reduced-price breakfast meals (\$.30 per meal) for eligible students, should the state allocation for reduced-price breakfast meals be insufficient to do so.

Suggested Audit Procedures – Request documentation from the Finance Officer indicating the amount of state funds that have been expended on behalf of the School Nutrition program to ensure compliance with state and Federal regulations. If the district has not complied with the Allotment Policy manual, state funds must be transferred immediately to the School Nutrition program.

This requirement should be reviewed each year regardless of where the School Nutrition program falls in the Federal review cycle. This requirement does not apply to Charter Schools.

H. Period of Performance

The grant-funding period follows the federal fiscal year reporting requirements, October 1st through September 30th. Reimbursement for the meals served will be reported on the state fiscal year which is July 1st through June 30th.

I. Procurement and Suspension and Debarment

Compliance Requirement – All purchases made with Federal School Nutrition funds and those funds generated by participation in the Federal School 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 Option.

Audit Objective – To determine that all purchases made with non-profit School 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 2 CFR 200 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 2 CFR 200 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 School 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 School Nutrition program Procurement Manual to ensure that vendors are following delivery schedules as outlined in the bid process.

J. Program Income

1. Compliance Requirement – Pursuant to G.S. 115-443 idle funds may be invested. Interest earned from investment of School 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 School 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 School 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 School Nutrition bank account.

If School Nutrition funds are deposited in the LEA central banking account or any type of investment account, the SN program must be credited with their prorated share of the total earned interest.

If the interest has not been deposited into the School Nutrition bank account, determine the amount of interest due to the SN program and those funds be immediately transferred to the account. Require proof of transfer of funds to document compliance.

2. Compliance Requirement – Section 205- Paid Lunch Equity, of the Healthy, Hunger-Free Kids Act requires the School Nutrition program to increase the paid lunch price to an amount that is at or above the difference in the federal reimbursement rates for a free lunch and a paid lunch. The increase required by the USDA is capped at ten cents (\$.10) per year; however, the local

Board of Education may choose to increase it by a larger amount. The Paid Lunch Equity requirement can be met either by increasing the meal price or receiving funds from local funds.

Audit Objective – To determine that the School Nutrition program has increased the paid lunch price or received local funds in the appropriate amount as determined by the USDA Paid Lunch Equity Tool. In the event that an exemption is granted by USDA to require the increase to the paid meal price, verify that the SN program does meet the requirement.

Suggested Audit Procedures – Request a copy of the Paid Lunch Equity tool from the preceding school year. If the local Board of Education chose to increase the meal price, confirm that the meal price for the paid lunch was increase in accordance with the required amount. If the local Board of Education chose to provide local funds in lieu of a price increase, confirm that the funds have been deposited into the non-profit School Nutrition account. The revenue should be recorded in the general ledger in account code 5-4350-035 –Local Revenue for Paid Lunch Equity. If the funds have not been deposited, require immediate payment and a copy of the check must be submitted to the state agency.

This requirement should be reviewed each year regardless of where the School Nutrition program falls in the Federal review cycle. (Not subject to the \$10,000 threshold requirement)

L. Reporting

Compliance Requirement – The LEAs are required to report to the SEA monthly on meal participation data, meals served, etc. The report is due on or before the tenth day of each month. The LEA is also required to report quarterly year-to-date figures on the use of program funds. These reports are due on *March 1st, November 15th, April 30th and October 1st*. 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.

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 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 SEA. (The extension may be a formal letter or an email and does not constitute an audit finding.)

M. Subrecipient Monitoring

The subrecipients are responsible for monitoring the approved sites that meals are being claimed for. An onsite review is required to be completed for each site on or before February 1st.

N. Special Tests and Provisions

1. 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 days the SN program served a meal to the student at the incorrect status. For example, when an application that had been 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 of days the student was served a meal. 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 over-claim 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.

$$(\text{Reduced Rate} - \text{Denied Rate}) \times 150 = \text{Questioned Cost.}$$

- 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 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 following 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 Food and Nutrition Services (FNS, formerly the Food Stamps Program) TANF/Work First information can be obtained from a sibling's application.

2. Compliance Requirement – A completed, signed Memorandum of Agreement (MOA) must be completed any time the LEA School 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 Procedures – Inquire of the LEA's School Nutrition Administrator 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 School 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.

3. 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 School 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 School Nutrition program.

Suggested Audit Procedures – 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 by the School Nutrition program. The LEA should give the name and location of the computer that is considered the Free and Reduced Priced Meal server.

4. Compliance Requirement – The portion of any sales tax refunds received by the local board of education that pertains to the School Nutrition program must be refunded to the School Nutrition program.

Audit Objective – To determine that sales tax refunds received were refunded to the School 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 School Nutrition program have been posted to the appropriate School Nutrition banking account.

5. Compliance Requirement – Pursuant to Federal Regulations 7 CFR 210.11, competitive foods are defined as any food sold in competition with the LEA School Nutrition program to children in food service areas during the lunch period. The SEA 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 # CHNU-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 School 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 School 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 # CHNU-000 regarding competitive foods.

Suggested Audit Procedures – Inquire of the LEA School Nutrition Administrator 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 School Nutrition program (i.e. school-owned vending machines, school stores, fund-raising events, etc.), all revenues from these sales must be deposited into the School Nutrition program account. (Note: it is permissible for School 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 School Nutrition department will not be responsible for reimbursing the funds, the repayment of funds will be charged to the LEA local fund. *The audit report must reflect the nature of the competitive food violation, which includes the date, the location of the vending machine and the time in which the items were purchased.*

6. Compliance Requirement – The salary and benefits for employees who are dually employed by the LEA's School 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 School Nutrition program and any other department within the LEA must complete a Personnel Activity Report or equivalent documentation on a monthly basis to report

the amount of time and effort worked for the School Nutrition program and the amount of time and effort that was worked for any other department(s).

2 CFR 200.430 addresses the need to have completed Personnel Activity Reports for dual employees (see excerpt from 2 CFR 200.430 8 *vii* below):

(vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

Audit Objective – To ensure that the LEA School 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 Procedures – Request the list of employees that are considered dually employed employees and review their Personnel Activity Reports or equivalent documentation to determine the percentage of salary, benefits and overtime that should be applied to the School Nutrition program.

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

NOTE: *Any salaries or benefits that have been incorrectly charged to the SN program for dual employees must be refunded from local funds to the School 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 School Nutrition program falls in the Federal review cycle.*

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

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

Suggested Audit Procedures – Request the entire list of employees that are paid from School Nutrition funds and confirm that each individual is directly involved in the operation of the School Nutrition program. Salaries and benefits paid for anyone outside the LEA's School Nutrition department (example: maintenance department, finance department, technology department, human resources department, etc.) are unallowable. All LEA personnel paid from School Nutrition funds must appear on the School Nutrition program's Organization Chart. Local fund should refund all salary and benefits of any employee that has been inappropriately paid from School Nutrition funds.

8. Compliance Requirement – According to 2 CFR 200.426, LEA School 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 unallowable 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 School Nutrition program to clear the charges.

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

Suggested Audit Procedures – Request a copy of the local board approved Charged Meal Policy (if applicable). 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 SN program on or before September 30th.) The School 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 School Nutrition program. The district should provide documentation on how they handled the repayment. Request a copy of the check issued to the School 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 School Nutrition Administrator should provide a list of the number of meals served at the elementary, middle and high schools 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 School Nutrition program falls in the Federal review cycle.