



## Nutrition Program (SFAs) - Common Issues/Findings

PRESENTED BY  
Jennifer Watkins, CPA  
Principal



# FOOD SERVICE INSPECTION



# Nutrition Topics

- PAL report
- Eligibility
- Excess fund balance
- Equipment purchases and tracking
- PLE
- Indirect vs Direct Costs
- Bad debts
- Fraud



# PAL Report

- Make sure that you are using the **Final** PAL report
- Include all Entitlement
  - Processed
  - Brown Box
  - DOD
  - Produce Pilot



# PAL Report

	Processed	Brown Box	(Proc+BB) Total	DoD	Total	Balance	(Bonus)
July	0.00	42.04	42.04	0.00	42.04	219,570.23	0.00
August	7,401.51	1,695.68	9,097.19	0.00	9,097.19	210,473.04	0.00
September	15,254.74	3,335.94	18,590.68	5,157.50	23,748.18	186,724.86	0.00
QTD (1)	22,656.25	5,073.66	27,729.91	5,157.50	32,887.41		0.00
October	20,399.04	5,401.84	25,800.88	10,029.00	35,829.88	150,894.98	0.00
November	15,203.23	2,950.84	18,154.07	6,792.75	24,946.82	125,948.16	0.00
December	11,768.32	2,142.79	13,911.11	4,670.50	18,581.61	107,366.55	0.00
QTD (2)	47,370.59	10,495.47	57,866.06	21,492.25	79,358.31		0.00
January	16,801.30	5,473.79	22,275.09	2,901.65	25,176.74	82,189.81	0.00
February	17,254.80	5,962.47	23,217.27	4,951.30	28,168.57	54,021.24	0.00
March	16,574.36	3,350.88	19,925.24	460.00	20,385.24	33,636.00	0.00
QTD (3)	50,630.46	14,787.14	65,417.60	8,312.95	73,730.55		0.00
April	17,575.56	3,912.42	21,487.98	0.00	21,487.98	12,148.02	0.00
May	17,364.45	4,256.42	21,620.87	1,519.85	23,140.72	-10,992.70	0.00
June	2,183.56	309.76	2,493.32	142.25	2,635.57	-13,628.27	0.00
QTD (4)	37,123.57	8,478.60	45,602.17	1,662.10	47,264.27		0.00
Total Distribution	157,780.87	38,834.87	196,615.74	36,624.80	233,240.54	-13,628.27	0.00

Entitlement Dollars: \$ 219,612.27 (655,559 Meals @ 0.3350 Meal Rate)



# Eligibility

1. Review the eligibility requirements in the Eligibility guidance for School Meals Manual.
2. Review selected applications to determine applicants are properly accounted for and applications are properly completed.
3. Determine the number of free and reduced meals claimed for reimbursement.
  - This amount should not exceed the number of approved applications on file and from children eligible for Direct Certification.
  - Determine the number of applications reported. The monthly claim does not include applications for students found ineligible or who had departed the building before the beginning of the month.



# Eligibility

4. Review applications to determine that changes in eligibility reflecting an increase in benefits are made within three days, and that changes in eligibility that reflect a decrease in benefits due to verification of parental request are made within ten days of notification of changes.
5. Review the “benefit issuance” list (roster of approved free and reduced applicants). Approved names at point of service must match the approved applications on file and from the Direct Certification list.
6. Review the collection procedures to ensure eligible participants, such as homeless, migrant, runaway and Head Start students, are not overlooked.



# Eligibility

7. Verify that the Direct Certification Report is pulled from the MSDS at least the minimum of three times per school year.
8. Summer Food Service Program (SFSP)
  - Area eligibility: Review that the school district qualifies as area eligible – it has 50% or more free and reduced-price children enrolled in the school district or, based on the most recent census data available, at least 50% of the children residing in that area are eligible for free or reduced-price school meals under NSLP and the SBP.
  - Enrolled program: Review that 50% of enrolled children are eligible for free or reduced-price meals.





# Eligibility Questioned costs

**Note:** Questioned cost must be calculated for all eligible children based on USDA guidelines for free, reduced-price and paid meals claimed for reimbursement.

- These reimbursements should not be extrapolated but limited to the actual number of meals claimed for each individual child that is affected.
- These questioned costs must represent the actual meals served and claimed in the respective months, times the appropriate USDA reimbursement rate(s) based on each individual students' income eligibility.



# Excess Fund Balance

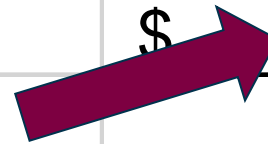
## ■ Reminders

- All program and non-program revenues are considered federal funds
- Cash resources not to exceed three months' average expenditures
- Excess fund balance spend down plans must be formally submitted or have reduced rates of federal reimbursement
- MDE sends notification each spring and Districts must spend funds by June 30<sup>th</sup> of the current year or request a carryover extension



# Excess Fund Balance

SFA Beginning Fund Balance	\$ 350,000.00
Total School Meal Revenue	\$ 2,500,000.00
Total School Meals cost w/o capital outlay	\$ (2,325,000.00)
Capital Outlay	\$ 25,000.00
PPA	\$ -
SFA Ending Fund Balance	\$ 500,000.00
Allowable Fund Balance	\$ 425,000.00
Excess Fund Balance (if neg)	\$ (75,000.00)



# Excess Fund Balance – Ways to Spend

- Increase quality of meals
- Update the cafeteria – create a space that is eye catching and provides a positive setting for healthy living
- Expand or start a breakfast program
- Add point of sale locations
  - Increases students ability to have access to more options quickly
  - Lunch is a short window – this creates more ease and efficiency
- USE PLE exemption



# Excess Fund Balance – Ways to Spend

- Eliminate the price for reduced meals to students at breakfast or lunch.
- At the discretion of School Food Authorities (SFA), participating schools and institutions that are not operating a special provision may offer meals at no cost to students who would otherwise qualify for reduced price benefits.
  - The expenditures associated with covering the reduced price student payments may be funded from the nonprofit food service account.
  - Schools electing to take advantage of this flexibility continue to receive Federal reimbursement based on meals claimed by students in the reduced price category. Only paid students will be charged for meals.
  - SFAs are permitted to implement this option selectively between the Programs (National School Lunch and School Breakfast) and serving sites they operate.



# Excess Fund Balance

## Noncompliance:

- If there is a spenddown plan in place it should still be noncompliance- but the response will be that there is a plan in place
- Is it material? Material Noncompliance
- Possible qualification of report over Federal Program



# Equipment

Definition: Tangible, nonexpendable personal property having a useful life of more than one year and an acquisition cost of \$5,000 or more per unit.

- If the SFA purchases equipment that has a useful life of more than one year with funds from the NSFSA, and the cost exceeds the SFA's capitalization threshold or \$5,000 (whichever is less), the SFA is required to obtain prior written approval from MDE before incurring the cost of equipment.



# Equipment

- MDE does not require SFAs that purchase equipment included on the USDA pre-approved list to submit a request to \$25,000 cumulative per building, per year.
- In addition, if an SFA chooses to select equipment that is not included on the USDA pre-approved list, the SFA must submit an equipment request to MDE for prior approval before purchasing the item, as required by 2 CFR Part 200.439.





# Equipment

- All purchases must meet the requirement of being necessary, reasonable and allocable.
  - SFAs must continue following all applicable federal, state and local procurement procedures.
  - The USDA pre-approved list is included in MDE Administrative Policy Memo. For additional clarification, refer to SY 2015-2016 Administrative Policy #13 – Compliance Requirements for Equipment Requests.



# Equipment

- Items purchased with funds from the NSFSA that cost less than \$5,000 (such as computers, iPads, assistive technology) must be properly tagged and appropriately tracked.
  - Written procedures should be developed that include the process for safeguarding these items purchased with federal funds.
  - Please refer to the MDE memo issued February 2, 2017, regarding Tangible Personal Property.



# Equipment

- Having an approved Excess Fund Balance Spend Down Plan does not negate the need for equipment approval
  - Need prior written approval for equipment and capital expenditures over \$5,000
  - Exception – if it is on the pre-approval list if the cost is below \$25,000 cumulatively per building per year
  - Should have a minimum of 3 quotes prior to obtaining MDE approval
  - Failure to obtain prior approval is an unallowable cost and the food service account must be reimbursed with non-federal dollars



# Equipment testing

1. Obtain SFA's policies and procedure for equipment management and monitoring.
2. Test expenditures for capital outlay to determine that the SFA obtained MDE prior approval and/or verify that the item was on the USDA approved list and did not exceed \$25,000 cumulative threshold per building.
  - For additional clarification, refer to SY 2015-2016 Administrative Policy #13 – Compliance Requirements for Equipment Requests.
3. Determine the equipment purchased with the NSFSA was properly tagged and appropriately inventoried.



# Equipment testing

1. An equipment inventory must be maintained by the public school district indicating the federal funding source, date purchases, description, serial number, cost, tag number and location of the equipment and any disposition data including the date of disposal and sale price of the property.
2. If the school district transferred or disposed of equipment purchased with federal funds, determine if it followed the appropriate federal criteria.
4. If an SFA purchased items of interest costing less than \$5,000 each, (such as computers, iPads, assistive technology), determine that the written procedure for equipment includes a process for properly tagging, tracking and safeguarding these items as outlined in MDE Memo issued February 2, 2017, regarding Tangible Personal Property.



# Equipment

- Take a-ways
  - Get prior approval if over \$5k
  - If no prior approval, it is considered an unallowable costs
  - Properly account for equipment- tag, keep listing
  - Take inventory every 2 years
  - In years past, districts said all equipment was purchased with “non-federal money.” However, it has been cleared up that all revenue in the SFA is treated as federal and restricted for SFA



# PLE Tool

- The USDA memo related to the PLE tool is available at USDA Memo SP12-2018 Paid Lunch Equity: Guidance for School Year 2018-19.
  - Not all SFAs will be required to adjust prices or find alternative sources of funding for paid lunches.
  - Applying the provision using federal reimbursement rates, SFAs now charging on average \$2.92 or more for a paid lunch would not be required to adjust prices in School Year (SY) 2018-2019.
  - SFAs currently charging on average less than \$2.92 for a paid lunch may be required to either gradually increase prices or provide additional non-Federal support for its lunches.



# PLE Tool

- For SY 2018-2019, SFAs that charged on average less than \$2.92 for paid lunches in SY 2018-2019 may be required to adjust their average price or provide additional non-federal funds to the NSFSA.
  - The amount of the per-meal increase will be calculated using a 2% rate increase plus the Consumer Price Index of 2.31%, totaling 4.3%.





# PLE Tool

In general, when the adjusted average price is more than the current price, the SFA would have to either increase its average paid lunch price to the adjusted average price

Or

provide additional non-Federal support for its paid lunches

- The law caps the required increase in the average paid lunch price at ten cents in any year, although SFAs can choose to raise prices more than ten cents.



## PLE Tool – exemption for this year

In Section 776 of the Consolidated Appropriations Act, 2018 (Public Law 115-141) (the Act), Congress provides that only school food authorities (SFAs) that had a negative balance in the nonprofit school food service account as of January 31, 2018, shall be required to establish prices for paid lunches according to the Paid Lunch Equity (PLE) provisions in Section 12 (p) of the Richard B. Russell National School Lunch Act, 42 U.S.C. 1760(p) and implemented in the National School Lunch Program regulations at 7 CFR 210.14(e).



# PLE Tool – exemption for this year

- Consistent with the terms of the Act this memorandum provides notice that any SFA with a positive or zero balance in its nonprofit school food service account as of January 3, 2018, is except from PLE requirements found at 7 CFR.210.14(e) for school year (SY) 2018-2019.
- SFAs that had a negative balance in the nonprofit school food service account as of January 31, 2018, must follow PLE requirements when establishing their prices for paid lunches in SY 2018-2019. The PLE Tool was distributed to State Agencies via email.



# PLE

Although this flexibility has been offered to SFAs with a positive fund balance, paid meal prices may still be raised if an SFA sees fit for their situation. SFAs with a positive fund balance should still complete the SY 2018-2019 PLE Tool as the PLE Tools are an annual requirement and are dependent on previous years to carry on the applicable requirement price. SFAs with a positive fund balance should document the PLE Tool completion and their fund balance as of January 31, 2018, if they choose to not raise meal prices in accordance with this special one-year exemption. Documentation should consist of an updated Detailed General Ledger for the Food Service Fund (Fund 25) as of January 31 that clearly indicates the fund balance information.



# Direct vs Indirect Costs

- <https://fns-prod.azureedge.net/sites/default/files/cn/SP60-2016a.pdf>

**Direct costs** are incurred specifically for a program or other cost objective<sup>2</sup>, and can be readily identified to a particular objective such as school food service. Examples of direct costs in SMPs include, but are not limited to food, wages and salaries of the staff working in the school food service, and supplies specifically used in the school food service.

**Indirect costs** are incurred for the benefit of multiple programs, functions, or other cost objectives and therefore cannot be identified readily and specifically with a particular program or other cost objective. Indirect costs typically support administrative overhead functions such as fringe benefits, accounting, payroll, purchasing, facilities management, utilities, etc.



# Direct and Indirect Costs

Direct Costs	Indirect Costs
Wages and salaries of food service workers	Payroll services
Cost of purchased food	Human resources
Food service supplies	Workers' compensation
Media/promotional materials relating to the food service	Procurement
Capital expenditures relating to food service (e.g., food service equipment purchases)	Gas
	Electricity
	Sewer
	Water
	Trash
	Superintendent's Office



# Direct and Indirect Costs

- Most common we see at districts
  - Custodial
  - Utilities



# Direct and Indirect Costs

## Summary of Determining Direct and Indirect Costs

Questions to contemplate in determining whether a cost is direct or indirect include:

- Does the cost benefit multiple programs or other cost objectives, or solely the school food service?
- Does the cost have a direct relationship to the school food service?
- What guidance do the Federal cost principles provide for this cost?
- How are similar costs treated in other cost objectives of the SFA?
- How has this cost been treated historically by the SFA?





# Direct and Indirect Costs

## **Custodial expenses**

Custodial expenses generally include the costs of cleaning the entire school. The food service benefits from custodial services because the kitchen, food preparation, and food serving areas are also cleaned. However, the question arises of whether the custodial expense can be charged as a direct or indirect expense. As we stated earlier, for the custodial expense to be a direct cost, the cost must be identified specifically with a particular cost objective.

**How would an SFA charge custodial expenses directly?** Some SFAs document the hours that custodians work cleaning food service areas such as the kitchen, food preparation, and food serving areas through a time reporting system, such as that described in 2 CFR 200.430. The time reporting system provides the exact hours a custodian cleans the food service area and the rest of the school. The SFA then charges the custodial expenses for cleaning the school food service area as a direct expense.



# Direct and Indirect Costs

Alternatively, the custodial expenses may be charged as an indirect cost to the school food service by including them in the indirect cost pool if a methodology or process for determining this item's direct relation to the school food service operations is not available. The key point to note is that the custodial expense may be charged as a direct or indirect cost, as long as it is treated consistently in all activities of the SFA. For example, this cost item may not be charged as a direct cost to the NSFSA if custodial expenses that benefited other programs, functions, and activities of the SFA were charged to such cost objectives as indirect costs. The reasoning is that it would not be equitable for the custodial expenses to be charged through a time reporting system solely for the school food service and not similarly for other programs.



Custodial expenses may be charged as a direct or indirect cost, as long as it is treated consistently in all activities of the SFA. An SFA may not charge custodial expenses as a direct cost to the school food service (e.g., through a time reporting system) and as an indirect cost for other programs.



# Direct and Indirect Costs

## Utility Expenses

The SFA in general and school food service in particular, need utilities such as electricity and gas to operate. While utility costs are often treated as indirect costs, they may be charged as a direct cost if there is a methodology to quantify exactly how much energy was utilized to prepare and serve meals. For example, the use of a separate utility meter for school food service would provide such quantification. The main point to note is that charges like utilities can be allocated directly or indirectly, depending on whether a methodology exists to specifically identify the amount of utilities attributable to the school food service.



# Direct and Indirect Costs

- For Indirect Costs
  - Check your methodology
  - Do not exceed max
  - Treat consistently across all programs
  - Keep support for calculation



# Bad Debts

- USDA Memo SP 46-2016s
  - Required Meal Charging Policy for districts
    - Must be in writing
    - Needs to include bad debt policy
    - As of July 1, 2017
    - SFA and business office should work together
  - Overall this is old news. However, there was confusion at first on what was considered a “bad debt’ and what journal entry should be made



# Bad Debts

- Bad debt expense

- Is defined as uncollectable meal balances for inactive students as of June 30th that have not been collected by December 31st of the same calendar year (six months)
- No later than December 31st each year the SFA must the accounts off and bad debt expense is an unallowable costs to the SFA
- Must use funds from non-federal funds to make the SFA whole
- The funds may come from the district general fund, local funding, school or community organizations such as the PTA, or any other non-Federal source



# Bad Debts

- Step One: Transfer an amount equal to the bad debts being removed from the Food Service Fund and transferred to the General Fund.
  - DEBIT Other Business Services (Bad Debt) Expense 11.259.7910
  - CREDIT Cash
  
- Step Two: In the Food Service Fund, remove the uncollectible portion from the receivable.
  - DEBIT Cash
  - CREDIT Accounts Receivable



# Bad Debts

## ■ More Guidance

- MDE Memo #4- For guidance and frequently asked questions
- See 1022 Accounting manual Section II - E.17 Food Service Uncollectable Balance Write-Offs





# Fraud Considerations

- Large food service fund balance
  - Could your district be recording revenue that belongs in Food Service in other funds?
- Food Service employee could be voiding or cancelling sales after they receive cash and pocket the cash
- Food Service employee makes orders, items are delivered, and never put into the inventory system, just taken home
- Food Service employees purposefully make more food and take home or use for side catering business



---

The information provided is a general summary and is being distributed with the understanding that Yeo & Yeo, P.C. is not rendering tax, accounting, audit, legal or other professional services advice or opinions on specific facts or matters and, accordingly, assumes no liability in connection with its use. The information is not intended to be used as a basis for any decision or action that may affect your business, organization or situation. Consult a qualified professional advisor before making any such decisions.

Copyright © 2019 Yeo & Yeo, P.C.



**CONNECT** with Us:  
[yeoandyeo.com](http://yeoandyeo.com)



Thank you!

Jennifer Watkins, CPA  
Principal