

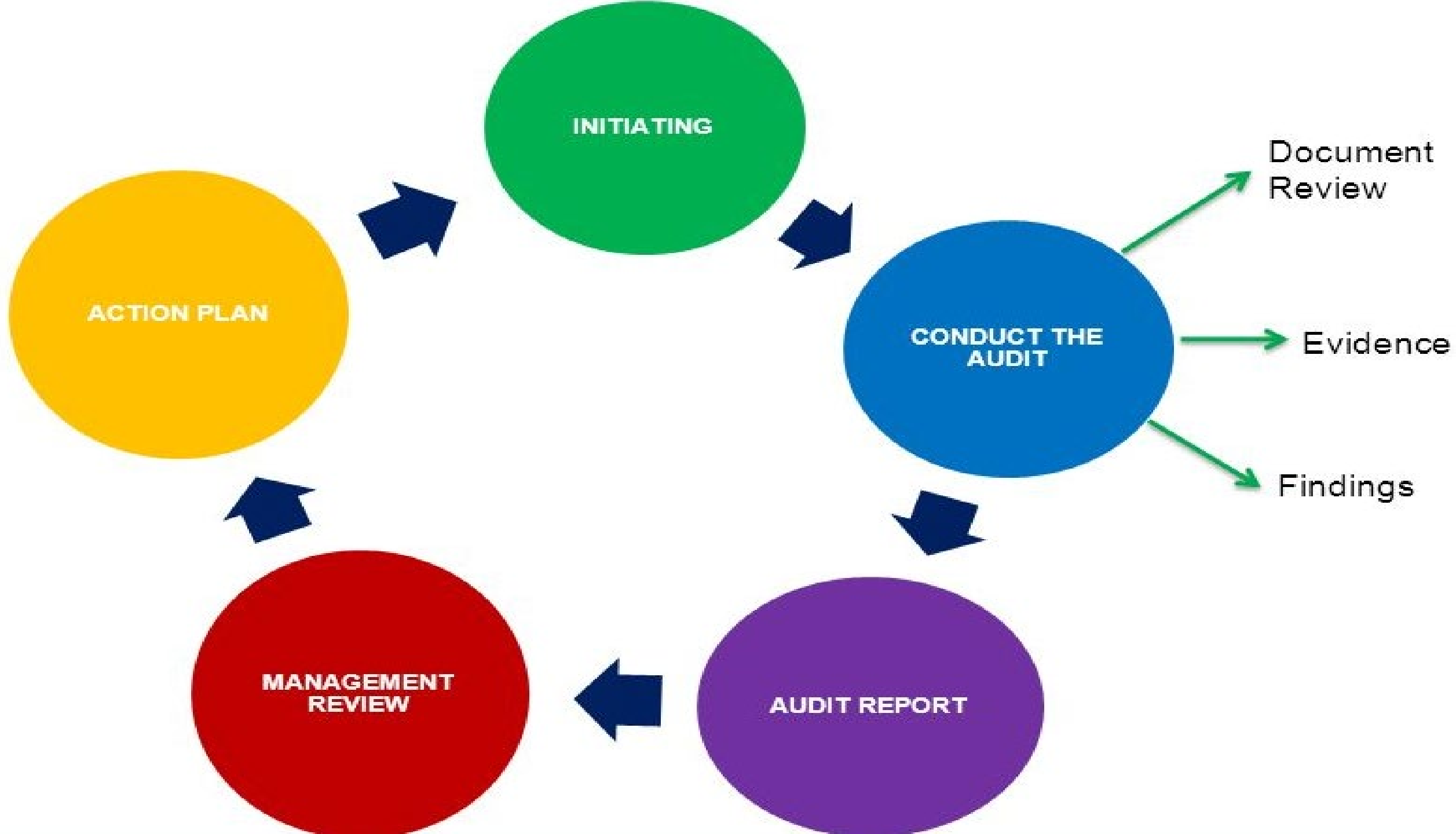
# SBOA Audits of School Nutrition

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## Contact Information



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## How Do I Prepare for an Audit?



- Before an audit starts, have following things in order:
  1. Monthly **bank accounts reconciled**.
  2. Make sure all **schedules are complete** (capital asset listing, investments, inventory etc....).
  3. **Supporting documentation** for expenses are in an orderly fashion.
  4. **Check that employee pay was correct**.
    - Withholding filings (W-2/941/WH3), salary schedules, and entries in the ledger to paychecks and contracts.
  5. **Verify policies** are updated.
  6. Come with a list of questions!

## Tips



- During the year track restricted grants, gifts, donations etc...★
- Keep internal control documentation and supporting documentation together.
- Respond quickly to inquiries – smaller audit bill.
- Establish an ‘auditor’ file:
  - Could include: regulatory agency correspondence, contracts, lawsuits, reconciliations...

## Tips



- Email is not for conversation! – pick up the phone and call or request a virtual meeting
- Respond to your auditor’s requests.
- We are using the Gateway Direct Request to obtain your documents – Do not send via email!
- Make sure you have uploaded **legible** documents in Gateway.
- Communicate:
  - What your current office hours are, are there any restrictions to entering your building.
  - Be honest with your SBOA Auditor. If you don’t understand what they are asking for, then ask for clarification.
  - When you receive a request for documents, acknowledge the request and give an idea of when you may be able to fulfill the request.
  - **Be open to using technology.**
  - If you have suggestions on how this process can be improved, please share!



# Audit Process

## AUDIT OBJECTIVES



- Obtain an understanding of internal control, assess risk, and test internal control as required by 2 CFR section 200.514(c).
  - Applies to **ALL** compliance requirements and special tests.
- Report noncompliance with compliance requirements.



## Initial Communication



- Email communication and phone calls relaying:
  - Audit Period
  - Lead Auditor
  - Audit Contact
  - Availability for Entrance Conference

## Preliminary Planning



- Understanding of the Entity and its Environment (Form 9)
- Understanding of Internal Controls (Form 7)

## Entrance Conference



- Examiners should explain objective of engagement.
  - Testing for non-compliance, obtaining assurance etc....
- Explanation of management's responsibilities
- Informing management of fees, records to be requested, estimated timeline of engagement.
- **Please ask any questions** if you are not clear on anything the examiner provides or requires!

## Risk Assessment



- Inquiries specific to major programs to be tested.
  - In the form of emails or meetings to understand internal controls and processes.
- The form 7 and 9 provide much of this information.

## Collection of Evidence



- Tests of Controls
- Substantive Tests
- Follow-up

## Exit Conference



- **Draft** report provided and discussed.
- Chance to respond to comments (Form 4) – 10 days.
  - Corrective Action Plan discussed if **repeat comments** in report.
- Official's term, email and physical addresses verified.

Ask Us Questions!



- HB 1031 (2017) – repeat comments have consequences.
  - Make sure to get an idea on how to fix problems before the examiner leaves.
    - If not, contact us at [schools.townships@sboa.in.gov](mailto:schools.townships@sboa.in.gov)
- Implement fixes immediately!
  - 2 year audit cycles – a comment could only pertain to one year, overshadows compliant years.

## What Not To Do



- Panic!
- Try to hide things – we are here to help!
  - The auditor should be viewed as a resource, not an adversary.
- Be afraid to ask questions.
- Try not to look at an audit as something to complicate your life!
  - An audit is an irreplaceable tool to ensure your finances are in order.





# CNC Compliance Requirements

## Compliance Requirements



- Activities Allowed or Unallowed
- Allowable Costs/Cost Principles
- Cash Management
- Eligibility
- Program Income
- Procurement, Suspension & Debarment
- Special Tests and Provisions

## ACTIVITIES ALLOWED



- Activities Allowed

- Revenues received by the non-profit school food service are to be used only for the operation or improvement of such food service
- The recovery of Indirect Costs can be a transfer from the School Lunch Fund to the Operations Fund as long as it is supported by an ICRA

- Activities Not Allowed

- Purchase of land or buildings unless otherwise approved by FNS or to construct buildings

## ALLOWABLE COSTS/COST PRINCIPLES



- Determine whether the school corporation complied with the provisions of 2 CFR part 200 as follows:
  - Direct charges to Federal awards were for allowable costs
  - Unallowable costs determined to be direct costs were included in the allocation base for the purpose of computing and indirect cost rate

## CASH MANAGEMENT



- Applies to NSLP & SBP (7 CFR 210.14(b) and 7 CFR 220.7(e))

- Net cash resources are to be limited to three months' average expenditures of its non-profit school food service account

School Lunch Fund Balance / (Total School Lunch Fund Expenditures/Number of Operational Months) < or = 3

- SFA **MUST** have an approved plan in place to spend down the excessive balance

## ELIGIBILITY



- Audit Objectives
  - Determine whether required eligibility determinations were made, that individual program participants were determined to be eligible, and that only eligible individuals participated in the program
  - Determine whether amounts provided to, or on behalf of, eligible participants were calculated in accordance with program requirements.

## ELIGIBILITY



- Participants must meet the definition of a “child” contained in 7 CFR 210.2 (NSLP), 215.2 (SMP), 220.2(SBP), & 225.2 (SFSP)
  - Participants **must** submit an application annually
  - Participant’s household **must** meet income eligibility guidelines
- Direct Certification
  - Determination based on the child’s household receiving benefits under SNAP, TANF, or the Head Start Program
  - Certain foster, runaway, homeless and migrant children are categorically eligible for free school lunches and breakfasts

## PROGRAM INCOME



- Audit Objective
  - Determine whether program income is correctly determined, recorded, and used in accordance with applicable governing requirements



## PROGRAM INCOME



- Program income includes but is not limited to:
  - Reduced price breakfast and lunch
  - Paid breakfast and lunch – students and adults
  - A la carte
  - Catering
- Program income must be receipted into the School Lunch Fund
- Program income must be used in accordance with the program regulations

## PROCUREMENT



- Audit Objective
  - Determine whether procurements under federal awards were made in compliance with applicable federal regulations and other procurement requirements specific to an award or subaward

# PROCUREMENT REQUIREMENTS



- SFAs **must** use their own documented procurement procedures, which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable federal statutes
- The SFA must use the most restrictive guidance for federal procurements:

	Federal Thresholds	State Thresholds
Micro Purchases	Less than \$10,000	Less than \$50,000
Small Purchases (Quotes)	\$10,000 - \$250,000	\$50,000 - \$150,000
Exceeds the Simplified Acquisition Threshold (Bids)	Greater than \$250,000	Greater than \$150,000

# PROCUREMENT REQUIREMENTS



- Micro Purchases
  - The acquisition of supplies or services in which the aggregate dollar amount does not exceed \$10,000
  - The SFA must distribute purchases equitably among qualified suppliers, if practicable
  - May be awarded without soliciting quotes, SFA considers the price to be reasonable
  - IDOE has recommended that the SFA keep a list of how micro-purchases are being distributed equitably among qualified suppliers

# PROCUREMENT REQUIREMENTS



- Small Purchases
  - 2 CFR 200.320(a)
  - Procurement for services, supplies, or other property that do not cost more than \$150,000
  - The threshold for federal procurement guidelines is \$250,000, but the state threshold is more restrictive at \$150,000 and therefore must be used
  - Quotes must be obtained from an adequate number of “qualified sources”

# PROCUREMENT REQUIREMENTS



- Simplified Acquisition Threshold

- **Procurement by sealed bids (Invitation for Bids)**

- Bids are publicly solicited
- Firm fixed price contract (lump sum or unit price)
- IFBs are predominately awarded only on price

- **Procurement by competitive proposals (Request for Proposals)**

- Usually conducted with more than one source submitting an offer
- Either a fixed price or cost-reimbursement type contract is awarded
- Generally used when conditions are not appropriate for the use of sealed bids
- RFPs may have other scoring criteria, such as delivery, quality, location, etc.

- **Procurement by noncompetitive proposals (very rare)**

- May only be used when one or more of the following circumstances apply:
  - The item is available only from a single source
  - The public exigency or emergency for the requirement will not permit a delay resulting from competitive solicitation
  - The federal awarding agency or pass-through entity expressly authorizes noncompetitive proposals in response to a written request from the non-federal entity
  - After solicitation of a number of sources, competition is determined inadequate

## SUSPENSION AND DEBARMENT



- Audit Objective
  - For covered transactions determine whether the non-federal entity verified that entities are not suspended, debarred, or otherwise excluded

## SUSPENSION AND DEBARMENT



- 3 Ways to accomplish verification:
  1. Checking the Excluded Parties List System maintained by the General Services Administration ([beta.sam.gov](https://beta.sam.gov))
  2. Collecting a certification from the entity
  3. Adding a clause or condition to the covered transaction with the entity



## SPECIAL TESTS AND PROVISIONS



- Verification of Free and Reduced Price Applications
- School Food Accounts
- Paid Lunch Equity

## VERIFICATION OF FREE AND REDUCED PRICE APPLICATIONS



- Verify that the LEA selected and verified the required sample of approved free and reduced price applications and made the appropriate changes to eligibility status
- If applicable, was a second review of applications properly conducted

## SCHOOL FOOD ACCOUNTS



- Verify a separate accounting is made of the school food service
- Verify federal reimbursement payments are promptly credited to the school food service account
- Verify transfers out of the school food service account are for the benefit of the school food service

## PAID LUNCH EQUITY



- Determine SFA has correctly calculated its average paid lunch pricing requirement
- Determine SFA correctly applied the calculations to the average paid lunch price
- Newly calculated paid lunch price implemented

# Internal Controls



## Internal Controls



- IC 5-11-1-27
  - 1. Adopt minimum standards
  - 2. Train *Personnel* defined in IC 5-11-1-27(c)
- Next steps? Creating an Internal Control Policy!

# Components of Internal Control



- **Control Activities**
  - Actual procedures performed
- **Risk Assessment**
  - Where could things go wrong?
- **Information and Communication**
  - If things go wrong, do you know?
- **Monitoring**
  - It needs to be continuous process
- **Control Environment**
  - 'Tone at the top'

**C.R.I.M.E!**

## Financial Statement Assertions



- Completeness – is all the activity included?
- Accuracy – is the activity accurate?
- Valuation – are the assets valued correctly?
- Existence – does the fund balance exist?
- Classification – transactions recorded in proper accounts?
- Rights/Obligations – do you have title to your accounts?
- Occurrence – did the transactions occur?
- Cut-Off – recorded in the proper accounting period?

**C.A.V.E C.R.O.C!**



## Internal Controls



- Logical Process when designing controls:
  - 1. Identify an Objective
  - 2. Determine the level of risk you are willing to accept
    - Any potential material errors should be addressed!
  - 3. Design Controls to accomplish Objective
  - 4. Put Controls in place
  - 5. Monitor that the controls are achieving the objective
  - 6. Revise controls based upon monitoring assessment

## Types of Controls



- *Preventative controls* are those such as requiring dual signatures on checks or having password-protected files. This type of control protects and limits access to assets.
- *Detective controls* include reconciling the bank or inventory counts. Typically these internal controls are performed periodically to see if any need to be corrected. They will often turn up internal errors or problems, as well as any external errors (such as bank errors).

## Internal Controls



- Document everything!
- Significant Areas to Consider:
  - Who does what and when
  - Proof that procedures and policies are being followed
  - Evaluation of how effective the policies and procedures are
  - Corrective actions taken to address identified problems

## Segregation of Duties



- Duties that “should” be separated:
- Receipt roles - Collecting, Depositing, Recording and Reconciling functions.
- Purchasing roles – Ordering, Receiving, Claim Creation/Approval, Payment, and Reconciling functions.
- Inventory roles - Requisition, Receipt, Disbursement, Conversion to scrap and Receipt of scrap proceeds functions.

		Employee Number							
Duties		1	2	3	4	5	6	7	8
<u>Cash Receipts</u>									
1.	Open mail and write receipt								
2.	Receive money, issue official receipts								
3.	Take off cash register totals								
4.	Balance cash drawer or cash register								
5.	Make up bank deposits								
6.	Take deposits to bank or remit to receiving officer								
7.	Post receipts								
8.	Access to computer system to make adjustments								
9.	Approves adjustments								
10.	Post credits to accounts receivable								
11.	Prepare customer billings								
12.	Mail billings or statements								
13.	Approve bad debt write offs								
14.	Approve accounts receivable adjustments								
15.	Issue permits, licenses, etc.								
16.	Issues receipts for electronic deposits								

<u>Cash Disbursements</u>									
1.	Authorize purchases								
2.	Prepare purchase orders								
3.	Certify receipt of goods or services								
4.	Audit claims								
5.	Approve claims - Disbursing Officer								
6.	Approve electronic transfers								
7.	Write checks								
8.	Initiate electronic transfers								
9.	Post checks								
10.	Sign checks - Control of signature stamp								
11.	Mail or distribute checks								
12.	Custodian of petty cash								
13.	Custodian of investments								
14.	Access to check stock								
15.	Access to computer system to make adjustments								
16.	Approves adjustments								

<u>Payrolls</u>								
1. Post vacation and sick leave records								
2. Check and extend time cards								
3. Prepare payroll claims								
4. Approve payroll claims for department								
5. Approve payroll claims for disbursing officer								
6. Calculate deductions and net pay								
7. Write payroll checks								
8. Sign payroll checks								
9. Distribute payroll checks								
10. Prepare earnings and deductions reports								
11. Prepare W-2s and compare to earnings records								
12. Access to computer system to make adjustments								
13. Approves adjustments								

<u>Cash</u>								
1. Receives bank statement in mail and opens it								
2. Compares checks cleared to disbursements posted								
3. Compares deposits to receipts posted								
4. Prepares bank reconciliation								
5. Approves bank reconciliation								
<u>Statement of Expenditures of Federal Assistance</u>								
1. Enters grant information into Gateway								
2. Approves grant information entered in Gateway								
3. Approves the prepared SEFA								
<u>Financial Close and Reporting</u>								
1. Closes the financial records								
2. Enters financial statement information into Gateway								
3. Approves the Gateway annual report								
4. Approves the prepared financial statements								
<u>Notes to the Financial Statements</u>								
1. Enters the required information into Gateway								
2. Approves the notes to the prepared financial statements								



# CORRECTIVE ACTION



Common Findings / Corrective Action Plans

# Common Finding - Allowable Activities and Costs



## **FINDING 2016-004**

Subject: Child Nutrition Cluster - Activities Allowed or Unallowed, Allowable Costs/Cost Principles

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.553, 10.555

Federal Award Numbers and Years (or Other Identifying Numbers): FY2014-15, FY2015-16

Pass-Through Entity: Indiana Department of Education

Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles

Audit Findings: Material Weakness, Modified Opinion

### *Condition*

An effective internal control system was not in place at the School Corporation in order to ensure compliance with requirements related to the grant agreement and the Activities Allowed or Unallowed and Allowable Costs/Cost Principles compliance requirements.

Effective controls were not in place to ensure that only applicable employees were paid from program funds. The School Corporation paid \$166,186 of administrative, treasurer, and maintenance salaries/wages that were allocated to the programs based on fixed percentages. There was no supporting documentation to indicate how the amounts were determined.

**Allowable Costs:  
2 CFR 200.403**

<https://www.gpo.gov/fdsys/pkg/CFR-2014-title2-vol1/pdf/CFR-2014-title2-vol1-sec200-403.pdf>

## Common Finding - Cash Management



### Condition

An effective internal control system was not in place at the School Corporation to ensure compliance with requirements related to the grant agreement and the following compliance requirements: Cash Management and Reporting.

### *Cash Management (School Breakfast Program and National School Lunch Program)*

The School Corporation had not established a control to ensure that the food service balance was less than or equal to the average expenditures for three months.

### *Reporting*

The Food Service Director prepared and submitted the Sponsor Claims, the School Food Authority (SFA) Verification Collection Reports, and the Annual Financial Report; however, there was no control in place to ensure that the reports were correct.

## • Key Control:

- Ensure that food service balance less than average of 3 months expenditures.



## Common Finding - Eligibility

### • Key Control:

- Ensure that free and reduced applications are determined correctly.
- One way is to have another person documenting the review, but not the only way!

#### ***FINDING 2016-003 - ELIGIBILITY***

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.553, 10.555

Federal Award Numbers and Years (or Other Identifying Numbers): FY 14-15, FY 15-16

Pass-Through Entity: Indiana Department of Education

#### *Condition*

An effective internal control system was not in place at the School Corporation to ensure compliance with requirements related to the grant agreement and the Eligibility compliance requirement.

The School Corporation had not established an effective control over the eligibility determination for Free and Reduced Price School Meals Applications. The Food Service Director was the sole person responsible for determining eligibility of applications filed.

The School Corporation had not established an effective control over the notification of households of the children's eligibility. There was no audit evidence available to test whether households who submitted Free and Reduced Price School Meals Applications were notified of the eligibility of their children.

# Common Finding - Suspension and Debarment



## 3 Options:

1. Check the SAM Website
2. Obtain a certification from each vendor
3. Clause in the contract

### ***FINDING 2015-008 - PROCUREMENT AND SUSPENSION AND DEBARMENT***

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.553, 10.555

Federal Award Numbers and Years (or Other Identifying Numbers): FY 13/14, FY 14/15

Pass-Through Entity: Indiana Department of Education

#### *Condition*

The School Corporation solicited quotes for the purchase of dairy products for the school food service program for each school year. The School Board accepted the quotes during public meetings; however, no contracts were signed with the successful vendor. The School Corporation did not verify that the vendor was not suspended or debarred or otherwise excluded from or ineligible for participation in federal assistance programs prior to accepting the quote.

- Applies to contracts expected to be greater than \$25,000.

## Common Finding - Program Income



### Fix:

- Retain Records!!!
- Use prescribed forms
  - SF-1 - Certification of Meals
  - SF-2 - Daily Record of Cash Received
  - SF-2A - Daily Record of Meals/Milk Served
  - SF-3 - Cash Disbursements and Fund Balance
  - SF-4 - Ledger of Receipts, Disbursements and Fund Balance
  - SF-5 - Ticket Control
  - SF-6 - Equipment Inventory
  - SF-7 - Food Inventory

#### **FINDING 2015-009 - PROGRAM INCOME**

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, National School Lunch Program

CFDA Numbers: 10.553, 10.555

Federal Award Numbers and Years (or Other Identifying Numbers): FY 13/14, FY 14/15

Pass-Through Entity: Indiana Department of Education

#### *Condition*

Daily records of cash receipts, which categorized the collections of the school food service program, were not retained for audit; therefore, it could not be determined whether the School Corporation was properly assessing, collecting, and recording program income generated from the school food service program.

All receipts from daily breakfast and lunch sales, as well as prepayments, were recorded in the School Lunch fund subaccount "elementary lunch." A separate fund was not used to account for the collections of prepaid meals.



## Common Finding - Reporting



### **FINDING 2015-010 - REPORTING**

Federal Agency: Department of Agriculture  
Federal Programs: School Breakfast Program, National School Lunch Program  
CFDA Numbers: 10.553, 10.555  
Federal Award Numbers and Years (or Other Identifying Numbers): FY 13/14, FY 14/15  
Pass-Through Entity: Indiana Department of Education

#### *Condition*

The SNP Annual Financial Reports filed with the Indiana Department of Education for the fiscal years ending June 30, 2014 and 2015, were not supported by the School Corporation's financial records.

Both the Elementary and Jr/Sr High schools indicated that at least 40 percent of their student population were receiving free or reduced meal benefits; therefore, both schools qualified to be reimbursed at the severe needs reimbursement rate for all breakfasts served.

The monthly Sponsor Claims (claims for reimbursement) filed with the Indiana Department of Education from December 2014 through May 2015 indicated that only the breakfasts served to Jr/Sr High School students were the severe needs classification. The breakfasts served to the Elementary School students were incorrectly reported as regular reduced and free breakfasts served.

### Fix:

- Process to **verify proper reporting** to IDOE.

## Corrective Action Plans - Background



### Adds IC 5-11-5-1.5:

- Requires entities to take action to resolve noncompliance noted in an SBOA audit report
- If the same or similar noncompliance is found in a subsequent report, then the entity must file a corrective action plan with the SBOA
- If the corrective action plan is not submitted or completed within 6 months, then the SBOA is required to notify the legislative audit committee
- Subsection (f) provides actions the legislative audit committee may take when notified



## CAP Template



- Views of the Responsible Official:
- Description of Corrective Action Plan:
- Anticipated Completion Date:
- If Applicable: Document reason issue will NOT be corrected **within 6 months**:

## Views of the Responsible Official



- Two Options:

1. “We Agree”

Or,

2. “We do not agree because...”

## Description of CAP - Clearly State the Issue



- Restate the issue identified in the repeat finding.
- Is the Who/What/When/Where/How addressed?
- **IN YOUR OWN WORDS!**

## Description of CAP - List the Requirements That Were Not Followed



- Restate each requirement not followed:
  - SBOA Uniform Compliance Guidelines (manual, bulletins, State Examiner Directives)
  - Code of Federal Regulations (CFR)
  - Local Policy
  - Administrative Regulations (Other State Agencies)
  - Indiana Code

## Identify the Root Cause



- Do not focus on the effect
  - What created this issue, or what led to the noncompliance?
  - Why do you continue to have this issue?
- 5 whys – problem solving technique

Define the problem

**HIV Consent – records missing one of the following:  
signed consent form; documentation of verbal consent; documentation that  
client declined HIV testing.**

**Why is this happening?**

1. Staff has been trained but they did not obtain consent.

Why is that?

2. There are many things to remember and staff simply forgot.

Why is that?

**Root Cause** →

3. There is no process or system in place to remind staff that they need to obtain consent prior to performing an HIV test.

Why is that?

4.

Why is that?

5.

## Description of CAP - Steps to be taken to correct the issue



- Please be detailed!
- S.M.A.R.T Goals guidelines:
  - Specific
  - Measurable
  - Achievable
  - Results-Focused
  - Time-Bound

Description of CAP - Summary of How the  
Corrections Will Prevent Future Occurrence



- How will the items outlined in the CAP prevent this issue?
- If can't 100% ensure, detail controls to prevent, detect, and timely correct the issue



## Anticipated Completion Date



- Timeline – focus on when the action takes place, not after (or the outcome)
  - Example: **Timeline of when you put your new policy in place.** NOT when the next reporting requirement occurs.

## CAP writing - an Opportunity



- This should be your plan to fix the issue.
- Take advantage of us!
- Should stand on its own (generally more detailed than federal CAP).

SBOA Website



<https://www.in.gov/sboa/4445.htm>



# Questions?