

The background features a large, faint watermark of the Seal of the State Board of Accountancy, Indiana. The seal is circular and contains the text "STATE BOARD OF ACCOUNTANTS" around the perimeter and "INDIANA" in the center. It is surrounded by a ring of stars.

Audit Considerations for School Nutrition Funds

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Child Nutrition Cluster - Programs



- 10.553 School Breakfast Program (SBP)
- 10.555 National School Lunch Program (NSLP)
- 10.556 Special Milk Program for Children (SMP)
- 10.559 Summer Food Service Program for Children (SFSPC)

Compliance Requirements



- Tested in a Single Audit

1. Control Testing
2. Compliance Testing

- 2017 Compliance Supplement

- https://www.whitehouse.gov/sites/whitehouse.gov/files/omb/circulars/A133/2017/Compliance_Supplement_2017.pdf

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!

Internal Control – Federal Requirements



- 2 CFR 200.303 states in part: "The non-Federal entity **must**: (a) Establish and **maintain effective internal control** over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

Allowable Activities and Costs



- Necessary and Reasonable
- Document reasoning by policies
 - If deviate from policies or special circumstances – More Documentation!

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>

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.

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.

Equipment and Real Property Management



• Key Control:

- Perform an inventory of all property purchased.
- Inventory procedures should be noted in a policy:
 - who takes the inventory?
 - what is done when variances are found?

FINDING 2015-005 - EQUIPMENT AND REAL PROPERTY MANAGEMENT

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, FY2015

Pass-Through Entity: Indiana Department of Education

Condition

The School Corporation had not established an effective internal control system, which would have included segregation of duties, related to the grant agreement and the Equipment and Real Property Management compliance requirement.

The School Corporation did not maintain property records that included a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, cost of the property, percentage of Federal participation in the cost of the property, the location, and use and condition of the property.

Context

The School Corporation had a lack of internal controls and had not maintained property records throughout the audit period.

Procurement



- Uniform Guidance
 - <https://www.whitehouse.gov/wp-content/uploads/2018/06/M-18-18.pdf>

	<u>Federal \$ amount</u>	<u>State \$ amount</u>
• Small purchase threshold	less than \$10,000	less than \$50,000
• Requirement for Quotes	\$10,000 - \$250,000	\$50,000 - \$150,000
• Requirement for Bid Process	over \$250,000	over \$150,000

- IC 5-22 – State Purchasing Requirements
 - <https://www.in.gov/sboa/files/IASBO%20Purchasing%20presentation%204-18-17.pdf>

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.

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.

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.

Reporting – Example Control



- Annual Financial Report
- Verification Reimbursement Report
- Sponsor Claim for Reimbursement
 - **Possible Control:** Printed (or electronically saved) document to show a review by another person than the submitter.
- <https://scnweb.doe.in.gov>

Special Tests and Provisions



Verification of Free and Reduced Lunch Applications

- Testing of 3% of applications.
- **Control:** Show that these applications were tested appropriately.

Special Tests and Provisions



School Food Accounts

- Operating on a Non-Profit basis.
 - Must have separate accounting.
 - Must promptly credit account for reimbursements.
 - Transfers out must be for benefit of food service account.
- **Possible Control:** Approval of cafeteria managers (signature) on daily cash reports. Policy stating what this approval is verifying.

Special Tests and Provisions



Paid Lunch Equity

- Applies if you charge less than federal meal reimbursement.
 - Options: Raise prices for paid lunches or other contributions.
- **Control**: *Review of the paid lunch equity calculation. Policy stating action to be taken when the paid lunch equity is higher than the weighted average price from previous school year.*

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!

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 Disbursing Functions**
 - Inventory roles – **Requisition, Receipt, Disbursement, Disposal, Inventory taking**

		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								

Resources



- Resources for Reference
 - SBOA Internal Controls Standards webpage
 - www.in.gov/sboa/5071.htm and/or www.in.gov/sboa/4445.htm
 - SBOA Internal Controls webinar
 - Embedded on above pages and can be found on YouTube:
<https://www.youtube.com/watch?v=LON80PBbPHQ>
 - Standards for Internal Control in the Federal Government (the Green Book)
 - www.gao.gov/assets/670/665712.pdf



Internal Control Questions?

Prescribed Forms



- Forms and records prescribed by SBOA
- Form approval process in March 2014
School Administrator
 - https://www.in.gov/sboa/files/scb2014_205.pdf

School Lunch Accounts



- Preferred – School Corporation records.
 - IC 20-41-2-4 – Allows accounting in ECA records.
- Prepaid School Lunch transactions
 - https://www.in.gov/sboa/files/scb2015_211.pdf
 - Prepayments → 8400 Prepaid Food Fund
 - Detail of student balances should be reconciled to 8400 Fund routinely
 - Transfers from 8400 to School Lunch (800) Fund to recognize income once balance used

Credit/Debit Cards



- Requirements:

1. School Board must authorize use
2. Use of cards by individuals designated by School Board
3. Purposes for cards must be stated in the adopted resolution
4. Must maintain system/log with individuals using the cards, their position, estimated amounts to be charged, fund/accounts used, date card issued/returned.

Credit/Debit Cards



5. Cards should not be used to bypass the accounting system. Purchase orders should be issued to enable tracking of encumbrances and appropriations to provide officials with timely and accurate accounting and monitoring information.
6. Payments should not be made based off of a bank statement or credit card slip alone. Documentation such as paid bills and receipts must be available.
 - i. Interest/penalties may be the responsibility of the employee.

• https://www.in.gov/sboa/files/scb2011_196.pdf

Record Retention



- SBOA Purposes – Until Audited!
- Indiana Archives and Records Administration (IARA) – Retention Schedules
 - <https://www.in.gov/iara/2739.htm>



Website Overview



Questions?