

ESC Procurement Workshop

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Contact Information



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School Lunch Program



- The preferred method of accounting for a school food and nutrition program is through a School Lunch Fund (School Food Service Fund) in the school corporation account (Fund 800)
- Authority is provided to account for the program in an extra-curricular account or accounts. (IC 20-41-2-4)
- If the school lunch funds are accounted for in the ECA accounts, the school board shall approve the amount of the official bond of the treasurer of the extra-curricular account in an amount deemed sufficient to protect the account for all funds coming into the custody of ECA treasurer. (IC 20-41-2-6)

Prepaid School Lunch



- Establish Prepaid School Lunch (8400)
 - When student brings in funds receipt to Prepaid School Lunch fund using receipt account 1630. This money is held on behalf of the student and is not considered income at this point
 - Once the student has charged meals it is considered program income
 - After Student has charged meals, funds should be disbursed from Prepaid School Lunch Fund using expenditure account 31900
 - The amounts charged to the individual students' accounts should be receipted into the School Lunch Fund (800) using receipt accounts 1611-1623 at the time established in a written school policy to ensure accurate monthly reporting
 - The balance of the Prepaid School Lunch Fund (8400) is required to be reconciled with the total of the individual meal account **at least monthly**
 - <https://www.in.gov/sboa/files/2019-February-School-Bulletin.pdf>

COMPONENTS OF INTERNAL CONTROLS



- **Control Environment**
 - Tone at the top, management experience & education, the existence of policies and procedures, organizational charts
- **Risk Assessment**
 - Where could things go wrong?
 - Does the unit perform any risk assessment procedures to aid in the development of internal controls?
- **Information and Communication**
 - Training on controls/program requirements?
 - Communicating changes to the program/agreement
 - Programmatic meetings
 - If things go wrong, do you know?
- **Monitoring**
 - How does the unit monitor the effectiveness of its internal controls?
 - It needs to be continuous process
- **Control Activities**
 - Actual policies, procedures, and physical controls that would prevent, or detect and correct, instances of non-compliance

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:
 - Receipting 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 proceed 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								

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)
- 10.582 Fresh Fruit and Vegetable Program

Federal Compliance Requirements



- Tested in a Single Audit

1. Control Testing
2. Compliance Testing

- 2022 Compliance Supplement

- https://www.whitehouse.gov/wp-content/uploads/2022/05/2022-Compliance-Supplement_PDF_Rev_05.11.22.pdf

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). . . ."

AUDIT OBJECTIVES



- Obtain and 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
- Control Environment, Risk Assessment, Information and Communication, Control Activities, and Monitoring

Requirement	A	B	C	E	F	G	H	I	J	L	M	N
	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
Program Number												
10.000 (no matrix)												
10.500	Y	Y	N	N	N	Y	Y	N	N	Y	Y	N
10.511	Y	Y	Y	N	Y	Y	N	N	N	Y	N	N
10.512	Y	Y	Y	N	Y	Y	N	N	N	Y	N	N
10.514	Y	Y	Y	N	N	N	N	N	N	Y	Y	N
10.515	Y	Y	Y	N	N	N	N	N	N	Y	Y	N
10.516	Y	Y	Y	N	Y	N	N	N	N	Y	Y	N
10.517	Y	Y	Y	N	Y	N	N	N	N	Y	Y	N
10.520	Y	Y	Y	N	Y	N	N	N	N	Y	Y	N
10.521	Y	Y	Y	N	Y	N	N	N	N	Y	Y	N
10.542**	Y	N	N	Y	N	N	N	Y	N	Y	N	N
10.551/10.561 (SNAP Cluster)	Y	Y	N	N	N	Y	N	Y	N	N	Y	Y
10.553/10.555/10.556/ 10.559/10.582 (Child Nutrition Cluster)	Y	Y	N	Y	N	N	N	Y	N	Y	N	Y

AUDIT OBJECTIVES



- Verify that unit is in compliance with all applicable compliance requirements per the Compliance Supplement
 - Activities Allowed or Unallowed
 - Allowable Costs/Cost Principles
 - Eligibility
 - Procurement, Suspension & Debarment
 - Reporting
 - Special Tests and Provisions

ACTIVITIES ALLOWED



- Determine whether Federal awards were expended only for allowable activities.
 - 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 Activities and Costs



FINDING 2021-003

Subject: Child Nutrition Cluster - Allowable Costs/Cost Principles

Federal Agency: Department of Agriculture

Federal Programs: National School Lunch Program, COVID-19 - Summer Food Service Program for Children, Summer Food Service Program for Children

Assistance Listings Numbers: 10.555, 10.559

Federal Award Number and Year (or Other Identifying Number): FY 2020-2021

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Allowable Costs/Cost Principles

Audit Findings: Material Weakness, Other Matters

Condition and Context

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 Allowable Costs/Cost Principles compliance requirement.

In fiscal year 2020-2021, the Food Service Director was assigned an additional role which included additional compensation paid out of non-grant funds. The Food Service Director did not maintain documentation of time spent on federal program and non-federal program activities. Therefore, all salary costs charged to the Child Nutrition Cluster while the Food Service Director was performing both roles were considered questioned costs. Total questioned costs were \$54,754.

Allowable Costs:
2 CFR 200.403

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

ELIGIBILITY



- Audit Objectives
 - Determine whether required eligibility determination 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



• 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.

PROCUREMENT



- 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

SELF-CERTIFICATION OF MICRO PURCHASE THRESHOLD ABOVE \$50,000



- USDA notified schools that they may self-certify a micro-purchase threshold up to \$50,000.
- To increase the threshold above \$50,000 you must obtain approval from the cognizant agency.
- You must include a justification, clear indication of the threshold, and supporting documentation of any the following (2 CFR 200.320(a)(1)(IV))
 1. Qualification as a low-risk auditee. **If audited on a biennial basis cannot qualify as a low-risk auditee per 2 CFR 200.520(a)**
 2. Annual internal institutional risk assessment to identify, mitigate, and manage financial risks
 3. For public institutions, a higher threshold consistent with State law.

SUSPENSION AND DEBARMENT



- 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:
 - Checking the Excluded Parties List System maintained by the General Services Administration (beta.sam.gov)
 - Collecting a certification from the entity
 - Adding a clause or condition to the covered transaction with the entity

PROCUREMENT, SUSPENSION AND DEBARMENT



3 Options:

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

FINDING 2021-003

Subject: Child Nutrition Cluster - Procurement

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, COVID-19 - School Breakfast Program, National School Lunch Program, COVID-19 - National School Lunch Program, Summer Food Service Program for Children

Assistance Listings Numbers: 10.553, 10.555, 10.559

Federal Award Numbers and Years (or Other Identifying Numbers): FY 2019-2020; FY 2020-2021

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Procurement and Suspension and Debarment

Audit Findings: Material Weakness, Other Matters

Condition and Context

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 Procurement and Suspension and Debarment compliance requirement.

The School Corporation did not have a system of internal control in place for the acquisition of property and services that fell within the small purchase procedures. The School Corporation did not have a system of internal control in place to ensure that vendors were not suspended or debarred or otherwise excluded from participating in federal assistance programs prior to entering into contracts that exceeded \$25,000.

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

REPORTING



- Sponsor Claim for Reimbursement
 - SFAs and sponsors must submit monthly claims for reimbursement for meals and snacks served to eligible students within 60 days following the last day of month covered by the claim
 - Possible control - maintaining documentation from person other than person responsible for completed the claim for reimbursement review the report for accuracy prior to being submitted for reimbursement

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

VERIFICATION OF FREE AND REDUCED PRICE APPLICATIONS



FINDING 2021-007

Subject: Child Nutrition Cluster - Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP)

Federal Agency: Department of Agriculture

Federal Programs: School Breakfast Program, COVID-19 - School Breakfast Program, National School Lunch Program, COVID-19 - National School Lunch Program

Assistance Listings Numbers: 10.553, 10.555

Federal Award Number and Year (or Other Identifying Number): FY 2019-2020

Pass-Through Entity: Indiana Department of Education

Compliance Requirement: Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP)

Audit Finding: Material Weakness

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2019-002.

Condition and Context

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 Special Tests and Provisions - Verification of Free and Reduced Price Applications (NSLP) compliance requirement.

There was no documentation that an oversight or review process had been established to ensure the accuracy of the verifications performed during fiscal year 2019-2020.

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
- Possible controls – Personnel review the calculations for accuracy. Once school board approves meal prices verify the approved amount agrees with amount being charged in the software

RECENT CHARGE REPORT – OVER \$1,000,000!
FOOD SERVICE DEPARTMENT



- Unauthorized Transaction - \$976,773.29
 - Penalties and Interest - \$20,109.64
- Special Investigation Costs - \$121,442.33
 - Total - \$1,118,325.26

- What happened???????
- Lack of internal controls.....

RECENT CHARGE REPORT – OVER \$1,000,000!
FOOD SERVICE DEPARTMENT



- Internal Control Deficiencies Noted
 - Lack of segregation of duties
 - Maintaining the financial records of the School Lunch ECA
 - Recording receipts and disbursements
 - Preparing purchase authorizations and ensuring they were supported by approved claims and vendor invoices
 - Writing and issuing vendor checks

RECENT CHARGE REPORT – OVER \$1,000,000!
FOOD SERVICE DEPARTMENT



- More Internal Control Deficiencies
 - No review of bank reconciliations and comparison to the financial records
 - Account software printed the Purchase Authorizations which are sequentially numbers but were not filed accordingly
 - No evidence that checks were reviewed and compared to disbursement supporting documentation
 - System electronically applied dual signatures on the checks

RECENT CHARGE REPORT – OVER \$1,000,000!
FOOD SERVICE DEPARTMENT



- More Internal Control Deficiencies
 - Software lacked the following internal controls
 - Username and password protection that would allow for identification or entry and changes to posted transactions by user
 - An audit trail for documenting voids and approvals for changes made to posted transactions
 - Posted transactions could be changed at any time, including after audit, when the books should have been closed

QUESTIONS



QUESTIONS?