



# PREPAID MEALS

A system of internal control may be implemented in many different ways. Because political subdivisions vary in purpose, size and complexity, no single method of internal control is universally applicable. However, the five internal control components should be present and functioning in all political subdivisions.

Questions have been accumulated for all five internal control components. This document includes questions pertaining to various noncompliance issues regarding prepaid meals. These questions can be used to aid in designing a proper system of internal control over the handling of prepaid meals that will allow deficiencies in the handling of prepaid meals to be prevented or detected and corrected. It is not necessary to address all questions in this document. These are only suggestions and ultimately it is up to the unit on how they implement it. The internal control system as a whole has to be designed and implemented appropriately in order to allow errors and deficiencies in the handling of prepaid meals to be prevented or detected and corrected.

Although the preferred method of accounting for a school food and nutrition program is through School Lunch funds in the school corporation account, authority is provided in IC 20-41-2-4 to account for the program in extracurricular accounts. This document refers to the School Lunch fund and the Prepaid School Lunch fund accounted for in the school corporation records. If extracurricular accounts are used to account for the school food and nutrition program these fund numbers will most likely not agree with fund numbers used by the school corporation.

- Components of Internal Control:
- Control Environment
  - Risk Assessment
  - Control Activities
  - Information and Communication
  - Monitoring

**Control Environment – Sets the tone of the unit and influences the effectiveness of internal controls within the unit. It comprises the integrity and ethical values of the unit and is set by the governing board and management. The standards, processes, and structures which form the control environment pervasively impact the overall system of internal control.**

The questions in this section are divided by questions that pertain to the governing board, management and both the governing board and management.

<b>Governing Board:</b>	YES	NO
1) Does the governing board oversee the unit's internal control system over the handling of prepaid meals?		
2) If considered necessary, did the governing board establish an oversight committee and appoint members with high ethical values, excellent communication and problem solving skills?		
3) Does the unit have a mission statement, objective and goals?		
4) Does the governing board convey periodic messages of expectations to all employees?		
5) Are there written policies documenting internal control procedures over the handling of prepaid meals? If yes, do these written policies outline the authority and responsibility for the handling of prepaid meals within the governmental unit?		
6) Has the governing board established a policy for the handling of bad debt accounts?		
7) Has the governing board established a policy for repayment plans on delinquent student accounts?		
8) Has the governing board established a policy for charged meals?		
9) Has the governing board established a policy on the frequency of transfers of income to be made from the Prepaid School Lunch fund to the School Lunch fund?		
10) How involved is the governing board in understanding the unit's handling of prepaid meals, overseeing the effectiveness of internal controls over prepaid meals, and evaluating whether the accounting records that support transactions and fund balances for the Prepaid School Lunch fund are correct? For example, is the governing board's involvement limited to attending board meetings, or does the board oversee other things such as unit controls, accounting practices, etc.		
11) Did the governing board develop an organizational chart? If yes, is the organizational chart current and accurate? If yes, did the governing body create job duties for each level of the organizational chart? If job duties were created, do these duties address responsibilities required for the handling of prepaid meals?		
12) Has fiscal authority been formally delegated to specific management personnel?		
13) Did the governing board develop a formal employee evaluation system to set the intervals in which employees will be evaluated? If yes, does the formal evaluation system include disciplinary action that will be taken if an employee does not meet the expectations noted in the evaluation system?		
14) Does management provide documented processes regarding prepaid meals to the governing board for review?		
15) How does the governing board oversee the activities of management that are related to financial reporting? What oversight does the governing board give on the accounting records?		



	YES	NO
16) Are accounting department employees and school lunch employees involved in the handling of prepaid meals required to take vacations?		
17) Has the governing board developed and implemented an ethics policy? If yes, does the policy address potential conflicts of interest? Is there a system of annual acknowledgment in place where either through e-mail submission or manual documentation, each official and employee attests that they have read the policy and will adhere to the policy?		
18) Are there regular meetings of the governing board to set policies and objectives and review the unit's performance?		
19) Are the minutes of such meetings prepared and signed on a timely basis?		
20) Are confidentiality agreements required for employees who come in contact with confidential information?		
21) Are policies regarding personal use of computer equipment and software clearly stated?		
22) Are school lunch prices established by the governing board?		

**Management:**

1) Does management develop and maintain documentation of the internal control system over prepaid meals?		
2) What procedures did management put in place for prepaid meals? a. Does management assign responsibility, and delegate authority to achieve the proper handling of prepaid meals?		
3) Does management establish an organizational structure, assign responsibility and delegate authority in order to achieve the proper handling of prepaid meals? If yes, did management establish and document the organizational structure of each office and department. Examples of items to incorporate into the structure could include: an organizational chart; outline of specific duties; designation of responsible persons for each part of the accounting process; documentation of internal control procedures over specific accounting areas; etc.		
4) Does management ensure compliance with the unit's personnel policies and procedures concerning hiring, training, promoting and compensating?		
5) Does management check credentials and references for new employees?		
6) Do employees who are involved in the handling of prepaid meals receive continuous or periodic training? If yes, what kind of training do employees receive to help them maintain their accounting and financial reporting competencies? a. What background, education, and experience do accounting personnel have that assist them with their duties?		
7) Does management reward employees for following good internal control practices through promotions or increase in compensation?		
8) Is turnover of key fiscal personnel relatively low?		
9) Does the workload of accounting employees facilitate the preparation of reliable accounting records?		
10) Does management evaluate performance and hold individuals accountable for their responsibilities? If yes, what action is taken for employees not performing their responsibilities?		
11) Is cross training completed to ensure that more than one employee is knowledgeable about the handling of prepaid meals? This cross training would allow more than one employee to be aware of potential design deficiencies in the internal controls or of noncompliance with internal controls.		
12) Do accounting supervisors frequently prepare reports or reconciliations to verify the accuracy of financial transactions?		
13) Does management take an active role in the financial reporting of the unit?		
14) Is management actually involved in supervision of the various functions?		
15) Does management ask employees for their suggestions on how to improve processes?		
16) Has management given a high priority to its internal control structure?		
17) Does management emphasize meeting the budget and/or financial and operating goals?		
18) Is management willing to adjust the financial statements for misstatements that approach a material amount?		
19) Does management discuss internal controls at management and other staff meetings?		
20) Are there documented procedures for employees to follow when the balance of the Prepaid School Lunch fund does not reconcile to the total of the individual meal accounts?		

**Governing Board and Management:**

1) Does the governing board and management stress adherence to policies and procedures?		
2) Is there a clear assignment of responsibility and delegation of authority to deal with such matters as organizational goals and objective, operating functions and regulatory requirements?		



**Risk Assessment – Risk is the possibility that an event will occur and adversely affect the achievement of objectives. Risk assessment is the process used to identify and assess internal and external risks to the achievement of objectives, and then establish risk tolerances. It is the basis for determining how risk will be managed.**

	YES	NO
1) Does management identify, analyze and respond to risks regarding the handling of prepaid meals?		
a. What areas have been identified regarding the handling of prepaid meals that may be exposed to fraud risk?		
i. Risk factors may include changes in management or employees, competence and experience of personnel assigned to handle prepaid meals, new accounting system, complexity of the handling of prepaid meals, new or amended laws, the size and volume of individual transactions, understated lunch collections, theft of cash received, recording collections and revenue in incorrect periods, improper transfers from the Prepaid School Lunch fund to the School Lunch fund, etc.		
b. Does management analyze the identified risks to determine the effect of the risk on achieving proper procedures over prepaid meals? For example, does management consider how likely the risk will occur, how it will impact the proper handling of prepaid meals, etc.		
c. How has management addressed risks associated with using computerized accounting records, such as unauthorized access to applications or data, potential loss of data, and reliance or inadequate systems that may adversely affect internal control?		
d. How has management responded to identified risks? For example, management may accept the risk and take no action, choose to eliminate certain processes to avoid the risk and institute proper internal controls.		
e. When needed, does management go back to the governing board to enact or modify policies that will that will clearly define these areas?		
2) Does management clearly define proper procedures over prepaid meals to enable the identification of risks and defines risk tolerances? Documentation of procedures over prepaid meals should be clear and address items such as who will be involved in the handling of prepaid meals, how proper procedures over prepaid meals will be achieved, and when will proper procedures over prepaid meals be in place.		
3) How does management prevent fraud and errors in the accounting records, which are used to post financial transactions related to prepaid meals? For example, are important internal control procedures in place such as approvals, regular preparation or review of reconciliations, review of supporting schedules or reports, etc.?		
4) Is management continually aware of changes, both external and internal that could affect the handling prepaid meals? If yes, does management determine any modifications needed in the internal control process to adopt to these changes?		
5) Did the governing board incorporate external requirements, such as state statutes, Uniform Compliance Guidelines and requirements of the SCHOOL FOOD AND NUTRITION?		
6) Are employees involved in the handling of prepaid meals bonded?		

**Control Activities – The actions and tools management establishes through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives and to respond to risk in the internal control system.**

An integral part of the control activity component is segregation of duties. However, in very small governmental units, such segregation may not be practical. In this case, compensating activities should be implemented which may include additional levels of review for key operational processes and random and/or periodic review of selected transactions. In smaller units, these reviews and testing of processes might be performed by governing boards or other elected officials.

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. Clear documentation should be maintained for continuity as well as ease of communication to outside parties.

	YES	NO
1) Is there a system of checks and balances (segregation of duties) to ensure the proper handling of prepaid meals?		
a. Is the individual collecting school lunch funds separate from the individual generating daily reports?		
b. Is an individual not involved in collecting school lunch receipts or generating daily reports compare receipt postings to the Prepaid School Lunch fund to the Daily Record of Cash Received reports (form SF-2)? If yes, is this review documented as evidenced by initials, tick marks, etc. indicating procedures performed?		
c. Is an individual not involved in collecting school lunch receipts or generating daily reports compare deposits/remittances of student collections to the Daily Record of Cash Received reports (form SF-2)? If yes, is this review documented as evidenced by initials, tick marks, etc. indicating procedures performed?		
d. Is an individual not involved in collecting school lunch receipts or generating daily reports compare the total amount of individual meal account balances to the fund balance of the Prepaid School Lunch fund? If yes, is this review documented as evidenced by initials, tick marks, etc. indicating procedures performed?		



	YES	NO
e. Is an individual not involved in collecting school lunch receipts or generating daily reports comparing total debits posted to individual meal accounts to Daily Record of Cash Received reports (form SF-2)? If yes, is this review documented as evidenced by initials, tick marks, etc. indicating procedures performed?		
f. Is an individual not involved in collecting school lunch receipts or generating daily reports compare total debits posted to individual meal accounts to deposits/remittances of student collections? If yes, is this review documented as evidenced by initials, tick marks, etc. indicating procedures performed?		
g. Is an individual not involved in collecting school lunch receipts or generating daily reports compare total credits posted to individual meal accounts to receipts posted to the School Lunch fund? If yes, is this review documented as evidenced by initials, tick marks, etc. indicating procedures performed?		
2) Did management design the entity's information system and related control activities to ensure the proper handling of prepaid meals?		
3) Are the accounting records for the Prepaid School Lunch fund established in accordance with the SBOA chart of accounts and Uniform Compliance Guidelines in order to allow proper oversight by management and the governing board?		
a. Has a Prepaid School Lunch fund (fund 8400) been established?		
b. Are collections, including those received through on line banking and in person, posted to fund 8400 using receipt account 1630 (Special Functions)?		
c. Are charged meals disbursed from the Prepaid School Lunch fund (fund 8400) using expenditure account 31900 (Other Food Services)? Note: A charged meal is when the student goes through the lunch line and charges a meal or ala carte items to their account.		
d. Are charged meals disbursed from the Prepaid School Lunch fund (fund 8400) receipted to fund 800 School Lunch fund (fund 800) using receipt accounts 1611-1623? If yes, are the transfers net of bad debts, uncollectible accounts and collections received for repayment plans?		
4) Are individual meal accounts established for each student?		
5) Are school lunch collections and the write off of bad debts posted to the individual student meal accounts?		
6) Are charged meals posted to the individual student meal accounts?		
7) Are bad debts and uncollectible accounts written off in accordance with the policy approved by the governing board?		
8) Are charged meals bad debts and uncollectible accounts written off in accordance with the policy approved by the governing board?		
9) Are repayment plans handled in accordance with the policy approved by the governing board?		
10) Are charged meals deducted from student accounts immediately (when the student goes through the line and charges a meal or ala carte items)?		
11) Are collections added to student accounts timely?		
12) Are receipts issued by the ECA Treasurer or School Corporation Treasurer to the individual remitting the collections? If yes, is the receipt retained by the school lunch staff to support deposits and receipt postings to fund 8400?		
13) Are transfers of charged meals from the Prepaid School Lunch fund to the School Lunch fund made in accordance with the policy approved by the governing board to ensure accurate monthly reporting?		
14) Are families notified of negative cash balances in their student's account?		
15) Do families have access to detailed collections, charges and ending balances of student accounts?		
16) Is the individual authorized to oversee prepaid meals knowledgeable?		
a. Is there a checklist for the proper handling of prepaid meals that includes the following?		
i. employee names with their responsibilities and duties		
ii. deadlines for generating reports, making deposits, etc.		
iii. detail of supporting documentation required, etc.		
iv. compliance with written policies		

**Information and Communication – Relevant information from both internal and external sources is necessary to support the functioning of the other components of internal control. Communication is the continual process of providing, sharing, and obtaining necessary information.**

	YES	NO
1) Are procedures established to ensure that proper communication and documentation exists for internal communications between offices, departments, management and the governing board regarding prepaid meals?		
a. How does the unit internally communicate information regarding prepaid meals to employees, including objectives and responsibilities for internal control? Are records maintained to document this communication?		



	YES	NO
b. Are procedures established to ensure that the communication requirements are being followed and necessary information is being communicated properly?		
c. Are procedures established for feedback on and clarification of the information provided?		
2) What procedures are in place to collect the information needed to ensure the proper handling of prepaid meals?		
a. Does management use the most current information available to ensure the proper handling of prepaid meals?		

**Monitoring – Activities that allow management to assess the quality of internal controls over time and make adjustments as necessary. Proper monitoring ensures that controls function properly.**

	YES	NO
1) Are procedures in place to ensure that appropriate personnel perform their required duties sufficiently and adequately follow the policies and procedures of the governmental unit regarding prepaid meals?		
2) Are internal control procedures over prepaid meals evaluated and adjusted on a regular basis? For example, personnel changes, newly elected officials, etc.		
a. What follow-up action is taken for identified problems or weaknesses in internal controls regarding prepaid meals?		
3) Are monthly reports detailing receipts, disbursements and cash balances of the school lunch funds provided to management of the school lunch funds to review for accuracy and reasonableness?		
4) Are monthly reports of receipts, disbursements and cash balances of the school lunch funds provided to the governing board to review for accuracy and reasonableness?		
5) Does a confidential reporting system exist so that individuals may report suspected fraud and abuse of the unit's policies?		