



POLICY BULLETIN:

NEW JERSEY DEPARTMENT OF EDUCATION Division of Finance

Robert J. Swissler, Assistant Commissioner

BULLETIN 200-12
DATE July 1992

Administration of School Food Service Funds/Districts with Food Service Management Companies

As a result of a response contained in the July 25, 1991 memorandum "Questions of the Registered Municipal Accountants Association and Answers of the New Jersey Department of Education" the state has learned that many school districts are allowing school food service management companies to retain custody of school food service funds: sales receipts and/or federal and state reimbursements, and to disburse such funds for program costs which are violations of N.J.S.A. 18A:17-34, N.J.S.A. 18A:19-1 thru 4, and 7 CFR 210.16(c).

In accordance with Assistant Commissioner Swissler's memorandum of January 17, 1992, school districts should make every effort to comply with the statutory requirements for administering school funds. Because many districts have entered into contracts with outside food service management companies in good faith, and without knowledge that these contracts are based on cash administration procedures which are contrary to existing state statute, the department has delayed enforcement of these statutes in this situation until now.

Auditors should include appropriate comment but no recommendations are required, if prior to the completion of the audit, the district's officials provide evidence that such funds are or will be properly administered by the school district beginning in fiscal year 1992-93.

Boards of Education may contract with food service management companies to equip, supply and operate cafeterias without profit to the district pursuant to N.J.S.A. 18A:33-3. Every contract for the services of a food service management company should meet federal standards and procurement requirements pursuant to Title 7 of the Code of Federal Regulations pursuant to N.J.S.A. 18A:18A-42.1. The most widely used contract method in New Jersey is referred to by the Accounting Guide for Government Contracts as the "cost plus a fixed fee (management fee) contract." The food service management company receives a set fee for managing the food service operation and the board of education is liable for the reimbursement of all costs incurred.

Regardless of the contract method, the local board of education is considered the school food authority. Federal regulations prohibit contracts that

- 2 -

permit all receipts and expenses to accrue to the food service management company. Even if federal reimbursements are not received, schools using management companies and retaining liability for costs incurred are considered the school food authority.

As school food authorities, daily cash sales and state and federal reimbursements are considered school moneys and thus, are subject to the state's laws regarding such funds. Management companies may handle the preparation of food, placing of orders for food and supplies and other associated administrative duties but they are not permitted under state law to administer or hold school funds.

The following procedures should be implemented in order to comply with state laws for administering school moneys.

1. The income from daily cash sales and state and federal reimbursements must be under the control of the treasurer of school moneys in any bank or banking institution of the state designated by the board of education as a depository of school moneys. Such funds may be deposited in the board's general operating account. A separate food service account is not required. (N.J.S.A. 18A:17-34)

Receipts and disbursements of food service funds must be separately accounted for in the records of the treasurer and board secretary. The board secretary should maintain the cash records in accordance with the state prescribed Chart of Accounts, 1700 Series Food Service Operation Accounts.

If the board budgets funds in its current expense J-1 budget in account 930, Expenditures to Cover Deficit of a Separate Food Service or Account, those funds may be transferred to the clearing account at any time during the year. A district may make the transfer at the end of the year for the actual amount, if any. If made prior to the end of the year, any amount of the transfer not needed for a deficit may be refunded to the 930 account. A board may also use this account to subsidize the food service program in order to provide lower cost meals to its students.

2. The board may by resolution designate the board secretary or another person to approve payments without board approval to expedite the payment process. All such payments must be issued on properly signed warrants and subsequently ratified by the board. The board's resolution may limit the authorization to certain purposes such as the school food service reimbursements and may also limit the dollar amount per payment or month. (N.J.S.A. 18A:19-1, 2, 4 and 4.1)

3. Loans or advances from the board to a food service management company are prohibited, all claims and demands must state that articles have been furnished or services rendered before payment can be made. (N.J.S.A. 18A:19-3)

4. Food service management companies may negotiate the cost reimbursement dates with the board. However, no interest may be charged on payments which are not made within the negotiated dates.

- 3 -

5. The food service management company must provide itemized claims for services and goods to the board secretary for reimbursement.

a) The food service management company should process payroll data in such a way that the board secretary can reimburse it in time for payroll checks to be issued. A one week lag between payroll period and check disbursement should provide sufficient time for all necessary verifications and payments.

b) The food service management company must submit an itemized claim for reimbursement for all goods and services. Reimbursement claims for payroll should include either a copy of the company's payroll for those employees providing service to the district or an itemized listing of employees, check numbers and date, hours worked and earnings. In the latter scenario, payrolls and support documentation must be made available whenever requested by the board secretary and for the annual audit.

When the food service management company purchases goods specifically for the school district, reimbursement claims for goods should list invoice numbers, dates, vendor names and amounts (sample 1 attached). If the food service management company purchases food in bulk for a number of districts, it may use the above method allocating invoice amounts between districts based on the percentage of each district's student enrollment (or participation) to the total enrollment for all schools (sample 2 attached). It may also use a per meal cost calculation based on the total amount of the invoices divided by the total meals served to all districts. Each district's pro rated share of the costs would be the per meal cost multiplied by the meals served in each district (sample 3 attached).

When a food service management company submits an itemized claim for reimbursement, it is not necessary to provide vendor invoices. However, they must be made available whenever requested by the board secretary and for the annual audit.

6. The board of education and the food service management company should work closely to expedite reimbursements and to avoid cash flow problems. However, a food service management company may need to establish a line of credit if the timing of reimbursements is not sufficient to make its payrolls. Interest paid is an allowable cost of the contract in such situations.

The foregoing procedures are recommended by the department to comply with the state's statutes for administering school funds. These procedures do not replace, but rather supplement, the requirement contained in 7 CFR 210.16 that all books and records of the food service management company pertaining to the school food service program shall remain the property of the school district.

Any questions regarding this bulletin should be referred to either: Pat Austin or Frank Hopper, Bureau of Fiscal Policy and Business Management at (609) 292-7131.

MA/mh:1/9500d

SAMPLE 1

Foodland Food Services
 123 Broad Street
 Anytown, NJ 08000
 609-123-4567

October 15, 1992
 Invoice #123456

New City School District
 Highland Street
 Old Town, NJ 081111

For reimbursement of costs incurred related to the provision of food services for the schools of the New City School District during the month of September 1992. The costs incurred are listed below:

<u>Invoice #</u>	<u>Date</u>	<u>Vendor Name</u>	<u>Amount</u>
06932	8/31/92	Bakeland	\$2,398.61
12555X	9/02/92	Murray's Meats	6,779.38
431182	9/03/92	Polly's Produce	796.54
218812	9/07/92	Dan's Dairy	877.32
06988	9/07/92	Bakeland	531.89
12682X	9/07/92	Murray's Meats	153.90
431906	9/13/92	Polly's Produce	591.83
219601	9/24/92	Dan's Dairy	<u>877.32</u>
		Total	\$13,006.79 =====

Please remit the above amount by November 15, 1992. The listed invoices are available for audit and review. I certify that the within invoice is correct in all its particulars, that the described goods or services have been furnished or rendered and that no bonus has been given or received on account of said invoice.

Franklin Chef
 President
 Foodland Food Services

SAMPLE 2 (1 of 2)

Foodland Food Services
123 Broad Street
Anytown, NJ 08000
609-123-4567

October 15, 1992
Invoice #123456

New City School District
Highland Street
Old Town, NJ 08111

For reimbursement of the New City school district's prorata share of costs related to the shared food services program provided by our company. The allocation is based on the number of students participating at each school. See the attached cost allocation detail supporting the amount charged.

For the month of September 1992

\$3,107.21

Please remit the above amount by November 15, 1992. The invoices listed on the attached cost allocation are available for audit and review. I certify that the within invoice is correct in all its particulars, that the described goods or services have been furnished or rendered and that no bonus has been given or received on account of said invoice.

Franklin Chef
President
Foodland Food Services

