

# The Audit Program

## Section II – Specific Compliance

### Fund 60 Proprietary Funds

**(This Section is Applicable to School Districts, Charter Schools, and Renaissance School Projects)**

Proprietary funds are used to account for district/charter school/renaissance school project activities that are similar to business operations /renaissance school project in the private sector. They are not used to account for the normal operations of a district/charter school/renaissance school project regardless as to whether the operations include services provided to outside parties that are offset by revenues such as tuition or adult education fees. There are two categories of proprietary funds -- enterprise funds and internal service funds. The use of these fund types should be consistent with GAAP (GASB Codification 1300.104). Capital Contributions are **not** reported as a separate component of net assets in the *Statement of Net Position*, but continue to be reported as such in the funds statements. District/charter school /renaissance school project staff and auditors should refer to GASBS 34, paragraphs 91 through 105 for guidance on proprietary fund financial statements. Additional guidelines for districts/charter schools/renaissance school projects using the internal service fund to account for shared services are outlined *N.J.A.C. 6A:23A-16.11*.

### Enterprise funds

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business operations. The most common examples of enterprise funds in New Jersey school districts/charter schools/renaissance school projects are those established to account for food services programs and latchkey programs. **Enterprise fund expenditures are accounted for in fund 60 with any board of education contribution to support the food services program reported as a “transfer to cover deficit in food services” in the general fund and as an “operating transfer in” in the enterprise fund.**

*Auditor’s Note* – The Transfer to Cover Deficit included in the general fund **must** reconcile to the Operating Transfer – Board Contribution reflected in the enterprise fund. The department has included an edit in Audsum to identify any discrepancy between the reported amounts and recommends completing Audsum prior to filing the CAFR. The Transfer to Cover Deficit should be reflected as an Other Financing Use on Exhibit B-2 in the general fund column of the Governmental Funds *Statement of Revenues, Expenditures, and Changes in Fund Balances* and an operating transfer out on the C-1 *General Fund Budgetary Comparison Schedule*.

### Food Service – Enterprise Fund

**(Applicable to school districts, charter schools, and renaissance school projects)**

A school district board of education, or charter school, or renaissance school project board of trustees that operates and maintains a child nutrition program is considered the Local Education Agency (LEA), and is responsible for the administration and operations of the School Food Authority (SFA). Therefore, income from: daily cash sales, prepayment of meals, special functions/catering, vended meal contracts, vending machine cash receipts, vendor or other purchasing rebates, discounts, credits from vendors, and state and federal reimbursements, are school moneys. As such, these funds must be under the control of the treasurer of school moneys (or school business administrator/board secretary in a district/charter school/renaissance school

project that elects not to maintain the position of treasurer of school moneys pursuant to P.L. 2010,c.39) and are subject to the state's school laws and federal regulations.

A board of education or board of trustees may contract with a Food Service Management Company (FSMC) to install, equip, supply and operate cafeterias without profit to the school district/charter school/renaissance school project pursuant to *N.J.S.A. 18A:33-3*. When the school district/charter school/renaissance school project participates in any federally funded Child Nutrition Program, the contract for the services of a food service management company must meet federal standards and procurement requirements pursuant to Title 7 of the Code of Federal Regulations [7 CFR Parts 210, 215 220, 225, 226, 250 and federal procurement regulations prescribed in 2 CFR Part 200]. All districts/charter schools/renaissance school projects entering into a FSMC contract must do so pursuant to the Public School Contracts Law, *N.J.S.A. 18A:18A-1 et seq.* and the applicable rules under *N.J.A.C. 5:34-1 et seq.* Where the district/charter school/renaissance school project participates in any federally funded Child Nutrition Program(s), procurement of the FSMC contract must also follow the standards prescribed in 2 CFR 200.318 – 200.326.

The most widely used FSMC 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/board of trustees is liable for the reimbursement of all necessary, reasonable, allocable and allowable direct costs incurred. New Jersey launched the use of second FSMC contract method in 2018-19. SFAs now may also select to use a Fixed Price contract method. This contract method provides for payment of all costs at a pre-determined and agreed upon amount that is fixed at the inception of the contract. The fixed fee includes all administrative management and food service related costs. A Fixed Price contract may also contain an economic cost adjustment provision tied to a standard index. Federal regulations prohibit contracts that permit all receipts and expenses to accrue to the FSMC. Regardless of the FSMC contract method, the local board of education/board of trustees is considered the School Food Authority. Even if federal reimbursements are not received, school districts/charter schools/renaissance school projects using management companies and retaining liability for costs incurred are considered the School Food Authority. Management companies may handle the preparation of food, placing of orders for food and supplies and other associated administrative duties, but are not permitted under state law to administer or hold school moneys.

Effective with all SY 18 – 19 base year FSMC contracts, New Jersey began establishing the Meal-Equivalent Conversion Factor that must be utilized by the FSMC to determine their fee for al-la-carte and adult sales. The State Agency Determined Meal Equivalent Conversion Factor for SY2018-19 is \$3.58 (See State Agency Determined FSMC Meal Equivalent Conversion Factor Fact Sheet # 348).

### **Cost Reimbursement Contracts**

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

1. The income from: daily cash sales, prepayment of meals, special functions/catering, vended meal contracts, vending machines, rebates, discounts, credits from vendors, and state and federal reimbursements must be under the control of the treasurer of school moneys (or school business administrator/board secretary in a district/charter school/renaissance school project that elects not to maintain the position of treasurer of school moneys pursuant to P.L. 2010,c.39) and when required by resolution of the board, deposit those moneys in any

bank or banking institution designated by the State as a depository of school moneys (*N.J.S.A.* 18A:17-34). Such funds may be deposited in the board's general operating account. A separate food service account is not required; however, receipts and disbursements of food service funds must be separately accounted for in the records of the treasurer and/or business administrator/board secretary. The board secretary should maintain the cash records in accordance with *The Uniform Minimum Chart of Accounts*.

When the board budgets funds in its general fund budget in account 11-000-310-930, Transfers to Cover Deficit, those funds may be transferred to the Enterprise Fund 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 general fund.

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 (*N.J.S.A.* 18A:19-1). 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, any interest charged on payments that are not made within the negotiated dates may not be charged to the food service fund. Interest is not permitted to be charged to the food service account under any circumstance.
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 a copy of the company's payroll for those employees providing service to the district/charter school/renaissance school project 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 specifically for the school district/charter school/renaissance school project monthly billing Invoices and Operating Statements, or equivalent, will separately identify each line item cost submitted for payment differentiating the amount that is allowable and the amount that is unallowable. The FSMC shall identify the frequency that it will report the amount of each discount, rebate and other applicable credit on bills and invoices present to the SFA for payment and individually identify the amount as a discount, rebate or, in the case of other applicable credits, the nature of the credit. Reimbursement claims for goods should list invoice numbers, dates, vendor names and amounts. Samples are provided in subsequent pages on this section.

If the Food Service Management Company purchases food in bulk for a number of districts/charter schools/renaissance school projects, it may use the above method allocating invoice amounts between districts/charter schools/renaissance school projects based on the percentage of each district's/charter school's/renaissance school project's student enrollment (or participation) to the total enrollment for all schools (Sample in Section II, Chapter 60). 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/charter schools/renaissance school projects. Each district's/charter school's/renaissance school project's pro-rata share of the costs would be the per-meal cost multiplied by the meals served in each district/charter/renaissance school project (Sample4 in Section II, Chapter 60).

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/board of trustees and the food service management company should work closely to minimize the time of 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 is not an allowable expense that can be paid from the food service (enterprise) fund. If the FSMC insists on late fees or interest on late payments, the school district/charter school/renaissance school project can agree to this, but must pay the interest/late fees directly from the school district's/charter school's/renaissance school project's general/operating fund resources, not from the food service (enterprise) fund.

The foregoing procedures are recommended by the department to comply with the state's statutes for administering school funds. However, these procedures do not replace but rather supplement the requirement contained in 7 CFR 210.16 that the food service management company, shall at a minimum, report claim information to the school district/charter school/renaissance school project promptly at the end of each month. Records pertaining to the school food service program shall remain the property of the school district/charter school/renaissance school project. **Auditors must include appropriate comments and recommendation in the event that funds are not properly administered as described in Division of Finance Policy Bulletin 200-12.**  
[Bulletin200-12.pdf](#)

#### Fixed Price Meal Contract - BASE YEAR

During SY2018-2019, school district/charter school/renaissance school projects had the option of entering into a Fixed Price Meal Contract with FSMCs. In accordance with NJDA regulations and guidance, Fixed Price Meal Contracts represent contracts for which the FSMC submits an RFP that stipulates a total per meal cost by meal type. The fixed fee per meal type includes all administrative, management and food service related costs.

The FSMC bills the SFA for the actual number of meals served, plus the number of equivalent meal (a la carte and adult) determined by utilizing the State Agency Determined Meal Conversion Factor multiplied by the applicable cost per meal by meal type in accordance with the approved contract.

In accordance with Fixed Price Contract regulations and guidelines the monitoring of costs by the school business administrator and verification of costs by the SFA's independent auditor is limited and greatly reduced from the requirements for the verification of allowable costs under a Cost Reimbursable contract. The verification of charges billed to the SFA by the FSMC requires the

verification of actual number of meals served (including the number of equivalent meals) at the contracted price per meal type and any additional approved costs.

Refer to a sample Fixed Price Contract Invoice and associated monthly Operating Statement on the following pages.

### **SSAE No. 16**

**(Formerly SAS No. 70) (Service Organizations) Reports  
Statement on Standards for Attestation Engagements (SSAE) No. 16 Reporting on Controls at a Service Organization and AU-C Section 402 (Source: SAS No. 122; SAS No. 128) Audit Considerations Relating to an Entity Using a Service Organization`**

SAS No. 70 has been replaced by two separate standards; SSAE No. 16 *Reporting on Controls at a Service Organization*, effective for service auditor's reports for periods ending on or after June 15, 2011, and a revision to existing AICPA, Professional Standards, vol. 1, AU section 324. The revision to AU section 324 entitled, AU-C 402 *Audit Considerations Relating to an Entity Using a Service Organization*, is effective for audits of financial statements for periods ending on or after December 15, 2012.

Districts/charter schools/renaissance school projects were notified by the Department of Agriculture within the Sample 2018-19 FSMC Contract, to require the FSMC to obtain a Type 2 report. All food service management company bid specifications, contracts and/or addenda must include this requirement as a condition of bid qualification. SSAE No. 16 *Reporting on Controls at a Service Organization* is available on the AICPA website or for order from the AICPA Store at [https://competency.aicpa.org/media\\_resources/208710-statement-on-standards-for-attestation-engagements](https://competency.aicpa.org/media_resources/208710-statement-on-standards-for-attestation-engagements)

### **Insurance Recoveries and Impairment Losses**

In accordance with GASB Statement No. 42, paragraph 21, in the proprietary funds financial statements, restoration or replacement of an impaired capital asset should be reported as a separate transaction from the impairment loss and associated insurance recovery. Insurance recoveries should be recognized only when realized or realizable. Realizable is defined by an acknowledgement of coverage by an insurer. When the recovery and loss occur in the same year, the impairment loss should be reported net of the associated insurance recovery. When the insurance recovery is reported in a subsequent year(s), report the recovery as a non-operating revenue source (use previously existing Audsum line 90264).

Report an asset impairment loss that has occurred in the food service fund as a special item/extraordinary item using Audsum line 92175 "Impairment Loss - Special" or Audsum line 92176 "Impairment Loss - Extraordinary".

Recoveries other than those related to an impairment of a capital asset:

In the proprietary funds financial statement, for insurance recoveries which occur in the same year as the loss, the impairment loss and the insurance recovery should be reported net. Insurance recoveries reported in subsequent years should be reported as a non-operating revenue source (use Audsum line 90264).

### Sample Food Service Invoices and Allocations

Sample 1

<b>Sample 1-FSMC Cost Reimbursable Contract</b>	
<b>ABC Food Service Company</b>	
<b>Monthly Invoice</b>	
<b>For the Month Ending:</b>	
<b>Cost</b>	<b>Total</b>
Food Purchases	\$29,992.95
Supplied/Paper Goods – Oper.	\$1,558.90
Direct Labor & Benefits	\$24,200.15
Travel/Mileage	\$0
Management Fee: (rows 7 and 8)	--
Flat Fee	\$2,500
Per Meal Fee	\$0
Administration/Management: Labor/Benefits	\$12,255
Purchased Services	\$0
Professional Services	\$0
Other: (Itemize) (rows 13 and 14)	--
Equipment	\$4,500
Depreciation	\$1,393
Total	<b>\$76,400</b>
Cost	
Less: Rebates, Discounts & Credits	<b>\$1,000</b>
Final	<b>\$75,400</b>
Cost	
USDA Commodities (rows 19 to 21) FSMC will disclose monthly the USDA market value of all commodities received	--
Warehouse	\$4,800
Processed	\$7,435
DOD Fresh	\$5,500
<b>Food Service Management Company Certification</b>	
I, hereby certify that all reported costs are: Actual costs; reasonable and necessary; and applicable, supporting documentation is maintained on file.	
Signature:	

## Sample 2 (1 of 2)

## Sample 2 – FSMC Cost Reimbursable Contract

<b>ABC Food Service Company Operating Statement For the Month Ending __</b>		
<b>Revenue (Sales)</b>		<b>Amount</b>
<b>Breakfast</b>		
Student	Reduced Price	\$1,500.00
Student	Paid	\$3,325.00
<b>Lunch</b>		
Student	Reduced Price	Amount
Student	Paid	\$18,687.00
<b>After School Snack</b>		
Student	Reduced Price	Amount
Student	Paid	\$ -
<b>Special Milk</b>		
	Student Meals	\$ 157.30
	A La Carte	\$2,278.00
	Adult	\$1,127.00
	Vending	\$ 745.35
	Special Functions	\$ --
<b>Discount/Rebates/Credits</b>		
	Discounts	\$ 500.00
	Rebates	\$ 250.00
	Credits	\$ 250.00
<b>Govt Reimbursements</b>		
Federal	Breakfast	\$ 3,321.00
	Lunch	\$13,834.00
	Special Milk	\$ 555.00
	After School Snacks	\$ 985.00
State	Special Milk	\$ 222.00
	Lunch	\$ 100.00
<b>Other Income – List</b>		
	PTA Dinner	\$14,879.00
	Board Meeting	\$ 673.00
<b>Total Sales/Income</b>		<b>\$68,942.65</b>

**Sample 2 (2 of 2)**

<b>Costs/Expenditures:</b>			
<b>Food purchases</b>	Program	\$20,334.00	
Other:	PTA Dinner	\$ 9,320.00	
Other:	Board Meeting	\$ 338.95	
			\$29,992.95
<b>Supplies/Paper Goods</b>	Program	\$ 521.00	
Other:	PTA Dinner	\$ 959.00	
Other:	Board Meeting	\$ 78.90	
			\$1,558.90
<b>Direct Labor &amp; Benefits</b>	Food Service Worker(s)	\$18,500.00	
	Cafeteria Aide(s)	\$ 1,400.00	
	PTA Dinner	\$ 4,100.00	
	Board Meeting	\$ 200.15	
			\$24,200.15
<b>Administrative/Management</b>			
<b>Labor &amp; Fringe Benefits</b>	Food Service Director	\$ 4,300.00	N/A
	Manager(s)	\$ 4,300.00	
	Bookkeeper(s)	\$ 3,100.00	
	PTA Dinner	\$ 500.00	
	Board Meeting	\$ 55.00	
			\$12,255.00
<b>Management Fee</b>			
Flat Fee		\$ 2,500.00	\$ 2,500.00
Per Meal Fee		\$ --	\$ --
<b>Other Costs</b>			
	Equipment	\$ 4,500.00	
	Depreciation	\$ 1,393.00	
			\$ 5,893.00
	Total Costs		\$76,400.00
	Profit/Loss		\$( 7,457.35)

**Food Service Management Company Certification:**

I hereby certify that all reported costs are: actual costs; reasonable and necessary; allowable; and applicable, supporting documentation is maintained on file.

Signature:

Title:



June 30, 2019

**Sample 3 (1 of 2)**

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

October 15, 201X  
Invoice #123456

New City School District/Charter School/Renaissance School Project  
Highland Street  
Old Town, NJ 08111

For reimbursement of the New City school district's/charter school's/renaissance school project's pro-rata share of costs related to the shared food services program provided by our company. See the attached per meal cost calculation supporting the amount charged.

For the month of September 201X	
1,598 meals @ \$2.45 meal	\$3,910.60

Please remit the above amount by November 15, 201X. The invoices listed on the per meal cost calculation 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 Chief  
President  
Foodland Food Services

**Sample 3 (2 of 2)**

**New City School District/Charter School/Renaissance School Project Food Services Allocation**

<b>Invoice#</b>	<b>Date</b>	<b>Vendor Name</b>	<b>Invoice Amount</b>
6932	8/31/201X	Bakeland	\$ 2,398.61
12555x	9/2/201X	Murray's Meat	6,779.38
431182	9/3/201X	Polly's Produce	796.54
218812	9/7/201X	Dan's Diary	877.32
6988	9/7/201X	Bakeland	531.89
12682X	9/7/201X	Murray's Meat	153.90
431906	9/13/201X	Polly's Produce	591.83
219601	7/13/201X	Dan's Diary	877.32
		Total	\$13,006.79
School District/Charter School/Renaissance School Project	No. of Meals	Price/Meal	Amount
New City	1,598	\$ 2.45	\$3,910.60
Upper	1,299	\$ 2.45	3,178.89
Lower	1,243	\$ 2.45	3,041.85
Middle	1,175	\$ 2.45	2,875.44
Total	5,315	\$ 2.45	\$13,006.79

**Sample 4 -Fixed Price Contracts**

A Sample Operating Statement can be found at the following link:

[SAMPLE FIXED PRICE OPERATING STATEMENT.pdf](#)

**Sample 4 Fixed Price Contract Invoice.**

**ABC Food Service Company  
Monthly Invoice  
For the Month Ending**

April 1, 2018

<u>PER MEAL COSTS</u>	ELIGIBILITY	MEALS CLAIMED	MEAL RATE	TOTAL
<u>BREAKFAST</u>				
	FREE	100	\$1.50	\$150.00
	REDUCE	50	\$1.50	\$75.00
	D			
	PAID	10	\$1.50	\$15.00
<b>TOTAL BREAKFAST</b>		<b>160</b>		<b>\$240.00</b>
<u>LUNCH/DINNER</u>				
	FREE	150	\$2.00	\$300.00
	REDUCE	60	\$2.00	\$120.00
	D			
	PAID	20	\$2.00	\$40.00
<b>TOTAL LUNCH/DINNER</b>		<b>230</b>		<b>\$460.00</b>
<u>After School Snack Program</u>				
	FREE	40	\$0.50	\$20.00
	REDUCE	10	\$0.50	\$5.00
	D			
	PAID	0	\$0.50	\$0.00
<b>TOTAL After School Snack</b>		<b>50</b>		<b>\$25.00</b>
<b>TOTAL A LA CARTE DOLLARS / MEAL EQUIVALENT RATE OF 3.58</b>		<b>10</b>	\$2.00	<b>\$20.00</b>
<b><u>TOTAL PER MEAL COSTS:</u></b>				<b>\$745.00</b>
<b>ADDITIONAL APPROVED COSTS:</b>				
	EQUIPMENT PURCHASES BY SFA			\$500.00
	SFA EMPLOYEE COST ADJUSTMENTS			\$0.00
<b>OTHER APPROVED COSTS:</b>				
				\$0.00
				\$0.00
<b><u>TOTAL ADDITIONAL APPROVED COSTS</u></b>				<b>\$500.00</b>
<b>GRAND TOTAL COSTS:</b>				<b>\$1,245.00</b>
<u>USDA COMMODITIES CREDITS</u>				
WAREHOUSE COMMODITIES:			\$250.00	
PROCESSED COMMODITIES:			\$0.00	
DOD COMMODITIES:			\$0.00	
<b>TOTAL COMMODITY CREDITS:</b>				<b>\$250.00</b>
<b>AMOUNT DUE:</b>				<b>\$995.00</b>

**FOOD SERVICE MANAGEMENT COMPANY CERTIFICATION:**

I, we hereby certify that all meal costs, approved costs and commodity credits on this invoice are accurate and that appropriate supporting documentation and records of these costs and credits are maintained on file at the SFA.

Name: \_\_\_\_\_ Title: \_\_\_\_\_  
Signature: \_\_\_\_\_

## Child Nutrition Program Requirements

NJ Circular 15-08 requires audits of recipients in accordance with 2 CFR Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Administrative Requirements,) and state policy, or a financial statement audit performed in accordance with Government Auditing Standards (Yellow Book) depending on the amount of funds expended. NJ Circular 15-08 states “Auditors should use the risk based approach for federal programs as described in Federal Sub-part F –Audit Requirements, Section 200.518 to determine which state programs are major programs. Auditors should also use the criteria outlined in Sections 200.519 and 200.520 when making risk determinations for state programs.” Auditors should follow the federal Compliance Supplement (Department of Agriculture) for the Child Nutrition Cluster (CFDA 10.553 School Breakfast Program, CFDA 10.555 National School Lunch Program, including the After School Snack Program the Seamless Summer Program, the National School Lunch Program-Commodities, and the HHFKA Performance Based reimbursement, CFDA 10.556 Special Milk Program for Children) and for CFDA 10.558 Child and Adult Care Food Program, CFDA 10.579 School Meals Equipment, CFDA 10.582 Fresh Fruit and Vegetable Program The Division of Food and Nutrition Programs’ audit policy complies with *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The procedures below reflect the Compliance Supplement but are not intended to be all inclusive.

Districts/charter schools/renaissance school projects and their auditors should refer to the sample Proprietary Fund statements (Exhibits B-4, B-5, and B- 6) on the NJDOE School Finance webpage. When a district/charter school/renaissance school project has more than two programs in the Proprietary Fund, combining statements should be prepared. The Proprietary Fund combining statements at this website are labeled Exhibits G-1, G-2 and G-3.

### Child Nutrition Requirements - Community Eligibility Provision Schools

The Community Eligibility Provision (CEP) is an option that allows high poverty schools and districts to offer breakfast and lunch free of charge to all on-roll students without the need to collect and perform eligibility verification procedures related to the traditional school meal eligibility form, “Application for Free and Reduced Price School Meals”. Additional information about the CEP program is found later in this section.

#### **Applicable to CEP and non-CEP school audits for Fiscal Years in Which the Child Nutrition Program (CNP) is Not Audited as a Major Program, but the SFA Expended \$100,000 or More in State and/or Federal Financial Assistance:**

Applicable to CEP and non-CEP school audits, for fiscal years in which the Child Nutrition Program is not audited as a major program, but the school food service program **expended \$100,000 or more in State and/or federal financial assistance within the fiscal year under audit**, auditors are required to:

1. Inquire as to whether the SFA has any overclaims or underclaims and make an appropriate comment in the AMR (see auditor’s note below).
2. Inquire as to whether the SFA’s expenditures of school food service revenues were limited to allowable direct and indirect costs and make an appropriate comment in the AMR.
3. Provide the appropriate comment at the AMR with regard to non-program foods. (III-4.23)
4. Provide the following comment: Net cash resources did/did not exceed three months average expenditures. If net cash resources DID exceed three months average expenditures, the Net Cash Resource Schedule must be included at the AMR. (Please see the Note to auditor below and item 5 on page II-60.25 of this Audit Program.)

**Applicable to CEP and non-CEP school audits for Fiscal Years in Which the Child Nutrition Program (CNP) is Not Audited as a Major Program, and the SFA Expended Less than \$100,000 in State and/or Federal Financial Assistance:**

Applicable to CEP and non-CEP school audits, for fiscal years in which the CNP is neither audited as a major program nor expended \$100,000 or more in State and/or federal financial assistance, there are no specific CNP audit requirements prescribed by the New Jersey Department of Agriculture or the New Jersey Department of Education.

Note to Auditors: Monthly reimbursement claims are entered on-line using the School Nutrition Electronic Application and Reimbursement System (SNEARS) website via the myNewJersey portal. This on-line system provides payment status, payment logs and a monthly report summarizing meals claimed by site. The auditor may make inquiries about the reports and may also request printouts of these reports from the district/charter school/renaissance school project.

**Audit Procedures Applicable to Non-CEP Schools for Fiscal Years in Which the Child Nutrition Program (CNP) is Audited as a Major Program:**

For fiscal years in which the Child Nutrition Program is audited as a major program auditors must design procedures necessary to report on the condition of the financial transactions and statistical records of the School Food Service Fund, including a review of monthly reimbursement vouchers, meal count records, Edit Check Worksheets, net cash resources, and eligibility applications. Auditors must also determine whether there are internal controls in place that provide reasonable assurance that all meals reported to the State agency for reimbursement are based on accurate counts and are served to eligible children.

Note to auditor: Open the "[Net Cash Resource Schedule.xlsx](#)" link to access a sample Net Cash Resource calculation prepared in the format required by the USDA. **The Net Cash Resource schedule is only required to be included in the AMR for fiscal year audits in which the Child Nutrition Program (CNP) is audited as a major program in the current audit period in accordance with *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and when excess cash is identified whether or not CNP is audited as a major program. Where net cash resources exceed three months average expenditures, a numbered finding must be issued.** (Please also see item 5 on page II-60.25 of this Audit Program.)

The following audit procedures, numbered 1 through 12, are designed to address the minimum requirements of the NJ Department of Agriculture and are applicable only to audits where the CNP/SFA program(s) is audited as a major federal and/or State program:

1. Suggested audit procedures to ensure that reimbursement received is supported by source documents.
  - a. Applications For Free & Reduced Price School Meals– For non-CEP schools, obtain a copy of the school’s process for collection and review of current school year Applications for Free and Reduced Price School Meals (i.e. Eligibility Applications). Confirm that the process for collection and review of current year Eligibility Applications is in compliance with [The USDA Eligibility Manual for School Meals](#), <https://www.state.nj.us/agriculture/divisions/fn/pdf/eligibilitymanual.pdf> revised July 2017. The Food and Nutrition Service (FNS) did not release an updated *Eligibility Manual for School Meals for School Year 2018-19* and boards of

education/boards of trustees were advised to continue using the 2017 Edition of the eligibility manual..

The revised manual provides detailed information on determining and verifying free/reduced eligibility and what characteristics are considered to result in an incomplete Eligibility Application. Obtain copies of all current year Eligibility Applications on file. Perform a review of the sample of current year Eligibility Applications selected to determine whether the determination process as described was followed, and that Eligibility Applications meet the standard for completeness established in the aforementioned manual, and perform procedures to verify the proper application of the federal eligibility determination guidelines. Any incomplete free or reduced price applications discovered during the audit process should be placed in the Paid (denied) category, and an over claim must be assessed on the Schedule of Meal Count Activity. Incorrectly determined applications should be re-assigned to the correct category (i.e. free, reduced, paid), and the resulting over claim/under claim must be identified on the Schedule of Meal Count Activity. For electronic applications, Free and Reduced Price Eligibility Software Systems contain a box which parents are required to check certifying that all information is true. This certification serves as the parent signature. Please refer to *The USDA Eligibility Manual for School Meals* for additional information regarding electronic and scanned applications. Additionally, audit findings related to the free and reduced eligibility determination process and execution must be reported in the Auditor's Management Report (AMR) in the School Food Service section.

**Eligibility for Free Meals - Direct Certification - Determination Process:**

Direct Certification (DC) is the process for identifying via electronic, matching school age children that are recipients of NJ-SNAP (Food Stamps), or TANF (Temporary Assistance to Needy Families) benefits or have been placed in Foster Care as directly certified as eligible for free meal benefits in the Child Nutrition Programs. The Direct Certification Process must be performed by the school district, charter school, or renaissance school project that is operating and maintaining the school child nutrition program four times per school year in accordance with timelines established by the NJDA Division of Food and Nutrition. Please refer to the May 18, 2018 memo on Direct Certification which specifies the required four timeframes were July 15-August 30, 2018, September 1-30, 2018, October 1-30, 2018 and March 1-30, 2019. A copy of this memo is also available on file at the school district/charter school/renaissance school project office. Schools must directly certify students with access to meals as eligible for free school meals by uploading their student database via the SNEARS web-based system and the data is matched against the data from NJ SNAP (Food Stamps)/TANF for the selected municipalities. Direct certification eligibility must be extended to any other students living in the household; refer to the Department of Agriculture memo dated September 8, 2009, "Important Changes in Determination of Eligibility for Free School Meals/Milk" on file with the SFA or available through the NJ Department of Agriculture. In order for the district/charter school/renaissance school project to identify newly eligible students, direct certification matching against updated NJ SNAP (Food Stamp)/TANF data may be performed any time during the school year. The Department of Agriculture has determined that errors in reporting are resulting in multiple school districts/charter schools/renaissance school projects duplicating free/reduced eligibility for the same student(s). In an effort to reduce duplication of directly certified students among and between SFAs, beginning with school year 2013-14 each SFA reporting "free meals" eligibility for the same student receives an email notification when a student directly certified by the SFA has also

been directly certified by another SFA. SNEARS is not able to determine the actual school of attendance for any student. Each SFA must verify that the student identified as duplicate is actually enrolled in AND eating meals in the SFA claiming the meal reimbursements. If he/she is not, the SFA must remove the student from the SNEARS listing. In addition, “sending” school districts must obtain the direct certification lists from the school where the children are consuming meals in order to prevent duplication of matches for the same student in the SNEARS. See the June 2, 2015, “Direct Certification – Guidance for Sending Districts” at the following link: [Guidance for Sending Districts](#).

**Application for Free and Reduced Price School Meals.** Auditors should verify for the sample selected that the correct eligibility applications have been utilized, fully completed, and properly supported and maintained.

- The Application for Free and Reduced Price School Meals is the only eligibility application in use for this school year.
- Foster children are categorically eligible to receive free meals. School districts, charter schools, and renaissance school projects may verify foster child status through direct certification, welfare agency or court documents, or a household application submitted by the foster family.
- Although a foster child’s eligibility status does not extend to other children in the household, a foster family may include their foster child on the same household application that includes their non-foster children. This streamlines the application process and may be a factor in determining the eligibility of the foster family’s non-foster children to qualify for free or reduced price meals based on household size and income.
- Household applications must be maintained centrally. The Department of Agriculture has strongly recommended that a representative from the School Food Authority (SFA) who determines the applications attend a “Certification and Benefit Issuance” Training, or view the corresponding webinar located in SNEARS. Household applications must be on the approved format for the school year being reviewed. The School Year will be listed on the upper left-hand corner of the Application. Only one SNAP (Food Stamp)/TANF case number is required for the entire household, when applicable. Note that the Application requires only the last four digits of the social security number of the adult signing the Household Application when the application is income-based.
- The eligibility determination associated with a Household Application is effective for the entire school year. There is no provision for “temporary” eligibility status for zero income Household Applications.
- Income must be listed by the amount received by each household member and the frequency of which the member received the income. Frequency is determined as weekly, every two weeks, twice monthly, monthly or annually. If more than one frequency is provided, the total household income must be converted to annual. Household Applications instruct the applicants to enter a zero when there is no income to report. If the parent or guardian doesn’t complete an income entry for any of the adult household members, inclusive of leaving the entry blank (e.g. no “zero” is entered), the Household

Application is not considered incomplete, unless the application lacks other required data.

- Effective March 17, 2017, the reporting of annual income is an acceptable measure of income on the application (see [USDA Memo Reporting Annual Income](#))
- There is a section on the household application used to identify children who are homeless, migrant or runaway and categorically eligible. School districts/charter schools/renaissance school projects must designate an Educational Agency Liaison for the homeless. This liaison and the Migrant Coordinator are the only approved sources of supporting documentation for the application of homeless, migrant or runaway children.

- b. **Meal Count Records** (Daily meal count records must be maintained by all schools where food is served) - Review meal count records on a school-by-school basis to verify the accuracy of meals claimed on reimbursement claims. Edit Check Worksheet(s) must be completed for every breakfast and lunch reimbursement claim submitted and the required comparisons made before completing the reimbursement claim. Any meals denied free or reduced priced eligibility should be credited at the paid rate of reimbursement and over claim/under claim identified on the Schedules of Meal Count Activity (where applicable).

Separate sample Schedules of Meal Count Activity for federal and for state over/under claims are presented on pages III-4.23a and III-4.23b. The link is available on page III-4.29 of this Audit Program. **Both the federal and state Schedules of Meal Count Activity must be prepared for audits where the Child Nutrition Program is a major federal and/or state program audited in the current audit period in accordance with the federal *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and/or New Jersey Treasury Circular 15-08-OMB.**

Instructions for completion are as follows:

1. Most column headings are self-explanatory.
2. When less than 100 percent of the meals claimed for a program in any category (Paid, Reduced or Free) have been tested, the auditor should report the number of meals examined in the Meals tested column, and verified in the Meals Verified column. Eligibility application exceptions/reclassifications discovered must be factored into the “Verified” column over 180 operating days or, where known, the exact number of meals served to the reclassified student. For example, an auditor has tested less than 100 percent of meals claimed for the National School Lunch program and has found an error resulting in the reclassification from the “Free” category to the “Reduced” category for one student. The reclassification must be reflected in the “Meals Verified” column over 180 operating days or the number of actual meals served to that student, and will result in an adjustment to column 6 (Difference) and column 8 (Over/Under Claim) in both the “Free” and “Reduced” categories.



3. Column six (Difference) is the difference between the Meals Tested column and the Meals Verified column for each program
4. Column eight is the over/under claim calculated as the Difference times the Rate for each program. A net over/under claim for all meal programs combined is presented at the bottom of the (Over)/Under Claim column.
5. The National School Lunch HHFKA Performance Based (PB) Program reimbursement, see sample schedule, should reflect only those meals (lunch) claimed which were approved by the DOA for an additional six cent reimbursement. The HHFKA applications were approved by DOA on a case-by-case basis. Therefore, the initial approval date must be verified in order to validate the six cent reimbursement. \*See note below.

Unsupported reimbursement(s) must be cited as a finding of noncompliance and a financial assessment identified on the Schedules of Meal Count Activity (Over claim/Under claim) (where applicable). Provide pertinent detail, i.e. school, month.

\*Note: The Healthy Hunger-Free Kids Act of 2010 (HHFKA), in an effort to promote a new healthier meal plan, provides for an additional six cent federal lunch reimbursement for those schools that have applied for and have, received approval from the NJDA. (Reference 7-CFR-PART 210.)

2. Verification Regulations issued by the United States Department of Agriculture require that all sponsors of the National School Lunch and School Breakfast Programs must verify no less than three percent of approved Household Applications on file as of October 1 of each school year. (refer to 2b below) The number of current school year free and reduced price Household Applications on file as of October 1 must be used to determine the number of Household Applications that must be verified by the SFA. When determining the number of Household Applications to verify, the SFA has been instructed that Carryover Household Applications for Free and Reduced Price Meals are not included as a factor in determining the size of the current year Household Application count. Sample selection and verification may begin earlier based on projections done by school officials. However, the final sample size must be based on the actual number of approved current year Household Applications on file as of October 1. The independent auditor's review of Household Applications should include an examination of the internal verification process and internal sampling records.

The Sample Selection Method for Internal Verification of Applications utilized by the SFA is:

- a) Use all current year approved applications on file at October 1, 2018 to determine the appropriate sample size and to select the applications for verification. Note that sample size depends on the number of paper and/or electronic applications, NOT the number of children represented.
- b) The required sample size is no less than the established 3 percent. Additional applications may be verified for cause, at the discretion of the SFA. If conditions indicate the discrepancies are, or may be, present in the selected sample, the SFA may elect to expand the verification sample beyond 3%. However, in under no

circumstances is the SFA required to expand the verification sample beyond 3%. The sample must be selected from “error prone” applications. Refer to “c” below for definition of “error prone” and for guidance where additional applications are needed to reach 3 percent of all applications.

- c) “Error prone” applications are those applications characterized by:
  - Weekly: \$0-\$25 below the free and reduced price income eligibility limit
  - Every two weeks or twice a month: \$0-\$50 below the free and reduced price income eligibility limit
  - Monthly: \$0-\$100 below the free and reduced price income eligibility limit
  - Annually: \$0-\$1,200 below the free and reduced price income eligibility limit
- d) When an insufficient number of error prone applications are identified, randomly select from the remaining (not error prone) applications to meet the required sample size
- e) If the number of error prone applications exceeds the required sample size (i.e. 3%), the SFA must randomly select the required number of applications from all error prone applications.
- f) Fractional sample size calculations are always rounded upward, increasing the sample size. Example: 340 approved applications are on file at October 1. ( $340 \times 3\% = 10.2$  applications; sample size must be 11).

Note to auditor: Verify that internal verification procedures require that each application selected for internal verification be reviewed for error prone accuracy by district /charter school/renaissance school project personnel other than by the individual who made the initial approval determination. The auditor should verify that the process used by the district/charter school/renaissance school project resulted in approved applications being classified in the district/charter school/renaissance school project records as “approved applications” considered in the internal audit sampling pool as described in (b) above. Verify that incorrectly approved applications discovered during the internal sampling process have been removed from the internal sampling pool of “approved applications;” the eligibility status changed, a formal notification sent to the family of a change in eligibility along with instructions for resubmission of their application including information regarding acceptable forms of income documentation in support of their application.

All internal verification activity must be completed by November 15th of each school year. The school district/charter school/renaissance school project must electronically transmit the two parts of the Verification Summary Report. Part 1 of the Verification Summary Report transmits enrollment and total applications (by category) on file as of October 1 and is due by October 30th. Auditors should be aware that the report electronically calculates the number of applications the school district/charter school/renaissance school project must verify. Part 2 of the Verification Summary Report is due by November 30, and includes the school district’s /charter school’s/renaissance school project’s reporting of the results of the verification process performed pursuant to Part 1. The NJDOA offered verification training sessions during September, October, and November. Failure to complete the Verification Collection Report will result in reimbursement(s) being withheld by the Division of Food and Nutrition. The auditor’s review of eligibility applications should include a review of the verification files to ensure that the verification process was completed on a timely basis.

3. Expenditures of school food service revenues should be limited to allowable school food service direct and indirect costs. Review vendor invoices and verify labor costs. Determine that inventory records on food and supply items are currently maintained. Review time sheets and verify labor cost. Verify that payroll records are maintained.
  
4. A School Food Authority is required to maintain a nonprofit School Food Service. The nonprofit status of the School Food Service is determined by evaluating net cash resources. Net cash resources are defined as all monies that are available to, or have accrued to a School Food Authority's nonprofit school food service at any given time, less cash payable. Such monies may include, but are not limited to, cash on hand, cash receivable, earnings on investments, cash on deposit and the value of stocks, bonds or other negotiable securities. Net cash resources may not exceed three months average expenditures. A link to a sample Net Cash Resource Schedule in the format provided by the USDA is available on page II-60.13 of this Audit Program. This sample schedule is guidance for the auditor's use and is required to be completed. If the Child Nutrition Program is audited as a major program in the current audit period in accordance with federal *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, the Net Cash Resource Schedule is a required submission included in the auditor's management report (AMR). The auditor must also comment in the AMR as to whether proper net cash resource balances are maintained by the district/charter school/renaissance school project. In the event that net cash resources exceed three months average expenditures, the state agency may require the School Food Authority to improve food quality, or take other actions designed to improve the nonprofit school food service. (REF 7 CFR 210:14)
  
5. The auditor should comment on whether USDA commodities were received and if they were properly processed and warehoused and inventoried on a FIFO basis. If the school district/charter school/renaissance school project is utilizing a FSMC to operate its food service program, review evidence that the market value of all Food Distribution Program processed and warehoused USDA Foods was credited to the school district/charter school/renaissance school project. Year to date amounts must be provided.
  
6. Auditors should verify that financial arrangements (i.e. fee calculations, presentation of invoices, and other provisions) in the Food Service Management Contract (FSMC) have been complied with; if not, cite exception:
  - a) Is FSMC fee calculated in accordance with the contract provisions and properly reported in the year end operating statement? (Refer to, [Form 348](#)).
  - b) Has the FSMC met or exceeded the food service program operating results guarantee provision stated in the contract/addendum?
  - c) Does the contract with the FSMC comply with the requirements of *N.J.A.C.5:34-4.4(b)* with regard to the prohibited inclusion of other goods/services required to be separately and competitively bid? (Not applicable to renaissance school projects)
  - d) Has the FSMC complied with the provisions of *N.J.A.C.5:34-4.4(b)* prohibiting the combination of unrelated items with other good/services required to be separately procured through competitive bidding?
  - e) Has the FSMC charged the school district/charter school/ renaissance school project only for costs that are actual and allowable, net of all discounts, rebates, and other applicable credits accruing to or received by the FSMC? Refer to the illustrative FSMC contract section "Rebates, Discounts and Credits". See Form #17 (FSMC) [2018-19 Prototype Contract Language](#)

7. The United States Department of Agriculture does not permit increases in reimbursement for revised vouchers received after 60 days without proper verification. However, payment can be considered if the under claim is verified in an audit or administrative review.  
**Auditors are instructed to verify any underclaims and overclaims (identify in the Schedule of Meal Count Activity – where applicable) as a result of late revisions.**  
Please note that such payment is subject to approval.
8. Federal procurement requirements for contracts with a FSMC are published in the Federal Register, Vol. 72, No 210, dated October 31, 2007. The state agency prototype contract and addendum that was approved as part of the annual FSMC registration process must be used in its entirety. The audit must include a detailed review of the contract and compliance with the contract and federal rules and regulations sufficient to determine that:

For Cost Reimbursable Contracts:

- a. The FSMC charged the school district/charter school/ renaissance school project only for costs that are actual and allowable, net of all discounts, rebates and other applicable credits accruing to or received by the FSMC to the extent those credits are allocable to the allowable portion of the costs billed to the school district/charter school/ renaissance school project. The FSMC's determination of allowable costs has been made in compliance with the applicable USDA and Child Nutrition Program regulations and Office of Management and Budget Cost Circulars.
  - i. The FSMC has separately identified on its billing documents, for each cost that has been submitted for payment, the amount that is allowable and the amount that is unallowable
  - ii. The FSMC will exclude all unallowable costs from its billing documents and certify that only allowable costs have been submitted for payment and records have been established that maintain visibility of unallowable costs, including directly associated costs, in a manner suitable for contract cost determination and verification.
- b. The FSMC has identified the amount of each discount, rebate and other applicable credit on bills and invoices presented to the school district/charter school/ renaissance school project for payment and individually identified the amount as a discount, rebate, or in the case of other applicable credits, the nature of the credit. The FSMC shall report this information: may not be less frequent than annually.
- c. The FSMC has identified the method by which it will and has reported discounts, rebates and other applicable credits allocable to the contract, that are not reported prior to the conclusion of the contract.
- d. The FSMC has maintained documentation of costs and discounts, rebates and other applicable credits, and shall furnish such documentation upon request to the school district/charter school/ renaissance school project, State Agency or USDA.
- e. No expenditure has been made from the nonprofit school food service account that permits or results in the FSMC's receiving payments in excess of its actual, net allowable costs.

For Fixed Price Contracts:

- a. The FSMC charged the SFA based on the contracted price per meal type multiplied by the actual number of meals served (including equivalent meals) by meal type plus supplemental costs per the approved contract.

9. For school district/charter schools/renaissance school projects with schools selected to participate in the Fresh Fruit and Vegetable Program (FFVP):
  - a. School districts/charter schools/renaissance school projects must have a signed Child Nutrition Program addendum [2018-19 FSMC Prototype Addendum Language](#) for the FFVP.
  - b. Costs charged must be allowable according to rules of program outlined in the [USDA FFVP Program Handbook: https://www.fns.usda.gov/ffvp/fresh-fruit-and-vegetable-program](https://www.fns.usda.gov/ffvp/fresh-fruit-and-vegetable-program)
  - c. Food costs, labor charges, and equipment purchases for this program must be identified as such, and must correspond to the appropriate FFVP reimbursement vouchers.
  
10. For school districts/charter schools/ renaissance school projects participating in the Child and Adult Care Food Program (CACFP) At-Risk Afterschool Meals (Dinner) Program:
  - a. School districts/charter schools/ renaissance school projects must account for all reimbursements received according to CACFP regulations; however, reimbursements may be used to pay expenses related to any of the Child Nutrition Programs.
  - b. Indirect costs must be charged appropriately to the nonprofit school food service account.
  
11. For school districts/charter schools/ renaissance school projects participating in the Summer Food Service Program (SFSP):
  - a. School districts/charter schools/ renaissance school projects must account for all reimbursements received according to SFSP regulations; however, reimbursements may be used to pay expenses related to any of the Child Nutrition Programs.
  - b. Indirect costs, if charged, must be correctly calculated and appropriately charged to the nonprofit food service account.
  
12. A School Food Authority is required to ensure that the revenue generated from the sale of non-program foods complies with the following requirements, whether or not it is contracted with a FSMC, in accordance with 7 CFR 210.4:
  - (1)\* The proportion of total revenue from the sale of nonprogram foods to total revenue of the school food service account must be equal to or greater than:
    - (i) The proportion of total food costs associated with obtaining nonprogram foods to
    - (ii) The total costs associated with obtaining program and nonprogram foods from the account.
  - (2) All revenue from the sale of nonprogram foods shall accrue to the nonprofit school food service account of a participating school food authority.

Auditor's Note: \*Item (1) referenced above is the [Non-Program Food Revenue Tool](#) used by the SFA.

Auditors must verify the SFA's ability to execute the Non-program Food Revenue Tool and provide a comment in the AMR stating whether the school district/charter school/renaissance school project did/did not provide the detailed revenue and expenditure information necessary in order to execute the USDA mandated Non-Program Food Revenue Tool at least annually.

## Community Eligibility Provision Schools

### Background:

The Community Eligibility Provision (CEP) is an option that allows high poverty schools and districts to offer breakfast and lunch free of charge to all on-roll students without the need to collect and perform eligibility verification procedures related to the traditional school meal eligibility form, “The Application for Free and Reduced Price School Meals”. Any school with 40 percent or more “identified students” is eligible to participate in CEP. School districts with 40 percent or more identified students may participate district-wide or may group schools together to reach the 40 percent identified student threshold. Identified students include those children who are directly certified (through data matching) for free meals because they live in households that participate in the Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance for Needy Families (TANF), or Food Distribution Program on Indian Reservations (FDPIR), as well as children who are certified for free school meals without submitting a paper application because of their status as being in foster care, enrolled in Head Start, homeless, runaway, or migrant students. Please refer to Community Eligibility Guidance Form 220 for additional program information. [Form 220 CEP.docx](#)

The New Jersey Department of Agriculture issues a determination as to whether a school district (or an individual school or grouping of schools within a school district), or charter school, or renaissance school project is eligible to participate in the Community Eligibility Program (CEP). Once approved to participate in the CEP, all students attending the CEP school will receive a free meal through the Child Nutrition Program. CEP eligibility information is available at [USDA CEP webpage \(https://www.fns.usda.gov/school-meals/community-eligibility-provision\)](https://www.fns.usda.gov/school-meals/community-eligibility-provision).

### Notes to Auditors of Schools participating in Provision I, Provision II, or the Community Eligibility Provision (CEP):

1. Schools participating in Provision I, Provision II, or Community Eligibility Provision (CEP) are not required to collect Applications for Free and Reduced Price School Meals. For Provision I and Provision II guidance please refer to eligibility requirements provided in the July 25, 2018 memo “Annual Application Process for Provisions I and II” issued by the NJ Department of Agriculture and available at the following link: [Form 229 Provisions 1 and 2 Memo SY 2018-2019.pdf](#)
2. Although all children in a CEP school are eligible for receipt of a free meal without collection of an Application for Free and Reduced-Price School Meals, each CEP school is required to maintain equivalent meal count records to those schools that are not participating in CEP. Accordingly, auditors are advised that the meal count testing procedures (above) applicable to a non-CEP school, are the same procedures that must be applied to the meals served, and related reimbursements, in a CEP school whenever the school’s CNP is audited as a major program. School districts may operate CEP schools and Non-CEP schools. Auditors are advised to adjust their audit procedures accordingly.
3. For ease of use by CEP school auditors, those audit procedures beginning on page II-60.12 of this Audit Program applicable to Non-CEP schools or Non-CEP school districts that are also applicable to audits of CEP schools or CEP school districts are repeated below.

**For any fiscal year in which the CEP school’s Child Nutrition Program is audited as a major federal and/or state program,** the CEP school’s meal count records are subject to the following auditing procedures:

1. Meal Count Records – (Daily meal count records must be maintained by all schools where food is served including CEP schools) When conducting an audit where the CNP is

audited as a major program for the year under audit, the auditor must review meal count records on a school-by-school basis to verify the accuracy of meals claimed on a reimbursement claim. Edit Check Worksheet(s) must be completed for every breakfast and lunch reimbursement claim submitted. CEP schools have been advised to use the CEP Edit Check Worksheet at the following link: [Form 218 CEP.docx](#). The following required comparisons must be made by the SFA prior to submission of the reimbursement claim:

- a. The daily meal count records number of meals served must be compared to the enrollment for reasonableness.
- b. The daily meal count records number of students served meals must be compared to the enrollment times the school's attendance factor for reasonableness.
- c. Auditor's comments, findings, and recommendations should be reported in relation to the daily meal count records when either of the following two conditions are found:
  - i. The number of meals served exceeds the daily enrollment, or
  - ii. The number of students served meals exceeds the enrollment multiplied by the school's attendance factor.
- d. Verify that the daily counts of breakfast and lunch meals served have been accurately transferred to the school's reimbursement vouchers.

The **Schedule of Meal Count Activity** summarizes the results of the above audit testing and is a required presentation in the AMR of a CEP School District, Charter School, or Renaissance School Project where the CNP is audited as a major program for the year under audit. **Monthly reimbursement claims are entered on-line using the School Nutrition Electronic Application and Reimbursement System (SNEARS) website via the myNewJersey portal. This on-line system provides payment status, payment logs and a monthly report summarizing meals claimed by site. The auditor may request these reports from the district/charter school/renaissance school project.**

Sample Schedule(s) of Meal Count Activity for federal and for state over/under claims (Note: same schedules for CEP and non CEP) are presented on pages III-4.23a and III-4.23b of this Audit Program. Each of these schedules are prepared only if the Child Nutrition Program is a major federal and/or state program audited in the current audit period in accordance with *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and/or *New Jersey OMB 15-08*. Instructions for completion are as follows:

**Note: For CEP participating schools, although a percentage of meals may actually be reimbursed at the "paid" rate, all student meals served to students of the CEP school are reported by the SFA through the SNEARS website in the "Free" category. The percentage of meals actually reimbursed at the "Free" meal rate may be less than 100% where the school is below 62.5% of directly certified students. The reimbursement percentage (e.g. free/paid rates) is determined annually by the New Jersey Department of Agriculture. That determination is based upon SFA data entry into the CEP Site Data Collection Form completed through SNEARS. Auditors are not required to verify the calculation and distribution of "free/paid" reimbursement requests across the population of meals served. However, auditors are required to verify the accuracy of the total number of student meals actually served and the total number of student meals actually served reported on the "Free" category of the reimbursement request.**

**The number of student meals served must also be verified against daily attendance records maintained by the school.**

Presentation of the Schedule of Meal Count Activity:

- a. Most column headings are self-explanatory.
- b. When less than 100 percent of the meals claimed for a program have been tested, the auditor should report the number of meals examined in the Meals tested column, and verified in the Meals Verified column.
- c. The column titled "Difference" is calculated as the difference between the "Meals Tested" column and the "Meals Verified" column for each program
- d. The column titled "(Over)/under Claim" is calculated as the "Difference" times the "Rate" for each program. If the SFA was reimbursed only at the free rate, any identified difference would be reported times the free rate. If the SFA was reimbursed at the free and paid rates, any identified difference would be reported at the free and paid rate in the same proportion as the monthly reimbursements. A net over/under claim for all meal programs combined is presented at the bottom of the "(Over)/Under Claim" column.
- e. The National School Lunch HHFKA Performance Based (PB) Program reimbursement, see sample schedule, should reflect only those meals (lunch) claimed which were approved by the DOA for an additional six cent reimbursement (may be adjusted annually for inflation). The HHFKA applications were approved by NJDA on a case-by-case basis. \*See note below.
- f. Unsupported reimbursement(s) must be cited as a finding of noncompliance and a financial assessment identified on the Schedules of Meal Count Activity "(Over claim/Under \claim)" (where applicable). Provide pertinent detail, i.e. school, month.

\*Note: The Healthy Hunger-Free Kids Act of 2010 (HHFKA), in an effort to promote a new healthier meal plan, provides for an additional six cent federal lunch reimbursement for those schools that have applied for and have received approval from, and been approved by the NJDA. (Reference 7-CFR-PART 210.)

**In addition to the audit of Meal Count Records**, required CEP School Verification Audit Procedures that must be incorporated into the audit procedures whenever CNP is audited as a major federal and/or State program include, but are not limited to, verification that the SFA has:

2. Between October 1st and October 30<sup>th</sup>, 2018, the CEP school accessed SNEARS and selected the Verification Summary Report link. The CEP school is required to certify CEP status by checking the box that states, "Check this box to certify that either ALL schools or RCCIs under the school district/charter school/renaissance school project do NOT have approved Free/Reduced price applications on file as of October 1 OR the district is operating under district-wide CEP, Provision 1 or Provision 2 in a Non-Base year".



3. On or after October 30, 2018 but prior to November 30, 2018, CEP districts were required to complete Sections 1 and 2 of the Verification Summary Report through SNEARS.

Expenditures of school food service revenues must be limited to allowable school food service direct and indirect costs. For Cost Reimbursable contracts, review vendor invoices and verify labor costs. Determine that inventory records on food and supply items are currently maintained. Review time sheets and verify labor cost. Verify that payroll records are maintained. A School Food Authority is required to maintain a nonprofit School Food Service fund. The nonprofit status of the School Food Service fund is determined by evaluating net cash resources. Net cash resources are defined as all monies that are available to, or have accrued to a School Food Authority's nonprofit school food service fund at any given time, less cash payable. Such monies may include, but are not limited to, cash on hand, cash receivable, earnings on investments, cash on deposit and the value of stocks, bonds or other negotiable securities. Net cash resources may not exceed three months average expenditures. A link to a sample Net Cash Resource Schedule in the format provided by the USDA is available on page II-60.13 of this Audit Program. This sample schedule is guidance for the auditor's use and is required to be completed. For any year in which the Child Nutrition Program (CNP) is audited as a major program in accordance with *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, or *New Jersey OMB 15-08*, the **Net Cash Resource Schedule** is a required submission included in the auditor's management report (AMR). The auditor must also comment in the AMR as to whether or not excess cash was identified proper net cash resource balances are maintained by the district/charter school/renaissance school project A NUMBERED FINDING MUST BE ISSUED AND the SFA will be required to submit an approvable Corrective Action Plan (CAP) to the NJDA detailing the manner in which the SFA will spend down the excess cash. If the SFA chooses to purchase needed equipment, no prior approval will be required if such equipment is identified on [NJDA Form 286](https://www24.state.nj.us/agriculture/AG_SNEARS/Resources/Fm286%20Pre-Apvd%20Equip%20List%20Oct16.pdf) [https://www24.state.nj.us/agriculture/AG\\_SNEARS/Resources/Fm286%20Pre-Apvd%20Equip%20List%20Oct16.pdf](https://www24.state.nj.us/agriculture/AG_SNEARS/Resources/Fm286%20Pre-Apvd%20Equip%20List%20Oct16.pdf) Otherwise, a written request must be submitted via [NJDA Form 106](https://www24.state.nj.us/agriculture/AG_SNEARS/Resources/Fm106%20LgEquip%20Req%20Jan%202018.docx) [https://www24.state.nj.us/agriculture/AG\\_SNEARS/Resources/Fm106%20LgEquip%20Req%20Jan%202018.docx](https://www24.state.nj.us/agriculture/AG_SNEARS/Resources/Fm106%20LgEquip%20Req%20Jan%202018.docx) and approved by NJDA prior to the submission of such CAP and prior to any encumbrance or expenditure of food service funds. The SFA may also rectify the excess cash issue via other means, such as improving the quality of the food and/or hiring additional food service staff; these remedies do not require prior NJDA approval.

4. The auditor must comment on whether USDA commodities were received and if they were properly processed, warehoused, and inventoried on a FIFO basis.
5. Auditors must verify that financial arrangements (i.e. fee calculations, presentation of invoices, and other provisions) in the Food Service Management Contract (FSMC) have been complied with; if not, cite exception:
  - a) Is FSMC fee calculated in accordance with the contract provisions and properly reported in the year end operating statement? (Refer to [Form 348](#) received by the district or charter school/renaissance school project.)
  - b) Has the FSMC met or exceeded the food service program operating results guarantee provision stated in the contract/addendum?

- c) Does the contract with the FSMC comply with the requirements of *N.J.A.C.5:34-4.4(b)* with regard to the prohibited inclusion of other goods/services required to be separately and competitively bid?
  - d) Has the FSMC complied with the provisions of *N.J.A.C.5:34-4.4(b)* prohibiting the combination of unrelated items with other good/services required to be separately procured through competitive bidding?
  - e) For a Cost Reimbursable contracts, has the FSMC charged the school district/charter school/ renaissance school project only for costs that are actual and allowable, net of all discounts, rebates, and other applicable credits accruing to or received by the FSMC? Refer to the illustrative FSMC contract section “Rebates, Discounts and Credits”. (See Form #17 (FSMC) cost contract ) [2018-19 Prototype Contract Language](#)
  - f) For a fixed Price Contract, has the FSMC charged the school district/charter school/renaissance school project based on the actual number of meals served plus supplemental costs in accordance with the [SFA-FSMC Fixed Price Contract](#)?
  - g) The United States Department of Agriculture does not permit increases in reimbursement for revised vouchers received after 60 days without proper verification. However, payment can be considered if the under claim is verified in an audit or administrative review. **Auditors are instructed to verify any underclaims and overclaims (identify in the Schedule of Meal Count Activity – where applicable) as a result of late revisions.** Please note that such payment is subject to approval.
6. Federal procurement requirements for contracts with a FSMC are applicable to school districts, charter schools and renaissance school projects and are published in the Federal Register, Vol. 78, No. 248, dated December 26, 2013. The state agency prototype contract and addendum that was approved as part of the annual FSMC registration process must be used in its entirety. The audit must include a detailed review of the contract and compliance with the federal rules and regulations sufficient to determine that:
- a) The FSMC charged the school district/charter school/ renaissance school project only for costs that are actual and allowable, net of all discounts, rebates and other applicable credits accruing to or received by the FSMC, to the extent those credits are allocable to the allowable portion of the costs billed to the school district/charter school/ renaissance school project. The FSMC’s determination of allowable costs shall be made in compliance with the applicable USDA and Child Nutrition Program regulations and New Jersey OMB Circular 15-08.

For Cost Reimbursable Contracts:

- i. The FSMC has separately identified on its billing documents, for each cost submitted for payment, the amount that is allowable and the amount that is unallowable or
- ii. The FSMC will exclude all unallowable costs from its billing documents and certify that only allowable costs are submitted for payment and that records have been established that maintain visibility of unallowable costs, including directly associated costs, in a manner suitable for contract cost determination and verification.

- b) The FSMC has identified the amount of each discount, rebate and other applicable credit on bills and invoices presented to the school district/charter school/ renaissance school project for payment and individually identify the amount as a discount, rebate, or in the case of other applicable credits, the nature of the credit. The FSMC shall report this information: may not be less frequent than annually.].
  - c) The FSMC has identified the method by which it will report discounts, rebates and other applicable credits allocable to the contract, that are not reported prior to the conclusion of the contract.
  - d) The FSMC has maintained documentation of costs and discounts, rebates and other applicable credits, and shall furnish such documentation upon request to the SFA, State Agency or USDA.
  - e) No expenditure has been made from the nonprofit school food service account that permits or results in the FSMC's receiving payments in excess of its actual, net allowable costs.
7. For school districts/charter schools/renaissance school projects with schools selected to participate in the Fresh Fruit and Vegetable Program (FFVP):
- a) School district/charter school/ renaissance school project must have a signed Child Nutrition Program addendum for the FFVP.
  - b) Costs charged must be allowable according to rules of program outlined in the USDA FFVP Program Handbook that can be accessed on the [USDA Fresh Fruit and Vegetable Program webpage: http://www.fns.usda.gov/ffvp](http://www.fns.usda.gov/ffvp)
8. Food costs, labor charges, and equipment purchases for this program must be identified as such, and must correspond to the appropriate FFVP reimbursement vouchers. For school districts/charter schools/ renaissance school projects participating in the Child and Adult Care Food Program (CACFP) At-Risk Afterschool Meals (Dinner) Program:
- a) School districts/charter schools/ renaissance school projects must account for all reimbursement received according to CACFP regulations, however, reimbursements may be used to pay expenses related to any of the Child Nutrition Programs.
  - b) Indirect costs must be charged appropriately to the nonprofit school food service account.
9. For school districts/charter schools/ renaissance school projects participating in the Summer Food Service Program (SFSP):
- a) School districts/charter schools/ renaissance school projects must account for all reimbursement received according to SFSP regulations. However, reimbursements may be used to pay expenses related to any of the Child Nutrition Programs.
  - b) Indirect costs must be charged appropriately to the nonprofit school food service account.
10. A School Food Authority is required to ensure that the revenue generated from the sale of non-program foods complies with the following requirements, whether or not it is contracted with a FSMC, in accordance with 7 CFR 210.4:
- (1)\* The proportion of total revenue from the sale of nonprogram foods to total revenue of the school food service account must be equal to or greater than:

- (i) The proportion of total food costs associated with obtaining nonprogram foods to
  - (ii) The total costs associated with obtaining program and nonprogram foods from the account.
- (2) All revenue from the sale of nonprogram foods shall accrue to the nonprofit school food service account of a participating school food authority.

Auditor's Note: \*Item (1) referenced above is the [Non-Program Food Revenue Tool \(https://www.fns.usda.gov/guidance-paid-lunch-equity-and-revenue-nonprogram-foods\)](https://www.fns.usda.gov/guidance-paid-lunch-equity-and-revenue-nonprogram-foods) used by the SFA.

Auditors must verify the SFA's ability to execute the Non-program Food Revenue Tool and provide the following comment in the AMR:

The school district/charter school/ renaissance school project did/did not provide the detailed revenue and expenditure information necessary in order to execute the USDA mandated Non-Program Food Revenue Tool at least annually.

The following memoranda and attachments are for the school year 2018-19 and should be available at local school district/charter school/renaissance school project offices:

- a. [November 10, 2014 - LEAs contracting with Food Service Management Companies and Commercial Vendors intending to participate in the CACFP At-Risk Afterschool Meals Program](#)
- b. [June 2, 2015 – Direct Certification Guidance for Sending Districts](#)
- c. [May 18, 2018 – Direct Certification \(DC\) Process Information for SY2018-2019](#)
- d. [June 15, 2018 – Whole Grain-Rich Exemption SY2018-2019 – Form 346](#)
- e. [July 5, 2018 – Clarification SFA Monitoring Responsibilities when Contracting with FSMC](#)
- f. [July 25, 2018 – Annual Application Process for Provisions 1 & II Memo FY2019](#)
- g. [July 27, 2018 – National School Lunch Program – State Match](#)
- h. [August 30, 2018 – Back to School Information and Reminders](#)
- i. [October 12, 2018 – Fixed Price Meal Contract Advantages](#)
- j. [October 30, 2018 – Implementation of the Summer Food Service Program](#)
- k. [November 1, 2018 – FSMC Contract Webinar](#)
- l. [November 2, 2018 – Compliance with Federal Regulations Affecting Credits in FSMC CR Contracts](#)
- m. [November 5, 2018 – FAIN Numbers, CFDA Numbers and Indirect Cost Information](#)
- n. [January 8, 2019 – SFA to SFA Contracts and Consolidation Agreement Webinar](#)
- o. [January 8, 2019 – Commercial Vended Contracts Webinar](#)
- p. [January 22, 2019 – Base Year CR Contract & Addendum: Docs Submission Overview Webinars](#)
- q. [February 11, 2019 – Fixed Price Contracts Base Year & Addenda Electronic Submission Webinar](#)
- r. [April 5, 2019 – Introduction to SNEARS 2.0 Webinar – Reimbursement](#)
- s. [April 15, 2019 – Upcoming Deadlines for SFAs contracting with FSMCs in SY2019-2020](#)

National School Lunch Rate Schedule

**Fiscal Year 2019**  
**Reimbursement Rate Breakdown**  
**National School Lunch Program**

Regular Rate (July 1, 2018 – June 30, 2019) LEAs/charter school /renaissance school project w/less than 60% of Free and Reduced				High Rate (July 1, 2018- June 30, 2019 – Federal Extra .02 CENTS) LEAs/charter school/renaissance school project w/more than 60% of Free and Reduced			
	Federal	State	Total		Federal	State	Total
Free	3.31	0.055	3.365	Free	3.33	0.055	3.385
Red	2.91	0.055	2.965	Red	2.93	0.055	2.985
Paid	0.31	0.05	0.360	Paid	0.33	0.05	0.380
HHFKA *	0.06	0.00	0.06	HHFKA*	0.06	0.00	0.06

\*For “Federal PB Lunch” Healthy Hunger-Free Kids Act of 2010

**School breakfast program**

Regular rates – non-severe need				Severe need rates			
	Federal	State	Total		Federal	State	Total
Free	1.79	0.00	1.79	Free	2.14	0.00	2.14
Red	1.49	0.00	1.49	Red	1.84	0.00	1.84
Paid	0.31	0.00	0.31	Paid	0.31	0.00	0.31

After school snacks			Special milk program		
At Risk/ Area Eligible (No Charge)		0.91	Free	Average cost per half pint *Based on Individual LEA's/charter school costs	
Non-Area Eligible					
Free		0.91	Paid	0.2050	
Reduced		0.45			
Paid		0.08			

Commodity Value \$0.2350

\* SFAs = School Food Authorities 07/31/2018

New Jersey Department of Agriculture  
 School Districts, Charter Schools and Renaissance School Projects  
 Due Date: December 5, 2019

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