

SECTION II – SPECIFIC COMPLIANCE
FUND 60 PROPRIETARY FUNDS

Proprietary funds are used to account for district/charter school activities that are similar to business operations in the private sector. They are not used to account for the normal operations of a district/charter school 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 staff and auditors should refer to GASB 34, paragraphs 91 through 105 for guidance on proprietary fund financial statements. Additional guidelines for districts/charter schools 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 are those established to account for the food services program of the district/charter school and latchkey programs. **All the expenses of these operations are accounted for in the funds with any board contribution shown as a transfer to cover deficit in the general fund and as an operating transfer 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

The Board of Education/charter school 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, vended contracts, 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 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/Board of Trustees may contract with a food service management company (FSMC) to equip, supply and operate cafeterias without profit to the district/charter school pursuant to *N.J.S.A. 18A:33-3*. When the school district/charter school 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 and 220]. All districts/charter schools entering into a FSMC contract must do so pursuant to the Public School Contracts Law, *N.J.S.A. 18A:18A-1 et seq.* as amended; and the applicable rules under *N.J.A.C. 5:34-1 et seq.* Where the district/charter school participates in any federally funded Child Nutrition Program(s), procurement of the FSMC contract must also follow the standards prescribed in 7 CFR 3016.36.

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/LEA/charter school is liable for the reimbursement of all costs incurred. 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/LEA/charter school is considered the School Food Authority. Even if federal reimbursements are not received, school districts/charter schools 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 they are not permitted under state law to administer or hold school moneys.

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, vended contracts, 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 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 (2008 Edition)*.

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, no interest may be charged on payments that are not made within the negotiated dates.
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 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, reimbursement claims for goods should list invoice numbers, dates, vendor names and amounts (Sample 1 on page II-60.4). If the food service management company purchases food in bulk for a number of districts/charter schools, it may use the above method allocating invoice amounts between districts/charter schools based on the percentage of each district's/charter school's student enrollment (or participation) to the total enrollment for all schools (Sample 2 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. Each district's/charter school's pro-rata share of the costs would be the per-meal cost multiplied by the meals served in each district/charter (Sample 3 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 LEA/charter school can agree to this, but must pay the interest/late fees directly from the LEA's/charter school'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 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. **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.**

SAS No. 70 (Service Organizations) Reports

Statement on Standards for Attestation Engagements (SSAE) No. 16 *Reporting on Controls at a Service Organization* and AU Section 324 *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 were notified by the Department of Agriculture within the Sample 2012-13 FSMC Contract, Clause M, 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 for order from the AICPA website at:

http://www.cpa2biz.com/AST/Main/CPA2BIZ_Primary/AuditAttest/Standards/SSAEs/PRDOVR~PC-023035/PC-023035.jsp

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 newly created Audsum line 92175 “Impairment Loss - Special” or newly created 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 previously existing Audsum line 90264).

June 30, 2013

SAMPLE 1

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

October 15, 200X
Invoice #123456

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

For reimbursement of costs incurred related to the provision of food services for the schools of the New City School District/Charter School during the month of September 200X. The costs incurred are listed below:

<u>Invoice #</u>	<u>Date</u>	<u>Vendor Name</u>	<u>Amount</u>
06932	8/31/0X	Bakeland	\$2,398.61
12555X	9/02/0X	Murray's Meats	6,779.38
431182	9/03/0X	Polly's Produce	796.54
218812	9/07/0X	Dan's Dairy	877.32
06988	9/07/0X	Bakeland	531.89
12682X	9/07/0X	Murray's Meats	153.90
431906	9/13/0X	Polly's Produce	591.83
219601	9/24/0X	Dan's Dairy	877.32
		Total	<u>\$13,006.79</u>

Please remit the above amount by November 15, 200X. 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 Chief
President
Foodland Food Services

June 30, 2013

SAMPLE 2 (1 of 2)

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

October 15, 200X
Invoice #123456

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

For reimbursement of the New City school district's/charter school's pro-rata 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 200X

\$3,107.21

Please remit the above amount by November 15, 200X. 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 Chief
President
Foodland Food Services

SAMPLE 2 (2 of 2)

NEW CITY SCHOOL DISTRICT/CHARTER SCHOOL FOOD SERVICES ALLOCATION

Invoice #	Date	Vendor Name	New City	Upper	Lower	Middle	Total
			19.7%	14.1%	27.8%	38.4%	100.0%
6932	8/31/200X	Bakeland	\$208.09	\$148.94	\$293.65	\$405.61	\$1,056.29
12555X	9/2/200X	Murray's Meats	689.23	493.31	972.62	1,343.48	3,498.64
431182	9/3/200X	Polly's Produce	176.45	126.29	249.00	343.94	895.68
218812	9/7/200X	Dan's Dairy	632.22	452.50	892.17	1,232.35	3,209.24
6988	9/7/200X	Bakeland	118.77	85.01	167.61	231.51	602.90
12682D	9/7/200X	Murray's Meats	692.86	495.91	977.75	1,350.55	3,517.07
431906	9/13/200X	Polly's Produce	112.21	80.31	158.34	218.71	569.57
219601	7/13/200X	Dan's Dairy	477.38	341.68	673.66	930.52	2,423.24
		Total	\$3,107.21	\$2,223.95	\$4,384.80	\$6,056.67	\$15,772.63

	No. of Students Participating	Percentage
New City	630	19.7%
Upper	452	14.1%
Lower	889	27.8%
Middle	1,230	38.4%
Total	3,201	100.0%

June 30, 2013

SAMPLE 3 (1 of 2)

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

October 15, 200X
Invoice #123456

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

For reimbursement of the New City school district's/charter school'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 200X	
1,598 meals @ \$2.45 meal	\$3,910.60

Please remit the above amount by November 15, 200X. 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 FOOD SERVICES ALLOCATION

Invoice#	Date	Vendor Name	Invoice Amount
6932	8/31/200X	Bakeland	\$ 2,398.61
12555x	9/2/200X	Murray's Meat	6,779.38
431182	9/3/200X	Polly's Produce	796.54
218812	9/7/200X	Dan's Diary	877.32
6988	9/7/200X	Bakeland	531.89
12682X	9/7/200X	Murray's Meat	153.90
431906	9/13/200X	Polly's Produce	591.83
219601	7/13/200X	Dan's Diary	877.32
		Total	\$13,006.79

<u>School District/Charter School</u>	<u>No. of Meals</u>	<u>Price/Meal</u>	<u>Amount</u>
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	<u>1,175</u>	<u>\$ 2.45</u>	<u>2,875.44</u>
Total	5,315	\$ 2.45	\$13,006.79

Child Nutrition Program Requirements

NJ Circular 04-04 OMB requires audits of recipients in accordance with the Single Audit Act, Amendments, OMB Circular No. A-133 Revised (OMB A-133) 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 04-04 OMB states “Auditors should use the same risk based approach to audit and monitor State financial assistance, as used for federal programs. This approach is described in OMB A-133 Revised.” The district’s/charter school’s independent auditor should refer to OMB A-133 paragraphs .520 and .525 to calculate whether the Child Nutrition Cluster programs meet the federal major program determination criteria. 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, CFDA 10.556 Special Milk Program for Children, CFDA 10.582 Fresh Fruit and Vegetable Program, and CFDA 10.559 Summer Food Service Program for Children). The federal Compliance Supplement can be obtained (upon release) at <http://www.whitehouse.gov/omb/circulars/index.html>. The Bureau of Child Nutrition Programs’ audit policy complies with OMB A-133 with revisions published June 27, 2003 and June 26, 2007. The procedures below reflect the Compliance Supplement but are not intended to be all inclusive.

Districts/charter schools and their auditors should refer to the sample Proprietary Fund statements (Exhibits B-4, B-5, and B- 6) on the NJDOE website <http://www.nj.gov/njded/finance/fp/cafr/> . When a district/charter school 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.

Auditors should 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. **Determine whether there are controls providing 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: Click on the link below to access a sample NET CASH RESOURCE calculation prepared in the format required by the USDA.

[Net Cash Resource Schedule Link.xls](#)

Please Note: Effective October 2007 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.

1. Suggested audit procedures to ensure that reimbursement received is supported by source documents.
 - a) ELIGIBILITY APPLICATIONS – Review household eligibility applications to evaluate completeness of required information and verify eligibility determination. Form number 63 provides guidance for the application approval process and is available on the NJ Department of Agriculture website at <http://www.state.nj.us/agriculture/applic/forms/#6> . Any incomplete free or reduced price applications should be placed in the Paid (denied) category, and an overclaim must be assessed on the Schedule of Meal Count Activity (where applicable). Incorrectly determined applications should be placed in the correct category, and the resulting overclaim/underclaim must be identified on the Schedule of Meal Count Activity (where applicable). Additionally, audit findings related to the free and reduced eligibility

determination must be reported in the Auditor's Management Report (AMR) in the School Food Service section.

Eligibility Determination Process Notes:

Eligibility is required to be determined through the Direct Certification Process. Effective for school year 2012-13, the Direct Certification Process must be done by the school district/charter school three times per school year in accordance with timelines established by the NJDA Division of Food and Nutrition. Please refer to the July 3, 2012 memo on Direct Certification and the August 20, 2012 and January 15, 2013 Direct Certification memos. Copies of these memos are available at the school district/charter school. Schools can directly certify students 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 SNAP (Food Stamps)/TANF for the selected municipalities. Beginning with school year 2009-2010, direct certification eligibility can be extended to any other students living in the household; see memo dated September 8, 2009, "Important Changes in Determination of Eligibility for Free School Meals/Milk". In order for the district/charter school to identify newly eligible students, direct certification matching against updated SNAP (Food Stamp)/TANF data may be performed monthly during the school year.

Schools participating in Provision I or II are not required to collect eligibility applications annually. Please refer to eligibility requirements set forth in the July 10, 2012 memo "Annual Application Process for Provisions I and II."

Eligibility Application: Household Application for Free and Reduced Price Meals and/or Milk. Auditors should verify for the sample selected that the correct eligibility applications have been utilized, fully completed, and properly supported and maintained.

- The Household Application for Free and Reduced Price Meals and/or Milk is the only eligibility application in use for this school year.
 - Foster children are no longer considered to be a family of one. Only one Household Application for Free and Reduced Price Meals and/or Milk is filed for all households, including those with foster children.
 - Foster children are categorically eligible. Copies of letters from the NJ Department of Children and Families serve as certification that a student is a foster child under State care; no additional "meals" application is required.
 - A Household Application that includes foster children may have two different eligibility determinations. One will be for the foster children as noted in the previous bullet and a second eligibility determination for all other students in the household.
 - Foster children are included in the computation of household size when determining the eligibility status for all other students in the household.
- Household applications must be maintained centrally. (The Department of Agriculture has strongly recommended that a representative from the Local Educational Agency (LEA) attend a Determining Official Workshop.)
- Household applications must be on the correct state approved format for the school year being reviewed.
- Effective for the 2011-12 school year, 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 Application.
- Beginning with the 2011-12 school year the eligibility determination associated with a Household Application is effective for the entire school year. Also beginning with the 2011-12 school year there is no provision for "temporary" eligibility status for zero income Applications.

- Every household member listed on the application must either have an income reported **or** the box indicating zero income for that individual must be checked. 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, or monthly. If more than one frequency is provided the total household income must be converted to annual.
 - There is a section on the household application used to identify children who are homeless, migrant or runaway and categorically eligible. LEA's/charter schools 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 - Review meal count records on a school-by-school basis to verify meals claimed on reimbursement claim. Edit Check Worksheet(s) must be completed for every lunch reimbursement claim submitted and the required comparisons made before completing the reimbursement claim. Edit Check Worksheet(s) are optional for the breakfast program. Any meals denied free or reduced priced eligibility should be credited at the paid rate of reimbursement and overclaim/underclaim 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-4.21a and III-4.21b of this Audit Program. **Each of these schedules are prepared only if the Child Nutrition Program is a major program audited in the current audit period in accordance with federal OMB Circular A-133 and 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/underclaim calculated as the Difference times the Rate for each program. A net over/underclaim 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 (Overclaim/Underclaim) (where applicable). Provide pertinent detail, i.e. school, month.

Note: Schools participating in the Seamless Summer Option (SSO) provide for all children at the “free” rate of reimbursement. SSO schools receive only federal reimbursement – no state subsidy is provided.

*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 been approved by the DOA, to receive such additional reimbursement. No such state reimbursement exists. (Reference 7-CFR-PART 210.)

2. Verification Regulations issued by the United States Department of Agriculture require all sponsors of the National School Lunch and School Breakfast Programs must verify no less and no more than three percent of approved applications on file as of October 1 of each school year. The number of current school year free and reduced price applications on file as of October 1 must be used to determine the number of applications that must be verified. The carryover status is not a factor in determining the size of the current year 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 applications on file as of October 1. The independent auditor’s review of eligibility applications should include an examination of the internal verification process and internal sampling records.

- The Sample Selection Method for Internal Verification of Applications is:
 - a) Use all current year approved applications on file at October 1, 2012 to determine the appropriate sample size and to select the applications for verification. Note that sample size depends on the number of paper applications, NOT the number of children represented.
 - b) The required sample size is no less or no more than the established 3 percent. The sample must be selected from “error prone” applications. Refer to “d” below if 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 additional error prone applications are identified during the random selection process (see “d” above), select randomly from the additional error prone pool
- 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 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 resulted in approved applications being classified in the district/charter school 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 15 of each school year. Beginning with school year 2010-11, the Local Education Agency (LEA)/charter school 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 15. Auditors should be aware that the report electronically calculates the number of applications the LEA/charter school must verify. Part 2 of the Verification Summary Report is due by February 15, and includes the LEA’s /charter school’s reporting of the results of the verification process performed pursuant to Part 1. Auditors should obtain from the school district/charter school, copies of the October 2, 2012 memo regarding “October Reporting Deadlines”, and the January 9, 2013 memo “Verification Summary Report Deadline Changed”. Failure to complete verification will result in reimbursement 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-60.10 of this Audit Program. This sample schedule is guidance for the auditor’s use and is to be retained in the auditor’s work papers. No submission of this schedule to DOE or DOA is required. **The auditor must comment in the**

Auditor's Management Report (AMR) as to whether proper net cash resource balances are maintained by the district/charter school. In the event that net cash resources exceed three months average expenditures, the state agency may require the School Food Authority to reduce the children's meal price, improve food quality, or take other actions designed to improve the nonprofit school food service. (REF 7CFR 210:14)

5. The auditor should comment on whether Food Distribution Program properly processed and warehoused U.S.D.A. Foods (commodities), if received. If the school district/charter school is utilizing a FSMC to operate its food service program, review evidence that the market value of Food Distribution Program processed and warehoused USDA Foods was credited to the LEA/charter school. 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 (FSMC) contract 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?
 - b) Has the FSMC met or exceeded the food service program operating results guarantee provision stated in the contract/addendum?
 - c) Has the FSMC complied with the provisions of *N.J.A.C.5:34-4.4(b)* prohibiting the combination of unrelated items, such as the provision of capital equipment, which must be procured separately from the FSCM contract?
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 underclaim is verified in an audit or administrative review. **Auditors are instructed to verify any underclaims (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 that was approved as part of the annual FSMC registration process must be used in its entirety.
 - FSMC must either identify allowable and unallowable costs, OR must exclude all unallowable costs and certify that only allowable costs are submitted to the LEA/charter school for payment.
 - FSMC must identify the amount of each discount, rebate and other applicable credit on bills and invoices presented to the LEA/charter school for payment. FSMC determines in contract the frequency of reporting such information (may not be less than annually).
 - FSMC must identify the specific method(s) used to report discounts, rebates and other applicable credits that are not reported prior to conclusion of the contract.
 - FSMC must maintain documentation of costs and discounts, rebates, and other applicable credits and must furnish such documentation upon request to the LEA/charter school, state agency or USDA.
9. For LEAs/charter schools with schools selected to participate in the Fresh Fruit and Vegetable Program (FFVP):
 - LEA/charter school must have a signed Child Nutrition Program addendum for the FFVP.
 - Costs charged must be allowable according to rules of program outlined in the USDA FFVP Program Handbook that can be accessed at <http://www.fns.usda.gov/cnd/ffvp/default.htm>

- Food costs, labor charges, and equipment purchases for this program must be identified as such, and must correspond to the appropriate FFVP reimbursement vouchers.

The following memoranda and attachments are for the school year 2012-2013 and should be available at local school district/charter school offices:

1. November, 2011 - Food Service Management Company (FSMC) Registration for School Year 2012-2013
2. January 17, 2012 School Breakfast Program
3. January 17, 2012- Training on Contracting with Food Service Management Companies
4. February 6, 2012 - Procurement of Food Service Management Company Services
5. February 6, 2012- Final Rule on New School Meal Requirements
6. February 17, 2012 - 2012-2013 Fresh Fruit and Vegetable Program
7. February 21, 2012 - Procurement of Commercially Vended School Meals
8. April 2, 2012 - Paid Lunch Pricing Requirements for 2012-2013
9. April 16, 2012 - Summer Feeding Options
10. April 17, 2012 - Changed Website for Accessing the Current Index Rate for Food Service Management Company Renewals
11. May 4, 2012 - Additional 6 Cents Reimbursement for National School Lunch Program
12. May 9, 2012- Procurement of Commercial Vended School Meals-Further Clarification
13. May 18, 2012 - IMPORTANT Updates for FY 2013 Application Packet
14. July 3, 2012 Direct Certification
15. July 5, 2012 Free and Reduced Price Application Workshops/Webinar for Determining Officials
16. July 10, 2012 - ANNUAL APPLICATION PROCESS FOR PROVISIONS I AND II
17. July 11, 2012 - Applying for the 6 Cents Certification
18. August 6, 2012 - Additional Clarification on 6 Cent Certification
19. August 20, 2012 - First Round of Direct Certification Must be Done by August 31
20. August 2012 - Verification Workshop/Webinar Schedule
21. –September 4, 2012 Free /Reduced Price Eligibility Carryover from Prior School Year
22. September 4, 2012 - Offering a Non-Pricing School Breakfast Program
23. September 5, 2012 - Back to School Reminders for 2012-2013 School Meal Programs
24. October 2, 2012- National School Lunch Program-October Report Deadlines
25. January 9, 2013 - Verification Summary Report Deadline Changed
26. January 15, 2013 - Third Direct Certification Match Reminder

FISCAL YEAR 2013

REIMBURSEMENT RATE BREAKDOWN

NATIONAL SCHOOL LUNCH PROGRAM

REGULAR RATE (July 1, 2012 – June 30, 2013) LEAs/charter school w/less than 60% of Free and Reduced			
	FEDERAL	STATE	TOTAL
FREE	2.86	0.055	\$2.915
RED	2.46	0.055	\$2.515
PAID	.27	0.04	\$0.310
HHFKA*	.06	.00	\$0.060

HIGH RATE (July 1, 2012- June 30, 2013 – Federal EXTRA .02 CENTS) LEAs/charter school w/more than 60% of Free and Reduced			
	FEDERAL	STATE	TOTAL
FREE	2.88	0.055	\$2.935
RED	2.48	0.055	\$2.535
PAID	.29	0.04	\$0.330
HHFKA*	.06	.00	\$0.060

*For "Federal PB Lunch" Healthy Hunger-Free Kids Act of 2010

SCHOOL BREAKFAST PROGRAM

REGULAR RATES – NON-SEVERE NEED			
	FEDERAL	STATE	TOTAL
FREE	1.55	0.00	\$1.55
RED	1.25	0.00	\$1.25
PAID	0.27	0.00	\$0.27

SEVERE NEED RATES			
	FEDERAL	STATE	TOTAL
FREE	1.85	0.00	\$1.85
RED	1.55	0.00	\$1.55
PAID	.27	0.00	\$0.27

AFTER SCHOOL SNACKS

AT RISK/ AREA ELIGIBLE (NO CHARGE)	\$0.78
NON-AREA ELIGIBLE	
FREE	\$ 0.78
REDUCED	\$ 0.39
PAID	\$ 0.07

SPECIAL MILK PROGRAM

FREE	Average cost per half pint *Based on Individual LEA's/charter school costs
PAID	\$ 0.1925

Commodity Value \$ 0.2275

* LEAs = LOCAL EDUCATION AGENCIES

4/11/2013

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