Section IV: Resource Management

Modules contained within this Section include:

- Risk Assessment for Resource Management
- Maintenance of the Nonprofit School Food Service Account
- Paid Lunch Equity
- Revenue from Nonprogram Foods
- Indirect Costs

Module: Risk Assessment for Resource Management

The intent and scope of monitoring in this section is to apply a systematic approach to ensuring the overall financial health of an SFA's nonprofit school food service. This Section consists of a review of four areas integral to the financial health of the SFA's school food service. The SA may always supplement the review activity to include additional areas. The monitoring areas are:

- *Maintenance of the Nonprofit School Food Service Account*

  The SA must ensure that revenues and expenses* under the nonprofit school food service account are in accordance with 7 CFR 210.14. The nonprofit school food service expenses must be allowable — used only for the operation and improvement of the school food service — and net cash resources may not exceed three months' average operating expenses. (7 CFR 210.14)

  > ***Note:** In assessing compliance with the Net Cash Resource's provision FNS has chosen to use the word "expenditure" for consistency with Federal regulations. In all other areas of the Resource Management (RM) Section FNS has chosen to use the word "expenses".*

- *Paid Lunch Equity*

  The SA must ensure that SFAs comply with the requirements for pricing paid lunches. (7 CFR 210.14(e))

- *Revenue from Nonprogram Foods*

  The SA must ensure that SFAs comply with the requirement that *revenues from the sale* of nonprogram foods generate at least the same proportion of total school food service account revenues that *expenses from the purchase* of nonprogram foods contribute to total school food service account food costs. (7 CFR 210.14(f))

In addition, the SFA must price adult meals so that adult payments are sufficient to cover the overall cost of meals, including the value of any USDA Foods used in the production of adult meals. (FNS Instruction 782-5 REV. 1)

- *Indirect Costs*
  The SA must ensure that SFAs follow fair and consistent methodologies to identify and allocate allowable indirect costs to school food service accounts. (2 CFR 200)

Why use a Risk Indicator Tool?

The purpose of the *Resource Management Risk Indicator Tool* is to forecast and/or assess, through the use of known indicators, situations that may result in noncompliance.

Using a balanced review approach to monitor a SFA's resource management (RM) practices ensures that potential problems are identified while limited resources can be focused on those SFAs most at risk of noncompliance. The *Off-site Assessment Tool's* resource management section and the *Resource Management Risk Indicator Tool* are designed to help SAs target a more in-depth review of specific resource management areas via the *Resource Management (RM) Comprehensive Review Form* to those SFAs that demonstrate an increased risk of potential noncompliance and/or noncompliance with resource management requirements.

Review Procedures

Using the Off-site Assessment Tool

Questions 700-712 in the *Off-site Assessment Tool* focus on the following areas: maintenance of the nonprofit school food service account, paid lunch equity, revenue from nonprogram foods, and indirect costs. The SA must indicate in the *Off-site Assessment Tool* if the SFA should answer Q700-712 based on its financial management practices during the previous school year or the last audited school year (Resource Management (RM) Review Period). If sufficient financial data is available, the State agency may choose to examine financial documentation from the current school year when assessing an SFA's compliance with the Paid Lunch Equity and/or Revenue from Nonprogram Foods rather than data from the previous or last audited school year. State agencies have the discretion to establish deadlines with their SFAs for the collection of the resource management information in the *Off-site Assessment Tool* so that the SFA may receive a risk assessment in a timely manner. As a best practice, SAs should collect the information for the *Off-site Assessment Tool* from the SFA as part of an interactive discussion to ensure that the SFA fully understands the questions so that it can provide accurate information. In addition to securing SFA answers to Q700-712 in the *Off-site Assessment Tool*, the State agency may require SFAs to provide detailed comments in the Tool and/or documentation supporting its answers. If at any time the SA is concerned that any of the information provided by the SFA in the *Off-site Assessment Tool* is inaccurate, the SA must follow up with the SFA to ensure that the SFA understands the questions correctly and provides accurate answers.

The information derived from the *Off-site Assessment Tool* will be added into the *Resource Management Risk Indicator Tool* by the SA.

Using the Resource Management Risk Indicator Tool

The Resource Management Risk Indicator Tool identifies which SFAs need further review or are at risk for noncompliance in the resource management areas. The Tool includes four Resource Management areas integral to the financial health of the SFA school food service: Maintenance of the Nonprofit School Food Service Account, Paid Lunch Equity, Revenue from Nonprogram Foods, and Indirect Costs. At least one question is asked under each Resource Management area; some areas contain multiple questions that may indicate risk (risk indicators). The Tool is expected to lead to a more targeted review that will ultimately provide for streamlined, consistent, and effective management of program resources at the SFA level. After the SFA completes the *Off-site Assessment Tool* and provides its information to the SA, the SA must indicate on the *Resource Management Risk Indicator Tool* the review periods it is assessing for each resource management area and transfer the SFA's answers into the

> **Reviewer Tip**
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> As early as possible in the program year (e.g., July – September) send the Resource Management portion of the *Off-site Assessment Tool* to all SFAs scheduled for review in the coming school year.

Resource Management Risk Indicator Tool by selecting the appropriate answer in the drop down menu provided with each question to determine if a further comprehensive review is necessary in any of the RM areas. If a comprehensive review of a RM area is needed, the *Resource Management Risk Indicator Tool* will assess a "risk indicator" based on the SFA's answer to the RM question. It is important to note that not all of the questions associated with the risk indicators are intended to imply that the related activity is prohibited; rather, they merely reflect the possibility of a need for further review. While the *Resource Management Risk Indicator Tool* is designed to assess potential risk, it is not intended to be a comprehensive evaluation. Additional evaluation may be required to determine whether problems actually exist. As a best practice, State agencies are encouraged to utilize SFA comments included in the *Off-site Assessment Tool*, additional SFA financial data that may be collected, FNS or State agency tools the SFA may complete (PLE Tool, Nonprogram Foods Revenue Tool), and/or other financial documentation to validate the SFA's answers in the *Off-site Assessment Tool* prior to the SA completing the *Resource Management Risk Indicator Tool* on behalf of SFAs receiving an Administrative Review. Follow up and validation is also strongly encouraged for SFAs that have a history of financial mismanagement and/or for SFAs whose answer(s) changed significantly from their last Resource Management review to the current review. For instance, a State agency should ensure that an SFA receiving an Administrative Review understood Q706-708 if the SFA charged far below the target weighted average paid lunch price during its previous AR but indicates in the *Off-site Assessment Tool* for its current review that it charged the target weighted average paid lunch price at all sites. Similarly, for question 709 follow up by the State agency should occur if, for instance, the SFA sold a wide array of nonprogram food items during its previous administrative review but indicates in the *Off-site Assessment Tool* that it doesn't sell any nonprogram foods during a subsequent administrative review. Further, if the SA has concerns that the SFA may not have answered the RM questions in the *Off-site Assessment Tool* accurately or if an on-site administrative reviewer observes that answers provided by the SFA were inaccurate (e.g, the SFA indicated in its *Off-site Assessment Tool* that it didn't sell adult meals but an on-site reviewer observing the SFA's meal service sees adult meals being served to teachers), the State agency should follow up with the SFA to determine why the questions weren't answered appropriately. The SA should not carry over the SFA's incorrect answer(s) into the *Resource Management Risk Indicator Tool* but instead include the correct answer(s) in the Tool, note why the SA's answer differs from the SFA's in the comments section(s) and assess the need for a RM comprehensive review accordingly. The SA has the discretion to conduct a comprehensive resource management review of any or all RM areas even if no risk indicators were triggered during the off-site assessment. If a SA has concerns about an SFA's financial management practices, FNS strongly encourages the SA to conduct a comprehensive review of one or more resource management areas.

Risk Assessment Procedures for On-site vs. Off-site Comprehensive Reviews

When resource management comprehensive reviews are conducted on-site, all resource management risk assessments must occur off-site prior to the SA's on-site review of resource management. The State agency has the discretion to determine how far in advance of an SFA's on-site review the SA reviewer must conduct the off-site resource management risk assessment.

The resource management risk assessment procedures are generally the same as above for SAs that conduct required RM comprehensive reviews off-site and those that conduct the reviews separately from the rest of the on-site Administrative Review. In these instances, however, the on-site Administrative Review does not include a comprehensive RM review since the review of this area is taking place at another time or off-site so it is not necessary to conduct the off-site RM risk assessment prior to the on-site review of the other Administrative Review areas. SAs must still gather information electronically, via hard copy or verbally from the SFA off-site to ensure they have the data they need to complete the *Resource Management Risk Indicator Tool* and determine if a comprehensive RM review of one or more of the four areas is necessary. If a comprehensive review of any area(s) is required, the State agency may conduct the review off-site.

All documentation, including invoices and other materials needed to conduct a comprehensive review of allowable costs, may be gathered and reviewed off-site. However, SAs must assess their ability to secure the documentation they need to thoroughly conduct a comprehensive review of all areas receiving risk indicators. If the SFA is unable to provide all necessary resource management documentation in a timely manner to the State agency, the State agency must conduct an on-site comprehensive resource management review of any RM areas that received a risk indicator and for which efforts to obtain sufficient documentation to conduct an off-site review were unsuccessful.

Review Procedures for SFAs receiving risk indicators in one or more resource management areas: If an SFA receives one or more risk indicators in one of the four resource management areas, the State agency must conduct a comprehensive review of the RM area in which the risk indicator(s) was received. If an SFA receives one or more risk indicators in more than one resource management area, the SA must conduct a comprehensive RM review of each RM area in which a risk indicator was assessed. For instance, if an SFA receives one risk indicator under the Maintenance of the Nonprofit School Food Service RM area and one risk indicator under the Revenue from Nonprogram Foods RM area, the SA must conduct a comprehensive review of the Maintenance of the Nonprofit School Food Service RM area and a comprehensive review of the Revenue from Nonprogram Foods RM area. The SA must only perform a comprehensive review of all four resource management areas if the SFA receives one or more risk indicators in all of the four RM areas or if the *Resource Management Risk Indicator Tool* was not completed off-site by the SFA prior to the resource management review.

Using the Resource Management Comprehensive Review Form

The *Resource Management (RM) Comprehensive Review Form* should be used when conducting a comprehensive review of SFAs that receive one or more risk indicators within one of the four resource management areas. As previously noted, SAs may add questions to *the Resource Management Comprehensive Review Form* to take a closer look at specific SFA financial activities and to assess compliance with state laws and regulations pertaining to financial management. The scope of the resource management comprehensive review is described in greater detail for each resource management area in the modules in this section. As indicated previously, any findings identified during the course of the resource management review, even if corrected by the SFA during the course of the RM review, must be followed up with corrective action and technical assistance for the entire RM review period (previous school year or last audited school year unless otherwise indicated) and current school year, if necessary. If needed, corrective action must include the SFA's adoption of internal controls to ensure noncompliance does not occur in the future. If noncompliance is identified during the RM review period, State agencies have discretion to examine financial documents from the current school year to determine if additional corrective action is necessary. Refer to the modules that follow for more information.

Comprehensive resource management reviews for all four RM areas may occur on-site or off-site. If the State agency reviewer wishes to conduct an off-site comprehensive review, the reviewer must be able to secure all financial documents needed to sufficiently assess the SFA's compliance with the RM requirements. Some RM areas, such as the Maintenance of the Nonprofit School Food Service Account and Revenue from Nonprogram Foods areas, require a review of invoices and other documentation which may take some time for the SFA to gather. For this reason, State agencies are strongly encouraged to secure the SFA's *Off-site Assessment Tool* and complete the *Resource Management Risk Indicator Tool* at the beginning of the school year (e.g., July-September) in which an SFA's Administrative Review AR will occur. This should provide sufficient time to the SFA to gather and provide any needed financial documentation the SA may need to conduct some or all of the RM review off-site.

FNS strongly encourages SAs to include the SA financial management staff in the analysis of the completed Resource Management portion of the *Off-site Assessment Tool* and the *Resource Management Risk Indicator Tool*. If necessary, SA financial management staff should also be included during the course of any resource management comprehensive review.

Technical Assistance/Corrective Action

FNS requires technical assistance and corrective action in all instances where the SA identifies violations of the resource management regulations or guidance. During the resource management assessment and review process, reviewers should refer to the *Resource Management Comprehensive Review Tool* for further guidance and instructions for how to assess a SFA's compliance and need for technical assistance concerning Federal resource management requirements.

FNS encourages the SA to conduct a follow-up review for repeated instances of resource management noncompliance. Required corrective action and/or technical assistance must be recorded in the applicable comments sections in the *Off-site Assessment Tool, On-site Assessment Tool,* or *Resource Management Comprehensive Review Form*.

Fiscal Action

This is a General Area, thus fiscal action is not required. In some instances, such as the expenditure of nonprofit school food service monies on unallowable costs or "double dipping" when indirect costs are charged, the SA must withhold funds or the LEA must otherwise reimburse the nonprofit school food service account in full to cover the amount of funds misspent and/or overcharged to the account. FNS encourages the SA to consider withholding program payments, in whole or in part, to any SFA for repeated or egregious violations that are not corrected. While withholding program payments is not included in the specific regulatory definition for fiscal action, additional information can be found in Section VIII, *Fiscal Action,* Module: *Withholding Payments*.

Module: Comprehensive Review – Maintenance of the Nonprofit School Food Service Account

Intent/Scope of Monitoring

This Module must be used to conduct a comprehensive review of the SFA's resource management practices and may be used in whole or in part to assess compliance and/or the need for technical assistance concerning individual risk indicators triggered during a SFA's Resource Management risk assessment. When conducting a review of the maintenance of the nonprofit school food service account, the SA must assess an SFA's risk of noncompliance with the provisions of 7 CFR 210.2, 210.14(a), 210.14(b), and 210.19(a)(1), which address the maintenance of the nonprofit school food service account and 2 CFR 200.302, 2 CFR 200.303 and 2 CFR 200 Subpart E which pertain to internal controls and allowable costs.

This Module focuses on ensuring the SFA is maintaining and using its nonprofit school food service account according to regulatory requirements, which include observing the limitation on the use of the nonprofit school food service account revenues set forth in 7 CFR 210.14, and ensuring related costs are necessary, reasonable, and allocable set forth in 2 CFR 200 Subpart E. SA monitoring of this area is intended to ensure that SFAs:

- Use all **nonprofit school food service revenue** solely for the operation or improvement of the school food service:
    - Revenues may be used for food, equipment, and labor to operate the meal program; and
    - Revenues must not be used to purchase land and/or buildings, or to construct buildings, unless approved by FNS.
- Limit **net cash resources** to three months' average expenditures, or have a process or SA approved plan for spending the amount in excess of 3 months. Limiting the size of a

SFA’s food service net cash resources ensures that funds in the nonprofit school food service account are expended to improve program operations and meal quality.

- Comply with **allowable cost** restrictions, limiting expenses of nonprofit school food service funds to those costs that are necessary, reasonable, and allocable.

This section of review falls under the General Areas.

Review Procedures

The SA has the flexibility to review all aspects of the maintenance of the nonprofit school food service account off-site if the SA is able to secure all of the financial documentation needed to assess the SFA’s compliance in this area. The *Maintenance of the Nonprofit School Food Service Account* section of the *Resource Management Comprehensive Review Form* is used when conducting a comprehensive review of this Module. To answer the questions on the review form, the SA must obtain documentation that may include, but is not limited to, the SFA’s Statement of Revenues and Expenses, a balance sheet, general ledger, and/or other similar documents. The SA must assess the information in accordance with the guidance below.

Documents for the Resource Management comprehensive review should be taken from the Resource Management review period unless otherwise noted by the State agency

Nonprofit School Food Service Account and the Year End Available Balance:
The SFA must follow and document an annual process to identify revenue excess or shortfall . To monitor compliance, the SA should use the SFA’s Statement of Revenues and Expenses (may also be called an Income Statement, P&L, etc.) for the RM Review Period to identify the following:

Fund Balance or Carryover + Total Revenues – Total Expenses = Revenue Shortfall or Excess

- *Step 1 — Total Nonprofit Food Service Revenues*: Determine the SFA's available revenues for the RM review period. The SA must identify all monies received by or accruing to the nonprofit school food service account, including but not limited to meal payments, earnings on investments, other local revenues, State revenues (i.e., reimbursements and State match), and Federal cash reimbursements. This information should be available on the Statement of Revenues and Expenses, the general ledger, or other similar documentation. SFAs that commingle their nonprofit school food service account with other school accounts must provide the SA with sufficient information to identify all revenue available to the school food service.

- *Step 2 — Total Expenses:* Determine the SFA's total operating and nonoperating expenses incurred in the operation or improvement of the nonprofit food service during the RM review period. Operating expenses may include administrative expenses such as salaries, fringe benefits, professional services, cleaning, repairs, maintenance and depreciation. SFAs that commingle their nonprofit school food service account with other school accounts must provide the SA with sufficient information to identify all expenses charged to the school food service.

- *Step 3 — Year End Balance:* Calculate the SFA's year end balance using the values from Step 1 and Step 2:

Total Current Revenue (Step 1) - Total Current Expenses (Step 2) = Year End Balance (Step 3)

Once the State agency reviewer has calculated the SFA's year end balance, the State agency will determine if the SFA operated at a deficit, requiring a transfer of funds into the nonprofit school food service account. A transfer of funds to cover a revenue shortfall is allowable but could indicate the need for the SFA to better assess its food costs, identify ways to reduce food costs and/or labor, improve efforts to solicit student meal preferences to increase participation, or other activities to generate more revenues and/or reduce costs for the food service.

Nonprofit School Food Service Account and Net Cash Resources

Net cash resources are defined under 7 CFR 210.2 as consisting of all monies, as determined in accordance with the State agency's accounting system, that are available to or have accrued to an SFA's nonprofit school food service at any given time, less cash payable. Net cash resources 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. 7 CFR 210.14(b) requires SFAs to limit their net cash resources in its nonprofit school food service account to no more than three months' average expenditures.

In order to calculate the SFA's net cash resources, the reviewer should take the following steps:

Step 1a — Calculate net cash resources:

Using the SFA's year-end Balance Sheet (or comparable documentation) for the RM review period, subtract the SFA's current liabilities from its current assets (excluding inventories) to obtain the SFA's net cash resources.

Step 2a – Calculate net adjusted total operating expenses:

Using the SFA's Statement of Revenues and Expenses (or comparable documentation) for the RM review period, determine the SFA's total operating expenses (minus depreciation).

Step 3a – Calculate average monthly expenses:

Divide the total operating expenses (calculated in Step 2a) by the number of the SFA's operating months (typically 9 or 10 months) to obtain the SFA's average monthly expenses.

Step 4a: Calculate average expenses for 3 month period:

Multiply the SFA's average monthly expense amount by 3 to obtain the SFA's 3 month average monthly expenses.

Step 5a — Determine the SFA's Compliance with Net Cash Resources Requirements:

If the annual net cash resources amount in Step 1a is less than the three months' average expenditure amount as determined in Step 4a, the SFA is in compliance. If the annual net cash resources amount is higher than three months' average expenditures, then the SFA is not in compliance unless approval has been given by the SA to the SFA to carry an excess balance temporarily.

State agencies should document its calculations in the *Resource Management Comprehensive Review Form* and answer the corresponding questions for this section.

Internal Controls

Federal requirements under 2 CFR 200.303 require non-Federal entities, such as states and SFAs, to establish and maintain effective internal control over the Federal funds they receive that provides reasonable assurance that they are in compliance with Federal statutes, regulations and the terms and conditions of the Federal award. Internal controls may include processes that help ensure, for instance, that financial transactions are properly recorded and accounted for, in order to permit the preparation of reliable financial statements and Federal reports, maintain accountability over assets and demonstrate compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Questions are included in the *Resource Management Comprehensive Review Form* to assess the types of internal controls that SFAs have implemented and to help identify additional safeguards that SFAs should consider adopting. Because Federal regulations do not mandate which internal controls are necessary at the SFA level, technical assistance rather than corrective action should be provided, as needed, for this section of the RM review. However, State agency reviewers may determine when reviewing other sections within the resource management review module that noncompliance identified at the SFA level may be a result of insufficient internal controls, such as a lack of training or oversight, and that stronger internal controls must be implemented as part of the SFA's corrective action. For instance, if the State agency reviewer finds that an SFA spent food service monies on unallowable costs, corrective action must include reimbursement of the unallowable costs to the nonprofit school food service account and the adoption of more rigorous internal controls, such as requiring annual allowable cost training for staff authorized to submit food service receipts for payment.

In addition to implementing sufficient internal controls, State agencies are required under 7 CFR 210.19(a)(1) to ensure that school food authorities account for all revenues and expenditures of their nonprofit school food service. SFAs that provide nonreimbursable meals to students free of charge should be able to accurately track the number of nonreimbursable meals they serve to ensure that the nonprofit school food service account is reimbursed for the total cost of these meals per FNS Policy Memo SP 23-2017. Questions are included under the Internal Controls section of the Maintenance of the Nonprofit School Food Service review area to help State agencies determine if SFAs have procedures in place to track nonreimbursable meals provided for free to students. SFAs that do not track nonreimbursable meals sufficiently and/or have a process to reimburse the nonprofit school food service for the cost of the meals should receive corrective action and technical assistance.

Allowable Costs

Overview

Federal regulations under 7 CFR 210.14(a) require all SFA food service operations to principally benefit schoolchildren and all of the revenue in the SFA's nonprofit school food service account must be used solely for the operation or improvement of the food services. For this reason, State agencies must ensure that only allowable costs are charged to the nonprofit school food service account. 2 CFR 200 Subpart E provides more details about how to assess costs and their allowability. In general, charges to the nonprofit school food service account must be:

- Reasonable: A reasonable cost must follow State and Federal regulations and must follow restraints imposed by generally accepted sound business practices. For example, as a best practice, reasonable costs should follow an "arms-length" standard, meaning programs costs should be in line with the price that the item or service would cost on the open market.

- Necessary: Costs that are not necessary for program purposes or that do not otherwise satisfy Federal cost principles and program regulations are unallowable.

- Allocable: Costs must be assigned to the programs, functions, and activities that benefited from the SFA having incurred the cost.

In addition, costs that would otherwise be allowable may be made unallowable by the action or inaction of the SFA. For example, if a SFA purchases kitchen equipment without following a competitive procurement process or prior approval from the State agency, then that cost becomes unallowable because the SFA failed to follow required procurement procedures. No portion of an unallowable cost may be charged to the program. Certain expenses, such as capital expenditures for improvements to land, buildings or equipment which materially increases their value or useful life are unallowable. The SA must evaluate the SFA's compliance with allowable cost restrictions during the Maintenance of the Nonprofit School Food Service comprehensive review by examining the SFA's practices surrounding bad debt, equipment purchases and by reviewing a sample of expenditures to ensure the SFA did not spend nonprofit food service account funds on unallowable costs.

Bad Debt

FNS Policy Memos SP 23-2017 and SP 29-2017 provide guidance to State agencies and SFAs concerning the problem of unpaid meal charges at school districts and best practices for resolving the challenges. SFAs may not use or provide nonprofit school food service account funds to reduce or "zero out" outstanding food service balances. During a comprehensive review of allowable costs, State agencies should ensure that SFAs encumbered with bad debt have a process to ensure that nonprofit school food service account revenues are not used to pay off bad debt.

Equipment Purchase Review

In addition, under certain circumstances, prior approval from the State agency is needed before costs may be incurred. 2 CFR 200.439 requires non-Federal entities, such as SFAs, to obtain approval from the State agency for equipment purchases of $5,000 or more. State agencies may impose a capitalization level more restrictive than $5,000, in which case the State's lower threshold applies and their SFAs must receive prior approval before purchasing equipment costing above the State's capitalization level. States may implement pre-approved equipment lists, with FNS approval, that allow their SFAs to purchase equipment included on the lists without seeking further prior approval. For additional information, see FNS Policy Memo SP 31-2014, "State Agency Prior Approval Process for School Food Authority (SFA) Equipment Purchases." State agencies conducting an unallowable cost review of their SFAs will review whether or not equipment purchases made by the SFAs with funds from their nonprofit school food service account met the allowable cost requirements.

Allowable Costs Review

In addition to examining certain equipment purchases, the State agency must evaluate the SFA's compliance with allowable cost restrictions by:

- Reviewing a sample of expenses by selecting expenses from the detailed general ledger report for the RM review period to determine whether the recorded expenses represent an activity or function recognized as reasonable and necessary for the operations of the programs. If the detailed general ledger fails to provide sufficient information needed to identify expenses, a review of invoices and receipts for the selected year may provide this information. To conduct a sample of the SFA's expenses, the SA must perform the following steps:

- Conduct an assessment of approximately 10% of the expenses in the detailed general ledger. The sample may be conducted as follows:
    - Review a minimum of 10% of salaries and benefits for the year **or** all salaries from a selected full month; ensure all employees paid are involved in the school meal programs and that they are only paid from the nonprofit school food service account for the hours they worked in the school food service.
    - Review a minimum of 10% of food, supplies and equipment for the year **or** all food, supplies, and equipment from a selected full month;
    - Review a minimum of 10% of other expenses such as utilities (electric, water, gas, etc.), travel costs and/ or rental space (storage) for the year **or** all expenses from a selected full month.

While reviewing the sample of expenses, the SA reviewer should identify any expenses that appear to be unnecessary or incompatible with the operations of the school food service and examine invoices for those charges that may be unallowable. For instance, if the reviewer identifies that an SFA was pre-approved to use nonprofit school food service account funds to purchase equipment but also purchased items not included on the State agency's pre-approved equipment list or used nonprofit school food service funds to make improvements to the school building that should have been covered by the school district, the State agency would assess a finding and required corrective action, such as repaying the nonprofit school food service account for the unallowable costs. Other examples of unallowable cost could include using nonprofit school food service account funds to pay bad debt associated with uncollectable unpaid meal charges. The reviewer must interview SFA staff about any questionable items identified and request additional information, such as invoices to substantiate the expenses, and require corrective action, as needed.

Rather than limiting the review of expenses to one full month or 10 percent of expenses, State agencies have the discretion to expand the size of their review to additional months during the RM review period. Further, as noted, the 10% sample of a variety of expenses for the RM review period is a minimum; State agencies may choose to sample a larger percentage of expenses to better ensure that reviewed SFAs are limiting their nonprofit school food service account expenditures to allowable costs. State agencies that conduct procurement reviews of their SFAs in the same year as they conduct Administrative Reviews of the same SFAs will gather a “vendor paid list” or detailed general ledger from the SFA for the previous school year. SAs have discretion to evaluate charges on the vendor paid list for a longer period of time than one month. As a best practice, SFAs conducting procurement reviews should streamline their request for review documents from the SFA to ensure different reviewers, such as an RM reviewer and a procurement reviewer, aren’t asking for the same documents. SAs should also ensure that findings identified as part of procurement reviews are communicated to the SA’s resource management reviewer(s) and vice versa as there may be overlap of findings in the area of allowable costs. For instance, if a procurement review conducted before the RM allowable cost review identifies that equipment was secured by the SFA noncompetitively, the purchase may be unallowable and the SFA may be required to repay the nonprofit school food service account for the cost of the equipment, the SA may be able to determine during an RM comprehensive review that the nonprofit school food service account was repaid.

Technical Assistance/Corrective Action

When documenting corrective action, the reviewer must include information about the SFA’s violation of Federal law, regulations, or applicable policy guidance, as well as information on the adjustments needed for the SFA to become compliant. Needed corrective action and/or technical assistance must be recorded in *Resource Management Comprehensive Review Form* when a Resource Management comprehensive review is conducted.

Corrective action and technical assistance should be taken for the entire RM review period (previous or last audited school year) and for the current school year, if necessary.

For example, if the SA finds that the SFA inappropriately spent nonprofit school food service funds on unallowable costs during the RM review period, corrective action will require a transfer of funds from the LEA's general fund into the nonprofit school food service account or require the LEA to otherwise reimburse the school food service for the unallowable expenses. The reviewer should ensure that the LEA reimburses the nonprofit school food service account if the same unallowable costs were charged to the nonprofit school food service account during the current school year. Corrective action should also include the adoption of internal controls to ensure noncompliance does not occur in the future.

Fiscal Action

This is a General Area, thus fiscal action is not required. FNS encourages the SA to consider withholding program payments, in whole or in part, to any SFA for repeated or egregious violations that are not corrected. While withholding program payments is not included in the specific regulatory definition for fiscal action, additional information can be found in Section VIII, *Fiscal Action,* Module: *Withholding Payments*.

Module: Comprehensive Review – Paid Lunch Equity

Intent/Scope of Monitoring

This Module must be used to conduct a comprehensive review of the SFA's resource management practices in the Paid Lunch Equity (PLE) Resource Management area. The intent in monitoring this provision is to ensure support for paid lunches is in compliance with section 205 of the Healthy, Hunger-Free Kids Act (HHFKA) of 2010 (Public Law 111-296). The HHFKA required SFAs that, on average, charge for paid lunches less than the difference between the federal reimbursements for free and paid lunch to either gradually adjust paid lunch prices upward or provide non-Federal funds to cover the difference. This requirement is intended to ensure that SFAs provide sufficient funds to the nonprofit school food service account for paid lunches. Additional details are provided in 7 CFR 210.14(e). When conducting a review of paid lunch equity when the RM review period selected by the SA is either the previous school year or last audited school year, the SA must evaluate the prices the SFA charged for paid lunches in relation to the Federal paid and free reimbursement rates. To do so, SFAs must determine:

- the weighted minimum average paid lunch price charged for paid lunches in the previous school year
- the difference between the free lunch per meal reimbursement rate and the paid lunch per meal reimbursement rate in effect for the previous school year; this is also called the ''reimbursement difference''

If an SFA's weighted minimum average paid lunch price is equal to or greater than the reimbursement difference, the SFA is not required to make any adjustments in lunch prices or to add revenue to the nonprofit school food service account as long as it continues to charge a weighted minimum average paid lunch price that is not less than the amount of the reimbursement difference.

If an SFA's weighted minimum average paid lunch price is less than the reimbursement difference, the SFA must increase prices for paid lunches or add financial support from non-Federal sources to the school food service account.

If, however, the State agency chooses to review the current school year for the PLE rather than the previous or last audited school year, the SA must only determine, when conducting comprehensive reviews under the PLE, if its SFAs had zero or positive nonprofit school food service account balance as of January 31, 2018. This shortened comprehensive review process for PLE reviews using current school year data is due to the passage of the FY 2018 Consolidated Appropriations Act (Public Law 115-141) which only requires SFAs with a negative balance in their nonprofit school food service account to raise their paid lunch prices in accordance with 7 CFR 210.14(e) provisions. This flexibility is only provided for SY 2018-2019. More details are provided in FNS Policy Memo SP 12-2018.

This area falls within the General Areas of the Administrative Review.

Review Procedures

The *Paid Lunch Equity* section of the *Resource Management Comprehensive Review Form* contains questions to assess the information in accordance with the guidance below. The SA has the flexibility to cover this area either off-site or on-site.

Review procedures for State agencies reviewing the SFA's current school year:
If a State agency chooses to review its SFAs' implementation of the PLE for the current school year, the State agency must obtain a balance sheet or comparable documentation that the SFA used to determine if its nonprofit school food service account had a negative balance as of January 31, 2018 and validate that the SFA was exempt from raising its paid lunch price(s). If the SFA did not use the Paid Lunch Equity Tool or a comparable mechanism to determine if it

needed to raise its paid lunch price(s) for SY 2018-2019 despite having a negative balance as of January 31, 2018, the SA must require corrective action and technical assistance. Corrective action may consist of requiring the SFA to complete the PLE Tool for SY 2018-2019 and raise its paid lunch prices during the school year, if necessary, and/or transfer non-Federal funds into the nonprofit school food service account to support paid lunch prices. The SA may also require the SFA to provide documentation to the SA validating that the SFA transferred the necessary non-Federal funds into the nonprofit school food service account and/or raised its paid lunch prices.

If the SFA receiving a comprehensive PLE review had a negative balance in its nonprofit school food service account as of January 31, 2018 and used the PLE Tool or a comparable mechanism to assess its need to raise its paid lunch prices, the State agency reviewer should use the review procedures below for the previous or last audited school year to determine if the SFA completed its assessment correctly and added non-Federal funds to its nonprofit school food service account and/or raised prices, as needed, to comply with the PLE requirements.

Review procedures for State agencies reviewing the SFA's previous or last audited school year (RM review period):

The State agency must first determine if the SFA used the PLE Tool or a comparable mechanism in the year prior to the RM review period to determine if the SFA needed to raise its paid lunch price and/or provide non-Federal funds to the nonprofit school food service account for the RM review period. If the SFA did not use the Paid Lunch Equity Tool or a comparable mechanism to determine if it needed to raise its paid lunch price(s) during the RM review period, the SA must require corrective action and technical assistance. Corrective action may consist of determining if the SFA had a positive or zero balance in its nonprofit school food service account as of January 31, 2018. If so, no further corrective action would be necessary, but technical assistance should be provided to ensure that the SFA understands the PLE requirements. If the SFA had a negative balance as of January 31, 2018, the State agency may require the SFA to complete the PLE Tool for SY 2018-2019 and raise its paid lunch prices during the school year, if necessary, and/or transfer non-Federal funds into the nonprofit school food service account to support paid lunch prices. The SA may also require the SFA to provide documentation to the SA validating that the SFA transferred the necessary non-Federal funds into the nonprofit school food service account and/or raised its paid lunch prices. State agencies should contact their FNS Regional Office if further guidance is needed in light of the current PLE flexibilities included in Public Law 115-141.

If the SFA has completed the PLE Tool or a comparable mechanism for the RM review period, the SA must validate the SFA's completed *Paid Lunch Equity Tool* as follows:

Step 1: Obtain the SFA's completed *Paid Lunch Equity Tool* or alternate documentation for the previous school year. Validate the SFA's Paid Lunch Equity calculations by cross-checking the data gathered with data used by the SFA.

Results:

a) If the SFA's *Paid Lunch Equity Tool* can be validated by the SA, skip to step four below.
b) If the SFA's *Paid Lunch Equity Tool* cannot be validated by the SA, complete steps two and three below.

Step 2 (if necessary): Complete a separate *Paid Lunch Equity Tool* using the following information gathered from source documents from the SFA:

- The SFA's calculations for the RM review period used to determine if the SFA needed to increase its paid lunch price. This could be a SFA-completed Paid Lunch Equity Tool or alternative documentation
- All paid lunch prices and the respective number of paid lunches served for October of the School Year prior to the RM Review Period.
- Total paid lunches claimed in the second preceding school year (needed if using non-federal funds)

Step 3 (if necessary): Enter the SFA's data into a separate *Paid Lunch Equity Tool* to determine whether or not a paid lunch increase was necessary.

Step 4: Determine if and how the SFA raised its paid lunch prices, if a price increase was required. If paid lunch prices were not raised, determine whether the SFA used non-Federal sources to support its paid lunch prices. If non-Federal funds were used to support paid lunch prices, the SA should determine whether the sources are allowable and appropriately recorded in the nonprofit school food service account.

For a detailed list of allowable and unallowable non-Federal sources, see 7 CFR 210.14(e).

Technical Assistance/Corrective Action

The SA must require the SFA to take corrective action if the SA finds that the SFA:

- incorrectly calculated the appropriate paid lunch price
- did not raise its paid lunch price if such an increase was necessary
- used unallowable non-Federal sources to support its paid lunch price
- did not transfer a sufficient amount of non-Federal funds into the SFA's nonprofit school food service account if the SFA did not raise its paid lunch prices

Given the complexity of this issue, FNS encourages SAs to provide on-site technical assistance. Needed corrective action and/or technical assistance must be recorded in the comments section of the *Off-site Assessment Tool* when a reviewer is assessing compliance outside of a Resource Management comprehensive review or in the *Resource Management Comprehensive Review Form* when a Resource Management comprehensive review is conducted. Corrective action must occur for the Resource Management review period and, if necessary, for the current school year. The SFA should also adopt internal controls to ensure that noncompliance does not occur in the future.

Fiscal Action

This is a General Area, thus fiscal action is not required. FNS encourages the SA to consider withholding program payments, in whole or in part, to any SFA for repeated or egregious violations that are not corrected. While withholding program payments is not included in the specific regulatory definition for fiscal action, additional information can be found in Section VIII, *Fiscal Action,* Module: *Withholding Payments*.

Module: Comprehensive Review – Revenue from Nonprogram Foods

Intent/Scope of Monitoring

This Module must be used to conduct a comprehensive review of the SFA's resource management practices. When conducting a review of revenue from nonprogram foods, the SA must assess whether the SFA took steps to ensure the *revenues from the sale of nonprogram foods* generate at least the same proportion of SFA revenues as *expenses from the purchase of nonprogram foods* contribute to the SFA's food costs. (7 CFR 210.14(f))

$$\frac{\text{Nonprogram food revenue}}{\text{Total program + nonprogram revenue}} \geq \frac{\text{Total nonprogram food cost}}{\text{Total program + nonprogram food cost}}$$

FNS defines "nonprogram foods" as those foods and beverages sold in a participating school other than reimbursable meals and meal supplements that are purchased using funds from the nonprofit school food service account. Nonprogram foods include a la carte items and adult meals. They also include items purchased with nonprofit school food service account funds for vending machines, fundraisers, school stores, and catered and vended meals.

Review Procedures

The *Revenue of Nonprogram Foods* section of the *Resource Management Comprehensive Review Form* provides review questions to assess the SFA's compliance with the nonprogram revenue requirements. The SA must assess the information in accordance with the guidance below. The SA has the flexibility to cover this area either off-site or on-site and to review the previous school year or last audited school year (RM review period) or the current school year. The review procedures are the same if the SA is reviewing the previous school year, last audited school year or the current school year.

To review the SFA's compliance with the Revenue from Nonprogram Foods requirements, the SA must:

1. Identify the categories of nonprogram food and beverages provided by the SFA.

2. Ensure that the SFA was reimbursed for food and beverages it may have purchased for internal or external entities (catering)

3. Review the price the SFA charges for adult meals to ensure that meals served to adults are priced sufficiently to cover the overall cost of the meals. The overall cost of the meals must include the value of any USDA Foods (entitlement and bonus). **Note**: For more information, refer to FNS Instruction 782-5 REV. 1*, Pricing of Adult Meals in the National School Lunch and School Breakfast Programs.* Further, the SA will assess if adult meals are provided free of charge to teachers, parents, etc. if the SFA had a sufficient process in place to recover the full cost of the adult meals. For CEP schools that serve adult meals and do not collect cash at the point of service and/or otherwise do not identify at the point of service the number of adult meals taken (if the general fund reimburses the nonprofit school food service account for the full cost of the meals), the State agency reviewer must determine if the nonprofit school food service account is being reimbursed sufficiently for those meals. For example, a CEP school that serves meals to adults but does not collect cash at the point of service and tells the adults taking meals to simply "settle up their bill at the office" without a way to capture the names of the adults served would not have sufficient internal controls to ensure that adult meal payments are provided to the nonprofit school food service account and corrective action would be necessary.

4. Determine how the SFA assessed its compliance with the revenue from nonprogram food requirements in 7 CFR 210.14(f).

5. Determine if and how the SFA adequately addressed any shortfalls necessary due to insufficient revenues generated by the sale of nonprogram foods.

6. Determine if the SFA may be in compliance with the Revenue from Nonprogram Foods requirements despite not meeting the nonprogram food revenues/expenses ratio. This could occur if the SFA only sold a limited number of nonprogram foods (i.e., milk) that had an identifiable per-serving cost.

Technical Assistance/Corrective Action

Any violations of program requirements require corrective action. Corrective action and/or technical assistance are necessary if the SFA:

- Did not include all nonprogram food revenues and costs in its assessment calculation;
- Did not ensure specific nonprogram food revenues were transferred into its nonprofit school food service account;
- Priced adult meals below the cost of producing those meals or did not collect payment for them in a reliable manner;
- Did not assess its compliance with the Revenue from Nonprogram Foods requirements via either the Nonprogram Foods Tool or 5-Day Reference Period as described in FNS Policy Memo SP 20-2016;
- Did not take steps to adequately increase its nonprogram food revenues and/or secure general funds if out of compliance with the Revenue from Nonprogram Foods requirements.

Corrective action must occur for the Resource Management review period and, if necessary, for the current school year. The SA should also require the SFA to adopt internal controls to ensure that noncompliance does not occur in the future. Needed corrective action and/or technical assistance must be recorded in the *Resource Management Comprehensive Review Form* when a resource management comprehensive review is conducted.

FNS recognizes there is wide variation in the capabilities of systems and mechanisms SFAs employ to maintain and monitor their compliance with the revenue from nonprogram foods requirements. In recognition of these potential difficulties and variations in system capabilities, FNS released FNS Policy Memorandum SP 06-2016, *Nonprofit School Food Service Account Nonprogram Food Revenue Requirements* to help SFAs and SAs better assess compliance with this requirement. Given the complexity of this issue, FNS encourages SAs to provide technical assistance in this area. Technical assistance may include identifying opportunities at the SFA level to increase the SFA's revenue from the sale of nonprogram foods.

Fiscal Action

This is a General Area, thus fiscal action is not required. FNS encourages the SA to consider withholding program payments, in whole or in part, to any SFA for repeated or egregious violations that are not corrected. While withholding program payments is not included in the specific regulatory definition for fiscal action, additional information can be found in Section VIII, *Fiscal Action,* Module: *Withholding Payments*.

Module: Comprehensive Review – Indirect Costs

Intent/Scope of Monitoring

This Module must be used to conduct a comprehensive review of the SFA's resource management practices. When conducting a review of indirect costs, the SA must evaluate charges to the nonprofit school food service account, including allowable direct and indirect costs.

Indirect costs are incurred for the benefit of multiple programs, functions, or other cost objectives, and therefore cannot be identified readily and specifically with a particular program or other cost objective. They typically support administrative overhead functions, such as fringe benefits, accounting, payroll, purchasing, facilities management, and utilities.

Charges for indirect costs are based on two factors:

- The indirect cost rate established for a specific fiscal year, and the corresponding direct cost base;
- A documented methodology that accurately allocates indirect costs.

In most cases, the indirect cost rate is in the indirect cost rate agreement negotiated and approved by the associated State Educational Agency. Indirect cost rate agreements expire annually and it is imperative that SFAs use the most current approved rate for each fiscal year. The direct cost base is the sum of allowable and unallowable costs that receives a benefit from the costs in the pool.

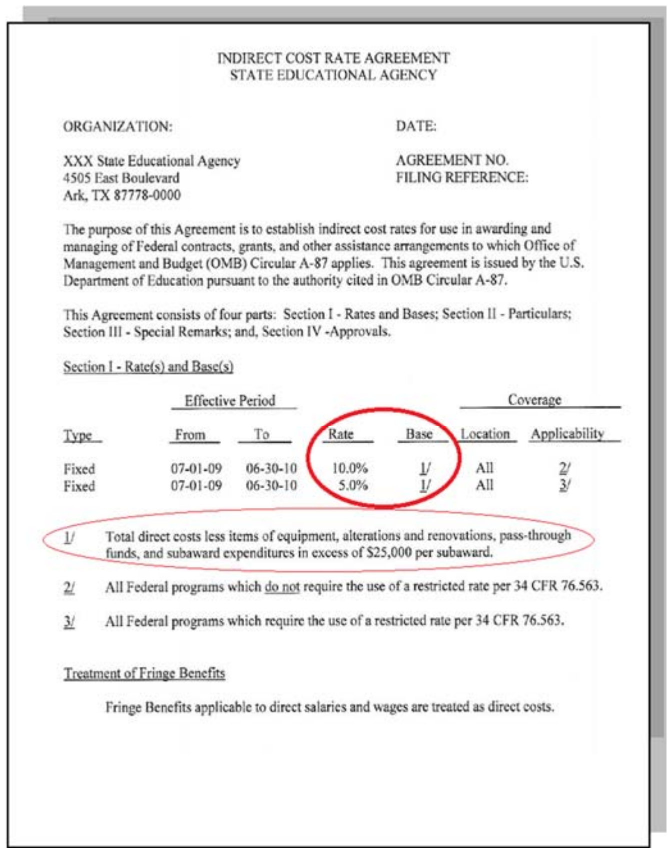
SAs must ensure that SFAs use the correct indirect cost rate and that the correct rate is applied to the correct direct cost base. For further information on indirect costs, the SA should refer to FNS' *Indirect Cost Guidance* (SP 41-2011, with attachments).

Note: The scope of monitoring may require the SA to assess how unit(s) of the LEA other than the school food service implement their indirect cost responsibilities, as applicable.

This section of review falls under the General Areas.

Review Procedures

The *Indirect Cost* section of the *Resource Management Comprehensive Review Form* contains questions to assess the information in accordance with the guidance below. The SA has the flexibility to cover this area either off-site or on-site.



INDIRECT COST RATE AGREEMENT
STATE EDUCATIONAL AGENCY

ORGANIZATION: DATE:

XXX State Educational Agency
4505 East Boulevard
Ark, TX 87778-0000

AGREEMENT NO.
FILING REFERENCE:

The purpose of this Agreement is to establish indirect cost rates for use in awarding and managing of Federal contracts, grants, and other assistance arrangements to which Office of Management and Budget (OMB) Circular A-87 applies. This agreement is issued by the U.S. Department of Education pursuant to the authority cited in OMB Circular A-87.

This Agreement consists of four parts: Section I - Rates and Bases; Section II - Particulars; Section III - Special Remarks; and, Section IV -Approvals.

Section I - Rate(s) and Base(s)

	Effective Period				Coverage	
Type	From	To	Rate	Base	Location	Applicability
Fixed	07-01-09	06-30-10	10.0%	1/	All	2/
Fixed	07-01-09	06-30-10	5.0%	1/	All	3/

1/ Total direct costs less items of equipment, alterations and renovations, pass-through funds, and subaward expenditures in excess of $25,000 per subaward.

2/ All Federal programs which do not require the use of a restricted rate per 34 CFR 76.563.

3/ All Federal programs which require the use of a restricted rate per 34 CFR 76.563.

Treatment of Fringe Benefits

Fringe Benefits applicable to direct salaries and wages are treated as direct costs.

The SA must review the following information during the Administrative Review:

1. Indirect Cost Rate Agreement: Ensure that the SFA is using the approved indirect cost rate from the State Education Agency.

2. Use Correct Rate/Base: Ensure the indirect cost charged to the nonprofit school food service account is consistent with the approved indirect cost rate to the direct cost base found in the approved indirect cost rate agreement. See example above.

3. Accounting Consistency: Handling of indirect costs must be consistent in all activities of the SFA unless otherwise exempted. For example, if the nonprofit school food service

account is charged for electricity costs based on square footage, all other activities of the SFA must be similarly charged, as applicable.

4. Prior Year's Retroactive Billing: Confirm that the nonprofit school food service account was not charged for indirect costs that were previously paid from the general fund. It is unallowable to bill the school food service account for indirect costs unless an agreement exists to show that the SFA had been "loaned" the nonprofit school food service account funds to cover the indirect costs in one or more prior years with the expectation of repayment. In such cases, accounting records should support implementation of the loan agreement. For example, a transfer of funds from the general fund to the food service account might be recorded as a receivable (e.g., "Due from Food Service Fund").

5. Proper Classification of Costs (Direct/Indirect): Costs must be consistently treated as direct or indirect. Confirm that school food service accounts are not charged directly for expenses that are included in the indirect cost pool (double dipping).

6. Support Documents for Indirect Cost Billing: Verify the documentation that supports actual indirect costs charged to the school food service account. Check for mathematical errors and confirm that indirect costs were calculated based on the correct rate and the correct base.

Technical Assistance/Corrective Action

Needed corrective action and/or technical assistance must be recorded or in the *Resource Management Comprehensive Review Form* when a resource management comprehensive review is conducted. The SA must require the SFA to take corrective action if the SFA is out of compliance with any aspect of the RM review of indirect costs, including:

- the nonprofit school food service account was charged costs in excess of the approved indirect cost rate;
- the correct rate was applied to an incorrect direct cost base;
- indirect costs were not applied consistently;
- the nonprofit school food service account was charged directly for expenses that were included in the indirect cost pool (double dipping);
- sufficient documentation could not be provided to support the indirect costs charged to the nonprofit school food service account.

Corrective action must occur for the Resource Management review period and, if necessary, for the current school year. The SFA should also adopt internal controls to ensure that noncompliance does not occur in the future.

Needed corrective action and/or technical assistance must be recorded in the comments section of the *Resource Management Comprehensive Review Form*.

Fiscal Action

This is a General Area, thus fiscal action is not required. FNS encourages the SA to consider withholding program payments, in whole or in part, to any SFA for repeated or egregious violations that are not corrected. While withholding program payments is not included in the specific regulatory definition for fiscal action, additional information can be found in Section VIII, *Fiscal Action,* Module: *Withholding Payments*.