

Resource Management (RM) Comprehensive Review

The Administrative Review (AR) Resource Management Comprehensive section covers the following areas:

- Maintenance of the Nonprofit School Food Service Account
- Paid Lunch Equity
- Revenue from Nonprogram Foods
- Indirect Costs

The Resource Management review period is the most recently closed out school year. When reviewing the Paid Lunch Equity and/or Revenue from Nonprogram Foods, however, the SA has the option of reviewing the current school year if sufficient financial documentation is available rather than the previous or last audited school year. The Administrative Review periods include the month of the on-site review and the prior month (certified closed claim). The SA has discretion to expand the scope of the review to prior months/year pending review findings.

Corrective action for findings identified during the RM review period must be implemented for the entire Resource Management review period and, if applicable, during the Administrative Review period.

If the SFA is unable to provide all necessary resource management documentation in a timely manner to the State agency for review purposes, the State agency must conduct an on-site comprehensive resource management review.

Internal control procedures and/or processes should be adopted by the LEA/ SFA to ensure that the noncompliance identified during the RM review period will not reoccur or continue 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.

USDA Food and Nutrition Service requires the State Agency to provide technical assistance and require corrective action where non-compliance is identified during the review process.

The SA cannot accept statements of assurance for corrective action responses. Corrective action must be completed and found satisfactory by the SA by the established corrective action date. The SA is required by USDA to withhold program funds when corrective action is not completed by the established due date.

When nonprofit school food services monies are spent on expenditures that are unallowable costs or “double dipping” when indirect costs are charged, the LEA must reimburse the nonprofit school foodservice account in full to cover the amount of funds misspent and/or overcharged to the account.

Maintenance of the Nonprofit School Food Service Account

Maintenance of the Nonprofit School Food Service Account

Regulation: 2 CFR 200.302, 2 CFR 200.303 and 2 CFR 200 Subpart E All costs are necessary, reasonable and allocable.

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.

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.

Revenues may be used for food, equipment and labor to operate the meal program. Revenues may not be used to purchase land and/or buildings or to construct buildings unless approved by USDA Food and Nutrition Service.

Year End Available Balance

Review Process:

To monitor compliance, the SA must determine the revenue shortfall or excess available at the end of the RM review period. This amount should include the beginning fund balance including carryover applied to the nonprofit school food service account for the RM review period (i.e., the fund balance or carryover funds from the year prior to the RM review period). To determine if year-end expenses were greater than year-end revenues requiring a general fund transfer to cover the balance.

Documentation Needed:

Maintain a **Statement of Revenues and Expenses** or similar documentation (i.e. Income Statement, P&L, general ledger, etc.) to conduct the following calculations for the RM review period. SFAs that commingle their nonprofit school food service account with other school accounts must sufficiently document to identify all revenue coming into the nonprofit school food service account.

Operating Expenses may include administrative expenses such as salaries, fringe benefits, professional services, cleaning, repairs, maintenance

The SFA must identify all sources of program revenue accruing to the nonprofit school food service account, including but not limited to:

- meal payments,
- earnings on investments,
- other local revenues,
- state revenues and
- federal reimbursement.

and depreciation. All expenses charged to the nonprofit school food service account must be sufficiently identified and documented. Supporting documentation for the expenses must also be kept on file (i.e. timecards, invoices).

Unallowable Costs:

Purchases made with nonprofit school food service account funds that made without following procurement practices (most restrictive of federal, state or local procurement codes/policy) are considered unallowable costs to the program.

Capital expenditures for improvements to land, buildings or equipment which materially increases their value or useful life are unallowable.

How to complete the calculation:

Step 1 — Total Nonprofit Food Service Revenues for the SFA

Determine the SFA’s available revenues for the RM review period. Revenues should include the beginning fund balance.

Step 2 — Total Expenses

Determine the total operating and nonoperating expenses incurred in the operation or improvement of the nonprofit food service program. Record the total expenses below:

Step 3 — Year End Balance

Subtract total expenses (Step 2) from total nonprofit food service revenue (Step 1). Record the value below or describe why this was not available. Record all elements of the calculation below:

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Step 4 – If deficit, non-Federal funds (i.e. general funds) must be transferred into the nonprofit food service program to cover the deficit. Supply non-Federal fund documentation (including the source and date completed) to show money transfer.

Note: 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.

Limitation on Net Cash Resources (3-months excess)

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Note: Limiting the size of a SFA's food service net cash resources ensure funds in the nonprofit school food service account are expended to improve program operations and meal quality.

It is the LEA/ SFA's responsibility to monitor 3-months excess. The SA calculates this annually based on reports certified in UPIFS. The LEA / SFA is required to monitor this as well. When it is determined by the SA there is a 3-month excess, the LEA / SFA will receive notification via email from the CNP Financial Analyst requesting a spend down plan.

Regulation: 7 CFR 210.12 Net Cash Resources consists of all monies that are available to or have accrued to an SFA's nonprofit school food service account at any time, less cash payable. 7 CFR 210.14 Net cash resources may not exceed 3-months average operating expenses (expenditures).

Review Process:

Current Year (SY19)

Districts

1. APR Subtotal of Expenditures
 - a. Multiply by 9.
 - b. Divide by 3.
 - c. Equals maximum allowed reserve or maximum fund balance.
2. AFR Balance Sheet
 - a. Total Fund Balance
3. Net Cash Resources
 - a. 9860 Nonspendable-Inventories & Prepaid Expenditures (Exclude)

Charters

1. APR Subtotal of Expenditures.
 - a. Multiply by 9 (9 month NSLP calendar).
 - b. Divide by 3.
 - c. Equals maximum allowed reserve or maximum fund balance.
 - d. Subtotal of revenue minus expenditures.
 - e. Equals actual fund balance.
 - f. Compare.

Documentation Needed:

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.

How to complete the calculation:

Fund balance or carryover from year prior to RM review period + Total Revenues - Total Expenses = Revenue Shortfall or Excess

Step 1— 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 2 – Calculate net adjusted total operating expenses:

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

Step 3 – Calculate average monthly expenses:

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

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

Multiply the SFA's average monthly expense amount (calculated in Step 3) by 3 to obtain the SFA's 3-month average expenses.

Calculations for Step 1 through Step 4:

1. Current assets (excluding inventories) – current liabilities = net cash resources
2. Total operating expenses – depreciation = adjusted total operating expenses
3. Adjusted total operating expenses / 9 months = average monthly expenses
4. Average monthly expenses x 3 = 3-month average expenses

Step 5: Determine compliance with 3-month net cash resource limitation. Compare net cash resources (calculated in step 1) to the 3-month average expenses (calculated in step 4).

Step 6: When it is determined the nonprofit food service account exceeds the maximum of 3-months:

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1. Describe circumstances resulting in the nonprofit foodservice account to exceed a maximum of 3 months.
2. The LEA / SFA will be required to submit a spend down plan to the state agency.
3. Determine if the approved spend down plan is on track to be in compliance with the 3-month net cash resource limit.

Internal Controls

Regulation: 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.

Policy: FNS Policy Memo SP 23-2017

Review Process:

Documentation Needed:

Internal controls ensure 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.

How to complete check for compliance:

What internal controls has the LEA/ SFA implemented to maintain effective oversight over federal funds and ensure charges to the nonprofit school food service are allowable (2 CFR 200.303)? Check those that apply:

- Training on financial management, including allowable costs. Maintain a list of staff who attended the training, a copy of the training agenda and training certificate when provided.
- Separation of duties so that staff members who receive or manage the collection of money are not also involved in the disbursement of funds.
- A written policy that prohibits the use of nonprofit school food service account funds from being used to cover bad debt.
- Physical controls to ensure funds do not get lost or stolen (examples: lockboxes for petty cash, unique passwords for employees collecting cash at the POS).
- Other/additional internal controls (describe)

Allowable Costs

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Regulation: 7 CFR 210.14(a) requires all SFA food service operations to principally benefit school children 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.

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.

Non-reimbursable Meals

Policy:

How to determine compliance:

Does the SFA provide non-reimbursable meals free of charge to students? Teachers? Visitors? If yes, did the SFA have a process to accurately record the number of free non-reimbursable meals served?

How are non-Federal funds used to cover the cost of the non-reimbursable meals (i.e. meal charge for second meals, a la carte, visitor meals, teacher meals).

Bad Debt

SFAs may not use or provide nonprofit school food service account funds to reduce or “zero out” outstanding food service balances. Nonprofit school food service account revenues may not be used to pay off bad debt.

Policy: <https://www.fns.usda.gov/school-meals/unpaid-meal-charges>

FNS Policy Memo SP29-2017 Overcoming the Unpaid Meal Challenge: Proven Strategies from Our Nation’s Schools

FNS Policy Memo SP23-2017 Unpaid Meal Charges: Guidance and Q&A

FNS Policy Memo SP47-2016 Unpaid Meal Charges: Clarification on Collection of Delinquent Meal Payments

FNS Policy Memo SP46-2016 Unpaid Meal Charges: Local Meal Charge Policies

Adapted from the USDA Food and Nutrition Resource Management Comprehensive Review Form Instructions

How to determine compliance:

If the SFA encumbered bad debt from unpaid student meal accounts during the RM review period, how did it ensure that only allowable non-Federal revenues were used to restore operating losses?

Equipment Purchases:

Equipment means an article of nonexpendable, tangible personal property having a useful life of more than one year

and an acquisition cost which equals or exceeds the lesser of the capitalization level established by the LEA for financial statement purposes, or \$5000.

The **Equipment Approval List for Purchase** is available online (<https://schools.utah.gov> > Child Nutrition Programs > National School Lunch Program > Forms and Resources at <https://schools.utah.gov/file/200f002f-3ef7-487e-831f-c10719e890b1>).

Under certain circumstances, prior approval is required from the SA or USDA before equipment costs can be incurred.

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. The

Equipment Request Form can be accessed at this link

<https://goo.gl/forms/ZqjOzx5juOWVHJBs2>.

Regulation: 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.

Policy: FNS Policy Memo SP 31-2014, State Agency Prior Approval Process for School Food Authority (SFA) Equipment Purchases

Excluding equipment purchases made with USDA grants, did the SFA purchase equipment during the RM review period that cost at or above the capitalization level established by the State or SFA for financial statement purposes or at or above \$5,000 (whichever was less)?

If yes, was the equipment included on an approved State agency equipment list or did the SFA otherwise secure prior approval from the State agency before purchasing the equipment (per FNS Policy Memo SP 31-2014)?

If no, obtain a copy of the invoice for the equipment purchased and list the amount(s) of the unallowable cost(s) the SFA charged to the nonprofit school food service account:

If the SFA disposed of equipment during the RM review period, did the SFA deposit any proceeds from the sale of the equipment into the nonprofit school food service account?

Allowable Costs Test:

The State agency must:

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- Select a sample representing at least 10% of expenses in several categories; or
- Select one full months' worth of expenses in several categories from the RM review period using the SFA's **detailed general ledger** or comparable document.
 - If the detailed general ledger does not provide sufficient information to identify expenses, a review of invoices and receipts may be requested.

If conducting a procurement review of the SFA in the same year as the Administrative Review/Resource Management review, the State agency may use the SFA's **vendor paid list**.

Step 1. Did all recorded expenses represent an activity or function recognized as *reasonable, necessary, allocable* and otherwise compliant with the provisions of 2 CFR 200 Subpart E?

- All employees paid from the nonprofit school food service account are only paid for the hours they worked in the program.
- Food, supplies and equipment purchased with the nonprofit school food service account are identified as allocable, necessary and reasonable.
- Expenses such as utilities (electric, water, gas, etc.) were not charged twice as both a direct and indirect cost.
- Travel costs are directly associated with allowable program activities.
- Any identified unallowable expenses charged to the nonprofit school food service account requires additional documentation to identify the purpose of expenditure(s) and amount(s).

Step 2. Did the SFA maintain records that adequately identified the source and use of funds for food service activities [2 CFR 200.302(b)(3)]?

Step 3. Document corrective action required.

- Inappropriately spent nonprofit school food service funds on unallowable costs 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.

Paid Lunch Equity (PLE)

Note: The state agency uses October claim data and paid meal charges to complete the PLE tool on behalf of the SFA each year. All paid lunch prices and the respective number of paid lunches served for October of the School Year are used to determine the averaged weighted paid lunch price using the current USDA PLE tool. If you need a copy of the completed PLE tool contact USBE CNP.

Regulation:

School Year 2019-20 Section 776 of the Consolidated Appropriations Act, 2018 (Public Law 115-141) (the Act), Congress provides that only school food authorities (SFAs) that had a negative balance in the nonprofit school food service account as of January 31, 2018, shall be required to establish prices for paid lunches according to the Paid Lunch Equity (PLE) provisions in Section 12(p) of the Richard B. Russell National School Lunch Act, 42 U.S.C. 1760(p) and implemented in National School Lunch Program regulations at 7 CFR 210.14(e).

School Year 2018-19 Section 776 of the Consolidated Appropriations Act, 2018 (Public Law 115-141) (the Act), Congress provides that only school food authorities (SFAs) that had a negative balance in the nonprofit school food service account as of January 31, 2018, shall be required to establish prices for paid lunches according to the Paid Lunch Equity (PLE) provisions in Section 12(p) of the Richard B. Russell National School Lunch Act, 42 U.S.C. 1760(p) and implemented in National School Lunch Program regulations at 7 CFR 210.14(e).

Healthy Hunger-Free Kids Act (HHFKA) Section 205

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.

Policy: FNS Policy Memo SP27-2019, Paid Lunch Equity: Guidance for School Year 2019-20
FNS Policy Memo SP12-2018, Paid Lunch Equity: Guidance for School Year 2018-19,
<https://www.fns.usda.gov/school-meals/paid-lunch-equity-guidance-school-year-2018-19>;
<https://www.fns.usda.gov/guidance-paid-lunch-equity-and-revenue-nonprogram-foods>

Review Process:

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

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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.

Documentation Needed:

The LEA/SFA needs to maintain a copy of the state agency PLE tool annually.

How to determine compliance:

Obtain a **balance sheet** or comparable documentation for the SFA that details the SFA's balance in its nonprofit school food service account as of January 31, 2018.

- 1) Did the SFA have a positive or zero balance in the nonprofit school food service account on January 31, 2018?
 - a. If yes to Question 1, the Paid Lunch Equity review is complete--do not complete the remaining Paid Lunch Equity questions. If no, proceed to the next question.
 - b. If the SFA had a negative balance in its nonprofit school food service account, did it complete the PLE Tool or a comparable mechanism to assess its need to raise its paid lunch prices for the current school year?

If the PLE Tool indicated the SFA must increase its paid lunch prices, how did the SFA meet this requirement? Choose one of the following:

- The SFA used nonfederal funds.
- The SFA increased paid lunch prices.
- The SFA used a combination of price increases and nonfederal funds.
- The SFA was granted a one-year exemption by the State Agency so a price increase was unnecessary.
- None of the above. If none of the above, document the corrective action required:

If the SFA used non-federal funds to support its paid lunch prices, provide the SFA's documented sources of non-federal funds.

If the SFA used non-Federal sources to support its paid lunch prices, were the sources allowable, of a sufficient amount, and appropriately recorded in the nonprofit school food service account?

Revenue from Nonprogram Foods

Regulation: 7 CFR 210.14(f) *Revenues from the sale* of nonprogram foods must 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.

Policy: FNS Policy Memorandum SP 06-2016, *Nonprofit School Food Service Account Nonprogram Food Revenue Requirements*, <https://www.fns.usda.gov/nonprofit-school-food-service-account-nonprogram-food-revenue-requirements>

FNS Instruction: FNS Instruction 782-5 REV. 1, Pricing of Adult Meals in the National School Lunch and School Breakfast Programs. 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.

Review Process:

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.

Documentation Needed:

- Documentation detailing how the SFA accounts for and separates its program food revenues from its nonprogram food revenues;
- Documentation detailing how the SFA accounts for and separates its program food costs from its nonprogram food costs;
- Documentation detailing how the SFA determined its compliance with the nonprogram foods revenue requirements under 7 CFR 210.14(f)

How to determine compliance:

1) What categories of nonprogram foods and/or beverages does the SFA sell through its nonprofit school food service?

- Adult Meals (e.g.: meals for teachers, parents, etc.)
- Catering (e.g.: food provided for Teacher Appreciation Day, meals for a sports banquet, food items provided for outside organizations)
- Meals/food and beverages supplied to another school district (meals are not being claimed for reimbursement by the school supplying the food) or program (e.g. Head Start)

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- Food and/or beverages via vending machines (e.g.: water, snacks)
- A-la-carte (e.g.: milk for kids who bring a lunch from home, 2nd entrees, Smart Snacks including beverages)
- Fundraisers (e.g.: SFA supplies products for school-based fundraisers)
- School stores (e.g.: Smart Snack compliant chips, coffee)

2) For each of the categories selected, describe the process(es) the SFA used to ensure that all funds received from the sale of nonprogram foods were deposited into the SFA's nonprofit school food service account?

Catering/School Events

If the SFA used funds from the nonprofit school food service to pay for food and labor for catering such as:

- Providing food and/or beverages for internal school departments, officials, events, meetings, school stores, etc.; and/or
- Providing food and/or beverages to external organizations for fundraisers, other events, etc.

Obtain an **invoice(s)** from the SFA from at least one event or meeting the SFA provided within the school (if applicable) and an invoice(s) for food/beverages the SFA provided to external organizations (if applicable). Determine from the SFA's **detailed general ledger** if the invoice(s) for food and labor was paid in full to the nonprofit school food service account.

Did all revenue from catering and/or vending activities accrue to the SFA's nonprofit school food service account?

Adult Meals

Federal funds, student payments, and other nonprofit school food service revenues cannot be used to support the costs of adult meals. Adult meals may not be claimed for reimbursement. Meals provided to adult program staff directly involved in the operation and administration of the school nutrition program is an allowable program cost. If adult meals are provided to teachers or staff as a staff benefit the cost of the meal must be covered by a non-federal source. The adult meal price should cover the cost of food, labor, value of USDA Foods, utilities and indirect costs.

Regulation: 7 CFR 210.14

Policy / Instruction:

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FNS Instruction 782-5 Rev. 1 specifies that school food authorities must, to the extent possible, ensure that the federal reimbursements, children's payments, and other non-designated nonprofit food service revenues do not subsidize program meals served to adults. Also, while donated foods may be used in the preparation of adult meals, the current per-meal value of entitlement and/or bonus donated food must be taken into consideration when establishing the prices charged to adults for meals.

Review Process:

Adult meal prices for breakfast and lunch are typically calculated by adding the paid meal price plus the value of donated food assistance (entitlement and bonus commodities). For non-pricing programs, the adult charge should be at least the amount of reimbursement received for a free lunch plus the per-meal value of both entitlement and bonus commodities or for breakfasts, the rate established for free meals plus the value of bonus commodities.

Documentation Needed:

The formula used by the SFA to price adult meals.

The SFA's process for collecting revenues for adult meals served.

How to determine compliance:

When an SFA assesses compliance with the Revenue from Nonprogram Food requirements in 7 CFR 210.14(f), the SFA must ensure that it includes all of its nonprogram food costs and revenues in its calculations as applicable, that the reference period it used was sufficient if the SFA used a 5-Day Reference Period as described in FNS Policy Memo SP 20-2016, and that the revenue and food cost ratios were calculated correctly.

Step 1: Were breakfasts and lunches sold to teachers, administrators, custodians and other adults priced so that the adult payment in combination with any per-lunch revenues from other sources designated specifically for the support of adult meals (such as State or local fringe benefit or payroll funds, or funding from voluntary agencies) was sufficient to cover the overall cost of the adult meal?

Step 2: If the SFA served adult meals at non-pricing sites and/or served adult meals free of charge to adults not directly involved in the meal service, determine how the nonprofit school food service was reimbursed in full for the cost of all adult meals served. Was the SFA's process for recovering the full cost of adult meals served sufficient?

Step 3: Did the SFA assess its compliance with the Revenue from Nonprogram Foods requirements (Nonprogram Foods Revenue/Cost Ratio)?

Step 4: Define the process the SFA used to calculate its compliance with the revenue from nonprogram food requirements in 7 CFR 210.14(f)?

Adapted from the USDA Food and Nutrition Resource Management Comprehensive Review Form Instructions

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- USDA Nonprogram Food Revenue Tool
- 5-Day Reference Period –reference in FNS Policy Memo SP20-2016
- Other
- None of the above
- Not Applicable

Step 5: Indicate the following information or process used by checking the appropriate box below:

- Include in its food cost ratio or five-day reference period calculation the cost of any nonprogram foods it provides for free to students or adults?
- Include all of its nonprogram revenues and costs in its calculation*?
 - *The SFA is not required to include catering when using a 5-day reference period but catering should be included if the Nonprogram Foods Revenue Tool is instead used to assess compliance.
- Use a sufficient reference period as described in FNS Policy Memo SP 20-2016?
- Complete the USDA calculation below to determine the SFA’s compliance with the Revenue from Nonprogram Foods requirement:

Revenue ratio:		Food cost ratio:
Nonprogram Food Revenue	≥	Nonprogram Food Costs
Total program + nonprogram revenue		Total program foods + nonprogram food costs

Step 6: Did the SFA correctly calculate its nonprogram food ratio and its food cost ratio?

Step 7: If the SFA found that its revenue ratio was less than its food cost ratio, did the SFA take additional steps to sufficiently increase its nonprogram food prices, add sufficient funds to its nonprofit food service account, and/or take other actions to adequately resolve the problem?

Unique Situations

After assessing its compliance with the nonprogram foods revenue/cost ratio, an SFA that sells a limited number of nonprogram foods with an identifiable per-serving cost (i.e. milk) may find that it must still add funds to its nonprofit school food service account despite selling its nonprogram foods at prices that cover its full costs.

Note: State agencies may review these SFAs to determine if the compliance assessment does not fully represent the SFA’s pricing practices for nonprogram foods and if it does not, the SA may instead base compliance on whether or not the SFA is recovering more

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than the per-serving food cost of these nonprogram food items (See Q&A #3 in FNS Policy Memo 20-2016).

Step 8: Was the SFA out of compliance with the Revenue from Nonprogram Foods requirements despite fully covering its costs for the small number of nonprogram foods it sold? 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.

Indirect Costs

Regulation: 2 CFR 200 Ensure fair and consistent methodologies to identify and allocate allowable indirect costs to school food service accounts.

Policy: FNS Policy Memorandum SP60-2016, Indirect Cost Guidance for State Agencies and School Food Authorities, USDA, 9/30/2016, <https://www.fns.usda.gov/indirect-cost-guidance>

Review Process:

The SA will do an annual analysis of the indirect costs charged to the nonprofit school food service account of the last closed out school year to determine. The SFA reports indirect cost charges annually to USBE through required state financial reports.

Documentation Needed:

- Indirect Cost Rate Agreement (ICRA);
 - The Indirect Cost Rates for public LEAs / SFAs can be found online at <https://schools.utah.gov/financialoperations> > Reporting > Indirect Costs
- Statement of Revenues and Expenses listing revenues and expenditures by category;
- Indirect cost rate used;
 - Schedule H-non restricted rate
- Documentation of the direct cost base dollar amount used;
- The calculation used to obtain the amount of indirect costs charged to the SFA.

How to determine compliance:

Indirect Cost Rate Agreement

Step 1. Correct Rate/Base Calculation. Apply the correct indirect cost rate for the appropriate year.

Step 2. Apply the correct indirect cost rate to the correct direct cost 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.

Record the direct cost base:

Step 3. Indirect Cost Consistency. The LEA will need to ensure the school food service accounts charged indirect costs consistently.

Step 4. Applying Indirect Costs to Closed Out Years. Confirm that the nonprofit school food service account was not charged in the year being reviewed for indirect costs paid during past years through the general fund.

- If the SFA was charged an indirect cost rate less than provided for in the indirect cost rate agreement, was there documentation explaining how the difference would be handled with the nonprofit school food service account (loan or forgiveness/gift)?
- 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.

Step 5. Proper Classification of Costs (Direct/Indirect). Confirm that the nonprofit school food service account was not charged directly for expenses that were included in the indirect cost pool (double dipping).

Step 6. Verification of Indirect Cost Documentation. Documentation on file to support the indirect costs charged to the nonprofit school food service account.