

Cafeteria Fund

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Today's Cafeteria Fund *Presentation*

- SSPI's Comments
- Governing Regulations & Guidance
- Cost Principles
- Indirect Costs 101
- Recent Audit Findings
- Net Cash Resources
- Spending Plans
- Questions



State Superintendent of Public Instruction, Tom Torlakson



“...Two years ago, I came before you and said that our schools were in a State of financial emergency. ...This year, I can say with growing confidence that the worst of California's school funding crisis is behind us.

It will take years to restore our education system to Financial health. But as Superintendent over our 10,000 public schools, as a teacher, as a parent, and as a grandfather, it is an enormous relief that the budget proposal before you begins in earnest the work of putting our schools back on solid financial ground....”



To see how the State Superintendent has supported California's schools during the financial crisis, visit his *School Financial Emergency*

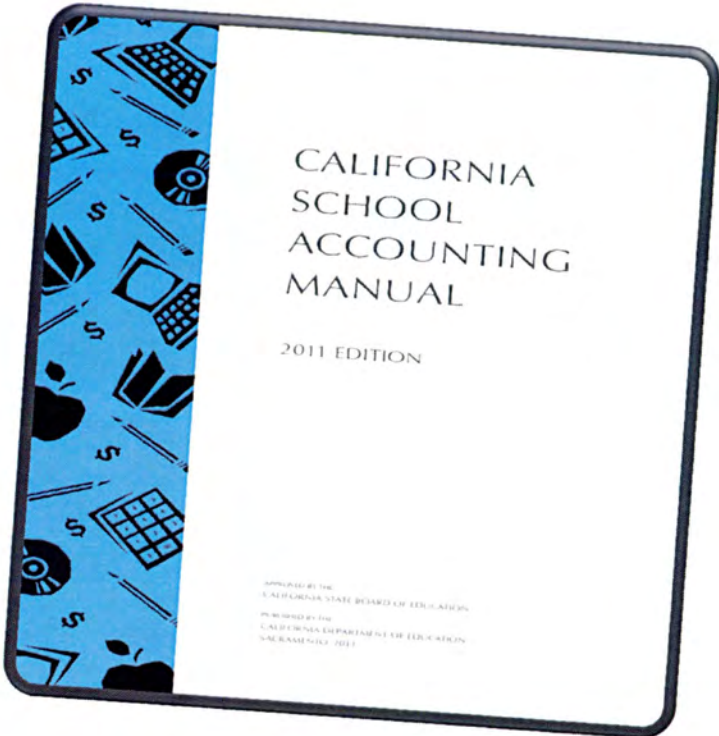
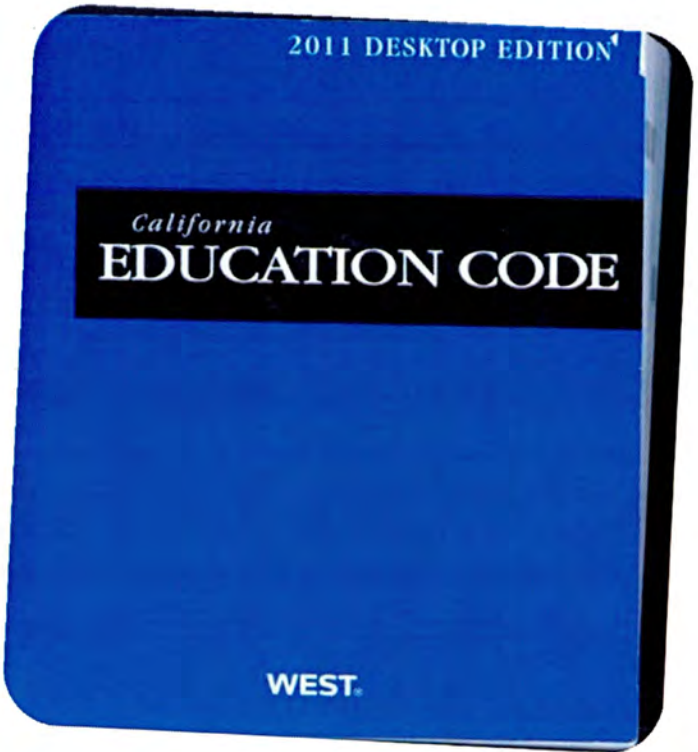
Web page at:

<http://www.cde.ca.gov/nr/re/ht/fe.asp>



Chief Business Official (CBO)

Part of a **CBO's** job is to maximize the effectiveness of the local educational agency and State funds by maximizing legitimate charges to federal funds.



The regulations and policies governing Cafeteria Funds are numerous and complex



Governing Laws, Regulations, and Policies

Local Educational Agencies (LEAs) are required to comply with State and federal limitations

LEAs must reference numerous sources to understand and determine allowable uses of Cafeteria Funds:

- Federal regulations, policy, instructions, and guidance
- California *Education Code (EC)*
- Office of Management and Budget Circulars
- USDA policy memos
- The *California School Accounting Manual (CSAM)*



Cafeteria Fund Management Bulletins (MB)

For the most recent versions of the California Department of Education's most recent MBs, please go to the following Web page:

<http://www.cde.ca.gov/ls/nu/sn/cafundguide.asp>

See Handout



What is the Cafeteria Account?

A statutorily required and restricted account used by LEAs to track the revenue and expenses related to their nonprofit school food service.



Defined in State Law

“All receipts of the cafeteria, or cafeterias [defined as school food services], as the case may be, derived from the sale of food **shall be deposited in the account** and shall be expended **only** for the maintenance of the cafeteria, or cafeterias...” [**emphasis added**]

California Education Code (EC) Section 38093



Defined in Federal Law

“Nonprofit school food service account means the restricted account in which all of the revenue from all food service operations conducted by the school food authority principally for the benefit of school *children is retained and used only for the operation or improvement* of the nonprofit school food service.” [Emphasis added]

Title 7, Code of Federal Regulations (7 CFR) Section 210.2



Revenue

“**Revenue**, when applied to **nonprofit school food service**, means all monies received by or accruing to the nonprofit school food service in accordance with the State agency's established accounting system including, **but not limited to**, children's payments, earnings on investments, other local revenues, State revenues, and Federal cash reimbursements... .” [**Emphasis added**]

7 CFR 210.2



Commingling of Funds

Once monies or revenues have been deposited into the cafeteria account, they are considered part of the **non-profit food service**, and are governed, protected, and restricted by federal and State laws.

*7 CFR 210.2, 210.14, 210.19;
EC sections 38080-38103*



Restricted Account

California *Education Code* (EC):

- Term “**Cafeteria**” is synonymous with food service.
- Requires **all** revenues from sales of the cafeteria be deposited into the cafeteria account, and spent on maintenance of the cafeteria.
- Does not allow food services to be charged **more than once** for the same service. If a food service program is being charged for a service as a direct cost, the school district shall not also allocate that cost as a direct support cost or indirect.

EC sections 38080-38101



Restricted Account

California Education Code (EC):

- The accounting system used to record the financial affairs of any school district shall be in accordance with the definitions, instructions, and procedures published in the *California School Accounting Manual* as approved by the State Board of Education and furnished by the Superintendent of Public Instruction.
- The Superintendent of Public Instruction shall require the use of a uniform cost accounting procedure, as set forth in the *California School Accounting Manual*.

EC sections 41010 and 41012

Restricted Account

Federal regulations:

- Requires the fund to be nonprofit
- Requires all revenue from food service operations be retained and used **only** for the operation or improvement of the nonprofit school food service
- Expenditures of nonprofit school food service revenues shall be in accordance with the financial management system established by the State agency

7 CFR 210.2 and 210.14



General Cost Principles

Be necessary and reasonable for proper & efficient performance & administration of the federal award

- Benefit the program
- Must follow sound business practices
- Market price for comparable goods and services
- Be prudent under the circumstances and not deviate from standard practice

2 CFR 225



General Cost Principles

Allocable

- Can only charge in proportion to the relative benefit received by the Program
- Example: An oven purchased solely for the use of the School Nutrition Program

Legal under State and local law

- If cannot do under State law, cannot pay with federal funds

Conforming with federal law and grant terms

- Example: Match requirements/special conditions

2 CFR 225



General Cost Principles

Consistently treated

- A cost may not be assigned to a federal award as a direct cost if any other cost incurred for the same purpose in like circumstances has been allocated to the federal award as an indirect cost

Net of applicable credits

- Example: rebates, discounts, credits—anything that reduces the price

2 CFR 225



General Cost Principles

Adequately documented

- How funds are expended
 - Invoices
 - Receipts
- Other records to facilitate an effective audit
 - Purchase orders
 - Proof of delivery or performance
 - Approvals

2 CFR 225



General Cost Principles

California *Education Code (EC)*:

- Requires a **written explanation** of the purpose of and basis for any charges to, or transfers from, a food service program.
- Does not authorize an LEA to charge a food service program any charges prohibited by state or federal law or regulation.

EC 38101 (d) and (e)



Allocation of Costs

There are **two** ways to charge costs to programs:

1. Directly
2. Indirectly

Subject to certain rules: some costs can only be direct, some can only be indirect, and some could be either (but cannot be both)

EC 38101 (d) and (e)



Direct Costs

Specifically for Performance of the Program

- Salaries
 - for cooks, managers, food service director
- Food-for school meal programs
- Food service equipment and supplies
- Food transport vehicles
- Travel
- All costs must be **prudent** and **necessary**



Indirect Costs

Agency-wide, General Management Costs:

- Incurred for common or joint purpose
- Benefit more than one cost objective
- Not readily assignable to individual cost objectives without effort disproportionate to the benefit

CDE Web Indirect Cost Web Page:

<http://www.cde.ca.gov/fg/ac/ic/>

CSAM Procedure 915, Indirect Cost Rate:


<http://www.cde.ca.gov/fg/ac/sa/index.asp>

USDA Indirect Cost Manual, 2011:

[http://www.fns.usda.gov/cnd/Governance/
Policy-Memos/2011/SP41-2011_os.pdf](http://www.fns.usda.gov/cnd/Governance/Policy-Memos/2011/SP41-2011_os.pdf)


Indirect Costs

In simplified terms, the “*indirect cost rate*” is the ratio of administrative overhead costs to the other operating costs

- 
- General administrative costs are the numerator
 - Other operating costs are the denominator
 - The resulting ratio is the “*indirect cost rate*”

Indirect Cost Calculation

Indirect Cost Rate expressed in words:


$$\frac{\text{Administrative Overhead} \\ \text{(budgeting, accounting, payroll...)}}{\text{Operating Costs} \\ \text{(classroom instruction, school administration, pupil transportation, food services, M\&O...)}} = \text{Indirect Cost Rate}$$

Indirect Cost Calculation

Indirect Cost Rate expressed in math:

$$\frac{\$3 \text{ Administrative Overhead}}{\$100 \text{ Operating Costs}} = 3\% \text{ Indirect Cost Rate}$$

Indirect Cost Calculation

Of course the realities are more complex



CSAM Procedure 915 contains all the details (in your handout)

Indirect Cost Rules

- The U.S. Department of Education (USDE) is the cognizant agency for indirect cost rules
- USDE delegates authority to the CDE to approve indirect cost rates for LEAs
- CDE carries out this responsibility in accordance with the terms of a formally negotiated indirect cost plan
- CDE and USDE renegotiate the plan periodically

Indirect Cost Rules

- The terms of the indirect cost plan that the CDE negotiates with the USDE are binding on other federal agencies, such as the USDA

2 *CFR* 225, Appendix A

- Case in point: The USDA's June 2011 guidance mentions excluding food, but CDE's ICR plan currently doesn't (also see handout)
 - *BTW – see illustration of effect of excluding food, in handout*

Indirect Costs

LEAs *cannot* recoup prior year indirect costs that were paid from a non-school food service account.

Exception: Unless a formal written contemporaneous agreement exists to show that the district had been “**loaning**” the nonprofit school food service account funds to cover the indirect costs in one or more prior years.

2011 USDA *Indirect Cost Guidance*

Indirect Costs

In California, *Education Code* requires that an "indirect cost" be limited to the lesser of:

- 1) the school district's CDE-approved indirect cost rate or
- 2) the Statewide average school indirect cost rate

EC 38101(c)

Recent Audit Findings

Recent nutrition audits have resulted in audit findings related to:

- Employee Salaries and Benefits
- Utilities and Maintenance
- Interfund Transfers and Interest



Salaries and Benefits

Employee salaries and benefits are allowable as a direct charge to the cafeteria fund if the proper supporting documentation is maintained in accordance with federal requirements

2 CFR 225, Appendix B.8



Salaries and Benefits (single cost objective)

Employees who work on a single objective must maintain certifications that:

- Certify the employee works solely on that program/cost objective
- Are prepared at least semi-annually
- Are signed by the employee or supervisor

2 *CFR* 225, Appendix B.8.h.(3)

Semiannual Certification¹

Period Covered² _____ Fiscal Year _____

Employee Name _____

School/Division/Department _____

Cost Objective/ Program Title	Account/Resource Code	Percentage of Effort
Program ABC	1111	100%

I hereby certify that this report is an after-the-fact determination of actual effort expended for the period indicated and that I have full knowledge of 100 percent of these activities.

Employee or Supervisory Official³

Date

1. This sample certification:

- Is for employees funded solely (100 percent) from a single cost objective charged to federal or state programs or from a single nonfederal categorical program used in meeting cost-sharing or matching requirements of federal awards.
- May not meet certain program requirements, such as the direct services to students and administrative costs requirements of Title I, Part A and Economic Impact Aid.

2. Certification must be prepared at least semiannually and cover the entire period of the certification (e.g., six months for a semiannual certification).

3. Certification must be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee. Pursuant to a recommendation by the United States Department of Education and to facilitate good internal control, LEAs may wish to require both signatures.



Salaries and Benefits

(multiple cost objective)

Employees who work on multiple cost objectives must maintain personnel activity reports that:

- Reflect an after-the-fact distribution of the actual activity of each employee
- Account for the total activity each employee is compensated
- Are prepared at least monthly and coincide with one or more pay periods
- Are signed by the employee

Budget estimates or other predetermined percentages (such as time studies) do not qualify as support!

2 CFR 225, Appendix B.8.h.(4)



Salaries and Benefits (multiple cost objectives)

Examples of employees that may be required to maintain PARs:

- Activity Supervisors
- Custodians
- Security
- Warehouse
- Maintenance
- Groundskeepers
- Administrative food service staff that work less than 100% on food service activities



Utilities and Maintenance

Utilities and maintenance costs such as electricity, gas, water, and repairs may be directly charged to the nutrition programs if there is mechanism to quantify exactly the benefit to food services operations.



Utilities

In order to directly charge utilities to the nutrition programs:

- Kitchen/serving area (does not include multi-purpose room or shared eating areas)
- Separate meters for food service operations
- Utility provider invoice or statement
- Predetermined or budgeted allocated of utilities are not allowed

2011 USDA *Indirect Cost Guidance*



Maintenance

In order to directly charge maintenance and repairs to the nutrition programs:

- Kitchen/serving area equipment only
- Job cost ticket or similar documentation detailing labor costs incurred based on actual labor hours expended
- Vendor invoice or statement (if repaired by external vendor)

2011 USDA *Indirect Cost Guidance*, Appendix 4



Interfund Transfers

Charges to, or transfers from, the cafeteria fund must:

- Indicate when the original charge or transfer was made
- Include a written explanation of the purpose of, and basis for, the expenditure
- Cannot exceed the actual cost incurred

Note: Does not authorize a school district to charge a food service program any charges prohibited by state or federal regulations.

EC 38101



Interest Earnings & Expense

- Interest income/earnings is allowed to be retained and used for food service purposes
- Generally, interest expense is not allowed on borrowed funds
 - Example: Interest expense is not allowed for funds borrowed from the general fund

2 *CFR* 225, Appendix B.23



Consequences for Improper Charges

If the CDE determines that a district charged unallowable expenses to the cafeteria fund, **the CDE will direct the district to transfer the amount improperly expended, via payment plan or in whole, back into the cafeteria fund -- to be used solely for the maintenance and improvement of the district's food service program.**

EC 38101(f)



What does CDE look for?

During “Administrative Reviews” and the analysis of Summer/Saturday meal waivers, the CDE looks at an LEA’s

“**Net Cash Resources (NCR).**”



Net Cash Resources (NCR)

“... all monies, as determined in accordance with the State agency’s established accounting system, that are available to or have accrued to a school food authority’s **nonprofit school food service** at any given time, less cash payable.

Such monies may include, but are not limited to, cash on hand, cash receivable, earnings on investments, cash on deposit and the value of stocks, bonds or other negotiable securities.”

7 CFR 210.2



Net Cash Resources (NCR)

(continued)


“The school food authority shall limit its net cash resources to an amount that does not exceed **3 months average expenditures** for its nonprofit school food service or such other amount as may **be approved** by the State agency in accordance with [7 CFR] Section 210.19(a).”

7 CFR 210.14(b)



Net Cash Resources (NCR)

Calculating the NCR

- Identify previous year's total revenue, total costs, and cafeteria fund balance
 - Divide the total costs by the number of months in operation to get monthly average expenditure
 - Times the monthly average expenditure by three to determine the NCR
 - If the NCR is greater than the three months average expenditures, then a spending plan approved by the SNPU is required
- 



Net Cash Resources (NCR)

1. If the NCR is **less than** three months average operating costs, then the LEA should follow all State/federal regulations and not jeopardize the integrity of the cafeteria fund
2. If the NCR is **in excess** of three months average operating costs, then the LEA needs a spending plan

CAFETERIA SPENDING PLANS

What is a Spending Plan?

- A formal agreement between the CDE and the LEA
- The LEA becomes NCR compliant by spending cafeteria funds on preapproved expenditures

Who Needs a Spending Plan?

- Agencies with excess NCR will need an approved spending plan to become compliant with federal regulations

7 CFR 210.19(a)(1)

- Excess NCR can only be spent for the operation or improvement of the food service

7 CFR 210.14(a)

Types of Spending Plans

There are **two types** of spending plans:

- **Administrative Review Spending Plan** – during or after an Administrative Review
- **Spending Plan Request** – prior to an Administrative Review

Required Annual Reporting

Administrative Review Spending Plan

State agency agreement with an LEA includes:

- A preapproved plan, which must be submitted to the Field Services Unit (FSU) each year by June 30
- Photos and receipts verifying that the expenditures match the preapproved items in the plan.

Required Annual Reporting

Spending Plan Request

The state agency agreement with an LEA includes a preapproved plan, which must be submitted to the School Nutrition Programs Unit (SNPU).

Best Practice Strategies

- Annually calculate your NCR
- If you have excess NCR, meet with your CFO/CBO and Superintendent about the situation and what you can do together
- Contact the SNPU or FSU about how to lower your excess NCR

On the *Horizon*



2013 and beyond:

Financial Management training for School Food Service – check the CDE Web site for information and check your e-mail for messages from NSD for details!

2013-14:

Development of additional MBs, Web pages, and specialized training regarding the use of Cafeteria Funds

On the Horizon (Continued)



Also on the Horizon...

More training from NSD at conferences, CSNA Chapter Meetings, and other venues; updated online resources, updated web technology

Upcoming webinars...

- Part I–The Basics
- Part II–Practical Applications
- Part III–Net Cash Resources and Spending Plans
- Part IV–Paid Lunch Equity and Nonprogram foods



Conclusion

The CDE is committed to assisting LEAs so they can avoid mischarging expenses to the cafeteria fund, and having to pay back the money later, plus interest, and/or penalties.

Questions?



For questions not addressed today, please contact:

California Department of Education

Nutrition Services Division

School Nutrition Programs Unit

800-952-5609

Field Services Unit

916-323-4558

California School Accounting Manual

<http://www.cde.ca.gov/fg/ac/sa/>

***Thank you
for joining
us today.***

