
APPENDIX C

AUDIT PROCEDURES

1. **County Centralized Cafeteria Procedures**

Procedures for Centralized Cafeteria Systems

The Division of County Audit has established certain additional audit procedures for centralized cafeteria systems of county school systems and special school districts that are audited by the Division of County Audit. These additional procedures must be performed by the certified public accountant who has contracted to audit the activity funds of an applicable special school district or county school system. These additional procedures include many procedures that must be performed while school is in session to ensure compliance with federal and state regulations. Therefore, the audits should be contracted early enough to allow adequate time for planning and performing the additional cafeteria procedures.

A separate report on these procedures is not required; however, an auditor from the Division of County Audit will review the supporting audit documentation for these procedures to determine that sufficient work was performed and adequately documented. The Division of County Audit is the principal auditor for centralized cafeteria systems and will rely on the work performed by the certified public accountant at the individual schools as a basis for its opinion.

The additional procedures are to be performed at the schools selected for physical observation in procedure No. 1 below. However, if the certified public accountant becomes aware that the scope should be expanded to include all schools in the system, the auditor should immediately contact the Division of County Audit. The following are audit procedures for centralized cafeteria systems:

1. Prior to the end of the school year, physically observe (on a sample basis of schools) meal counts, cash collections, and internal controls during the year under audit. At least 25 percent of the total schools in the system must be included in this sample on a yearly rotation basis. At the same time the internal control questionnaire is filled out; prepare a short summary of daily operations as stated by the cafeteria manager. Compare the cafeteria manager's responses with your observations and review of internal controls. Prepare a list of all internal control weaknesses noted and recommendations for improvement.
2. Determine that "collection procedures" submitted annually to the Tennessee Department of Education are implemented properly. Auditors should determine that an actual meal

count for reimbursable meals is taken at the point of service. Determine that reimbursable meal counts are accurate and that supplemental sales (a la carte) are not included in the reimbursable meal counts. Verify that the procedures established are in effect.

3. If the individual school maintains a bank account for cafeteria funds, perform standard bank account reconciliation procedures and confirm balances as of June 30 by written communication or other available documentation.
4. On a sample basis, foot and extend daily collection reports, if the reports are prepared manually. Investigate any differences noted.
5. If collections are made in the classroom, trace classroom teacher reports on a sample basis to amounts reported on daily collection reports of the cafeteria manager. Investigate any differences noted.
6. Review frequency of bank deposits, and determine compliance with the three-day deposit requirement. Compare bank deposits with cash collections on a monthly basis. Investigate any differences noted. If deposits are made directly to an outside bank account, such as the county trustee's account, it will be necessary to trace to those records.
7. For the whole year, prepare a schedule of receipts by source from collection reports. Trace cash collections per these schedules to cash receipt records of the centralized cafeteria fund. Investigate any differences noted.
8. Review collection reports for the manner of recording number of children served by meal (lunch, breakfast, and snack) according to eligibility (free, reduced, full pay) to determine if these numbers are used in the report that is consolidated at the central office level and then submitted to the state as part of the monthly Claim for Reimbursement.
9. Check the approved applications to ensure that there are a sufficient number on hand to support the reported free and reduced-price meals served. (Note: Applications may contain the name of more than one child.)
10. The cafeteria system is required by USDA to verify a percentage of free and reduced-price applications. Review the procedures used by the system and determine that the system maintains the records required to document its verification procedure as follows:
 - a. Summary of verification efforts (to include total number of applications on file October 1 and the percentage or number of applications verified)
 - b. Copies of all correspondence with the household selected
 - c. Documentation or proof of benefit eligibility
 - d. Report of verification results on each household selected for verification

11. For the whole fiscal year, prepare a schedule of the number of meals sold to children and adults as reported on daily collection reports and reconcile potential cash collections from such sales to receipts as determined from procedure No. 8. Investigate any differences noted. Discuss with the director of schools and state auditors any unusual variances detected as a result of the procedure.
12. If a bank account is maintained, determine that all checks are made payable to the central office. Note any exceptions.
13. Observe and test compliance with the USDA minimum meal pattern requirements for food components. Review menu and production records to determine that required components and food items were planned and offered. Document any noncompliance noted.
14. Document food supply inventory management procedures and test procedures in place to properly account for and safeguard food receipts, usage, and inventory. Document any deficiencies with inventory management and control practices.

2. Municipal and Charter School Cafeteria Procedures

Procedures for Centralized Municipal Systems and Charter School Systems

Auditors should develop an individualized audit program to meet the audit objectives for a municipal school system's or charter school system's centralized cafeteria operations. The procedures required by the Division of County Audit should be considered when developing the audit program.

3. Audit Considerations - State of Tennessee Subrecipient Contracts

State Subrecipient Contracts

In auditing subrecipient funds received from the State of Tennessee that are subject to audit, the auditor should become familiar with the program and the related requirements of the state department funding the program. The following list represents points of interest the auditor should consider in preparing the audit program for state subrecipient funds.

1. Program funds (subrecipient contracts, loans, commodities, etc.) received from the state may include both state and federal dollars. The federal portion does not lose its identity simply because it flows through the state; therefore, federal funds should be audited in accordance with the applicable OMB requirements.
2. A portion of state dollars disbursed may represent matching funds. These funds are governed by the same requirements as the related federal program.
3. In-kind contributions may or may not be allowable as the entity's matching share for a program.
4. Calculations for determining matching shares may vary between contracts, and different rates for different cost categories may be applicable for a single contract.
5. Indirect cost allocation plans must be approved by the grantor.
6. Most subrecipient agreements require the entity's accounting system to provide for separate and identifiable account balances for each contract with subsidiary ledgers for each project within a contract. Grantor reports should agree with these accounts.
7. One entity may apply for subrecipient funds, but another entity may ultimately use the funds (pass-through funds). The entity that applies for the funds is responsible for ensuring the funds are used in compliance with grantor guidelines. The entity should report these funds in accordance with applicable accounting guidelines (FASB Statement 116 or the *Codification of Governmental Accounting and Financial Reporting Standards*, Section N50).
8. Certain program revenue information can be obtained on the web at:

<http://www.comptroller1.state.tn.us/Audit/Confirmations.asp>

Additional information may be confirmed directly with each grantor. A list of the telephone numbers of the state departments that most frequently administer subrecipient funding can be found on the internet. (**GRANTOR INFORMATION**) The auditor should request confirmation not only of the

amount of advances, subrecipient funds received, and the year-end receivable balance, but also the appropriate *Catalog of Federal Domestic Assistance (CFDA)* number, the amount of federal and state funds involved, program guidelines, and requirements.

9. The following compliance attributes should be considered for each subrecipient expenditure item in the audit sample and for each subrecipient contract in the sample of subrecipient contracts selected for specific compliance testing.
 - (a) Are expenditures necessary and reasonable for the proper administration of the contract?
 - (b) Do expenditures conform to limitations or exclusions in the contract?
 - (c) Was consistent accounting treatment applied for expenditures of all the recipient's activities?
 - (d) Were expenditures net of applicable credits?
 - (e) Were costs correctly allocated to a particular award?
 - (f) Were expenditures correctly recorded and supported by source documentation?
 - (g) Were expenditures approved in advance, if subject to prior approval?
 - (h) Were expenditures in accordance with competitive purchasing procedures, if applicable?
 - (i) Were expenditures allocated equitably to contracts and other activities in accordance with the relative benefits received?