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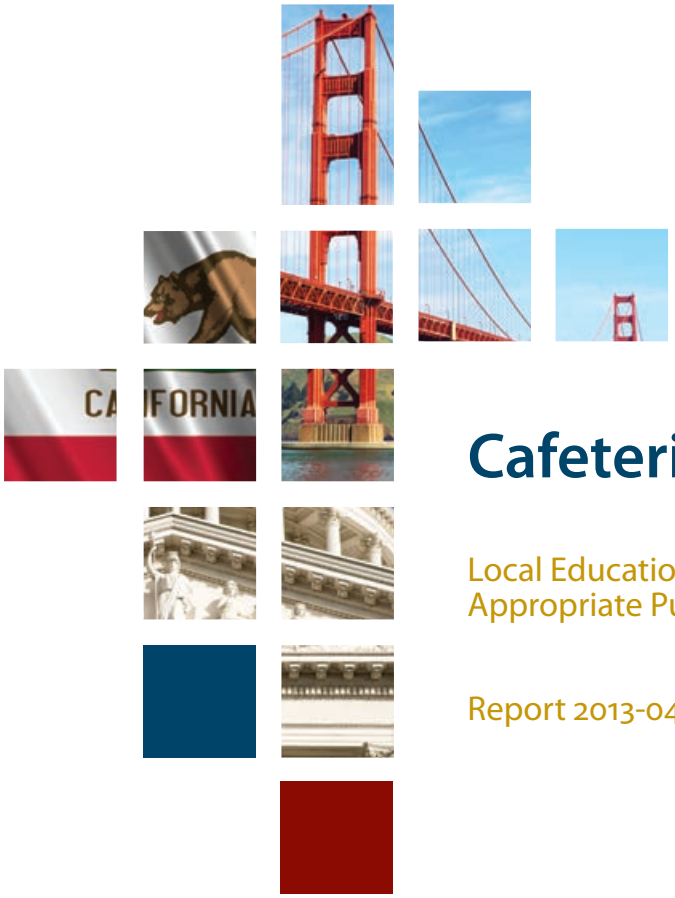

Cafeteria Funds

Local Education Agencies Generally Use the Funds for Appropriate Purposes

Report 2013-046

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California State Auditor

Elaine M. Howle State Auditor
Doug Cordiner Chief Deputy

February 27, 2014 2013-046

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As required by Chapter 20, Statutes of 2013, the California State Auditor presents this audit report concerning local education agencies' (LEAs) uses of their cafeteria funds in operating their child nutrition programs and the California Department of Education's (CDE) oversight of those funds.

This report concludes that from fiscal years 2010–11 through 2012–13, each of the 18 LEAs we visited used all or most of their cafeteria funds for allowable purposes. Specifically, of $32 million in cafeteria fund expenditures we tested, $31 million was for expenditures that were necessary and reasonable for the operation or improvement of the child nutrition programs and complied with federal administrative requirements. Of the $1 million in unallowable expenditures, nearly half were for facility costs that four LEAs should not have charged to their cafeteria funds. We also identified five LEAs that charged more than $171,000 in interest charges to their cafeteria funds, despite a federal regulation prohibiting such charges, and seven LEAs that inappropriately charged more than $94,000 in utilities and other support costs. In addition, 14 of the LEAs had payroll expenditures that lacked federally required documentation, resulting in unallowable charges to their cafeteria funds. The most common reason LEAs cited for these unallowable expenditures was a lack of awareness of program requirements.

Further, LEAs did not always meet certain requirements concerning their financial resources. For example, nine LEAs we visited had net cash resources in their cafeteria funds that exceeded the federal limit of an amount equal to three months' average expenditures. In addition, 10 LEAs did not maintain sufficient records to determine whether their food sales using cafeteria funds—such as vending machines or catering—that were unrelated to meals served in the child nutrition programs generated the minimum amount of revenue required by a federal regulation. As a result, these LEAs cannot determine if their cafeteria funds are subsidizing those nonprogram activities.

Finally, before fiscal year 2013–14, CDE reviewed certain aspects of the child nutrition programs but it was not expressly required to review LEAs' cafeteria fund expenditures to determine if they were allowable. However, in fiscal year 2013–14, CDE started implementing new federal guidelines that require it to examine the cafeteria fund expenditures of LEAs that meet certain risk criteria. These reviews will provide CDE with some assurance that LEAs are spending cafeteria funds appropriately.

Respectfully submitted,

Elaine M. Howle

ELAINE M. HOWLE, CPA
State Auditor

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Summary

Results in Brief

Beginning with the National School Lunch Program in 1946, and continuing with the School Breakfast Program, the Special Milk Program, and the Summer Food Service Program for Children, the federal government has established programs to provide nutritious food to needy children while at school. These programs are collectively known as the *child nutrition programs*. Each local education agency (LEA)—a category in California consisting of school districts, charter schools, and county offices of education—must separately account for its revenues and expenditures related to the child nutrition programs,[1] and state law authorizes LEAs to establish a cafeteria fund for this purpose. An LEA may charge its cafeteria fund only for allowable costs—that is, those that are necessary and reasonable for the operation or improvement of the programs and in compliance with applicable federal administrative requirements. The federal government provides the largest amount of funding for the child nutrition programs, and the California Department of Education (CDE) is responsible for administering the programs.

We reviewed cafeteria fund expenditures at 18 LEAs for fiscal years 2010–11 through 2012–13. These 18 LEAs spent all or most of their cafeteria funds for allowable purposes. Specifically, of the $32 million in cafeteria fund expenditures that we reviewed across these 18 LEAs, $31 million was for expenditures that were necessary and reasonable for the operation of the child nutrition programs and complied with federal administrative requirements.

The $1 million in unallowable cafeteria fund expenditures occurred among 16 of the 18 LEAs, and involved either the use of the funds for inappropriate or prohibited purposes or a failure to comply with federal administrative requirements. More than $480,000 of this $1 million was for facility costs that four LEAs should not have charged to their cafeteria funds. For example, Stockton Unified School District (Stockton Unified) spent more than $383,000 to upgrade portable buildings for use as administrative offices. Although federal regulations require prior approval from the U.S. Department of Agriculture (USDA) for construction paid for with cafeteria funds, Stockton Unified was not able to provide documentation that it had requested or received prior approval for this construction project.

[1] Federal regulations define a *school food authority* as the governing body responsible for administering one or more schools and that has the legal authority to operate the child nutrition programs. We use *local education agency* synonymously with *school food authority*; this usage is consistent with management bulletins issued by CDE to LEAs regarding their administration of the child nutrition programs.

Audit Highlights . . .

Our audit of local education agencies' (LEAs) cafeteria fund expenditures highlighted the following:

- » *Although each of the 18 LEAs we reviewed for fiscal years 2010–11 through 2012–13 spent all or most of their cafeteria funds for allowable purposes, we identified $1 million in unallowable expenditures among 16 LEAs.*
  - *More than $480,000 of these unallowable expenditures were for facility costs at four LEAs.*
  - *Five LEAs charged more than $171,000 in interest to their cafeteria funds, despite a federal regulation prohibiting such charges.*
  - *Seven LEAs inappropriately charged more than $94,000 in utilities and other support costs.*
  - *Many of the LEAs had payroll errors that accounted for other unallowable costs.*
- » *Nine LEAs we visited had net cash resources in their cafeteria funds that exceeded the federal limit—by the end of fiscal year 2012–13, these LEAs had a combined total of more than $28 million in excess of the federal limit.*
- » *Ten of the 18 LEAs we reviewed did not maintain sufficient records to demonstrate that they were complying with federal requirements involving sales of certain foods purchased with cafeteria funds.*
- » *CDE was not expressly required to review LEAs cafeteria fund expenditures for allowability before fiscal year 2013–14, which is when it will begin such reviews.*

In addition, we found unallowable interest charges and utility costs. For example, five LEAs charged more than $171,000 in interest to their cafeteria funds, despite a federal regulation prohibiting such charges. Further, seven LEAs inappropriately charged a total of more than $94,000 in utilities and other support costs to their cafeteria funds. We also identified unallowable payroll expenditures at most of the LEAs we visited. Specifically, nine LEAs lacked federally required documentation for 28 of the 63 payroll expenditures that we examined for employees the LEAs paid entirely from their cafeteria funds. Eight LEAs also did not have such documentation for all 15 payroll expenditures that we examined for employees whom LEAs paid from multiple funds, including the cafeteria fund. As a result of the payroll documentation errors, $72,600 of the $173,300 in payroll expenditures that we examined from LEAs' cafeteria funds was unallowable. The most common reason LEAs cited for these unallowable expenditures was a lack of awareness of program requirements.

Further, LEAs did not always meet certain requirements concerning their financial resources. For example, nine LEAs we visited had net cash resources in their cafeteria funds that exceeded the federal limit, which restricts cafeteria funds to an amount equal to three months' average expenditures. Specifically, by the end of fiscal year 2012–13, these nine LEAs had a combined total of more than $28 million in excess of the federal limit. One LEA had a cash balance equal to more than 12 months of its average monthly expenditures, or more than four times the federal limit, in each of the three years of our audit period. CDE strongly recommends, but does not require, that LEAs with excess cash balances develop spending plans to reduce the balances to the allowable level and immediately submit them to CDE for approval. However, we found that only six of the nine LEAs with excessive cash balances had a spending plan to reduce the excess, and only four had submitted their plans to CDE for approval.

In addition, 10 of the LEAs we reviewed did not maintain sufficient records to demonstrate that they were complying with federal requirements involving sales of food purchased with cafeteria fund money, but that was unrelated to meals served as part of the child nutrition programs (nonprogram foods activities). Examples of such sales include operating vending machines or providing catering services, and federal requirements specify that these sales must generate a certain minimum level of revenue. When nonprogram foods activities do not generate the required amount of revenue, funds intended for child nutrition programs are subsidizing the nonprogram foods activities. The 10 LEAs did not track the revenues and expenditures of their nonprogram foods activities and therefore cannot determine whether they are meeting

federal requirements. The most common reason LEAs cited for not tracking financial information for their nonprogram foods activities was a lack of awareness about the requirement.

Before fiscal year 2013–14, CDE reviewed certain aspects of the federal child nutrition programs, but it was not expressly required to examine program expenditures to determine if they were allowable. However, under the federal Healthy, Hunger-Free Kids Act of 2010, the USDA now requires state agencies, such as CDE, to review some LEAs' expenditures. Specifically, it requires CDE to identify LEAs that meet a threshold for financial risk and to review the financial management of their cafeteria fund expenditures, including whether these LEAs' expenditures are reasonable and necessary for the operation of the child nutrition programs. CDE will begin performing these reviews in fiscal year 2013–14, and they should provide some assurance that LEAs are spending cafeteria funds for allowable purposes.

Recommendations

By June 30, 2014, LEAs that used cafeteria funds for unallowable purposes should do the following:

- Reimburse their cafeteria funds for those costs, if they have not already done so.

- Review all guidance from the USDA and CDE to better understand what these funds may be used for.

LEAs with excess net cash resources in their cafeteria funds should develop spending plans to reduce their balances to the amount allowed and submit the spending plans to CDE for approval by June 30, 2014.

To ensure that the spending plans LEAs create to eliminate their excess net cash resources are adequate, effective, and fully executed, CDE should, by July 1, 2015, begin requiring LEAs to develop a spending plan, or revise an existing spending plan if it will not fully reduce the entire excess, and submit it to CDE for approval within three months after the end of each fiscal year that their cafeteria funds have net cash resources above the federal limit.

LEAs that are not tracking the revenues and expenditures of nonprogram foods activities should implement a system to do so by June 30, 2014.

Agency Comments

Most of the LEAs we reviewed agreed with our findings and indicated they had taken or would be taking steps to correct the issues we identified, including reimbursing their cafeteria funds, as appropriate. CDE indicated it has taken steps to implement our recommendation regarding LEAs with excess cash balances in their cafeteria funds.

Introduction

Background

The federal government enacted the National School Lunch Act in 1946, creating the National School Lunch Program. Since then, additional programs have been created to further the goal of providing nutritious food to needy schoolchildren, including the School Breakfast Program, the Special Milk Program, and the Summer Food Service Program for Children, known collectively as the Child Nutrition Cluster of federal programs (child nutrition programs). According to the federal government, in fiscal year 2012–13, child nutrition programs served over 550 million lunches, 250 million breakfasts, almost 2 million half-pints of milk, and over 10 million summer meals throughout California.

The major funding in California for these four programs comes from the federal government, with some supplemental funding from the State of California. According to the California Department of Education (CDE), in fiscal year 2011–12, the U.S. Department of Agriculture (USDA) provided 92 percent of the funding for the child nutrition programs, or $1.7 billion, and the State provided the remaining 8 percent, or $148 million. The National School Lunch Program is the largest component of the child nutrition programs, accounting for more than $1.3 billion—or roughly 77 percent—of the $1.7 billion in federal funds spent in fiscal year 2011–12. CDE is responsible for administering the program, which includes activities such as disbursing funds and ensuring compliance with program requirements.

The Cafeteria Fund

Federal regulations generally require that a school food authority use the revenues generated by its nonprofit school food service (food service) only for the operation or improvement of such food service.[2] Federal regulations further require local education agencies (LEAs)—a category in California consisting of school districts, charter schools, and county offices of education—to account for all revenues and expenditures for this food service, and they limit the amount that an LEA can have on hand related to the child nutrition programs to three months' average expenditures. In California state law authorizes, but does not require, the governing board of a school district to establish a *cafeteria fund* to account separately for the federal, state, and local resources it uses to operate

[2] Federal regulations define a *school food authority* as the governing body responsible for administering one or more schools and that has the legal authority to operate the child nutrition programs. We use *local education agency* synonymously with *school food authority*; this usage is consistent with management bulletins issued by the CDE to LEAs regarding their administration of the child nutrition programs.

the food service program. CDE has also published a *California School Accounting Manual* that further defines how an LEA must account for the revenues and expenditures of its cafeteria fund. LEAs that receive federal funding for child nutrition programs and deposit the revenue in a cafeteria fund must ensure that expenditures from the cafeteria fund meet all applicable federal requirements for the child nutrition programs.

Cafeteria fund revenues can include federal and state reimbursements as well as local funds such as money from students who pay for lunch. The cafeteria fund may be charged only for costs that are necessary and reasonable for the operation or improvement of the child nutrition programs, and for the share of indirect costs that can reasonably be allocated to an LEA's food service operation. In addition, to be allowable, child nutrition programs' expenditures must comply with federal administrative requirements, such as the requirement that all charges to the cafeteria fund be documented. LEAs may also use money from their cafeteria funds to purchase food and beverages that are then sold separately from the meals provided to students under the child nutrition programs. A federal regulation defines these food and beverages as nonprogram foods and require that LEAs take steps to ensure that sales of these food and beverages generate a minimum level of revenues when their costs are paid from their cafeteria funds.

Child Nutrition Programs Oversight

Before fiscal year 2013–14, federal regulations required CDE to perform an administrative review—commonly referred to as a *coordinated review effort* (CRE)—of each LEA within a five-year period. In the CRE review process, CDE assessed whether the LEA was meeting certain critical performance standards, such as whether child nutrition programs' meals were served only to eligible children, whether meals were counted and claimed correctly, and whether the meals met federal nutritional requirements. Federal regulations also required that CRE reviews assess general areas of program performance, such as determining whether an LEA maintained adequate records, adhered to food safety requirements, and performed its own monitoring activities.

Federal regulations governing administrative reviews changed beginning with the 2013–14 school year, altering how CDE will perform such reviews beginning in fiscal year 2013–14. One significant change is that the five-year review cycle has been reduced to a three-year cycle. In addition, under guidance that the USDA created in response to the federal Healthy, Hunger-Free Kids Act of 2010 (Hunger-Free Kids Act), state agencies such as CDE will be required to evaluate certain risk factors that, if present at an LEA, will result in CDE performing a fiscal review of the LEA's child nutrition programs. We discuss this new component of CDE's reviews further in the Audit Results.

The "Food Fight" Report

In February 2013 the California Senate Office of Oversight and Outcomes issued a report titled *Food Fight: Small Team of State Examiners No Match for Schools That Divert Student Meal Funds* (Food Fight report). It detailed examples of school districts not following established rules for the cafeteria fund. The report noted that many of the examples of improper spending were discovered not by CDE examiners but by internal whistleblowers. This report brought widespread attention to the issue of potential cafeteria fund misuse, and it was the impetus for this audit.

Recent Legislative Activity

The Legislature has taken steps that affect the operation of the child nutrition programs. First, the Budget Act of 2013 (Chapter 20, Statutes of 2013) called for CDE to report on its staffing needs for child nutrition compliance activities by October 1, 2013. CDE's published assessment reported a need to hire 14 additional full-time analysts and one manager to close resource gap it had identified. The assessment also stated that these additional positions would address the recommendation made in the Food Fight report to hire enough staff to carry out CDE's oversight responsibilities.

Assembly Bill 626 (Chapter 706, Statutes of 2013) made numerous changes to school nutrition standards to conform with the Hunger-Free Kids Act, and it also made changes to the use of cafeteria funds. For example, the new law eliminated the authority in state law for school districts to use cafeteria funds for the construction of a central food processing plant. This change puts state law in line with federal regulations, which generally prohibit LEAs from using child nutrition programs funds to construct buildings. In addition, the new law authorizes school districts to charge the cost of maintenance for kitchen facilities and the cost to replace kitchen equipment against their cafeteria funds instead of the funds of the school district. The new law also requires CDE to monitor LEAs in accordance with the requirements of the USDA administrative review process, which we explain in the Audit Results.

Scope and Methodology

We conducted this audit as directed by statute. The audit objectives listed in Table 1 beginning on the following page are derived from that statute, the Budget Act of 2013. Our fieldwork included work at CDE and 18 LEAs.

Table 1
Audit Objectives and the Methods Used to Address Them

	AUDIT OBJECTIVE	METHOD
1	Review and evaluate the laws, regulations, and administrative policies significant to the audit objectives.	We reviewed relevant laws, regulations, administrative policies, and other background materials applicable to the use of cafeteria funds by local education agencies (LEAs). We reviewed information for the federal Child Nutrition Cluster (child nutrition programs), which includes the National School Lunch Program, because funds from these programs are allowed to be deposited into the cafeteria fund and used for an LEA's food service.
2	For a sample of at least 15 LEAs that participate in the National School Lunch Program and reflect the diversity of local regions and program structures, review each LEA's cafeteria fund expenditures and fiscal practices to determine compliance with applicable state and federal laws, regulations, and administrative policies with respect to each of the following areas: a. Payroll records for employee salaries and benefits. b. Utility and interest costs. c. Inter-fund transfers between the cafeteria fund and other funds. d. Unpaid obligations due to the LEAs' general funds. e. Facility repairs, maintenance, remodeling, and construction costs. f. Equipment purchases and repairs. g. Excessive fund balances. h. Indirect and direct charges.	• Although state law required us to review at least 15 LEAs, we judgmentally selected 18 LEAs for our review based on geographical location and on data from the California Department of Education (CDE) regarding October 2012 K-12 enrollment and participation in the child nutrition programs. • We interviewed LEA and CDE staff to determine what, if any, other reviews or audits of cafeteria fund expenditures had occurred over the past three fiscal years at each of the LEAs we selected, including federal or state departmental audits, internal audits by the LEA, or external audits. If these reviews had findings, we determined any corrective actions taken by the LEA. • We reviewed the administrative policies and fiscal practices of each LEA, including the following: - Types of revenues included in each LEA's cafeteria fund. - Computerized data system and processes used to track and record meal counts. - Written policies and procedures related to the administration of the cafeteria fund. - Internal controls and the processes used to track and record expenditures. - Risk of cafeteria fund expenditures being misused due to fraud. • Using a judgmental selection of at least 10 transactions at each LEA for each of the three fiscal years we reviewed (fiscal years 2010–11 through 2012–13), we performed expenditure testing on salaries and benefits; utility and interest costs; facilities repairs, maintenance, remodeling, or construction; and equipment purchases or repairs. When selecting transactions for testing, we considered the work of other auditors and attempted to ensure that we did not duplicate their testing when possible. Additionally, we focused our selection of transactions to test on those types of expenditures that were most at risk of being inappropriate. We tested each transaction for compliance with state and federal laws, regulations, and administrative policies by interviewing relevant LEA staff and reviewing supporting documentation. • For each of the fiscal years during our period of review, we reviewed transfers into and out of the cafeteria fund of the 18 LEAs and found no evidence of inappropriate transfers. • For each of the fiscal years during our period of review, our review revealed no evidence of LEAs' cafeteria funds having inappropriate obligations owed to their general funds. • We determined if each LEA's cafeteria fund ending fund balance was excessive during our period of review by interviewing LEAs' staff, reviewing LEAs' audited financial statements, and reviewing supporting reports from the LEAs' accounting systems. If an LEA had an excessive fund balance, we determined whether the LEA had a CDE-approved spending plan to reduce the excessive fund balance. • We also evaluated the indirect charges for each fiscal year during our period of review for each LEA we selected by verifying that the LEA used the lower of the state-approved indirect cost rate or the LEA-calculated indirect cost rate. We also determined whether the LEA appropriately calculated the amount of indirect costs based on the expenditures for each fiscal year. • We reviewed other expenses charged to the LEAs' cafeteria funds, such as expenses related to catering and a la carte items, for compliance with recent federal guidance regarding the required minimum amount of revenue necessary for such food and beverages.

	AUDIT OBJECTIVE	METHOD
3	Review and assess CDE's oversight of LEAs' cafeteria funds, including evaluating department processes, claim reviews, staffing, and training related to that oversight.	• Interviewed relevant staff at CDE to obtain an understanding of processes CDE uses for oversight and claim reviews. • Reviewed and assessed the oversight policies and procedures used by CDE to determine whether they met the requirements in law and regulation. • Reviewed the coordinated review efforts performed by CDE for the 18 LEAs we visited. • Reviewed new requirements that CDE must follow in conducting administrative reviews under the Healthy, Hunger-Free Kids Act of 2010. • Because CDE has not yet completed a full review cycle for its new administrative reviews, data were not available for us to assess staffing related to these reviews. • Reviewed CDE's actions to provide training and guidance to CDE staff and LEAs for the new administrative review requirements.

Sources: California State Auditor's analysis of the Budget Act of 2013 and information and documentation identified in the table column titled *Method*.

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Audit Results

Most of the Local Education Agencies' Cafeteria Fund Expenditures Were Allowable

The 18 local education agencies (LEAs) we visited generally used their cafeteria funds for expenditures that relevant laws and regulations allow.[3,4] Although we identified 16 LEAs that used some of their cafeteria funds to pay for unallowable expenditures, all or most of the cafeteria fund expenditures we tested for each of the 18 LEAs were for allowable purposes. As shown in Table 2 on the following page, of the more than $32 million in expenditures that we reviewed across 18 LEAs, more than $31 million was for expenditures that were necessary and reasonable for the operation or improvement of the child nutrition programs and complied with applicable administrative requirements. Table A in Appendix A shows details of the results of our expenditure testing at each of the 18 LEAs we visited.

LEAs' Unallowable Costs Were Mostly for Nonpayroll Expenditures

Most of the approximately $1 million in unallowable cafeteria fund expenditures was for nonpayroll expenditures. Further, more than half of the roughly $969,300 in unallowable nonpayroll expenditures we identified at 15 LEAs was for expenditures related to facilities and equipment. Stockton Unified School District (Stockton Unified) accounted for more than $453,000 in unallowable facility and equipment costs. As shown in Table 3 on page 13, other notable categories of unallowable nonpayroll costs are for interest, utilities and other support costs, indirect costs, and miscellaneous costs. Miscellaneous costs include all costs we tested that are not included in any of the other categories. We discuss unallowable payroll costs—those for salaries and benefits—in the next section.

LEAs Spent Cafeteria Funds on Facility and Equipment Costs That Are Not Allowed

Some LEAs used their cafeteria fund for unallowable expenditures related to facilities and equipment totaling more than $521,000. Specifically, we identified approximately $480,700 in facility repairs, maintenance, remodeling, and construction expenditures at four LEAs that were inappropriately charged to the cafeteria fund. Payments made without prior approval from the U.S. Department of Agriculture (USDA) from

[3] Federal regulations define a *school food authority* as the governing body responsible for administering one or more schools and that has the legal authority to operate the child nutrition programs. We use *local education agency* synonymously with *school food authority*; this usage is consistent with management bulletins issued by the California Department of Education (CDE) to LEAs regarding their administration of the child nutrition programs.

[4] Federal regulations require LEAs to separately account for their child nutrition program revenues and expenditures. State law authorizes LEAs to establish a cafeteria fund for this purpose.

Stockton Unified's cafeteria fund to upgrade portable buildings for use by the administrative staff of the LEA's child nutrition food services department accounted for $383,600 of the unallowable facility charges that we found. According to federal regulations, capital expenditures for construction to be paid for with cafeteria funds require prior approval from the USDA. Further, according to its July 2011 Indirect Cost Guidance, the USDA historically has not approved the costs of such construction projects. According to its executive director of business services, Stockton Unified included the project on a report to CDE concerning excess net cash resources—an area of financial management that we discuss later in this report—and the LEA moved forward with the project because CDE never disapproved it. However, we confirmed with CDE that the document to which Stockton Unified referred is not a document an LEA can use to request approval for a project.

Table 2
Allowability of Cafeteria Fund Expenditures Tested at 18 Local Education Agencies

LOCAL EDUCATION AGENCY (LEA)	STUDENT ENROLLMENT AS OF OCTOBER 2012	ALLOWABILITY OF EXPENDITURES		TOTAL EXPENDITURES TESTED
		ALLOWABLE	UNALLOWABLE	
Northern California				
Elk Grove Unified School District	62,137	$3,064,765	$25,986	$3,090,751
Napa Valley Unified School District	18,326	1,121,656	1,242	1,122,898
Oakland Unified School District	46,486	2,550,106	1,719	2,551,825
Ravenswood City School District	4,077	752,368	4,140	756,508
San Francisco Unified School District	56,970	3,359,785	12,221	3,372,006
Stockton Unified School District	38,435	2,129,430	493,651	2,623,081
Central California				
Bakersfield City School District	28,987	2,163,352	87,434	2,250,786
Los Banos Unified School District	9,892	974,063	14,828	988,891
Madera Unified School District	19,984	1,602,425	12,005	1,614,430
Mendota Unified School District	2,978	269,725	19,172	288,897
Merced City School District	10,671	810,262	24,738	835,000
North Monterey County Unified School District	4,284	481,793	55,322	537,115
Southern California				
Anaheim Union High School District	32,085	492,550	63,642	556,192
Long Beach Unified School District	82,256	833,741	–	833,741
Paramount Unified School District	15,864	149,241	24,080	173,321
San Bernardino City Unified School District	54,102	3,722,340	–	3,722,340
San Diego Unified School District	130,341	6,147,510	121,641	6,269,151
Sweetwater Union High School District	40,916	422,808	80,061	502,869
Total expenditures tested		**$31,047,920**	**$1,041,882**	**$32,089,802**
Percentage of total expenditures tested		**96.8%**	**3.2%**	

Sources: The California Longitudinal Pupil Achievement Data System, a system maintained by the California Department of Education, and the California State Auditor's analysis of selected expenditures and indirect cost calculations at the LEAs specified.

Table 3
Unallowable Cafeteria Fund Expenditures From Fiscal Years 2010–11 Through 2012–13 by Local Education Agencies

	CATEGORY OF EXPENDITURE							
LOCAL EDUCATION AGENCY (LEA)	EQUIPMENT PURCHASES AND REPAIRS	FACILITY REPAIRS, MAINTENANCE, REMODELING, AND CONSTRUCTION	SALARIES AND BENEFITS	INDIRECT COSTS	INTEREST	UTILITIES AND OTHER SUPPORT COSTS	MISCELLANEOUS*	TOTAL UNALLOWABLE EXPENDITURES
Anaheim Union High School District			●			●		$63,642
Bakersfield City School District	●	●	●				●	87,434
Elk Grove Unified School District			●	●	●	●	●	25,986
Los Banos Unified School District		●						14,828
Madera Unified School District			●			●		12,005
Mendota Unified School District	●	●	●				●	19,172
Merced City School District	●		●					24,738
Napa Valley Unified School District			●				●	1,242
North Monterey County Unified School District			●	●				55,322
Oakland Unified School District			●					1,719
Paramount Unified School District	●		●			●		24,080
Ravenswood City School District			●	●		●	●	4,140
San Diego Unified School District				●	●	●	●	121,641
San Francisco Unified School District			●		●			12,221
Stockton Unified School District		●	●	●	●	●		493,651
Sweetwater Union High School District	●		●		●		●	80,061
Number of LEAs with unallowed expenditures	5	4	14	5	5	7	7	
Total unallowable expenditures	$40,707	$480,694	$72,595	$67,218	$171,225	$94,510	$114,933	$1,041,882

Source: California State Auditor's analysis of selected transactions and indirect cost calculations at the LEAs specified.

Note: We did not include two LEAs—Long Beach Unified School District and San Bernardino City Unified School District—in the above table because we did not identify unallowable cafeteria fund expenditures at these LEAs during our testing.

* The *Miscellaneous* category includes expenditures for materials and supplies; professional and consulting services; rentals, leases, repairs, and noncapitalized improvements; and travel and conferences.

We also found that five LEAs used about $40,700 in cafeteria funds to purchase equipment that was partially or entirely unrelated to the operation of the child nutrition programs. For example, Paramount Unified School District (Paramount Unified) purchased about $13,700 of assorted audiovisual equipment, such as televisions, sound systems, a 3D Blu-ray disc player, and related equipment using cafeteria fund money. The director of Paramount Unified's student nutrition services stated that the equipment was purchased, in part, to comply with signage and marketing requirements in a federal regulation as well as to entertain students during mealtimes by showing movies and sports programs and playing music. However, this federal regulation simply requires that LEAs identify, near or at the beginning of the serving line, the food items that constitute a

reimbursable meal. Further, CDE issued guidance in a March 2001 management bulletin indicating that if a televised menu board is located in a cafeteria and the LEA uses it for purposes other than food services, such as displaying sports scores, the LEA must pay a portion of the cost from funding sources other than the cafeteria fund. The director of student nutrition services for Paramount Unified told us that the LEA would not have moved forward with the expenditure if staff had known that the cost had to be shared among funds. Given the asserted use of this equipment, Paramount Unified should not have charged the entire cost to the cafeteria fund.

Seven LEAs Improperly Charged Some of Their Utilities and Other Support Costs to the Cafeteria Fund

Although most LEAs we visited either charged their cafeteria funds correctly or not at all for utilities and other support costs, seven LEAs inappropriately charged such costs to their cafeteria funds in one or more of the three years we audited. According to federal regulations, utilities and other support costs (utility costs) include costs associated with gas, electricity, water, and certain services such as trash removal, janitorial service, and security. Federal regulations require that all charges to the cafeteria fund be adequately documented. Additionally, guidance issued by the USDA in 2011 indicates that LEAs may charge the cafeteria fund for utility costs if they have a methodology to quantify exactly how much of the service was used by the child nutrition programs. Moreover, CDE guidance issued in 1995 and in place until May 2013 stipulated that LEAs wishing to allocate a portion of their utility costs to the child nutrition programs should use the methodology described in CDE's *California School Accounting Manual* (accounting manual) for allocating such costs to instructional programs based on the square footage of the space the programs use. USDA guidance also indicates that utility costs are an allowable charge to the cafeteria fund without an allocation methodology if there is documentation, such as an invoice for utilities or services used only in the kitchen area, which would allow the LEA to charge the costs directly. Therefore, whenever an LEA was unable to provide documentation to support its allocation methodology or direct billing, we considered the entire amount charged to the cafeteria fund unallowable, because we could not determine the appropriate portion of the cost that the LEA could have charged to the cafeteria fund. As shown in the text box, the seven LEAs incorrectly charged their cafeteria funds a total of about $94,500 for utility costs.

Local Education Agencies That Improperly Charged Utilities and Other Support Costs to Their Cafeteria Funds

Anaheim Union High School District	$61,595
San Diego Unified School District	16,829
Elk Grove Unified School District	10,094
Stockton Unified School District	2,869
Madera Unified School District	1,761
Paramount Unified School District	1,271
Ravenswood City School District	91
Total	**$94,510**

Source: California State Auditor's analysis of selected transactions.

At Anaheim Union High School District (Anaheim Union), we encountered what proved to be a typical situation involving unallowable utility cost charges. During the three fiscal years under review, Anaheim Union charged more than $61,500 in unallowable utility costs to its cafeteria fund. According to its director of food services, Anaheim Union has a longstanding agreement with the Anaheim City School District (Anaheim City) to equally share the cost of trash removal and associated custodial costs related to Anaheim City's child nutrition programs. However, Anaheim Union officials were unable to provide documentation for the basis of this allocation methodology of charging the cafeteria fund 50 percent of these costs. According to the director of food services at Anaheim Union, most of the administrative team at Anaheim City are new to the district and, because the allocation methodology was developed years before, it would be difficult for them to explain the basis for the methodology. Further, the director of food services stated that the agreement was forwarded to CDE, and CDE raised no objections to it. However, the fact remains that there is no documented rationale for the allocation methodology Anaheim Union employed, and the cost is therefore unallowable. In total, five LEAs that inappropriately charged utility costs to their respective cafeteria funds lacked documentation to support those charges, and two more LEAs had errors in their allocation methodologies that resulted in overcharges to their cafeteria funds.

There is no documented rationale for the allocation methodology Anaheim Union employed in charging more than $61,500 in utility costs to its cafeteria fund.

CDE Is Developing Guidance for LEAs to Allocate Utility Costs to Their Cafeteria Funds

As indicated earlier, CDE guidance issued in 1995 and in place until May 2013 allowed LEAs to allocate utility costs to their cafeteria funds using an allocation methodology based on square footage. However, CDE did not obtain approval for this methodology as required by a federal regulation from the U.S. Department of Education (USDE). According to an administrator of CDE's school fiscal services division, it came to CDE's attention only relatively recently that LEAs were using allocation methodologies that needed to be approved by the USDE and that the need for CDE to formalize a methodology and present it for federal approval was pressing. Subsequently, CDE issued a management bulletin to LEAs in May 2013 informing them that utilities may be charged directly to the cafeteria fund only when they use a meter dedicated to the kitchen. The bulletin made no mention of allocating utility costs. According to the school fiscal services division administrator, as of January 2014 CDE was still in the process of formulating an allocation methodology for utility costs. When CDE completes the methodology and has incorporated feedback from LEAs, it will submit the methodology to the USDE for approval. Although it cannot predict how long the USDE's approval process will take,

CDE hopes to have an approved allocation methodology in place for fiscal year 2014–15. Until the new allocation methodology is approved, LEAs using the square footage methodology to allocate utility costs to their cafeteria funds are taking the risk that CDE, in accordance with USDE requirements, will determine that these costs are unallowable. If this happens, LEAs may have to repay their cafeteria funds for these utility costs.

Five LEAs Misspent Cafeteria Funds for Interest Costs

Although most LEAs we visited did not charge any interest costs to their cafeteria funds, five of the 18 LEAs inappropriately charged more than $171,000 in interest costs to their cafeteria funds in at least one of the three fiscal years we reviewed. These five LEAs and the interest costs they charged to the cafeteria fund are shown in the text box.

Local Education Agencies That Mistakenly Charged Interest to the Cafeteria Fund

San Diego Unified School District	$102,702
Sweetwater Union High School District	32,875
Stockton Unified School District	22,053
San Francisco Unified School District	9,712
Elk Grove Unified School District	3,883
Total	**$171,225**

Source: California State Auditor's analysis of selected transactions.

A federal regulation generally prohibits LEAs from using their cafeteria funds to pay for interest costs incurred on borrowed capital, or for interest paid on the use of a governmental unit's own funds. Sweetwater Union High School District (Sweetwater Union) charged almost $33,000 in interest costs to its cafeteria fund for money that it periodically borrowed from other school district funds to cover costs for its child nutrition programs. According to one of its accountants, Sweetwater Union borrowed this money to address the cafeteria fund's cash-flow issues, and it was unaware that making interest payments from its cafeteria fund on the borrowed money was not allowed.

In contrast, San Diego Unified School District (San Diego Unified) and San Francisco Unified School District (San Francisco Unified) did not explicitly loan money to their cafeteria funds, but they elected to charge their cafeteria funds to recover what they referred to as lost interest earnings. Specifically, San Francisco Unified carried a negative balance in its cafeteria fund for each of the three fiscal years we reviewed because expenses for its child nutrition programs exceeded its federal, state, and local revenues for the programs. As a result, San Francisco Unified's general fund subsidized its cafeteria fund during each of those years. According to documentation provided by San Francisco Unified, it allocated interest earned from pooled investments proportionately to the cash balances of its different funds. However, because its cafeteria fund carried a negative balance throughout our audit period, San Francisco Unified charged its cafeteria fund for the interest the LEA would have earned on the general fund money

that subsidized the cafeteria fund. In a like manner, San Diego Unified, in its response to findings from a CDE review, explained that it charges interest to its cafeteria fund because its general fund forgoes interest earned from the county treasurer when, due to a negative balance in its cafeteria fund, the general fund is used to pay for food service obligations. Although, according to its response to a CDE review, San Diego Unified believes that interest charges to the cafeteria fund were fair and reasonable, it accepted the finding and indicated that it would reimburse the cafeteria fund for the interest it charged. Although San Francisco Unified's and San Diego Unified's interest costs did not result from a loan, federal regulations generally state that interest costs, however represented, are unallowable. Like Sweetwater Union, both San Francisco Unified and San Diego Unified explained that they were unaware of the federal regulation that does not allow costs for interest to be charged to the child nutrition programs.

Like Sweetwater Union, both San Francisco Unified and San Diego Unified were unaware of the federal regulation that does not allow costs for interest to be charged to the child nutrition programs.

Five LEAs Overcharged Their Cafeteria Funds for Indirect Costs

Although the LEAs we visited generally charged an appropriate amount of indirect costs to their cafeteria funds or did not charge them at all, five LEAs we visited overcharged their cafeteria funds for indirect costs in at least one of the fiscal years in our audit period. The federal government allows an LEA to charge its cafeteria fund for the share of the LEA's general administration costs—referred to as indirect costs—that are attributable to the child nutrition programs. CDE's accounting manual defines these indirect costs as agencywide general management costs, including accounting, budgeting, payroll, purchasing, and centralized data processes that are not readily identifiable with a particular program. State law limits the indirect costs that an LEA can charge to its cafeteria fund in a specific year to the lesser of the LEA's indirect cost rate as approved by CDE or the statewide average indirect cost rate determined by CDE. One LEA—North Monterey County Unified School District (North Monterey Unified)—used the wrong rate in its calculation, thus overcharging its cafeteria fund by a total of more than $49,200 from fiscal years 2010–11 through 2012–13. According to the assistant superintendent of business services at North Monterey Unified, the district's accounting department had a very high turnover rate for the past several years, and new staff working on indirect cost allocations may not have been familiar with the rules of those allocations.

Two other LEAs that incorrectly charged indirect costs—Stockton Unified and Ravenswood City School District (Ravenswood City)—forgot to exclude an unallowable item from their calculations for fiscal year 2012–13, resulting in overcharges to their cafeteria funds of almost $8,900 and $3,000, respectively. A federal regulation

requires the calculation of indirect costs to exclude certain items that would inappropriately distort the calculated amount. Ravenswood City explained that the expenditure item was left in its calculation because of a clerical error, and we found that the LEA calculated the indirect costs correctly in the other two years we reviewed.

Seven LEAs Spent Cafeteria Funds for Various Miscellaneous Prohibited Uses

Of the 18 LEAs we visited, seven spent almost $115,000 on a variety of miscellaneous expenditures that are unallowable.

Of the 18 LEAs we visited, seven spent almost $115,000 on a variety of miscellaneous expenditures that are unallowable. Although these unallowable expenditures included small transactions such as $118 to transport schoolchildren on a field trip and $1,900 to upgrade fire suppression systems in two employee cafés that were not part of a school kitchen, the majority of the unallowable expenditures were for just two transactions by two LEAs that resulted in more than $105,000 in misspent cafeteria funds.

In March 2012 Bakersfield City School District (Bakersfield City) used cafeteria funds to purchase children's books costing more than $71,000. According to Bakersfield City's director of nutrition services, the district uses these books for marketing purposes and nutrition education. However, Bakersfield City did not have documented evidence that the books purchased were a component of a program to provide students nutrition education or that there was an exceptional reason to use these particular books in such a program. According to guidance issued by the USDA in July 2011, because it and other entities provide nutrition education materials at no charge, an exceptional reason must exist to justify LEAs' purchases of such materials with cafeteria funds. The USDA also stated in its 2011 guidance that LEAs must fully consider whether existing, available educational materials can meet their needs. Bakersfield City did not provide any documentation of having conducted such an assessment.

In fiscal year 2010–11, Sweetwater Union paid the Mar Vista High Associated Student Body more than $34,300 from its cafeteria fund, even though federal regulations prohibit such a use of cafeteria funds. This payment was made in accordance with an agreement between the district's nutrition services department and Mar Vista High Associated Student Body to share the cafeteria fund revenues. However, federal regulations indicate that revenues received by an LEA's nonprofit food service are to be used only for the operation or improvement of such food service.

LEAs Did Not Comply With Federal Administrative Requirements for More Than Half of the Payroll Payments We Examined

Our review of 78 payroll transactions, totaling approximately $173,300, found that more than half of them, representing 14 of the 18 LEAs we reviewed, did not comply with federal administrative requirements requiring documentation of employees work on the child nutrition programs. The payroll documentation errors we identified mean that almost $72,600 of the $173,300 in payroll expenditures we tested was unallowable. Many of these LEAs stated that they did not comply with the federal documentation requirements for payroll because they were unaware of them.

More than half of 78 payroll transactions we reviewed did not comply with federal administrative requirements requiring documentation of employees work on the child nutrition programs.

Half of the LEAs We Reviewed Failed to Properly Certify the Work Activities of Employees Who Were Compensated Entirely With Cafeteria Funds

Nine LEAs did not comply with the federal certification requirement for employees whose salaries and benefits were paid entirely with cafeteria funds. A federal regulation requires that when an employee works solely on a single federal program, such as the child nutrition programs, charges for the employee's salary and benefits must be supported by periodic certifications that the employee worked solely on that program for the period covered by the certification. These certifications are required to be completed at least twice a year and must be signed by either the employee or a supervisor with firsthand knowledge of the work performed by the employee. If LEAs do not meet this administrative requirement, the related charges for salaries and benefits are unallowable. Our testing of 63 payroll expenditures for employees whose salaries were paid entirely with cafeteria funds found 28 that were unallowable, involving nine LEAs and totaling nearly $57,000.

Improper certification practices may also have contributed to the few instances of overcharges to the cafeteria fund that we found involving employees who were paid exclusively by cafeteria funds, but who worked less than full time on child nutrition programs activities. Specifically, three expenditures paid entirely with money from the LEAs' cafeteria funds were for employees who spent less than 100 percent of their time on activities related to the child nutrition programs. For example, Stockton Unified used its cafeteria fund to pay for the entire salary of an office assistant who told us that only a small portion of her work is related to the child nutrition programs. In addition, both Stockton Unified and Paramount Unified used their cafeteria funds to pay the entire salaries of two employees working as warehouse and delivery workers when, according to duty statements for these employees, they did not work solely for the child nutrition programs. Neither of these LEAs

had certified that the work activities of these three employees were solely related to the child nutrition programs. Had these two LEAs attempted to obtain signed certifications from these employees, they may have determined that the employees should not have been paid entirely with cafeteria funds because they did not perform tasks related solely to the child nutrition programs.

Most of the nine LEAs that failed to properly certify the work activities of employees paid entirely with cafeteria funds indicated that they were unaware of the requirement to do so.

Most of the nine LEAs that failed to properly certify the work activities of employees paid entirely with cafeteria funds indicated they did not do so because they were unaware of the requirement. Two other LEAs knew of the requirement, but one believed that it did not apply and the other had misplaced the certification records. Specifically, the director of fiscal services for Elk Grove Unified School District (Elk Grove Unified) did not think that the certification requirement applied to employees paid from the cafeteria fund. The nutrition services director for Merced City School District knew of the requirement to perform certifications but told us that her predecessor had misplaced the records. It was surprising to us that so many LEAs were unaware of the certification requirement because this requirement has been in federal regulations since at least 2005 and in CDE's accounting manual for almost a decade.

Failure to properly certify the employees who work on activities solely related to the child nutrition programs could be a serious problem in California if it is generally as common in other LEAs as it was among those we reviewed. Although the payroll expenditures we examined were not a statistically representative sample, approximately one-third of these expenditures were unallowable. In addition, in fiscal year 2012–13 the 18 LEAs we reviewed spent a combined total of more than 47 percent of their cafeteria fund expenditures on salaries and benefits for child nutrition programs employees. If other LEAs in California devote a similarly large portion of their cafeteria funds to salary and benefit payments, and if they are also failing to comply with federal payroll certification requirements at the same rate we found with the payroll expenditures we tested, a significant portion of their cafeteria fund expenditures may be at risk of being unallowable.

Nearly Half of the LEAs Did Not Comply With Federal Administrative Requirements for the Employees We Examined Who Were Compensated Only Partly With Cafeteria Funds

Of the 15 expenditures we tested for salaries and benefits of employees paid only partially with cafeteria funds, involving eight LEAs, none were supported by a correctly completed personnel activity report (PAR) or similar documentation as required by a federal regulation.[5]

[5] Three of these LEAs were also among the nine discussed in the previous section.

A PAR is similar to a timesheet and provides a breakdown showing how employees actually divide their time among all of the programs they work for, so that each program can pay its proportional share of the employees' salary and benefits. LEAs are required to prepare PARs or similar documentation for employees that work on more than one federal program, such as the child nutrition programs and other federal and nonfederal programs (multifunded employees). As is the case with the payroll certifications we discussed earlier, if LEAs do not meet the administrative requirement for PARs, the related charges for salaries and benefits are unallowable. For example, if a custodian spent one hour each day cleaning the floors of an LEA's kitchen and the rest of the day cleaning instructional classroom floors, the LEA would need a PAR detailing the time the custodian spent cleaning the kitchen if it paid some of the custodian's salary with money from the cafeteria fund. PARs must be completed at least monthly, and the employees must sign them. If LEAs do not have PARs for multifunded employees, it is not possible to determine the correct proportion of their salary and benefits to charge to their cafeteria funds, and thus all expenditures for such employees are considered to be unallowable. As a result, for the 15 expenditures we reviewed for multifunded employees, eight LEAs incurred more than $15,600 in unallowable costs, representing nearly 22 percent of all unallowable payroll expenditures we found.

For the 15 expenditures we reviewed for multifunded employees, eight LEAs incurred more than $15,600 in unallowable costs; seven LEAs were unaware until recently of the requirement to provide a breakdown showing how employees actually divided their time among all of the programs they work for.

During our review of whether LEAs were completing PARs as required, we noted that had they consistently done so they would have identified instances in which they charged their cafeteria funds for work unrelated to their child nutrition programs. For example, Mendota Unified School District (Mendota Unified) charged 50 percent of a custodian's salary to its cafeteria fund, but the employee stated that he had not performed any duties relating to the child nutrition programs for at least seven years. In another example, Bakersfield City charged half the time for a custodian who works three hours per day at one of its schools to its cafeteria fund even though, according to the employee, he spends only between 30 minutes and one hour each day cleaning the cafeteria at the school. If Mendota Unified and Bakersfield City had maintained PARs correctly for their multifunded employees, they likely would have realized that their cafeteria funds were funding work activities that were unrelated to their child nutrition programs.

Of the eight LEAs we included in our examination of multifunded employees, seven were unaware of the PAR requirement until recently. For example, according to officials from Oakland Unified School District (Oakland Unified) and Mendota Unified, they did not maintain PARs until CDE directed them to do so in 2012 and 2013, respectively. Three other LEAs told us that they were unaware of the PAR requirement until we informed them of it

during our review. As was the case with LEAs' lack of awareness of the payroll certification requirement, their lack of awareness of the requirement regarding PARs is surprising, since this requirement has also been in federal regulations since at least 2005 and included in CDE's accounting manual for nearly a decade.

LEAs Did Not Always Meet Certain Federal Requirements Concerning Their Financial Resources

During our review we found that LEAs often did not comply with federal administrative requirements for managing and tracking certain financial resources. A federal regulation specifies that a cafeteria fund's cash on hand at any given time, less its unpaid bills (net cash resources), cannot exceed three months' average expenditures for the child nutrition programs. In addition, since fiscal year 2011–12, a federal regulation has necessitated that LEAs maintain a record-keeping system that tracks the costs and revenues of food and beverages sold through activities outside of the meals provided through child nutrition programs (nonprogram foods), so that they can determine whether these activities are generating a certain minimum amount of revenue. However, we found that LEAs did not always satisfy one or both of these federal administrative requirements.

Half of the LEAs We Reviewed Have Cash Balances in Their Cafeteria Funds That Exceed the Amount Allowed

Most of the nine LEAs with excess net cash resources had a cafeteria fund balance more than double the federal limit in at least one of the years under review.

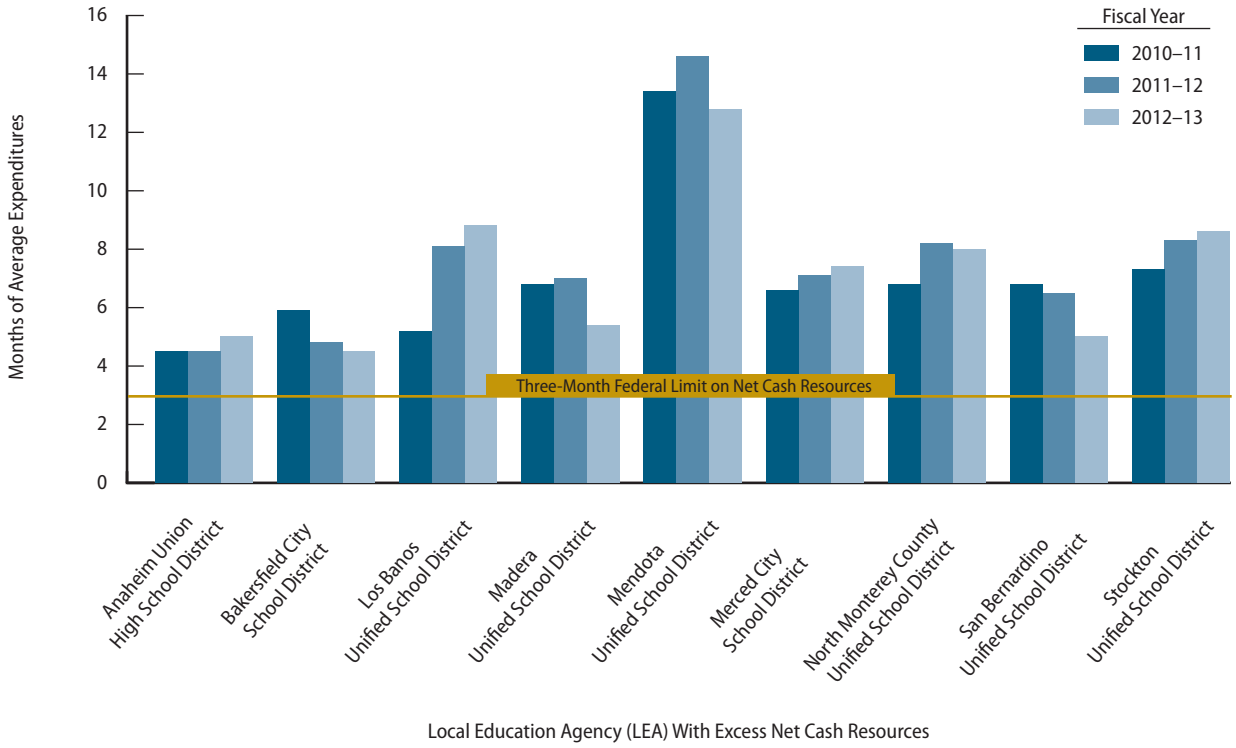
Nine of the 18 LEAs selected for review had net cash resources in excess of the federal limit of three months' average expenditures, as shown in Figure 1. In fact, most of these LEAs' cafeteria funds had cash balances of more than double the federal limit in at least one of the years under review. In fiscal year 2012–13, these nine LEAs' cash balances ranged from just over $1 million to nearly $7.9 million.[6] The amount of excess net cash resources for four of the nine LEAs steadily increased over the three-year period we reviewed, and one LEA had more than four times the amount of net cash resources allowed in each of the three years. According to USDA guidance, if an LEA has a surplus of over three months of average cafeteria fund expenditures on hand, it must agree to lower the price of paid lunches, improve food quality, or make other improvements to its food service operation for the child nutrition programs.[7] Thus, when an LEA has excess net cash resources, it may be charging too much for paid lunches, providing

[6] Table B on page 35 in Appendix B has additional details on LEAs' excess net cash resources.

[7] Paid lunches are lunches sold to students who are either not certified for or elect not to receive free or reduced-price benefits under the child nutrition programs.

lesser-quality meals to its students than it could, or unnecessarily delaying improvements to its food service operation such as upkeep of its facilities or equipment. A federal regulation indicates that if an LEA does not take the actions described in the USDA guidance to reduce its excess net cash resources, CDE must make adjustments in the LEA's rate of reimbursement under the child nutrition programs. In 2012 and 2013 CDE issued management bulletins strongly recommending that LEAs with excess net cash resources immediately submit spending plans to CDE to reduce their excess funds.

Figure 1
Cafeteria Fund Net Cash Resources Shown as Months of Average Expenditures During Fiscal Years 2010–11 Through 2012–13



Source: California State Auditor's analysis of cafeteria fund net cash resources at LEAs selected with excess net cash resources.

Note: Federal regulations define net cash resources of the cafeteria fund as all cash on hand at any given time less unpaid bills. Additionally, federal regulations limit net cash resources to an amount that does not exceed three months' average expenditures of the LEA's cafeteria fund. We determined an LEA's monthly average cafeteria fund expenditures by dividing the LEA's total cafeteria fund expenditures for a fiscal year by 12.

The LEAs with excess net cash resources were generally aware of the federal regulation regarding the limit on net cash resources in their cafeteria funds and of CDE's guidance that they should submit a spending plan to reduce excessive balances. Of the nine LEAs we identified as having excess cash during our period of review, six had developed some kind of spending plan to reduce the excess

and four of these had submitted their plans to CDE. The other two LEAs that had developed spending plans did not submit their plans to CDE because they thought that LEAs were required to submit a spending plan only when such a plan was required by a CDE review. The remaining three LEAs that have excess net cash resources told us they either are currently working with CDE to develop a spending plan or are seeking CDE's assistance.

When we asked LEAs with net cash resources above the federal limit about the cause of the excess balances, some responded that the additional cash was needed to cover operating costs or unanticipated costs. For example, the director of nutrition services for San Bernardino City Unified School District (San Bernardino Unified) explained that the district is very large and limiting its net cash resources to three months' expenditures is not viable for its daily operation. She further explained that the district runs 75 kitchens and that the volume and the costs of repairs and replacements for equipment (such as food delivery trucks and boilers) are very high. However, we question San Bernardino Unified's explanation for holding more net cash resources than federal regulations allow because the amount it is allowed to hold takes into account its monthly expenditures. Other LEAs cited high or increased participation in the child nutrition programs and the resulting increase in revenues as a reason that the excess accumulated.

Federal Requirements on Revenue Generated From the Sale of Nonprogram Foods

A federal regulation requires local education agencies (LEAs) to generate a minimum amount of revenue from the sale of any nonprogram foods.

$$\text{Total Revenue} \times \frac{\text{Nonprogram Foods Cost}}{\text{Total Food Cost}} = \text{Minimum Amount of Nonprogram Foods Revenue}$$

Example:

Nonprogram foods cost	$100,000
Program food cost	300,000
Total food cost	400,000
Total revenue	$1,000,000

$$\$1{,}000{,}000 \times \frac{\$100{,}000}{\$400{,}000} = \$250{,}000$$

In our example, the hypothetical LEA generated $1 million in total revenue, of which federal regulations require at least $250,000 come from the sale of nonprogram foods.

Sources: Title 7, Code of Federal Regulations, Section 210.14(f), and the October 24, 2011, U.S. Department of Agriculture guidance on revenue from nonprogram foods.

LEAs Often Do Not Track Certain Food Costs Needed to Determine Compliance With Federal Revenue Requirements

Of the 15 LEAs we reviewed that conduct nonprogram foods activities using cafeteria fund money, 10 did not comply with federal requirements concerning such activities. A federal regulation defines nonprogram foods as foods and beverages, other than reimbursable meals, that are sold in schools that participate in child nutrition programs and are purchased with money from their cafeteria funds. According to guidance from the USDA, examples of nonprogram foods are foods sold in activities such as catering, à la carte sales, vending machines, and adult meals. To comply with the federal regulations, LEAs are required to generate a minimum amount of revenue from the sale of their nonprogram foods, using the USDA formula shown in the text box.

To complete the USDA formula, LEAs must track both the costs and revenues related to nonprogram foods. However, as shown in Table 4, many LEAs either did not track all of their nonprogram foods costs and revenues or did not generate the required minimum amount of nonprogram foods revenues. According to USDA guidance, if an LEA's nonprogram foods revenues are less than the minimum amount the formula requires, the LEA must review the prices charged for nonprogram foods and make necessary adjustments.

Table 4
Tracking of Nonprogram Foods Data by Local Education Agencies

	Fiscal Year 2011–12		Fiscal Year 2011–12	
LOCAL EDUCATION AGENCY (LEA)	TRACKED ALL NONPROGRAM FOODS COSTS AND REVENUES	GENERATED REQUIRED AMOUNT OF NONPROGRAM FOODS REVENUES	TRACKED ALL NONPROGRAM FOODS COSTS AND REVENUES	GENERATED REQUIRED AMOUNT OF NONPROGRAM FOODS REVENUES
Anaheim Union High School District	Yes	No	Yes	Yes
Bakersfield City School District	No	Unknown	No	Unknown
Elk Grove Unified School District	No	Unknown	No	Unknown
Long Beach Unified School District	No	Unknown	No	Unknown
Madera Unified School District	Yes	No	Yes	Yes
Mendota Unified School District	No	Unknown	No	Unknown
Merced City School District	No	Unknown	No	Unknown
Napa Valley Unified School District	No	Unknown	No	Unknown
North Monterey County Unified School District	No	Unknown	No	Unknown
Oakland Unified School District	No	Unknown	No	Unknown
Paramount Unified School District	No	Unknown	No	Unknown
Ravenswood City School District	No	Unknown	No	Unknown
San Bernardino City Unified School District	Yes	No	Yes	Yes
Stockton Unified School District	Yes	Yes	Yes	Yes
Sweetwater Union High School District	Yes	No	Yes	No

Source: California State Auditor's testing of nonprogram foods activities.

Note: A federal regulation defines nonprogram foods as food and beverages, other than reimbursable meals, that are sold in schools that participate in the child nutrition programs and are purchased using funds from their cafeteria funds.

The 15 LEAs we reviewed with nonprogram foods activities conduct a variety of such activities, including sales from catering, à la carte food items, vending machines, employee cafés, and a produce market. We found that 11 of these 15 LEAs provide catering services and seven sell food items à la carte or in vending machines. Additionally, Oakland Unified operates a produce market, similar to a farmer's market, which sells produce to students, their families, and community residents on a weekly basis. Long Beach Unified School District and Elk Grove Unified maintain employee cafés.

As Table 4 shows, in fiscal years 2011–12 and 2012–13, 10 LEAs did not track all of their nonprogram foods costs. Although the remaining five LEAs did track nonprogram foods costs and revenues in both fiscal years, only one generated the minimum amount of nonprogram foods revenues that federal regulation requires in fiscal year 2011–12, while four LEAs met this requirement in fiscal year 2012–13. The most frequently cited reason for not separately tracking costs and revenues for nonprogram foods was a lack of awareness of the requirement. LEAs that do not separately track costs and revenues of nonprogram foods cannot determine if they are complying with federal regulation. In addition, because nonprogram foods are purchased using cafeteria fund money, these LEAs risk using funds intended for child nutrition programs to subsidize their nonprogram foods activities.

The most frequently cited reason for not separately tracking costs and revenues for nonprogram foods was a lack of awareness of the requirement.

CDE Is Starting to Systematically Review LEAs' Use of Cafeteria Funds

CDE has started implementing new federal guidelines for examining LEAs' expenditures for federal child nutrition programs. During our audit period of fiscal years 2010–11 through 2012–13, CDE reviewed certain aspects of these programs, but it was not expressly required to examine program expenditures to determine if they were allowable—that is, necessary and reasonable for operation or improvement of the child nutrition programs and in compliance with applicable federal requirements. However, in fiscal year 2013–14, as part of its implementation of the federal Healthy, Hunger-Free Kids Act of 2010, CDE will begin examining LEAs' uses of cafeteria funds to determine if the uses were allowable. These examinations are part of administrative reviews that CDE is conducting to assess LEAs' administration of child nutrition programs. These reviews will provide CDE with some assurance that LEAs are spending cafeteria funds appropriately.

CDE Will Begin Reviewing Some LEAs' Use of Cafeteria Funds in Fiscal Year 2013–14

Before fiscal year 2013–14, CDE was not expressly required to examine an LEA's child nutrition programs expenditures. The main mechanism of state oversight of the child nutrition programs was on-site reviews known as coordinated review efforts (CREs). A federal regulation required the CREs to ensure the accuracy of an LEA's meal counts and eligibility determinations, as well as the nutritional quality of meals served, at least once every five years. However, generally, neither federal regulations nor guidance

from the USDA, the agency that oversees the federal child nutrition programs, expressly required CDE to evaluate the allowability of cafeteria fund expenditures during our audit period.[8]

Beginning in fiscal year 2013–14, CDE will be following a revised framework for reviewing LEAs' administration of child nutrition programs by conducting administrative reviews that will replace the CREs. Like the CREs, the revised administrative reviews include an analysis of the accuracy of an LEA's meal counts and eligibility determinations, as well as the nutritional quality of meals served. However, unlike the CREs, administrative reviews must be performed every three years instead of every five years. Administrative reviews may also include a review of an LEA's cafeteria fund expenditures if CDE determines that enough financial risk factors are present.

The USDA developed detailed guidelines for administrative reviews, which include on-site and off-site review components. According to USDA guidance, the off-site review is designed to decrease the amount of time needed for the subsequent on-site portion of the administrative review. Additionally, CDE is to use the off-site review to gather some of the information necessary to complete the administrative review and to determine the financial risk present at each LEA. When completing the financial risk component of the off-site review, CDE is required to evaluate each LEA in seven areas of potential risk, using specific risk indicators. The seven risk areas CDE must evaluate are shown in Table 5.

Table 5
Risk Indicators and Examples of High Risk Used to Determine Whether to Review a Local Education Agency's Expenses From the Cafeteria Fund

RISK INDICATOR	EXAMPLE OF ATTRIBUTE INDICATING HIGHER RISK
1. Student enrollment	The local education agency (LEA) has 40,000 students or more.
2. Previous financial findings	The LEA has financial findings within the past three years from previous administrative reviews or state audits of child nutrition programs.
3. Maintenance of the cafeteria fund	The cafeteria fund's expenses exceed revenues. Surplus funds were transferred out of the cafeteria fund to support other operations and/or achieve a zero balance.
4. Paid lunch equity	The LEA did not raise paid lunch prices, as required by regulation. The LEA did not submit paid lunch price information to the state agency.
5. Nonprogram foods revenues	The LEA did not generate adequate revenue from the sale of nonprogram food.
6. Indirect costs	The LEA has charged indirect costs to the cafeteria fund or has charged indirect costs at a higher rate than what was approved by the state agency.
7. U.S. Department of Agriculture (USDA) foods	The LEA received USDA foods from a purchasing agency, cooperative, or distributor.

Source: USDA's 2013 *Administrative Review Manual* and Resource Management Risk Indicator tool.

[8] Federal regulations and USDA guidance governing the CRE process prior to fiscal year 2013–14 did not require that CDE test cafeteria fund expenditures to determine whether they were allowable. However, federal regulations prior to fiscal year 2013–14 did require CDE to ensure that LEAs complied with net cash resource requirements, described earlier in this report.

If CDE identifies risk in three or more of the seven financial risk areas at an LEA, it is required to perform a financial examination of the LEA's child nutrition programs as part of its on-site review. The financial examination must include an assessment of the LEA's financial management of its cafeteria fund, such as the allowability of expenditures and indirect costs the LEA charges to its cafeteria fund. As a result, administrative reviews have the potential to provide a critical oversight mechanism to ensure that LEAs are spending cafeteria funds for allowable purposes.

Administrative reviews have the potential to provide a critical oversight mechanism to ensure that LEAs are spending cafeteria funds for allowable purposes.

CDE Has Been Preparing Its Staff to Conduct the Revised Administrative Reviews

CDE has sponsored training regarding administrative reviews for its staff to ensure that they are ready to conduct these reviews. Because the administrative review process includes a new requirement for CDE staff to examine cafeteria fund expenditures at LEAs that meet a certain risk threshold, CDE provided some of its staff with financial training to enable them to successfully complete the administrative reviews. Additionally, CDE informed the USDA that it would provide training and technical assistance to LEAs on the new procedures before conducting administrative reviews to ensure that the LEAs are aware of the new process and their role in it.

Some staff attended USDA training classes in 2013 regarding the administrative review process and financial management. CDE also plans to offer its own financial management training course on a yearly basis to staff responsible for completing administrative reviews. Furthermore, CDE stated that it has provided pre-review workshops for LEAs that have upcoming reviews scheduled. Although these workshops are not considered trainings, according to an audit coordinator in the Nutrition Services Division, CDE views them as an opportunity to provide LEAs with an overview of what to expect during the review process. In addition, CDE contacted the LEAs that it plans on reviewing in fiscal year 2013–14 to inform them of the new administrative review requirements. CDE also provided the LEAs with USDA guidance that includes an overview of the financial management section of the administrative review.

Recommendations

The LEAs we reviewed should implement the recommendations specified for them in Table 6 to ensure that they are spending cafeteria fund money only for allowable activities for child nutrition programs and that they are meeting federal requirements concerning their financial resources.

Table 6
Summary of Recommendations for Local Education Agencies

RECOMMENDATION	LOCAL EDUCATION AGENCY (LEA)																		
	ANAHEIM UNION HIGH SCHOOL DISTRICT	BAKERSFIELD CITY SCHOOL DISTRICT	ELK GROVE UNIFIED SCHOOL DISTRICT	LONG BEACH UNIFIED SCHOOL DISTRICT	LOS BANOS UNIFIED SCHOOL DISTRICT	MADERA UNIFIED SCHOOL DISTRICT	MENDOTA UNIFIED SCHOOL DISTRICT	MERCED CITY SCHOOL DISTRICT	NAPA VALLEY UNIFIED SCHOOL DISTRICT	NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT	OAKLAND UNIFIED SCHOOL DISTRICT	PARAMOUNT UNIFIED SCHOOL DISTRICT	RAVENSWOOD CITY SCHOOL DISTRICT	SAN BERNARDINO CITY UNIFIED SCHOOL DISTRICT	SAN DIEGO UNIFIED SCHOOL DISTRICT	SAN FRANCISCO UNIFIED SCHOOL DISTRICT	STOCKTON UNIFIED SCHOOL DISTRICT	SWEETWATER UNION HIGH SCHOOL DISTRICT
1. LEAs that used cafeteria funds for unallowable purposes should do the following by June 30, 2014: • Reimburse the cafeteria fund for those costs if it has not already done so. • Review all guidance from the U.S. Department of Agriculture and the California Department of Education (CDE) to better understand what these funds can be used for.	●	●	●		●	●	●	●	●	●	●	●	●		●	●	●	●
2. With regard to excess net cash resources, LEAs should do the following by June 30, 2014: a. Develop a spending plan to eliminate their net cash resources in excess of the amount allowed.	●				●					●								
b. Submit a spending plan to CDE for approval.	●	●			●					●				●				
3. With regard to nonprogram foods, LEAs should do the following: a. Create and implement a system to track their nonprogram foods costs and/or nonprogram foods revenues by June 30, 2014.		●	●	●			●	●	●	●	●	●	●					
b. Determine whether they are generating at least the minimum required amount of nonprogram foods revenues and, if they are not, make the adjustments necessary to generate in fiscal year 2014–15 the amount of nonprogram foods revenues needed to meet federal requirements.		●	●	●			●	●	●	●	●	●	●					●

Source: California State Auditor's analysis of the specified LEAs' administration of their cafeteria funds.

To ensure that the spending plans LEAs create to eliminate excess net cash resources in their cafeteria funds are adequate, effective, and fully executed, CDE should, by July 1, 2015, do the following:

- Begin requiring LEAs to develop a spending plan, or revise an existing spending plan if it will not fully reduce the entire excess, and submit it to CDE for approval within three months after the end of each fiscal year that their cafeteria funds have net cash resources above the federal limit.

- If an LEA cannot eliminate its entire excess net cash resources within a defined time frame, CDE should make adjustments in the rate of reimbursement to the LEA under the child nutrition programs.

We conducted this audit under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives specified in the scope section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,

Elaine M. Howle

ELAINE M. HOWLE, CPA
State Auditor

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Appendix A

DETAILED RESULTS OF EXPENDITURE TESTING

At each of the 18 local education agencies (LEAs) selected for site visits, the California State Auditor (state auditor) selected at least 10 expenditures from the cafeteria fund for each fiscal year from 2010–11 through 2012–13.[9,10] We tested these expenditures for compliance with applicable laws and regulations and, based on our analysis, placed each expenditure in one of two categories. *Allowable* transactions are those that are necessary and reasonable expenditures for the operation or improvement of the child nutrition programs and comply with applicable administrative requirements. *Unallowable* transactions include both transactions that are unnecessary or unreasonable, and thus a misuse of cafeteria funds according to federal or state requirements, as well as expenditures that were appropriate but lacked evidence of compliance with one or more administrative requirements. Table A summarizes the results of our expenditure testing, listing the dollar amount tested for each type of expenditure at each LEA and how much was determined to be allowable or unallowable.

Of the slightly more than $32 million in cafeteria fund expenditures that the state auditor tested, a little more than $1 million—about 3.2 percent—was unallowable. Further, for two of the 18 LEAs—Long Beach Unified School District and San Bernardino City Unified School District—we did not identify any unallowable cafeteria fund expenditures.

Table A
Results of the California State Auditor's Testing of Cafeteria Fund Expenditures in Fiscal Years 2010–11 Through 2012–13 at 18 Local Education Agencies

	ALLOWABILITY OF EXPENDITURES		
LOCAL EDUCATION AGENCY (LEA) /EXPENDITURE TYPE	ALLOWABLE	UNALLOWABLE	TOTAL EXPENDITURES TESTED
Anaheim Union High School District	**$492,550**	**$63,642**	**$556,192**
Equipment purchases and repairs	156,130	–	156,130
Facility repairs, maintenance, remodeling, and construction	282,576	–	282,576
Salaries and benefits	13,681	2,047	15,728
Utilities and other support costs (utility costs)	–	61,595	61,595
Miscellaneous	40,163	–	40,163

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[9] Federal regulations define a school food authority as the governing body responsible for administering one or more schools and that has the legal authority to operate the child nutrition programs. We use *local education agency* synonymously with *school food authority*; this usage is consistent with management bulletins issued by the California Department of Education to LEAs regarding their administration of the child nutrition programs.

[10] Federal regulations require LEAs to separately account for their child nutrition program revenues and expenditures. State law authorizes LEAs to establish a cafeteria fund for this purpose.

LOCAL EDUCATION AGENCY (LEA) /EXPENDITURE TYPE	ALLOWABILITY OF EXPENDITURES		TOTAL EXPENDITURES TESTED
	ALLOWABLE	UNALLOWABLE	
Bakersfield City School District	**$2,163,352**	**$87,434**	**$2,250,786**
Equipment purchases and repairs	210,028	6,682	216,710
Facility repairs, maintenance, remodeling, and construction	82,448	8,008	90,456
Salaries and benefits	–	1,560	1,560
Indirect costs	1,857,513	–	1,857,513
Utility costs	645	–	645
Miscellaneous	12,718	71,184	83,902
Elk Grove Unified School District	**3,064,765**	**25,986**	**3,090,751**
Equipment purchases and repairs	198,530	–	198,530
Facility repairs, maintenance, remodeling, and construction	25,219	–	25,219
Salaries and benefits	811	5,589	6,400
Indirect costs	2,826,419	4,197	2,830,616
Interest	–	3,883	3,883
Utility costs	–	10,094	10,094
Miscellaneous	13,786	2,223	16,009
Long Beach Unified School District	**833,741**	**–**	**833,741**
Equipment purchases and repairs	104,884	–	104,884
Facility repairs, maintenance, remodeling, and construction	33,085	–	33,085
Salaries and benefits	12,290	–	12,290
Indirect costs	233,498	–	233,498
Utility costs	65,400	–	65,400
Miscellaneous	384,584	–	384,584
Los Banos Unified School District	**974,063**	**14,828**	**988,891**
Equipment purchases and repairs	472,536	–	472,536
Facility repairs, maintenance, remodeling, and construction	14,800	14,828	29,628
Salaries and benefits	9,626	–	9,626
Indirect costs	420,835	–	420,835
Utility costs	33,951	–	33,951
Miscellaneous	22,315	–	22,315
Madera Unified School District	**1,602,425**	**12,005**	**1,614,430**
Equipment purchases and repairs	221,616	–	221,616
Facility repairs, maintenance, remodeling, and construction	2,272	–	2,272
Salaries and benefits	–	10,244	10,244
Indirect costs	1,221,213	–	1,221,213
Utility costs	8,257	1,761	10,018
Miscellaneous	149,067	–	149,067
Mendota Unified School District	**269,725**	**19,172**	**288,897**
Equipment purchases and repairs	32,380	1,328	33,708
Facility repairs, maintenance, remodeling, and construction	21,166	4,576	25,742
Salaries and benefits	3,900	6,823	10,723
Indirect costs	93,447	–	93,447
Utility costs	4,827	–	4,827
Miscellaneous	114,005	6,445	120,450

LOCAL EDUCATION AGENCY (LEA) /EXPENDITURE TYPE	ALLOWABILITY OF EXPENDITURES		TOTAL EXPENDITURES TESTED
	ALLOWABLE	UNALLOWABLE	
Merced City School District	**$810,262**	**$24,738**	**$835,000**
Equipment purchases and repairs	295,411	11,329	306,740
Facility repairs, maintenance, remodeling, and construction	37,540	–	37,540
Salaries and benefits	–	13,409	13,409
Indirect costs	472,370	–	472,370
Miscellaneous	4,941	–	4,941
Napa Valley Unified School District	**1,121,656**	**1,242**	**1,122,898**
Equipment purchases and repairs	35,427	–	35,427
Facility repairs, maintenance, remodeling, and construction	7,027	–	7,027
Salaries and benefits	5,537	899	6,436
Miscellaneous	1,073,665	343	1,074,008
North Monterey County Unified School District	**481,793**	**55,322**	**537,115**
Equipment purchases and repairs	132,728	–	132,728
Facility repairs, maintenance, remodeling, and construction	34,106	–	34,106
Salaries and benefits	–	6,077	6,077
Indirect costs	299,874	49,245	349,119
Miscellaneous	15,085	–	15,085
Oakland Unified School District	**2,550,106**	**1,719**	**2,551,825**
Equipment purchases and repairs	164,651	–	164,651
Salaries and benefits	591	1,719	2,310
Indirect costs	2,055,038	–	2,055,038
Miscellaneous	329,826	–	329,826
Paramount Unified School District	**149,241**	**24,080**	**173,321**
Equipment purchases and repairs	40,717	14,368	55,085
Salaries and benefits	4,821	8,441	13,262
Utility costs	576	1,271	1,847
Miscellaneous	103,127	–	103,127
Ravenswood City School District	**752,368**	**4,140**	**756,508**
Equipment purchases and repairs	93,120	–	93,120
Facility repairs, maintenance, remodeling, and construction	6,000	–	6,000
Salaries and benefits	4,791	931	5,722
Indirect costs	346,740	2,997	349,737
Utility costs	565	91	656
Miscellaneous	301,152	121	301,273
San Bernardino City Unified School District	**3,722,340**	**–**	**3,722,340**
Equipment purchases and repairs	480,400	–	480,400
Facility repairs, maintenance, remodeling, and construction	17,610	–	17,610
Salaries and benefits	7,372	–	7,372
Indirect costs	3,073,992	–	3,073,992
Utility costs	43,000	–	43,000
Miscellaneous	99,966	–	99,966

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LOCAL EDUCATION AGENCY (LEA) /EXPENDITURE TYPE	ALLOWABILITY OF EXPENDITURES		TOTAL EXPENDITURES TESTED
	ALLOWABLE	UNALLOWABLE	
San Diego Unified School District	**$6,147,510**	**$121,641**	**$6,269,151**
Equipment purchases and repairs	41,479	–	41,479
Facility repairs, maintenance, remodeling, and construction	16,730	–	16,730
Salaries and benefits	15,267	–	15,267
Indirect costs	5,709,945	1,870	5,711,815
Interest	–	102,702	102,702
Utility costs	331,734	16,829	348,563
Miscellaneous	32,355	240	32,595
San Francisco Unified School District	**3,359,785**	**12,221**	**3,372,006**
Equipment purchases and repairs	135,097	–	135,097
Salaries and benefits	19,754	2,509	22,263
Indirect costs	2,297,913	–	2,297,913
Interest	–	9,712	9,712
Utility costs	34,364	–	34,364
Miscellaneous	872,657	–	872,657
Stockton Unified School District	**2,129,430**	**493,651**	**2,623,081**
Equipment purchases and repairs	118,738	–	118,738
Facility repairs, maintenance, remodeling, and construction	83,897	453,282	537,179
Salaries and benefits	741	6,538	7,279
Indirect costs	1,892,312	8,909	1,901,221
Interest	25,072	22,053	47,125
Utility costs	–	2,869	2,869
Miscellaneous	8,670	–	8,670
Sweetwater Union High School District	**422,808**	**80,061**	**502,869**
Equipment purchases and repairs	38,087	7,000	45,087
Salaries and benefits	1,524	5,809	7,333
Indirect costs	307,709	–	307,709
Interest	–	32,875	32,875
Utility costs	563	–	563
Miscellaneous	74,925	34,377	109,302
Total expenditures tested	**$31,047,920**	**$1,041,882**	**$32,089,802**
Percentage of total expenditures tested	**96.8%**	**3.2%**	

Source: California State Auditor's analysis of selected transactions and indirect cost calculations of the LEAs specified.

Notes: We tested the types of expenditures as required by Assembly Bill 110 of 2013. However, some of the 18 LEAs identified in the table did not incur all of the specified expenditures. As a result, the expenditure types tested varied with the LEA.

The *Miscellaneous* category includes expenditures for materials and supplies; professional and consulting services; rentals, leases, repairs, and noncapitalized improvements; and travel and conferences.

According to federal regulations, allowable costs must be necessary and reasonable for proper and efficient performance and administration of the child nutrition programs, and must comply with applicable administrative requirements. Unallowable expenditures include both expenditures that are unnecessary or unreasonable according to federal or state requirements, which is a misuse of cafeteria funds, as well as expenditures that were appropriate but lacked evidence of compliance with one or more administrative requirements.

Federal regulations require LEAs to account for all revenues and expenditures of their nonprofit school food service. State law authorizes, but does not require, the governing board of a school district to establish a cafeteria fund to account separately for federal, state, and local resources of its food service program.

Appendix B

LOCAL EDUCATION AGENCIES' NET CASH RESOURCES IN EXCESS OF FEDERAL LIMITS

Nine of the 18 local education agencies (LEAs) selected for a site visit had net cash resources in excess of federal limits, and all nine carried this excess in each of the three fiscal years under our review.[11] A federal regulation requires that all net cash resources—all cash on hand at any given time, less unpaid bills—cannot exceed three months' average expenditures of the cafeteria fund.[12] For the most recent fiscal year, 2012–13, the largest amount of excess net cash resources, in nominal terms, was more than $7.8 million at the Stockton Unified School District. Although the smallest amount of excess net cash resources was observed at Los Banos Unified School District in fiscal year 2010–11, at almost $739,000, that amount increased to almost $2 million in fiscal year 2012–13, which was an increase of nearly 170 percent. In 2012 and 2013, the California Department of Education (CDE) issued management bulletins strongly recommending that LEAs with excess net cash resources immediately submit spending plans to CDE describing the actions the LEAs will take to reduce their excess funds. Table B provides details on the excess net cash resources in nine LEAs' cafeteria funds for the period of our audit, including whether the LEAs have spending plans to reduce their excess funds.

Table B
Local Education Agencies Included in Our Review That Had Excess Net Cash Resources in Their Cafeteria Funds

LOCAL EDUCATION AGENCY (LEA)	FISCAL YEAR	NET CASH RESOURCES*	FEDERAL LIMIT OF THREE MONTHS' AVERAGE EXPENDITURES	EXCESS†	DOES LEA HAVE A SPENDING PLAN TO REDUCE ITS EXCESS?
Anaheim Union High School District	2010–11	$7,726,552	$5,125,757	$2,600,795	***No***
	2011–12	8,249,342	5,462,437	2,786,905	
	2012–13	8,976,548	5,374,488	3,602,060	
Bakersfield City School District	2010–11	7,537,443	3,801,135	3,736,308	***Yes***
	2011–12	7,139,526	4,433,096	2,706,430	
	2012–13	6,865,652	4,570,952	2,294,700	

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[11] Federal regulations define a school food authority as the governing body responsible for administering one or more schools and that has the legal authority to operate the child nutrition programs. We use *local education agency* synonymously with *school food authority*; this usage is consistent with management bulletins issued by CDE to LEAs regarding their administration of the child nutrition programs.

[12] Federal regulations require LEAs to separately account for their child nutrition program revenues and expenditures. State law authorizes LEAs to establish a cafeteria fund for this purpose.

LOCAL EDUCATION AGENCY (LEA)	FISCAL YEAR	NET CASH RESOURCES*	FEDERAL LIMIT OF THREE MONTHS' AVERAGE EXPENDITURES	EXCESS†	DOES LEA HAVE A SPENDING PLAN TO REDUCE ITS EXCESS?
Los Banos Unified School District	2010–11	$1,764,903	$1,025,974	$738,929	***No***
	2011–12	2,515,292	929,821	1,585,471	
	2012–13	3,019,672	1,033,660	1,986,012	
Madera Unified School District	2010–11	4,713,600	2,090,411	2,623,189	***Yes***
	2011–12	5,470,950	2,344,625	3,126,325	
	2012–13	4,979,049	2,759,498	2,219,551	
Mendota Unified School District	2010–11	1,937,921	434,009	1,503,912	***Yes***
	2011–12	2,275,947	467,488	1,808,459	
	2012–13	2,413,470	564,553	1,848,917	
Merced City School District	2010–11	3,177,180	1,450,289	1,726,891	***Yes***
	2011–12	3,504,957	1,487,382	2,017,575	
	2012–13	3,697,037	1,499,290	2,197,747	
North Monterey County Unified School District	2010–11	1,337,734	589,976	747,758	***No***
	2011–12	1,569,632	570,117	999,515	
	2012–13	1,644,826	617,327	1,027,499	
San Bernardino City Unified School District	2010–11	15,025,922	6,649,518	8,376,404	***Yes***
	2011–12	14,867,546	6,827,596	8,039,950	
	2012–13	12,481,798	7,439,037	5,042,761	
Stockton Unified School District	2010–11	8,995,354	3,720,089	5,275,265	***Yes***
	2011–12	10,691,769	3,871,813	6,819,956	
	2012–13	12,121,571	4,233,938	7,887,633	

Source: California State Auditor's analysis of financial information provided by each LEA.

* Federal regulations define net cash resources as all cash on hand at any given time, less unpaid bills. Additionally, federal regulations limit net cash resources to an amount that does not exceed three months' average expenditures of the LEA's cafeteria fund. We determined an LEA's monthly average cafeteria fund expenditures by dividing the LEA's total cafeteria fund expenditures for a fiscal year by 12.

† The excess amount in one fiscal year carries over to the subsequent fiscal year. So the amounts for each of the three years in the table should not be added together to arrive at the LEA's current total excess. For example, at the end of fiscal year 2010–11 Anaheim Union High School District had an excess of net cash resources amounting to $2.6 million, and over the three-year period the LEA added $1 million to that excess, ending the three-year period with a total of $3.6 million in excess of net cash resources.

CALIFORNIA
DEPARTMENT OF
EDUCATION

TOM TORLAKSON
STATE SUPERINTENDENT OF PUBLIC INSTRUCTION

February 5, 2014

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California State Auditor
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Sacramento, CA 95814

Subject: *Cafeteria Funds: Local Education Agencies Generally Use the Funds for Appropriate Purposes,* Report No. 2013-046, February 2014

The California Department of Education (CDE) appreciates the opportunity to provide written comments and proposed corrective actions to the recommendations outlined in the California State Auditor's (CSA) Audit Report No. 2013-046, entitled*: Cafeteria Funds: Local Education Agencies Generally Use the Funds for Appropriate Purposes*.

Recommendation No. 1:

By June 30, 2014, LEAs that used cafeteria funds for unallowable purposes should do the following:

- Reimburse the cafeteria fund for those costs if they have not already done so.
- Review all guidance from the USDA and CDE to better understand what these funds may be used for.

CDE's Comments and Corrective Actions

This recommendation is directed to the LEAs. However, the CDE will follow-up on the CSA's findings to ensure that cafeteria funds are reimbursed for all identified unallowable costs. The CDE will also require the LEAs to submit corrective actions detailing how the LEAs will strengthen controls to only charge allowable expenses to cafeteria funds. The CDE will continue to provide ongoing technical support regarding allowable and unallowable cafeteria fund uses, and provide cafeteria fund account training through annual workshops.

Recommendation No. 2:

LEAs with excess cash balances should develop spending plans to reduce their balances to the amount allowed and submit the spending plans to CDE for approval by June 30, 2014.

CDE's Comments and Corrective Actions

This recommendation is directed to the LEAs. However, the CDE will follow-up on the CSA's findings to ensure that all the LEAs with identified excess cafeteria fund balances are reduced to three months' average operating costs by reviewing and approving LEAs' spending plans. The CDE will also require the LEAs to conduct an annual review of cafeteria fund net cash resources (NCRs) to ensure that the excess NCRs are spent down in a timely manner.

Recommendation No. 3:

To ensure that the spending plans LEAs create to eliminate their excess net cash resources in their cafeteria funds are adequate, effective, and fully executed, CDE should, by July 1, 2015, begin requiring LEAs to develop a spending plan or revise an existing spending plan if it will not fully reduce the entire excess and submit it to CDE for approval within three months of the end of each fiscal year that LEAs' cafeteria funds have NCRs above the federal limit.

CDE's Comments and Corrective Actions

The CDE will continue to enforce the federal limits on cafeteria fund NCRs for all LEAs. To provide technical assistance regarding NCR requirements, the CDE has already provided LEAs management bulletins, Webinar training, annual conference training, and online technical assistance and guidance.

In addition, to ensure the LEAs develop a spending plan or revise an existing spending plan to reduce the entire excess NCR amount and submit to the CDE for approval within three months of the end of each fiscal year, the CDE has implemented the following steps:

1. All LEAs that receive an Administrative Review will have NCR assessments.

2. LEAs that are found to exceed the federal NCR limit are required to submit a spending plan as part of their corrective action plan.

3. LEAs with approved spending plans will be required to annually conduct a mandatory reconciliation of purchases to ensure that excess NCRs are reduced in a timely manner.

If an LEA is not successful in eliminating its entire excess net cash resources within a defined time frame, the CDE will consider reducing the LEAs' future reimbursements, or hold the LEAs' claims for reimbursement until the excess balances are appropriately reduced.

Recommendation No. 4:

LEAs that are not tracking the revenues and expenditures of non-program foods activities should implement a system to do so by June 30, 2014.

CDE's Comments and Corrective Actions

This recommendation is directed to the LEAs. However, the CDE will continue to provide LEAs technical assistance regarding the tracking of non-program food revenues and expenditures via management bulletins, Webinar training, annual conference training, and online technical assistance and guidance. In addition, the CDE will begin reviewing LEAs' non-program food revenues during the fiscal year 2013–14 Administrative Review cycle.

If you have any questions regarding the CDE's comments or corrective actions, please contact Sandip Kaur, Director, Nutrition Services Division, by e-mail at skaur@cde.ca.gov, or by phone at 916-322-8316.

Sincerely,

Richard Zeiger
Chief Deputy Superintendent of Public Instruction

RZ:pm

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ANAHEIM UNION HIGH SCHOOL DISTRICT

THE SPIRIT OF LEARNING SINCE 1898

February 6, 2014

Elaine M. Howle, CPA*

California State Auditor

621 Capitol Mall

Suite 100

Sacramento, Ca. 95814

Dear Ms. Howle,

Enclosed are the responses from Anaheim Union High School District to the California State Auditor's Office on Report Number 2013-046 titled "Cafeteria Funds: Local Education Agencies Generally Use the Funds for Appropriate Purposes."

Sincerely,

Terry Gerner

Director of Food Service

Food Services
501 Crescent Way • Post Office Box 3520
Anaheim • California 92803•3520
Tel: 714•999•3560 Fax: 714•999•5674

* California State Auditor's comments appear on page 45.

LEAs Improperly Charged Some of Their Utilities to the Cafeteria Fund

Federal regulations require that all charges to the cafeteria fund be adequately documented. Anaheim City School District provided documentation for the utility charges, itemizing the cost of trash bins in excel format. The excel spreadsheet included the number of trash bins placed on each site, the schools enrollment, and the number of month schools were in session as a basis for the charges. An excel spreadsheet was included with the bill from Anaheim City School District to Anaheim Union High School District's Food Service Department to document the number of trash bins food service were billed for (50%) and for back up for the expenditure. A meeting is held annually with Anaheim City School District and Anaheim Union High School District to discuss the particulars of what percentage the food service department will be billed for in regards to trash bins fees. The meeting is held before the annual inter-agency meal agreement is placed on each school district's board agenda for renewal. This inter-agency meal agreement is approved by CDE NSD each school year. The inter-agency meal agreement includes language stating 50% of the cost of trash bin fees will be paid by Anaheim Union High School District Food Service. The agreement for food service to pay a percentage of the trash bin fees is longstanding. It is uncertain as to how the original methodology was determined. With that being said, the decision to continue paying trash bin fee cost associated with providing meal service for Anaheim City School District has been discussed each school year, and the percentage method seemed fair and reasonable to both districts. Anaheim Union High School District Food Service will discontinue paying for trash bin fees unless an approved methodology can be arranged with the trash provider.

Response for Federal Administrative Requirements for the Employees Examined That Were Compensated Only Partly With Cafeteria Funds

The salary and benefits for the employee in question are funded 50% from the Cafeteria and 50% from the General Fund. The employee in fact verbally informed the auditors that he spent 50% of his time working for the Cafeteria. We believe the amount being charged to the Cafeteria is an appropriate representation of his time spent working for the Cafeteria. (1)

The District does a semiannual certification process where by all Cafeteria employees are certified by Cafeteria managers as working for the Cafeteria program. This process meets the federal regulations for employees who are 100% funded by the Cafeteria. The employee in question was listed along with the other employees being certified. The State audit indicates that a Personnel Activity Report should be done for split funded employees. The District has created a report form for the employee, and has begun that procedure. All other Cafeteria employees are 100% funded by the Cafeteria, and do not split time.

LEA's with Cash Balances in Their Cafeteria Funds That Exceed the Amount Allowed

Federal regulations do not allow cafeteria fund balances to exceed three months average expenditures. Prior to May 2013 LEA's could request a waiver from USDA requesting approval to use cafeteria funds for equipment placed in a central processing plant and for payments made back to the LEA for the construction cost of a central processing plant. The excess fund in Anaheim Union High School District's cafeteria fund were set aside with the intent of requesting a waiver from USDA to contribute in part for the cost of replacing the District's central kitchen and for the replacement of the current central kitchens outdated equipment once the new facility was completed. A spending plan will submitted to CDE for approval on reducing the cafeteria fund balance to the allowable limit by June 2014.

Tracking Non Program Food Cost

In school year 2012-13, revenue generated from non program foods were sufficient to meet the requirement. Anaheim Union High School District will set pricing of non program food high enough to ensure non program food revenue is adequate to cover the cost.

Summary

By June 30, 2014, the cafeteria fund will be reimbursed for all unallowable cost and a spending plan will be submitted to CDE for approval.

Note: Page 17, third sentence of report need to be edited to the following: (2)

Strike (Anaheim Union) should be: Anaheim City School District billed Anaheim Union High School District's cafeteria fund more than $61,500 in unallowable utility cost. (3)

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Comments

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE ANAHEIM UNION HIGH SCHOOL DISTRICT

To provide clarity and perspective, we are commenting on the response from the Anaheim Union High School District (Anaheim Union). The numbers below correspond to the numbers we have placed in the margin of Anaheim Union's response.

The amount of salary and benefits that Anaheim Union charges for an employee may be an accurate representation of the time the employee spent working on tasks related to child nutrition programs. However, as indicated on pages 20 and 21, these charges are unallowable if not documented by a personnel activity report or similar documentation in accordance with federal regulation. ①

While preparing our draft report for publication, some page numbers shifted. Therefore, the page number Anaheim Union cites in its response does not correspond to the page number in our final report. ②

The sentence in our report on page 15 that Anaheim Union believes should be edited is correct as written. Although it is correct that Anaheim City School District billed Anaheim Union for unallowable utility costs, it was Anaheim Union that inappropriately paid these costs with its cafeteria fund. ③

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Bakersfield City School District

1300 Baker Street
Bakersfield, CA 93305-4399
Phone (661) 631-4610
Fax (661) 324-3190

February 6, 2014

Elaine Howle, State Auditor*
Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, CA 95814

(1)

Subject: Response to the Draft Report titled, "*Cafeteria Funds: Local Education Agencies Generally Use the funds for Appropriate Purposes,*" Report No. 2013-046, February 2014

Dear Ms. Howle:

Enclosed please find the Bakersfield City School District's (District) written response to the Draft Report named above. I am requesting that the District's response be included in the Report when issued. Per your request, copies of the District's response and this cover letter have been saved on the enclosed CD as a PDF file.

In addition, please correct the name "Bakersfield City Unified" on pages 26 and 27 of the draft Report to "Bakersfield City School District". (2) (3)

Sincerely,

Robert J. Arias, Ed.D.
Superintendent

Enclosures

* California State Auditor's comments begin on page 51.

Bakersfield City School District

1300 Baker Street
Bakersfield, CA 93305-4399
Phone (661) 631-4610
Fax (661) 324-3190

February 6, 2014

Elaine Howle, State Auditor
(1) Bureau of State Audits
555 Capitol Mall, Suite 300
Sacramento, CA 95814

Subject: Response to the Draft Report titled, "*Cafeteria Funds: Local Education Agencies Generally Use the funds for Appropriate Purposes*", Report No. 2013-046, February 2014

Dear Ms. Howle:

The Bakersfield City School District (District) appreciates the opportunity to provide written comments to the Report, which was received by the District on February 3, 2014.

The District strives to continuously improve the operations of its child nutrition programs and will comply with the Bureau of State Audits (BSA) recommendations as indicated below:

(1) **Recommendation 1**: By June 30, 2014, reimburse the cafeteria fund for expenditures identified by the Bureau of State Audits as unallowable costs, and review all guidance from the USDA and the CDE to better understand what these funds can be used for.

District Comment and Response: The BSA considered $87,434 in expenditures to be unallowable from 2010-11 through 2012-13. This amount represents **0.17%** of the total cafeteria fund expenditures of $51,220,736 during the three-year period audited. The expenditures questioned by BSA are broken down by type in Appendix A of the Report as follows:

Equipment Purchases and Repairs: $6,682

(4) Body Mass Index System: The Nutrition Services Department is responsible for encouraging and educating students on the benefits of healthy eating and exercise. As part of educating students on their health issues, our Healthier-US School Gold Award of Distinction sites used the system to monitor students' body mass index results at the start and end of our project.

Awning: The District is continually pursuing ways to make the school cafeterias more appealing to students with the goal of increasing participation in the school nutrition program. The café awning was purchased to provide an attractive environment which contributes towards a more positive feeling towards the meals served from the school nutrition program.

The District believes that these purchases were appropriate and reasonable costs and should not be considered to be a misuse of funds.

Facility repairs, maintenance, remodeling, and construction $8,008

Architect fees: Guidance from CDE and USDA does not specifically prohibit expenditures for installation of equipment and any incidental costs associated with the installation of equipment. Furthermore, guidance does not clearly distinguish which installation costs are considered incidental to the equipment purchase and which costs are considered construction costs. According to Education Code Sections 38091 and 38100, expenditures from the cafeteria fund for the purchase and installation of additional preparation, cooking or service equipment for a kitchen or central food processing plant are allowable; this includes necessary alterations incidental to the installation as allowable expenses. The Kern County Environmental Health Department and California Retail Code 114266 requires that all outside freezers/walk-ins must be enclosed. (5)

The District has paid all construction costs associated with the installation of a walk-in freezer in the cafeteria kitchen from the District's general fund. The previous walk-in freezer was freestanding and did not comply with code. When replacing this piece of equipment the District was obligated to bring this piece of equipment up to the current code standards. Adhering to code requires drawings from an architect for the enclosure of the walk-in freezer which must then be sent to the Division of the State Architect's office for approval prior to the installation. Since the architectural drawings are a requirement for the installation of the equipment, the District considers this cost to be an incidental component of the overall equipment cost and not a construction cost.

Salaries and Benefits: $1,560

CDE Nutrition Services division has not provided any management bulletins to school districts concerning this issue. Prior to the audit visit, the District's School Nutrition Program implemented a time accounting process for all multi-funded school nutrition employees. Each multi-funded employee completes a Personnel Activity Report (PAR) to document their use of time. (6)

Miscellaneous: $71,184

Children's books were utilized as a promotional tool to increase interest and participation in the school nutrition program. The children's books, which were purchased in 2012 at a cost of approximately $2 per student, or **0.4%** of annual cafeteria fund expenditures, were distributed directly to students who received a reimbursable meal from the cafeteria during their lunch period. The children's books were also used in conjunction with nutrition projects in the classroom. District staff confirmed with USDA staff that the purchase of children's books is allowable if used in conjunction with nutrition education. The District believes that the children's books purchased were an appropriate and reasonable cost and should not be considered a misuse of funds. The District will strengthen its procedures to document evidence of compliance with federal and state requirements. (7)

The District will comply with the audit recommendation and by June 30, 2014 will reimburse the Cafeteria Fund for $87,434 in costs considered by BSA to be unallowable.

Recommendation 2: Submit a spending plan to CDE for approval by June 30, 2014

District Comment and Response: Bakersfield City School District developed and implemented a 5-year spending plan during the 2010/11 fiscal year which would bring the fund balance down to the 3 month average expenditure requirement incrementally over a 5-year period. Progress towards meeting the requirement is evidenced through a continued decrease in fund balance from 2010-11 through 2012-13, as shown in Appendix A, Table B of the Report.

The District will comply with the audit recommendation and submit a spending plan to CDE for approval by June 30, 2014.

Recommendation 3: Create and implement a system to track non-program food costs and revenues by June 30, 2014. Determine whether the District is generating at least the minimum required amount of non-program food revenues and; if not, make the adjustments necessary to generate in fiscal year 2014-15 the amount of non-program foods revenues needed to meet federal requirements.

(8) **District Comment and Response:** Data for non-program food costs and food revenues are available. The District's point of sale system reports the program food sales separately from the non-program food sales and a report is available to show the daily non-program food revenues. The District also maintains invoices and pricing information for all food costs. The District has an established cost to sale ratio for a la carte items to ensure that revenues received for these items exceeds the costs applies a markup to the cost of non-program food items to ensure the revenues received for these items more than cover the expense.

The District will comply with the audit recommendation to track non-program food costs and revenues by June 30, 2014, and determine that the District is meeting federal requirements.

Sincerely,

Robert J. Arias, Ed.D.
Superintendent

Comments

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE BAKERSFIELD CITY SCHOOL DISTRICT

To provide clarity and perspective, we are commenting on the response from the Bakersfield City School District (Bakersfield City). The numbers below correspond to the numbers we have placed in the margin of Bakersfield City's response.

Bakersfield City addressed its response to the Bureau of State Audits. However, we are the California State Auditor's Office. (1)

While preparing our draft report for publication, some page numbers shifted. Therefore, the page numbers Bakersfield City cites in its response do not correspond to the page numbers in our final report. (2)

As indicated on page 18 of the report, our abbreviation for Bakersfield City School District is Bakersfield City, which we have now used throughout the report. Our draft copy of the report incorrectly included the word Unified. (3)

We disagree with Bakersfield City. Based on our interpretation of applicable federal guidance, we do not believe that the equipment Bakersfield City used to monitor students' body mass index represents nutrition education materials. Also, as indicated on page 6 of the report, to be allowable, charges to a cafeteria fund must be for costs that are necessary and reasonable for operation or improvement of the child nutrition programs. We do not believe an awning meets this criteria. (4)

We disagree with Bakersfield City. As we state in our report on page 12, construction costs to be paid with cafeteria fund money require prior approval from the U.S. Department of Agriculture (USDA). Bakersfield City acknowledged in its response that it paid the construction costs for this project from its general fund, thereby complying with USDA guidance for construction costs. Given the federal requirements in this area, we do not believe it would be reasonable to charge a cafeteria fund for design costs to build a structure when the costs of constructing the structure could not be charged to the cafeteria fund. (5)

As stated on page 22, Bakersfield City's lack of awareness of the requirement to complete and maintain personnel activity reports to support personnel costs charged to federal programs is surprising since this requirement has been in federal regulation since at least 2005 and included in the California Department of Education's *California School Accounting Manual* for nearly a decade. (6)

⑦ Bakersfield City appears to misunderstand our point. Although the children's books may have been an appropriate cost, as we state on page 18, Bakersfield City could not provide us evidence that justifies the need to use these books as nutrition education materials.

⑧ Although data for nonprogram foods costs and revenues may have been available when Bakersfield City prepared its response to our report, as indicated in Table 4 on page 25, these data were not available to us during our audit fieldwork.

Rich Fagan
Associate Superintendent
Finance & School Support

(916) 686-7744
FAX: (916) 686-7570
EMAIL: rfagan@egusd.net

Robert L. Trigg Education Center
9510 Elk Grove-Florin Road, Elk Grove, California 95624

February 6, 2014

California State Auditor*
Attention: Elaine M. Howle
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Subject: **Response to California State Auditors report "Cafeteria Funds: Local Education Agencies Generally Use the Funds for Appropriate Purposes"**

Dear Ms. Howle,

Elk Grove Unified School District (EGUSD) is in receipt of the California State Auditors draft report of "Cafeteria Funds: Local Education Agencies Generally Use the Funds for Appropriate Purposes" for the three year audit period of 2010-11 to 2012-13, which reflects approximately $65.1 million of expenditures and has resulted in five findings totaling $25,987. The draft report was received February 3, 2014 and EGUSD was provided 5 days to provide a response. EGUSD provides the following responses: (1)

Category of Unallowable Expenditure	Amount	Elk Grove USD Response
Salary and Benefits - federal certification for payroll expenditures	$5,589	Elk Grove Unified School District Fiscal and Food Service management staff were operating with the understanding that federal payroll certification requirements were not applicable because the cafeteria funds are received on a reimbursement basis, rather than a grant/entitlement basis. (Note: The draft report specifically states "the director of fiscal services for Elk Grove Unified School District did not think that the certification requirement applied to child nutrition programs employees paid with cafeteria funds". It should be noted the response provided by both EGUSD Food Service and District Fiscal staff was "in regards to Semi-Annual Certifications, such certifications are not prepared as the funds are for reimbursements and not grant funds".) It is important to note that while the certifications were not completed for the audit period, all staff funded from child nutrition funds work for the assigned program as indicated on hiring and/or payroll documents which are approved by Food Service management. The District has begun completing the required certifications as of January 2014.

* California State Auditor's comments appear on page 57.

Continued: Response to California State Auditors report "Cafeteria Funds: Local Education Agencies Generally Use the Funds for Appropriate Purposes:"

Indirect costs	$4,197	Indirect was incorrectly charged for 2010-11 and subsequently corrected during 2013-14. Documentation of the reimbursement from the General Fund to Cafeteria Fund was provided to California State Auditor staff on November 22, 2013. We request that it be acknowledged that this correction of expenditures was reimbursed prior to the completion of the audit.
Interest	$3,884	Interest transactions are posted to the District funds by the Sacramento County Office of Education. The District was with the understanding that any interest earnings and interest expense, due to negative cash flow from federal reimbursements, were allowable. The District has implemented a change in process to ensure federal child nutrition funds are not charged such expense.
Utilities	$10,094	An allocation method to distribute utility costs associated with the central food processing center was established more than 15 years ago. Record retention dates had passed, therefore detailed methodology was not available to support the distribution of costs. The District is updating the distribution formula and will include the detailed methodology to support the formula as part of the annual expenditure documents.
Miscellaneous	$2,223	This category includes: $1,900 for fire suppression expenditures for a District café incorrectly coded to federal funds and should have been charged to unrestricted funds within the Cafeteria Fund. $118 for bus transportation costs associated with student nutrition education field trip to the District's central food processing center. $205 for cash courier services that were billed by the vendor in error. The vendor reimbursed the District on 12/20/13 for the overpayment and funds have been Credited to the Cafeteria fund. The District will provide training to staff to ensure similar issues do not occur in the future.
Tracking of non-program foods data		Food & Nutrition Services will work with the California Department of Education Food & Nutrition Services Division to obtain the most efficient method of calculating non-program foods data since all costs are comingled and non-program foods make up less that 1% of total revenue.
TOTAL	$25,987	

Continued: Response to California State Auditors report "Cafeteria Funds: Local Education Agencies Generally Use the Funds for Appropriate Purposes:"

The District prides itself in complying with state, federal and local requirements, appreciates the California State Auditor's staff for their work and for the opportunity to provide this response.

If you have any questions, please do not hesitate to contact me (916) 686-7744.

Sincerely,

Rich Fagan, Associate Superintendent
Finance & School Support

C: Steven M. Ladd, Ed.D, Superintendent
Michelle Drake, Food & Nutrition Services Director
Carrie Hargis, Fiscal Services Director
Shelley Clark, Accounting Manager
Shannon Stenroos, Budget Manager

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Comments

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE ELK GROVE UNIFIED SCHOOL DISTRICT

To provide clarity and perspective, we are commenting on the response from the Elk Grove Unified School District (Elk Grove Unified). The numbers below correspond to the numbers we have placed in the margin of Elk Grove Unified's response.

Elk Grove Unified's response suggests that we tested approximately $65.1 million of its cafeteria fund expenditures for fiscal years 2010–11 through 2012–13. However, this is not the case and as indicated in Table 2 on page 12, we tested a total of almost $32.1 million of cafeteria fund expenditures at 18 local education agencies (LEAs), of which $3.1 million represented the amount we tested at Elk Grove Unified. ①

We worded our recommendation regarding LEAs reimbursing their cafeteria funds for unallowable expenditures to reflect the likelihood that some LEAs might make these reimbursements before our report was published. We will perform a full review of documentation submitted by LEAs for such reimbursements when we assess each LEA's 60-day response to this audit report. ②

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LONG BEACH UNIFIED SCHOOL DISTRICT
Nutrition Services Branch
3333 Airport Way, Long Beach, CA 90806
(562) 427-7923 • Fax (562) 988-0263

February 5, 2014

Elaine M. Howle, State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Dear Ms. Howle:

At your request, I have reviewed the draft report, "Cafeteria Funds: Local Education Agencies Generally Use the Funds for Appropriate Purposes." I have not found any errors or omissions in the report that pertain to Long Beach Unified School District (LBUSD).

I have attached a table that outlines the process that LBUSD Nutrition Services Branch will follow to comply with the Recommendations listed in the report for our program.

If you have any questions, please contact me at 562-427-7923, extension 248.

Sincerely,

Darlene L. Martin, MS, RD
Nutrition Services Assistant Director

Attachment
Enclosures

Reviewed:
James Novak
Chief Business and Financial Officer

Approved:
Christopher Steinhauser
Superintendent

Attachment

California State Auditor Report:
"Cafeteria Funds: Local Education Agencies Generally Use the Funds for Appropriate Purposes

LONG BEACH UNIFIED SCHOOL DISTRICT RESPONSE TO RECOMMENDATIONS

Recommendation:	Response:
With regards to nonprogram foods (NPF), LEAs should do the following:	
a. Create and implement a system to track their NPF costs and/or NPF revenues by June 30, 2014	LBUSD's current system of tracking NPF expenses ensures that all expenses related to that NPF item are met, but our records were not detailed enough to demonstrate to the audit team that our program met the requirement of demonstrating that the ratio of NPF revenue to total revenue, met or exceeded the ratio of NPF costs to total food costs. Plan: Specific NPF used in a la carte sales, adult food sales and catering will be tracked on an Excel spreadsheet by Nutrition Services Supervisors and cafeteria accounting staff. Estimated start date of the new procedure is March 2014.
b. Determine whether they are generating at least the minimum required amount of NPF revenues and if they are not, make the adjustments necessary to generate in fiscal year 2014-2015 the amount of NPF revenues needed to meet federal requirements.	Plan: The details of NPF expenditures and revenues for LBUSD will be used to calculate the revenue generated from the sale of NPF. Total Revenue x NPF costs / Total food Costs = Min. amt. of NPF revenue The sale price of any NPF will be adjusted as needed for the 2014-2015 school year to comply with regulations. Review of pricing of NPF will be on-going.

2/4/14

Los Banos Unified School District
1717 South Eleventh Street
Los Banos, California 93635-4800
Telephone (209) 826-3801 *Fax (209) 826-6810*
www.losbanosusd.org

February 12, 2014

ELAINE M. HOWLE, STATE AUDITOR
California State Auditor
Attn: Tanya Elkins
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Dear State Auditor,

Finding One: Unallowable expenses:

The Los Banos Unified School District agrees to reimburse the Cafeteria Fund for unallowable expenses as identified by the State audit by June 30, 2014.

Finding Two: Reserves

The District agrees to implement a plan to reduce the ongoing reserve account to the recommended allowable reserve. The plan is currently in development and will include, but not be limited to hiring additional staff, restructuring staffing patterns at overcrowded schools and addressing comparability in salary across all cafeteria job categories.

Sincerely,

Steve M. Tietjen, Ed.D.
Superintendent

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MADERA UNIFIED SCHOOL DISTRICT
1902 Howard Road
Madera CA 93637
(559) 675-4500
(559) 675-1186 Fax
www.madera.k12.ca.us

February 5, 2014

Elaine M. Howle, State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814
Attn: Tanya Elkins

Re: "Cafeteria Fun ds: Local Education Agencies Generally Use the Funds for Appropriate Purposes"

Response to Recommendations

This letter is in response to the report titled "Cafeteria Funds: Local Education Agencies Generally Use the Funds for Appropriate Purposes." The LEA acknowledges the findings contained in the report and has made changes to correct any findings.

Madera Unified School District has reimbursed the Child Nutrition Fund for unallowable utility and salary costs as of the Second Interim Report of 1/31/2014. Personnel Activity Reports have been completed and on-going time accountability procedures are in place to support the salary distribution of custodial staff that are partially funded through Child Nutrition.

A spending plan was also submitted to CDE on December 8, 2013 to address the excess cash balance.

Sincerely,

(Original signed by: Sandon M. Schwartz)

Sandon M. Schwartz
Assistant Superintendent
Administrative & Support Services

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Mendota Unified School District
115 McCabe Avenue ♦ Mendota, Ca 93640 ♦ (559) 655-4942 ♦ (559) 655-4944

Ismael D. Herrera ♦ Jose C. Zavala ♦ Lupe Flores ♦ Araceli Perez
Diana Toscano ♦ Isabel Maldonado ♦ Jesus C. Zavala
Mike Crass, Superintendent

Aztecs

February 7, 2014

Elaine M. Howle, CPA*
State Auditor
621 Capitol Mall Suite 1200
Sacramento CA 95814

Dear Ms. Howle: Mendota Unified School District will like to comment on the Draft report submitted by your office on February 4, 2104.

Recommendation #1 The District has already reimbursed the Cafeteria Fund for those expenditures that were deemed unallowable by the California State Auditor. The District will continue to do a better job reviewing all guidance's from the U.S. Department of Agriculture and the Department of Education (CDE) to better understand what these funds can be used for. The District will also provide a better training to employees regarding the usage of Cafeteria Funds.

Recommendation #2 The School District has developed a spending plan as per page 39.1 of the report and plans to eliminate the net cash resources in excess of the amount allowed within the next three years and has submitted a spending plan to the Child Nutrition Department at CDE for their approval. The District also it's building a new Elementary and will like to use some of the ending balance to purchase needed equipment for the Food Services Department to serve approximately 650 students. Opening of the new school is scheduled for early August 2014. (1)

* California State Auditor's comment appears on page 67.

Mendota Unified School District
115 McCabe Avenue ♦ Mendota, Ca 93640 ♦ (559) 655-4942 ♦ (559) 655-4944

Ismael D. Herrera ♦ Jose C. Zavala ♦ Lupe Flores ♦ Araceli Perez
Diana Toscano ♦ Isabel Maldonado ♦ Jesus C. Zavala
Mike Crass, Superintendent

Aztecs

Recommendation #3 Nonprogram foods, the Cafeteria Manager will be implementing a new system to track their nonprogram foods cost and and nonprogram foods revenues by the end of the current fiscal year June 30, 2014. The new system will determine whether they are generating at least the minimum required amount of nonprogram foods revenues and if they are not, to make adjustments necessary to generate in fiscal year 2014-15 the amount of nonprogram foods revenues needed to meet federal requirements. The Mendota Unified School District is also contemplating contracting out with an approved Foodservice Provider to improve nutrition quality, variety, employee training and accountability and also to keep our program moving forward to the benefit our Students and the District. Thank you for providing the Mendota Unified School District the opportunity to comment on the report.

Sincerely,

Jose M. Alcaide, CBO

Jose M. Alcaide

Mendota Unified School District

Comment

CALIFORNIA STATE AUDITOR'S COMMENT ON THE RESPONSE FROM THE MENDOTA UNIFIED SCHOOL DISTRICT

To provide clarity and perspective, we are commenting on the response from the Mendota Unified School District (Mendota Unified). The number below corresponds to the number we have placed in the margin of Mendota Unified's response.

While preparing our draft report for publication, some page numbers shifted. Therefore, the page number Mendota Unified cites in its response does not correspond to the page number in our final report. ①

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Merced City School District
444 West 23rd Street, Merced, CA 95340
Phone (209) 385-6600 Fax (209) 385-6393

February 6, 2014

Elaine Howle, State Auditor
California State Auditor's Office
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

RE: Report No. 2013-046 "Cafeteria Funds: Local Education Agencies Generally Use the Funds for Appropriate Purposes"

Dear Ms. Elaine Howle:

Enclosed is Merced City School District's response to the audit findings in the above mentioned report. Please find the following items as requested:

- Merced City School District's Response to Audit
- CD (including cover letter and audit response in PDF file format)

I can be reached at 209-385-6643 should you require further information.

Sincerely,

Kris Cavallero

Kris Cavallero
Chief Fiscal Officer (Temp)

Enclosures

Merced City School District Response to Audit

Merced City School District works hard to ensure compliance with all State and Federal regulations and funding requirements. We have reviewed the Audit team's findings and offer the following response:

Unallowable Expenditures

Semi-Annual Certifications for federally funded positions are completed twice each fiscal year. Unfortunately, due to a change in personnel, the department was unable to locate the proper documentation requested. The Nutrition Services Department has reviewed their procedures and will make sure this documentation is complete and safely filed for inspection from this point forward.

Equipment purchases and repairs made with Cafeteria funds were split between the General Fund and the Cafeteria Fund to match their intended use. Prior to making any future equipment purchases of this type, we will request written authorization from the State.

The District will reimburse the Cafeteria Fund for these disallowed expenditures in the amount of $24,738.00.

Cafeteria Fund Balance

MCSD has had for the period of 2008 through 2014 a CDE, NSD approved spending plan. The expenditures planned were completed in full and were reported to the CDE, NSD division. In May of 2013, MCSD submitted a new three year spending plan. This plan spends down 80-90% of the cafeteria fund reserves and aligns with the districts long-term facility plan.

MCSD has contacted CDE, NSD to obtain an update on the progress of their review of this Spending Plan. CDE, NSD stated that due to a new unit/staff our request has not been reviewed.

Non-program Foods

Merced City School District has completed the following for years 2011-2012 and 2012-2013:

- Identified records that tracked non-program foods for both expenses and revenue
- Applied the federally required "Non-program foods Formula", to determine compliance

Based on the results, MCSD found the following: Expenditures for non-program foods were 3.2%, and Revenue for non-program foods was 2.1%. Immediately, a la carte price increases were applied to the non-program food items that had the narrowest margin of profit.

MCSD will conduct this activity for the 2012-2013 and 2013-2014 school year and increase prices for the 2014-2015 school year as needed.

NAPA VALLEY UNIFIED SCHOOL DISTRICT

Patrick J. Sweeney, Ed. D
Superintendent

J. Wade Roach
Assistant Superintendent, Business Services

2425 JEFFERSON ST., NAPA, CALIFORNIA 94558
Tel: (707)-253-3533 Fax: (707)-259-8887

February 7, 2014

Elaine M. Howle*
California State Auditor
621 Capitol Mall, Ste 1200
Sacramento, CA 95814

Dear Ms. Howle;

Below are our responses to the recommendations/findings from the California State Auditor for the Napa Valley Unified School District.

Recommendation #1: The District acknowledges that there were expenditures in the amount of $1,242 that were non-allowable in the food service program. The District will transfer this same amount from the General Fund to the Food Service Fund to reimburse for these past costs.

Recommendation #2: The District has calculated the minimum required amount of non-program revenues using the federally required calculation for 2012-13, see below: (1)

Non Program Food Costs	$115,851
Divided by Total Food Costs	$2,317,015
	5%

Total Revenue $5,770,904.35 x 5% = $288,545

Total non-program revenue generated= $105,746

The district acknowledges that the revenue generated for non-program revenues is under the minimum requirement and will implement an increase in the non-program food program revenues for the 2014-15 school year.

The District has also implemented a more detailed system in which to track non-program revenues and the associated costs in the future.

Please let us know if there is any other information you would need. Please contact me at 707-253-3533.

Sincerely,

J. Wade Roach
Asst. Superintendent Business
Napa Valley Unified School District

* California State Auditor's comment appears on page 73.

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Comment

CALIFORNIA STATE AUDITOR'S COMMENT ON THE RESPONSE FROM THE NAPA VALLEY UNIFIED SCHOOL DISTRICT

To provide clarity and perspective, we are commenting on the response from the Napa Valley Unified School District (Napa Valley Unified). The number below corresponds to the number we have placed in the margin of Napa Valley Unified's response.

Napa Valley Unified's calculation of the minimum required amount of nonprogram foods revenue used data that were not available to us during our audit fieldwork because, as indicated in Table 4 on page 25 in our report, Napa Valley Unified had not tracked these data before our audit. (1)

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North Monterey County Unified School District
District Office
♦ 8142 Moss Landing Road ♦ Moss Landing, California 95039-9617 ♦ (831) 633-3343

February 7, 2014

Elaine Howle, State Auditor*
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, Calif. 95814

Re: "Cafeteria Funds: Local Education Agencies Generally Use the Funds for Appropriate Purposes" Report

Dear Ms. Howle:

The purpose of this letter is to provide the State of California Auditor with the District's responses to the audit findings contained in the above referenced report. The District *agrees* to the findings contained in the report and has already both prepared and posted corrective actions or is implementing procedures to ensure 100% compliance with the findings. Below are detailed responses to the recommendations found in Table 6 of the report:

1. LEAs that used cafeteria funds for unallowable purposes should do the following by June 30, 2014:
    a. Reimburse the cafeteria fund for those costs if it has not already done so.
    b. Review all guidance from the U.S. Department of Agriculture and the California Department of Education (CDE) to better understand what these funds can be used for.
        i. ***District Response:*** *The District had incorrectly calculated indirect cost rate for fiscal years 2010-11 and 2012-13; the calculation was correct in fiscal 2011-12. The total overcharged was $49,244.71. The District posted a correction on Jan. 16, 2014 that refunded this amount of money to the Cafeteria Fund 13. The evidence of this correction was sent to your auditors. The District hired a Director of Fiscal Services on November 25, 2014 and she has provided instruction and clarification to the staff accountants in order to ensure that the appropriate rate and calculations are used on a go forward basis.*

2. With regards to excess net cash resources, LEAs should do the following by June 30, 2014:
    a. Develop a spending plan to eliminate their net cash resources in excess of the amount allowed.
    b. Submit a spending plan to CDE for approval.
        i. ***District Response:*** *The District has developed a spending plan to use excess cash resources to improve the main kitchen at the high school. The District is working closely with its representative at the CDE to ensure that all proposed improvements are allowable costs and that the spending plan is completed appropriately. The current estimates to improve the kitchen exceed the available reserves; therefore, the District is preparing a phased in approach in order to accomplish the goals of*

* California State Auditor's comments appear on page 77.

upgrading the 35 year old kitchen. The District always had this plan in place for the excess balances and is now preparing the appropriate documentation for the CDE.

3. With regards to nonprogram foods, LEAs should do the following:
   a. Create and implement a system to track their nonprogram foods costs and/or nonprogram foods revenues by June 30, 2014.
   b. Determine whether they are generating at least the minimum required amount of nonprogram foods revenues and if they are not, make the adjustments necessary to generate in fiscal year 2014-15 the amount of nonprogram foods revenues needed to meet federal requirements.
      i. ***District Response:*** *The District is investigating the best way to separate out these revenues and expenses within the constraints of its existing financial software package. The District is developing a way to track its nonprogram foods and will be using the formula as outlined in Title 7, Code of Federal Regulations, Section 210.14(f) to ensure compliance so that the revenue generated from the sale of nonprogram foods is used to offset the expenses incurred to obtain the inventory thereby ensuring that no federal dollars are used to support nonprogram foods.*

Further, the District requests that the auditor's report reflect the District's responses so that the reader may see that these recommendations are being implemented. Also, the District would like to suggest the following corrections in the report:

① ② 1. Draft Report page 20 refers to the district in a parenthetical statement as (North Monterey Unified). In Monterey County, there is a South Monterey County Unified School District, as well as a Monterey Peninsula Unified School District. The auditor may want to consider using the full name of the District in all references to avoid mis-identification with other, similar sounding districts.

① ③ 2. Draft Report page 21 should capitalize the title of the Assistant Superintendent of Business Services.

① ② 3. Draft Report page 21 refers to the district as "North Monterey Unified", the correct name is North Monterey County Unified.

If you wish to discuss the District's feedback on these recommendations, please feel free to contact me at lreyes@nmcusd.org or at (831) 633-3343 x208.

Sincerely,

Liann M. Reyes
Assistant Superintendent – Business Services

cc: Kari Yeater, Superintendent
Kathleen Cleary, Child Nutrition Supervisor

Comments

CALIFORNIA STATE AUDITOR'S COMMENTS ON THE RESPONSE FROM THE NORTH MONTEREY COUNTY UNIFIED SCHOOL DISTRICT

To provide clarity and perspective, we are commenting on the response from the North Monterey County Unified School District (North Monterey Unified). The numbers below correspond to the numbers we have placed in the margin of North Monterey Unified's response.

While preparing our draft report for publication, some page numbers shifted. Therefore, the page numbers North Monterey Unified cites in its response do not correspond to the page numbers in our final report. ①

We appreciate North Monterey Unified's concern about it being misidentified with other, similar sounding school districts. However, throughout the report we use the full name of North Monterey Unified in every graphic and the first time we mention the district in the Audit Results. Thus, we believe the risk of misidentification is minor. ②

The California State Auditor's publishing style is to not capitalize position titles. ③

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NUTRITION SERVICES

Response to California State Auditor Report 2013-046
February 12, 2014

Recommendation:
LEA's that used cafeteria funds for unallowable purposes should do the following by June 30, 2014:

1. Reimburse the cafeteria fund for those costs if it has not already done so.
2. Review all guidance from the U.S. Department of Agriculture and the California Department of Education (CDE) to better understand what these funds can be used for.

Response:
The District agrees with these Recommendations and is/has:
Reimbursing the Cafeteria fund for the unallowable expenditures by June 30, 2014
Established procedures for proper completion of PAR's

Recommendation:
With regards to nonprogram foods, LEA's should do the following:

1. Create and implement a system to track their nonprogram costs and/or nonprogram revenues by June 30, 2014.
2. Determine whether they are generating at least minimum required amount of nonprogram foods revenues and if they are not, make the adjustments necessary to general in fiscal year 2014-15 the amount of nonprogram foods revenues needed to meet federal requirements.

Response:
The LEA agrees to these recommendations and will be:

1. Create & implement a system to trace the nonprogram costs by June 30, 2014. System already exists to track revenues.
2. Review minimum required amount for nonprogram food revenues and make adjustments for 2014-15 school year.

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Paramount Unified School District

15110 California Avenue, Paramount, California 90723-4378
(562) 602-6000 Fax (562) 602-8111

Summary of State Auditors Report

Overview

On October 8, 2013 staff from the State Auditors Office arrived in Paramount to conduct an audit of the Cafeteria Fund. The impetus for the audit was not by the California Department of Education (CDE) but by internal whistleblowers from school districts. The "Food Fight" report brought widespread attention to the use of Cafeteria Funds. Paramount U.S.D. (P.U.S.D.) was one of 18 school districts in California randomly selected for an audit.

After two weeks of reviewing and testing (P.U.S.D.) cafeteria fund expenditures for allowable purposes and another three months conference calls from the State Auditors office in Sacramento,, the Auditors found that P.U.S.D." generally use the funds for appropriate purposes". In conclusion, the State Auditors office found only $24,000 of unallowable Cafeteria Fund Expenditures from Fiscal Years 2010-11 through 2012-13..

Review Findings of expenditures from Fiscal Year 2010-11 through 2012-13..

Unallowable Cafeteria Fund Expenditures from Fiscal Year 2010-11 through 2012-13

• Equipment Purchases	$14,368.00	Audio Visual Equipment Alondra Cafeteria
• Salaries and Benefits	$8,441.00	Multi-Funded Employees
• Utilities	$1,271.00	Allocation Methodology

Solution

- Equipment Purchases: Reimburse the Cafeteria Fund for a portion of the cost on or before June 30, 2014.

- Salaries and Benefits: District staff who are multi-funded will complete a Personnel Activity Report (PAR). PARs will be completed monthly and will be signed by the employee.

Serving the communities of Bellflower, Lakewood, Long Beach, Paramount and South Gate.

Great things are happening in Paramount schools

Paramount Unified School District

15110 California Avenue, Paramount, California 90723-4378
(562) 602-6000 Fax (562) 602-8111

- Utilities: As soon as the California Department of Education provides a Management Bulletin with new guidance on an updated allocation method for utilities, the District will implement it immediately.

- **Semi-Annual Certifications:** complete federal certification requirement at least twice a year for employees that work solely related to the child nutrition program, certification is signed by either the employee or a manager that has first –hand knowledge of the work performed by the employee. The District has already started the certification process for the first six months of the 2013-14 school year.

- **Track Non-program Foods Data:** track revenue and expenses of non-program food and beverages other than reimbursable meals, that are sold in schools with money from the cafeteria fund such as catering on or before June 30, 2014. Assuring to generate more revenue than expended. The District has already started this tracking process.

Paramount Unified School District would like to thank and commend the California State Auditors office staff who spent two weeks in the District's Student Nutrition Services office for their polite and professional approach toward the District staff during the audit.

Paramount Unified School District staff would also like to reiterate that the past five Coordinated Review Effort (CRE) audits performed over the last 15 years on the District's Child Nutrition Program by the California Department of Education (CDE) has concluded that the District is in compliance with all areas of the review and even received written compliments on the review for the attempts it made to make a warm, friendly dining environment offering quality food and quality service to our student customers.

Chris Stamm,

Director, Student Nutrition Services

Serving the communities of Bellflower, Lakewood, Long Beach, Paramount and South Gate.

Great things are happening in Paramount schools

"OUR CHILDREN – OUR FUTURE"

Ravenswood City School District
Business Office
2120 Euclid Avenue, East Palo Alto, California 94303
(650) 329-2800 Fax (650) 322-9454

February 5, 2014

Elaine M. Howle, Sate Auditor
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Re: Responses to Audit Finding

Dear Ms. Howle:

This letter is written in response to the audit findings in the redacted draft copy of your Audit Report – Cafeteria Funds: Local Education Agencies Generally Use the Funds for Appropriate Purposes (February 2014).

1. **In response to the audit finding: "LEAs Did Not Comply with Federal Administrative Requirements for the Employees That Were Compensated Only Partly with Cafeteria Funds":**

   Ravenswood City School District has modified its PAR forms and procedures in alignment with the Federal requirement effective fiscal year 2013-2014.

2. **In response to the audit finding: "LEAs Did Not Comply with Federal Administrative Requirements for of the Payroll Payments":**

   Ravenswood City School District has corrected the employee assigned to the Cafeteria Fund. This correction required an employee name correction only and the net fiscal effect is zero.

3. **In response to the audit finding: "LEAs Overcharged Their Cafeteria Funds for Indirect Costs":**

   Ravenswood City School District concurs with the audit finding and will reimburse the Cafeteria Fund for the overcharge in the amount of $2,997.00.

4. **In response to the audit finding: "LEAs Spent Cafeteria Funds for Various Miscellaneous Prohibited Uses":**

   Ravenswood City School District has corrected the miscellaneous charges and will reimburse the Cafeteria Fund in the amount of $121.00.

5. **In response to the audit finding: "LEAs Meet Certain Federal Requirements Concerning Their Financial Resources":**

   Ravenswood City School District has established a record keeping system that tracks the costs and revenues of food sold outside of the meals provided through Child Nutrition (nonprogram foods)for the fiscal year 2013-2014. The district will follow the Federal requirements on revenue generated from the sale of nonprogram foods.

6. **In response to the audit finding: "LEAs Do Not Track Certain Food Costs Needed to Determine Compliance with Federal Revenue Requirement":**

   Ravenswood City School District has established a record keeping system that tracks the costs and revenues of food sold outside of the meals provided through Child Nutrition (nonprogram foods) for fiscal year 2013-2014. The district will follow the Federal requirements on revenue generated from the sale of nonprogram foods.

7. **In response to the audit finding: "LEAs Improperly Charged Some of Their Utilities and Other Support Costs to the Cafeteria Fund":**

   Ravenswood City School District has corrected the cell phone charges and the overcharge in the amount of $91.00 will be reimbursed to the Cafeteria Fund.

If you have any question, please call me at 650-329-2800 ext. 60121 or via e-mail at mcurtis@ravenswoodschools.org.

Sincerely,

Megan Curtis

Megan Curtis
Assistant Superintendent – Business Services
Ravenswood City School District

SAN BERNARDINO CITY
UNIFIED SCHOOL DISTRICT

Dale Marsden, Ed.D.
Superintendent

John A. Peukert, Assistant Superintendent, Facilities/Operations

February 5, 2014

Ms. Elaine M. Howle, CPA
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Re: Response to California State Auditor Draft Report No. 2013-046

Dear Ms. Howle:

Thank you for the opportunity to review and respond to the Draft Audit Report dated February 2014, received by the District on February 3, 2014.

The following is San Bernardino City Unified School District's response to the California State Auditor draft report titled, "Cafeteria Funds: Local Education Agencies Generally Use the Funds for Appropriate Purposes".

Recommendation:
Submit a spending plan to California Department of Education (CDE) for approval.

District Response:
San Bernardino City Unified School District will submit the developed spending plan to CDE for approval prior to June 30, 2014.

If you have any further questions or concerns, please contact me.

Sincerely,

Adriane Robles

Adriane Robles
Nutrition Services Director
San Bernardino City Unified School District

cc: Dr. Dale Marsden, Superintendent, SBCUSD
John Peukert, Assistant Superintendent, Facilities/Operations Division, SBCUSD

NUTRITION SERVICES DEPARTMENT
1257 Northpark Blvd • San Bernardino, CA 92407 • (909) 881-8274 • Fax (909) 881-8016
adriane.robles@sbcusd.com

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San Diego Unified
SCHOOL DISTRICT

LEGAL SERVICES
Andra M. Donovan
General Counsel
619.725.5630
Fax 619.725.5639
adonovan@sandi.net

February 6, 2014

Elaine M. Howle, State Auditor*
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Re: San Diego Unified School District Response to State Report: Cafeteria Funds: Local Education Agencies Generally Use the Funds for Appropriate Purposes – No. 2013-046

Dear Ms. Howle:

Thank you for the opportunity to review and comment upon the draft report of the California State Auditor entitled "Cafeteria Funds: Local Educational Agencies Generally Use the Funds for Appropriate Purposes" (Report No. 2013-046). We were pleased that, of the roughly $6.2 million in expenditures reviewed by the State Auditor, only $121,641 was found to be charged in error – an error rate of less than two percent.

With regard to the particular categories of disallowed expenditures, which are identified on Page 7 of the draft report, the San Diego Unified School District responds as follows: ①

- As to the disallowed charges for indirect costs, utilities and other support costs and miscellaneous charges, the District acknowledged the errors identified by the State Auditor during the course of the audit and has already made the necessary corrections. Proof of correction of these items was sent to the Office of the State Auditor on January 28, 2014.

- As to the disallowed interest, this issue was identified by the California Department of Education in a prior audit. At the time this audit was commenced, the District had already acknowledged the need to reimburse the cafeteria fund for the interest charges. That reimbursement was made in October 2013.

* California State Auditor's comment appears on page 89.

Once again, we thank you for the opportunity to review and comment upon the draft report.

Very truly yours,

ANDRA M. DONOVAN
General Counsel

AMD/dmh

c: J. Salkeld
D. Foster
P. Stover
D. Rowlands
G. Petill

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Comment

CALIFORNIA STATE AUDITOR'S COMMENT ON THE RESPONSE FROM THE SAN DIEGO UNIFIED SCHOOL DISTRICT

To provide clarity and perspective, we are commenting on the response from the San Diego Unified School District (San Diego Unified). The number below corresponds to the number we have placed in the margin of San Diego Unified's response.

While preparing our draft report for publication, some page numbers shifted. Therefore, the page number San Diego Unified cites in its response does not correspond to the page number in our final report. ①

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SFUSD SAN FRANCISCO PUBLIC SCHOOLS

Joseph C. Grazioli
Chief Financial Officer
135 Van Ness Avenue, Room 300
San Francisco, CA 94102
Ph. (415) 241-6542 • Fax (415) 241-6482
graziolij@sfusd.edu

February 05, 2014

Elaine M. Howle, CPA
State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Dear Ms. Howle

The San Francisco Unified School District's Fiscal and Program staff have reviewed the redacted draft audit, titled "Cafeteria Funds" and the staff have provided attached to this document, the District's responses.

If you have additional questions with regards to the District's responses, you may contact me, Joe Grazioli, Chief Financial Officer , by E-Mail: graziolij@sfusd.edu or by phone at 415-241-6542.

Please provide us with a final report to the same contact address used in your draft submission to the School District.

Sincerely,

Joseph C. Grazioli
Chief Financial Officer
San Francisco Unified School District
Enclosures

cc:

Richard A. Carranza, Superintendent
Myong Leigh, Deputy Superintendent
Orla O'Keefe, Executive Director, Policy and Operations
Paulette Terrell, Director Fiscal Operations
Zetta Reicker, Director Student Nutrition

Note: San Francisco Unified School District (San Francisco Unified) provided us a copy of a journal entry relating to our audit of its cafeteria fund, to which San Francisco Unified refers in its response. We have not included this document with San Francisco Unified's response, but it is available for inspection at the California State Auditor's Office during business hours upon request.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

AUDIT RESPONSES:

FINDING: LEAs Misspent Cafeteria Funds for Interest Costs:

District's Response

The District's staff after careful review of this finding and the federal regulations on use of governmental unit's own fund, concur with this findings and have taken immediate actions to correct this reported interest expense in the amount of $9.712.00. The Cafeteria fund has been reimbursed in total in this Fiscal Year's (2013-2014) activity. A supporting Journal entry is attached as supporting documentation that this entry has been entered into the District's General ledger.

FINDING: LEAs We Reviewed Failed to Properly Certify the Work Activities of Employees that Were Compensated Entirely with Cafeteria Funds

District's Response

The California School Accounting Manual and pursuant to OMB Circular A-87, Attachment B, Section 8(h)(3), states employees who work solely on a single federal award or cost objective need only complete a periodic certification. The certifications must be prepared at least semiannually, be signed by the employee or the supervisory official having first-hand knowledge of the work performed by the employee. Finally, the form must state that the employee worked solely on that single federal program or cost objective during the period covered by the certification. Those employees who work on multiple activities or cost objectives of which at least one is federal must complete a personnel activity report or equivalent documentation.

Corrective Action has been taken to correct this finding in the amount of $2,509.00 in salaries and benefits. An attachment is included as documentation supporting this adjustment in this Fiscal Year's (2103-2014) activity.

In addition, the San Francisco Unified School District's Student Nutrition Service Department's staff has reviewed the regulations and will complete an annual review of employees and determine if their federal time documentation can be satisfied by either a periodic personnel certification or through a Personnel Activity Report (PAR). Those employees working 100% time on Federal Child Nutrition Programs will complete the Semiannual Periodic Certification at the beginning of the school year, Fall Semester, and subsequently at the beginning of the calendar year, Spring Semester. Those employees determined to be working for both Federal Child Nutrition Programs and an additional activity or cost objective will complete a monthly PAR or equivalent documentation. Equivalent documentation may include Student Nutrition Services bi-weekly timesheets.

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BUSINESS SERVICES
Michele A. Huntoon, CPA
Chief Business Official
701 North Madison Street
Stockton, CA 95202-1687
(209) 933-7010 Ext. 2091
FAX (209) 933-7011

VIA E-MAIL

February 11, 2014

Ms. Elaine M. Howle, CPA
California State Auditor
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Re: Cafeteria Funds: Local Education Agencies Generally Use the Funds for Appropriate Purposes
Stockton Unified School District #2013-046

Dear Ms. Howle:

We appreciate the opportunity to respond to the Recommendations identified in the most recent redacted, draft review of the Child Nutrition Funds for Stockton Unified School District. Per your request in your letter dated, February 3, 2014, we are including the following information:

- Cover Letter
- Entire Response to Recommendations specific to Stockton USD
- Applicable attachments – this does not apply

Recommendations

1. **LEAs that used cafeteria funds for unallowable purposes should do the following by June 30, 2014.**
    a. **Reimburse the cafeteria fund for those costs if it has not already done so.**
    b. **Review all guidance from the U.S. Department of Agriculture (USDA) and the California Department of Education (CDE) to better understand what these funds can be used for.**

Responses:

1.a. The District will review the recommendations and make the appropriate transfers prior to June 30, 2014.

Ms. Elaine M. Howle, CPA
California State Auditor
Page Two

February 11, 2014

1.b. The Food Service Director works closely with the California Department of Education on guidance regarding expenditures and food related items. The District will continue to communicate with the CDE and the USDA. In addition, the District will create a process that will ensure appropriate oversight of the Child Nutrition funds.

Sincerely,

Michele A. Huntoon, CPA
Chief Business Official

C: Dr. Steven Lowder, Superintendent
Yvonne Migliori, Director Food Services

SWEETWATER
UNION HIGH SCHOOL DISTRICT

February 5, 2014

Elaine M. Howle, CPA
621 Capitol Mall, Suite 1200
Sacramento, CA 95814

Dear Ms. Howle,

Enclosed please find our responses to the audit findings. We are including attachments to support changes to the initial findings and would appreciate it if the final report reflects the corrections. Please feel free to contact me if you have any questions.
Finally I would like to thank the audit team of Vance Cable, Heather Kendrick and Chuck Kocher for their professionalism during the audit.

Respectfully,

(Original signed by: Eric Span)

Eric Span
Nutrition Services Manager
Sweetwater Union High School District
619-691-5510

Note: Sweetwater Union High School District (Sweetwater Union) provided us copies of several documents, including accounting records, payroll distributions, and personnel action memoranda relating to our audit of its cafeteria fund, to which Sweetwater Union refers in its response. We have not included these documents with Sweetwater Union's response, but they are available for inspection at the California State Auditor's Office during business hours upon request.

Table of Contents

Sweetwater Union High School District
Nutrition Services Department
1130 Fifth Avenue
Chula Vista, Ca. 91911

Unallowable expenditures:

Interest charges:

Due to cash flow issues, it is common place that the Cafeteria Fund periodically borrows from other District funds, such as the General Fund. It has been the District's standing practice that the Cafeteria Fund pay interest to the funds borrowed from; however, the District was unaware that costs incurred for interest on borrowed capital for the use of the governmental unit's own funds are unallowable. The District has repaid the Cafeteria Fund for fiscal years 2010/11, 2011/12 and 2012/13 in the amount of $ 32,875 and will no longer charge interest to the Cafeteria Fund (Exhibit I).

Equipment:

Prior administration purchased equipment that is not considered an appropriate Cafeteria Fund equipment expenditure. The District has repaid the Cafeteria Fund in the amount of $7,000 (Exhibit I).

Salaries and Benefits:

The cafeteria fund (fund 13) was reimbursed $5809 from the General Fund. This was done in response to not having the Semi-Annual Certifications for 2010-11 and 2011-12. The Nutrition Services department has begun instituting the certifications. The Nutrition Services Department provided the 2013-14 certifications to the audit team while onsite.

Associated Student Body

The Nutrition Services Department discontinued all ASB partnerships effective July 1, 2011. The District has repaid the Cafeteria Fund in the amount of $34,377 (Exhibit I).

Non-program food costs:

The District will adjust sales prices for non-program food sales (catering and al a carte) effective July 1, 2014.

cc: Members of the Legislature
Office of the Lieutenant Governor
Little Hoover Commission
Department of Finance
Attorney General
State Controller
State Treasurer
Legislative Analyst
Senate Office of Research
California Research Bureau
Capitol Press