Reply to
Attn of: SFSP-352

Subject: Summer Food Service Program (SFSP) - Draft of Office of Inspector General (OIG) Audit Program

To: STATE AGENCY DIRECTORS - (Child Nutrition Programs) Colorado ED, Iowa, Kansas, Missouri DH, Montana OPI, Nebraska ED, North Dakota, South Dakota, Utah and Wyoming DHSS

The Office of Inspector General is revising the OIG Audit Program for the SFSP. The guide is intended for use by nonfederal auditors performing program-specific audits under OMB Circular A-133.

We are requesting that you review this draft and discuss it with your staff for their comments. Pen and ink comments on the drafts are acceptable. All comments are due to FNS-Headquarters by Thursday, October 29, 1998. Due to the short time-frames, we are requesting comments from you, to be sent directly to FNS-Headquarters to the following address:

Mr. Stanley C. Garnett, Director
Child Nutrition Division
Food and Nutrition Service
3101 Park Center Drive
Alexandria, VA 22302

Please contact Bob Hollowell at (303) 844-0359 if you have any questions.

ANN C. DEGROAT
Regional Director
Child Nutrition Programs

Attachment

The attachment is on file in Nutrition Services.
## DIRECTORY OF OFFICE OF INSPECTOR GENERAL
### AUDIT REGIONAL OFFICES AND RESPONSIBLE TERRITORIES

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**ATTACHMENT 5**

of IG-7027.8N

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Date: September 1998
This audit program is provided for use of nonfederal auditors. Primary distribution to intended users will be by FNS. A small supply is being furnished to OIG Manual holders for incorporation into their directive systems and to meet requests for copies of the guides.

MATERIAL SUPERSEDED: Audit program No. 7027.8N, dated April 1981. Remove and destroy.

JAMES R. EBBITT
Assistant Inspector General
for Audit

AUDIT FIRMS WHICH DO NOT COMPLY WITH PROFESSIONAL AUDITING STANDARDS AND/OR FOOD AND NUTRITION SERVICE (FNS) PROGRAM REQUIREMENTS COULD BE REFERRED TO THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS, AND CONSIDERED FOR SUSPENSION OR DEBARMENT FROM PERFORMING AUDITS OF FNS PROGRAMS.

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September 21, 1998
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ATTACHMENT 6 - DIRECTORY OF FNS REGIONAL OFFICES
A. **PURPOSE.** This guide is designed to assist independent auditors in conducting audits of the operations of the Summer Food Service Program (SFSP).

This guide is not intended to be a substitute for the program regulations and handbooks listed in section E, but is presented to assist in evaluating the sponsor's claim for reimbursement. Since no single audit program can meet all needs, specific audit procedures cannot be prescribed to cover every situation which may occur. Therefore, in order to meet the audit objectives established in this guide, the auditor may judge it necessary to take audit steps beyond those prescribed to provide sufficient evidence so that the required reports may be issued.

B. **APPLICABILITY.** This guide applies to all certified public accountants and State and local government auditors conducting audits of SFSP sponsors. Auditors should be aware that, under Federal regulations, State agencies are responsible for providing audit guidelines to sponsors. Auditors should determine whether or not the State agency has issued any supplemental audit information on requirements to sponsors. We recommend the use of the material set forth in this guide for audit guides developed by State agencies.

C. **BACKGROUND.** Congress established SFSP in 1975 under section 13 of the National School Lunch Act (42 U.S.C. 1761) to provide important nutrition assistance to children living in low-income areas. It is a neighborhood-based program which helps ensure that children who receive meals free or at a reduced price at school have access to free, nutritious meals after the school year ends. Federal funds are made available to eligible service institutions, such as schools, municipal or county government agencies, universities, or private nonprofit organizations, to enable each approved sponsor to serve meals to needy children. For many of those children, SFSP meals provide a substantial portion of the nutrients that they receive each day.

SFSP is limited to areas in which poor economic conditions exist; that is, where at least 50 percent of the resident children meet income eligibility guidelines for free and reduced price school lunches. If aggregate school or census data indicate that a potential site is located in or within reasonable proximity of an area of poor economic conditions, the area that will be served is eligible as an open site. Otherwise, site eligibility may be established by demonstrating that at least 50 percent of participating children have been individually determined eligible for free and reduced price meals; such a site is known as an enrolled site. Once an open or enrolled site's eligibility is established, reimbursable meals are served free to all children, 18 years of age and younger, who wish to participate. At camps, only those meals served to campers who qualify individually for free and reduced price school lunches are eligible for reimbursement. Homeless sites and sites serving primarily children of migrant workers do not need to establish area or individual eligibility and meals served to all participating children are eligible for reimbursement.
Meals are reimbursed on either a per-meal basis or for the actual cost of operating the Program, whichever is less. A higher rate of reimbursement is paid for meals that are prepared on site or served in rural areas. Most sites may be approved to serve up to two reimbursable meals each day. SFSP provides up to three meals each day to eligible children who attend a residential camp, or participate in a migrant education or recreational program that primarily serves children of migrant workers.

Although geared primarily to the summer school vacation period, meal services may also be provided under this program at other times of the year in communities where schools operate on a continuous school calendar basis.

Experience with this program has demonstrated that meal service in outdoor and temporary food service sites creates special problems. Therefore, the law and regulations at 225.15 prescribe specific requirements affecting participation of certain service institutions. In all cases, considerable management capability is necessary to plan, organize, direct, and control a large-scale summer food service operation at such facilities.

D. PROGRAM RESPONSIBILITIES. The Food and Nutrition Service (FNS), U.S. Department of Agriculture (USDA), through its seven regional offices, administers SFSP at the Federal level. Within most States, the Program is administered by the State educational department or an alternate agency. However, in Michigan, New York, and Virginia, SFSP is administered directly by an FNS regional office.

The sponsors are responsible for site operations. In agreeing to participate in SFSP, the sponsor accepts final financial and administrative responsibility for the program. If a sponsor contracts with a food service management company to prepare and deliver meals, then the food service management company must operate in accordance with program requirements.

Each State agency plans for and carries out Program training for participating sponsors, as well as food service management company representatives, auditors, and health inspectors involved in the Program in that State.

Attachment 1 summarizes the responsibilities for administering and operating the program.

E. PROGRAM MATERIALS. Each State agency develops and provides to auditors, all necessary Program materials, including updated policy issuances, in sufficient time to enable the auditor to adequately prepare for the audit. The following materials provide guidelines for auditing the SFSP:

- National School Lunch Act, U.S.C. 1761, as amended
- Code of Federal Regulations (7 CFR part 225 and amendments)
- Administrative Guidance for Sponsors
• Nutrition Guidance for Sponsors
• Site Supervisor's Guide
• SFSP Invitation for Bid and Contract, Form FNS-688 (2-94)
• Monitoring Guide
• Notice, Child Nutrition Programs Income Eligibility Guidelines (issued annually)
• Notice, SFSP Reimbursement (issued annually)
• 7 CFR 3015, Uniform Federal Assistance Regulations
• 7 CFR 3017, Governmentwide Debarment and Suspension (Nonprocurement)
• 7 CFR 3018, New Restrictions on Lobbying

The following FNS instructions also clarify SFSP requirements:

• Civil Rights Compliance and Enforcement in the SFSP, FNS Instruction 113-8
• Free and Reduced Price Eligibility Determinations for Foster and Institutionalized Children, FNS Instruction 765-6, rev.1
• Eligibility for Donated Foods to Camps in the SFSP, FNS Instruction 770-3
• Tax-Exempt Status for SFSP Sites, FNS Instruction 776-6, rev.1
• SFSP Special Accounts, FNS Instruction 781-10
• Residential Camp Participation in SFSP, FNS Instruction 782-3, rev.1
• Approval of Child Care Institutions for the SFSP, FNS Instruction 782-4, rev.2
• The Grains/Breads Requirement for the Food-Based Menu Planning Alternatives in the Child Nutrition Programs, FNS Instruction 783-1, rev.2
• Meal Substitutions for Medical or Other Special Dietary Reasons, FNS Instruction 783-2, rev.2
• Family Style Meal Service in the SFSP, FNS Instruction 783-3, rev.1
• Juice Products—Child Nutrition Programs, FNS Instruction 783-11, rev.1
• Variations in Meal Requirements for Religious Reasons: Jewish Schools, Institutions, and Sponsors; FNS Instruction 783-13, rev.2
• Variations in Meal Requirements for Religious Reasons: Seventh-day Adventist Schools and Institutions, FNS Instruction 783-14, rev.1
• Reimbursement for Recycled Milk and Other Meal Components, FNS Instruction 786-6, rev.1
• Eligibility and Responsibilities of Government Sponsors in the SFSP, FNS Instruction 788-11, rev.1
• Approval of Sponsors Under Investigation or Audit in the SFSP, FNS Instruction 788-12, rev.1
• Sub-sites in the SFSP, FNS Instruction 788-13, rev.1
• Health Inspection Contracts—ROAP States for the SFSP, FNS Instruction 792-3
• Agreements with Entities Which Operate Interstate Schools and Facilities, FNS Instruction 794-5, rev.1

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F. **AUDIT OBJECTIVES.** The objectives of the audit are:

a. To determine if the financial operations of the sponsor are properly conducted in accordance with applicable Federal regulations.

b. To determine whether costs claimed for Federal reimbursement under the program are reasonable, allowable, and allocable to the Program; and to adjust the claim for all costs not supported or allocable to the Program.

c. To prepare a report including an opinion as to whether the statement of claim for reimbursement presents fairly the reimbursement claimed for the SFSP in conformity with prescribed accounting procedures and program guidelines.

d. To review the sponsor's operational system and report on noncompliance with SFSP regulations and guidelines.

G. **STANDARDS AND GUIDELINES FOR CONDUCTING AUDITS.** The audit will be conducted according to the U.S. General Accounting Office "Government Auditing Standards (1994 revision), financial and compliance element of the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" issued by the Comptroller General of the United States, and the Statement of Position 98-3, "Audits of States, Local Governments, and Not-for-Profit Organizations Receiving Federal Awards" promulgated by the AICPA. The economy and efficiency, and the program results elements of the Standards are not required by this guide.

1. **Audit Standards.** The work of professional accountants and auditors is governed by: auditing standards and principles which control the procedures utilized; and the nature and extent of the evidence obtained during the audit. Audit standards are broad objectives and impartial rules established to set minimum requirements which must be met in any situation. They are also used to evaluate the quality of audit performance.

2. **Quality Assessment Program.** The Office of Inspector General has implemented procedures for evaluating audits made of USDA programs. Audits made by independent public accountants of the SFSP are subject to a quality review to be made by the Office of Inspector General or an independent public accounting firm. State/legislative auditors may also make quality reviews on behalf of USDA. Whenever these reviews disclose significant inadequacies in the quality of audit work, the independent public accountant will be contacted for corrective action. In those instances where inadequacies are not corrected, the matter will be submitted to the AICPA Professional Ethics Committee or the appropriate State regulatory agency.

Audits made by State and local audit organizations are subject to quality reviews by the Office of Inspector General, USDA.

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Date

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3. **Independence and Objectivity.** To qualify to audit the SFSP, an auditor must be: (a) a certified public accountant, or an audit firm whose principal officers are certified public accountants; or (b) a public accountant licensed on or before December 31, 1970, currently certified or licensed by a regulatory authority of the State or other political subdivision of the United States; (c) State auditor general, State comptroller’s office, or a comparable State audit organization; or (d) local government audit organization.

The auditor must be totally independent with respect to the sponsor. No auditor will be recognized as independent by USDA who has or has had any financial or business involvement with the sponsor or its officials, or who has or has had any other relationship with them which might impair or appear to impair the auditor’s independence. Since an independent mental attitude is a prerequisite to an objective audit, it is vital that the auditor determine that he or she is, in fact, independent before accepting the audit engagement.

4. **Scope and Period of Audit.** The audit will cover all of the sponsor’s operations related to this program, including those operations immediately before and after the dates of the actual food service. The scope of the audit and the resulting report must meet the minimum requirements of this audit guide.

Attachment 4 is an example of a letter which describes the scope and conditions of the audit engagement.

5. **Preparation for Audit.** In view of the short length of time during which SFSP operates, it is incumbent upon the auditor to allow adequate time before the start of the program to become thoroughly familiar with the nature of the program and its rules and requirements. Since program funds are spent in a short period of time, such prior knowledge is necessary if the auditor is to present effective and timely reports.

6. **Conference with Sponsor Officials**
   
a. **Initial Conference.** To help plan for the audit, the auditor must hold an initial conference with the sponsor’s officials at an early date before program operations begin. This meeting should also serve to secure part of the information for the required management letter described in Section I of this guide.

b. **Exit Conference.** Before completing the audit, the auditor should hold an exit conference with the sponsor’s officials. The report—and in particular the findings regarding Program compliance—should be discussed and the sponsor’s comments secured for inclusion in the report.
H. REPORTING REQUIREMENTS. The auditor will issue a management letter and a final audit report. Additional memoranda regarding audit observations may be issued to the sponsor when necessary during the period of Program operations. The final audit report is due by October 31 or 60 days after the close of the Program, whichever is sooner.

The auditor will prepare a report (see Attachment 3) which will include, at a minimum, the following components:

- Accountant's Opinion on the Audited Statement of Claim for Reimbursement (See Attachment 2.)
- Audited Statement of Claim for Reimbursement - Attachment 3, Exhibit A
- Schedule of Meals Served and Cost of Meal Service - Attachment 3, Exhibit B or C
- Statement of Budgeted Administrative Expenses and Actual Administrative Expenses - Attachment 3, Exhibit D
- Calculation of Maximum Allowable Administrative Costs - Attachment 3, Exhibit D-1
- Schedule of Disallowance Notices - Attachment 3, Exhibit E
- Summary of Compliance with Federal Regulations and Program Guidelines - Attachment 3, Exhibit F
- Sponsor Visits - Attachment 3, Exhibit G
- Site Visits - Attachment 3, Exhibit H

The report shall contain an opinion whether the audited Statement of Claim for Reimbursement is a fair presentation of the amount of reimbursement that the sponsor is entitled to under the Program. (See AICPA Codification of Statements on Auditing Standards, Section 411.) The auditor must make the appropriate adjustment in the report for any cost not supported or documented. For example, if site reports were not maintained for 2 days, the auditor must (1) disallow the amount claimed for those two days and make appropriate adjustments to the claim; and (2) clearly explain the reasons for adjustment in the audit report.

If the auditor cannot render an opinion, the reasons should be stated and clearly explained in the report.

The auditor should present narrative comments and recommendations on noncompliance with program regulations, along with the sponsor's comments, as a part of Exhibit F to the audit report.

NOTE: A sponsor may be fined up to $10,000 and sentenced up to 5 years in prison under 18 USC 287 for submitting a false claim under the program.
I. EVALUATION OF INTERNAL AND MANAGEMENT CONTROLS

A study and an evaluation of the accounting system and internal controls are to be performed according to generally accepted auditing standards. The auditor shall write a management letter within the first 2 weeks of operations advising the sponsor on whether or not internal controls and operating systems meet Program regulatory requirements. For this evaluation, the auditor should:

1. Determine whether the sponsor is able to segregate and accumulate those costs related to the Program for which he or she is authorized to receive reimbursement; and whether the sponsor has adequate source documents to support such costs.

2. Determine that the sponsor has a system for obtaining and maintaining a regular report from each food service site. This report should document the total number of children attending, the number of meals received or prepared, and the number of meals served to children daily. Failure to maintain a system of site reports constitutes a weakness in the sponsor's internal control which could subsequently result in the disallowance of the sponsor's Claim for Reimbursement.

3. Determine that the sponsor has procedures for reviewing and adjusting daily the number of meals prepared or delivered to its food service sites to avoid excess meals. (Sponsors are limited to 2 percent leftovers.)

4. Review the sponsor's method of preparing monthly accounting summaries for each food service site. Its records should be able to document the number of meals received and served by type (e.g., breakfast, lunch, supper, supplement). Invoices for unitized meals from food service management companies should be broken down for each site to which deliveries will be made. The summaries should be recorded into an overall report of meals served at all sites.

5. Determine that the sponsor maintains a file of authorized signatures to authenticate site reports, or has some other means to establish the validity of the reports.

6. Review the sponsor's procurement procedures. If applicable, determine if the sponsor uses competitive bid procedures and formally advertises in a news medium of wide general distribution for bids on all contracts for goods and services over $10,000 in aggregate. Also, determine that the sponsor has a system of contract administration.

7. Review available evidence for examples of improper sharing of proceeds of vendor contracts (e.g., interest-free loans, allowance for cost of operations).

8. Review sponsor's participation in other Federal, State and local programs (e.g. Special Milk Program, Child and Adult Care Food Program, Food Distribution to Charitable Institutions Program, etc.) to ensure separate records are maintained and duplicate costs are not claimed.

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September 1998
9. Determine that sponsors of enrolled sites have statements of eligibility based on sizes and income of the families of children enrolled or areas of poor economic conditions to ensure children qualify for free and reduced price meals.

10. Determine that the sponsor has submitted an application and has been approved to operate the SFSP.

11. Determine that the sponsor is a public agency or a private nonprofit organization as defined under the Internal Revenue Code of 1986.

12. Determine whether technical assistance and training were provided to eligible sponsors.

J. SITE OPERATIONS - INTERIM AUDIT WORK. It is anticipated that the nature of summer feeding programs will require the auditor to perform certain steps in the audit program on an ongoing basis during the period of program operations. Auditing a summer feeding program after food service operations have been concluded will normally be ineffective and will not fulfill the requirements of this audit guide. To ensure the success of on-site reviews, the element of surprise is essential. The auditor should:

1. Review and evaluate the operation of the system used to adjust daily preparation and delivery of meals to sites based on participation trends. This means that the sponsor should adjust the number of meals ordered or prepared with the objective of providing only one meal per child per meal service. (7 CFR 225.15(b))

2. Determine that the sponsor has visited each of its sites at least once during the first week of operation and has taken actions necessary to correct any deficiencies. (7 CFR 225.15(d))

3. Determine that the sponsor has reviewed food service operations at each site at least once during the first 4 weeks of Program operations. (7 CFR 225.15(d))

4. Determine that all of the sponsor's sites have been approved in writing by the administering agency and that new sites added during the program have also been approved.

For private nonprofit organizations, the number of sites are limited to 5 in any urban area, or 20 sites in any rural area (7 CFR 225.14(d)(7)(ii)).

Prior audits have shown where one sponsor had created two entities so that they could avoid the 5 site limitations for private nonprofit.

5. Evaluate the effectiveness of the sponsor's site reviews in detecting ineligible meals and unallowable costs before they are folded into claims. Compare the results of site reviews to your observation of same sites.
6. Review telephone logs and other memoranda of communications between the sponsor and the site supervisor which may indicate deliveries of spoiled or incomplete meals. If such deliveries occur, the food costs for FSMCs must be deducted from the food service management company's invoices and the sponsor's claims, at the State agency's discretion. (7 CFR 225.6(g)(4)(ix)). If this procedure discloses any deliveries of incomplete or inedible meals, determine that the sponsor did in fact deduct those meals from the vendor's invoice(s) and did not claim the meals for reimbursement.

7. Validate authenticity of sample of site reports by comparing signature of site supervisors to the file of authorized signatures or by other adequate means.

8. Select a sample of sites (i.e., 25 percent) on a random basis for testing. Determine that the site operations are in compliance with Program regulations by completing the steps in Attachment 3, Exhibit H (sites visits).

Failure to comply with the operating guidelines should be immediately reported to the sponsor, with recommendations for corrective action. Failure to comply with the guidelines must be noted in the auditor's report and the amount in violation must be deducted in the Audited Statement of Claim for Reimbursement.

9. Review the results of the site visits and reviews which were performed by the State agency or by the sponsor to determine problems noted and corrective actions taken. The auditor can obtain monitoring results from the State agency.

K. AUDIT OF CLAIMS FOR REIMBURSEMENT. The review of the sponsor's statement of claim is the most important element of the SFSP audit. It is imperative that the auditor make appropriate adjustments to reflect any costs that are unreasonable, not allowable, or improperly allocable to the Program.

1. Receipts - Program Funds: Any funds relating to the program that are received by the sponsor must be reported. The sponsor can receive, but is not limited to, funds from the following sources:
   - U.S. Department of Agriculture
   - Adult meal payments
   - Donations
   - Interest earned on start-up and advance funds

   a. Purpose. To determine that the sponsor has procedures that provide effective controls over cash received.

   b. Audit Procedures

      (1) Determine that all program income received have been reported on the sponsor's Claim for Reimbursement.
(2) Determine whether any income was earned on funds advanced to sponsors in programs directly administered by an FNS Regional Office. If so, determine whether the interest earned from SFSP funds provided to the State agency's responsibility should be used in the Program.

(3) Obtain a complete reconciliation of the accounts pertaining to SFSP as of the termination date, including the interest on the SFSP funds provided to the State agency's responsibility.

(4) Obtain a complete reconciliation of the accounts pertaining to SFSP as of the termination date, including the interest on the SFSP funds provided to the State agency's responsibility.

(1) Trace the site's meal service summary to the sponsor's report to the SFSP office. Confirm that the number of meals claimed on the sponsor's report agrees with the number of meals served at the site.

(2) Trace the site's meal service summary to the sponsor's report to the SFSP office. Confirm that the number of meals claimed on the sponsor's report agrees with the number of meals served at the site.

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3. **Operating Costs.** Allowable operating costs are those actual costs for goods and services which are incurred by the sponsor for preparing and serving meals to eligible children and Program adults. *(FNS Instruction 796-2, Rev. 4).*

a. **Food Costs.** This category includes all costs for meals purchased or the cost of food actually used in preparing meals on site. This may also include the cost of processing, distributing, transporting, storing or handling food used in the Program.

1. **Purpose:** To determine that the sponsor has adequate supporting documentation for food costs reported by the sponsor on the Claim for Reimbursement.

2. **Audit Procedures**

   (a) Trace the cost of food reported on the Claim for Reimbursement to the sponsor's operating expense account for food purchases.

   (b) Verify that the opening and closing inventories were considered in reporting the cost of food actually used.

   (c) Verify the entries in the sponsor's operating expense account for food purchases by referring to vendor invoices and cancelled checks.

   (d) Determine that cost of food purchases excludes the value of returns, allowances for damaged food, and discounts.

   (e) Determine that the sponsor has not included value of USDA donated commodities in the food cost stated on the claim. This applies to those sponsors who prepare meals onsite or use school food services.

   (f) Determine that meals served to adults are not included in the meal counts. Food costs for meals served to Program adults are allowable costs. Food costs for meals served to non-Program adults are only allowed when offset by cash payment (income) to cover the full cost of the meals.

   (g) If disallowed meals have been included in food service operating costs, verify that the State agency has authorized the sponsor to include such costs. No costs may be allowed for any meals served in excess of the sites' approved levels of meal service.
b. **Labor Costs.** This category is limited to wages and fringe benefits incurred by the sponsoring agency for personnel involved in preparing and serving food (including past meal service clearing) and in the on-site supervision of the day-to-day food service operation.

1. **Purpose.** To determine that the (a) labor costs reported by the sponsor are adequately documented, (b) labor costs fall within the categories of preparation, service and supervision of the meal service, and (c) costs were allowable and allocable to the SFSP.

2. **Audit Procedures**

   (a) Trace the cost of labor reported on the Claim for Reimbursement to the sponsor’s books and records and then to subsidiary payroll records.

   (b) Determine that the labor costs reported by the sponsor are limited to wages and fringe benefits incurred in preparing and serving food, the on-site supervision of food service, and past meal service clearing.

   (c) Perform the following audit procedures for at least one payroll cycle.

      (1) Verify footings and crossfootings of payroll sheets and summaries.

      (2) Verify hours of employment by comparing pay with time and attendance records.

      (3) Examine time and attendance records to determine that such records bear proper approval and signatures.

      (4) Verify deductions for payroll taxes, using appropriate tax tables and employee’s exemption certificate Form W-4.

      (5) Verify submission of payroll withholding payments to appropriate regulatory/taxing authorities through cancelled checks.

      (6) Compare to see if employee name and net pay on cancelled payroll checks match those on payroll sheet entries.

      (7) List and determine the cause of any unclaimed payroll checks.
(8) By observation and face-to-face inquiry, verify that employees whose compensation is charged to the SFSP, per the payroll records, actually exist and are working in the SFSP.

(d) Determine whether the labor costs include salaries that are properly chargeable to administrative costs.

(e) Determine whether donated labor was charged as a labor cost.

(f) If employees of the sponsoring organization work in both operating and administrative functions, and/or in both the SFSP and other activities of the sponsor, determine that such employees' time distribution is being documented in accordance with OMB Circular A-87, Cost Principles for States and Local Governments, Attachment B, paragraph 1.1h (Support of Salaries and Wages); or with OMB Circular A-122, Cost Principles for Nonprofit Organizations, Attachment B, paragraph 6.1 (Support of Salaries and Wages); as applicable.

c. **Facilities Service Costs.** These are the costs of services other than labor that are required to operate a summer food service. This category includes costs incurred in renting building space and food service equipment, and maintenance and repair of utilities.

1. **Purpose.** To determine that the facility costs claimed by the sponsor are adequately supported and that such costs benefit only this program.

2. **Audit Procedures**

(a) Determine that the rental reported cost of building space and equipment is supported by executed leases, invoices and cancelled checks. (Rental of space for dining only, in an area which is not part of a school food service facility or a larger facility used for food preparation, is not an eligible cost.)

(b) Determine that the equipment rented is on a "rental" basis rather than a lease purchase basis (purchased equipment is not an eligible cost).

(c) Determine that other facility costs are adequately supported by an invoice and cancelled check.

d. **Expendable Nonfood Supply Costs.** This category includes goods which are necessary in the food service operation such as straws, paper plates and disposable utensils.
1. **Purpose.** To determine that nonfood supply costs are adequately supported and benefit only SFSP.

2. **Audit Procedures.**
   
   (a) Trace the cost of nonfood supplies reported on the Claim for Reimbursement to the sponsor’s operating expense account for nonfood supply cost purchases.

   (b) Verify that the opening and closing inventories were considered in reporting the cost of nonfood supplies actually used.

   (c) Verify the entries in the sponsor’s operating expense account for nonfood supply purchases by referring to vendor invoices and cancelled checks.

   e. **Costs for Transporting Children.** The costs incurred in transporting children from rural homes to rural food service sites are allowable operating expenses.

   1. **Purpose.** To determine that costs for transporting children are adequately supported and benefit only SFSP.

   2. **Audit Procedures**

      (a) Determine that the area served meets the definition of "rural" as defined at section 225.2.

      (b) Verify that the same transportation expenses are not also claimed as administrative costs.

      (c) Determine whether the costs were allowable, allocable to the SFSP, and properly documented.

   f. **Depreciation of Non-Expendable Equipment.** Compensation for the use of buildings, capital improvements, and equipment may be made through depreciation costs. Depreciation shall be based on the acquisition cost of the assets involved.

   1. **Purpose.** To determine that depreciation costs of non-expendable equipment are adequately supported and benefit only SFSP.

   2. **Audit Procedures**

      (a) Ensure that the cost upon which the computation of depreciation expense is based excludes the cost of land and any portion of the
cost of buildings or equipment borne by or donated by the Federal government.

(b) Evaluate the appropriateness of how the useful service life of the equipment was established.

(c) Ensure that depreciation methods are not changed unless approved by FNS.

(d) Ensure that depreciation costs are not charged for equipment that has been fully depreciated.

(e) Trace depreciation costs to property records and depreciation schedules and ensure that the assets exist, are usable; are necessary to operate the SFSP; and are actually being used for that purpose. Depreciation expense on assets that are not being used for program purposes is unallowable.

(f) Prorate for month of SFSP operation only.

4. Administrative Costs. Allowable administrative costs are those costs incurred by a sponsor related to planning, organizing and managing a food service, under the Program. Those costs must be included in the sponsor's approved budget. The sponsor is required to submit an administrative budget to the State agency. This budget is used in determining the amount of administrative payments to be advanced to the sponsor by the State agency.

a. Purpose. To determine that administrative costs reported by the sponsor are adequately documented and that the administrative costs fall within the budget submitted to the State agency.

b. Audit Procedures

(1) Obtain or prepare a schedule of administrative costs claimed by the sponsor, by category of expense.

(2) Verify that each administrative cost has been approved by the State agency in the sponsor's administrative budget.

(3) Test the accuracy of administrative costs by referring to payrolls, invoices and cancelled checks.

(4) Perform the following audit procedures for at least one payroll cycle:

(a) Verify footings and crossfootings of payroll sheets and summaries.

- 15 -

Date
September 1998
(b) Verify hours of employment paid to time records.

(c) Examine time records to determine whether such records bear proper approval and signatures.

(d) Verify deductions for payroll taxes, using appropriate tax tables and employee's exemption certificate form W-4.

(e) Compare to see if employees' name and net pay on cancelled payroll checks match those on payroll sheet entries.

(f) List and determine the cause of any unclaimed payroll checks.

(g) Review payroll records pertaining to other Government grant programs to determine if officers or employees are receiving dual compensation for services. Obtain a certificate from a client official to include in workpapers verifying whether officers and employees actually worked the time on the program for which they were paid.

If employees of the sponsoring organization work in both operating and administrative functions, and/or in both the SFSP and other activities of the sponsor, the auditor should determine that such employees' time distribution is being documented in accordance with OMB Circular A-87 (Cost Principles for State and Local Governments), Attachment B, paragraph 11.9 (Support of Salaries and Wages); or with OMB Circular A-122 (Cost Principles for Nonprofit Organizations)-Attachment B, paragraph 6.1 (Support of Salaries and Wages); as applicable.

(5) Determine that salaries claimed under administrative costs do not include amounts properly chargeable to operating labor costs.

(6) Determine that claims for mileage costs are properly supported by daily odometer readings and a list of itineraries.

(7) Determine that the actual amounts paid for transportation under this category are reimbursement for performance of SFSP administrative work.

(8) Ascertain whether professional fees to be reimbursed by the Federal government are comparable to fees charged to other clients.
(9) Determine whether expenditures exist for items not eligible for reimbursement as listed in "Financial Management - Summer Food Service Program," FNS Instruction 796-4, rev. 4. If such expenditures are detected, report them as questioned costs.

(10) Ascertain and report as a separate category of administrative expense any incentive awards to officers or employees.

(11) Prepare a schedule showing a comparison of budgeted administrative expense and actual administrative expense. Material differences between budget and actual must be footnoted and explained on the schedule. (See Exhibit D of Attachment 3.)

(12) Verify that costs claimed as administrative expenses were not also claimed as costs under "Operating Costs".
RESPONSIBILITIES FOR ADMINISTERING AND OPERATING THE PROGRAM

Food and Nutrition Service

The Food and Nutrition Service (FNS) Headquarters administers the SFSP at the Federal level. FNS provides Program policy guidance nationwide and:

* Develops and publishes Program regulations which implement the law and the intent of Congress.

* Allocates Federal funds for the Program within the States.

* Develops handbooks and other Program materials for FNS regional offices, State agencies, and local sponsors.

* Provides overall Program assistance to FNS regional offices and State agencies.

Office of Inspector General

USDA's Office of Inspector General conducts comprehensive fiscal and management audits of summer program operations. All participating sponsors' operations are subject to audit on a selected basis. OIG reviews:

* Fiscal and management procedures to ensure compliance with program regulations.

* Site approval procedures, staffing patterns, and personnel training practices.

* Reimbursement claims to determine accuracy.

* Site records to ensure accuracy.

* Meals to determine if they meet Federal nutritional requirements.

* Meal distribution procedures to ensure that all meals claimed are eligible for reimbursement.

Food and Nutrition Service (FNS) Regional Offices

Date

September 1998
The FNS regional offices provide technical and administrative assistance to State Administering agencies to ensure that all program requirements are met. Regional offices:

- Assume all the responsibilities of a State agency in States where the State does not administer the Program.
- Disseminate Program information and policy guidance from the national office to State agencies.
- Assist States in setting up food service programs and training State personnel.
- Conduct reviews of private nonprofit organization sponsors.
- Evaluate State Program management and administration.

State Agencies

Within most States, the State Department of Education or an alternate agency is responsible for the administration of SFSP. In Michigan, New York, and Virginia, the Program is administered directly by FNS regional offices. The State agency develops and makes available all necessary Program materials, in sufficient time, to enable applicant sponsors to adequately prepare for participation in SFSP, and:

- Notifies all prospective sponsors of SFSP requirements, including guidelines for contracts, meals, recordkeeping, financial management, and audits and appeals.
- Establishes deadlines for submission of applications.
- Visits, before approval, all new sponsor applicants and all other sponsor applicants which, as a result of operational problems in the prior fiscal year, require preapproval visits.
- Visits all proposed nonschool sites with an expected average daily attendance of at least 300 children, which did not participate in SFSP in the previous summer.
- Visits all sites proposed by private nonprofit organization sponsors with an expected attendance of at least 100 children.
* Reviews and approves sponsor applications, administrative budgets, and food service sites including:

1. Reviews geographic areas from which children will be drawn to prevent overlap of areas being reached.

2. Assesses maximum number of meals to be served at each site and the maximum number of sites that the sponsor can effectively administer.

3. Approves site applications for the number of meals and type and time of meal service.

* Executes a written Program operating agreement with each sponsor approved to participate in SFSP within the State.

* Ensures that accurate estimates are on file to justify advance payments and start-up funds.

* Provides consultative, technical and managerial personnel to administer and monitor the Program.

* Develops and implements a monitoring system.

* During the first 4 weeks of the program, performs administrative reviews of private nonprofit organizations sponsors and sponsors with 10 or more sites which the State agency has determined need early reviews. Also reviews an average of 15 percent of these sponsor’s sites.

* Conducts Program reviews of 70 percent of the sponsors with fewer than 10 sites and an average of 10 percent of their sites.

* Conducts Program reviews of all remaining sponsors of 10 or more sites and an average of at least 15 percent of their sites.

* Inspects food preparation facilities of food service management companies if required for registration and as part of the administrative review of vended sponsors.

* Registers food service management companies.

* Develops a standard contract for use by sponsors and food service management companies.
* Prepares and submits reports to USDA.

**The Sponsor**

Sponsors shall ensure that in storing, preparing, and serving food, proper sanitation and health standards are met which conform with all applicable State and local laws and regulations.

Sponsors must assume total financial and administrative responsibility for Program operations at all sites where the food service program is conducted. Specifically, the sponsor must:

* Comply with the requirements of 7 CFR part 225, FNS instructions, and policy guidance.

* Establish accounting practices under which it can report information required by Program regulations.

* Sign a written Program agreement specifying its approved administrative budget and list of sites and meal services which will be eligible for reimbursement.

* Take immediate corrective action on all audit recommendations for improving the financial and operational systems and the system of internal control.

* Submit to the State agency a sponsor application, which includes a site information sheet for each proposed site, an administrative budget, documentation supporting the sponsor's eligibility and the eligibility of each site, as required by the State agency.

* Provide a regularly scheduled organized activity or food service for the children attending each site.

* Agree to maintain children on site during the food service.

* Certify that all food service sites have been visited and have the trained personnel and the facilities to serve meals to the number of children anticipated.

* Agree to hold training sessions on Program duties and responsibilities for sponsor and site personnel.

* Use standard competitive bid procedures. Ensure that:
1. The invitation to bid does not specify a minimum price.

2. The invitation to bid contains a cycle menu upon which the bids shall be based.

3. The invitation to bid includes special meal requirements to meet ethnic or religious needs are required by the children.

4. The invitation to bid does not provide for loans to be made to sponsors by food service management companies.

5. Nonfood items are excluded from the invitation to bid, except where such items are essential to the conduct of the food service.

6. A bid submitted by a food service management company shall include the health certification required by State or local law or regulation with each bid.

7. When procuring the services of a food service management company, the sponsor shall document the reason(s) for its selection of the successful bidder.

- Enter into a contract with a food service management company or a written agreement with a school food authority when either is used as a vendor of meals. The written contract between the sponsor and the food service management company must specify that:

   1. The sponsor shall provide the food service management company with a list of approved food service sites and shall update the list as needed.

   2. The food service management company shall maintain records (supported by invoices, receipts or other evidence) that the sponsor will need to meet its responsibilities under the Program, and shall report thereon to the sponsor promptly at the end of each month, at a minimum.

   3. The food service management company shall have State or local health certification for the facility in which it is preparing meals for use in the Program, and it shall ensure that all health and sanitation requirements are met at all times.

   4. The meals served under the contract shall conform to the cycle menus and meal quality standards and food specifications approved by the State agency.

Date  
September 1998
5. The books and records of the food service management company pertaining to the sponsor's food service operation shall be available for inspection and audit by representatives of the State agency, the Department, and the U.S. General Accounting Office at any reasonable time and place for a period of 3 years from the date of receipt of final payment.

6. The sponsor and food service management company shall operate in accordance with current Program regulations.

7. The food service management company shall be paid by the sponsor for all meals delivered in accordance with the contract.

8. Meals shall be delivered in accordance with a delivery schedule prescribed in the contract.

9. Increases and decreases in the number of meals ordered shall be made by the sponsor, as needed, within a prior notice period mutually agreed upon.

10. All meals served under the Program shall meet meal service requirements specified at 225.16 of the regulations.

11. In cases of nonperformance or noncompliance on the part of the food service management company, the company shall pay the sponsor for any excess costs the sponsor incurs by obtaining meals from another source.

* Provide adequate supervisory personnel for overall management and monitoring of the Program, including visits to all sites during the first week of operation.

* Ensure that all meals served meet minimum meal requirements, including meal quality standards and food specifications provided by the State agency.

* Arrange for delivery, holding, and storage of meals in accordance with standards prescribed by appropriate State or local health authorities.

* Establish procedures for making daily adjustments in the number of meals prepared or delivered to sites with the goal of serving one meal per child for each approved meal service.

* Arrange for food service during bad weather.

* Maintain accountability for all start-up payments (if available) and advance funds.
★ Develop a system for regular submission of daily site records.
★ Maintain complete and accurate records on the food service.
★ Submit accurate and timely claims for reimbursement.

Site Personnel

Site personnel are responsible to the sponsor for all aspects of the food service operation to ensure compliance with Program requirements. These personnel must:

★ Attend training sessions which describe Program objectives and requirements.
★ Count meals delivered before signing delivery invoices.
★ Count meals at the point of service to eligible children.
★ Ensure that any complete second meals, leftover meals, nonreimbursable meals, or meals served to program and non-program adults are recorded properly.
★ Adhere to State or local health and sanitation requirements.
★ Organize a supervised system for serving meals to participating children.
★ Make sure that: (7 CFR 225.16(c))

1. Three hours elapse between breakfast and lunch and four hours between lunch and supper if no supplement is served.

2. Three hours elapse between the service of each supplement and breakfast, lunch, or supper.

3. The duration of the meal service is limited to two hours for lunch or supper and one hour for all other meals (except at residential camps).
The Food Service Management Company

Food service management companies, except for schools and companies with exclusive year-round service contracts with schools, must be registered with the State agency to be eligible to provide program meals. To be able to participate in the Program, food service management companies must enter into a written contract with the sponsor. Any sponsor contracting with a food service management company for $10,000 or more must use formal competitive bid procedures.
AUDIT REPORTS - OPINIONS

All financial and compliance audits shall contain one of the following opinions:

(a) Unqualified Opinion

An unqualified opinion asserts that an auditor understands the standards of his or her profession and has made an examination that measures up to them; that the financial statements being reported on present fairly, in accordance with generally accepted accounting principles, and that those principles have been applied on a basis consistent with that of the preceding year. It signifies that the auditor found no problems or deficiencies, either in carrying out his/her work or in the financial statements under examination, of which he/she believes a reader of the financial statements should be aware.

(b) Qualified Opinion

A qualified opinion is used to disclose an "exception", which, though worthy of mention, does not warrant a disclaimer of the financial statement.

Adequate disclosure of the cause of the qualification should be made in the opinion paragraph of the auditor's report. If reasonably determinable, it should also state the effect on financial position and results of operations. If a scope limitation is involved, a disclosure should be made in the scope paragraph.

When a qualified opinion is issued, the nature of the qualification must be stated; the reasons for the qualification, the subject of the qualification, and the effect of the item(s). The nature of the qualification may be referred to in the opinion and referenced to notes within the statements unless the qualification is due to a limitation upon the scope of the audit.

Where the "exception" is material a qualified or an adverse opinion must be expressed. The test of materiality lies within the auditor's judgment and may be a crucial matter.

(c) Adverse Opinion

An adverse opinion is issued when there is sufficient information for the auditor to form an opinion and the opinion is that the statements taken as a whole do not present fairly the financial position and the results of operations. It is required if any of these circumstances exist:

______________________

Date
September 1998
• A departure from generally accepted accounting principles of such materiality as to result in unfair presentation.

• A material misstatement in the statements.

(d) Disclaimer of Opinion

When the auditor does not have sufficient information upon which to base an opinion, he/she will disclaim an opinion on the statements taken as a whole and include a paragraph stating all his/her reasons for the disclaimer. These are two grounds for the disclaimer of an opinion, namely:

• The examination is inadequate for the expression of an opinion (regardless of the reason for the inadequacy).

• Though the audit may have been adequate, there exists material indeterminate items that obviate fair presentation.

A disclaimer of opinion is not to be used when an opinion has actually been formed, or when additional work can be performed to provide an opinion.
(Accountant's Letterhead)

Anytown Summer Food Program  
100 Main Street  
Anytown, U.S.A.

Dear Sir:

We have examined the Statement of Claim for Reimbursement of Agreement Number 1234-56 awarded to Anytown Summer Food Program, a sponsor under the 19__ Summer Food Service Program for Children, for the period June 27, 19__ to September 2, 19__.

Our examination was made in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions," issued by the Comptroller General of the United States, and the U.S. Department of Agriculture Audit Guide Number 7027.8N dated September 21, 1998. It included tests of the accounting and program records, site visits, and such other auditing procedures as we considered necessary in the circumstances.¹

The scope of our examination was limited to the financial and compliance element of the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" and did not include the elements of economy and efficiency or program results.

The accompanying "Audited Statement of Claim" and supporting schedules sets forth a total $________ of recommended cost adjustments. The final determination as to whether such costs are allowable under the program will be made by (name of State agency) and the Food and Nutrition Service, USDA.²

In our opinion, subject to the effects, if any, of the ultimate resolution of the recommended cost adjustment discussed in the preceding paragraph, the accompanying "Audited Statement of Claim" presents fairly the amount of reimbursement that the sponsor is entitled to for the period June 27, 19__ to September 2, 19__.

¹Here the auditor should add a paragraph explaining the nature and extent of site visits made. The auditor should also refer to the compliance section of the report where he or she sets forth any operational deficiencies noted during site visits as well as corrective actions taken.

²The auditor must state in the report the amount of any adjustment recommended whether or not such adjustment is considered material. This applies to all reports, including those reports where an unqualified opinion is being rendered. Material adjustments should be explained in detail.

Date: September 1998
We have also reviewed the sponsor's compliance with regulations as they apply to this program. Specific comments are presented in Exhibit F of this report.

This report is intended for use in connection with the program to which it refers and should not be used for any other purpose.

(Accountant's Signature)
ANYTOWN SUMMER FOOD PROGRAM
Agreement Number 1234-56
19__ Summer Food Service Program for Children
Audited Statement of Claim
For the Period June 27, 19__ to September 2, 19__

Program Costs:
Cost of meal service (Exhibit B) $418,663
Administrative costs (Exhibit D-1) 32,501
Total Program Costs 451,184

Program Payments Received
Start-up payments 3,000
Advance payments 10,000
Claim for Reimbursement - June 19__ 12,081
Claim for Reimbursement - July 19__ 258,839
Other income1 -0-
Total Program Payments Received $283,920

Program Payments Due from the State Department of Education $167,264

1Any income which accrues to the program shall be included in the payments received. "Income accruing to the Program" means all funds used by a sponsor in its Food Service Program, including but not limited to all monies, other than Program payments, received from Federal, state and local governments, from food sales to adults, and from any other source, including cash donations or grants.

Date
September 1998
(On Site Preparation)
ANYTOWN SUMMER FOOD PROGRAM
Agreement Number 1234-56
19__ Summer Food Service Program for Children
Schedule of Meals Served and Cost of Meal Service
For the Period June 27, 19__ to September 2, 19__

<table>
<thead>
<tr>
<th>Meals Served</th>
<th>Breakfast</th>
<th>Lunch</th>
<th>Supplement</th>
<th>Supper</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 27, 19 to Sept. 2, 19</td>
<td>3,980</td>
<td>13,827</td>
<td>8,744</td>
<td>123</td>
<td>26,672</td>
</tr>
<tr>
<td>July 1, 19 to July 31, 19</td>
<td>64,873</td>
<td>217,284</td>
<td>101,283</td>
<td>1,050</td>
<td>384,490</td>
</tr>
<tr>
<td>August 1, 19 to Sept. 2, 19</td>
<td>58,507</td>
<td>193,084</td>
<td>65,274</td>
<td>750</td>
<td>347,615</td>
</tr>
<tr>
<td>Totals of meals served as reported by Sponsor on Claims for Reimbursement</td>
<td>127,360</td>
<td>424,195</td>
<td>205,237</td>
<td>1,925</td>
<td>758,777</td>
</tr>
<tr>
<td>Less meals disallowed - meal violation notices received from the State agency</td>
<td>(251)</td>
<td>(2,338)</td>
<td>(710)</td>
<td>(150)</td>
<td>(3,447)</td>
</tr>
<tr>
<td>Less meals disallowed by auditor for program violations</td>
<td>(316)</td>
<td>(9,217)</td>
<td>(501)</td>
<td>(210)</td>
<td>(10,044)</td>
</tr>
<tr>
<td>Net meals served</td>
<td>126,993</td>
<td>412,642</td>
<td>204,086</td>
<td>1,565</td>
<td>745,286</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost of Meal Service - Maximum Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net meals served</td>
</tr>
<tr>
<td>Cost per meal (max. rate all SDA minus admin. monies)¹</td>
</tr>
<tr>
<td>Cost of meal service</td>
</tr>
</tbody>
</table>

Cost of Meal Service - Actual on Site

Food²: $382,673
(Less adjustment for meals disallowed)
Net Food Cost²: 8,774
Labor: $374,099
Facility: $31,913
Non-Food: 10,523
Cost of Meal Service: 2,148

$418,883

¹Check for current rates in current regulations.
²Do not include value of commodities
³Add cost of disallowed meals provided they do not exceed sponsor's approved level of service.

Date
September 1998
**ANYTOWN SUMMER FOOD PROGRAM**

**Agreement Number 1234-56**

19__ Summer Food Service Program for Children

**Schedule of Meals Served and Cost of Meal Service**

For the Period June 27, 19__ to September 2, 19__

<table>
<thead>
<tr>
<th>Meals Served</th>
<th>Breakfast</th>
<th>Lunch</th>
<th>Supplement</th>
<th>Supper</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 27, 19__ to Sept. 2, 19__</td>
<td>3,980</td>
<td>13,827</td>
<td>8,740</td>
<td>230</td>
<td>26,672</td>
</tr>
<tr>
<td>July 1, 19__ to July 31, 19__</td>
<td>64,873</td>
<td>217,284</td>
<td>10,283</td>
<td>1,050</td>
<td>384,490</td>
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<td>August 1, 19__ to Sept. 2, 19__</td>
<td>58,507</td>
<td>193,084</td>
<td>9,274</td>
<td>750</td>
<td>347,615</td>
</tr>
<tr>
<td>Totals of meals served as reported by Sponsor on Claims for Reimbursement</td>
<td>127,360</td>
<td>424,195</td>
<td>205,297</td>
<td>1,925</td>
<td>758,777</td>
</tr>
<tr>
<td>Less meals disallowed - meal violation notices received from the State agency</td>
<td>(251)</td>
<td>(2,336)</td>
<td>(710)</td>
<td>(150)</td>
<td>(3,447)</td>
</tr>
<tr>
<td>Less meals disallowed by auditor for program violations</td>
<td>(116)</td>
<td>9,217</td>
<td>(501)</td>
<td>(210)</td>
<td>(10,044)</td>
</tr>
<tr>
<td>Net meals served</td>
<td>126,993</td>
<td>412,642</td>
<td>204,086</td>
<td>1,565</td>
<td>745,286</td>
</tr>
</tbody>
</table>

**Cost of Meal Service - Maximum Rates**

| Net meals served             | 126,993   | 412,642| 204,086    | 1,565  | 745,286|

<table>
<thead>
<tr>
<th>Cost per meal (max rate allowable by USDA minus admin. monies)$</th>
<th>$1.190</th>
<th>$2.080</th>
<th>$0.480</th>
<th>$2.080</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of meal service</td>
<td>$131,422</td>
<td>$858,295</td>
<td>$97,961</td>
<td>$3,255</td>
</tr>
</tbody>
</table>

**Cost of Meal Service - Food Service Management Companies Invoice**

<table>
<thead>
<tr>
<th>Breakfast</th>
<th>Cost Per Meal</th>
<th>Meals Served</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$0.46</td>
<td>126,993</td>
<td>$53,417</td>
</tr>
<tr>
<td>Lunch</td>
<td>0.77</td>
<td>412,642</td>
<td>317,734</td>
</tr>
<tr>
<td>Supplement</td>
<td>.2025</td>
<td>204,086</td>
<td>41,327</td>
</tr>
<tr>
<td>Supper</td>
<td>0.77</td>
<td>1,565</td>
<td>1,205</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>$418,683</td>
</tr>
</tbody>
</table>

1Check for current rates in current regulations.
<table>
<thead>
<tr>
<th>Item</th>
<th>Budgeted</th>
<th>Actual</th>
<th>Over (under) Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management Salaries</td>
<td>$5,600</td>
<td>$5,600</td>
<td>-</td>
</tr>
<tr>
<td>Monitors Salaries</td>
<td>9,700</td>
<td>9,604</td>
<td>(96)</td>
</tr>
<tr>
<td>Clerical Salaries</td>
<td>5,100</td>
<td>5,250</td>
<td>150^1</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>1,800</td>
<td>1,896</td>
<td>96^2</td>
</tr>
<tr>
<td>Total Personnel Cost</td>
<td>$22,200</td>
<td>$22,350</td>
<td>150</td>
</tr>
<tr>
<td>Transportation</td>
<td>3,200</td>
<td>2,575</td>
<td>(625)</td>
</tr>
<tr>
<td>Communication</td>
<td>2,000</td>
<td>1,738</td>
<td>(262)</td>
</tr>
<tr>
<td>Office Rental</td>
<td>2,600</td>
<td>2,560</td>
<td>(40)</td>
</tr>
<tr>
<td>Office Supplies</td>
<td>400</td>
<td>387</td>
<td>(13)</td>
</tr>
<tr>
<td>Office Equipment Rental</td>
<td>1,400</td>
<td>1,412</td>
<td>12^3</td>
</tr>
<tr>
<td>Auditing Fees</td>
<td>1,000</td>
<td>1,000</td>
<td>-</td>
</tr>
<tr>
<td>Other Program Cost</td>
<td>500</td>
<td>479</td>
<td>(21)</td>
</tr>
<tr>
<td>Total Nonpersonnel</td>
<td>$11,100</td>
<td>$10,151</td>
<td>(949)</td>
</tr>
<tr>
<td>Total Administrative Cost</td>
<td>$33,300</td>
<td>$32,501</td>
<td>(799)</td>
</tr>
</tbody>
</table>

^1Employed one temporary employee for one week because of emergency sick leave.

^2State legislation increased the employers’ share of benefit cost.

^3Program required the rental of a copy machine.
ANYTOWN SUMMER FOOD PROGRAM
Agreement Number 1234-56
19__ Summer Food Service Program for Children
Calculation of Maximum Allowable Administrative Costs
For the Period June 27, 19__ to September 2, 19__

Calculation of Maximum Allowable Administrative Costs:

<table>
<thead>
<tr>
<th>Meal Type</th>
<th>Net Meals Served Per Exhibit B</th>
<th>Administrative Rate Per Meal¹</th>
<th>Computed Administrative Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Breakfast</td>
<td>126,993</td>
<td>$1.175</td>
<td>$14,922</td>
</tr>
<tr>
<td>Lunch</td>
<td>412,642</td>
<td>.2175</td>
<td>89,750</td>
</tr>
<tr>
<td>Supplements</td>
<td>204,086</td>
<td>.0600</td>
<td>12,245</td>
</tr>
<tr>
<td>Supper</td>
<td>1,585</td>
<td>.2175</td>
<td>340</td>
</tr>
</tbody>
</table>

Maximum allowable administrative costs: $117,257
Administrative costs claimed by sponsor: 32,501
Excess Administrative Costs Over Maximum Allowable: $0

NOTE: Administrative rates above are for meals served at rural or self-preparation sites. For meals served at other types of sites, the rates are as follows:

- Breakfast: 0.0925
- Lunch/Supper: 0.1800
- Supplement: 0.0475

¹Use rates per current regulations.
ANYTOWN SUMMER FOOD PROGRAM
Agreement Number 1234-56
19___ Summer Food Service Program for Children
Schedule of State Disallowance Notices

The State agency issued disallowance notices to the sponsor, Anytown Summer Food Program as follows:

<table>
<thead>
<tr>
<th>DATE</th>
<th>SITE</th>
<th>MEAL</th>
<th>DISALLOWED</th>
</tr>
</thead>
<tbody>
<tr>
<td>7/5</td>
<td>Penny Street</td>
<td>Lunch</td>
<td>816</td>
</tr>
<tr>
<td>7/7</td>
<td>Grace Church</td>
<td>Supplement</td>
<td>710</td>
</tr>
<tr>
<td>7/12</td>
<td>Pine Street</td>
<td>Breakfast</td>
<td>251</td>
</tr>
<tr>
<td>7/20</td>
<td>Grove Street</td>
<td>Supper</td>
<td>150</td>
</tr>
<tr>
<td>8/3</td>
<td>Camden Hall</td>
<td>Lunch</td>
<td>414</td>
</tr>
<tr>
<td>8/17</td>
<td>Pine Street</td>
<td>Lunch</td>
<td>731</td>
</tr>
<tr>
<td>8/18</td>
<td>Lakeside Elementary</td>
<td>Lunch</td>
<td>375</td>
</tr>
<tr>
<td></td>
<td>Total meals Disallowed</td>
<td></td>
<td>3,447</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Breakfast</th>
<th>Lunch</th>
<th>Supplement</th>
<th>Supper</th>
<th>Total</th>
</tr>
</thead>
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<tr>
<td>251</td>
<td>2,336</td>
<td>710</td>
<td>150</td>
<td>3,447</td>
</tr>
</tbody>
</table>
ANYTOWN SUMMER FOOD PROGRAM
Agreement Number 1234-56
19__ Summer Food Service Program for Children
Summary of Compliance with Federal Regulations
and Program Guidelines
For the Period June 27, 19__ to September 2, 19__

GENERAL

The Anytown Summer Food Program was approved by the State of __________ to sponsor
the Summer Food Service Program for Children by Agreement Number 1234-56, dated June
1, 19__. The purpose of the program is to provide nutritional help to children who would
otherwise be deprived of the food assistance they would normally receive at other times of the
year under the National School Lunch Program. Meals were served to children at sites
organized and operated by Anytown Summer Food Program.

SCOPE

Our examination was made in accordance with the "Standards for Audit of Governmental
Organizations, Programs, Activities and Functions" issued by the Comptroller General of the
United States, and the USDA audit guide for the Summer Food Service Program and
accordingly included tests of the accounting and program records and such other auditing
procedures, as we considered necessary in the circumstances.

The scope of our examination was limited to the financial and compliance element of the
Comptroller General's standards and did not include the elements of economy and efficiency in
the circumstances.

As a part of our examination, we performed tests in accordance with the compliance testing
procedures as set forth in the U.S. Department of Agriculture Audit Guide Number 7027.8N.

EXIT CONFERENCE

An exit conference was held at Anytown Summer Food Program, 100 Main Street, Anytown,
USA on October 10, 19__. Attending were:

For the Sponsor

(Name, Title)

For the Certified Public Accountant

(Name)

Date

September 1998
AUDIT OBJECTIVES

The following were the principle objectives of our audit:

1. To evaluate internal controls to assure integrity of accounting records and compliance with program regulations.

2. To determine that the sponsor complies with procurement provisions of the program regulations.

3. To determine that procedures provided effective controls over cash received.

4. To determine that meals reported by the sponsor as served to children are supported by site reports from all properly approved and operating food service sites, signed by the site supervisor.

5. To determine that documentation was adequate to support all food, costs reported on the claims for reimbursement. Food costs must be allowable and allocable to the SFSP.

6. To determine that labor costs were adequately documented. Labor costs must be allowable and allocable to the SFSP.

7. To determine that administrative costs were incurred solely for program administration and were eligible for reimbursement.

8. To express an opinion as to whether the sponsor’s statement of claims presents fairly the reimbursement claimed for the Summer Food Service Program in conformity with prescribed accounting procedures and program guidelines.

INTERNAL ACCOUNTING AND ADMINISTRATIVE CONTROLS

The objective of internal accounting and administrative controls is to provide reasonable, but not absolute, assurance as to (1) accuracy of records for preparation of financial reports, and (2) compliance with regulations and guidelines.

In our opinion, the internal accounting and administrative control procedures are in general agreement with procedures prescribed in Federal Regulations and the U.S. Department of Agriculture guidelines except as follows:

Anytown Summer Food Program
1. Finding:

Recommendation:

Sponsor's Comment:
Impact on Claim:

(Additional findings using same format).

(Accountant's Signature)
SPONSOR VISIT

Complete the following questionnaire at the Sponsor:

COMPLIANCE QUESTIONNAIRE
(SUMMER FOOD SERVICE PROGRAM FOR CHILDREN)

FOR THE PERIOD ____________________________

SPONSOR'S NAME ____________________________

ADDRESS __________________________________

DATE ____________________________ TIME ____________________________

INDEPENDENT AUDITOR ____________________________

<table>
<thead>
<tr>
<th></th>
<th>YES</th>
<th>NO</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>(SUMMARY) Is sponsor operating the program in accordance with program requirements?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Did sponsor visit each of its sites at least once during the first week of Program operation?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Did sponsor review food service operations at each site at least once during the first four week of Program operations?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Did sponsor maintain a reasonable level of site monitoring?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Did sponsor annually announce (in the media) the availability of free meals?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Does sponsor contract with a food service management company?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>Is the food service management company registered with the State in which the sponsor operates the Program, unless the company is not required?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Date
September 1998
<table>
<thead>
<tr>
<th></th>
<th>YES</th>
<th>NO</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>8. Did sponsor comply with the competitive bid procedures as required?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Did sponsor claim reimbursement under parts 210, 215, or 220?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Did sponsor contract out for management responsibilities?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. Did sponsor utilize either its own food service facilities or obtain meals from a school food service facility?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Is there an agreement between the sponsor and the school?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. Did sponsor plan for and prepare or order meals on the basis of participation trends with the objective of providing only one meal per child at each meal service?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13. Were meals ordered or prepared in excess of sites approved level?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14. Do records justify all costs and meals claimed?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15. Did sponsor hold Program training for its administrative and site personnel?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16. Did training include:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. The purpose of the Program?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Site eligibility?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Recordkeeping?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d. Site operations?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>e. Meal pattern requirements?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>f. The duties of a monitor?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17. If the sponsor is a private nonprofit organization, did it certify that it:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a. Serves a total of not more than 2,500 children per day?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Serves no more than five sites in any urban area, or 20 sites in any rural area, with not more than 300 children being served at any one site?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Serves no more than 500 children at any site with a waiver granted by the State?</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
SITE VISIT

1. Arrive unannounced at the site before service begins.
   a. Indicate the time food service begins and when it ends.
   b. Count the number of meals delivered or prepared.
   c. Count the number of meals served to children.
   d. Only one meal should be served to each child 18 years of age and younger. Indicate any exceptions noted while observing the site operations.
   e. Note meals served in excess of site's approved level of meal service.
   f. Note the number of children who receive more than one meal as accurately as possible (multiple meals or second meal service).
   g. Note the number of children who take their meal offsite.
   h. Note the excess meals not served.
   i. Note spoiled or inedible meals, and meals not unitized, or ineligible for any other reason.
   j. Complete the compliance questionnaire.

2. Compare auditor's determination with daily site report for that day, as prepared by site supervisor. Note exceptions.
COMPLIANCE QUESTIONNAIRE

(SUMMER FOOD SERVICE PROGRAM FOR CHILDREN)

FOR THE PERIOD ____________________________________________

SPONSOR’S NAME ____________________________________________

SITE NAME/CODE ADDRESS OF SITE ______________________________

DATE ___________________________ TIME ________________________

SITE SUPERVISOR _____________________________________________

PREPARATION VENDOR/SELF-PREP ________________________________

INDEPENDENT AUDITOR ________________________________________

<table>
<thead>
<tr>
<th></th>
<th>YES</th>
<th>NO</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Are site reports completed daily?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Does information entered on the site report include as a minimum:</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a. Identification Information?</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>b. Number of Meals by type Prepared or Received?</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>c. Number of Meals by type Served to Children?</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>d. Number of Meals Served to Adults?</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>e. Number of Children Attending the Site?</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>f. Number of Meals Sold to Adults and Amount of Cash Received?</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>g. Date and Site Supervisor’s Signature?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Are meals served to adults who are not employed in the food service program recorded and paid for?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Are cash collections properly safeguarded?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- 2 -

Date
September 1998
<table>
<thead>
<tr>
<th></th>
<th>YES</th>
<th>NO</th>
<th>COMMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>5. Are cash collections deposited intact and on a timely basis?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Are meals counted upon delivery at site?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Is site control adequate?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Are all meals consumed within the designated eating area?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Are second meals served to children served only after first meals have been consumed?</td>
<td></td>
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<tr>
<td>10. Is the number of meals prepared or delivered sufficient for the number of children in attendance?</td>
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<tr>
<td>11. Does the number of leftover meals appear to be reasonable?</td>
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<tr>
<td>12. Are daily deliveries of meals to sites adjusted because of changing attendance?</td>
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<tr>
<td>13. Are meals delivered in excess of the site's approved level of meal service?</td>
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<tr>
<td>14. Are leftover meals returned to preparation site for credit or held over properly for next day use?</td>
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<td>15. Are health and safety standards maintained? Is there a valid health certificate on hand?</td>
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<tr>
<td>16. Is only one meal served at a time to each child?</td>
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</table>

Other comments:

Date
September 1998
SAMPLE ENGAGEMENT LETTER

Dear Mr. ____________:

This letter will confirm the verbal understanding as to our examination of your claim for Federal reimbursement for your Summer 19__ operations under the Summer Food Service Program for Children.

Our examination will be conducted in accordance with standards developed by the U.S. General Accounting Office for audits of Governmental programs, and the USDA, Office of Inspector General audit guide. The examination will include:

1. A determination whether costs claimed for reimbursement are reasonable, allowable and allocable to the program. Where appropriate, we will make adjustments to costs claimed.

2. A study and evaluation of the system of internal control.

3. A determination that you have an operational system to assure compliance with program regulations and guidelines.

4. The preparation of an audit report suitable for submission with your final claim for reimbursement.

We will prepare a management letter on our evaluation of your system of internal control. The letter will be submitted to you within two weeks after the program commences. Recommendations and observations concerning the system of internal control will be stated at that time.

Our examination will evaluate the fairness of your claims for Federal reimbursement, but it is not designed to uncover fraud or misappropriation of funds, although if such irregularities do exist, the examination may disclose them.

Our fees for this examination will be contingent upon the actual manhours spent by our staff members at the going rates for comparable services, as shown below:

<table>
<thead>
<tr>
<th>Range</th>
<th>From</th>
<th>To</th>
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<tbody>
<tr>
<td>Junior Accountants</td>
<td>$</td>
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<tr>
<td>Semi-senior Accountants</td>
<td></td>
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<td>Managers</td>
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<tr>
<td>Principles</td>
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<tr>
<td>Junior Partners</td>
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<tr>
<td>Senior Partners</td>
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</tbody>
</table>

Date
September 1998