

OHIO AUDITOR OF STATE
KEITH FABER

Food Service Management Companies: Audit Considerations and Impacts

Presented by: Amanda Stidham, CPA, CFE
Quality Assurance and Technical Specialist

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Agenda

- Terminology and Background
- Contract Types
- Relationships Between FSMCs and Schools
- Audit Impacts

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Terminology

Food Service Management Company = FSMC

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Background

FSMCs Provide Services Related to Nutrition

- Range of services available.
- Services provided set via contract.

ODE Role in Contracting

- ODE must approve all bids, contracts, and contract renewals.
- ODE provides sample bid and contract documents.

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FSMC Contract Types

Price-per-Meal

Reimbursement Basis

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FSMC Contract Types

Price per Meal

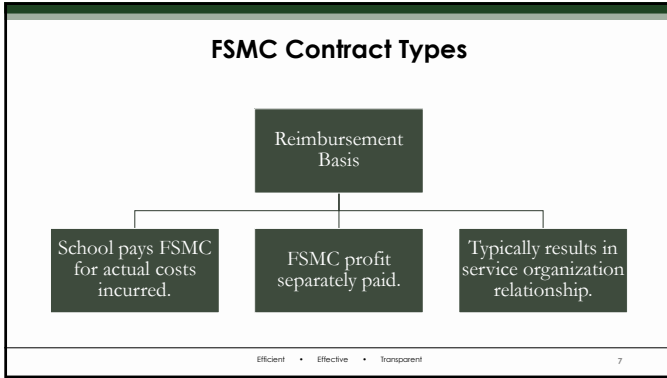
School pays set price per meal served.

Price based on estimated FSMC costs plus profit margin.

Typically results in vendor relationship.

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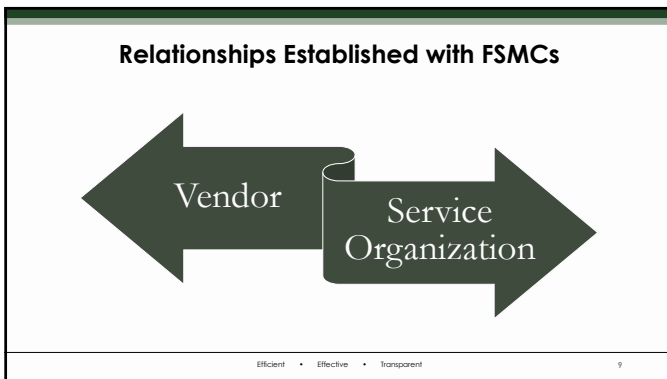
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FSMC Contract Types

Substance and form of each contract must be closely evaluated to determine the relationship created.


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Vendor Relationship



FSMC provides vended meals to the School at an agreed-upon price per meal.

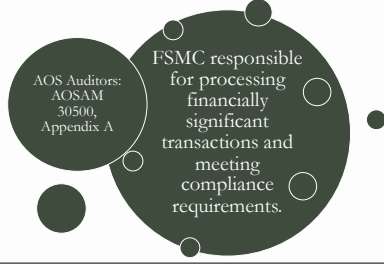
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The diagram features a central dark green circle with a white border and a white arrow pointing clockwise. The text is centered within the circle.

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Service Organization Relationship



AOS Auditors: AOSAM 30500, Appendix A

FSMC responsible for processing financially significant transactions and meeting compliance requirements.

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The diagram consists of two overlapping circles. The left circle is smaller and contains the text 'AOS Auditors: AOSAM 30500, Appendix A'. The right circle is larger and contains the text 'FSMC responsible for processing financially significant transactions and meeting compliance requirements.' There are several small white circles scattered around the larger circle.

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Audit Impacts

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Audit Impact: General

AOS Auditors

```

    graph LR
      A[Planning] --> B[Understanding the Client and Its Environment]
      B --> C[Service Organizations]
  
```

NOTE: The table below should include Service Organizations (SO) which provide services related to compliance requirements as well, such as investment managers, [food service management companies](#), and companies providing County internet transaction services. [AOS Guidance \[1\]](#)

Food Service Management Company (FSMC) Procedures

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Audit Impact: General
Food Service Management Company Procedures

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    graph LR
      A[Determine Whether the Auditee Uses a FSMC] --> B[If So, Determine Whether the FSMC is a Service Organization or Vendor]
  
```

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Audit Impact: General
Food Service Management Company Procedures

Procurement of the FSMC subject to testing.

- Ohio Compliance Supplement, Chapter 2, Bid Testing
- Child Nutrition Cluster, Section I

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Audit Impact: FSMC as a Vendor
Food Service Management Company
Procedures

Payments to FSMC Subject to Same Testing as Other Vendor Payments

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Audit Impact: FSMC as a Service Organization
Food Service Management Company
Procedures

Determine whether FSMC is a material service organization.

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Audit Impact: FSMC as a Service Organization
Food Service Management Company
Procedures

FSMC could be material to:

- Financial Statements
- Single Audit: Major Program
- Revenue and/or Expenditures
- Nutrition Cluster

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**Audit Impact: FSMC as a Service Organization
Food Service Management Company
Procedures**

If FSMC is a Material Service Organization: Document in Planning

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**Audit Impact: FSMC as a Service Organization
Food Service Management Company
Procedures**

Determine if SSAE 16 (SOC 1) report is available.

If so, AOS auditors evaluate using SOC form.

If not, AOS auditors refer to AOSAM 30500 Appendix A for alternative procedures.

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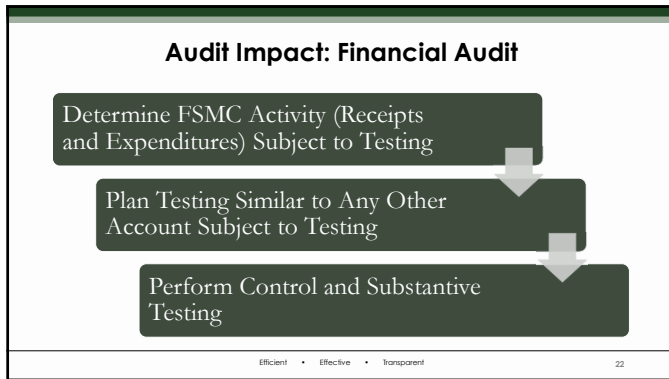
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**Audit Impact: FSMC as a Service Organization
Food Service Management Company
Procedures**

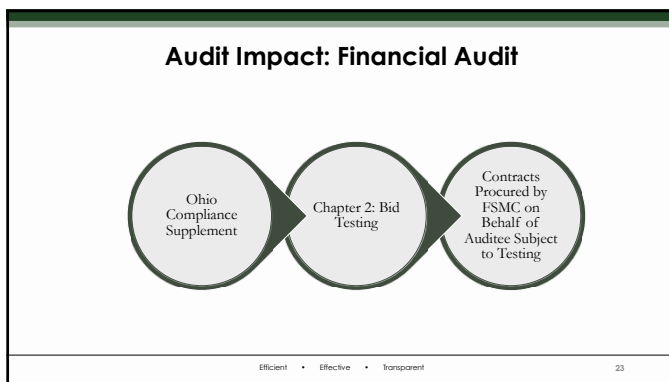
If FSMC is a material service organization, consider the impact on financial and single audit testing.

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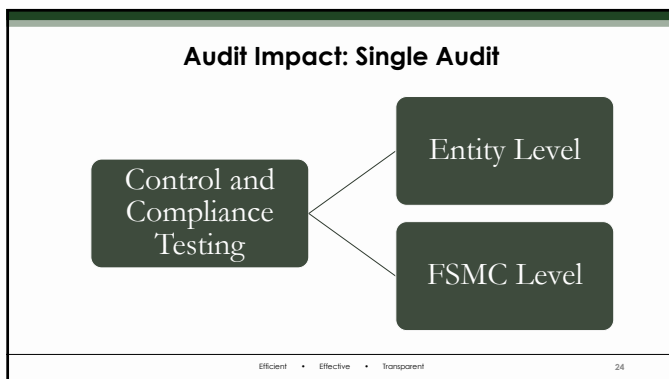
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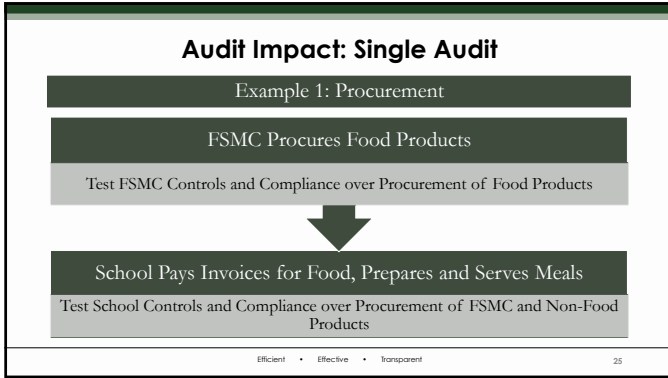
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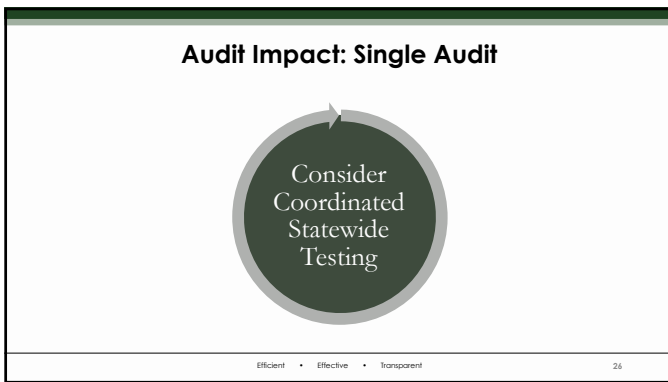
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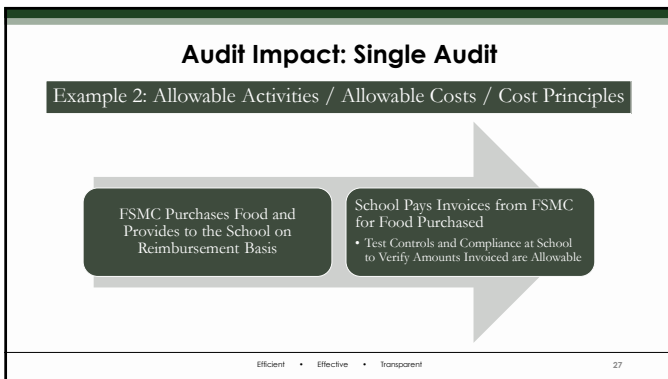
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Audit Impact: Single Audit

Remember:
Each Contract
is Unique and
Testing
Implications
Will Vary

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Resources

AOS Website

- Infographics
(https://ohioauditor.gov/resources/federal_general.html)

AOS Auditors: Intranet

- Nutrition Group Guidance (Audit Resources > Entity Specific Support > Miscellaneous)
- Nutrition Cluster FACCR and IRAF (Audit Resources > Federal > FACCRs and IRAFs)

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Questions?

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KEITH FABER

Amanda Stidham, CPA, CFE
Quality Assurance and Technical Specialist
Center for Audit Excellence
AMStidham@ohioauditor.gov

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Key Takeaways

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Food Service Management Company (FSMC) Contract Types

- Price-per-Meal
 - School pays FSMC a set price-per-meal served.
 - Typically results in a vendor relationship with the FSMC.
- Reimbursement Basis
 - School pays FSMC for actual costs incurred.
 - Typically results in a service organization relationship with the FSMC.
- Substance and form of each contract must be closely evaluated to determine the type of relationship created: vendor or service organization.

Relationships Established with FSMCs

- Vendor Relationship
 - FSMC simply provides vended meals to the School at an agreed-upon price per meal.
- Service Organization Relationship
 - FSMC responsible for processing financially significant transactions and meeting compliance requirements.

Audit Implications

- Procurement of FSMC subject to testing in Ohio Compliance Supplement Chapter 2, Bid Testing and Child Nutrition Cluster FACCR, Section I.
- Vendor Relationship
 - Payments to FSMC subject to same testing as other vendor payments.
- Service Organization Relationship
 - If FSMC is a **material** service organization:
 - Auditors should consider whether the FSMC has a relevant SOC 1 report and determine the impact of the SOC 1 report to testing of FSMC activity.
 - Financial audit: FSMC activity should be evaluated like any other account on the financial statements and, if necessary, control and substantive testing should be completed. Contracts procured by the FSMC on behalf of the School should be subject to testing in Ohio Compliance Supplement Chapter 2, Bid Testing.
 - Single audit: if the FSMC is performing activities subject to compliance requirements for a major program, auditors may need to test controls and compliance at the School and FSMC level.

Resources

- Infographics: https://ohioauditor.gov/resources/federal_general.html
- Resources on Intranet for AOS Auditors:
 - FACCRs: Intranet > Documents > Audit Resources > Federal > FACCRs and IRAFs
 - Nutrition Group Guidance (Audit Resources > Entity Specific Support > Miscellaneous)