

AUDITOR OF STATE BULLETIN 99-002  
FEBRUARY 5, 1999

Audit testing related to  
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TO: ALL SCHOOL DISTRICT TREASURERS  
ALL EDUCATIONAL SERVICE CENTER TREASURERS  
ALL INDEPENDENT PUBLIC ACCOUNTANTS

SUBJECT: FOOD SERVICE INTEREST ALLOCATION

This bulletin clarifies the issue of food service interest allocation.

In 1997, the United States Department of Agriculture (USDA) distributed a letter (identification # MWCN-100 NT 1) reminding all Ohio school districts operating food service programs which receive federal funding of the following:

Federal regulations state that, "School food authorities shall maintain a nonprofit school food service. Revenues received by the nonprofit school food service are to be used only for the operation or improvement of such food service....(7 CFR Part 210.14(a)). 7 CFR Part 210.2 defines revenue as, "all monies received by or accruing to the nonprofit school food service in accordance with the State agency's established accounting system, including but not limited to, children's payments, earnings on investments, other local revenues, state revenues, and Federal cash reimbursements." The inclusion in this definition of a "State agency established accounting system" does not allow for State policy which violates these federal regulations. State agencies may require specific accounting systems, but such systems may not direct food service funds, including the interest earned on such funds, away from the school food service account."

Many schools have contacted our office requesting clarification of this letter and the cited regulation. Specifically, there is a question as to whether or not the amount of interest to be allocated to the food service program is based solely upon the amount of federal funding or total monies within the fund. Also, there is question as to the method of allocation given the fact that federal funding received for food service programs in Ohio is normally received on a reimbursement basis.

We have researched the Code of Federal Regulations and have communicated directly with the Regional Director of Financial Management for the USDA to confirm the USDA's position given the regulations and the manner in which food service programs are funded in the State of Ohio. Any interest earned on the cash balance of a food service fund, whether those funds originated from federal, state, or local sources (including transfers or advances from other funds to temporarily assist the operation of the food service program), must be credited to that fund.

This guidance should be applied by March 1, 1999. Failure to apply this guidance after March 1, 1999, will result in the issuance of a Finding for Adjustment within the entity's audit report if the amount involved is greater than \$100. If the amount involved is greater than \$10,000 a Federal Questioned Cost will also be reported.

If you have any questions about this bulletin, please contact the Department of Accounting & Auditing Support at (800) 282-0370.