

The California State Auditor released the following report today:

## Cafeteria Funds

### *Local Education Agencies Generally Use the Funds for Appropriate Purposes*

#### BACKGROUND

Child nutrition programs—a cluster of federal programs created to provide nutritious food to needy schoolchildren—served over 550 million lunches, 250 million breakfasts, almost 2 million half-pints of milk, and over 10 million summer meals throughout California in fiscal year 2012–13. The California Department of Education (Education) administers the state’s child nutrition programs, which are largely funded (92 percent) by the federal government while the State provides the remaining 8 percent. Federal regulations require local education agencies (LEAs) to account for all revenues and expenditures related to the child nutrition programs separately. California school districts can each establish a “cafeteria fund” to account separately for the federal, state, and local resources used to operate the food service programs.

#### KEY FINDINGS

During our review of cafeteria fund expenditures at 18 LEAs over a three-year period, we noted the following:

- Although most of the cafeteria fund expenditures made by the 18 LEAs were allowable, we identified unallowable expenses at 16 LEAs, which collectively totaled approximately \$1 million.
  - ✓ Over \$520,000 of the unallowable expenses related to equipment purchases and repairs, facility repairs, maintenance, remodeling, and construction made by seven LEAs.
  - ✓ Five LEAs inappropriately charged nearly \$180,000 in interest costs to their cafeteria funds, and seven LEAs improperly charged utilities and other support costs to their cafeteria funds of almost \$100,000.
  - ✓ LEAs misspent over \$200,000 on indirect costs, salaries and benefits, or other miscellaneous expenses.
- Of the 78 payroll transactions we reviewed, more than half—from 14 of the 18 LEAs we visited—contained documentation errors causing the related expenses to be unallowable.
  - ✓ Nine of the LEAs failed to properly certify, as required, the work activities of employees who were paid entirely with cafeteria funds. Most indicated that they were unaware of the requirement to do so.
  - ✓ For the 15 expenditures from eight LEAs we reviewed for multi-funded employees—employees whose salaries were paid from various funds including cafeteria funds—none provided a breakdown, as required, showing how employees actually divided their time among all of the programs for which they work.
- Half of the LEAs we reviewed had cash balances in their cafeteria funds that exceeded the amount allowed—most had cash balances of more than double the federal limit in at least one of the three years under review.
- Although they need to do so to determine if they comply with federal requirements, most LEAs that offer nonprogram foods—foods sold in activities such as catering, vending machines, and adult meals—do not track the costs and revenues related to those foods.
- In previous years Education reviewed certain aspects of the child nutrition programs; however, until fiscal year 2013–14, it had not routinely reviewed LEAs’ cafeteria fund expenditures to determine if they were allowable because the federal government had not required them to do so.

#### KEY RECOMMENDATIONS

We made several recommendations to the LEAs we visited, including that they review all federal and state guidance to better understand proper uses of cafeteria funds and that LEAs reimburse their cafeteria fund for any unallowable costs. Also, LEAs should implement a system to track revenues and expenditures for nonprogram foods. Further, any LEAs with excess cash balances in their cafeteria funds should develop spending plans to reduce their balances to the amount allowed and submit those plans to Education by June 30, 2014. Moreover, Education should require LEAs to develop or revise a spending plan and submit it to Education for approval within three months after the end of each fiscal year when their cafeteria funds have excess net cash balances.