

School Lunch Unpaid Meal Balances and Indirect Costs

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Agenda

- Unpaid Meals Overview
- Bad Debt Overview
- Group Discussion of Unpaid Balances and Bad Debt
- Indirect Cost Overview
- Test Your Knowledge on Indirect Costs
- Questions

Unpaid Meals Background Info

- Unpaid meals are meals served to children who do not qualify for free/reduced meals, and who do not have money to cover the cost of the meal at the time of the meal service
- HHFKA required USDA to study and report on meal charging policies
- Gathered data from LEAs and SEAs
- [USDA Unpaid Meal Charges Website](#)

Local Meal Charging Policy

- USDA Memo SP 46-2016 Meal Charging
 - Written policy required by July 1, 2017
 - Clearly communicated in writing
 - Include Bad Debt Policy
 - Include alternate meals, if applicable
- Requires a collaborative effort
- Must be provided in AR/RM Review
- USDA Memo SP 23-2017
 - New Q&A guidance on alternative meal requirements

Meal Charging Policy Best Practices

- Use multiple methods to disseminate
- Review and update annually
- Feed all kids K-2, regardless of their account balance
- Minimize identification of students with insufficient funds
- Address positive inactive balances and donations
 - Positive balances for inactive free/reduced students **MUST** be returned

What is Bad Debt?

- When a SFA has exhausted all their collection efforts on an **inactive** student meal account, the account is considered uncollectable
 - Graduated students and students no longer enrolled
- Collection of negative balances for **active** student accounts should be addressed in an SFA's local meal charging policy

Bad Debt Policy

- **NEW** MDE Admin Memo #4 Bad Debt & FAQs SY2017/2018
 - Written policy required by July 1, 2017
 - **Inactive** students negative balances must be made whole in the food service fund by December 31st every year and then written off the POS system
 - Can be tracked and collected by business office after December 31st

Bad Debt Policy Best Practices

- Use multiple methods to disseminate
- Review and update annually
- Define inactive students
- Determine up front how the SFA will adequately document the non-federal funds that are transferred into food service
 - Fund modification to increase revenue

Discussion Questions

- How does your SFA communicate your meal charging policy both internally and externally?
- How does your SFA handle positive inactive balances?
- What are your SFA's most successful practices in relation to meal charging and unpaid balances?
- What does your SFA struggle with in regards to meal charging and bad debt?

Indirect Costs

- Use the unrestricted rate published by MDE annually
 - Public Schools: if approved indirect cost rate exceeds 15% limit use 15% max
 - Nonpublic: 10% max
- [MDE Indirect Cost Rates Current Information](#)
 - www.michigan.gov/mde
 - Offices>State Aid & School Finance>Publications>Indirect Cost Rate
- USDA Memo SP 60-2016: Indirect Cost Guidance
- Treated consistently across all other programs

Indirect Costs Testing

- Approved Methodology:
 - Calculate the modified direct cost base: total program expenses excluding food costs & all items for resale, capital outlay and contracts over \$25K
 - Unrestricted indirect rate is applied to the modified direct cost base to calculate the SFA's maximum allowable indirect costs to be charged to the NSFSA
 - Documentation to support calculations and amount charged to the NSFSA

Indirect Cost Calculation

Start with Total Program Cost

Less: Food Costs

Less: Capital Outlay

Less: Prior Year Adjustments

Less: Purchased Services Contracts exceeding \$25,000

Equals the Modified Direct Cost Base

Then apply the Unrestricted Indirect Cost Rate

To achieve the Maximum Allowable Indirect Costs

Common Findings for Indirect Costs

- Indirect costs charged improperly
- Indirect costs not treated consistently across all programs
- Indirect costs calculations supporting documentation not available
- Indirect costs charged in excess of approved unrestricted rate
- Indirect costs exceed the maximum allowable
- *Current guidance: USDA SP 60-2016*

Questions to Help Determine if a Cost is Direct or Indirect

- Does the cost benefit multiple programs or other cost objectives, or solely the school food service?
- Does the cost have a direct relationship to the school food service?
- What guidance do the Federal cost principles provide for this cost?
- How are similar costs treated in other cost objectives of the SFA?
- How has this cost been treated historically by the SFA?

Examples of Typical Costs

Direct Costs

- Salaries & Wages of food service workers
- Cost of purchased food
- Food service supplies
- Media/promotional materials relating to food service
- Capital expenditures relating to food service (e.g., food service equipment purchases)

Indirect Costs

- Payroll services
- Human resources
- Custodial
- Procurement
- Worker's compensation
- Superintendent's and Business office
- Gas, Electricity
- Water, Sewer
- Trash

Contact Information

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QUESTIONS?