



STATE OF MICHIGAN
DEPARTMENT OF EDUCATION
LANSING

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STATE SUPERINTENDENT

FOOD SERVICE

**ADMINISTRATIVE MEMO NO. 4
SCHOOL YEAR 2017-2018**

(Revision of Administrative Policy No. 6 for School Year 2016-17)

SUBJECT: Uncollectable Meal Charge Compliance Requirements for Participation in School Nutrition Programs

DATE: August 3, 2017

This memorandum provides updated guidance, clarification, and expectations regarding negative balance compliance requirements in School Nutrition Programs based on USDA guidance. As of July 1, 2017, School Food Authorities (SFAs) must have a written meal charging policy as well as a policy which addresses bad debt related to the non-profit school food service account (NSFSA). Policies regarding bad debt should be referenced in the meal charge policy. The SFA's bad debt policy and meal charge policy must be provided to MDE during the Administrative Review and Resource Management Review.

The meal charging policy should address unpaid meal charges of current students. The bad debt policy should address negative balances of students that are inactive and have become uncollectable. For example, students that are no longer enrolled in the district such as graduated seniors and students that have transferred to another district would be considered an inactive student. The SFA can be more restrictive in defining inactive students beyond the minimum outlined in this memorandum.

Bad debt is defined as uncollectable meal balances for inactive students as of June 30th that have not been collected by December 31st of the same calendar year (six months). Any related collection costs and related legal costs arising due to the collection of inactive unpaid meal charges throughout that current school year and six-month collection period thereafter are an allowable cost to the NSFSA. Once inactive unpaid meal charges are written off as bad debt, collection or legal costs become an unallowable cost in the NSFSA per Federal regulations (2 CFR §200.426). No later than December 31st each year the NSFSA must write off inactive uncollectable meal charges as bad debt from non-federal funds to make the NSFSA whole. The funds may come from the district general fund, local funding, school or community organizations such as the Parent-Teacher Association (PTA), or any other non-Federal source. Records relating to written off unpaid meal charges as bad debt must be maintained in accordance with the record retention requirements in 7 CFR

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Administrative Memo No 4

Page 2

August 3, 2017

§210.9(b)(17) and 7 CFR §210.15(b). After inactive uncollectable meal charges have been written off as bad debt, collection efforts may continue outside of the food service program per the SFA's policies and procedures but may not be charged to the NSFSA.

Questions regarding this Administrative Memo may be directed to the Office of School Support Services, Fiscal and Administrative Services unit by email to MDE-schoolnutrition@michigan.gov or by calling 517-373-1073.

Attachments: Bad Debt Frequently Asked Questions



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SCHOOL YEAR 2017-2018

SUBJECT: Uncollectable Meal Charge Compliance: Frequently Asked Questions (FAQ) in School Nutrition Programs

DATE: August 3, 2017

Uncollectable Meal Balances FAQs:

1. What is an uncollectable account? When a School Food Authority (SFA) has exhausted all their collection efforts on an inactive student meal account, the account is considered uncollectable. Inactive student accounts include, but are not limited to, 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.

2. Where can I find additional USDA policy, guidance and resources on unpaid meal charges?

USDA FNS SP 46-2016: *Unpaid Meal Charges: Local Meal Charge Policies*, July 8, 2016, <http://www.fns.usda.gov/unpaid-meal-charges-local-meal-charge-policies>

USDA FNS SP 47-2016: *Unpaid Meal Charges: Clarification on Collection of Delinquent Meal Payments*, July 8, 2016, <http://www.fns.usda.gov/unpaid-meal-charges-clarification-collection-delinquent-meal-payments>

USDA FNS SP 23-2017: *Unpaid Meal Charges: Guidance and Q&A*, March 23, 2017, <https://www.fns.usda.gov/school-meals/unpaid-meal-charges-guidance-and-q>

USDA FNS SP 29-2017: *Overcoming the Unpaid Meal Challenge: Proven Strategies from Our Nation's Schools*, May 16, 2017, <https://www.fns.usda.gov/school-meals/2017-edition-overcoming-unpaid-meal-challenge-proven-strategies-our-nations-schools>

USDA FNS SP50 CACFP19 SFSP17-2016: *2016 Edition of the Eligibility Manual for School Meals*, <https://www.fns.usda.gov/cn/eligibility-manual-school-meals>

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3. When are negative meal balances considered uncollectable? As stated in question #1 above, when a School Food Authority (SFA) has exhausted all their collection efforts on inactive student meal accounts as of the end of the school year (June 30th), the account is considered uncollectable. The SFA must have a written policy and procedures to write off inactive uncollectable meal balances by December 31st in the following school year to make food service whole.

4. What Non-Federal funding sources may be used to make food service whole for uncollectable meal balances?

The non-profit school food service account (NSFSA) is to be made whole from the School Food Authority's general fund and/or other non-Federal sources (local funding, school or community organizations such as the PTA) for any uncollectable meal balances for inactive accounts. How the district chooses to collect the uncollectable meal balances once it is transferred to its general fund and/or other non-Federal fund is decided by the district; however, food service can no longer expend time or resources in the collection efforts.

If a revenue source is funded through NSFSA, then all revenue from the source must return to the NSFSA and may not be used to cover uncollectable meal balances. This means, for example, State Supplemental Funds for Section 31a, 31d and 31f may not be used.

5. Where in the Uniform Guidance does it state that bad debt (uncollectable meal balances) incurred within the non-profit school food service account (NSFSA) are not allowed to be charged to that fund?

2 CFR §200.426

6. If uncollectable meal balances are transferred to another fund (i.e., general fund), could this cause audit issues? No. All accounting entries (transfers) should be well documented as a separate transaction and should be treated as a fund modification to increase revenue for the total amount of the uncollectable meal balances. This transaction cannot be netted or combined with other transactions to/from the NSFSA. For example, an SFA may not offset uncollectable meal balances with the recovery of indirect costs, which is the only allowable transfer out of the NSFSA. The SFA must also ensure that inactive uncollectable meal balances are reconciled accordingly for each respective student in the district's Point of Sale (POS) system to accurately reflect the adjustment to the NSFSA.

7. How then should the uncollectable debt be corrected? Once the inactive uncollectable meal balances are transferred out of the food service fund (i.e. to the general fund), it is a local level decision for the school district to determine if and how it will pursue further collection and the timeframe for such collection.

8. Our school's bad debt (uncollectable meal balances) policy states that any unpaid meal balances will carry over to the following school year. Is this an acceptable practice, if they are an active student that will be returning the

following year? Yes, both active and inactive unpaid meal balances may carry over to the following school year. However, inactive uncollectable meal balances must be transferred from the NSFSA to the general fund or another non-Federal source at the end of the calendar year (December 31st). The school district may continue collection efforts of these funds in the future however food service can no longer expend any time or resources in the collection efforts. Monies collected after they are written off the NSFSA would then be recorded as miscellaneous revenue in the general fund or non-Federal source.

9. Can an SFA serve "alternate meals" as a method of controlling negative balances? Alternate meals are up to the discretion of the SFA and should be addressed in an SFA's local meal charge policy and be clearly communicated to households. For updated information regarding the requirements of alternate meals, please see USDA FNS SP 23-2017: *Unpaid Meal Charges: Guidance and Q&A*, March 23, 2017, <https://www.fns.usda.gov/school-meals/unpaid-meal-charges-guidance-and-q>

10. Is the time it takes to track and collect unpaid meal balances considered an allowable expense in the Non-profit School Food Service Account (NSFSA)? For example: A Food Service Director or Food Service Secretary's time? Yes, provided time sheets document how much time is spent tracking these debts. The time is allowable to the NSFSA up until it is determined that a debt is uncollectable at the end of the calendar year of December 31st.

11. If the school district uses the general fund to off-set the unpaid meal charges in the NSFSA, what coding should be used to reflect the transfer? School districts can have different accounting systems. MDE cannot dictate what accounts are used or where the transfer funds are coming from. MDE is enforcing the Federal regulations that state the food service account must be made whole for any inactive uncollectable meal balances at the end of each calendar year and that the funds cannot be paid from a Federal program. In reference to the MDE Public School Accounting Manual, SMP transfers to the NSFSA is through a fund modification using Revenue Major Class Code 611.

12. What happens when a student graduates or leaves the district and there is a positive balance? Is there any legal documentation that is required for positive balances and how to handle it or is it a School Food Authority (SFA) decision? The SFA should follow the Michigan Department of Treasury's rules regarding [unclaimed property](#) for positive student balances more than \$50. There is no guidance on positive balances below \$50. This is handled at the discretion of the SFA and should be addressed in the SFA's local meal charge policy. Households should be informed of the SFA's policy in advance. For additional information refer to USDA FNS SP 46-2016: *Unpaid Meal Charges: Local Meal Charge Policies*, July 8, 2016, <http://www.fns.usda.gov/unpaid-meal-charges-local-meal-charge-policies> and please see USDA FNS SP 23-2017: *Unpaid Meal Charges: Guidance and Q&A*, March 23, 2017, <https://www.fns.usda.gov/school-meals/unpaid-meal-charges-guidance-and-q> for requirements and recommendations.

13. What should a charge policy be? School Food Authorities (SFAs) should develop charge policies that best meet the needs of the parents and students, as well as the financial needs of the food service program. The policies should adequately encourage payment from those fiscally responsible and not punish the students. Outreach must be provided to clearly communicate the charge policies to parents and students. For additional information refer to USDA FNS SP 46-2016: *Unpaid Meal Charges: Local Meal Charge Policies*, July 8, 2016, <http://www.fns.usda.gov/unpaid-meal-charges-local-meal-charge-policies> for requirements and recommendations. SFA's written bad debt (uncollectable meal balances) policy and meal charge policy must be provided to MDE during the Administrative Review and Resource Management Review.

14. If my School Food Authority (SFA) operates under the Community Eligibility Provision (CEP) or is non-pricing such as a Residential Child Care Institution (RCCI), do I need to have a meal charging policy and bad debt policy?

If all buildings within an SFA are CEP or non-pricing a written meal charging policy is not required for students; however, if there are sales for adult meals and/or ala carte items, a written meal charging policy is highly recommended to ensure proper compliance with USDA regulations. Adult meals and ala carte sales must meet the pricing requirements found in: <https://www.fns.usda.gov/nonprofit-school-food-service-account-nonprogram-food-revenue-requirements> and the revenue from these sales must accrue to the NSFSA per 7 CFR Part 210.14 (f)(3).

15. Should adult meals be addressed in a written meal charging policy and bad debt policy?

Adults may not incur negative balances because adult meals must be paid in full at the time of service. Adult meals and ala carte sales must meet the pricing requirements found in: <https://www.fns.usda.gov/nonprofit-school-food-service-account-nonprogram-food-revenue-requirements> and the revenue from these sales must accrue to the NSFSA per 7 CFR Part 210.14 (f)(3).

16. Are School Food Authorities (SFAs) required to maintain records related to bad debt (uncollectable meal balances)?

Yes. Once inactive negative meal balances become uncollectable and are made whole in the Non-profit School Food Service Account (NSFSA), records relating to those charges must be maintained in accordance with 7 CFR 210.9(b)(17) and 7 CFR 210.15(b).

Questions regarding these FAQs may be directed to the Office of School Support Services, Fiscal and Administrative Services unit by email to MDE-schoolnutrition@michigan.gov or by calling 517-373-1073.