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Introduction

The Child and Adult Care Food Program (CACFP) is a Federally-funded Program that provides payments for eligible meals served to participants who meet age and income requirements. Meals served by participating institutions and facilities must meet minimum guidelines set by the U.S. Department of Agriculture (USDA). The CACFP helps institutions and facilities serve well-balanced, nutritious meals to the participants in their care. Serving nutritious meals helps improve and maintain the health and nutritional status of participants in a day care environment and can help them develop and maintain good eating habits.

Institutions earn Federal reimbursement for meals served to eligible children, and eligible adults in an adult day care center, when the meals meet regulatory requirements. In addition, institutions which are or sponsoring organizations of day care homes (DCH) or centers are provided Federal funds to accomplish administrative activities in support of the facilities which provide meals to children. State agencies are responsible for providing the structure and oversight of institutions’ operation and use of and accountability for Federal funds. Management plans and budgets are tools used by State agencies and institutions to manage the financial systems of the CACFP.

Background

The Code of Federal Regulations (CFR) at 7 CFR 226.6(b)(1)(iv)(C) require CACFP institutions to submit an organizational management plan and annual budgets as part of the application process to ensure Program and fiscal integrity.

Reviews and audits have been conducted periodically by the Food and Nutrition Service (FNS) and the USDA Office of Inspector General (OIG).

1995: OIG Audit No. 27600-6-AT

- OIG audited the DCH component of CACFP due to the results of State and Federal Program reviews. OIG selected five States for inclusion in the audit. The audit found serious types of regulatory noncompliance and inadequate internal controls by States and sponsoring organizations, and OIG recommended changes to CACFP review requirements and management controls.

1999: OIG Audit Report No. 27601-0007-SF or 27601-3-SF

- The OIG conducted targeted audits which were referred to collectively as “Operation Kiddie Care.” These audits confirmed the findings of the 1995 audits and developed additional findings as well. Findings related to State agencies and sponsoring organizations included the misuse of administrative funds. FNS was required to strengthen requirements of the Program in many areas of the CACFP.


- Required institutions to employ an appropriate number of monitoring personnel based on the number and characteristics of their facilities.
• Required institutions to meet the viability, capability, and accountability performance standards.

2004: Child and Adult Care Food Program: Improving Management and Program Integrity (2nd Interim rule)

• Provided options for simplifying the institution’s application process and made agreements permanent.

2011: Child and Adult Care Food Program: Improving Management and Program Integrity (Final rule)

• Allowed participating institutions to submit only the names of publicly-funded programs it is newly participating within since the previous year rather than reiterating their entire list each year.

• Required that an “institution’s governing board of directors” must: (1) Meet on a regular basis; and (2) have the authority to hire and fire the institution’s executive director (i.e., the board must be independent of the executive director’s control).


• Required sponsoring organizations’ boards to be composed of a majority of members of the community who are not personally financially interested in its activities, or related to its personnel or to each other. Also, to adhere to less-than-arms-length requirements, board members must recuse themselves from votes on decisions relating to their own compensation and that of immediate family members and financially related parties.

• Required sponsors to sign an annual disclosure of potential conflicts of interest, including specific identification of any dealings with “less-than-arms-length” entities and any relationships between officers, board members, and employees.

• Require that program application materials and NDL submittals include full legal names and any names formerly used.

Who Administers the Program?

USDA’s FNS administers CACFP through grants to States. The Program is administered within most States by the State educational agency. In a few States it is administered by an alternate agency, such as the State health or agriculture department.

Independent centers and sponsoring organizations of DCHs and/or centers enter into agreements with the administering State agency to assume administrative and financial responsibility for CACFP operations. The CACFP provides reimbursement for nutritious meals and snacks served to eligible children and adults who are enrolled for care at participating DCHs, child care centers, At-Risk Afterschool Meal Programs, emergency shelters, or in adult day care centers.
About This Guidance

This handbook specifically focuses on plans for institutions (independent centers and sponsoring organizations) to conduct organized and fiscally responsible operations of the CACFP. Management plans outline the institution’s policies and procedures for administering and monitoring its own operations and those of its sponsored facilities. Budgets outline the use of CACFP and other funds for meeting Program requirements.

FNS recognizes that maintaining a high-quality CACFP requires a commitment to excellence on the part of institutions and caregivers. We applaud the efforts of the many dedicated persons who ensure that the participating children and adults are served wholesome, attractive, and nutritious meals in a sociable environment while meeting the requirements for Federal assistance.

The term ‘institution’ is used for both independent centers and sponsoring organizations.

Sponsoring organizations can take several forms:

1. A public or nonprofit private organization that is responsible for the administration of the CACFP in:
   - One or more DCHs;
   - One or more child care centers, emergency shelters, at-risk afterschool care centers, outside-school-hours care centers (OSHCC), or adult day care centers which is a legally distinct entity from the sponsoring organization (affiliated or unaffiliated centers);
   - Any combination of child care centers, emergency shelters, at-risk afterschool care centers, OSHCC, adult day care centers, and DCHs; or

2. A for-profit organization that is responsible for the administration of the CACFP in any combination of two or more child care centers, at-risk afterschool care centers, adult day care centers, or OSHCCs which are for-profit centers and are part of the same legal entity as the organization. A for-profit sponsoring organization may sponsor only those centers that are legally part of the sponsoring organization (affiliated centers) and may not sponsor DCHs.

Following are examples of types of sponsoring organizations:

- A nonprofit institution that sponsors DCHs could also sponsor centers.
- A nonprofit institution, such as a Community Action Agency, could sponsor both affiliated and unaffiliated centers.
- A for-profit business could sponsor child care centers that it owns and operates (affiliated centers only).
Part 1. Institution Management Plans – General Guidance

The purpose of this part is to provide guidance for State agency staff in all aspects of the institution management plan process. It will assist State agency staff in establishing written policy and procedures for developing, reviewing, approving, and monitoring management plans. State agencies will use institutions’ management plans to evaluate their viability, capability and accountability (VCA).

A. Developing the Management Plan

CACFP regulations require State agencies to develop application procedures to determine the eligibility of institutions. The application for sponsoring organizations must include a management plan.

Although the regulations do not require independent centers to submit a management plan, all institutions must demonstrate they have internal controls in place and document they meet the required performance standards.

The regulations provide specific requirements for sponsoring organization management plans. All new sponsoring organizations are required to submit a management plan as part of the Program application. Sponsoring organizations also are required to submit revisions to their approved management plan when changes are made and annually certify that the approved management plan on file at the State agency is current and up to date.

B. New Institutions/Sponsoring Organizations

Following is the list of required elements of a management plan.

1. Detailed information must be obtained on the organization’s management and administrative structure, identifying owners, principals, and individuals responsible for specific CACFP, administrative, food service, and care-giving duties.

2. The Board of Directors is responsible for setting policy, fiscal guidance, and ongoing governance. It regularly reviews the organization’s policies, Programs, budgets and operations. Decisions are documented in board minutes which are maintained and available for review.

   Board Members Vote

   Board members must recuse themselves from voting on decisions relating to their own compensation and that of immediate family members and financially related parties.

   In addition, the Board should have a screening system to identify any criminal confiscations of Board members and sponsoring organization responsible principals/individuals (RP/I) which would disqualify them from the Program.
3. An institution’s administrative budget must include projected CACFP administrative earnings and expenses.

4. The institution must outline the procedures it will use to administer the CACFP in, and disburse payments to, the facilities under its sponsorship.

5. The institution must maintain appropriate records to document compliance with CACFP requirements, including budgets, accounting records, approved budgets and amendments, and, if a sponsoring organization, management plans and appropriate records on facility operations [7 CFR 226.6(b)(1)(xviii)(C)(3)];

6. The institution must demonstrate that its participation will help ensure the delivery of CACFP benefits to otherwise unserved facilities or participants according to the State agency criteria.

   The State agency must develop criteria for determining whether a new sponsoring organization’s participation will help ensure delivery of benefits to otherwise unserved facilities or participants, and must disseminate these criteria to new sponsoring organizations when they request information about applying to the CACFP [7 CFR 226.6(a)(1)(xi)];

7. The institution must provide mandatory training on CACFP duties and responsibilities to key staff (as defined by State agency) from all new sponsored facilities prior to the beginning of CACFP operations. Topics must include instruction, appropriate to the level of staff experience and duties on:
   - The CACFP meal pattern,
   - Meal counts,
   - Claims submission,

An acceptable Board consists of a majority of the members whose livelihood is independent from and who holds no personal fiscal interest in the institution’s activities and who are not related to each other or to its personnel.

State agencies must determine if any member of the Board of Directors has fiscal ties to the sponsoring organization or the sponsoring organization’s staff. Those members may not have acceptable detachment to make decisions for the CACFP institution based on solely what is best for the institution, whether or not the decision affects the Board member’s fiscal position.

State agencies must also determine if any members of the Board of Directors are also sponsoring organization officials or family members of the sponsoring organization’s officials. The definition of family member and the number and type of family members permitted on a Board of Directors are governed by State law. For purposes of this determination, the State agency may accept the sponsoring organization official’s response as to whether Board members are family members and the nature of the relationship. However, a State agency may request clarification if the official’s response is not consistent with other information concerning the board; for example, if Board members have the same last name as the Executive Director.
8. Sponsoring organizations are required to employ sufficient monitoring staff to adequately conduct required review activities. A Full-Time Equivalent (FTE) staff year is the amount of work that one person, working full-time 40 hours per week, would perform in a year. 7 CFR 226.16(b)(1) requires that sponsoring organizations have:

- 1 FTE for each 50 to 150 DCHs it sponsors; and/or
- 1 FTE for each 25 to 150 centers it sponsors.

Activities that may be considered monitoring include:

- Preparation and review of files before conducting a review;
- Conducting the review;
- Writing the review report;
- Technical assistance related to review findings;
- Follow-up activities, including review of corrective action and closure of the review; and
- Activities related to the annual updating of children’s enrollment forms [7 CFR 226.16(b)(1)].

State agencies are required to establish factors that it will consider in determining whether a sponsoring organization has sufficient staff to perform required monitoring functions [7 CFR 226.6(b)(1)].

Sponsoring organizations must demonstrate that they have an adequate number of FTEs to accomplish the annual monitoring requirements for their DCHs and/or centers.

Documentation includes providing job descriptions that include the percentage of time each staff person devotes to monitoring-related activities.

9. Sponsoring organizations must include in their respective management plan, policies restricting outside employment by all employees that interferes with an employee’s performance of Program-related duties and responsibilities, including outside employment that constitutes a real or apparent conflict of interest [(7 CFR 226.16(b)(7)].
EXAMPLE: A sponsoring organization’s monitor also works full-time with a tax preparation office during tax season. The monitor would be unable to conduct reviews of providers during the day if they work elsewhere full-time; therefore, this demonstrates a conflict of interest.

10. The management plan must include procedures the sponsoring organization will implement to comply with the requirement to maintain complete and appropriate records of the following on file as required by 7 CFR 226.15(e) and other State agency requirements;

- Copies of applications and supporting documents submitted to the State agency:
  - Facility participant enrollment forms (except for emergency shelters, at-risk afterschool, or OSHCCs (7 CFR 226.2));
  - Facility participant Income Eligibility Forms (not emergency shelters or at-risk afterschool centers) including tier I children in tier II DCHs;
  - Source documents used to classify tier I DCHs; e.g., income, school, census);
  - Daily records to support facility claims;
  - Daily records indicating the number of meals by type, served to persons performing labor necessary to the food service (not DCHs);
  - Copies of invoices, receipts, or other records required by the State agency to document administrative costs claimed by the institution;
  - Operating costs claimed by the institution as income to the CACFP nonprofit food service; and
  - Copies of all claims for reimbursement sent to the State agency.

- Receipts for all CACFP payments received from the State agency;

- Information containing the dates and amounts of disbursements to each sponsored facility;

- Copies of menus and any other food service records required by the State agency;

- Copies of facility review reports, with location, date, problems noted, required corrective action, approved corrective action plans, and implemented corrective action plans;

- Information on training sessions, date, location, attendees, and topics presented; and

- Documents of annual training for each staff member with monitoring functions.
11. Sponsoring organizations of DCHs must provide a description of its system for making tier I determinations, and a description of the system of notifying tier II homes of their options for reimbursement [7 CFR 226.6(b)(1)(iv)].

**Using the Management Plan for Statewide Program Improvement**

Throughout an annual operating cycle, a trend of similar inaccuracies by institutions may develop. The State agency may add an element to the management plan addressing the trend. This recordkeeping requirement would not be an additional State agency requirement. [CACFP 09-2013, *Additional State Agency Requirements*, March 29, 2013.]

### C. Participating Institutions

Participating institutions are not required to submit a renewal application. Instead, they are required to annually submit:

- Updated licensing information for each independent center or sponsored facility participating in CACFP. The State agency may choose to obtain this information directly from the State licensing agency rather than requiring submission by the institution;

- A single certification that any information previously submitted to the State agency is current, or that the institution has submitted any changes or updates to the State agency. This certification must address all required elements. State agencies may add to this list other information required annually for proper administration of the Program, including but not limited to the information described in 7 CFR 226.6(f)(3)(iv);

- For sponsoring organizations, a budget for the upcoming year and, if required by the State agency, a budget for independent centers.

Additionally, participating institutions must provide mandatory training sessions for key staff (as defined by the State agency) from all DCHs and adult day care facilities not less frequently than annually. Topics must include instruction, appropriate to the level of staff experience and duties on:

- The CACFP meal pattern;
- Meal counts;
- Claims submission;
- Claim review procedures;
- Recordkeeping requirements;
- Reimbursement system; and
- Compliance with civil rights requirements.

All annual responsibilities contained in 7 CFR 226.6(f)(1) continue to apply.

State agencies should refer to the prototype offered in CACFP 19-2011, *Child and Adult Care Food Program Annual Information Certification*, April 8, 2011.
D. Performance Standards

Performance standards outline expectations for institutions’ administration of the CACFP. All new institutions must demonstrate they meet the three specific performance standards required by CACFP regulations. Participating institutions must certify they maintain these performance standards through the application process. The State agency can only approve applications from new and participating institutions that meet the performance standards, and must deny applications from institutions which do not meet the performance standards that demonstrate its VCA.

Performance Standard 1 – Financial Viability and Management

A new or participating institution must be financially viable. This examination of the institution’s fiscal and planning abilities can be a form of self-evaluation for the institution as it outlines and assesses the details of its own operation. The institution needs to document in the application that:

- There are adequate resources to operate the CACFP on a daily basis (funding sources).
  - Specifically, what are the sources of the institution’s income and expenses?
    - The institution’s budget may include, among other items, income from children’s tuition and meal reimbursement.
    - Does the institution already have sufficient enrollment of children or enough sponsored centers or DCHs to support the expenses it has included in its budget? If not, has the State agency judged it a reasonable expectation that the institution will be able to do so?
    - Has the institution correctly determined the amount of reimbursement it is likely to receive on a monthly basis (number of children identified or estimated to be eligible for free, reduced-price or paid meals multiplied by the number of meals it expects to claim)? If not, the State agency may provide technical assistance and determine the institution’s level of skill in developing a realistic budget and whether these sources of income are likely to support the institution’s operation on a daily basis.
    - Has the institution identified the numerous expenses of operating a business beyond those of food service; such as, property taxes and insurance, salaries, licensing and building maintenance, and childcare supplies? Again, the State agency can use this information to determine if the organization has the skills and information needed to maintain a financially viable child care institution.

- There are sufficient recruitment opportunities to support approving an additional institution’s participation. If the applicant is a sponsoring organization, the State agency is also required to ensure the sponsor has acceptable recruitment policies and it is not simply recruiting from other sponsoring organizations.

- There are adequate resources to pay employees during periods of temporary interruptions in CACFP payments (with non-Program funds);
• There are adequate resources to pay debts when fiscal claims have been assessed against them (with non-Program funds);

• The institution can document its financial viability (via audits, financial Statements, etc.); and

• The submitted budget contains costs that are necessary, reasonable, allowable, and documented.

**Performance Standard 2 – Administrative Capability**

The new institution must be capable of administering the CACFP. To demonstrate administrative capability, the new institution must document that it has:

• Appropriate and effective management practices in place to ensure CACFP-compliant operations;

• Adequate number and type of staff;

• Adequate number of monitoring staff (sponsoring organization);

• Written policies and procedures that assign CACFP responsibilities and duties (sponsoring organization); and

• Written policies and procedures that ensure compliance with civil rights compliance (sponsoring organization).

**Performance Standard 3 – Program Accountability**

New and participating institutions must have internal controls and other management systems in place to guarantee fiscal accountability and other CACFP operational requirements. The new institution must document and guarantee it has:

• An independent governing board of directors consisting of a chairperson and members who are neither related to one another nor the institution director, nor have a personal financial interest in the institution. For-profit sponsoring organizations are not required to have a board, so the owner's accountability will be evaluated;

• Fiscal accountability including a written financial system with management controls;
  
  o Fiscal integrity and accountability for all funds and property, received, held, and dispersed;

  o Integrity and accountability of all expenses incurred;

  o A system ensuring claims will be processed accurately, and timely;

  o Funds and property are safeguarded and used for authorized CACFP purposes; and

  o A system of safeguards and controls in place to prevent and detect improper financial activities by employees.
• Recordkeeping systems to account for and retain required Program records; such as, training documentation, reviews, corrective action, and serious deficiency processes, etc.;
  o Provide adequate and regular training of sponsoring organization staff and sponsored facilities in accordance with 7 CFR 226.15(e)(12) and (e)(14); 226.16(d)(2) and (d)(3).
  o Perform monitoring in accordance with 7 CFR 226.16(d)(4) to ensure that sponsored facilities accountably and appropriately operate the Program.
  o If a sponsor of DCHs, accurately classify DCHs as tier I or tier II in accordance with 7 CFR 226.15(f); and
  o Have a system in place to ensure that administrative costs funded from Program reimbursements do not exceed regulatory limits set forth at 7 CFR 226.12(a); 226.16(b)(1); and

• Meal service operations comply with CACFP requirements, such as;
  o Provide meals that meet the meal patterns set forth in 7 CFR 226.20;
  o Operate a food service that conforms with applicable State and local health and sanitation requirements;
  o Comply with civil rights requirements;
  o Maintain complete and appropriate records on file; and
  o Submit accurate claims for reimbursement.

As a way of evaluating VCA, the State agency could review the Board minutes for the three most recent meetings and determine if CACFP oversight is documented in the minutes [7 CFR 226.6(b)(1)(viii) and CACFP 09-2013, Additional State Agency Requirements, March 29, 2013.]

E. Additional Topics Covered in the Management Plan

Procurement

The management plan is an appropriate document for the State agency to collect the institution’s procurement procedures for foods, supplies, equipment, and other goods and services. Proper procurement procedures are required on purchases of any amount. Small purchase procedures are allowed for purchased goods and services with a total value under $150,000. Competitive sealed bids are necessary for purchased goods and services with a total value over $150,000. Each institution must have a process for each type of procurement.

State and Local Thresholds

State governments and local organizations may set procurement-related thresholds that are different than the Federal thresholds. In these cases, institutions must follow the requirements with the lowest threshold.

State agencies are obligated to require all institutions to follow the procurement provisions established in 7 CFR 226.22 [7 CFR 226.6(j)] or institutions may use their own procedures for procurement with CACFP funds, however:
• Public institutions must comply with State or local laws and standards established in 7 CFR 3016.36,

• Private nonprofit institutions must comply with standards established in 7 CFR 3019.40- .49,

• For-profit institutions must comply with standards established in 7 CFR 3015.180-.184,

See the procurement guidance and trainings offered by the National Food Service Management Institute and CACFP 01-2013 Federal Small Purchase Threshold Adjustment, October, 10, 2012.

Banking

The CACFP regulations do not require institutions to maintain any specific type of banking system. CACFP funds may be commingled with other funds in one single bank account or they may be kept separate from other funds in a segregated bank account. However, if funds are commingled, the institution and State agency must be able to track CACFP-related income and expenses separately from other funds.

Support Documents

Submission of supporting documentation is necessary for some elements of the management plan.

• An organizational chart, or similar document, is necessary to determine what positions are associated with the operation of the CACFP.

• Monitoring schedules are needed to evaluate a sponsoring organization’s ability to conduct reviews.

• Training plans are required to demonstrate compliance with specific sponsoring organization training requirements.

• Governing board composition is necessary to determine compliance with performance standard 3. (For-profit institutions are not required to have a board, so the owner’s ability to meet performance standard 3 must be documented.)

• Written policies such as the institution’s compensation policy will establish consistency in treatment of similarly-titled staff.

• Written procedures are needed to document the institution’s internal control processes.

State Agency Forms

A well-written management plan will provide more detail than simply listing the basic information required, but instead, will clearly lay out the institution’s methods for meeting Program requirements. Interrogative management plans elicit comprehensive answers. State agencies’ forms are poorly developed if they simply ask questions that allow yes/no answers. Similarly, questions that are not answered completely by the institution do not provide the level of information needed to adequately evaluate the institution. State agencies must follow up with institutions to ensure that the appropriate level of detail is provided to ensure adequate review of the institution.
Best practices include:

- Offering a form that collects monitoring FTE information and includes the State staffing factors, instead of, “List the number of monitors and how many hours they perform monitoring functions.”

- Creating an element in the management plan regarding the institution recordkeeping practices for review records, banking and fiscal records, board meeting minutes, claim records and training records, such as where the records are stored, who has access to the records, etc.

- Asking the institution to describe its accounting systems, how they are organized, who is responsible, and how they are used.

Types of management plans

A State agency may develop one management plan prototype form that all the institutions’ use, or develop a management plan prototype for a specific type of institution, such as:

- Independent centers;
- Sponsoring organizations of unaffiliated centers;
- Sponsoring organizations of affiliated centers;
- Sponsoring organizations of DCHs;
- Multi-Program sponsoring organizations; and
- Multipurpose sponsoring organizations (which sponsor the CACFP and non-CACFP programs).

Sponsored centers are considered either “affiliated” or “unaffiliated.”

Part 2 of this guidance covers general requirements for all independent centers and sponsoring organizations.

Part 3 outlines additional requirements specific to the type of institution.

F. Reviewing & Approving the Management Plan

The State agency should only approve a management plan that includes an adequate response from the sponsoring organization or independent center. A simple Yes or No to a question requiring details must be returned for additional information. It is also important to match responses listed in the management plan with budget and cost allocation plans.
State agencies are obligated to notify a new or participating institution, in writing, of the application approval or disapproval, within 30 calendar days of receipt of a complete application [7 CFR 226.6(b)(3)].

A complete application is one that in which all the necessary information has been submitted for State agency evaluation.

<table>
<thead>
<tr>
<th>Best Practice</th>
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<tr>
<td>Include in the written notification of the approved budget, the number of monitoring FTE’s established at the time of approval. Monitoring FTE’s can fluctuate as the sponsoring organization adds or reduces sponsored facilities.</td>
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G. Revising/Amending a Management Plan

The State agency should include in its written application approval procedures instances when sponsoring organizations should submit revisions to the management plan. For example, the State agency’s procedures may require sponsoring organizations to submit revisions during the year when factors within the management plan change.

The State agency will require a sponsoring organization to revise its management plan when Program reviews uncover differences in how the sponsoring organization is operating; however, this is not the preferred method since it is after-the-fact and may signal a lack of administrative capability of the sponsoring organization to alert the State agency of changes in critical management functions.

H. Monitoring the Management Plan

The State agency will use a sponsoring organization’s management plan throughout the year as a living document that can be referred to for information about the sponsoring organization’s ongoing activity, and certainly during a review to ensure the institution is operating according to its plan.

Administrative functions outlined in the management will be evaluated as part of a Program review to determine compliance with requirements outlined in the Monitoring Handbook for State Agencies CACFP Handbook. Rereading the management plan prior to the review is critical for informing the State agency monitors’ of what procedures they should find at the sponsorship. When the monitor knows what to expect, they will more easily recognize variations in operation outside what the sponsoring organization stated in its management plan and what the State agency had approved.
Part 2. Budgets – General Information and Guidance

The purpose of this part is to provide general budget information and guidance to State agency staff and institutions participating in the CACFP. It further highlights information to consider when reviewing and approving budgets to ensure fiscal viability and accountability and compliance with Program requirements. The budget must reflect the institution’s anticipated needs and financial resources to operate the CACFP.

Once the initial budget has been approved, the institution is expected to adhere to it or to submit appropriate amendments to the State agency for approval should the need arise. The institution’s actual expenditures will be submitted to the State agency for review and approval with the institution’s monthly claim for reimbursement. The State agency will determine what level of detail is required to be submitted with the claim; such as only the expenditures, or the expenditures plus receipts. Some State agencies will require receipts only during reviews.

There are five types of institutions that must submit a budget for the State agency’s approval:

- Independent centers (as a new applicant and then as the State agency requires);
- Sponsoring organizations of DCHs;
- Sponsoring organizations of affiliated centers;
- Sponsoring organizations of unaffiliated centers, and
- Multipurpose and multi-Program sponsoring organizations.

Institutions must submit an administrative budget to include projected CACFP administrative earnings and expenses and non-Programs funds that may be used in Program administration. The budget must include sufficient detail for the State agency to determine whether the expenditures are allowable, necessary, and reasonable [7 CFR 226.6(f)(1)(iv)].

The budget must reflect the institution’s anticipated needs for the coming fiscal year, detail line item costs, and support allocation of costs. The budget also must identify an adequate level of funding for all required administrative functions, such as monitoring and training. If budgeted costs exceed the expected CACFP reimbursement, institutions must indicate how these costs will be covered with non-Program funds. Based on all of this information, the State agency can assess whether the institution is financially viable, has adequate financial resources to withstand temporary interruptions of CACFP payments, and can continue to operate when fiscal claims are assessed against the institution.

The State agency will establish a method for institutions to identify and budget all costs of operating the Program including the administrative time spent on claim preparation, and all required Program paperwork and monitoring activities. In addition to meeting regulatory requirements, the budgeting process will help the institution learn about the reimbursement process and how much it will cost them to operate the Program, establish Program revenue, and identify non-Program revenue sources to pay for unfunded CACFP costs.

Institutions must account for all costs of operation through the consistent application of Generally Accepted Accounting Principles (U.S. GAAP). State agencies must determine if the institution is utilizing acceptable accounting practices via the budget and monitoring activities.
Examples of budget forms are in Part 4 of this guidance; Resources.

A. Costs

1) Allowable Costs

The Federal Government has identified costs that are generally allowable for all institutions that expend Federal funds. However, due to limitations imposed by CACFP statutory, regulatory, and policy considerations, some costs that are listed in the fiscal regulations may not be allowable CACFP costs. Therefore, State agencies must refer to FNS Instruction 796-2, Rev. 4 Financial Management in the Child and Adult Care Food Program, when reviewing an institution’s expenditures for CACFP reimbursement.

CACFP funds may be used to pay for expenditures that meet FNS’s definition of allowable, are reasonable and necessary, and have State agency approval. An institution may have costs that are necessary and reasonable for operation of the institution but are not allowed as Program costs. Program funds may not be used to cover unallowable costs.

Institutions must include all costs in the budget. The allowable costs must be approved in advance by the State agency through the annual budget approval process before the institution can charge them to CACFP.

Once a cost has been determined ‘allowable’, the State agency must then use good judgment to determine if a cost is ‘necessary’ and ‘reasonable’ for the operation of the CACFP before approving that cost in the institution’s budget.

Necessary and Reasonable

A cost is allowable when it meets the guidelines of FNS Instruction 796-2, Rev. 4. However, for purposes of the CACFP, the cost must also be necessary and reasonable. Necessity is determined by the nature of the activity, while reasonableness is determined by the amount of the cost. A cost is necessary when the activity or function is:

- Generally recognized as ordinary,
- Required for the institution to operate the Program, and
- Accomplished as part of operating the Program according to regulatory requirements.

A cost is considered reasonable when the amount of the cost reflects what a sensible or practical person would pay in the same situation. In business, there is sometimes an abundance of funds so luxuries become the norm, but extravagance is not appropriate for a business operating CACFP, that is a Federally-funded Program. The costs to the Program must be reasonable for a publicly-funded Program. These costs are the result of sound business practice.

EXAMPLES:

1. An independent center cooks food from scratch. The old oven is no longer working and is not repairable so the center purchased a new oven to cook meals for the children. This would be a reasonable action. However, if the oven costs $3300 and the center serves 15 children, this expense is not reasonable.
2. A sponsoring organization may hire a bookkeeper to handle financial management, including claim consolidation and submission and disbursement of payments. The pay rate for the bookkeeper should be reasonable and comparable to what other bookkeepers providing similar services would receive.

3. A sponsoring organization leases an expensive luxury vehicle to conduct CACFP pre-approval and monitoring visits. The vehicle is also used to support non-CACFP functions. The sponsoring organization allocated a portion of the vehicle lease in the CACFP budget. Although a leasing a vehicle may be a necessary expense in order to accomplish monitoring visits, the allocated portion of the lease would be denied in the budget because leasing an expensive luxury vehicle is not necessary or reasonable. However, the mileage costs for conducting CACFP visits are allowable as long as proper documentation, such as a mileage log, is maintained.

Additional Requirements for Costs to be Allowable

The use of Federal funds requires a high standard of consideration. In addition to being necessary and reasonable, costs must meet a number of other requirements. The following considerations must be made of each cost approved.

Legal under State and Local Law

In order to be allowable, the cost must be authorized or at least not prohibited under Federal, State or local laws and regulations. Some State or local laws are more restrictive than Federal laws and regulations and may therefore prohibit certain costs.

EXAMPLE: Some States or local governments/organizations have lower small purchase thresholds than the current Federal small purchase threshold. An institution wishing to vend meals or procure other services must make sure it follows the State/local small purchase threshold if the State/local small purchase threshold is lower than Federal threshold.

Conform with Federal Regulations

The cost must conform to limits or exclusions, as set forth in FNS Instruction 796-2, Rev. 4 and Federal laws, or other governing regulations. If a cost is prohibited by the IRS, it cannot be allowed in CACFP.

EXAMPLE: Personal expenses are not deductible as business expenses under both the IRS rules and CACFP regulations. On the other hand, car expenses associated with conducting CACFP reviews are allowable business expenses under all Federal laws, and reimbursement is based on the actual mileage driven to conduct the reviews.

Consistent Treatment

The cost must be treated consistently through the application of U.S. GAAP principles. This means the same cost cannot be charged differently depending on the Program to which it is assigned [FNS Instruction 796-2, Rev. 4 (Section VII A 2)].

EXAMPLE: If an organization pays $0.55 per mile for business travel for the staff that conducts non-CACFP travel, it cannot claim $0.60 per mile for CACFP business travel.
Applicable Credits

The cost must be net of all applicable credits. Only the actual cost to the institution can be claimed; any purchase discounts, rebates, or allowances received, must be credited to the CACFP either as a cost reduction or by cash refund [FNS Instruction 796-2, Rev. 4 (Section VII A 3 h)].

**EXAMPLE:** A sponsoring organization budgets the full cost of 5 boxes of copier ink cartridges to the CACFP ($100). A review of the sponsoring organization’s invoice for the supplies shows the cost had been discounted based on the quantity ordered (5 percent discount); therefore, only the actual cost ($95) may be claimed.

Adequate Documentation

All costs charged to the CACFP must be properly documented with receipts, invoices, or mileage logs, and time and attendance records. Payments made must be documented in bank statements, registers, and accounting systems. The State agency may identify the specific documentation it expects based on general business practices.

**EXAMPLE:** The State agency may require a mileage log be kept by each employee who is claiming mileage reimbursement. The mileage log requires the dates of each trip, the origin and destination of each trip, the purpose for each trip, and some method of determining mileage.

**EXAMPLE:** If costs are claimed for janitorial services related to the CACFP, invoices including the hourly rate, time to complete job and total cost must be submitted. This should be an official invoice on letterhead and cancelled checks, electronic payment transactions, or paid invoices must be available for review.

Prior Approval

All costs require prior approval before they can be incurred – that is, obtaining the State agency’s or FNS’ written permission ahead of the expenditure is required. This approval generally occurs during the State agency’s annual budget-approval process or when the institution has submitted an amendment to the budget.

**EXAMPLE:** A sponsoring organization of centers wants to attend a conference devoted solely to the CACFP. The expenses will include air fares, lodging, meals, and registration fee. The sponsoring organization must first get permission from the State agency before making arrangements for the conference. If the sponsoring organization attends the conference without asking the State agency for approval, the expenses associated with the conference are unallowable costs and cannot be charged to CACFP. The sponsoring organization would have to pay for these expenses with non-CACFP funds.

2) Direct Costs and Indirect Cost Plans

Some costs are easy to identify as directly attributable to the CACFP meal service or administrative duties. Other costs are difficult to attribute to only CACFP activities because the costs cover non-Program activities also; these are referred to as indirect costs and require special approval. Due to differences in activities and accounting practices of institutions, a cost may be direct in one institution and indirect in another.
Direct costs are costs that can be easily identified directly to, and only to, the CACFP. Some examples of allowable direct costs are:

- Food service employee salaries when their only function is to prepare CACFP participants’ meals;
- Depreciation or use allowances on equipment used in the nonprofit food service Program when the only meals are for participants;
- Cost of purchased food for use in the CACFP; and
- Salaries for an office receptionist when working solely for the CACFP.

Indirect costs are those that are incurred for both CACFP operations and non-CACFP activities in which the institution may be involved, such as the cost of water and utilities that are on a shared meter for both the institution’s CACFP and its non-CACFP activities. The institution must indicate in its budget, what method it will use to determine what portion of the total cost should be allocated to CACFP.

Allocation is the procedure used to determine the amount or percentage of cost charged to a particular function/activity or Program, based on the benefits received, not the source of funds available to pay for the cost. The institution must provide the State agency with the method it will use to assign or allocate these shared costs.

Some examples of costs that are shared among Programs are:

- Depreciation and use allowances on buildings and equipment used for common purposes;
- Costs of operating and maintaining facilities, equipment, and grounds;
- Salaries for an office receptionist and central accounting staff; and
- Payroll services.

Indirect costs are assigned through an indirect cost rate. An indirect cost rate is developed through a cost allocation rate proposal. The cost allocation rate proposal is used to show how costs are allocated between two or more Programs. The indirect cost rate is computed by dividing the indirect costs by a direct cost base of allowable and unallowable costs. Sponsoring organizations must submit a cost allocation rate proposal when indirect costs are listed in the budget.

**EXAMPLE:** A Head Start Program operates CACFP. Both the Head Start Program and CACFP use gas, electricity, water, and payroll services. These costs are shared costs as they are not directly associated with only one Program, but with both. The institution must develop a method to assign to the CACFP its fair share of these indirect costs (i.e., a portion of the costs). The method used is a cost allocation rate proposal.
See FNS Instruction 796-2, Rev. 4 (Section VII B & C and Exhibit I) and Part 3, Section D of this guidance for more information on direct and indirect costs and cost allocation rate proposals.

3) **Allocable Costs**

Some costs benefit more than one Program or benefit both CACFP and non-CACFP activities. Only the share of the costs that benefits the CACFP can be assigned as Program costs. In other words, the cost must be properly allocated across CACFP and non-CACFP activities.

Some costs may be pooled together in a way that the individual expenses cannot be specifically assigned to the CACFP. Examples may include occupancy fees, telephone, electricity, or data processing. In these instances, costs must be divided among the various users or Programs based on their percentage of use. This ‘allocation’ of costs ensures that the CACFP is not charged more than its ‘share’ of the overall cost.

**EXAMPLE:** A sponsoring organization of DCHs also acts as a child care resource and referral agency. The director spends 40 percent of his or her time on CACFP activities and 60 percent on resource and referral activities, and this is documented through the time sheet and time distribution report. The director can allocate 40 percent of his or her salary to CACFP and the rest to resource and referral. Staff that work on both CACFP activities and resource and referral activities must charge their time according to the percentage of time spent performing each program’s activities. Time sheets documenting time spent on CACFP activities are required.

When space costs are allocated between CACFP and non-CACFP, the actual square footage used by the Program must be determined. When the space is used by multiple programs, the space must be prorated by Program time to total time used [FNS Instruction 796-2, Rev. 4 (Section VII B)].

**EXAMPLE:** A sponsoring organization rents 1250 square feet of office space for $1500 per month. The office space used by Program staff is 750 square feet.

\[
\begin{align*}
1250 \text{ total square feet} & \div 750 \text{ Program square feet} = 60 \text{ percent of total space is used by Program staff.} \\
\$1500 \times 60 \text{ percent} & = \$900. \text{ The Program’s rental space costs $900 per month.} \\
\text{Program staff spends 75 percent of their time working on CACFP duties and 25 percent of their time on non-CACFP activities. The space Program staff use must also be allocated by Program time to non-Program time.} \\
\$900 \text{ Program space x 75 percent Program time} & = \$675 \text{ Program share to CACFP.} \\
\text{Therefore, the sponsoring organization can only charge $675 per month to the CACFP.}
\end{align*}
\]

See FNS Instruction 796-2, Rev. 4 (Section VII B) for more information on the allocation requirements. Additionally, there may be instances when a sponsoring organization administers various aspects of the CACFP. In that case, the sponsoring organization must allocate its costs between CACFP activities.
EXAMPLE: A sponsoring organization of both DCHs and unaffiliated centers spends 30 percent of monitoring time on DCHs and the rest of the monitoring time on centers. The allocated monitoring time for homes would be 30 percent and for centers would be 70 percent. See Part 3, Section D of this guidance for additional information on allocation plans and the Cost Worksheet in Part 4, Section C for a sample form.

4) **Costs Require Prior, Specific Written, or FNS Approval**

All expenses claimed by institutions require written approval prior to expenditure. The State agency will provide its approval in writing. Once the State agency has approved the budget, the institution may expend funds as presented in the budget. States may accept budget amendments after the annual budget approval process and should develop procedures for institutions to submit amendments.

Some expenses require additional levels of approval. In addition to prior approval, cost items within several budget line item categories require what FNS has termed, “specific” prior written approval. Additionally, some expenses require FNS approval in addition to State agency approval prior to expenditure and request for reimbursement. State agencies must have systems in place to ensure the proper levels of evaluation and approval are provided for budgeted expenditures.

**“Specific” Prior Written Approval**

In many cases, a budget category will include numerous expenditures. In some cases, FNS has required State agencies to identify, evaluate and approve individual line item expenditures within the budget categories. These are listed in the FNS Instruction 796-2, Rev. 4 (Exhibit I). When the State agency provides approval for these expenditures, the State agency’s written approval must identify the ‘specific expenditure’ that is being approved.

For costs that require specific prior written approval, the State agency’s approval of an entire budget category (such as, salaries) does not constitute adequate specific prior written approval for these costs.

The State agency must determine portion of travel costs attributable to the CACFP and whether the cost is necessary and reasonable as a CACFP expense. Regardless of whether this request has been made within the annual budget or as an amendment, the State agency’s approval must be in writing and specify the expense item and amount approved. Denial of a cost must also be in writing and include appeal rights.

Expenses requiring specific prior written approval may not be incurred until the sponsoring organization has obtained written approval in advance from the State agency of both the total cost and the amount of the cost that can be charged to CACFP.

When an institution does not request specific prior written approval before incurring the cost, the cost must be disallowed and will result in a recovery of administrative funds.

Some examples of costs requiring specific prior written approval are:

- Smoke detectors and fire extinguishers to enable tier I DCH providers to meet licensing standards;
- Computer hardware and software;
• Equipment purchases and repairs;
• Professional crisis intervention counseling related to participation in CACFP;
• Most employee incentive payments and awards; and
• Severance payments.

See the sample letter in Section E of this guidance for an example of how the State agency may provide various levels of approval.

**FNS Approval**

Some costs require specific prior written approval by both the State agency and FNS. An example includes the costs of public and nonprofit institutions’ memberships in civic or community organizations.

Another example includes those transactions that ‘lack independence’, such as those between related parties. This can include those who are related by blood, family, business and legal relationships. These are called less-than-arms-length transactions, and all less-than-arms-length expenditures require the State agency’s written approval of each specific instance, as well as FNS’s approval.

**EXAMPLE:** An institution director who is contracting for legal services must request specific prior written approval from the State agency if the contract is with his or her attorney husband. This request for funds is made within the budget by not only the cost of the service, but the details regarding who will provide the service and their relationship to the institution’s responsible principals. After the State agency determines that the expense is necessary and reasonable, the request is forwarded to FNS for consideration and approval or denial.

Failure to request approval for such costs will make them unallowable and will result in the State agency’s required recovery of funds.

**5) Unallowable Costs**

An unallowable cost is a cost that may not be charged to the CACFP or claimed for reimbursement [FNS Instruction 796-2, Rev. 4 (Section VII A 4)]. The following are examples of unallowable costs:

• Costs that are not a reasonable expense specifically for the CACFP;
• Costs that are not necessary for the operation/administration of the CACFP;
• Costs that are not approved in the CACFP budget or a budget amendment;
• Costs that are not properly allocated between CACFP and other non-CACFP Programs;
• Less-than-arms-length transactions that are not properly disclosed and approved;
• Alcoholic beverages;
• Paying bad debts;
• Entertainment – including amusement, diversion, and social activities, and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities);

• Lobbying;

• Contracting with the sponsoring organization’s employees, officers or board members; and

• Recruitment incentive payments to employees of a sponsoring organization of DCHs, either with Program or non-Program money [7 CFR 226.16(m)]. Note: Recruitment incentives are an unallowable activity, even with non-Program funds. However, employees can be paid or evaluated on the basis of recruitment activities accomplished.

Since there are instances when the institution will wish or need to make expenditures to support non-CACFP activities, the institution must use non-CACFP funds to cover those costs.

Paying Overclaims with Program Funds

An “overclaim” occurs when the institution has claimed operational reimbursement, and in the case of a sponsoring organization’s administrative funds, in excess of what has been properly earned. When this occurs, the institution must find a non-Program income source to pay any overclaims and any unallowable costs. Often during the State agency review of the institution, unallowable cost items are identified and/or meals are disallowed due to non-compliant recordkeeping practices, such as missing income eligibility forms, missing invoices or receipts, missing meal counts, or missing attendance records.

The State agency will issue a fiscal action notice to the institution indicating it must repay a specific amount by a specific date. The institution may not use Program funds to pay the overclaim. The State agency may allow the institution to repay debt by offsetting the debt from future claims. If the entire overclaim cannot be offset with one claim, the State agency must charge interest for the unpaid balance.

EXAMPLE: An overclaim is established in the amount of $234 in administrative reimbursement and $188 operating (meal) reimbursement. In the next month, the sponsoring organization earns $1480 in administrative funds and $5600 in operational funds. The State agency offsets the debt and provides payment in the following amounts: $1480 - $234 = $1246 and $5600 - $188 = $5412. Because the sponsoring organization actually spent $1480 on administrative expenses, it must cover the shortage in reimbursement from other funds.

If a follow-up review is conducted, the sponsoring organization’s records one month following the debt recovery must show what non-CACFP funds were used to cover the debt of $234 and $188.

Sponsoring organizations may not use facility funds for administrative expenses, nor may they use administrative funds for facility reimbursement. Therefore, overclaims may not be paid from CACFP funds, and additional sources of non-CACFP funding are necessary.
B. Operating Costs and Administrative Costs

Allowable costs can be categorized as operating costs or administrative costs. Operating costs are costs for the preparation and service of meals including food, food service labor, nonfood supplies and food service equipment. Sponsoring organizations of DCHs do not have allowable operating expenses [7 CFR 226.15(e)(6)(ii)].

The FNS Instruction 796-2, Rev. 4 (Section VII D) limits administrative costs to the institution’s allowable expenses for planning, organizing and managing the CACFP.

1) Operating Costs

Operating costs represent allowable expenses incurred by an institution in serving meals to participants under CACFP. Each institution must maintain copies of invoices, receipts or other records to document operating costs claimed.

Operating Costs - Advertising/Public Relations

Advertising includes expenses related to advertising in newspapers, magazines, radio and television, direct mail, web pages, trade papers, and similar goods that is specific to the operation of the food service.

Public relations are activities which are dedicated to promoting the CACFP, such as pamphlets, news releases, and other information services to inform individuals, groups or the general public about the CACFP. FNS Instruction 796-2, Rev. 4 (Section VIII I 3) contains a list of allowable and unallowable advertising and public relations costs.

If advertising and public relations costs benefits Programs other than CACFP, these costs must be allocated between CACFP and non-CACFP Programs.

Operating Costs - Equipment and Depreciation

FNS Instruction 796-2, Rev. 4 defines equipment as an item of nonexpendable personal property with a useful life of more than 1 year and an acquisition cost of $5,000 or more per unit. A unit is defined as all components required to make equipment operational.

Operating equipment and vehicles and the depreciation associated with them must be used for the operation of the food service. Food service delivery vans would be an example of an operational vehicle cost.

When the equipment is used for CACFP and non-CACFP purposes, the amount of depreciation must be allocated. Refer to FNS Instruction 796-2, Rev. 4 (Section VIII I 13 b) for more information on depreciation.

**EXAMPLE:** Sponsoring organization A uses an $8,000 used vehicle as their method of transportation to conduct monitoring of its centers. The anticipated life span of the used vehicle is 10 years.

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**Documenting Depreciation**

All depreciation charged to CACFP must be documented and property records must be maintained. Exhibit D of FNS Instruction 796-2, Rev. 4 can be used to meet the recordkeeping requirements.
$8,000/10 years = $800 per year depreciation

$800/12 months = $67 per month depreciation

A use allowance may be used in lieu of depreciation when the item was originally purchased with non-Federal funds and after it has been fully depreciated. A combination of use allowance and depreciation may not be used. The maximum annual rate for use allowances for buildings and improvements cannot exceed two percent of the acquisition cost this language is not in the FNS Instruction 796-2, Rev. 4. For equipment, the maximum annual rate cannot exceed six and two-thirds percent (6\(\frac{2}{3}\) % or 0.066) of the acquisition cost [FNS Instruction 796-2, Rev. 4 (Section VIII 13, d (2)(c) and (3)(1)].

**EXAMPLE:** Sponsoring organization B bought an $8,000 copier and fax machine with private funds. The machine is now used for CACFP only. The use allowance that the sponsoring organization can charge to CACFP is $533 per year.

$8,000 x 0.066 = $528 per year. $528/12 months = $44 per month. The anticipated life span of the copier new is 3-5 years.

All depreciation claimed for reimbursement must be documented. Property records must be maintained. Exhibit D. of FNS Instruction 796-2, Rev. 4 can be used to meet the recordkeeping requirements.

**Operating Costs - Food**

Food costs include costs of purchasing ingredients for foods that are served to the participants, sales taxes and delivery fees, minus any rebates or reductions made to the price are always considered operating costs. All institutions and facilities, other than DCHs and sponsoring organizations of DCHs, must compute the cost of food or cost per child, per day used in the Program [FNS Instruction 796-2, Rev. 4 (Exhibit B)]. To determine food costs, use the following formula:

\[
\text{Estimated Annual Food Cost} \div \# \text{ of Days Open/Year} = \text{Cost of Food/Day} \times \text{ADA} = \text{Food Cost/Child/Day}
\]

\[
19,500 \div 240 \text{ days} = \$81.25 \div 25 \text{ children} = \$3.25
\]

Records of the cost and quantity of food purchased, cost reductions and/or rebates, and amount of food used must be maintained. Required food cost records may include the following:

- Procurement documents, including bids and contracts;
- Purchase orders;
- Delivery receipts;
- Invoices;
- Canceled checks;
- Itemized cash receipts;
• Purchase records;
• Cost records for transporting;
• Credits, returns and rebates; and
• Inventory records.

Operating Cost - Insurance Premiums

Premiums on insurance policies and deductible payments for minimal losses can be charged to the CACFP. This category does not include life, disability, or health care insurance provided to individuals, which is part of Labor and Employee Benefits. A description of the insurance policies showing the type and cost must be on file to support costs claimed. These costs must be allocated between CACFP and non-CACFP, if they are shared between two or more programs.

**EXAMPLE:** Insurance premiums paid on a policy that covers the food service delivery vans would be an allowable expense.

Operating Cost - Labor (Salaries, Benefits, and Taxes)

Operating labor includes the wages of personnel who prepare the food, serve the meals, clean up after the meal service, or any other meal service related duties. Labor operating costs also include prorated salaries that can be attributed to the meal service duties, such as planning, organizing, and managing the nonprofit food service. Proper documentation, such as timesheets and payroll records, must be kept in order to claim these costs. A labor cost is necessary when the activity or function is:

• Generally recognized as ordinary;
• Required for the institution to operate the Program; and
• Must be accomplished to fulfill regulatory requirements for proper and efficient operation of the Program.

**EXAMPLE:** A center employs three staff members who work entirely on the meal service and are not also responsible for other functions of the center. The center can claim the entire labor cost for these employees. The fringe benefits it pays employees and employment taxes are also considered part of labor cost.

Fringe benefits include vacation leave, health benefits, insurances and retirement benefits for CACFP staff. The employer’s share of Federal, State and local employment taxes, such as Social Security withholding tax and State unemployment taxes, are allowable as an operating cost [FNS Instruction 796-2, Rev. 4 (Section VIII I 23)].

Unallowable labor costs include:

• Compensation that is inconsistent with the institution’s written compensation policy;
• Retroactive salary or wage increases;
• Compensation based on the number of homes recruited;
• Noncompliance with Federal and State employment compensation or taxation requirements; and

• Labor costs that are not determined and documented in accordance with U.S. GAAP and FNS Instruction 796-2, Rev. 4 (Section VIII 23 b).

**Operating Cost - Membership, Subscriptions, and Dues**

This category includes membership costs in civic, business, technical, and professional organizations, and subscriptions to professional and technical periodicals. See FNS Instruction 796-2, Rev. 4 (Section VIII I 23 and 29 a and b) for allowable and unallowable costs.

**EXAMPLE:** The subscription cost to a professional food service magazine is an allowable CACFP expense.

**Operating Costs - Non-Food**

There are non-edible supplies necessary to operate the CACFP meal service. The institution must document the costs of these items with receipts and invoices. Allowable non-food supplies may include:

• Paper goods (napkins, forks and spoons);
• Cleaning supplies used directly for the food service operation, such as chlorine bleach, sanitizer, cleanser, and dish detergent;
• Food storage supplies, such as aluminum foil and plastic containers;
• Small kitchen supplies, such as serving utensils, eating utensils, trash cans for the kitchen, pots and pans, and small microwave ovens; and
• Expenses related to the delivery of meals to facilities, such as coolers and mileage expenses for food delivery.

**EXAMPLE:** A sponsoring organization prepares meals for all its centers and its delivery van travels a total of 410 miles a day to deliver food to all of the centers. The transportation cost is an allowable CACFP operating cost.

**Operating Cost - Services**

Allowable CACFP rental costs are lease fees for space, facilities, vehicles and equipment used in the operation of the food service; e.g., an office in the cafeteria for the food service supervisor. If his or her duties include both food service preparation and service (operational function) and claim consolidation (an administrative function) the cost of the space must be allocated between operating and administrative accounts.

The following apply when determining the allowable costs of any rental:

• A bona fide rental arrangement must exist between the institution and lessor;
• The rental must be properly procured;
• Rental costs must be reasonable; and
• Rental costs must be allocated between Program and non-Program use.
An institution may not include in its budget for CAFCP reimbursement, a rental fee for space, equipment or vehicles when the item is owned by the institution; however, the institution may be able to claim depreciation. An institution cannot claim depreciation and a lease fee for the same item.

Some leases require the State agency’s specific prior written approval:

- An example would be less-than-arms-length transaction leases. A less-than-arms-length lease is when one party to the lease is able to control or substantially influence the actions of the other party. Some examples of less-than-arms-length leases are:
  - Leases between the institution and a director, trustee, officer or employee of the institution;
  - Leases between the institution and a family member of a director, trustee, officer or employee of the institution; and
  - Leases between divisions of an organization [FNS Instruction 796-2, Rev. 4 (Section VIII I 34 a)].

- Utilities such as electricity, gas, water, sewer, and etc. in the budget, which are not included in the office lease or rental agreement. If the utilities are shared with another Program, allocate the portion of the utility costs applicable to the CACFP.

- Communications related costs are telephone, telegrams, fax, license fees for electronic mail software, Internet services, postage and messenger services. These costs must be allocated between CACFP and non-CACFP use if they are shared with other Programs. See FNS Instruction 796-2, Rev. 4 (Section VIII I 8) for more information.

- Contracted services include equipment, janitorial, trash pick-up or other services. Costs for these services require prior approval or specific prior written approval from the State agency, depending on the type and nature of the services to be purchased. See FNS Instruction 796-2, Rev. 4 (Section VIII I 34 a 1 and 2) for additional information.

These costs must be allocated between operational and administrative accounts if the costs support both operational and administrative functions, and between CACFP and non-CACFP use if they are shared with other Programs.

**Operating Cost - Training**

All staff with CACFP duties must be trained annually on Program requirements. The following are allowable costs for training child or adult care center staff with State agency prior approval:

- The cost of substitutes for child or adult care center employees required to attend training conducted during the center’s established hours of Program operations; and

- Travel and transportation costs that meet the requirements of FNS Instruction 796-2, Rev. 4, for child or adult care center employees required to attend training.

Refer to FNS Instruction 796-2, Rev. 4 (Section VIII I 30) for allowable and unallowable training costs.
Operating Cost - Travel

An operational cost for travel would include expenses for cooks to attend food service training. Documentation must be maintained in order to charge travel costs to CACFP [FNS Instruction 796-2, Rev. 4 (Section VIII I 30 a 2)]. Travel records include time logs, mileage logs, date, purpose of travel, destination, and name of individual traveling.

EXAMPLE: A child care center employs five food service employees and they are being sent to a one-day training on nutritious cooking techniques. The training is scheduled to take place from 8:00AM – 5:00PM, which are the center’s operational hours. The employees will drive about 180 miles to the training site. Because of the distance and timeframe, they are requesting overnight expenses for one night including meals and mileage. These are allowable as Travel Expenses if they meet the test of reasonableness. The registration fee is allowable as Participant Training.

2) Administrative Costs

Administrative costs are expenses incurred by an institution in planning, organizing, and managing CACFP. These costs may include labor for management, fringe benefits, traveling, and other costs necessary to manage and implement the Program [FNS Instruction 796-2, Rev. 4 (VII D 2)].

Administrative Cost – Advertising / Public Relations

Advertising media includes newspapers, magazines, radio and television, direct mail, web pages, trade papers, and similar goods; e.g., a sponsoring organization of an at-risk afterschool centers sending postcards to all of the families in the area to advertise the availability of free afterschool meals.

Public relations are activities which are dedicated to promoting the CACFP, such as pamphlets, news releases, and other information services to inform individuals, groups or the general public about the CACFP.

EXAMPLE: A sponsoring organization of centers budgets $250 to print pamphlets containing information about CACFP and plans to pass them out at the local churches. This cost is allowable if the cost is reasonable based on the number of flyers, etc. If the content were not 100 percent CACFP, the cost must be allocated.

FNS Instruction 796-2, Rev. 4 (Section VIII I 3) contains a list of allowable and unallowable advertising and public relations costs that are specific to administering the CACFP. If advertising and public relations costs benefit Programs other than CACFP, these costs must be allocated between CACFP and non-CACFP Programs.

Administrative Cost – Day Care Home Licensing Expenses

Administrative funds may be used to assist unregistered or unlicensed DCH providers to comply with licensing standards and meet the requirements of 7 CFR 226.16(k). Sponsoring organizations must have specific prior written approval from the State agency prior to incurring licensing expenses. Eligible DCH providers may receive one-time assistance of up to $300 for smoke detectors, fire extinguishers, fire and safety inspection costs, or licensing fees. Refer to FNS Instruction 796-2, Rev. 4 (Section VIII I 12) for additional information.
Administrative Cost - Equipment and Depreciations

Equipment is an item of nonexpendable personal property with a useful life of more than 1 year and an acquisition cost of $5,000 or more per unit. A unit is defined as all components required for the equipment to be operational. For example, in order for the copier to work it must contain an ink cartridge, so that defines the “unit” [FNS Instruction 796-2, Rev. 4 Glossary].

Depreciation is the expense associated with the use of equipment, vehicles and facilities. This involves costs associated with physical deterioration and loss in value of equipment.

Depreciation is based on acquisition cost and the life expectancy of the asset. Depreciation may be claimed as an allowable administrative cost. Donated equipment may not be depreciated. The cost of depreciation for idle or obsolete equipment is unallowable. When the equipment is used for CACFP and non-CACFP purposes, the amount of depreciation must be allocated. Refer to FNS Instruction 796-2, Rev. 4 (Section VIII I 13) for more information on depreciation.

A use allowance may be used in lieu of depreciation when the item was originally purchased with non-Federal funds and after it has been fully depreciated. A combination of use allowance and depreciation may not be used for an asset, with some exceptions. The maximum annual rate for use allowances for buildings and improvements cannot exceed two percent of the acquisition cost. For equipment, the maximum annual rate cannot exceed six and two-thirds percent of the acquisition cost [FNS Instruction 796-2, Rev. 4 (Section VIII 13 d (2)(c) and (3)(b))].

Administrative Costs - Insurance Premiums

Premiums on insurance policies and deductible payments for minimal losses can be charged to the CACFP. This category does not include life, disability or health care insurance provided to individuals. A description of the insurance policies showing the type and cost must be on file to support costs claimed. These costs must be allocated between CACFP and non-CACFP if they are shared with other Programs. Refer to FNS Instruction 796-2, Rev. 4 (Section VIII I 21) for additional information.

Administrative Cost - Labor (Salaries, Benefits, and Taxes)

Administrative labor costs include salaries and fringe benefits paid to staff that perform administrative duties. Allowable labor costs include the employer’s share of Federal, State, and local employment taxes such as Social Security withholding tax and State unemployment taxes. Fringe benefits include vacation leave, health benefits, life and disability insurances, and retirement benefits for staff. Refer to FNS Instruction 796-2, Rev. 4 (Sections VII D 2, and VIII I 23, and the Q&A under Labor Costs) for additional information.

Salaries or hourly wages are allowable when the rates that are charged are reasonable for the service provided. The rates charged are reasonable if they are consistent with rates paid for similar work in the area in which the institution is located, the years of experience, duties associated with the position, and the range of responsibility.

The following are some examples of administrative labor tasks:
• Reviewing free or reduced-priced applications;
• Preparing the monthly claim; and
• Conducting CACFP monitoring and training visits.

Administrative labor costs for both salaried and hourly employees must be documented.

Documentation includes:

• Time sheets;
• Time and attendance reports;
• Time distribution records;
• Payroll records.

Administrative Cost - Membership, Subscriptions, and Dues

This category includes membership costs in civic, business, technical and professional organizations and subscriptions to professional and technical periodicals. See FNS Instruction 796-2, Rev. 4 (Section VIII I 29) for allowable and unallowable costs. If the membership or subscription benefits Programs other than the CACFP, these costs must be allocated between CACFP and non-CACFP use.

EXAMPLE: Using proper small purchase procedures, an independent center purchases an annual membership to the local Club Store.

With prior approval and a cost allocation plan to estimate CACFP costs and non-CACFP costs (diapers, snacks food for employees, etc.), the allocated cost of the membership is allowable.

Administrative Cost - Services

Administrative offices and costs associated with their care and maintenance (not decoration or improving) are allowable, if reasonable. Allowable expenses may include office space rental, utilities, maintenance, janitorial services, telephone service, and contracted services.

EXAMPLE: A sponsoring organization of centers rents office space for its operation of CACFP. The State agency can approve this expense when there is a rental agreement and the rental cost is reasonable.

If office space is shared by more than one Program, the institution must prorate the costs and charge only the CACFP portion to the CACFP budget. In addition, the institution must document the method used to calculate costs charged to the CACFP. See Rental Costs in FNS Instruction 796-2, Rev. 4 (Section VIII I 17 and 36) for additional information.

EXAMPLE: A store front houses a child care center and a resource and referral agency. Both share the monthly rent of $2,000 for a total of 1,600 square feet. Each Program occupies half of the 1,600 square feet. The center must calculate the percent and monthly cost allocated to CACFP which is $1,000 (50 percent of the total rent) and 800 square feet (50 percent of the total square feet) for its CACFP share.

Some leases, including those that involve a less-than-arms-length transaction, require State agency specific prior written approval. A less-than-arms-length lease is when one party to the lease is able to control or substantially influence the actions of the other party.
EXAMPLE: A sponsoring organization leases administrative offices in a building owned by the mother of the sponsoring organization’s owner. The sponsoring organization must disclose this fact with the State agency and obtain State agency and FNS approval prior to entering into a lease contract.

Some leases include utilities, some do not. The institution should include utilities, such as electricity, gas, water, sewer, in the budget when they are not already included in the office lease or rental agreement. If the utilities are shared with other Programs, the portion of the utility costs applicable to the CACFP must be allocated. The method of prorating all utility costs must be documented through the cost allocation plan.

EXAMPLE: An adult day care center shares an electrical meter with an adjacent business (a dry cleaner) that shares the building. The center and its neighbor must determine how the electrical costs will be allocated based on square footage or possibly, the electrical usage based on the type of equipment used in each side of the building. For example, the adult day care center with heating and cooling system and one oven may have a smaller electrical usage than a dry cleaning business.

Telephones and related communications costs are allowable CACFP costs. This includes cost incurred for business-purchase cell phones, land lines, faxes, license fees for electronic mail software, internet services, postage, and messenger services. These costs must be allocated between CACFP and non-CACFP use if they are shared with other Programs. See FNS Instruction 796-2, Rev. 4 (Section VIII I 8) for more information.

Costs for certain contracted services, such as office maintenance, accounting services, facility monitoring services, and translation services require prior approval or specific prior written approval from the State agency depending on the type and nature of the services to be purchased. FNS Instruction 796-2, Rev. 4 (Section VIII I 34) has more information on contracted or purchased services.

Records necessary to support contracted services include contracts, invoices, receipts, and cancelled checks. An institution that hires contractors to conduct training sessions for its DCHs and centers must have the above documentation to support costs charged to CACFP.

Examples of allowable contracted services include:

- Food equipment rental;
- Vended meals;
- Trash service related to the CACFP;
- Janitorial service related to the CACFP; and
- Insect and rodent control services.

**Administrative Cost - Training**

All staff with CACFP duties must be trained annually on Program requirements. The following are allowable costs, with State agency prior approval:

- Room rental fees;
- Fees for speakers when the presentation is directly related to Program requirements;
- Costs of child care services provided for center personnel attending the training;
• Costs for meals and nonalcoholic beverages served to participants but not to guests, when Program training is presented concurrent with the meal service;

• Materials and supplies that are not included in Materials and Supplies or Publication, Printing or Reproduction Costs line items; and

• Costs incurred for minor amounts of time spent on participant training on nonprogram requirements or subjects when the costs are incidental to Program training and not otherwise unallowable.

Refer to FNS Instruction 796-2, Rev. 4 (Section VIII I 30) for allowable and unallowable administrative training costs.

**Administrative Costs - Travel**

Administrative travel costs are expenses for transportation, lodging, subsistence and related costs associated with attending training, conducting monitoring reviews, etc., for the CACFP. All travel costs require the State agency’s prior approval. Allowable travel costs may include:

- Mileage allowances paid to the traveler;
- Commercial air, train, and bus fare;
- Public transit costs;
- Registration fees;
- Rental car; and
- Parking fees.

Travel insurance and parking tickets and fines are example of travel costs that are unallowable. Travel costs can be paid using a mileage rate, per diem or actual expenses, depending on the type of travel and the method normally used by the institution.

Documentation must be maintained in order to charge travel costs to CACFP [FNS Instruction 796-2, Rev. 4 (Section VIII I 30)]. Travel records include time logs, mileage logs, date, and purpose of travel, destination, and name of individual traveling.

Refer to FNS Instruction 796-2, Rev. 4 for detailed information on allowable and unallowable costs. Other references include 2 CFR 230 and 2 CFR 225.

**C. Income / Funds**

Sources of funding can vary by organization type, size, and structure. In addition to the reimbursement from CACFP, some institutions fund their operations from tuition fees and fundraising activities, while some institutions may have other funding streams generated by activities outside of the CACFP. The State agency can verify other sources of income through financial audits, financial or tax reports, etc.

*Program Income* is the gross income generated from activities supported by the CACFP. When costs are incurred to generate the Program income, these costs may be subtracted from gross Program income if the costs were not charged to the Program. In other cases, income comes...
into the Program. Regardless of source, all of these types of income must be maintained in the nonprofit food service account and be used for only approved costs:

- Participant payments for meals in pricing Programs;
- Payments for adults’ meals in child care centers when the cost is not deducted from operating costs;
- Revenue from non-Program activities when separation of Program and non-Program is inappropriate;
- Proceeds from the disposition of real and nonexpendable personal property acquired with FNS funds. The CACFP portion of the sale of the asset will be refunded in the same proportion as its participation in the cost;

**EXAMPLE:** Equipment or assets purchased with CACFP funds may be sold or donated, but the resulting funds or credit, etc. must be credited to the Program.

- Royalties and income earned from sale of licensing of copyrighted work developed under the Program;
- Cash donations earmarked for use in the Program food service [FNS Instruction 796-2, Rev. 4 (IX D 6 a)];
- Interest earned on advance administrative or meals service funds that can be retained;
- Funds committed by the institution to the Program;
- Funds received for Program food services activities from any other Federal, State, intermediate or local government source; or
- Funds received from the sale of unused of unneeded supplies purchased with Program funds [FNS Instruction 796-2, Rev. 4 (IX D 6 b)].

The following items are always excluded as Program income:

- Internal transfers of funds, to meet cash flow needs, between components of the same institution; i.e., agencies of the same government or divisions of an institution pursuant to the institution’s written funds management policies;
- Bona fide third party short term loans to meet cash flow needs;
- Revenues raised by a public recipient under its governing powers (a county that raises funds for general county expenses and that also sponsors centers);
- Interest earned on CACFP advance funds that must be returned to the State agency; or
- Income generated from non-Program functions and activities, such as, fundraisers held by non-CACFP staff and advertised as raising funds for expenses that are not related to the CACFP.
EXAMPLE: Sales of the children’s’ art work to raise funds for art supplies would be excluded as Program Income.

Best Practice

The State agency may wish to design its budget forms in a manner that institutions must report non-CACFP income and/or expenses separately from the CACFP income and/or expenses.

In this way, the State agency will have the necessary information to verify there are non-CACFP funds available for use in supporting the CACFP, but its approval of the CACFP budget can be easily communicated with the institution, without confusing Program income/expenses with non-Program income/expenses.

D. Evaluating the Budget

FNS Instruction 796-2, Rev. 4 requires all budgeted costs be sufficiently documented so the State agency may evaluate costs and estimated amounts as allowable. State agencies need payment schedules, cost allocation plans, contracts for services, etc., in order to make their determination of necessary and reasonable for the CACFP. Once the State agency approves the budget, the institution can have confidence it will receive reimbursement for Program expenditures.

Cost Allocations

If the sponsoring organization of DCHs is part of a multipurpose or multi-State organization, its cost allocation plan must be carefully reviewed as part of the budget review process. For more information on how to review cost allocation plans, please see Part 3, Section D of this guidance.

Prior Approval / Specific Prior Approval

Several costs that are claimed by sponsoring organizations of DCHs require additional special approval from the State agency or FNS before the budget can be approved. Please see Part 2, Section D on General Budget Approval Information for additional guidance regarding these costs.

Less-Than-Arms-Length Transactions

According to FNS Instruction 796-2, Rev. 4, a less-than-arms-length transaction is defined as one under which one party to the transaction is able to control or substantially influence the actions of the other(s). Such transactions include, but are not limited to, those between:

- Divisions of an organization;
- Organizations under common control through common officers, directors, or members; and
- An institution and a director, trustee, officer, key employee of the institution or immediate family, either directly or through corporations, trusts or similar arrangements in which a controlling interest is held.
Institutions are responsible for disclosing any less-than-arms-length transactions that are part of its administrative budget. The State agency must review all less-than-arms-length transactions to ensure that the amount of cost involved in the transaction is not greater than it would be had it been procured through an arms-length transaction. All less-than-arms-length transactions require specific prior written approval from the State agency.

As part of the budget review, the State agency should also be aware of any possible unreported less-than-arms-length transactions. If the State agency suspects that the sponsoring organization failed to disclose a less-than-arms-length transaction, it should request further documentation from the sponsoring organization to ensure that all potential less-than-arms-length transactions are properly reported.

**Unallowable Costs vs. Unapproved Costs**

When a State agency finds that CACFP funds have been used to pay for an unapproved cost, the State agency must disallow the cost. Even if the expenditure would have been allowable had it received prior approval, the cost becomes an unallowable cost. The State agency can either request that the funds be returned to the State agency or off-set future payments; either of these actions is appealable.

**Allowable but Unfunded Costs**

The CACFP is intended to supplement overall Program expenditures rather than cover the entire cost of the Program. As a result, institutions must have additional funds to cover costs that the CACFP reimbursement does not cover. This difference is typically bridged by tuition, fundraising efforts, and/or other government funding received by the institution. The budget must identify how the unfunded costs will be covered and details about that source so the State agency may determine the viability of the CACFP when it is expending more than it earns on a routine basis.

**EXAMPLE:** A sponsoring organization spends $80,000 on food and food service labor at its central kitchen to prepare all of the meals for its sponsored facilities. The reimbursement earned is $62,000 per year. The difference of $18,000 ($80,000-$62,000) is unfunded by the CACFP, but is a real cost that the sponsoring organization must fund. This represents an allowable cost; however it is unfunded and therefore must paid for with non-CACFP funding.

The $18,000 unfunded cost for food service labor should still be included in its budget since it is a CACFP cost. Additionally, the budget will include the unfunded amount and how the costs will be covered with non-Program funds in order to maintain the sponsoring organization’s fiscal integrity.

**E. Approving / Denying a Budget**

Before approving an institution’s budget, the State agency must ensure that the budget has enough information to allow the State agency reviewer to determine the allowability of all budgeted costs. If at any point the State agency reviewer is less than confident that all budgeted costs are allowable, more information should be requested from the institution. There will be instances when the State agency staff will need to question the institution about a cost item or the value of a cost item.
EXAMPLES:

- The food costs seem low,
- A contracted service is listed without supporting documentation, or
- The wages for operational staff seem too high or low for that institution.

The State agency may negotiate with the institution to change these questionable figures in the budget. If the institution refuses to change the figure or provide the appropriate documentation, the State agency must not approve (deny) that portion of the budget.

In addition, the State agency reviewer should pay special attention to the allowability of any disclosed less-than-arms-length transactions.

Disallowance of Individual Costs or Dollar Amounts

During the annual budget approval process, the State agency may disallow certain costs or dollar amounts that do not meet the criteria for allowability without denying the entire budget. The State agency must also disallow during the monitoring process, any cost which requires prior approval or specific written prior approval, but for which appropriate approval was not obtained.

Proper Notification

The written notice of budget approval or denial must be sent via certified mail, or by electronic means that allow verification of delivery. If any portion of the budget is denied, the notification must include appeal rights.

See a sample letter in the Text Box below. If the State’s budget request and approval process is via an electronic system, there may perhaps be no “letter” of approval issued. Whether the State agency provides hardcopy or electronic approval of expenses, the communication must be clear about which expenses are being given State or Federal specific written approval, or prior approval, and which are being denied. The Best Practice Text Box in Section C of this part suggests State agencies request that CACFP and non-CACFP income and expenses be reported in a way that separates these types of expenses so institutions may clearly identify which expenses they are requesting for CACFP approval.
Date:

Dear [Institution representative],

The [State agency] has approved the Program Budget for [Name of institution] for the Program year 2014 (October 1, 2013 – September 30, 2014). Attached is a copy of the approved budget for your file.

This approval acts as prior written approval to any cost item that was fully disclosed in your agency’s submitted budget that required such approval per FNS Ins. 796-2, Rev. 4. This includes 5 monitoring FTEs. Written approval is given to the following expenses that require specific approval.

- Request for travel costs of $4500 for the State agency’s annual training for [Names].
- Request for travel costs of $1450 for the CACFP portion of the tri-State training on the Serious Deficiency process.
- Request for the contracted janitorial service for $400/month for the ABC day care center.

All documentation to support said costs must be retained in your agency’s fiscal year 2014 budget file.

Unallowable Costs:

- The request for the cost of Child Care Theory Now, an educational publication, is denied as an unallowable cost since it is a resource for education and curriculum rather than the CACFP’s food service.
- The costs for the Child Care Educational Meeting were provided as requested since your organization administers this Meeting as a fundraiser in addition to, but outside of the routine child care center meal activities. Though these expenses are unallowable for CACFP reimbursement, they were provided to document additional costs of ABC’s non-CACFP activities. Review of this information during the budget approval process allows the Department of Education-CACFP to appropriately determine, using all fiscal sources possible, whether the CACFP is financial viable.

Appeal rights are enclosed for the denied costs. Any costs charged to the Program are subject to review, and claiming any of these unapproved costs after receiving this letter, demonstrates a lack of fiscal integrity by the sponsoring organization.

If you have any questions regarding this budget approval please do not hesitate to contact me directly. Thank you for implementing Program integrity through the budgeting process.

Sincerely,

State agency representative

Enclosure: Appeal Procedures
F. Revising or Amending Budgets

At any point after the budget is approved, the organization may submit revisions or amendments to the budget for State agency approval. The State agency should follow its own procedures for approving or denying amendment requests. An organization is prohibited from spending CACFP funds in accordance with the amended budget until the amendments have been reviewed and approved by the State agency.

Budget Revisions Required of Sponsoring Organizations

The following are examples that require the submission of a revised budget:

- Changes to salaries and/or benefits, equipment, travel, consultant and/or contract services;
- Line-item increases or decreases in dollar amount;
- When participation increases or decreases (based on the State agency’s established threshold);
- When the number of facilities (homes or centers) decreases or increases (based on the State agency’s established threshold); and,
- When an institution changes from self-prep to vended meal service (i.e., a center that used to prepare its own meals now purchases the meals from a food vendor).

G. Review of Fiscal Records

When reviewing expenditures, the State agency should ensure that each item that is paid for with CACFP funds has been approved in the budget. The State agency will also review the sources of verification for the expenses. These can include receipts, bills, invoices, time logs, mileage logs, etc. Additionally, the State agency should verify that all food money is being disbursed to the sponsored facilities and is not being used for administrative costs.

The State agency may collect administrative costs monthly along with claim information. This allows the State agency to monitor actual expenses as compared to projected expenses on the approved budget. Any administrative expense that is submitted with the monthly claim must have been part of the approved budget, or the expense must be disallowed.

If source documents (invoices, etc.) are not reviewed on a monthly basis with the claim, the State agency will analyze the institution’s financial records on its on-site Program review to ensure that all administrative reimbursement is being spent in accordance with the approved budget. A special analysis will be conducted of contracts and leases to ensure that there are no undisclosed less-than-arm-length transactions among the expenditures. Other documents that have not been provided to the State agency as part of the monthly claim review process can be

Remember

Cost increases submitted in a budget amendment are not allowable Program costs until the amendment is approved.

Best Practice

Since the State agency has the authority to establish budget revision procedures, it can establish a line-item-change threshold in its budget revision procedures; such as 10 or 15 percent.

When a line item expense increases or decreases by the established threshold, the institution is required to submit a budget revision.
reviewed while on-site. Refer to the *Monitoring Handbook for State Agencies CACFP Handbook* for detailed monitoring instructions.

**Corrective Action, Disallowance of Costs, and Serious Deficiencies**

If any discrepancies are found during any part of the Program review, the State agency must require the institution to take corrective action in order to address the issues and the State agency must take fiscal action if CACFP funds have been misspent. If a review of a sponsoring organization’s expenditures reveals costs that were not approved in the administrative budget, these costs must be disallowed and an overclaim for the amount must be assessed.

In severe cases, where the institution is unwilling or unable to properly expend and document expenditure of administrative costs in accordance with the approved budget, the State agency should utilize the serious deficiency process. Refer to the *Serious Deficiency, Suspension, and Appeals CACFP Handbook*.

**H. Questions and Answers**

1. **Is the cost of hiring an accounting firm to perform required taxation accounting an allowable CACFP cost?**

   The services of an accounting firm to conduct duties related to State taxation department is not a requirement for the management of the CACFP. It is a general business expense to maintain the institution’s nonprofit status with the State and to meet the State’s tax requirement. Therefore, the payment to an accounting firm for services to prepare State tax required information is an unallowable cost [FNS Instruction 796-2, Rev. 4 (VIII I 20)].

2. **May sponsoring organizations receive a partial reimbursement for CACFP business use of an employee’s individual cell phone plan?**

   No, only the institution’s costs are allowable, not individual expenditures.

3. **Is renting space in a private residence allowable?**

   Yes, when a bona fide arms-length rental exists with an independent third party and the Program share of the cost is reasonable.

4. **A sponsoring organization plans to have a float in a parade promoting the CACFP and will develop pamphlets to hand out along the parade route, at farmer’s markets, and at other community events. Is this an allowable CACFP cost?**

   The parade registration and pamphlets can be considered a CACFP outreach cost. The CACFP can be charged 100 percent if the float is strictly promoting the CACFP; but must be allocated if other Programs are being promoted. Another required consideration is the reasonableness of the amount allowed; the cost allowed as reasonable for promotions may be much less than the total cost.
5. A sponsoring organization staff member is interested in improving their public speaking and training skills. Is the cost of college or technical school an allowable CACFP cost?

The cost could be a training cost or an employee morale, health and welfare cost or credit. Whatever category, the institution would need to have a description of the benefit included in its compensation policies and be available to all similarly-titled employees. Also, this cost would require specific prior approval from the State agency and there would need to be adequate funds available. Some costs are allowable costs, however they end up becoming unfunded as there is not enough reimbursement dollars available to cover the approved costs.

6. Do any travel costs require approval by the State agency?

All travel costs require prior approval.

7. How is the A-133 Audit cost allocated?

Audits are to be allocated by Program dollars to agency dollars.

**EXAMPLE:** The CACFP brings cash flow of $250,000 to the institution. The institution earns $900,000 a year from various Federal and non-Federal Programs it administers. The cost of the A-133 audit is $4500. To establish the cost to the CACFP for the A-133 audit, the following calculations are conducted.

\[
\frac{250,000}{900,000} = 28\% \text{ of the institution’s earnings are CACFP}
\]

The Program share of the audit cost is determined by multiplying the cost of the audit by the percent of the institution’s funds that are CACFP -- $4500 \times 28\% = $1260.

In addition, if the institution sponsors both centers and DCHs, this amount would have to be further allocated between DCHs and centers based upon the CACFP dollars from each of the Programs.
Part 3. Additional Information for Institutions by Type

All sponsoring organizations, regardless of whether they sponsor DCHs, centers, or a combination of the two, or sponsoring organization of a CACFP facility and a non-CACFP entity, are required to include additional information in their management plans and budgets. Also, since these sponsoring organizations operate differently depending on what facilities they sponsor, there are special considerations that the State agency needs to take into account in evaluating the management plans and budgets.

See Section E of this part for questions State agencies may wish to ask all applicant sponsoring organizations to assist the State fully identify what type of organization it is and how it solely conducts CACFP, or programs in addition to the CACFP. Refer to Part 4, Section C of this handbook for examples of different budgets and worksheets to expand or support budget development.

A. Independent Center Budgets

This section provides guidance for State agencies to use in the proper implementation of regulatory requirements for review and approval of budgets submitted by independent centers [7 CFR 226.6(f)]. It is important to know something about the character of these types of centers.

Independent centers have varied enrollment size. Some independent centers have as few as 10 participants enrolled. Some centers care for hundreds of children 24 hours a day and 7 days a week in shifts. Reimbursement dollars could be small to large depending on the free, reduced-price, paid eligibility mix and enrollment size.

EXAMPLE: Independent center A has 50 enrolled participants; 30 participants approved in the free category, 15 in the reduced-price category, and 5 in the paid category. Independent center B also has 50 enrolled participants; 10 participants approved in the free category, 15 in the reduced-price category, and 25 in the paid category. Center A will receive more reimbursement than Center B based on the income eligibility of their participants.

In some cases, the Program reimbursement dollars may not be enough to pay for all of the Program costs.

EXAMPLE: Independent center Q receives $1500 per month in Program reimbursement, while its Program costs are $2480 per month. Independent center R receives $100 per month in Program reimbursement, while its Program costs are $2480 per month. Both of these Independent centers need additional funds to support the Program costs.

Independent centers must devote adequate funds to food costs. There is no regulatory requirement for the amount of funds devoted to food costs, but the State agency may set limits as part of corrective action to improve the quality of meals. To receive reimbursement the institution is obligated to serve meals that meet the appropriate meal pattern.

When approving the food cost line item it is important to be mindful of the dollars the institution indicates it is devoting to food costs.
**EXAMPLE:** Independent center Y, which is approved to serve breakfast, lunch, and afternoon snack and has 50 enrolled participants, indicates it will spend $1200 per month for food. Independent center Z, which is approved to serve morning snack, lunch, and afternoon snack and has 50 enrolled participants, indicates it will spend $1000 per month for food. Both centers are self-prep.

50 participants \( \times \) 3 meals per day \( \times \) 22 days per month = 3,300 meals per month

Independent center Y is saying it can prepare meals that meet the meal pattern requirements for a reimbursable meal at breakfast, lunch, and afternoon snack and only spend $1200 on food per month.

$1200 food costs \( \div \) 3,300 meals = 36¢ per meal.

- Is this a realistic figure for the meal types the center is providing?
- The value of the food cost budget line item is questionably low and more information is needed to approve this budget. The State agency would need to follow-up with this institution before approving the budget to identify and evaluate any other factors regarding the food costs. For example, are extensive donated foods available? Are the donations available on an ongoing basis? What documentation is there to verify these donations?

**Monitoring the Nonprofit Food Service Account**

State agencies must develop and implement a mechanism for independent centers to document the operation of their nonprofit food service account. The State agency is obligated to monitor all institution nonprofit food service accounts and review supporting documentation. Each State agency establishes the value for an excessive nonprofit food service account balance.

The State agency’s review process can be annual, conducted during the regular Program review process, or at a separate time established by the State agency. Institutions can be required to submit documentation electronically, in hard copy, or through any other established procedure.

Refer to Part 4, Section C *Nonprofit Food Service for Centers* for a sample form.

**Best Practice**

- State agencies forms for evaluating nonprofit status should describe what monitors will evaluate; such as, the approved budget, claims, invoices and revenue sources (CACFP reimbursements, other funds to cover unfunded Program expenses, and income to the food service);
- State agencies should establish a specific timeframe for document review; such as at, 3 months, 6 months, quarterly or annually.

**Support Documents**

The State agency may create a worksheet that each institution will use to demonstrate how the budget figures were established for their institution. The State agency is responsible for approving only necessary, allowable, and approvable budget items. The institution must support its cost items with appropriate documentation.
Documentation may include:

- Contracts for vended meals;
- Contracts for procured services, such as cleaning, etc.;
- Salary or wage information; and
- Procurement documents for any kitchen equipment purchased.

B. Sponsoring Organizations of Centers

A sponsoring organization of centers assumes the administrative costs and in some situations the operating costs for the CACFP at sponsored facilities. In this section, all facilities referenced will be centers, not DCHs. There may be any combination of two or more child care centers, at-risk afterschool centers, adult day care centers, or OSHCCs.

Affiliation

Sponsored centers are considered either “affiliated” or “unaffiliated.” An affiliated center is part of the same legal entity as the sponsoring organization; it is owned in whole or in part by the CACFP sponsoring organization. An unaffiliated center is legally distinct from the sponsoring organization. An example of an unaffiliated facility may be a Boys and Girls Club whose food service Program is sponsored by the local food bank.

Nonprofit sponsoring organizations may sponsor either affiliated or unaffiliated centers or a combination of both. For-profit sponsoring organizations may sponsor only those centers that are legally part of the for-profit organization.

Providing Reimbursement or Meals?

A sponsoring organization of either affiliated or unaffiliated centers may provide meal reimbursement or the actual meal to its centers.

If a sponsoring organization provides food to its sponsored centers, each month it must collect from each sponsored facility, documentation to enable it to compile the claim for reimbursement, such as meal counts, menus and attendance records. If the sponsor incurs all costs of the meal service then none of the reimbursement will be provided to the facility.

If the sponsoring organization provides reimbursement to its facilities for the food and meal service labor and supplies that the sponsored center is providing to participants, funds must be disbursed to each center within five working days of the receipt of reimbursement from the State agency [7 CFR 226.16(h)].

Administrative Support

<table>
<thead>
<tr>
<th>Administrative Rate - 15 Percent or Less</th>
</tr>
</thead>
<tbody>
<tr>
<td>The State agency must not approve a 15 percent cap without evaluating the actual administrative costs. Should the estimated or historical administrative costs be less than 15 percent, then it would be inappropriate to approve a 15 percent cap. The lessor of the two would be appropriate.</td>
</tr>
</tbody>
</table>
A sponsoring organization may retain a portion of the reimbursement for costs associated with administering the CACFP. It may retain up to 15 percent of the total CACFP reimbursement received or the actual net administrative costs incurred whichever is less. These costs must be included in the CACFP budget.

The amount a sponsoring organization may retain is calculated and approved in the annual budget; however, it is generally monitored on a monthly basis against the earned reimbursement for the meals served to eligible children. Cash-in-lieu of USDA Foods is not included in the calculation.

In certain situations a sponsoring organization can submit a written request to the State agency explaining why additional funds are required. Refer to Section D of this part, where a second agency is involved and a waiver is a possibility. The State agency must limit the costs approved in the sponsoring organization’s administrative budget to not more than 15 percent of the anticipated reimbursement for the budgeted timeframe or the amount of the waiver, whichever applies.

A waiver for additional funds may be approved when a sponsoring organization can:

- Provide justification that it requires funds in excess of the 15 percent threshold to pay its administrative costs; and
- The State agency is confident that there will be sufficient funding available to provide eligible meals to participants and the administrative costs are allowable and in accordance with 7 CFR 226.20.

**EXAMPLE:** The sponsoring organization of centers is a Head Start with affiliated centers and it has frequently-used bulk foods sent to each facility on a quarterly basis. Its economy of scale allows its centers to provide excellent meals at a reasonable cost. The sponsoring organization’s centers are spread over a large geographic area and have requested more than the allowable 15 percent for its administrative costs in overseeing all the centers. The State agency would evaluate menus, meal observation records, and administrative costs to determine whether to approve a waiver.

Refer to Section D of this part for additional information for a sponsoring organization of centers that is also sponsoring DCHs and/or operates Programs other than the CACFP. See Part 5, Section C, **Budget - Sponsoring Organization of DCHs and Unaffiliated Centers** for a sample budget form.

**C. Sponsoring Organizations of Day Care Homes**

The purpose of this section is to provide information and guidance to State agencies regarding the process for soliciting, approving, and reviewing an administrative budget for a sponsoring organization of DCHs.

A DCH is defined by 7 CFR 226.2 as an organized nonresidential child care Program for enrolled children in a private home, licensed or approved as a family or group DCH and under the auspices of a sponsoring organization. A sponsoring organization of DCHs is a public or private nonprofit organization that is entirely responsible for the administration of the CACFP in one or more DCHs.
A sponsoring organization is responsible for reimbursing sponsored DCHs for all eligible meals served to enrolled participants. It is also responsible for all other administrative duties that are required to comply with all Program regulations. In order to complete its administrative duties, a sponsoring organization is provided with administrative funds based on the number of active and claiming DCHs under its supervision. The current administrative payment rates may be found at http://www.fns.usda.gov/cnd/care/ProgramBasics/Payments/Rates.htm.

Use of Administrative Reimbursements

Sponsoring organizations of DCHs must abide by the cost principles found in FNS Instruction 796-2, Rev. 4. This Instruction covers general allowability of costs as well as the allowability or unallowability of specific items of cost. Please see Part 2 of this guidance on General Budget Approval Information for additional guidance regarding the criteria for allowable costs.

According to 7 CFR 226.16(m), sponsoring organizations of DCHs are prohibited from making recruitment incentive payments to their employees, either with Program or non-Program money.

Projecting Administrative Reimbursement

Each State agency may decide how sponsoring organizations of DCHs should project the upcoming year’s administrative reimbursement. For a new sponsoring organization, the projection should be based on a reasonable estimate of the number of DCHs the sponsoring organization expects to be participating under its auspices in the upcoming year. For a participating sponsoring organization, the projection should be based primarily on the number of participating DCHs the sponsoring organization sponsored in the previous year. The projection could be based on the number of homes claiming for a particular month, it could be based on the average number of homes claiming over the course of the year, or it could be determined in a different way. Any method is acceptable as long as the State agency is able to reasonably anticipate the amount of administrative funds a sponsoring organization will receive.

Carryover from the Previous Fiscal Year

A sponsoring organization of DCHs may carry over up to 10 percent of its total administrative reimbursement from the previous fiscal year into the current fiscal year. Carryover funds must be based on the total amount of administrative payments received by the DCH sponsoring organization during the previous fiscal year. Administrative funds remaining at the end of the fiscal year that exceed 10 percent must be returned to the State agency. If carryover funds are not expended in the succeeding fiscal year, the DCH sponsoring organization is required to return the unused funds to the State agency.

Because the final administrative claims may not be known when the annual budget is submitted to the State, the sponsoring organization would make its best estimate of the carryover amount when preparing the annual budget. The estimate should be based on a comparison of the administrative payments the sponsoring organization expects to receive with the amount of allowable administrative expenses the sponsoring organization expects to incur. As shown in the example below, this will yield the 10 percent carryover figure and any amount that must be returned to the State agency.

EXAMPLE: The fiscal year 2013 budget approved in September 2012, projected costs of $120,000 and projected carryover of $2000. The final claim for the fiscal year submitted on November 15, 2013, showed total administrative reimbursement earned in the amount of $150,000, and actual expenses of $140,000. (Amendments were approved throughout the year to increase the projected budget of $120,000 to over
$140,000.) A budget amendment for 2014 would need to be submitted for a revised carryover of $10,000; this carryover amount is still under the 10 percent allowed, so no repayment is needed this fiscal year.

D. Multipurpose Organizations

The purpose of this section is to provide information and guidance to State agencies regarding the process for soliciting, approving and reviewing an administrative budget for a multipurpose organization.

New Terms

A *multipurpose* institution is an organization that operates CACFP and at least one other community-based program. An example of a multipurpose organization would be an organization that sponsors DCHs and operates a child care resource and referral service.

In contrast, a *multi-Program* organization is one that sponsors CACFP DCHs and centers. The biggest difference between reviewing/approving a multi-Program CACFP institution and a multipurpose institution is the emphasis on ensuring that all costs are properly allocated between the Programs.

The emphasis on cost allocation needs to include awareness of the following:

- What expenses are shared between multiple Programs, and is CACFP paying more than its fair share of the cost?
- Are CACFP funds being used to pay for any non-Program cost?
- Does the budget indicate that non-Program funds will be used to pay for Program costs, and if so, what is the source of the extra money and how reliable is it?

Often, a State agency does not need to develop a separate and unique budget for multipurpose organizations. Instead, it must simply ensure that its budget forms for both sponsoring organizations of DCHs and/or centers require the applicant organization to indicate whether or not it is a multipurpose organization. If an organization indicates that it is multipurpose, the budget form must allow the organization to properly document that all costs are properly allocated between all of the organization’s Programs.

Cost Allocation

As indicated previously, one goal of a budget for multipurpose sponsoring organizations is to ensure and document proper cost allocation of expenses assigned to CACFP. A State agency must be sure that its budget form collects sufficient information to do the following:

- Ensure that CACFP funds only the CACFP portion of any cost that is shared between the CACFP Program and any other program administered by the institution;

Tip

To understand if cost allocation is necessary, ask yourself, “Is this cost shared?”

If the answer is yes, then the cost must be allocated.
• Show whether the institution plans to use non-CACFP funds to pay for any CACFP costs and if so, that the non-Program funds come from a reliable source; and

• Properly allocate all costs, including separating revenue and expenses for multipurpose and/or multi-Program institution. The budget form excerpt included below demonstrates how the institution can organize information regarding how costs are allocated between Programs.

<table>
<thead>
<tr>
<th></th>
<th>Total Agency</th>
<th>DHCs</th>
<th>Unaffiliated Centers</th>
<th>Total CACFP</th>
<th>Agency Share (non-CACFP funds)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SALARIES</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 Administrative</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>2 Accounting</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>3 Monitoring</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>4 Training</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>5 Clerical</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>6 Food Service Operational</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>7 Benefits</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
<tr>
<td>SUBTOTAL</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
<td>$</td>
</tr>
</tbody>
</table>

Notice how the form has columns for the total agency cost, the specific cost for each CACFP Program, and the percentage of the cost to be covered by non-CACFP funds. Using a budget such as this allows the State agency to monitor a sponsor organization’s cost allocation plan to ensure that CACFP funds are not being used inappropriately.

**Indirect Cost Rates**

An indirect cost rate is a method of cost allocation used when certain costs cannot be readily attributed to a specific Program or grant within an institution, but are necessary for the general operation of the institution. Indirect cost rates can include costs like utilities, general administrative staff salaries and wages, accounting staff salaries and wages, and any other cost that is difficult to directly allocate between Programs. Not all multipurpose institutions will choose to use the indirect cost rate method of cost allocation, however, the State agency’s prototype budget form should allow the institution to claim an indirect cost rate for CACFP’s share of general expenses as well as provide an opportunity for the sponsor to document that the rate was properly determined and applied.

**Questions to Ask**

The following are examples of questions that the State agency might ask of a multipurpose sponsoring organization.

• What Programs does the organization administer, both CACFP and non-CACFP?

• How are costs allocated between the various Programs?
- What is the breakdown of revenue to the organization from all the administered Programs?
- Does the budget include non-Program money being spent on CACFP costs?
- Is there an indirect cost rate, and if so, is it correctly determined and applied?

**What to Look for in Proper Cost Allocation Plans**

When reviewing a proposed budget submitted by a multipurpose sponsoring organization, the State agency must examine each item of cost to see (1) if cost allocation is necessary and (2) if so, does the sponsoring organization show proper implementation of an approvable cost allocation plan. It is important to remember that regulations restrict the items on which Program money may be spent. The goal of cost allocation is to ensure the CACFP does not pay for more than its fair portion of shared costs, and that Program money is not spent on any non-Program costs.

**Appropriate Supporting Documentation for Cost Allocation Plans**

All costs (including staffing, space and facilities, and all administrative costs) must be properly allocated between the Programs and paid for with each Program’s available administrative funds.

The key factor in reviewing and approving cost allocation plans as part of a multipurpose institution’s budget is documentation. For any cost that is shared between a CACFP and at least one other Program, the institution must clearly document each item of cost, the total amount being paid by the organization, the portion of the cost assigned to CACFP, and the method by which the CACFP portion was determined. The State agency may collect this information in any way it determines effective, but an example of a chart that would gather all of the necessary information is included below.

<table>
<thead>
<tr>
<th>Item Description</th>
<th>How CACFP Percentage is Calculated</th>
<th>Total Cost</th>
<th>CACFP Percent</th>
<th>CACFP Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
<td>Percentage of total square feet used by CACFP staff</td>
<td>$15,000</td>
<td>25 %</td>
<td>$3,750</td>
</tr>
</tbody>
</table>

This chart can be adapted for the situation in which costs are allocated between multi-Program sponsors: a CACFP sponsoring organization of DCHs’ Program and its centers’ Program. Below is an example of a possible adaptation.

<table>
<thead>
<tr>
<th>Item Description</th>
<th>How Percentage is Calculated</th>
<th>Total Cost</th>
<th>CACFP DCH Percent</th>
<th>CACFP DCH Cost</th>
<th>CACFP Center Percent</th>
<th>CACFP Center Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
<td>Percentage of FTEs for each CACFP Program</td>
<td>$15,000</td>
<td>70 %</td>
<td>$10,500</td>
<td>30 %</td>
<td>$3,150</td>
</tr>
</tbody>
</table>
Approval and Implementation of Indirect Cost Rates

An indirect cost rate is a type of cost allocation that certain organizations prefer to use in lieu of the direct cost allocation method. Typically these organizations are large organizations with many Programs, several of which also require cost allocation. An indirect cost rate allows these organizations to define a rate of allocation for all costs shared by all of their Programs with one simple calculation.

If there are certain costs that are only shared between some, but not all, of an organization’s Programs, these costs must be allocated separately from the general indirect cost rate.

EXAMPLE: A sponsoring organization is housed in a building where four other businesses are housed. The building’s utilities are metered such that the sponsor and one other business are on one meter and the other three businesses’ utilities are on the other meter. Those two meters should not be included in the indirect cost rate since the sponsor’s meter can be allocated between the sponsor and only one other business.

Which / What is the Cognizant Agency?

According to FNS Instruction 796-2, Rev. 4, (Section VII C 2 b), “An institution cannot use an indirect cost rate to assign costs to the Program unless the rate has been developed through a cost allocation plan approved by the cognizant Federal or State agency.”

The cognizant agency concept was developed by the Office of Management and Budget to simplify relations between Federal grantees and awarding agencies. Under the cognizant agency concept, a single agency represents all others in dealing with grantees in common areas. The cognizant agency for nonprofit organizations is determined by calculating which Federal Agency provides the largest dollar amount of grant funding when funding exceeds 1.5 million dollars. If FNS provides the largest dollar amount of Federal grant funding to a multipurpose organization, the Federal agency responsible for administering FNS Programs would be the cognizant agency responsible for developing and approving the indirect cost rate for that organization.

Acceptable Methods of Defining Indirect Cost Rate

In its most simple form, an indirect cost rate is a tool used to approximate how much multiple activities within a sponsoring organization benefit from a shared cost through applying a consistent ratio that is easier to determine than directly allocating each shared cost. The basic steps of establishing an indirect cost rate are as follows:

- Determine the total shared or general cost pool as a percentage of the direct cost pool;
- Determine each Programs’ percentage of the pool;

Determining an indirect cost rate is as simple as that. First, the agency needs to identify all general costs that are shared among all of the Programs. This sum of all of the general costs is known as the indirect cost pool. Examples of costs that may be included in the indirect cost pool are:

- Depreciation and use allowances on buildings and equipment used for common or joint objectives;
- Costs of operating and maintaining facilities, such as electricity, heat and other utilities;
- Salary of the receptionist and other general support staff; and
- Salaries of the central accounting staff.

This list is not all inclusive. Any cost that is shared between all of the Programs administered by the sponsoring organization and is difficult to allocate directly may be included in the indirect cost pool.

After the indirect cost pool has been established, the next step is to determine the portion of the total amount for which each Program is responsible. According to 2 CFR 225 and 230, this is done by dividing the total indirect cost pool by an “equitable distribution base.” An equitable distribution base is any standard that the cognizant agency determines to appropriately describe each Program’s relative benefit of the shared costs. There are several potential equitable distribution bases, but the most common method of determining an indirect cost rate is calculating the ratio of the indirect cost pool to the direct cost base.

**EXAMPLE:** Determining Indirect Cost Rate Using the Direct Cost Base.

Sponsoring organization ABC is a multipurpose organization with a $1,000,000 direct cost base and an indirect cost pool of $100,000. The CACFP division of the sponsoring organization accounts for $200,000 of the direct cost base.

The indirect cost rate is determined by dividing the indirect cost pool by the direct cost base: $100,000 ÷ $1,000,000 = 0.1 or 10 percent. The CACFP’s responsibility for indirect costs is then determined by multiplying the amount of direct costs allocated to the Program by the indirect cost rate: $200,000 × 10 percent = $20,000.

Therefore, CACFP is responsible for $20,000 of the indirect cost pool in addition to the $200,000 directly expensed to the Program.

**Proper Application of Indirect Cost Rate in a Multipurpose Organization’s Budget**

Once an institution has established an indirect cost rate in conjunction with the cognizant agency, the next step is to ensure that the indirect cost rate is properly applied in the organization’s CACFP budget and also to ensure that CACFP is paying only for its fair portion of the shared costs. The indirect cost rate should be applied consistently across all of an organization’s Programs. The following is a non-exclusive list of things to check when analyzing the implementation of an indirect cost rate in a CACFP budget:

- The specific cost items included in the indirect cost pool and the total dollar amount of both the indirect cost pool and the direct cost base should be appropriately documented;
- The organization must demonstrate that all of the Programs sharing the indirect cost are in fact benefiting from the shared expenses;
- The organization must explain the equitable base used to determine each Program’s share;
- The budget should demonstrate that that amount of indirect costs being charged to CACFP reflect the correct percentage of the total indirect cost pool; and
- The remainder of the administrative budget should not directly charge CACFP for any of the items of cost included in the indirect cost pool.
Revenue

The State agency’s budget form(s) should also facilitate demonstration that a multipurpose institution has sufficient revenue to properly administer the Program. The sponsoring organization’s budget must show that all monitoring, training, and administrative duties will be met. Often times the sponsoring organization will demonstrate that the allowable amount of CACFP administrative funds will be sufficient to cover all of the administrative duties. Other times, a multipurpose institution’s budget will show that non-Program funding will be used in order to cover all Program costs. Following is an example of a revenue worksheet.

1. Revenue
This budget is based on the anticipated sponsorship of [number] day care homes (DCHs) per month.

<table>
<thead>
<tr>
<th>CACFP Administrative Reimbursement Rates</th>
<th>Estimated No. of DCHs/Mo. by Rate</th>
<th>Rate</th>
<th>No. of Months</th>
<th>Estimate of Annual Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>First 50 DCHs</td>
<td></td>
<td>12</td>
<td>$</td>
<td>-</td>
</tr>
<tr>
<td>Next 150 DCHs</td>
<td></td>
<td>12</td>
<td>$</td>
<td>-</td>
</tr>
<tr>
<td>Next 800 DCHs</td>
<td></td>
<td>12</td>
<td>$</td>
<td>-</td>
</tr>
<tr>
<td>Additional DCHs over 800</td>
<td></td>
<td>12</td>
<td>$</td>
<td>-</td>
</tr>
<tr>
<td>Projected DCHs and revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

List Other Sources of Income:

<table>
<thead>
<tr>
<th>Amount</th>
</tr>
</thead>
</table>

Total Other Income $ -

Estimated Carryover (Max 10 percent) from prior fiscal year $ 

TOTAL REVENUE $ 

Lastly, as part of being financially viable, all multipurpose institutions must show that they have sufficient non-Program funding to enable them to repay the State agency in the event of an overclaim. This is required of all institutions, but since multipurpose sponsoring organizations may have extensive budgets based on several income sources, this element of the CACFP budget requires the State agency to ensure that a questionable viability of one of the other of the sponsoring organization’s activities does not put its CACFP at risk, and in fact, that there are excess funds within the organization to fund CACFP overclaims.

E. Questions to Keep in Mind Regarding Sponsoring Organizations

Some of the following items are useful to ask yourself to ensure you have reviewed items sufficiently and the questions will help you to evaluate the quality of the budget submitted and the supporting documentation.
1. Is the sponsoring organization a ‘multipurpose’ organization (i.e., does the sponsoring organization only operate CACFP, or is it part of a larger organization with other activities such as resource and referral services, and/or Programs such as Head Start, refer to Section D of this part.

2. If the sponsoring organization is a multipurpose institution, does the CACFP administrative budget include funds from non-CACFP sources and, if so, are the non-CACFP activities properly identified in the sponsoring organization’s budget [7 CFR 226.6(f)(1)(iv)]?

3. Is the administrative budget less than or equal to 15 percent of projected CACFP meal reimbursements to sponsored centers for the year [7 CFR 226.6(f)(1)(iv); 226.7(g); 226.16(b)(1)]?
   
   a. If this is a sponsoring organization of centers and the administrative budget request is greater than 15 percent of the projected meal reimbursement to be earned by its sponsored centers, does the budget include an alternate source of funds sufficient to cover the difference between the actual cost and CACFP supported costs? Has a waiver been requested? If a waiver was requested, based on the documentation presented, did the State agency’s approval or denial of the waiver conform to requirements [7 CFR 226.16(b)(1); 226.7(g)]?
   
   b. If the sponsoring organization sponsors both centers and homes, is its total administrative budget request for both centers and homes equal to or less than the sum of: the maximum earnings of administrative funds for DCH sponsoring organizations plus up to 15 percent of the meal reimbursement earned by sponsored centers [7 CFR 226.12(a)]?
      
      ▪ If not, note the budget request and the maximum amount derived from your calculation. DCH administrative funds may not be used to fund center costs and vice versa. Briefly identify where administrative funds are being used improperly (e.g., center administrative funds used to support travel for DCH monitors, etc.) [7 CFR 226.16(b)(1)].

4. Whether, if applicable, all costs in the administrative budget request are administrative, not operating, expenses? **Note:** This is most likely an issue for sponsoring organizations that provide meals to facilities [FNS Instruction 796-2, Rev. 4 (Section VII D) and 7 CFR 226.2, definitions of *Administrative Costs* and *Operating Costs*].

5. Does the budget and management plan demonstrate that the sponsoring organization is devoting adequate resources to the monitoring of facilities [7 CFR 226.16(b)(1)]?

6. If any costs in the sponsoring organization’s budget require “prior approval” or “specific prior written approval,” did the sponsoring organization’s budget request properly identify such costs [FNS Instruction 796-2, Rev. 4 (Section VIII F) and Exhibit I]?

7. Are all costs included in the budget allowable (i.e., reasonable, necessary, etc.) [FNS Instruction 796-2, Rev. 4 (Sections VII)-(VIII)]?

8. Does the budget provide sufficient line item detail to allow for appropriate oversight (i.e., are budget categories like *supplies*, *travel*, *mailing*, or *other* sufficiently detailed to allow the budget reviewer to properly determine whether the planned cost was approvable) [7 CFR 226.6(b)(1)(xviii)(A)(3); (B)(3); (C)(3)]?
9. Does the budget include an approved indirect cost rate, if applicable [FNS Instruction 796-2, Rev. 4 (Section VII C 2 b)]?

10. If applicable, was the indirect cost rate properly applied [FNS Instruction 796-2, Rev. 4 (Section VII C 2 b)]?

11. Were costs in the budget properly allocated between CACFP and the rest of the organization's activities (i.e., only the share of the costs that benefit the Program are assigned to CACFP costs) [FNS Instruction 796-2, Rev. 4 (Section VII B-D)]?

12. Are there supporting documents for each budgeted cost [FNS Instruction 796-2, Rev. 4 (Section VII A 3 j)]?

13. Did the sponsoring organization request any budget amendments after the budget was approved by the State agency [7 CFR 226.7(g)]?

14. If the sponsoring organization requested a budget amendment, was it properly approved or disapproved in accordance with the State agency’s written policies or procedures [7 CFR 226.7(g)]?

15. Does the sponsoring organization operate in more than one State? If so, the State agencies associated must network with their FNS Regional Offices to negotiate allocation plans and gain FNS approval of the budget.

16. Different approval may be needed on some of the sponsoring organization's cost line items. In order to get a better understanding if this approval is needed, the State agency may need to obtain more information regarding the sponsoring organization’s budget. The State agency could ask an applicant sponsoring organization a number of questions to better understand how the organization operates and to make knowledgeable decisions when reviewing a budget. Use this list to stimulate additional ones.

   a. Do you own or lease your office space?

   b. Is any of the property that the organization leases, rents or is purchasing currently owned by a party that is related to any employee and/or board member of the organization?

   c. Are the cell phones and cell phone plans being claimed owned or leased by your organization?

   d. Are your employees salaried or hourly? Are any of them exempt from the Fair Labor Standards Act?

   e. What are your purchasing procedures?

   f. What are your accounting procedures?

   g. What are your travel procedures?

   h. Has the institution formalized its policies in an employee handbook?

   i. Do you contract for any services? Are any of these persons related to any employees and/or board members?
j. Do you belong to any civic or community organizations?

k. How will you ensure all duties of the CACFP will be adhered to? (Request copy of job descriptions for CACFP paid employees.)

l. How are you going to fund the administrative expenses during interruptions in Program payments and/or for any unfunded costs?
Part 4. Acronyms and Glossary

CACFP - Child and Adult Care Food Program
CFR – Code of Federal Regulations
DCH – Day Care Homes
FNS – Food and Nutrition Service
FTE – Full-Time Equivalent
IRS – Internal Revenue Service
OMB – Office of Management and Budget
USDA – United State Department of Agriculture
VCA – Viability, Accountability and Capability
U.S. GAAP – Accounting Principles Generally Accepted in the United States of America

Terms used in this handbook are defined in 7 CFR 226.2. Other definitions of importance are as follows.

Affiliated Center – A center that is a legal unit of the sponsoring organization.
  - For-profit centers are sponsored by a for-profit sponsoring organization that is legally affiliated with those centers.
  - Community Action Program child care centers and Head Start centers are sponsored by Community Action Agencies and Head Start Agencies, respectively.

Allowable Costs – Costs that occur during the routine operation of CACFP for which Program funds may be used.

Depreciation – The expense associated with the use of nonexpendable equipment, vehicles and facilities owned by the institution. Depreciation does not result in a reduction in the cash balance of an institution. Depreciation allows the recapture of Program funds for equipment purchases over the life of the asset instead of when the equipment is purchased for assets in excess of $5000 or less if the State agency has a more conservative definition of equipment.

Direct Costs – Costs that can be identified directly to a Program and/or funding source and must be charged directly to that Program.

Equipment – An item of nonexpendable personal property with a useful life of more than 1 year and an acquisition cost of $5,000 or more per unit. When an institution or State agency has a more conservative definition for equipment, the institution must use that definition. Equipment costs must be recovered over the useful life of the asset. Refer to Depreciation.

Indirect Costs – Costs that have been incurred for common or joint objectives but cannot be readily identified or assigned to the food service, CACFP, other institution activities or a component (administrative versus operating) of the Program [FNS Instruction 796-2, Rev. 4 (Section VII)].
**Multipurpose Institution** – A new or participation institution that receives funds from multiple funding sources; i.e., other Federal Programs such as Head Start, State Programs, county or city Programs, or other Programs that meet the agency mission.

**Multi-Program Institution** – A new or participating institution that is a sponsoring organization and operates more than one element of the CACFP, for example is a sponsoring organization of DCHs and of unaffiliated centers.

**Performance Standards** - The criterion established by CACFP regulations to document an institution as financially viable, administratively capable of operating the CACFP, and has internal controls in effect to ensure accountability.

**Unaffiliated Center** – Centers that are not a legal unit of the sponsoring organization.

**Unallowable Cost** – Costs that cannot be charged to the Program or claimed for reimbursement [FNS Instruction 796-2, Rev. 4 (Sections VII and VIII)].
Part 5. Resources

A. Financial Guidance

FNS Instruction 796-2, Rev. 4 Financial Management in the Child and Adult Care Food Program

2 CFR Part 225 (formerly Office of Management and Budget (OMB) Circular A-87) Cost Principles for State, Local, and Indian Tribal Governments
http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr225_main_02.tpl

http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title02/2cfr230_main_02.tpl

Audit requirements are contained in OMB Circular A-133, codified by USDA at 7 CFR Part 3052
http://www.ecfr.gov/cgi-bin/text-idx?c=ecfr&SID=5fbdb5345a92108987b835c4e93f5e2c&rgn=div5&view=text&node=7:15.1.8.2.8&idno=7

7 CFR 3016 Uniform Administrative Requirements for Government-wide Debarment and Suspension (Non-procurement)
http://www.gpo.gov/fdsys/granule/CFR-2012-Title7-vol15/CFR-2012-Title7-vol15-part3016/content-detail.html

7 CFR 3018 New Restrictions on Lobbying
http://cfr.regstoday.com/7cfr3018.aspx

7 CFR 3019 Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and other Nonprofit Organizations
http://www.ecfr.gov/cgi-bin/text-dx?tpl=/ecfrbrowse/Title07/7cfr3019_main_02.tpl

48 CFR Part 31 Contract Cost Principles and Procedures
http://www.ecfr.gov/cgi-bin/text-idx?tpl=/ecfrbrowse/Title48/48cfr31_main_02.tpl

National Food Service Management Institute procurement training modules
http://www.nfsmi.org/Templates/TemplateDefault.aspx?qs=cElEPTIzOA==

B. Memoranda Issued by FNS Relating to CACFP Management Plans and Budgets

March 29, 2013  CACFP 09-2013 Additional State Agency Requirements

April 8, 2011  CACFP 19-2011 Child and Adult Care Food Program Annual Information Certification

October 10, 2012  CACFP 01-2013 Federal Small Purchase Threshold Adjustment
C. Attachments

State examples of documents used to collect sufficient information from institutions to evaluate planned activities, income, and expenditures will be added to the handbook or issued on the CNP Partnerweb at a later date.

D. FNS CACFP Handbooks

- At-Risk Afterschool
- Family Day Care Homes Monitor
- Monitoring Handbook for State Agencies
- Serious Deficiency, Suspension, and Appeals