

Section 16

Financial System

Section 16, Financial System

Section 16 Update Guide

January 4, 2022	Updated <i>Section 16, Financial System</i> to clarify the following: <ul style="list-style-type: none">- Capital expenditure request instructions- Stipends- Program/nonprogram calculation- Financial report
August 16, 2021	Updated the definition of aggregate.
May 27, 2021	Updated <i>Section 16, Financial System</i> to clarify the following: <ul style="list-style-type: none">- Definitions
August 12, 2020	Updated Administrator's Reference Manual (ARM), <i>Section 16, Financial System</i> to update the <i>Administrator's Reference Manual (ARM)</i> section references. Clarified information on the following topics: <ul style="list-style-type: none">- Allowable/Unallowable costs- Contingency contract approval- Bad debt- Equipment/Property disposal- Excessive fund balance definition- Financial Form due date- Fresh Fruit and Vegetable Program- Loans- Operating month definition- Program/Nonprogram proportion- Proprietary Rights- Revenue (Income)- School garden expenses- State matching funds- Student debt
February 26, 2020	Updated <i>Section 14, Financial Information Concerning School Nutrition Funds</i> to update information related to Institute for Child Nutrition, formerly the National Food Service Management Institute (NFSMI).
November 7, 2018	Updated <i>Section 14, Financial Information Concerning School Nutrition Funds</i> to clarify information on the following topics: <ul style="list-style-type: none">- Audits- Capital expenditure- Cognizant agency- Delinquent and bad debt- Direct costs- Excessive fund balance- Financial report- Indirect costs- Maintenance and repair costs- Revenue- Teacher retirement system, fringe benefits

- April 3, 2018 Updated *Section 14, Financial Information Concerning School Nutrition Funds* to incorporate the following United States Department of Agriculture (USDA) guidance:
- *USDA Memo SP 24-2017, Local School Wellness Policy: Guidance and Q&As* (April 6, 2017)
 - *USDA Memo SP 60-2016, Indirect Cost Guidance* (September 30, 2016)
- Moved guidance on student account balances to *Section 15, Meal Pricing* and removed from *Section 14, Financial Information Concerning School Nutrition Funds*
- Clarified information on the following topics:
- Allowable/Unallowable costs related to the following:
 - Fresh Fruit and Vegetable Program
 - Implementation of the local wellness policy
 - Insufficient check charges
 - Meal production related activities
 - Mobile or temporary sites
 - Supplies, expendable items, and other supplies
 - Transportation
 - Uniforms
 - Capital expense
 - Check charges
 - Compliance
 - Equipment/property disposal
 - Financial report
 - Indirect cost rate
 - Program integrity
 - Single audit
- March 13, 2017 Updated *Section 14, Financial Information Concerning School Nutrition Funds* to correct dates.
- March 7, 2017 Updated *Section 14, Financial Information Concerning School Nutrition Funds* to address date typos.
- February 23, 2017 Updated *Section 14, Financial Information Concerning School Nutrition Funds* to incorporate the following United States Department of Agriculture (USDA) guidance:
- *USDA Memo SP 60-2016, Indirect Cost Guidance* (September 30, 2016)
 - *USDA Memo SP 58-2016, 2016 Edition: Overcoming the Unpaid Meal Challenge: Proven Strategies from Our Nation's Schools* (September 19, 2016)
 - *USDA Memo SP 57-2016, Unpaid Meal Charges: Guidance and Q&As* (September 16, 2016)
 - *USDA Memo SP 47-2016, Unpaid Meal Charges: Clarification on Collection of Delinquent Meal Payments* (July 8, 2016)
 - *USDA Memo SP 46-2016, Unpaid Meal Charges: Local Meal Charge Policies* (July 8, 2016)
 - *USDA Memo SP 40, 2016, Updated Guidance: Contracting with Food Service Management Companies* (June 2, 2016)
 - *USDA Memo SP 20-2016, Nonprofit School Food Service Account Nonprogram Food Revenue Requirements* (December 23, 2015)
- Clarified information on the following topics:
- Additional Texas financial resource
 - Bad debt
 - Cost sharing

- Costs, meal accommodation
- Costs, translations
- Direct and indirect costs
- Education Service Provider (ESP)
- Nonprogram costs
- Regulatory authority
- Revenue
- Universal free feeding programs
- USDA Foods

April 26, 2016

Updated *Section 14, Financial Information Concerning School Nutrition Funds* to incorporate the following United States Department of Agriculture (USDA) guidance:

- *2 CFR, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (January 1, 2015)
- *USDA Memo, SP 07-2016, Local Food and Related Activities in Summer Meals with Questions and Answers* (November 12, 2015)
- *USDA Memo SP 02-2016, Questions and Answers on the Transition to and Implementation of 2 CFR Part 200* (October 30, 2015)

Clarified information on the following topics:

- Allowable and unallowable costs
- Audit
- Income to the program, catering
- Excessive fund balance
- Excessive operating balance
- Exclusive contracts
- Financial audit
- Loans
- Locally purchased food
- Nonprogram/program food proportion
- Pass-through entities
- Payroll or employee salary and wage certification and documentation
- Program integrity
- Program revenue
- Records retention

May 4, 2015

Updated *Section 14, Financial Information Concerning School Nutrition Funds* to incorporate the following United States Department of Agriculture (USDA) guidance:

- *2 CFR Part 200* (December 19, 2014)
- *USDA Memo SP 6-2015, Farm to School and School Garden Expenses* (November 12, 2014)
- *USDA Memo SP 7-2015, Assessing Proposed Nutrition Education Costs in the National School Lunch Program and School Breakfast Program* (November 18, 2014)
- *USDA Memo SP 32-2009, School Garden Q&As* (July 29, 2009)

Clarified information on the following topics:

- Allowable, allocable, reasonable, and necessary costs
- Audits
- Cafeteria monitors
- Capital expenses
- Consistent payment practices

- Depreciation
- Equipment use, inventory, and disposal
- Excessive balance
- Expenditures (costs)
- Farm to school, school farm or garden
- Financial audits
- Financial Report
- Indirect costs
- Memberships, subscriptions, or professional publications
- Net Cash
- Nutrition education expenses
- Land purchases
- Loans
- Loss of equipment
- Proportional program/nonprogram revenue
- Record related to employee salaries and wages
- Rental or usage fees
- Revenue
- State matching funds
- Student account balances
- Source of bill payment
- Supplies
- TDA forms
- Unit cost
- Use of facilities for nutrition programs for the elderly
- Utilities
- Vending

August 1, 2014

Updated *Section 14, Financial Information Concerning School Nutrition Funds* to incorporate the following United States Department of Agriculture (USDA) guidance:

- *2 CFR, Part 225*
- *USDA Memo SP 11-2012, Guidance on the Food Donation Program in Child Nutrition Programs* (February 3, 2012)
- *USDA Memo SP 41-2011, Child Nutrition Reauthorization 2010: Indirect Cost Guidance* (July 7, 2011)
- *7 CFR, Part 3016*

Clarified information on the following topics:

- Allowable and Unallowable Costs
- Audit Requirements
- Capital Expenditures
- Compliance
- Definitions that apply to financial issues
- Excessive Fund Balance
- Excessive Operating Balance
- Loans
- Payroll or Employee Salary and Wage Certification and Documentation
- Program Revenue
- Records Retention

- SNP Food Donations
- TDA Forms

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**Contact Information for the
Texas Department of Agriculture (TDA), Food and Nutrition**

When contacting TDA by phone, Contracting Entities (CEs) need to have their CE Identification Number (CE ID) (and site ID, if applicable). CEs should include their name and CE ID (and the site name and ID if applicable) in all communication or documentation.

General Contact Information

Physical Address		Mailing Address	
1700 N. Congress, 11th Floor, Austin, TX 78701		PO Box 12847, Austin, TX 78711-2847	
Phone	877-TEX-MEAL, (877) 839 -6325	Email Contact	SquareMeals@TexasAgriculture.gov
Fax	(888) 203-6593	Website	www.SquareMeals.org
Questions about Program Applications		Questions about Program Operation	
Child & Adult Care Food Program		USDA Foods Operations	
CACFP.BOps@TexasAgriculture.gov		CommodityOperations@TexasAgriculture.gov	
National School Lunch Program, School Breakfast Program, & Special Milk Program		Community Operations (Child & Adult Care Food Program & Summer Food Service Program)	
NSLP-SBP.BOps@TexasAgriculture.gov		Community.Ops@TexasAgriculture.gov	
Seamless Summer Option		School Operations (National School Lunch Program, School Breakfast Program, & Special Milk Program)	
SSO.BOps@TexasAgriculture.gov		School.Operations@TexasAgriculture.gov	
Summer Food Service Program		Texas Eligibility List Management System (Texas ELMS)	
SFSP.BOps@TexasAgriculture.gov		DirectCertification@TexasAgriculture.gov	
Questions about Program Flexibility		Farm Fresh Initiative (Local Products)	
SNPWaivers@TexasAgriculture.gov for questions about		FarmFresh@TexasAgriculture.gov	
<ul style="list-style-type: none"> - Breakfast Waiver - Child Nutrition Program Requirement Waivers - Gender Exception - Hiring Standards, CEs with Less Than 500 Students - Lunch Mealtime - Paid Lunch Equity (not currently available) - RCCI Age/Grade Group Meal Pattern - Seamless Summer Operation (SSO) Age/Grade - Summer Mandate - Technology-Based Confirmation - Universal Breakfast Mandate - Vending Machine to Dispense Reimbursable Meals 		Questions about Financial Issues	
Nutrition@TexasAgriculture.gov for questions about		Capital Expenditures	
<ul style="list-style-type: none"> - Milk Substitute Notification 		NSLP-SBP.BOps@TexasAgriculture.gov	
		Claims	
		BCT.BOps@TexasAgriculture.gov	
		Procurement, Including Sole Source and Emergency Procurement	
		CE.ProcurementReviews.BOps@TexasAgriculture.gov	
		Excessive Balance Plan	
		School.Operations@TexasAgriculture.gov	
		Questions about USDA Foods	
		USDA Foods Carryover Inventory	
		CommodityOperations@TexasAgriculture.gov	
		USDA Foods Transfer	
		CommodityOperations@TexasAgriculture.gov	

June 22, 2020

Financial System

School Nutrition Program (SNP) accounts are required to comply with generally accepted accounting principles (GAAP) for federally funded programs as well as accounting and financial requirements that are specific to the SNP.

This section provides information on accounting and financial requirements for the following programs:

- National School Lunch Program (NSLP)
 - Afterschool Care Program (ASCP)
 - Seamless Summer Option (SSO)
 - Fresh Fruit and Vegetable Program (FFVP)
[NOTE: See *Administrator's Reference Manual (ARM)*, Section 12, *Fresh Fruit and Vegetable Program* for detailed guidance on allowable and unallowable costs specific to FFVP.]
- School Breakfast Program (SBP)
- Special Milk Program (SMP)

While the guidance in this section applies to public and charter schools, private schools, and residential child care centers (RCCIs), some types of organizations may have different requirements. Those differences are noted when they apply. However, each type of CE is expected to adopt financial practices that align to all applicable regulatory guidance.

Additional Guidance on Financial Issues

CEs may find the following *Administrator's Reference Manual (ARM)*, sections useful to review in addition to the guidance in this section:

- *Section 15, Program Integrity*
- *Section 17, Procurement*
- *Section 17a, Procurement Procedures*
- *Section 17b, Buy American*
- *Section 17c Cooperative Purchasing*
- *Section 18, Food Service Contracts*
- *Section 19, Meal Pricing*
- *Section 22, Food Service Contracts*

In order to meet this requirement, contracting entities (CEs) must have an accurate, efficient financial

Information Box 1

Guidance on Program Financial Issues

The following federal publications provide detailed guidance on accounting and financial requirements:

- United States Office of Management and Budget (OMB), *2 CFR, Subtitle A, Chapter II, Part 200—Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards*, available at www.ecfr.gov/
- United States Department of Agriculture (USDA), *Financial Management—Child and Adult Care Food Program, 796-2, Rev. 4*, available at www.SquareMeals.org
- United States Department of Agriculture (USDA), *USDA Memo SP 41-2011, Indirect Costs: Guidance for State Agencies and School Food Authorities*, available at www.SquareMeals.org
- Texas Comptroller of Public Accounts, *State of Texas Contract Management Guide (September 1, 2016)*, available at <https://www.comptroller.texas.gov/purchasing/publications/contract-management-guide.php>
- Texas Education Agency (TEA), *Financial Accountability System Resource Guide*, available at www.tea.texas.gov/Finance_and_Grants/Financial_Accountability/Financial_Accountability_System_Resource_Guide/
- Texas Education Agency (TEA), *Indirect Cost Rate Guidance and Worksheet*, available at www.tea.texas.gov/Finance_and_Grants/Grants/Federal_Fiscal_Compliance_and_Reporting/Indirect_Cost_Rates/Indirect_Cost_Rates/
- Institute for Child Nutrition (ICN), *ICN Financial Management Information System, 2ND Edition (2018)*, available at www.theicn.org

management system that applies sound and consistent management practices that allows CEs to

- Identify all funds received and expended by program.
- Identify the source and application of school nutrition program funds.
- Ensure effective control over, and accountability for, all funds, property, and other assets.
- Provide accurate, current, and complete disclosure of financial and accounting system as required.
- Operate under specific written procedures for determining the allowability of costs.

Regulatory Authorities

The majority of CEs across Texas are governed by the financial regulations of more than one federal, state, or local agency. If the funds to be used come to the public school or charter school from United States Department of Agriculture (USDA) through the Texas Department of Agriculture (TDA) or the funds come from income from the operation of a Child Nutrition Program (CNP), the CE must follow all applicable USDA regulations. If another governing agency has a more restrictive requirement, the CE must apply that requirement as long as it does not conflict with USDA regulation. This applies to all financial transactions, including procurement.

Private schools and residential child care centers (RCCIs) may fall under the regulatory authority of a wide range of different federal, state, and local agencies. Public schools and charter schools most commonly fall under two federal regulatory funding sources—(1) education funds coming from the United States Department of Education (ED) and the Texas Education Agency (TEA) and (2) food and nutrition funds from the USDA and TDA. Fortunately, funds coming from ED and USDA are both subject to the recently updated Code of Federal Regulations (CFR), Part 200,¹ so most requirements are the same. However, there are a few conflicts that are stipulated by legislation specific to the program. When the funding source for the activity comes from USDA/TDA or the CE's operation of a CNP, the CE must follow USDA/TDA regulations. CEs need to be aware of this possibility as they design their procedures and processes for handling all financial issues.

Educational Service Provider (ESP)

If a CE (school district, charter school, private school, or RCCI) has assigned administrative responsibility to an education service provider (ESP)² for the operation of all functions, the ESP may be given operational authority; however, the CE must retain responsibility to ensure that all financial requirements for the program are met.

Program Integrity and Internal Controls

The CE's financial management system must promote program integrity and establish internal controls. This type of financial management system provides safeguards that improve the

¹ Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards

² Authority for ESPs to manage education and other operations for a school district or charter school is given by the Texas Education Agency; authority for an RCCI by the agency with regulatory authority for the RCCI; and authority for private schools by the governing board.

stewardship of program income and costs and reduces fraud and improper payments by the use of internal controls.

Program Integrity is defined as an organized and structurally sound financial management system that promotes program efficiency and prevents the inappropriate use of program funds.

When program integrity is applied to a financial management system, *Internal controls* means a process designed to establish and maintain effective oversight or internal control over the SNP's financial management system that provides reasonable assurance that the CE is managing the program in compliance with all federal, state, and local regulations and terms and conditions of the program award. Additional guidance on program integrity is located in the *Administrator's Reference Manual (ARM), Section 15, Program Integrity*.

Effective Financial Management System

School Nutrition Program (SNP) accounts are required to comply with generally accepted accounting principles (GAAP) for federally funded programs. Compliance with the GAAP includes compliance with the *Standards for Internal Control in the Federal Government*³ issued by the Comptroller General of the United States or the *Internal Control Integrated Framework*⁴ issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In Texas, CEs must also apply all local and state financial and accounting requirements that are not in conflict with USDA regulations. This includes, but is not limited to, Texas Education Agency (TEA) regulations that apply to school districts and charter schools.

The CEs financial management system must have written procedures that describe its (1) method for determining if a cost is allowable, (2) process for making payments, and (3) procurement procedures⁵ as well as (4) records that clearly report all financial transactions.

CEs must consider the following financial management standards in developing a financial management system:

Accounting System Qualities

1. Documentation that demonstrates accurate, current, and complete disclosure of the program's financial transactions—including budgeted authorizations, obligations, unobligated balances, assets, liabilities, and expenditures as well as income or revenue
2. Procedures that ensure that no one person has complete control over all aspects of financial transactions
3. Methodology that allows for the comparison of actual expenditures against budgeted amounts

[NOTE: Any time a projected budget line is within 20 percent of or exceeds 20 percent of the maximum amount projected, the CE must have a method to evaluate the projected amount and see if a correction needs to be made. If a transfer of funds from one cost line to another is warranted, the CE may adjust the projected budget

³ Available at www.gao.gov/products/gao-14-704G

⁴ Available at www.coso.org

⁵ A CE's written process will include procurement. See the *Administrator's Reference Manual (ARM), Section 17, Procurement* for additional information on written procurement procedures.

as long as documentation demonstrates where, why, and when funds are moved.]

Accounting Practices

4. Procedures that ensure that all costs are necessary, reasonable, allocable, and allowable
5. Procedures that track the source of funds
6. Procedures that track the allocation or planned use of funds
7. Procedures that track the application or use of funds
8. Procedures that track the person who authorized the use of funds to pay expenses

Audit Practices

9. Procedures that require organization-wide audits, or program specific audits if applicable, to determine, at a minimum, the fiscal integrity of financial transactions and reports, compliance with laws, regulations, and administrative requirements
10. Procedures that ensure that there is a systemic method for assuring timely and appropriate resolution of all audit findings and recommendations, including organization-wide strategies

Definitions for This Section

The nature of financial processes fosters the use of terms and vocabulary that are more commonly used by accountants than by school nutrition staff. For School Nutrition Programs (SNPs), the following financial and procurement terms are used:

Acting on Behalf of CE	Entity or person who has been given the responsibility to act for the CE.
Agent	Person or business that is procured to act on behalf of the CE. This includes procuring on behalf of the CE.
Aggregate Purchase Amount	The total cost of the same category of products and services purchased over the CE's fiscal year.
Agreement (for School Nutrition Programs)	Written legal document summarizing contractual obligations between two or more entities. This includes intergovernmental and interlocal agreement.
Allocable	Assigning a cost, or group of costs, to one or more cost objectives, in reasonable and realistic proportion to the benefit provided or other equitable relationship—the cost meets one of the following principles: <ul style="list-style-type: none"> - is incurred specifically for the award/program <u>or</u> - benefits both the award/program and necessary work and can be distributed in reasonable proportion to the benefits received <u>or</u> - is necessary to the overall operation of the organization, although a direct relationship to any particular cost objective cannot be shown.
Allowable	Direct or indirect costs that may be paid by SNP funds.
Approved Supplier List	List of suppliers or potential contractors who have demonstrated the ability to perform successfully under the terms and conditions of a proposed procurement, consideration being given to contractor integrity, compliance with applicable policy or regulations, record of past performance, and financial and technical resources.

	Transaction in which the parties are dealing from equal bargaining positions—neither party is subject to the other’s control or dominant influence, and the transaction is treated with fairness, integrity, and legality. Less than Arms-Length Transaction A less than arms-length transaction occurs when a person responsible for making a purchase and appears to have a stake in the outcome is able to control or substantially influence the actions of others. This may include agreements between divisions of an organization; organizations under common control through common officers, directors, or members; and an organization and a director or employee of the organization and his or her immediate family.
Arms-Length Transaction	
Audit	Independent examination of accounting and financial records for accuracy, efficiency, and consistency. This is also called the annual audit or single audit.
Audit Report	Final summary of audit findings provided by a financial auditor.
Audit Corrective Action Plan	Plan in which the CE describes the strategies or actions the CE will adopt to address each finding reported in the audit report.
Audit Summary Schedule or Work Plan	Document that contains a cumulative list of audit findings by year and explanations of the strategies and actions the CE plans to take or has taken to resolve each audit finding. This summary allows the CE, auditor, or TDA staff member to review the actions planned or taken from year to year to maintain an accurate, efficient, and consistent accounting and financial system.
Bid Guarantee	Guaranteed percentage of bid price provided by the offeror at the time the offer is submitted. The CE must return all bid guarantees to all unsuccessful offerors when the contract is awarded and to the winning offeror as soon as the contract is signed.
Bond	Insurance agreement pledging surety for financial loss caused in connection with the contract. For school nutrition programs, if a loss occurs in connection with a contract related to program operations, the loss will be covered to the extent agreed upon in the bond.
Breach of Ethics	Attempt to realize personal gain through public employment with a CE by any conduct inconsistent with the proper discharge of the employee’s duties.
Brokers	Independent sales agents who negotiate sales for manufacturers by working with food distributors and/or school nutrition operations.
Buy American	Requirement for schools to purchase, to the maximum extent practicable, domestic commodities, and products. A domestic commodity or product means an agricultural commodity that is grown in the United States <u>and</u> processed in the United States or that is processed in the United States substantially using agricultural commodities that are produced in the United States.
Capital Assets	Land, buildings (facilities), and equipment that have a useful life of more than one year which are capitalized in accordance with Generally Accepted Accounting Principles (GAAP).
Capital Expenditures	Direct cost expenses to acquire capital assets or to make additions, improvements, modifications, replacements, reinstallations, renovations, or alternations to capital assets to be used for general purposes for multiple years and which materially increase the value or useful life of the asset. ⁶
CE Employee (Specific to Program Integrity)	Term used in this section to represent a CE employee or official; family member of CE employee or official; or business partner of a CE employee or official.

⁶ TDA **must approve** capital expenditures before a CE makes a capital expenditure purchase.

Charge Period	Span of time during which a cost is paid. This payment process includes spreading payments over a period of weeks or months or establishing milestones that are linked to payments.
Code of Conduct	<p>Set of written standards the CE must develop that outline the responsibilities of, or proper practices for, an individual or organization and which governs the following:</p> <ol style="list-style-type: none"> 1. Performance of the officers, employees, or agents engaged in contract awards and administration when the contract is funded in whole or in part by Food and Nutrition Service (FNS) program funds. 2. Methods of procurement, including the requirement that the CE perform a cost or price analysis for every procurement (including contract modifications) and determination of which contract clauses and certifications are required in the CE's contracts.
Cognizant Agency Related to Indirect Costs	Agency that has primary responsibility for negotiating the indirect cost methodologies for non-federal entities.
Conflict of Interest	Any action that allows a person to benefit at the expense of the public interest or the expense of an employer. A conflict of interest may be a real or apparent conflict of interest.
Contract	Formal, legally enforceable agreement (terms and conditions) between a buyer (the CE) and a seller (contractor) that clearly and accurately describes the products and/or services to be delivered or performed and sets forth the method and the compensation the contractor receives when products and/or services are provided.
Consultant	Consultant that provides <u>temporary</u> support to the CE in areas where the CE lacks the necessary resources, skills, and/or abilities in order to assist the CE in gaining the necessary resources, skills, and/or abilities to operate an effective and compliant program.
Cooperative Purchasing	Group of entities who join together to purchase products and/or services with the intention of reducing costs and improving the quality of products and/or services available to members of a group. In this reference, a purchasing cooperative consists of a group of CEs.
Cost Analysis	Review and evaluation of each element of cost to determine reasonableness, allocability, and allowability for products and/or services to be procured. A cost analysis will include the total projected cost for the products and/or services to be procured.
Cost Index	Tool designed to show the impact of an economic measure on the price of purchasing a specific type of item. TDA has approved the use of the Consumer Price Index (CPI) Food Away from Home for this purpose.
Cost Objective	Program function or activity for which cost data and for which specification is made to accumulate and measure the cost of processes, products, jobs, or other expenses.
Cost Plus Percentage of Cost	Method of pricing where the contract or agreement creates a pricing structure that charges the cost of the product or service plus a percentage of the cost. This pricing structure is not allowable for any purchase under USDA regulations. Any costs charged from this type of pricing structure are unallowable costs to a Child Nutrition Program (CNP).

Cost-Reimbursable Contract	<p>Reimbursable contract that is a formal, legally enforceable contract that reimburses the contractor for costs incurred under the contract but does not provide for any other payment to the contractor with a fixed fee or with a cost-reimbursement fee.</p> <p>[NOTE: The fixed fee associated with these types of contracts may be called management fees or administrative fees.]</p> <p>In a cost-reimbursable contract, allowable costs will be paid from the nonprofit school nutrition account to the contractor net of all discounts, rebates, and other applicable credits accruing to or received by the contractor. In a cost-reimbursable contract, the fixed price (fee) includes the contractor's direct and indirect administrative costs and profit allocable to the contract.</p>
Debarment	Action taken by a debarring official to exclude a person from participating in covered transactions. ⁷ A person so excluded is debarred, that is, unable to participate.
Direct Cost	Expenses that can be identified specifically with a particular cost objective used to meet a specific program goal or goals.
Distributor	Commercial food company that purchases, receives, and/or stores commercial food products and then sells, delivers, and bills the recipient agency for goods and/or services provided.
Drop Delivery	Delivery to one location within the CE, such as a central warehouse.
Economies of Scale	Purchase of large quantities of a product and/or service in order to obtain a better price.
Escalator/De-escalator Clause or Market-based Pricing	Predetermined provisions in a contract stipulating specific conditions for an increase or decrease in price.
Equipment (Property)	Items which have been purchased and are nonexpendable; items have a useful life of more than one year. Equipment purchases of \$5, 000 or more are capital expenses and require prior approval. ⁸
Ethics	Principles of conduct governing and guiding decisions for an individual or a group in their personal and professional lives. School nutrition professionals have a responsibility to act ethically in accordance with all federal, state, and local guidelines.
Excessive Fund Balance (Net Cash Resources)	<p>Fund balance that exceeds three months of operating expenses. For NSLP and SBP an excessive fund balance refers to net cash resources.</p> <p>[NOTE: USDA guidance and regulations use the term excessive fund balance for this circumstance. The regulation is actually referring to excessive net cash resources, the amount of funds the SNP account has available to spend at the end of the year— the total revenue less the total liabilities (expenditures). The Government Accounting Standards Board (GASB) describes this as spendable funds. Items such as inventories are not spendable, so are not included in the calculation for an excessive fund balance or other USDA reports.]</p>
Exclusive Contract (Including Exclusive Beverage Contracts)	Contract between an entity or organization and a distributor/vendor that prevents the entity or organization from buying or selling similar products from other distributors/vendors. The distributor/vendor may offer the entity or organization financial, product, or service incentives for signing an exclusive contract.
Expenditures (Costs)	Amount of money that is spent on an item or service.

⁷ Covered transactions in this section refer to transactions related to child nutrition programs.

⁸ See the *Capital Expenditures* subsection in this section for additional information on this requirement.

Firm Fixed-Price Contract (Also Called Firm Price Contract)	Contracts that provide products or services for a price not subject to adjustment other than increases or decreases tied to an economic indicator stipulated by contract. Firm-fixed price contracts are usually negotiated where reasonably finite specifications and/or technical requirements are available, and costs can be estimated with reasonable accuracy. A fixed price contract places minimum administrative burden on contracting parties but subjects a contractor to maximum risk arising from full responsibility for all cost escalations.
Fixed-Price	Agreed-upon amount of money that is fixed at the inception of a contract and is guaranteed for a specific period of time. A fixed-price contract may also contain an economic cost adjustment provision tied to the Consumer Price Index (CPI) Food Away from Home.
Fixed Price (Fee)	Agreed upon amount of money that is fixed at the inception of the contract.
Food Service Management Company (FSMC)	Any organization, whether commercial enterprise or a nonprofit organization, that is or may be contracted by the CE to manage any aspect of the school food service. ⁹ CEs must use an FSMC from TDA's list of approved FSMCs.
Food Service Management Company (FSMC) Solicitation/ Contract	TDA term used to <u>reference the TDA prototype combined solicitation and contract</u> . This term is applicable to this section only.
Forecasting	Process of analyzing current and historical data to determine procurement needs. In the case of school nutrition programs, forecasting involves predicting and estimating the goods, works, and services needed in specified areas for the coming year, and/or assessing needs by reviewing current procurement activities. Forecasting allows for procurement timelines and tasks to evolve each fiscal year.
Full and Open Competition	Situation where all potential contractors are competing on a level playing field and have the same opportunity to compete and be awarded a contract. Full and open competition is also commonly referred to as free and open competition
Fund Balance (Net Cash Resources)	Net cash resources available in the CE's food service account. A CE must not carry a negative fund balance into the next school year or maintain an excessive fund balance on hand.
Grade Standards	USDA quality standards based on measurable attributes that describe the value and utility of the products.
Grantees	Governmental or other legal entity to which a grant is awarded where the receiving entity is held accountable for the use of the funds provided. The grantee is the entire legal entity <u>even if</u> only a particular component of the entity is designated in the grant award document.
Incentives	Rewards or benefits received as a result of performing requested actions and/or meeting predetermined milestones.
Indirect Cost	Expenses that are incurred for the benefit of multiple programs or functions and are necessary for the general operation of the SNP program—but cannot be directly attributable to the program.
Indirect Cost Rate	Established percentage of awarded funds that is dedicated to pay costs that have been identified as indirect costs.

⁹ If an NSLP CE operates a Child and Adult Care Food Program and/or Summer Food Service Program, there may be additional regulations that applied for the use of an FSMC to operate the program.

Internal Controls	Procedures or processes designed to establish and maintain effective internal control over the SNP's financial management system that provides reasonable assurance that the CE is managing the program in compliance with all federal, state, and local regulations and terms and conditions of the program award. These procedures or processes help the CE to (1) define actions related to financial management and the procurement activities, (2) establish standards of ethical conduct, and (3) provide full and open competition.
Invitation for Bid (IFB)	Formal method of procurement that uses sealed bidding and results in a fixed-price contract with or without adjustment factors.
Just-in-Time (JIT)	Food and supplies kept in quantities an entity anticipates will meet its immediate needs, which results in the entity maintaining a low inventory level.
LEA	Local education agency, an entity having administrative control and direction of a public or private nonprofit elementary or secondary school. ¹⁰
Lead Time	Amount of time necessary for a distributor to prepare and deliver products and/or services to the CE.
Local Product	Unprocessed locally grown or raised agricultural products that retain their inherent character.
Managing the Contract	Procedures the CE has in place to ensure that contractors perform in accordance with the specifications, technical requirements, and terms and conditions described in a contract or purchase order.
Market Basket	Solicitation strategy that allows a CE to procure a list of products with varied pricing options for a finite number of products. Each product on the market basket list must have (1) a description with the quantity to be purchased, (2) specifications and/or technical requirements for each product, and (3) a description of how each product will be awarded on the contract.
Market Basket, Total Cost Analysis and Scoring	Analysis and scoring evaluation based on the aggregate total cost or by line item total.
Market Basket, Simplified Total Cost Analysis and Scoring	Analysis and scoring evaluation based on a representative sample of all products.
Material Change	Change made to a contract after the contract has been awarded that alters the terms and conditions of the contract substantially enough that had other offerors known of the change in advance, they may have bid differently and more competitively.
Meal Equivalency Factor (MEF)	Statistical tool that is used to convert a la carte sales into a standard of measure, in this case a "meal." The MEF is often used to convert a la carte sales into meal equivalents for billing purposes in fixed price contracts.
Micro-purchase Method	Single purchase or transaction with an aggregate total cost that does not exceed \$10,000 whether that purchase occurs weekly, monthly, or annually
Necessary	Item or service that is essential to the operation of the program.
Negative Fund Balance (Net Cash Resources)	Negative fund balance (net cash resources) at the end of the school year—A CE must not carry a negative fund balance into the next school year. A negative fund balance exists when all net cash resources have been depleted, and the resulting negative balance constitutes a liability to the organization.

¹⁰ This definition is taken from USDA regulation.

Net Cash Resources	<p>Amount of funds the SNP account has available to spend—total revenue less total liabilities (expenditures). USDA further defines Net Cash Resources as</p> <p>This includes all monies, as determined in accordance with the State agency’s established accounting system that are available to or have accrued to a school food authority’s nonprofit school food service at any given time, less cash payable. Such monies may include, but are not limited to, cash on hand, cash receivable, earnings on investments, cash on deposit and the value of stocks, bonds, or other negotiable securities.</p>
Noncompetitive Method	Procurement method used when there is an insufficient number of offers submitted in response to a solicitation. In this case, full and open competition is deemed inadequate, and there is no way to remedy the situation.
Non-Federal Entity	State, local government, Indian tribe, institution of higher education (IHE), or nonprofit organization that carries out a federal award as a recipient or subrecipient.
Open Award	Contract award in which all vendors that submit an offer are awarded a contract. This type of award does not promote full and open competition or pricing that is advantageous to the program. An open award is not the same as using a market basket strategy.
Operating Months	Months during which the CE operates any child nutrition program—NSLP, SBP, CACFP At-Risk, or a summer feeding program. This includes reasonable amounts of time to set up program operations before meal service begins and time to close program operations at the end of the meal service period. Days on which operational tasks occur may be for a full month of operation or a partial month of operation.
Operator	Entity that operates a Child Nutrition Program.
Operator-Only Cooperative	Any type of agreement that is formed solely among CNP operators, including regional education service center (ESC) cooperatives.
Pass-Through Entity	Entity receiving federal funds that have passed through another entity. This definition is specific to funding from federal sources and applies to state agencies, CEs, group purchasing cooperatives, and third-party entities. These funds are used to fulfill the purposes of a federally funded program.
Payment Bond	Bond that covers the cost of materials and works for construction contracts.
Performance Bond	Bond which covers the cost of ensuring that the work is done as specified in the terms of the contract.
Procedures	Processes, protocols, plans, standards of behavior, expectations, or any other written method of describing actions employees are to take related to specific events or financial transactions. For this section, the word procedure is used to refer to all of these types of documents.
Procurement	<p>Act of obtaining of goods or services in exchange for money or value.</p> <p>[NOTE: Value may be monetary or material worth, but it may also be something that has usefulness that can be exchanged for something of worth, merit, or importance.]</p>
Procurement Standards	Standards of conduct that shall govern the performance of the CE’s officers, employees, or agents in contracting for payment and expending program funds. State and federal procurement regulations require each CE to maintain written standards of conduct, including a code of conduct that prohibits employees from participating in the selection, award, and administration of any contract to which an entity or certain persons connected to them have a financial interest.
Program Integrity	<p>Organized and structurally sound financial management system that promotes program efficiency and prevents the inappropriate use of program funds.</p> <p>[NOTE: Program integrity includes practices associated with ethical standards and codes of conduct.]</p>
Program Specific Audit	Review of the financial transactions—income and expenditures—and accounting procedures for a designated program.

Proprietary Products	Manufactured products ordered specifically for a particular program or are unique to a manufacturer.
Reasonable Cost	Amount that does not exceed a cost that would be incurred by a prudent person under similar circumstances.
Regulatory Authority	Oversight authority dictated by legislative act or regulation.
Request for Proposals (RFP)	Formal procurement method where potential contractors submit an offer to provide products and/or services under a fixed-price or cost-reimbursable type contract.
Responsible (Offer)	Capable of providing the product(s) and/or service(s), as described in the solicitation.
Responsive (Offer)	Offer that addresses the terms and conditions of the solicitation, including the specifications and/or technical requirements for product(s) and/or service(s).
Revenue	Income received by an organization.
Revenue to the School Nutrition Program (SNP) Account	All income that is collected or awarded to the SNP account is revenue (or income) to the SNP account. This includes, but is not limited to, the following: <ul style="list-style-type: none"> – Federal reimbursement – State or local funds, such as per meal subsidies and state revenue matching funds – Students’ payment for reimbursable meals and a la carte sales – Payments for items purchased for fund raisers and vending machines – Income from catering and adult meals
Service Fee	Fee charged for the performance of a specific service.
Simplified Acquisition Threshold (Also Called Small Purchase Threshold)	Amount established by federal, state, or local regulations that defines when formal and informal procurement methods must be used.
Single Audit	Organization–wide review of the financial transactions—income and expenditures—and accounting procedures.
Sole Source Method	Noncompetitive procurement method used when products and/or services are available from only one supplier, distributor, or contractor. TDA must approve all sole source methods of procurement.
Solicitation	Process of notifying prospective or qualified offerors about the specifications or technical requirements for the purchase of products and/or services. For informal procurement, the solicitation may be communicated by email, in person, by fax, or by phone as long as the person soliciting offers documents the specifications or technical requirements to ensure that every possible contractor is given the same information. For a formal procurement, a written solicitation is required.
Specifications and Technical Requirements	Detailed information included in the solicitation and in the final contract that describes the product(s) and/or service(s) that will be provided to the CE under the contract.
State Matching Funds	Matching funds provided to local education agencies (LEAs) that participate in NSLP by the state of Texas based on the number of lunches reported on reimbursement claims filed during the period of September 1 through August 31 of the prior year. RCCIs and private schools do not receive state matching funds.
Subgrantees	Governmental or other legal entity to which a subgrant is awarded and is accountable to the grantee for the use of the funds provided.

Supplier (Sometimes Called Vendor)	Commercial enterprise, public or nonprofit private organization, or individual that enters into a contract with a CE to provide products and/or services. A supplier is also referred to as an offeror during the solicitation phase of procurement.
Supplies	Items that are expendable or consumed in day-to-day activities and replenished as needed.
Tangible Benefit	Special offer for a particular item in order to incentivize a purchase which includes, but is not limited to, offering (1) a special item at much lower price than the price structure for a current contract, (2) an item not presently used at a special price that is below market value; or (3) an incentive, such as equipment or other prizes for purchasing items.
Terms and Conditions	General provisions, definitions for terminology, renewal options, protests, termination, and other standards inherent to the contract.
Third-Party	Entity that is contracted to act on behalf of another entity.
Third-Party Cooperative	<p>Any type of cooperative agreement that is formed by sources that are external to CEs which includes the following types of cooperatives:</p> <p>Non-Child Nutrition Program State Agency Procurement Agency Agreements Intergovernmental agreements with the State which may include public, private, and nonprofit entities and are conducted for State facility needs using State procurement standards. These agreements allow local educational agencies and other Child Nutrition Program operators to purchase from the State's contracted sources.</p> <p>Interagency Agreements Public, private, and nonprofit entities formed for the purpose of procuring goods and services.</p> <p>Group Purchasing Organizations, Group Buying Organizations, and Third-Party Vendors (Collectively Referred to as GPOs) CNP and non-CNP operators such as public and private schools, hospitals, universities, law enforcement, public works, etc., who join a third-party company or service provider. A GPO may be a for-profit or a nonprofit entity. Typically, a GPO includes a membership fee for those granted access to the GPO price list of products and services.</p>
Transaction	Occurrence in which two or more entities exchange goods, services, or money between them or among them under an agreement formed for their mutual benefit.
Unallowable Cost	Direct or indirect cost that cannot be paid using funds from the nonprofit school food service account because the cost is not reasonable, allowable, and/or allocable. A cost that is unallowable for the CE is also unallowable for a third-party acting on behalf of the CE. The term <i>disallowed</i> is sometimes used in place of unallowable.
Unit Cost	Cost for a single item.
Value	Something of monetary or material worth or something that has a usefulness that can be exchanged for something of worth, merit, or importance.
Velocity Report	Report providing the quantity, date of purchase, and other valuable information for specific products and/or services purchased by CEs used to assist with forecasting future purchasing needs.
Vended Meal Contract	Contractor or merchandiser providing the CE with complete meals, meal components, and raw materials for the meal service.
Vendor Participation Fees	Charge to participate. The charge to participate may be paid by the participant, or it may be paid by those providing products and/or services.

Written Financial and Procurement Procedures

Processes, protocols, plans, standards of behavior, expectations, or any other written method of describing actions employees are to take related to specific events, including financial and procurement transactions. For this section, the word *procedure* is used to refer to all of these types of documents.

Procedures define the critical steps taken to establish and operate effective and efficient systems for (1) financial management, (2) procurement, and (3) management of contracts and agreements. Written procurement procedures may include a procurement plan with timelines and tasks, or a procurement plan may be a separate document from the procedures.

Written financial and procurement procedures must be established by all CEs.

Revenue (Income to the Program)

All revenues received by or accruing to the SNP account must only be used for the operation and improvement of the school nutrition program.

Types of Revenue

Revenues include, but are not limited to, the following sources of income:

- Catering departments operated by the SNP
- Credits, discounts, and rebates awarded for the purchase of products or services as well as the value of USDA Foods¹¹
[NOTE: A CE's USDA Food allocation cannot be included as income in calculating whether a CE has an excessive fund balance or used in determining the CE's final net balance at the end of the CE's fiscal year.]
- Earnings on SNP investments
- Interest earned on federal and nonfederal program income
- Federal and state reimbursements received by or accruing to the SNP account
- Non-federal funds supporting the meal or milk programs
- Other local revenues that support the meal or milk programs
- Snack bar and a la carte incomes
- Student and adult meals or milk in the National School Lunch Program (NSLP), School Breakfast Program (SBP), or Special Milk Program (SMP)
- Vending machine income if operated by the SNP¹²

Catering

If the SNP operates a catering program, it must ensure that the income received for catering events covers the full cost of preparing and serving the catered items.

Fundraising

The CE may use funds from its SNP fundraising activities for any allowable cost.¹³

¹¹ See the *Administrator's Reference Manual (ARM), Section 17, Procurement* for additional information on this topic.

¹² Items sold in vending machines must adhere to the requirements of the competitive food requirements. See the *Administrator's Reference Manual (ARM), Section 22, Competitive Foods* for additional information on this topic.

¹³ See *Fundraising, Actions to Raise Funds for the Program* under the *General Expenditures—Allowable and Unallowable Costs* subsection in this section for additional information on this topic.

Funds Raised by Recycling

If SNP funds are used to purchase recycling equipment or products purchased with SNP funds are recycled, any funds raised from these efforts must be credited to the SNP financial accounts. If the cost and items for recycling is shared with other programs, any funds raised from these efforts must be credited to the SNP financial accounts in proportion to the SNP contribution.

Investments

Earnings on investments using SNP funds totally or in part for investment purposes must accrue to the SNP account and must be used for authorized program purposes.

Revenue from Any Meal Service That Includes USDA Foods

All income that comes from any meal service in which USDA Foods were used must be deposited into the nonprofit school food service account and must be used for the operation or improvement of such service. These funds cannot be deposited into a separate account (i.e., catering or vending). Moreover, the CE cannot reimburse the nonprofit school food service account for the value of the USDA Foods in lieu of depositing all income that comes from these meals into the nonprofit school food service account.

End of Year Fund Balance (Net Cash Resources)

Any positive balance remaining in the SNP account at the end of the school year must be carried over to the next school year as the beginning balance in the SNP account. Any negative balance in the SNP account at the end of the year must be cleared by funds from non-SNP sources. A CE cannot carry a negative fund balance (net cash resources) into the next school year. A negative fund balance exists when all net cash resources have been depleted, and the resulting negative balance constitutes a liability to the organization.

Excessive Fund Balance (Net Cash Resources)

To maintain the nonprofit status required for the SNP, the fund balance (net cash resources¹⁴) of the SNP account must not exceed three month's average expenditures at any time. The *Excessive Balance (Net Cash Resources) Calculation Chart* provides an explanation and examples of how to determine if the CE has an excessive fund balance.

Excessive Balance (Net Cash Resources) Calculation Chart

Determine the CE's average monthly operating expenses by dividing the prior year's expenses by the number of months in operation in the prior year.

Prior Year's Expenses		Number Months in Operation Prior Year ¹⁵		Average Monthly Operating Expenses
\$900,000	÷	10	=	\$90,000

Determine if the CE has an excessive fund balance (net cash resources) by comparing the total net cash on hand (Amount A) to three month's average expenses (Amount B).

Amount A	Average Monthly	Amount B
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¹⁴ While guidance and regulations use the term *excessive fund balance* in this circumstance, the regulation is referring to *excessive net cash resources*, the amount of funds the SNP account has available to spend, as the total revenue less total liabilities (expenditures). See the *Definitions* subsection in this section for a more detailed definition. USDA guidance and regulations use the term excessive fund balance for this circumstance. The Government Accounting Standards Board (GASB) describes this as spendable funds. Items such as inventories are not spendable, so are not included in the calculation for an excessive fund balance or for other USDA reports.

¹⁵ *Number Months in Operation Prior Year* includes any month when the CE was operating any meal program. This includes summer feeding programs.

Current Operating Balance—Total Net Cash Resources on Hand	Operating Expenses	x	3	=	Three Month's Average Expenses
\$200,000	\$90,000				\$270,000

If Amount A is larger than Amount B, the CE has an excessive operating balance and needs to submit a plan for eliminating its excessive balance to TDA.

Determining If There Is an Excessive Fund Balance (Net Cash Resources)

Use the following method to calculate the CE's average monthly operating expenses.

1. <u>Divide</u> the prior year's total food service expenses by the number of months in operation for the prior year.	Prior Year's Expenses	÷	Number of Months in Operation Prior Year	=	Average Monthly Operating Expenses
2. <u>Record</u> the amount of total net cash on hand for the food service program in column Amount A , Current Operating Balance—Total Net Cash Resource on Hand .	<u>Amount A</u> Current Operating Balance—Total Net Cash Resources on Hand		Average Monthly Operating Expenses		<u>Amount B</u> Equals Three Month's Average Expenses
3. <u>Record</u> the CE's average monthly expenses for the food service account in the Average Monthly Operating Expenses .				x 3	
4. <u>Multiply</u> the Average Monthly Operating Expenses by 3 to calculate Three Month's Average Expenses and record this amount under Amount B, Three Month's Average Expenses .	<p>If <u>Amount A is larger than Amount B</u>, the CE has an excessive operating balance and needs to submit a plan for eliminating its excessive balance to TDA. The CE must use this form to submit its plan.</p> <p>If <u>Amount B is larger than Amount A</u>, the CE does not have an excessive fund balance and does <u>not</u> need to submit a plan or use this form.</p>				

Resolving an Excessive Fund (Net Cash Resources) Balance

If an excessive fund balance occurs, the CE must immediately take steps to reduce its net cash resources or have an acceptable plan for using surplus net cash resources. Since program funds must be used only for program purposes, excess net cash resources must be reduced by improving the quality of food served¹⁶ or purchasing needed supplies, services, or equipment.

The plan must be submitted to the Texas Department of Agriculture (TDA) on the *Plan for Reducing an Excessive Operating Fund Balance*¹⁷ form which is available on TDA's SquareMeals website (www.SquareMeals.org). The plan must provide the following:

- Explanation of how the CE will reduce the fund balance (net cash

¹⁶ TDA's *Boost Meal Appeal* website provides numerous resources that CE may use to improve the quality of food served. These resources are available at www.SquareMeals.org.

¹⁷ Additional directions on how to submit the form are located on the form itself.

resources) to an acceptable level within one year by improving the quality of food served or by purchasing needed supplies, service, or equipment¹⁸

- Explanation of what the CE will do to ensure that an excessive fund balance (net cash resources) will not occur in the future

Special Guidance, Excessive Fund Balance (Net Cash Resources)

Allowing net cash resources to build up in the food service account for an extended period to save for a future project is unallowable. If the proposed expenditure project is a construction project, construction projects are typically not allowable.

Continued Failure to Resolve an Excessive Fund (Net Cash Resources) Balance

If a CE continues to have an unresolved excessive balance over multiple years, USDA regulations state that TDA must adjust the rate of reimbursement in order to assist the CE in maintaining a fund balance that is not excessive.

Reimbursement Rates

Reimbursement rates are updated annually by USDA and can be found on the TDA website at www.SquareMeals.org. For additional information on this topic, see the *Administrator's Reference Manual (ARM)*, Section 20, Counting & Claiming.

State Matching Funds

Public school districts and charter schools participating in NSLP receive an annual payment of state matching funds based on the number of lunches reported on reimbursement claims filed during the previous year from September 1 through August 31 as required by federal law. These funds are recorded in the Monthly Claim Summary in TX-UNPS each spring for each CE receiving the funds. The funds must be used for SNP operation and improvement.

Expenditures (Costs)

Revenues must be used for expenses that are necessary for SNP operation and improvement. This includes, but is not limited to, food, equipment, supplies, and program personnel. SNP funds must not be used for expenditures that are not directly related to the SNP operation and improvement even though the SNP account may be part of the CE's general fund. All expenditures must be reasonable, allowable, and allocable.

All financial transactions related to expenditures are subject to the procurement regulations described in the *Administrator's Reference Manual (ARM)*, Section 17, Procurement. CEs must use that guidance in addition to the guidance in this section to ensure that they are compliant with all regulations related to financial management.

All costs are either categorized as direct or indirect. A direct cost cannot be an indirect cost. It must be one or the other—not both. CEs must use the following guidance in determining if an expense is allowable.

Direct Cost

Direct cost is defined as expenses that can be identified specifically with a particular cost objective used to meet a specific program goal(s).

¹⁸ An excessive operating food service fund balance (net cash resources) cannot be reduced by altering children's meal pricing structures when altered pricing conflicts with the paid lunch equity requirements. See the *Administrator's Reference Manual (ARM)*, Section 19, Meal Pricing for additional information on this topic.

Direct costs include, but are not limited to, the following:

- Payroll
- Contracted services
- Food and milk costs
- Equipment and supplies
- Repairs to equipment

Indirect Cost

Indirect cost is defined as expenses that are incurred for the benefit of multiple programs or functions and are necessary for the general operation of the SNP program, but these expenses cannot be directly attributable to the SNP.

[NOTE: Expenses that can be directly attributable to the program are classified as direct costs. Costs that can be directly attributable to the program include, but are not limited to, payroll services, building utilities, contracted services specific to the SNP, and food costs.]

Documentation Demonstrating Direct and Indirect Costs

The following list of direct and indirect cost items helps to illustrate how documentation assists in the decision about whether a cost is direct or indirect. This list is not exhaustive.

Cost Item		Description	Documentation ¹⁹
Food and Food Supplies	Direct Cost	Items used to prepare and serve meals	Itemized vendor invoices
Labor	Direct Cost	Wages and salaries of full or part time employees involved in operating the food service program	Timecard ²⁰ indicating actual time by program
Custodial Services	Direct Cost	Services to clean kitchen/serving areas only	Timecard indicating actual time by program
Custodial Services	Indirect Cost	Services to clean entire school, including kitchen/serving area	Timecard not indicating time by program
Maintenance Charges	Direct Cost	Equipment/materials in kitchen/serving areas repaired or replaced by in-house personnel or external vendor	Itemized vendor invoice indicating actual time or timecard indicating actual time by program
Maintenance Charges	Indirect Cost	Kitchen/serving area equipment/materials repaired or replaced by in-house personnel or a vendor	Vendor invoice not specific to program area or timecard not indicating time by program
Trash Collection	Direct Cost	Trash pickup for school and kitchen/serving area	Itemized vendor invoice indicating actual time or timecard indicating actual time by program

¹⁹ See *Employee Timekeeping* subsection in this section for additional information on the requirements for tracking time to be charged to the nonprofit food service account as direct or indirect costs.

²⁰ Employees may account for time in a variety of forms. Accounting may be traditional paper timecards, activity reports, time sheets submitted through electronic systems, or any other appropriate method.

Cost Item		Description	Documentation ¹⁹
Trash Collection	Indirect Cost	Trash pickup for school and kitchen/serving area	Vendor invoice not specific to program area or timecard not indicating time by program
Utilities	Direct Cost	Meter for kitchen/serving area	Vendor invoice specific to program area
Utilities	Indirect Cost	Meter for the entire school	Vendor invoice not specific to program area
Accounting Services	Direct Cost	School office personnel providing change, verify daily receipts, perform banking duties, etc.	Timecard indicating actual time by program
Accounting Services	Indirect Cost	School office personnel providing change, verify receipts, perform banking duties, etc.	Timecard not indicating time by program
Payroll Services	Indirect Cost	Services provided CE-wide	Timecard not indicating time by program
Information Technology Support	Direct Cost	Services provided specific to operation of the food service program	Timecard indicating actual time by program
Information Technology Support	Indirect Cost	Services provided CE-wide	Timecard not indicating time by program
Pest Control	Direct Cost	Services specific to kitchen/serving /food storage areas	Itemized vendor invoice or timecard indicating cost by program area
Pest Control	Indirect Cost	Services provided to various areas of the school	Vendor invoice not specific to program area or timecard not indicating time by program area

Questions Related to Determining Direct or Indirect Costs

In determining whether a cost should be a direct or indirect cost, the CE should use the following questions to help decide whether the cost is direct or indirect:

Questions to Consider	Common Practices
Does the cost benefit multiple programs or other cost objectives, or is it solely for the school food service?	Costs that are common to more than one program are typically appropriate to allocate as indirect costs. Costs which are unique to a specific program are typically appropriate to allocate as direct costs.
Does the cost have a direct relationship to the operation of the SNP?	Costs which are unique to SNPs are commonly direct costs.
How are similar costs treated in other cost objectives?	CEs must apply direct and indirect costs consistently across all programs.
How has this cost been treated in the past—an indirect or direct cost?	CEs must treat costs as direct or indirect consistently over time.

Types of Indirect Cost Rates

There are two types of indirect cost rates: restricted and unrestricted.

Restricted	Unrestricted
Use if grant funds specify supplement, not supplant. This method is intended to minimize the amount of program funds used for indirect costs.	Use if supplement, not supplant, does not apply. This method is intended to maximize the allowed amount of program funds used for indirect costs.

SNPs may use either the restricted or unrestricted indirect cost rate. However, if a CE charges indirect costs incorrectly, the resulting costs are unallowable.

Method for Calculating Indirect Costs

The *Indirect Calculation Chart* below demonstrates how direct costs are calculated.

Indirect Calculation Chart			
Unrestricted Indirect Cost Rate Calculation			
Indirect Cost Pool (Sum of Allowable Indirect Costs)	÷	Direct Cost Base (Allowable + Unallowable Direct Costs)	= Unrestricted Indirect Cost Rate
Restricted Indirect Cost Rate Calculation			
Organizational Costs (General Management Costs + Fixed Costs)	÷	Direct Cost Base (Allowable + Unallowable ²¹ Costs)	= Restricted Indirect Cost Rate
<small>^a Costs incurred for the direction and control of the organization as a whole, i.e., accounting, payroll, human resources, audit, procurement</small> <small>^b Contributions to fringe benefits associated with wages and salaries that are charged as indirect costs</small>			
Total Program Costs			
Direct Costs	+	Indirect Costs	= Total Program Costs

Eliminating Costs That Distort the Indirect Cost Calculation

In calculating the indirect cost amount, the CE must exclude any cost that distorts the calculation. Types of costs that may distort the indirect cost rate calculation include, but are not limited to, the following:

- Cost for a contract or purchase beyond \$25,000
- Equipment purchases and other capital expenditures
- Food costs
- Renovations or alterations to facilities
- Fines, penalties, bad debt

Costs items which may distort the indirect cost are removed from the direct cost base when calculating the total amount of indirect cost allowed to be charged to the nonprofit school food service account. This creates the modified direct cost base which is used to calculate the total allowed indirect cost that can be applied to the actual indirect cost total as demonstrated in the following formula.

Applying an Indirect Cost Rate for SNP

²¹ Unallowable costs are included in this calculation step. However, while unallowable costs are used in this calculation step, the CE cannot charge unallowable costs to the nonprofit school food service account.

SNP Indirect Cost Rate	x	SNP Modified Direct Cost Base (SNP Allowable Direct Costs <u>Minus</u> Distorted Costs)	=	Total Allowed SNP Indirect Cost That Can Be Applied to SNP Actual Indirect Cost Total
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The *Indirect Cost Diagram* illustrates the relationship of the SNP allowable indirect costs to the CE's allowable indirect costs.

Consistent Application

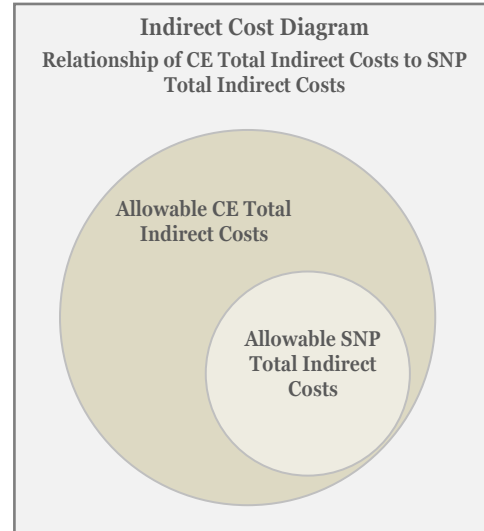
The program operator must classify all similar costs as direct or indirect in a consistent manner. That is, the same cost item incurred under the same circumstances must be treated consistently as a direct cost or indirect cost.

The CE must also apply the indirect cost rate(s) in a consistent manner.

For Example: A CE has an unrestricted indirect cost rate of 11.66%. The rate applies to 7 programs, including SNP. The nonprofit school food service account is charged indirect costs for 30% of utilities (phone, electricity, gas, and internet), 30% of administrative costs, and 30% of office supplies. The other programs apply the indirect cost rate of 11.66%. In this case, the SNP portion is not consistent with the other programs, i.e., the SNP is paying 30%; all other programs are paying much less.

The nonprofit school food service account cannot be charged a higher indirect cost rate than other programs unless another program is required to have a different rate.

Moreover, office supplies are typically categorized as direct costs. If office supplies are charged as an indirect cost, the CE needs documentation that demonstrates why office supplies cannot be charged as a direct cost.



When There Are Programs That Require a Restricted Indirect Cost Rate

An SNP may use the restricted or unrestricted indirect cost rate, but there are programs that must²² apply the restricted indirect cost rate. In cases where the CE is able to demonstrate that a program is required to apply a restricted indirect cost rate to specific programs and where the CE chooses to use the unrestricted indirect cost rate for the SNP, charging a restricted indirect cost rate to some programs and an unrestricted to others is allowable.

When the use of different indirect cost rates is permissible, the CE must ensure that the indirect cost rates are still treated consistently. If the nonprofit school food service account is charged the highest allowable indirect cost rate, then, all programs must be charged the highest allowable indirect cost rate.

²² In general, funds which come from the US Department of Education require supplement, not supplant, and, therefore, require the use of the restricted rate.

If an indirect cost rate applied to any program is less than the allowed indirect cost rate, the indirect cost rate charged to the nonprofit school food service account must be decreased by an equitable proportion to be treated consistently.

For Example: The CE is required to use a 3.7% restricted indirect cost rate for one of its federally funded programs and uses a 13.75% unrestricted indirect cost rate for the SNP. The CE decides to reduce the restricted indirect cost rate by one percent, so the CE must reduce the SNP unrestricted indirect cost rate by one percent in a consistent and proportional method.

In this case, the following method of decreasing the indirect cost rate is not proportional and does not result in consistent treatment:

Restricted, $(3.7\% - 1\%) = 2.7\%$

Unrestricted, $(13.75\% - 1\%) = 12.75\%$

The following method of decreasing the indirect cost rate is proportional and does result in consistent treatment:

Restricted, $[3.7 - (3.7\% \times 1\%)] = 3.33\%$

Unrestricted, $[13.75 - (13.75\% \times 1\%)] = 12.375\%$

Retroactive Indirect Cost Rate

It is also unallowable to bill the nonprofit school food service account for indirect costs that were paid from the general fund in prior years unless an agreement, established at the time the indirect costs were not charged, exists to show that the CE has been *loaning* the nonprofit school food service account funds to cover the indirect costs in one or more prior years.

Actual Total Indirect Cost, Greater Than the Actual Total Indirect Cost

When the total allowable indirect cost amount is greater than the actual total indirect cost, the portion of the cost which exceeds the actual total indirect cost is unallowable to the nonprofit school food service account.²³

For Example: The CE sums the allowable indirect costs for all of the CE's programs as \$374,000, but the actual total of all indirect cost items for all programs is \$264,840. The CE cannot charge the full allowed amount calculated (\$374,000) for indirect costs because the amount is 141% of the actual cost—i.e., \$109,160 is unallowable because the amount exceeds the actual total cost for all indirect cost items for all programs.

Therefore, when applying the indirect cost rate, the CE must ensure that the nonprofit school food service account is charged a proportional amount of actual allowable indirect costs that is consistent with the amount all programs are charged for indirect costs.

Actual Total Indirect Cost, Less Than the Actual Total Indirect Costs

When the CE applies both restricted and unrestricted rates as appropriate to different programs, the result may be that CE's total actual indirect cost amount may not be covered. If this occurs, the nonprofit school food

²³ This discrepancy is unlikely to occur when CEs calculate the indirect rate using the Texas Education Agency's indirect rate process, but it may happen if a CE uses the de minimus indirect rate as described under the *Indirect Cost Rate, Without a Cognizant Agency* subheader in this section.

service account funds cannot be used to cover any amount greater than the allowed indirect costs for the SNP based on its indirect cost rate.

For Example: The CE has an actual total indirect cost of \$134,840 for all of the CE's programs. Across the CE's programs, 3 are required to use a restricted indirect cost rate and 4 use an unrestricted indirect cost rate.

When the CE applies the indirect cost rate to each program's modified direct cost base, the total allowed indirect cost amount is \$89,965.24. This amount is \$44,874.76 less than the actual cost for all programs.

In this case, any portion of or the full \$44,874.76²⁴ exceeding the actual cost is an unallowable cost to the nonprofit school food service account. These remaining costs must be paid by another funding source. The nonprofit school food service account may only cover the amount calculated as its indirect costs for the SNP.

Indirect Cost Rate, Private Schools and Residential Child Care Institutions (RCCIs)

Private schools and RCCIs should identify their cognizant agency and work with this agency to establish an approved indirect cost rate.

Indirect Cost Rate, Texas School Districts and Texas Charter Schools

For Texas school districts and charter schools the Texas Education Agency (TEA) is their cognizant agency. The indirect cost rate for Texas school districts and charter schools is established through a cooperative agreement between the United States Department of Education and TEA. TEA provides resources and guidance on indirect calculation procedures and rates.²⁵ The rates established through this cooperative agreement are also applicable to Child Nutrition Programs (CNPs). The cost items that will be included as indirect costs must be indicated in the CE's indirect plan and in the CE's financial management procedures.

TEA provides detailed guidance on indirect cost rates on the TEA website at https://tea.texas.gov/Finance_and_Grants/Grants/Federal_Fiscal_Compliance_and_Reporting/Indirect_Cost_Rates/Indirect_Cost_Rates/.

Indirect Cost Rate, Without a Cognizant Agency

If a CE does not have a cognizant agency, the CE may calculate its indirect rate each year using the guidance provided by USDA in *Indirect Costs, Guidance for State Agencies & School Food Authorities* (2016) or may use the de minimis indirect rate of 10%.

Special Guidance, Indirect Costs

The following guidance applies to the calculation for or designation as indirect costs.

Indirect Costs, Fundraising

Both allowable and unallowable fundraising and investment activities must be allocated as an appropriate share of indirect costs as described in the terms and conditions of the award.

²⁴ In general, when a restricted indirect cost rate is applied to actual indirect costs, the actual total cost of the indirect costs may not be completely covered because restricted rates are designed to ensure that the CE supplements existing funds and does not supplant or replace existing funds. The restricted indirect cost rate is intended to minimize the use of program funds and, when used, may result in amount applied which is less than the total actual indirect costs.

²⁵ Information on indirect cost rate is available at www.tea.state.tx.us/index2.aspx?id=3842&menu_id=645.

Factors Determining If the Cost Can Be Paid Using Nonprofit School Food Service Account Funds

In all cases, CEs must avoid unnecessary and duplicative costs and use the following factors to determine if a cost can be covered using the nonprofit school food service account:

Reasonable

A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the purchase decision was made. In determining the reasonableness of a purchase cost, consideration must be given to the following issues:

- Necessary. Is the cost generally recognized as ordinary and necessary for the operation of the SNP or the proper and efficient performance of the program? Is the cost for services under a contract duplicative of the costs for services provided under another contract or agreement?
- Sound Business Practices and Regulations. Does the purchase meet the standards or regulations imposed by sound business practices; federal, state, local, tribal, and other laws and regulations; and terms and conditions of CE's agreement with TDA?
- Fair Price. Is the cost in line with market prices for comparable goods or services for the geographic area?
- Prudent. Have the individuals involved with the purchase acted sensibly²⁶ in the situation or circumstance considering their responsibilities to the CE?
- Established Practices. Does this purchase significantly deviate from the CE's established practices and policies regarding such purchases?

Allocable

A cost is allocable to a specific program or other cost objective if the goods or services involved are chargeable or assignable to that program or cost objective based on the relative benefits received. In determining if a cost is allocable, consideration must be given to the following issues:

- Purpose. Is the purchase cost aligned with the purposes described for the federal program for which the funds were awarded?
- Shared Benefits. If the purchase benefits both the program and other non-program activities, can the cost be distributed proportionally to all programs that benefit from the purchase?
- Necessary and Allowable. Is the cost necessary and allowable?
- Indirect Costs. Will any indirect cost associated with this purchase be treated consistently across programs, including the determination of unallowable and allowable cost?

²⁶ In this case, sensibly means managing carefully, wise, judicious, without extravagance.

- Duplicative. Does the contract provide services the CE's is already paying for in another contract or agreement?

Consistency

The cost must be consistent with the policies and procedures that apply uniformly to both the federally financed and other activities of the CE.

- Ordinary and Common. Is the item or service generally considered an ordinary and a common expense for an SNP program?
- Consistent Treatment. Is the cost for the item or service consistent with the way the CE charges the costs for other programs for direct and indirect costs?

Is the Cost Allowable?

Using the criteria described in the *Factors Determining If the Cost Can Be Paid Using Nonprofit School Food Service Account Funds* subsection in this section, the CE determines if the cost of the item is allowable. The cost of an item or service is allowable if it meets the criteria described in the following questions:²⁷

Questions to Help Determine if a Cost Is Necessary, Reasonable, and Allocable

- Could the CE justify the purchase to USDA, TDA, the media, or auditors? Would a taxpayer deem the cost to be appropriate for the objectives of the SNP?
- Would a prudent person consider the cost to be reasonable? Is the cost charged at a fair rate or do alternatives exist that may be more cost effective?
- Does the item or service support the operation of the program? Does the item or service help the CE to achieve program objectives?

Questions to Help Determine if a Cost Is Consistent with Federal, State, and Local Requirements

- Is the payment method for the item or service consistent with the way other programs pay for direct and indirect costs?
- Has the CE made sure that the cost of the item or service is not associated with any cost or matching contributions for any other grant?
- Is the payment for services provided a duplicate of services paid through other contracts or agreements?

Questions to Help Determine if a Cost Is in Line with Accounting Principles

- Is the use of the item or service recognized as ordinary and appropriate for SNP operation?
- Is use of the item or service consistent with federal law, regulation, and terms of the grant or contract?
- Is payment for item or service consistent with the Generally Accepted Accounting Principles (GAAP)?
- Will payment for the item or service be made from SNP funds or from general funds?

²⁷ Questions based on guidance on allowability from 2 CFR, Subtitle A, Chapter II, Part 200—Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards.

- Is the invoice and payment for the item or service adequately documented?

Unit Cost Maximum

An expenditure of any single item that exceeds \$5,000 must have preapproval from TDA for the cost to be allowable. See the *Capital Expenditure* subsections in this section for additional information on this topic.

General Expenditures—Allowable and Unallowable Costs

All expenditures must be reasonable, allowable, and allocable. The following examples describe common allowable and unallowable uses of SNP funds.²⁸

Advertising, Disposal of Surplus Materials

Allowable:

- Materials and expenses to obtain services to properly dispose of surplus materials

Advertising, Outreach

Allowable:

- Materials and expenses for communication with parents and the community about program activities and services

Unallowable:

- Materials and expenses for public relations materials or activities designed solely to promote CE and not promote the school nutrition program(s) the CE operates

Advertising, Procurement

Allowable:

- Materials and expenses to publicize procurement solicitations

Advertising, Recruitment

Allowable

- Materials and expenses to recruit personnel

Unallowable

- Stipends, incentive awards, or other payments to SNP staff who recruit employees²⁹

Contributions

Unallowable

- Contributions of cash, property, and services by the CE to another entity

Duplicative Services

Unallowable

²⁸ This list is not exhaustive. *Information Box 1, Guidance on Program Accounting and Financial Systems* provides a list of resources that provides additional examples of allowable and unallowable costs items.

²⁹ See *Administrator's Reference Manual (ARM), Section 15, Program Integrity* for additional information on conflicts of interest.

- Cost for a product and/or service that is included as a product and/or service cost in another contract or procurement agreement

Emergency, Loss of Food Inventory, Supplies, or Equipment

Allowable

- Cost of replacing food inventory, supplies, or equipment lost due to a natural emergency or emergency evacuation of the school property

Equipment, Disposal of Equipment

Allowable

- Costs associated with the disposal or transfer of equipment if the CE is instructed by TDA to dispose of the equipment³⁰

Equipment and Supplies, Expendable Items and Other Items

Allowable

- **Materials or supplies used specifically in the SNP operation, including items that must be replaced from time to time: pots and pans, serving trays, dishes, glassware, silverware, linen, mops, brooms, and cleaning supplies**

If the CE purchases items as part of central contract, supplies must be charged to the program at net cost.

- **Uniforms or shoes purchased specifically for SNP staff which staff are required to wear as part of regular program operation**

If the CE purchases uniforms or shoes, the CE must establish a standard that use is limited to tasks related to program operation and must ensure that the cost is reasonable and necessary for the staff member's assigned tasks.

For Example: A staff member who works in the kitchen or in transporting food to another campus may need to have steel-toed shoes to prevent foot injury. A staff member located in the central office would not be assigned tasks that warrant the purchase of steel-toed shoes.

or

The CE may require all staff who enter food preparation or food service areas wear a specific type of hair covering. Since this is a health and safety issue, the CE may provide hair coverings to staff for this purpose.

Equipment, Nonexpendable Items

Allowable

- **Items or equipment used directly in preparing, storing, or serving meals, including items such as ranges, refrigerators, freezers, steam tables, mixers, storage cabinets, garbage containers, tables, chairs, hot water heaters, and portable fans**

This category may include charges for installing equipment and connecting to utilities in the building in which the SNP operates as well as maintenance service, upkeep, and repair of equipment.

³⁰ CEs may trade in old equipment as part of the cost for new equipment.

Equipment, Office Equipment

Allowable

- Items used to support program goals and objectives including such items as cash registers, adding machines, software, communication equipment, and other equipment used exclusively for the SNP operation as well as maintenance, upkeep, and repair of allowable office equipment

This category may include charges for installing equipment and connecting utilities in the building in which the SNP operates as well as maintenance service, upkeep, and repair of equipment.

Equipment, Office Equipment, Cell Phone

Allowable

- Cell phones and cell phone expenses if the cell phone contract is in the CE's name and not in the name of the individual employee using the cell phone

Unallowable

- Cell phones and cell phone expenses considered to be a stipend or allowance
- Cell phones and cell phone expenses purchased and registered in the name of the employee

Equipment, Computers

Allowable

- Computers/computing devices that are essential to program operation³¹

Facilities, Improvement, Rearrangement, and Reconversion

Allowable

- Supplies, equipment, and labor costs associated with facility improvement, rearrangement, and reconversion with TDA approval before incurring the cost

Unallowable

- Supplies, equipment, and labor costs associated with facility improvement, rearrangement, and reconversion without TDA approval before incurring the cost

Facilities, Insurance

Allowable

- Premiums for covering SNP property in connection with general operations and sound business practices
- Premiums for insurance that the CE is required to carry by federal, state, or local regulation or law

Unallowable

- Loss resulting from failure to maintain insurance as prescribed by regulation

³¹ When CEs purchase computers to use for SNP programs, staff must ensure that private information is safeguarded. This includes protecting private information collected by the SNP from being seen by anyone not authorized to access the information.

Facilities, Land Purchase, Acquisition, Construction, and Renovation

Allowable

- **Payment to purchase land, acquire or construct buildings, or make alterations to existing buildings that materially increase the value of capital assets when the CE has been approved to do so prior to purchase**

A request for this type of purchase must be sent to TDA. TDA will review the request and submit it to USDA for approval.³²

Unallowable

- **Payment to purchase land, acquire or construct buildings, or make alterations to existing buildings that materially increase the value of capital assets unless the CE has been approved to do so prior to purchase**

A request for this type of purchase must be sent to TDA. TDA will review the request and submit it to USDA for approval.³³

Facilities, Mobile or Temporary Sites

Allowable

- **Costs associated with transporting food items from one location to another, including vehicle costs and equipment**
- **Equipment to hold food at the correct food safe temperature³⁴**
- **Serving equipment or supplies specific to the operation of a mobile or temporary site**
- **Retrofitting a vehicle or equipment for food transportation or meal service functions**

[NOTE: Care must be taken to ensure that any cost associated with retrofitting a vehicle or equipment does not constitute the creation of infrastructure. SNP funds cannot be used to create infrastructure. Because retrofitting can be unique to a CE's situation, CEs should contact their ESC or TDA if they are unsure if their planned costs are allowable. Any single cost item that exceeds the capital expense threshold must be submitted to TDA for approval. See the *Capital Expenditures* subsection of this section for additional information on this topic.]

- **Portion of any shared equipment or supplies to be shared with other groups in proportion with the use by the Child Nutrition Program (CNP)**

Unallowable (Unless Approved by USDA)

- **Infrastructure needed for operation of the program, including a food truck or food trailer used to prepare food**

[NOTE: CEs may submit a request to TDA to use funds from the nonprofit food service account for infrastructure. TDA will review the request and forward the request to USDA for approval.]

- **Rental of a food truck or food trailer purchased by the CE with non-SNP funds**

[NOTE: Any rental fee for CE-owned property is an unallowable cost to the SNP.]

³² Requests for these purchases should be submitted using the contact information provided on the *Contact Information for the Texas Department of Agriculture (TDA), Food and Nutrition* page in this section.

³³ Requests for these purchases should be submitted using the contact information provided on the *Contact Information for the Texas Department of Agriculture (TDA), Food and Nutrition* page in this section.

³⁴ If any cost of a single item exceeds \$5,000, the CE must submit a request for a capital expense in the Texas Unified Nutrition Programs System (TX-UNPS).

Facilities, Rental of Facilities or Equipment

Allowable

- Rental or lease fees for non-SNP owned facilities such as cafeterias, kitchens, or storage facilities required for specific program needs

Unallowable

- Rental or usage fees for CE-owned equipment or facilities such as cafeterias, kitchens, or storage facilities

Facilities, Security

Allowable

- Expenses for the protection and security of facilities, personal, and work products including wages and uniforms of personnel engaged in security activities, equipment, barriers, and contracted services

Facilities, Services

Allowable

- Services which are necessary for the operation of the program, including services such as pest control, trash removal, security, and janitorial

Facilities, Utilities

Allowable

- Actual costs accounted for separately or prorated for the SNP and applied consistently for all programs. CEs must use a reasonable method to determine the cost of utilities

The best method is using separate meters. The next best is a utility company survey. Applying the square foot percentage of total building space in use by the SNP to determine the SNP's proportion of the utility cost is an acceptable method. In all cases, the CE must retain documentation that demonstrates that the method for determining utility costs is reasonable.

Financial, Audits

Allowable

- Cost for audits conducted in accordance with program requirements or a proportional share of the costs of audits (if the audit covers non-SNP programs) conducted in accordance with program requirements

Unallowable

- Cost for any audit not conducted in accordance with requirements

Financial, Cost Sharing

Unallowable

- Charging any goods or services that are part of a cost sharing or matching requirement to the food service account, including prorating of expenses in an inconsistent method with other programs without adequate documentation

Financial, Depreciation

Allowable

- Depreciation or use allowances based on a straight line calculation method (the pattern of consumption of the asset) that have a useful life of more than one year for assets purchased after December 26, 2014 or another method which allows the CE to demonstrate with *clear evidence* that the expected pattern of consumption would be greater in the earlier portions of the asset's useful life³⁵

Unallowable

- Depreciation calculated by any method other than a straight line calculation for items purchased after December 26, 2014³⁶ unless the CE is able to demonstrate with *clear evidence* that the expected pattern of consumption would be greater in the earlier portions of the asset's useful life
- Depreciation recorded on the cost of land; any portion of the cost of a building donated by the federal government no matter where the title was originally vested
- Depreciation for any asset purchased with restricted program funds
- Depreciation for any asset that has been paid for in full through payments were made over more than one fiscal year
- Depreciation for any asset that has outlived its depreciable life
- Depreciation for any asset that is paid for in full in the current fiscal year

Financial, Improperly Procured Products or Services

Unallowable

- Costs incurred as result of improperly procured products and/or services whether the cost be incurred through micro-purchase, small purchase, invitation for bids, or request for proposals method

Financial, Interest

Allowable

- Interest at the prevailing loan rate

Unallowable

- Interest costs for the use of the program's own funds
- Expenses used for lobbying and membership in an organization that devotes substantial activities to lobbying and influencing legislation

Information Box 2

Resources for Depreciation

Texas Comptroller of Public Accounts Website search for depreciation schedule from main page, www.comptroller.texas.gov/

Internal Revenue Service, search for *Publication 946, How to Depreciate Property* from the main page, www.irs.gov

³⁵ Not all CEs depreciate equipment. Use of the depreciation option is often determined by requirements from the funding source. CEs should consult with business or financial managers to determine the appropriate depreciation use allowances for their programs. The straight-line depreciation method identifies the number of years an asset, tangible or intangible, is expected to function and divides the total cost by the number of years.

³⁶ The straight-line depreciation method identifies the number of years an asset, tangible or intangible, is expected to function and dividing the total cost by the number of years. 2 CFR 200 states that depreciation must reflect the pattern of consumption of the asset and not the loss of economic value that might occur in the earlier years of use with such items as automobiles or computers.

Financial, Scholarship

Unallowable

- Use of funds from any SNP payments, rebates, credits, or other income for student scholarships

Financial, School Improvement

Unallowable

- Use of funds from any SNP payments, rebates, credits, or other income for school improvement expense

Food Operation, Food Service

Allowable

- Food purchases and costs directly related to the storage, handling, processing, and transportation of food

Fresh Fruit and Vegetable Program (FFVP)

See *Administrator's Reference Manual (ARM), Section 12, Fresh Fruit and Vegetable Program* for detailed guidance on allowable and unallowable costs specific to FFVP.

Fundraising, Actions to Raise Funds for the Program

Allowable

- Costs related to the physical custody and control of monies and securities that result from fundraising
- Costs for the purposes of meeting the Federal program objectives are allowable with prior written approval from the Federal awarding agency.

Unallowable

- Costs of organized fundraising, including financial campaigns, endowment drives, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions
- Costs of investment counsel and staff and similar expenses incurred to enhance income from investments are unallowable except when associated with investments covering pension, self-insurance, or other funds which include Federal participation allowed by this part

Insufficient Check Charge

Allowable

- Bank charges for insufficient checks that the CE receives from individuals or entities

Unallowable

- Bank charges when the CE issues an insufficient check

Legal Expenses, Attorney's Fees

Allowable

- Appropriate fees that are consistent with normal program operations
CEs must consult with TDA when there is a question as to whether the fee supports normal program operations.

Unallowable

- Costs incurred in the defense of any civil, criminal, or administrative fraud proceeding or similar charge

Legal Expenses, Fines and Penalties

Unallowable

- Fines, penalties, damages, or other settlements resulting from violations or alleged violations of, or failure of the entity to comply with, federal, state, local, or other government agencies

Lobbying, Political Activities and Events

Unallowable

- Expenses used to influence the outcomes of any federal, state, or local election, referendum, initiative, or similar procedure, through in-kind or cash contributions, endorsements, publicity, or similar activity
- Expenses used to establish, administer, contribute to, or pay the expenses of a political party, campaign, political action committee, or other organization established for the purpose of influencing the outcomes of elections in the United States
- Expenses used in an attempt to influence the introduction of federal or state legislation; the enactment or modification of any pending Federal or state legislation through communication with any member or employee of the Congress or state legislature (including efforts to influence state or local officials to engage in similar lobbying activity); or any government official or employee in connections with a decision to sign or veto enrolled legislation
- Expenses used to attend a legislative session or committee hearing with the intent of gathering information regarding legislation and analyzing the effect of legislation when such activities are carried on in support of or in knowing preparation for an effort to engage in unallowable lobbying

Meal Accommodation

Allowable

- Expenses related to a required meal accommodation as described in a medical statement or written into a student's Individualized Education Plan (IEP)

Outreach and Public Relations, Committees

Allowable

- Expenses for organizing or activities related to committees or councils that increase outreach and promote program involvement

Outreach and Public Relations, Incentives/Prizes to Participating Families

Allowable

- Reasonable incentives to encourage households to return completed free and reduced-price meal applications

Outreach and Public Relations, Promotional Materials

Allowable

- Exhibits or other information sharing activities related specifically to the SNP as well as printed materials to communicate information and messages central to program operations and program mission
- Activities to maintain and promote understanding and favorable relations with the community or public at large or any segment of the public
- Translation of materials for food service purposes³⁷

Unallowable

- Expenses for meetings, conventions, and convocations for purposes other than those described above as allowable
- Cost of displays, demonstrations, and exhibits, meeting rooms, hospitality suites, and other special facilities used in conjunction with shows and other special events other than those described above as allowable
- Salaries and wages of employees engaged in setting up and displaying exhibits, making demonstrations, or providing briefings other than those described above as allowable
- Cost of promotional items and memorabilia, including models, gifts, and souvenirs other than those described above as allowable
- Cost of advertising or public relations designed and intended to promote the CE and not the SNP

Program Operations, Printing and Reproduction Equipment or Services

Allowable

- Materials used to provide notification, maintain records, or other uses related specifically to program objectives
- Translation of materials for food service purposes³⁸

Staff, Cafeteria Monitor

Allowable

- Funds used for personnel directly involved in operating or administering the SNP who have monitoring duties assigned to them as part of or integral to their regular SNP responsibilities

Unallowable

- Funds used to pay meal service monitor salaries for personnel not directly involved in operating or administering the SNP and who do not have monitoring duties assigned to them as part of or integral to their regular SNP responsibilities

Staff, College Credits

Unallowable

³⁷ TDA provides translated household meal applications and related documents at www.SquareMeals.org. USDA provides translated household meal applications at www.fns.usda.gov/school-meals/applying-free-and-reduced-price-school-meals.

³⁸ TDA provides translated household meal applications and related documents at www.SquareMeals.org. USDA provides translated household meal applications at www.fns.usda.gov/school-meals/applying-free-and-reduced-price-school-meals.

- Cost incurred by an individual to obtain the college credits needed to meet the hiring professional standards

Staff, Employee Recognition

Allowable

- Reasonable expenses for recognizing employee efforts in the following conditions:
 - Activity is a part of the CE’s established practice.
 - The recognition is for employees who work directly for the SNP department or whose salaries are paid out of the SNP fund.
 - Activities or items are intended to improve employee performance.
 - Activities or items are intended to improve employee-employer relations.

Staff, Entertainment

Allowable

- Costs for amusements, social activities, gratuities, and related activities if the activities do have a specific programmatic purpose and are authorized in a TDA approved budget or written approval from TDA

Unallowable

- Costs for amusements, social activities, gratuities, and related activities if the activities do not have a programmatic purpose and are authorized in a TDA approved budget or written approval from TDA

Staff, Fringe Benefits

Allowable

- Benefits for employees such as the following: leave, insurance, pension,³⁹ and unemployment plans provided the following criteria are met:
 - Established in written policies
 - Equitable allocation for related activities for all programs
 - Appropriate accounting procedures are in place

Unallowable

- Benefits that include use of an automobile for personal use of an employee, including transportation to and from work, whether the cost is direct or indirect cost to the program and whether the cost is reported as taxable income to the employee.

Use of an automobile may be allowable for program use. See *Transportation, Meal Production Related Activities* in this section for more information.

- **Stipends or any other fixed, regular sum paid as a salary or allowance.**

Staff, Health and Welfare of Employees

Allowable

³⁹ The Texas Teacher Retirement System (TRS) has developed the *Supplemental Instructions for Child Nutrition Payment* tool to assist CEs in calculating retirement for SNP employees. Pension or retirement costs calculated with this tool are allowable.

- **Costs for improving working conditions, employee-employer relations, employee health, and employee performance**

To be allowable these goals and actions must be described in the CEs written policy, and the cost must be equitably distributed to all programs involved in these activities not just the SNP.

Staff, Labor

Allowable

- **Payments for labor and other services directly related to SNP operation**
This includes employer's share of retirement, social security, insurance payments, and fringe benefits as well as severance required by law, employer-employee agreement, established institutional policy, or circumstances of the particular employment.
- **Prorated portion of the salaries of janitorial, maintenance workers, secretarial, and finance staff for services performed specifically for the SNP operation**
- **Hazard pay or a temporary increase in salary for working during an emergency situation, including a disaster or health emergency, if the additional payment is applied consistently across all program funds**
- **Continued payment of wages during an unexpected closure for a disaster or emergency if the continued payment is applied consistently across all program funds**

Staff, Memberships, Subscriptions, and Professional Publications

Allowable

- **Fees for memberships, materials, subscriptions, and professional activities used to benefit or improve the operation of the SNP**

Unallowable

- **Fees for memberships in any civic or community organization as well as country club or social or dining club or organization**
- **Costs for membership in organizations whose primary purpose is lobbying**

Staff, Personal Use

Unallowable

- **Costs of goods or services for an employee's personal use even if reported as taxable income to the employee**

Staff, Severance Pay

Allowable

- **Payment in addition to regular salaries and wages for workers who are being terminated as long as each instance is (1) required by law and employer-employee agreement and (2) established by policy that constitutes an implied agreement between employee and employer**

Unallowable

- **Payments that are in excess of normal severance pay paid by the employer upon termination of employment contingent upon a change in management control over, or ownership of the CE's assets**

Severance payment that is considered abnormal or for mass terminations are only allowable on a case-by-case basis. In these cases, the CE must contact TDA for assistance.

Staff, Training and Conferences

Allowable

- Costs of meeting and conferences for which the primary purpose is the sharing of technical information including meals, transportation, facility rental, speaker's fees, identification of dependent-care resources, and conference registration fees

This also includes the costs associated with meeting the professional standards requirements.

Unallowable

- Costs associated with obtaining a degree to meet the hiring standards
- Costs for daycare for employees attending training or conference

Transportation, Meal Production Related Activities

Allowable

- Reasonable costs associated with purchasing, transporting, and disposing of food items, meals, or stored items used to support the SNP

[NOTE: Reasonable costs may be actual cost or per diem/mileage. Costs must be applied consistently with the CE's travel reimbursement policy and CE's policy for travel for all programs. If a CE allows the use of per diem, the per diem must be applied as described by the Texas Comptroller of Public Accounts. When mileage is paid, mileage must be paid based on the rate provided by the Texas Comptroller of Public Accounts.]⁴⁰

Travel, Conferences and Training

Allowable

- Expenses incurred for staff travel related to SNP improvement and to meet the professional standards requirements, such as workshops, conferences, and training programs

Special Situations, Allowable and Unallowable Costs

The following guidance describes special situations for allowable and unallowable uses of SNP funds.⁴¹

Allocable Cost Charged to Other Federal Awards

Any cost to a particular federal award that is allocable may not be charged to other federal awards⁴² to overcome fund deficiencies; to avoid restrictions imposed by federal statutes, regulations, or terms and conditions of the federal awards; or for other reasons. However, this prohibition would not preclude a CE from shifting costs that are allowable under two or more federal awards in accordance with existing Federal statutes, regulations, or the terms and conditions of the federal awards.

⁴⁰ Per diem and mileage information is provided on the Texas Comptroller of Public Accounts website at <https://fmx.cpa.texas.gov/fmx/travel/texttravel/rates/current.php>

⁴¹ This list is not exhaustive. *Information Box 1, Guidance on Program Accounting and Financial Systems* provides a list of resources that provides additional examples of allowable and unallowable costs items.

⁴² In this case, *other federal awards* refers to non-Child Nutrition Program awards.

Contingency Contract Approval

If a contract has a contingency approval by TDA or for other purposes, contingency documentation must be submitted and approved before the costs are allowable. Any costs incurred before the contingency approval is resolved, are unallowable.

Bad Debt

Bad debt is defined as debts which have been determined to be uncollectable. Uncollectible debt is debt that is not possible for the CE to collect—debt that the CE has no reasonable probability or likelihood of collecting. Bad debt is an unallowable cost to the program. The CE must resolve any nonprofit school food service account negative balance (net cash resources) with non-SNP funds at the end of the school year. Once a debt is determined to be uncollectable any cost associated with legal services for that debt is also unallowable.

After the CE's general funds have been used to clear bad debt for the nonprofit school food service account at the end of the school year, the CE may attempt to collect the bad debt and repay the general fund for the cost of clearing the bad debt. When the CE continues to collect the debt after nonprofit school food service fund account has been cleared, any costs associated with continued collection efforts (staff and other costs) are not allowable costs for the school nutrition program. However, after the general fund covers the cost of bad debt, any funds collected for the debt accrue to the CE's general fund and not the nonprofit school food service account.

Outstanding Student Debt, Delinquent Debt or Bad Debt

When a student owes unpaid meal charges,⁴³ a debt is owed to the nonprofit school food service account. Since outstanding bad debt resulting from nonpayment for school meals or milk cannot be absorbed by the nonprofit school food service account, the CE must have written procedures/processes in place that demonstrate compliance, including, but not limited to the following: (1) methods the CE uses to communicate with households about unpaid charges and collection of debt; (2) routine CE actions when there are unpaid student meal or milk charges; (3) debt collection time period, not to exceed two school years, for bad debt; and (4) criteria for reclassification of delinquent student debt for unpaid meal charges to bad debt.

- Household Response— The CE must not continue to carry delinquent debt beyond the end of the school year if there is not a probability or likelihood that the debt will be collected.
[NOTE: A household's response to debt collection contacts may indicate whether there is a reasonable probability or a likelihood of collection.]
- Probability or Likelihood of Collection—For there to be a probability or likelihood of the debt for student unpaid meal or milk charges to be collectible, the student who incurred the debt must continue to attend classes in the school system. If the student does not continue to attend classes in the school system, the CE must

⁴³ CEs must make the determination of how many meals a student is allowed to charge or milk that may be charged under the Special Milk Program. See *Administrator's Reference Manual (ARM), Section 19, Meal Pricing* for additional information on the charge grace period required for NSLP and SBP operators.

reclassify the delinquent debt for student unpaid meal or milk charges as bad debt by the end of the school year.

Debt Period Options for Student Unpaid Meal or Milk Charges

Delinquent debt is debt the CE has the possibility of collecting, i.e., the CE's procedures/processes are structured so that there is a reasonable probability (likelihood) that the debt will be collected. Therefore, if the payment is likely to occur, the debt may be classified as delinquent debt.⁴⁴

However, if the payment is not reasonably probable or likely to occur, the debt must be reclassified as bad debt. CEs may choose to apply a one-year or two-year delinquent debt collection period for student unpaid meal or milk charges.

- One School Year Period—The CE may limit delinquent debt⁴⁵ for student unpaid meal or milk charges to the school year in which the student incurred the debt. If this option is used, at the end of that school year, any remaining debt for unpaid meal charges must be reclassified as bad debt.

When the debt for student unpaid meal or milk charges is classified as bad debt, the CE must resolve the bad debt at the end of the school year with non-SNP funds.

- Two School Year Limitation—The CE may carry delinquent debt⁴⁶ for student unpaid meal or milk charges forward one school year after the school year in which the student debt was incurred if there is a reasonable probability or likelihood that the CE will be able to collect the debt in the second school year. If this option is used, at the end of the second school year, any remaining debt for student unpaid meal or milk charges must be reclassified as bad debt.

When the debt for student unpaid meal or milk charges is classified as bad debt, the CE must resolve the bad debt at the end of the second school year with non-SNP funds.

Special Guidance, Student Unpaid Meal or Milk Charges

CE's must use the following guidance for delinquent and bad debt for student unpaid meal or milk charges:

- Alternate Method of Payment—When a student has unpaid meal or milk charges, the CE must provide a method for the student (or the student's household) to pay for future meals or milk even through the student has an unpaid meal or milk balance.

[NOTE: If the CE has an online payment system, the system must clearly communicate how funds paid into the online account will be applied when there is existing debt for student unpaid meal or milk charges.]

⁴⁴ This includes debt incurred during SY 2017-2018.

⁴⁵ This includes debt incurred during SY 2017-2018.

⁴⁶ This includes debt incurred during SY 2017-2018.

If the student pays with cash and has change due, the cashier must give the student two options (1) apply the change to the student's account and (2) be given the change.

- Communication about Procedures/Policies to Households about Unpaid Student Debt—The debt collection procedure/policy must be communicated to households.
- Communication about Resolving Unpaid Student Debt—The CE must have written procedures/processes for routinely contacting a household to prompt payment. Contacts may be made by electronic, regular mail, or phone methods. CEs must clearly communicate amounts owed to the household and provide information on how to resolve the unpaid meal or milk charge debt, including a repayment plan.
- Online Student Account Systems—If a CE uses an online system for communicating student account balances, the CE must offer households a non-online method for obtaining information about student meal or milk account balances.
- Cost of Delinquent Debt Collection for Student Unpaid Meal or Milk Charges—Reasonable costs associated with the collection of delinquent debts are allowable costs to the nonprofit school food service account. These costs cannot be added to the student's unpaid meal or milk charges.
- Documentation for Efforts to Collect Student Unpaid Meal or Milk Charges—CEs must retain documentation of contacts and results of contacts, all payments made, and all remaining balances that are reclassified as delinquent or bad debt.
- Financial Accounting—The CE must use an account payable debt system to document and track student unpaid meal or milk charges by individual student.
- Grace Period for Student Charges (NSLP/SBP)—The CE's grace period for student charges is applied each school year even if the CE has chosen the option to carry student unpaid meal charges forward to a second school year, when appropriate.
- Student Unpaid Meal or Milk Charges Paid by a Person or Entity Other Than the Household—If the CE allows individuals or entities to cover unpaid student debt, the CE must have a method to document when these funds are applied to a student's meal or milk account and how the household is notified. The requirements for confidentiality of student information applies when an individual or entity covers unpaid student debt.⁴⁷
- Transfer of Funds to Clear Bad Debt—Once debt for student unpaid meal or milk charges is reclassified as bad debt, the CE must

⁴⁷ See *Administrator's Reference Manual (ARM), Section 3, Civil Rights & Confidentiality* for additional information on this topic.

transfer funds to cover the bad debt from a non-SNP funding source to the nonprofit school food service account. Documentation demonstrating the transfer is required.

If the CE intends to continue to collect the debt after the transfer of funds, the SNP should provide individual student debt balances and payment information to the CE staff who will seek repayment.

Changing Funding Source for a Payment

If a CE pays a bill with funds from the SNP account that was not previously charged to the SNP account, the CE must add an equal amount of nonfederal funds to the SNP account for the payment to be an allowable cost.⁴⁸

Fresh Fruit and Vegetable Program (FFVP) Equipment Purchases

If the equipment to be purchased is also to be used by other programs, the cost of the equipment must be prorated among all programs based on percentage of use. For detailed guidance on allowable and unallowable expenses for the FFVP, see *Administrator's Reference Manual (ARM), Section 12, Fresh Fruit and Vegetable Program*.

Employee Timekeeping

CEs are expected to ensure that salary and wage expenses are correctly charged to the SNP. CEs must have a timekeeping record system, paper or electronic, that accurately reflects the work performed by employees for the SNP.

The timekeeping record system must meet the following requirements:

- Be supported by a system of internal controls which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.
- Be incorporated into the CE's official records that include a hand or electronic signature by the employee and the supervisor certifying the accuracy of the records.
- Comply with the established accounting policies and practices put in place by the CE to ensure program integrity.

The timekeeping record system must provide the following information:

- Actual hours worked, not estimated hours worked, for both hourly and salaried employees compensated by the CE for each pay period, integrating compensation provided by SNP funds and non-SNP funds.

Charging a percentage of time to the SNP without a method to record actual time is an unallowable cost.

[NOTE: For budget planning, it is common to assign time by percentage, but when charging the nonprofit school food service account for labor costs, it must be done by actual time.]

⁴⁸ Since CEs commonly use electronic accounting procedures, CEs should take care to document electronic transfers adequately.

- Distribution of the employee’s salary or wages among specific activities or cost objectives if the employee works on SNP and non-SNP projects.

Maintenance and Repair Costs (Not Capital Expenditures)

Costs incurred for necessary maintenance, repair, or upkeep of buildings and equipment to promote efficient operating conditions do not require TDA approval.

Maintenance and repair costs include, but are not limited to, the following:

- Repainting a wall when new kitchen equipment is installed
- Restriping lines or adding graphics in the service area that help students understand how to move through the service line
- Routine freezer and cooler maintenance contracts
- Replacing tiles when there is water damage in the service area

However, costs incurred for improvements which add to the permanent value of the buildings and equipment or appreciably prolong their intended life must be treated as capital expenditures. If this is the case, see *Capital Expenditures (Equipment and Facility Improvement)* subsection in this section for additional information on how to request approval for a capital expenditure.

If the CE has a question about whether a cost is for maintenance and repair or a capital expenditure, the CE should contact its ESC or TDA.⁴⁹

Special Guidance, Painting and Graphics

Allowable costs associated with painting and graphics must be specifically associated with an SNP operational objective.

Examples of Unallowable and Allowable Maintenance and Repair Costs for Painting and Graphics	
Unallowable	Allowable
– Repainting the cafeteria walls and adding graphic elements not associated with SNP operation	– Repainting a wall that was renovated to allow for the installation of new SNP equipment – Appropriate proportion of painting costs specific to SNP operation
– Adding artwork to the walls in the meal service area that is not specific to the school meal program (murals or school mascots)	– Adding artwork to walls in the meal service area that is specific to the operation of the school meal programs (meal pattern information)

If the cost for the painting or graphics is part of a larger project that includes a portion of the work that is associated with an SNP operational objective, only that portion of the cost that is appropriate to the SNP is allowable.

⁴⁹ The Contact Information for the Texas Department of Agriculture (TDA), Food and Nutrition page which follows the Table of Contents provides the email address to submit questions about capital expenditures.

Capital Expenditures (Equipment and Facility Improvement)

Capital expenditures are costs exceeding \$5,000 for a single item that are incurred to acquire (1) capital assets or equipment or (2) to make improvements, additions, modifications, replacements, rearrangements, reinstallations, renovations, or alterations to capital assets that materially increase their value or useful life.⁵⁰

USDA requires CEs to obtain approval⁵¹ before incurring the cost for capital expenditures in the following conditions:

1. Capital Asset or Equipment—Cost that exceeds \$5,000 for a single item.
2. Capital Improvements—Cost that exceeds \$5,000 for an addition, improvement, modification, replacement, reinstallation, renovation, or alternation to a capital asset⁵² that materially increases the value or useful life of the asset.

Costs which are classified as capital improvements are intended to achieve one the following results:

- Make the property better by removing a defect, adding enhancements, or increasing strength or capacity.
- Restore the property to a condition existing before the property was acquired or rebuilding to a like-new condition.
- Adapt the property to a new or different use.

Capital Expenditures (Equipment and Facility Improvement) Request for Approval

CEs must request and receive approval before paying for capital expenditures—equipment or facility improvement—with a cost of \$5,000 or more per item.⁵³

Procedure to Request a Capital Expenditure (Equipment or Improvement) Approval

To request approval for a capital expenditure, CEs must complete the capital expenditure form located in TX-UNPS under the Applications tab, *Capital Expenditure Request* hyperlink.

Additional instructions are found at

https://squaremeals.org/Portals/8/FND%20Forms/Program%20Forms/Capital_Expenditure_Request_Instructions.pdf.

Request by Item Location

Requests for capital expenditures must be made by location/site. For each cost item provide the type of item, age, quantity, cost per item, total cost, and percentage paid by SNP funds. Use the Comment field (Number 6) to

⁵⁰ If the expense is an ordinary maintenance or repair cost, see the guidance provided in the *Maintenance and Repair Cost (Not Capital Expenditures)* subsection in this section.

⁵¹ CE must complete the *Capital Expenditure Request* located in TX-UNPS | Applications | Capital Expenditure Request.

⁵² Assets are defined as buildings (facilities), and equipment that have a useful life of more than one year which are capitalized in accordance with Generally Accepted Accounting Principles (GAAP).

⁵³ While capital expenditures for equipment or improvement for more than \$5,000 per item require prior approval, CEs must still ensure that equipment or improvements that cost less than \$5,000 are allowable costs. See the *General Expenditures—Allowable and Unallowable* for more information on this topic.

describe how the item will be used and why it is a necessary purchase.

Indication of Capital Improvement Expenditure

If the CE is requesting approval for a capital improvement expenditure, the CE will complete the *Capital Expenditure Request* form in TX-UNPS and record a note in the Comment section stating that the request is for a capital improvement expenditure.

[NOTE: If the Type of Item dropdown menu does not contain a descriptor that matches the cost item or if the best descriptor is Other, the cost is likely a capital expenditure for improvement request.]

Corrections to Form

TX-UNPS does not allow for correction of this form after it has been submitted. A new form will need to be submitted.

Approval or Disapproval

Approval is granted on a case-by-case basis. Approval or disapproval for the request will be indicated in TX-UNPS. If a CE incurs and pays for the cost of a capital expenditure without the required approval, the cost is unallowable.

Capital Expenditures for Equipment, Special Guidance

A capital expenditure for equipment request is an expense of \$5,000 or more for an item that is intended to be used for multiple years. For capital expenditures for equipment, CEs must use the following guidance:

Charge Period

Capital expenditures for equipment must be charged in the period in which the expenditure is incurred unless TDA approves a payment structure that spans multiple funding years.

Direct Cost

Capital expenditures for equipment must be coded as a direct cost; they cannot be classified as an indirect cost.

Purpose

For this cost to be allowable, capital expenditures for equipment must be specifically linked to operation of the SNP.

[NOTE: When a CE provides information on how the cost item will be used and why it is necessary in the Comment field (Number 6), lack of specificity can lengthen the approval process. Specific detailed descriptions will assist staff in making a determination in a timely manner.]

Proportion of Cost

If the equipment will be used by the SNP and other programs, the CE must charge only the proportional amount to the nonprofit school food service account that is consistent with SNP's use of the equipment.

Capital Expenditures for Improvements, Special Guidance

SNP capital expenditures for improvements to land, buildings (cafeteria and food preparation space) which materially increase the value or useful life of facilities and

exceed \$5,000⁵⁴ are unallowable except with the prior approval of the TDA.⁵⁵ This requirement applies to improvements, renovations, construction, and other activities that are not considered to be repairs to the existing cafeteria and meal preparation space. In all cases, when the CE is unsure if the expense will be considered to be an improvement to the land, building, or equipment which will materially increase value of useful life, the CE should contact its ESC or TDA.⁵⁶

For capital improvement costs, CEs must use the following guidance:

Charge Period

Capital expenditures for improvements must be charged in the period in which the expenditure is incurred unless TDA approves a payment structure that spans multiple funding years.

Direct Cost

Capital expenditures for improvement must be coded as a direct cost; they cannot be classified as an indirect cost.

Purpose

For these expenditures to be allowable, capital expenditures for improvements must be specifically linked to operation of the SNP.

[NOTE: When a CE provides information on how the cost item will be used and why it is necessary in the Comment field (Number 6), lack of specificity can lengthen the approval process. Specific detailed descriptions will assist staff in making a determination in a more timely manner.]

Proportion of Cost

When determining whether a requested capital expenditure for improvement is allowable, CEs need to consider the proportion of use. While it is true that the cafeteria and food preparations area are used for meal service, they are also often used for other purposes—meetings, trainings, special events, instruction, and such. When the space for the improvement can be specifically linked to other programs, the nonprofit school food service account must pay only the proportion of the cost that is consistent with the SNP's use of the area.

Equipment/Property, Care and Maintenance

CEs must use the following guidance for equipment/property bought with SNP funds:

- Must retain equipment/property records that include the following information:
 - Description of the equipment/property
 - Serial number or other identification number
 - Source for the equipment/property
 - Entity holding the title, if applicable

⁵⁴ All costs for renovations, construction, improvement, or other activities that are less than \$5,000 must still be an allowable cost to be charged to the nonprofit school food service account. See the *General Expenditures—Allowable and Unallowable Costs* subsection in this section for more information on what costs are allowable.

⁵⁵ If approved, TDA will submit the request to USDA. USDA must provide final approval for capital improvement expenditures before costs are incurred.

⁵⁶ See the Contact Information for the Texas Department (TDA), Food and Nutrition page which follows the table of contents in this section for contact information.

- Acquisition date
 - Cost of the equipment/property
 - Location
 - Percentage of federal funds in the cost of the equipment/property
 - Disposition data including the date of disposal and sale price of the equipment/property if sold
- Must take a physical inventory of the equipment/property, and the results reconciled with the records at least once every two years.
 - Must develop a control system to ensure adequate safeguards to prevent loss, damage, or theft of the equipment/property. Any loss, damage, or theft must be investigated.
 - Must develop adequate maintenance procedures to keep the equipment/property in good condition.

Equipment/Property, Disposal

The guidance in this subsection applies to all Child Nutrition Programs (CNPs). Disposition of equipment/property should follow these requirements:

Items Valued Less Than \$5,000

Items of equipment/property with a current per unit fair market value of less than \$5,000 may be retained, sold, or otherwise disposed of with no further obligation to the CE. However, if the item is sold, all funds from the sale must be credited to the SNP account.

Items Valued More Than \$5000

Items of equipment/property with a current per unit fair market value in excess of \$5,000 may be retained or sold. If sold and the SNP paid the total cost of the equipment, the SNP account must be credited for the full amount received for the equipment/property. If sold and the SNP paid a percentage of the total cost for the equipment/property, the SNP must receive a portion of the sale price (percentage of cost) that is equal to the portion the SNP paid (percentage of cost) toward purchase—multiply the current market value or proceeds from sale by SNP share of the equipment/property.

Retired Equipment/Property That Will Not Be Replaced

Equipment/Property purchases for use in the SNP program must be used by the CE in the program(s) for which it was acquired for as long as it is needed. When equipment/property is no longer needed by the SNP and will not be replaced, other Child Nutrition Programs (CNPs) have first preference in using the equipment/property. If the retired equipment/property is donated to another CNP, the use of the equipment/property must not interfere with operation of the SNP.

Retired Equipment/Property That Is Replaced

If acquiring replacement equipment/property, the CE may also use the retired equipment/property as a trade-in or sell the property and use the proceeds to offset the cost of the replacement equipment/property.

The CE must establish proper procedures for the sale of retired or replaced equipment/property to ensure the highest possible return if the equipment/property is sold or donated. All funds from the disposition of equipment/property must be deposited into the SNP account. TDA will review records related to the disposal of equipment/property as part of the agency's effort to monitor program integrity.

Local Wellness Policy

Nonprofit school food service account funds may be used to implement its local wellness policies if the local school wellness policy is directly supporting the operation or improvement of the SNP. In cases where only a portion of the local school wellness policy activities are a direct support to the operation or improvement of the SNP, then, only that portion of cost must be charged to the nonprofit school food service account. This includes the nonprofit school food service account covering all or a portion of a local wellness policy coordinator. Please see the Employee Timekeeping subsection in this section for additional guidance on how a local wellness policy coordinator's time would be covered.

Nutrition Education Expenses

Nutrition education and related activity expenses are allowable if the expense meet the following criteria:

1. Are reasonable, necessary, and allocable as defined in this section
2. Support the operation of and/or improvement of the SNP objectives to serve nutritious meals that meet the meal pattern.

Universal Free Feeding Programs

CEs may choose to allow sites to provide meals to all students at no charge—universal free feeding—at breakfast, lunch, both breakfast and lunch, or afterschool snack. CEs may operate universal free feeding under the Community Eligibility Provision (CEP), Special Provision 2 (P2), or under standard counting and claiming.

If the CE adopts a universal free feeding program, the CE agrees to supplement SNP funds with nonprogram funds if the cost of operating the universal free feeding program exceeds SNP revenue. Nonprogram funds include the following revenue types:

- Any portion of State revenue matching funds that exceeds the minimum requirement
- Profits from a la carte sales
- Cash donations (such as Angel Funds)
- In-kind contributions from outside sources, such as volunteer services

Farm to School and School Farm or Garden Expenses and Revenue

SNP funds may be used to support farm to school activities, including school gardens, if the expenditure is an allowable cost. The *Farm to School/School Garden Allowable Cost Assessment Chart* may be used by the CE to determine if farm to school or school garden expenses are allowable.

Farm to School/School Garden Allowable Cost Assessment Chart

If the answer is no, the cost is not allowable.

SNP Program Objectives

- Do the farm to school or school garden activities support the SNP objectives and/or promote program improvement? Yes No
(Includes nutrition education)

Support the Operation or Improvement of the School Meal Program

- Is the purchase for the farm to school or school garden activities helping to support the operation of or improvement of the school meal program Yes No

Reasonable

- Are the costs associated with these activities reasonable—that is proportional to the benefits and results? Yes No
- Are the costs associated with SNP activities or support for or improvement of the SNP program? Yes No

Compliance with NSLP/SBP Meal Pattern [^]

- Are the costs associated with efforts aligned with or supportive of NSLP/SBP meal pattern compliance? Yes No
(Includes, but is not limited to, activities that enhance students' preference for fruits and vegetables, increase the likelihood of students eating fruit and vegetables offered on the serving line, and nutrition education activities.)

Proportional Allocation for Staff Salaries*

- In cases where only a portion of the farm to school or school garden coordinator's time is spent directly in support of the SNP operation, does the site cover the portion of the coordinator's salary that is deemed necessary, reasonable, and allocable? Yes No

[^] Net cash resources and prioritizing funds to support the operation or improvement of the school meal program.

* Staff positions strictly supporting horticulture classes, Future Farmers of American, or other school associations cannot be funded by the SNP account.

Supplies or Equipment for School Farms or Gardens

If the school farm or garden is used within the context of the school meal programs and serves the purpose of supporting the operation of or improving the school meal program, supplies and equipment for the school farm or garden may be purchased with funds from the SNP account.

Supplies (i.e., seeds, fertilizer, water cans, or rakes) and equipment (i.e., hoop houses and high or low tunnels) are allowable if (1) the CE has assessed the purchase using the questions from the *Farm to School/School Garden Allowable Cost Assessment Chart* and determined that the costs are allowable and (2) the products grown in the school garden or farm are used within the context of the SNP.

Building Structures

The purchase of land or buildings is not allowable unless the CE has received approval prior to purchase. To obtain approval, the CE must submit an approval request to TDA. TDA will review the request and forward it to USDA for approval.

Intergovernmental Agreement

CEs may enter into an intergovernmental or interdepartmental agreement with a school farm or garden local government agency⁵⁷ to purchase products from the garden. The agreement may outline the price for the produce, relative timelines, and expectations of both parties. However, before establishing an agreement, the CE must conduct a price analysis to ensure that products purchased from the garden are purchased at reasonable prices.

Procured Farm to School Products

CEs may conduct procurement for garden produce even if the purchase falls below the small purchase threshold. Geographic preference may be used.⁵⁸ The CE must still ensure that products purchased from the garden are purchased at reasonable prices.

Sale of Produce from a Garden Funded by the SNP

If the CE sells produce from a school garden or farm that is funded by the SNP, the revenue must accrue back to the SNP account. If the CE contributes a proportion of the total cost, the amount accrued back to the SNP may be proportional to the amount of the SNP's contribution.

Use of Fresh Fruit and Vegetable Program Funds (FFVP)

CEs must not use funds from the FFVP to purchase supplies or equipment for school gardens.

Proportion of Program/Nonprogram Revenue and Food Cost

Each year, CEs must assess their revenue from program food (reimbursable meals) and nonprogram food (non-reimbursable meals) to ensure that nonprogram food revenue generates at least the same proportion of revenue as it contributes toward total food costs.⁵⁹

Revenue

For the program/nonprogram proportion, revenue is all money that is provided to the SNP account. This includes, but is not limited to, the following:

- Federal reimbursement
- State or local funds, such as per meal subsidies and State revenue matching funds
- Children's payments for reimbursable meals and a la carte sales
- Credits, rebates, and discounts and USDA Foods values credits
- Income from catering, adult meals, vended meals

⁵⁷ Government entities include such agencies as local recreation department.

⁵⁸ See *Administrator's Reference Manual (ARM)*, Section 17, *Procurement* for additional information on local preferences.

⁵⁹ Section 205 of the *Healthy, Hunger-Free Kids Act of 2010*. The Institute for Child Nutrition (ICN) *Financial Management Information System* booklet (2018) provides various tools and worksheets to assist CEs in tracking program/nonprogram revenue and food costs. Available at www.theicn.org. See the *Administrator's Reference Manual (ARM)*, Section 19, *Meal Pricing* for additional information on topics related to the proportion of program /nonprogram costs and revenues, including Paid Lunch Equity.

- Payments for items purchased for fund raisers and vending machines

Nonprogram Revenue

For the program/nonprogram proportion, nonprogram sales include, but are not limited to, the following:

- A la carte items sold in competition with reimbursable meals
- Adult meals
- Catered or vended meals
- Items purchased for fundraisers, vending machines, and school stores

Costs

For program/nonprogram proportion, the CE will use only the cost of the actual food. The CE will not include labor or other costs in this calculation.

[NOTE: If the menu item is made from scratch, the CE would need to determine the price of all ingredients to calculate the food costs.]

Cost for Each Meal

Calculating program and nonprogram food revenue and costs is essential to knowing the cost of each item served and each meal served.

If the nonprogram food revenue is not proportional to program food revenue, the CE must act immediately to make the program/nonprogram revenue proportional. *Proportional* means that the food costs for nonprogram foods must be equal to or greater than program food costs, and nonprogram revenue must be equal to or greater than program revenue. TDA has developed *Program/Nonprogram Revenue and Cost Proportion Calculation Worksheet*⁶⁰ to assist CEs in calculating the proportion of program/nonprogram revenue and food costs.

Steps for Calculating Proportion of Program/Nonprogram Revenue

The CE should calculate the proportion of total nonprogram food costs by taking the following actions:

- Step 1:** Determine the total program and nonprogram cost and revenue.
- Step 2:** Determine the percentage of total program and nonprogram food cost.
- Step 3:** Determine the percentage of nonprogram and revenue and food cost Based on total revenue and food cost.
- Step 4:** Compare the total nonprogram revenue and food cost percentages to ensure that the total nonprogram food cost and revenue are proportional to the total food cost and revenue.

⁶⁰ Available at www.SquareMeals.org.

The *Program/Nonprogram Revenue/Food Revenue and Cost Calculation Chart* illustrates an example of the calculation to determine the correct proportion of program/nonprogram revenue/food cost.

Program/Nonprogram Revenue and Food Cost Proportion Calculation Chart

Step 1: Determine the Total Program and Nonprogram Cost and Revenue.

- Sum the Total Program Food Cost and the Total Nonprogram Food Cost to calculate the Total Food Cost.
- Sum the Total Program Revenue and the Total Nonprogram Revenue to calculate the Total Revenue.

Total Program Food Cost	+	Total Nonprogram Food Cost	=	Total Food Cost (Program & Nonprogram Combined)
\$122,359		\$301,854		\$424,213
Total Program Revenue	+	Total Nonprogram Revenue	=	Total Revenue (Program & Nonprogram Combined)
\$160,987		\$303,697		\$464,684

Step 2: Determine Percentage of Total Program and Nonprogram Food Costs.

- Divide the Total Program Food Cost by the Total Food Cost to calculate the Total Program Food Cost Percentage.
- Divide the Total Nonprogram Food Cost by the Total Food Cost to calculate the Total Nonprogram Food Cost Percentage.

Total Program Food Cost	÷	Total Food Cost (Program & Nonprogram Combined)	=	Total Program Food Cost Percentage
\$122,359		\$424,213		28.84%
Total Nonprogram Food Cost	÷	Total Food Cost (Program & Nonprogram Combined)	=	Total Nonprogram Food Cost Percentage
\$301,854		\$424,213		71.16%

Step 3: Determine the Percentage of Nonprogram Revenue and Food Cost Based on Total Revenue and Food Cost.

- Divide the Total Nonprogram Revenue by the Total Revenue to calculate the Total Nonprogram Revenue Percentage.
- Divide the Total Nonprogram Food Cost by the Total Food Cost to calculate the Total Nonprogram Food Cost Percentage.

Total Nonprogram Revenue	÷	Total Revenue (Program & Nonprogram Combined)	=	Total Nonprogram Revenue Percentage
\$303,697		\$464,684		65.36%
Total Nonprogram Food Cost	÷	Total Food Cost (Program & Nonprogram Combined)	=	Total Nonprogram Food Cost Percentage
\$301,854		\$424,213		71.16%

Step 4: Compare the Total Nonprogram Revenue and Food Cost Percentages to ensure that the Total Nonprogram Food Cost and Revenue are proportional to the Total Food Cost and Revenue.

- If the Total Nonprogram Revenue Percentage is greater than or equal to the Total Nonprogram Food Cost Percentage, no action is required.
- If the Total Nonprogram Revenue Percentage is not greater than or equal to the Total Nonprogram Food Cost Percentage, the CE must take action to make the Total Nonprogram Revenue Percentage and Total Nonprogram Food Cost Percentage proportional.

Total Nonprogram Revenue Percentage	is less than	Total Nonprogram Food Cost Percentage	In this case, the food cost is not proportional to the revenue; the CE must take action to address the disproportion.
65.36%		71.16%	

CEs may use the *Program/Nonprogram Revenue Proportion Calculation Worksheet* to calculate the proportion of program and nonprogram income and expenses.⁶¹

Universal Free Programs, of Program/Nonprogram Proportion Revenue and Costs

All CEs, including those that operate the Community Eligibility Provision (CEP), Provision 2, or universal free, are required to perform the Program/Nonprogram Proportion Calculation if the CE sells nonprogram foods or adult meals.

Adjusting the Proportion for Program/Nonprogram Revenue/Costs

The CE may adjust the nonprogram revenue in a variety of ways including, but not limited to, increased prices for nonprogram food items and contribution of funds from non-SNP sources. The CE must use the following guidance in establishing proportional program/nonprogram revenue and costs:

Different Nonprogram Foods

A CE may choose to increase the price of one type of nonprogram food revenue more than another type. This is permissible as long as the proportional requirement is met.

Direct or Indirect Charges

The CE cannot count direct or indirect charges as a contribution of nonprogram funds if the CE does not actually add the funds to the SNP account. This transaction must be documented before applying the contribution to the proportional requirement.

Special Circumstances

If the CE’s normal months of operation are impacted by a natural disaster, the CE may use a representative month to determine revenue or income for the fiscal year. The CE should contact TDA if this occurs.

Exclusive Contracts

An *exclusive contract* is a contract between a CE and a distributor/vendor that prevents the CE, and the SNP administered by the CE, from buying or selling similar products from other

⁶¹ Form available on www.SquareMeals.org

distributors/vendors. The distributor/vendor may also offer the CE financial, product, or service incentives for signing an exclusive contract. USDA has provided the following guidance and clarifications for exclusive contracts:

1. If the exclusive contracts do not involve the SNP account funds, there are no federal SNP procurement issues involved. State law or local regulation and policy may apply to the procurement of an Exclusive Contract. TDA strongly recommends that the CE consult its attorney before entering into a solicitation or other type of procurement for an Exclusive Contract.
2. If any SNP products are purchased via the exclusive contract, then all federal procurement requirements must be met.
3. Additionally, if SNP products are included in the contract, any rebates, commissions, or any other payments back to the CE or CE-related organizations must be reimbursed to the SNP account on a prorated basis. The distributor/vendor must provide the CE with the documentation necessary to assure that rebates, commissions, or other payments are properly applied.
4. Many of these contracts are multi-year contracts.⁶² School procurement officials should consider the impact of multi-year contracts, as opposed to single-year contracts, on the purchase of beverage and snack items.
5. School districts with existing contracts in place that include SNP products must reimburse the SNP account its pro-rata share in accordance with Item 3 above for the current and subsequent school years and maintain appropriate documentation to demonstrate compliance with this requirement.

Proprietary Rights

Any discovery, invention, and/or software/program that are paid for using funds from the school nutrition program must remain the property of the school nutrition program. TDA and USDA must have unrestricted rights for use and access to the discovery, invention, and/or software/program.

Loans from the SNP Account to the CE

SNP funds may be loaned to the CE on a short-term basis (a school year) as long as the loan does not jeopardize the integrity of the foods service program to students and the balance of the fund is not reduced below operational costs for a three-month period —it must be repaid within the fiscal year in which the loan is made. Multi-year obligations are not permissible.

Interest

The CE must pay interest at the prevailing loan rate to the SNP account for funds loaned from the SNP account. The rate of interest charged on the loan must be equal to the rate that would have been paid if the loan were obtained from a commercial source, and no less than the normal rate of interest the SNP would have earned by keeping the SNP funds deposited in an interest-bearing account.

Loan Stipulations

The loan agreement must contain such stipulations as the purpose; interest rate (simple or compounded); the repayment schedule for the principal; and interest and any penalties for late payment.

⁶² Other than food service management companies.

Loan Records Retention

The original loan agreement, duly executed, and the payments for the principal and interest must be maintained and be on file for the duration of the loan plus the retention period as described in the *Records Retention* subsection in this section.

Loans from the CE Account to the SNP, Retroactively Determined as a Loan

CEs must not retroactively determine that funds transferred from the general fund to cover SNP deficits are a loan subject to repayment. For a liability to exist, a bona fide loan agreement between the CE and SNP must be in effect at the time that the funds are transferred. Records that demonstrate an existing agreement include a written agreement and financial records that document the contributions from the CE to SNP as well as from the SNP to the CE.

Financial Single Audit Requirement

Federal law requires that all non-federal entities that expend \$750,000⁶³ or more in federal awards⁶⁴ have an annual audit or single (organization-wide) audit⁶⁵ or a program specific audit each year as described in the *Audit, Program Specific Audit* subsection in this section. All audits must be conducted in accordance with Generally Accepted Accounting Auditing Standards (GAAS).

Because the rules and regulations applying to audits are highly technical, and different auditing requirements apply by type of entity and amount of funds received, this subsection only provides an overview for the audit requirements for CEs administering NSLP or SBP. See *Information Box 1* in this section for additional information on federal resources on audits.

Records Reviewed in a Single Audit

At a minimum, auditors will review the following records:

General Accounting Documentation

- Records (receipts, ledgers, files) of food, milk, nonfood items and purchased equipment
- Bank statements
- Procurement documentation, including receipt of credits, discounts, and rebates as well as the value of USDA foods

[NOTE: When procurement relates to a major program in an audit, the scope of the audit must include determining whether these transactions are compliant federal statutes, regulations, and the terms and conditions of the federal award.]

⁶³ 2 CFR §§200.110(b) and 200.501(a), changed from \$500,000 to \$750,000 for all federal awards made after December 26, 2014

⁶⁴ In this case, *Federal Award* means federal financial assistance and Federal cost-reimbursement contracts that non-Federal entities receive directly from Federal agencies or indirectly from pass-through entities. TDA is a pass-through entity for the SNP (2 CFR Part 200).

⁶⁵ A financial audit is not considered to be the same as a single (organization-wide) audit.

Staff Cost Documentation

- Labor costs, including fringe benefits, for all staff involved in food service

Food Production Documentation

- Food service equipment depreciation schedules, if claiming depreciation
- Records of reimbursements including claim forms and worksheets
- Records describing the value of USDA foods
- Records accounting for food sold as part of the meal program—a la carte, milk, and reimbursable meals, catering, a la carte, or other food services
- Records describing food and nonfood inventories

Program Participation Documentation

- Records providing participant data

Financial Single Audit Due Date

TDA⁶⁶ must receive an acceptable audit within nine months of the last day of the CE's accounting fiscal year if the CE is required to submit an annual audit. Each CE must use the accounting fiscal year that its organization follows to determine the audit due date.

For Example:

Calendar Year	or	NSLP Fiscal Year	or	Federal Fiscal Year
January 1 to December 31		July 1 to June 30		October 1 to September 30

- If a CE's accounting fiscal year ends on December 31, its audit report is due before September 30 of the following year.
- If a CE's accounting fiscal year ends June 30, its audit report is due before March 31 of the following year.
- If a CE's accounting fiscal year ends September 30, its audit report is due before June 30 of the following year.

[NOTE: CEs should review and accept the audit report before sending it to TDA. TDA requires only the final draft of the audit report.]

Financial Single Audit Due Date Reminder

TDA will provide RCCIs and private schools⁶⁷ two notifications about the CE's audit due date:

- First reminder—three months prior to due date
- Second reminder—one month prior to due date

⁶⁶ CEs must send one printed copy or an electronic copy on a CD to the TDA address on the Contact Information for the Texas Department of Agriculture (TDA), Food and Nutrition page in this section. Because of the size limitation on incoming email to TDA, TDA does not recommend that CEs email their audit files to TDA. To ensure that the document is delivered correct, add *ATT: Business Operations—Audit* to the mailing address.

⁶⁷ Audits for public and charter schools are conducted by the Texas Education Agency; therefore, these notices only go to RCCIs and private schools.

Financial Single Audit, Public School Districts

The Texas Education Agency (TEA) conducts single (organization-wide) audits for all Texas public school districts and charter schools and shares those audits with TDA as part of a formal agreement between the two agencies. Since TDA is able to access this report through its cooperative agreement with TEA, TEA's single audit fulfills the audit requirement for these CEs.

Financial Single Audit, Program Specific Audit

A CE that receives more than \$750,000 may elect to have a program specific audit. To be eligible for a program specific audit, the CE must meet two conditions.

1. The federal program's laws, regulations, or grant agreement must allow the CE to conduct a program specific audit.
2. The CE must administer only one federal award program as defined by the following criteria:

If all federal awards have the same Catalog of Federal Domestic Assistance (CFDA) number,

→

the program(s) are considered to be one program for purposes of a program specific audit.

If a CFDA is not assigned for the federal awards and all awards come from the same agency and are made for the same purpose,

→

For Example: A CE administers NSLP and SBP as well as receives USDA Foods. All of these programs share the same CFDA number. In this case, the CE can perform a program specific audit.

A CE administers NSLP and SBP, receives USDA Foods, and administers a Head Start program. Some of the programs have CFDA numbers; others do not. While the NSLP, SBP, and USDA Foods may be treated as one program under the criteria, the Head Start is funded through a different federal agency and has a different purpose. In this case, the CE cannot perform a program specific audit.

If a program specific audit is conducted, the audit report must be sent to TDA as described in the *Financial Audit Due Date* subsection in this section or to USDA upon request.

Other Audits

TDA retains the right to conduct additional audits, as necessary.

Federal Audit Clearinghouse Requirement for Single Audits

CEs must submit their final single audit to the Federal Audit Clearinghouse each year. All fiscal year 2015 audits must include the standard audit finding reference number format and must be submitted in an unlocked, unencrypted, and text-searchable PDF format. The Federal Audit Clearinghouse provides detailed information on the new requirements and how to upload a single audit at <https://facweb.census.gov/uploadpdf.aspx>.

[NOTE: Public and charter schools are not required to submit an audit or submit their audits to the Federal Audit Clearinghouse unless they participate in CACFP and expend \$500,000 [\$750,000 for audits of fiscal years beginning on or after December 26, 2014] for new or modified awards] or more in federal funds.]

CE Response to Single Audit Findings, Corrective Action Plan

All CEs receiving a single audit are responsible for follow-up to the single audit which includes the CE's creation of a corrective action plan to address all audit findings. This applies to CEs whose single audit is administered by the Texas Education Agency (TEA), another state or federal agency, a sponsoring organization, or the CE itself. When CEs develop their corrective action plan for addressing audit findings, the plan must span audit findings for multiple years. This allows the CE and anyone reviewing the audit plan to address any issues that carry forward over multiple years. Moreover, the corrective action plan must describe how the CE will prevent further violations for all audit findings.

60 Calendar Day Claim Rule

When there is a single audit finding⁶⁸ and the CE must adjust prior claims upward or downward, the 60-Calendar day claim rule is suspended. In this circumstance, the CE must contact TDA to arrange for the adjusted claims.

The CE must prepare the following documentation as part of its corrective action plan to address audit findings:

1. **Audit Summary Schedule or Work Plan for Prior Audit Findings That Have Not Been Corrected**—The summary work plan must include the following information:
 - Reference number and the year for each audit finding
 - Explanation of the status of actions to address each finding
 - Planned corrective action for any finding that has not be corrected as well as any partial corrective action that has been taken
 - Explanation of any corrective action that is different from the planned corrective action described in the summary work plan for previous audit
 - Explanation of why a finding, as applicable, is no longer valid or does not warrant further action.
2. **Audit Corrective Action Plan for the Current Year's Audit Findings**—The corrective action plan must include the following:
 - List of all findings by assigned number
 - Description of corrective action to be taken for each finding
 - Name of contact person responsible for each corrective action
 - Anticipated completion date for each corrective action
 - Explanation of why the CE does not agree with any finding submitted by the auditor and why corrective action is not needed
 - Submission of amended claims if audit findings determine submitted claims are incorrect.

⁶⁸ The single audit conducted under the Texas Education Agency regulations is not the Administrative Review, Procurement Review, or Administrative Financial Review conducted by TDA. See *Administrator's Reference Manual (ARM), Section 31, Administrative Review (AR) & Other Compliance Reviews* for additional information on corrective action associated with a compliance review.

The CE's response to the audit findings must be retained onsite as described in the *Records Retention* subsection in this section and available for review on request.

Using School Meal Facilities for the Elderly Nutrition Programs or Other Non-School Nutrition Programs

CEs are also permitted to use NSLP facilities, equipment, and personnel to support elderly nutrition projects. If CEs use their facilities for this purpose, they must meet the following financial requirements:

- Have a system in place that allows the CE to distinguish SNP costs and revenues from the costs and revenues of other nutrition activities, including Nutrition Services Incentive Program (NSIP).
- Ensure that any cost involved with feeding activities for the elderly are not included in costs associated with the SNP.
- Use USDA Foods according to regulations and instructions.
- Ensure that any food and/or supplies⁶⁹ purchased with SNP funds are not used for feeding activities for the elderly.

Financial Report

Each CE must complete the *Financial Report* **annually**⁷⁰, providing data that reflects all revenue and expenses—program and nonprogram—from the prior fiscal year. TDA uses the *Financial Report* for a variety of purposes, including, but not limited to, Administrative Reviews, Administrative Financial Reviews, and other financial audits. The financial data that CEs report to the Texas Education Agency (TEA) may be used to assist CEs in completing the form.

[NOTE: TDA commonly reviews CE single audits and other financial reports collected by TEA. TDA also reviews all reports released by the Texas Legislative Budget Board (LBB). These reports and the Financial Report submitted in TX-UNPS are expected to have consistent financial information.]

For the *Financial Report*, the CE must ensure that the reported data accurately reflects the CE's financial operations for the fiscal period reported. Each year the report rolls the balance forward to the next year. If the CE has updated its financial report from the previous year and this adjustment results in a change in its financial balance, the CE must adjust the amount of the previous balance rolled forward.

CEs should review the directions for the *Financial Report* before completing the form. This will help the CE to accurately record the required financial information in each field.

[NOTE: The financial data reported in each field is determined by regulatory specifications and may not reflect data categories typically used in standard accounting practices.]

⁶⁹ Supplies include items that are expendable or consumed in day-to-day activities and replenished as needed.

⁷⁰ For more information, visit

<https://squaremeals.org/Programs/NationalSchoolLunchProgram/Compliance/FinancialReport.aspx>.

The following information will assist the CE in completing the form; however, more detailed directions are provided [on the form](#).

- **Access to the Form**—To access the form,
 - **For School Year 2020-2021**, TDA will post a web-based form which is accessed through the TX-UNPS | Program Applications | Download Forms page. TDA will provide additional directions in the upcoming future.
 - **For School Year 2021-2022**, TDA will email the web-based form to each CE for completion.
- **Distinct Information in Each Field**—Each type of income and revenue field should contain distinct information, that is, if a type of revenue or expenditure is included in one field, it should not be included in another reporting field.

For Example: The program revenue field will include payments for paid meals, but it will not include the federal and state reimbursements. Federal and state reimbursements are reported in another field.
- **Auto-Populating Fields**—For those fields that require a number to be recorded that is a sum or percentage based on numbers recorded in other fields, the system will automatically calculate the amounts and populate the field after the data is entered and the form is saved. The formulas are provided, so CE will know what is included in the automatic calculations. Even though the message says *submitted* on exit—the data is still editable until the form is closed for the year.
- **What to Include**—This form should cover all monetary revenue and expenses for the Child Nutrition Programs (CNPs). This would include all relevant CNP revenue and expenses, including the summer feeding program and Child and Adult Care Food Program (CACFP), catering, a la carte, adult meals, concessions, etc. This report must include all monetary revenues and expenses attributed to and processed through the CNP account(s). This report does not include non-monetary revenue and expenses such as the value of the USDA Foods received during the prior fiscal year.
- **Who Should Report**—All CEs operating the National School Lunch Program (NSLP), School Breakfast Program (SBP), or the Special Milk Program (SMP) should complete the report. However, CEs must report income and costs for all CNPs, not just the NSLP, SBP, or SMP programs. New CEs that do not have a prior fiscal year for NSLP, SBP, or SMP programs are not required to complete the *Financial Report* the first year.

TDA Forms

TDA provides template forms at www.SquareMeals.org that may be useful to CEs in managing program finances and accounting efforts. CEs are not required to use the forms provided by TDA for their financial records, unless specified, but TDA strongly recommends that CEs do so. In cases where CEs develop their own versions of forms or records, CEs are responsible to make sure that all required information and elements included in TDA forms are collected in the CE's forms or records.

The following TDA forms will assist CEs in collecting the information required to determine whether the CE is compliant with accounting and financial requirements:

- *Adult Meal Calculator*, (available at www.SquareMeals.org)

- *Budget Tool* (available at www.SquareMeals.org)
- *Capital Expenditure Request* (located in TX-UNPS)
- *Daily Record of Income—National School Lunch Program and School Breakfast Program Form* (available at www.SquareMeals.org)
- *Food Service Pro-rata Share of Exclusive Beverage Contract Form* (available at www.SquareMeals.org)
- *Income from Food Service Operations Form* (available at www.SquareMeals.org)
- *Physical Inventory of Food Purchased Form* (available at www.SquareMeals.org)
- *Plan for Reducing an Excessive Operating Fund Balance* (available at www.SquareMeals.org)
- *Program/Nonprogram Revenue and Cost Proportion Calculation Worksheet* (available at www.SquareMeals.org)
- *Record of Program Expenditures Form* (available at www.SquareMeals.org)

Each CE is required to complete the following form each year.

- *Financial Report* (located in TX-UNPS)

Records Retention

The CE is required to maintain an organized system of accounting and financial records retention that is accessible to appropriate CE staff members and federal or state reviewers. CEs have the option to maintain records on paper or electronically.

All documentation or records must be kept on file for a minimum of five years for public and charter schools or three years for private schools, nonprofit organizations, and residential child care institutions (RCCIs) after the end of the fiscal year to which they pertain. If audit findings have not been resolved, the records must be maintained as long as required for the resolution of the issues raised by the audit.

TDA may request financial documentation for both offsite and onsite processes for the Administrative Review, Procurement Review, Administrative Financial Review, and other audits as appropriate. The CE must be able to produce the following documentation in relation to its financial management of foodservice account funds:

Employees

- Activity reports, and all related documentation, for all SNP employees

Equipment/Property Disposal

- Records demonstrating how the CE disposed of equipment/property, including a justification for the CE's method of disposal.

Information Box 3

Record Retention

Public and charter schools are required to keep documentation related to school nutrition programs for 5 years.

Private schools, other nonprofit organizations, and residential childcare institutions (RCCIs) are required to keep documentation for 3 years.

Excessive Fund Balance (Net Cash Resources)

- Forms demonstrating the CE's efforts to address an excessive fund balance (net cash resources), if applicable

Financial Management

- Records of financial transfers into and out of the SNP account
- Audit reports and related documentation
- Documentation related to corrective action taken as a result of an audit
- Records of any nonprogram funding sources used to cover any excess meal costs
- Documentation supporting the accuracy of internal and external financial reports

Fresh Fruit and Vegetable Program (FFVP) Equipment Purchases

- Documentation which justifies the equipment purchase, including (1) an explanation for why the additional equipment is needed and why current equipment will not suffice, (2) the extent of use for use in the program, and (3) the number of days per week the program operates.

Income and Costs

- Daily and cumulative monthly records of income received for meal service including reduced-price and paid meals and milk, a la carte, and adult meals served
- Daily and cumulative monthly records for cost and income from all sources, federal and non-federal with the ability to report income and cost by program
- Daily and cumulative monthly records for program and nonprogram expenses and revenue
- Invoices, payment stubs, and any record documenting expenses paid out of the SNP foodservice account

[NOTE: Expenditures, no matter the method of payment, must be documented by itemized receipts, invoices, and/or cancelled checks. If an invoice is split between more than one program, there must be a method to document the charge to each program.]

Indirect Cost Rate

- Documentation indicating the approved indirect cost rate which includes the agreement/plan/proposal indicating the approved indirect cost rate, indirect cost items included in the indirect cost pool, and financial documentation demonstrating consistent treatment of indirect costs.

Locally Purchased Food

When a CE purchases food items from local farm stands, farmer's markets, community supported agriculture programs, or farms a handwritten receipt is acceptable as long as the receipt includes the following information:

- Amount purchased

- Date of purchase
- Item cost
- Name of the vendor or farmer
- Total cost of the food items purchased

Pass-Through Entities

When a CE *passes* funds to another entity (contractor, vendor, supplier, processor, organization, etc.) to act on behalf of or assist the CE in operating one of the child nutrition programs, the entity receiving the funds is expected to meet the terms and conditions established by the CE and operate in compliance with all program requirements, including all financial requirements. In order for the CE to ensure that all terms and conditions are met and that the entity acting on behalf of the CE is compliant with financial requirements, the CE must have access to the following documentation maintained:

- All records and financial statements necessary to demonstrate compliance with all program regulations
- All records and financial statements that are necessary to evaluate the recipient’s risk of noncompliance with federal statutes, regulations, and terms and conditions of the award.
- All records and financial statements that are necessary for audits
- All records that demonstrate that credits, discounts, and rebates and value of USDA Food have been accurately awarded to the CE

See the *Administrator’s Reference Manual (ARM), Section 17, Procurement* for additional information on methods to address these issues.

School Gardens

If the CE operates a school garden, the CE must retain records that document expenses, income, and products used in meals or for nutrition education.

Compliance

TDA may take appropriate fiscal action or terminate the Food and Nutrition (FND) Agreement for any CE that is not in compliance with the accounting and financial requirements, including corrective action related to single audits conducted under Texas Education Agency requirements, another state or federal agency, a sponsoring organization, or the CE itself. Any lack of action to appropriately address a single audit finding that requires amended claims may result in fiscal action.

Additionally, TDA will assess compliance with the accounting and financial requirements based on the documentation that CE has submitted throughout the year as well as documentation submitted for offsite and onsite administrative review processes.

See the *Records Retention* subsection in this section for more information on the kinds of

documentation needed to demonstrate compliance.

Obligation of the Contracting Entity (CE) to Report Fraud, Bribery, and Gratuity Violations

CE's must report, in writing, all violations of federal criminal law—fraud, bribery, or gratuity.

The non-Federal entity or applicant for a Federal award must disclose, in a timely manner, in writing to the Federal awarding agency or pass-through entity all violations of Federal criminal law involving fraud, bribery, or gratuity violations potentially affecting the Federal award. Failure to make required disclosures can result in any of the remedies described in § 200.338 Remedies for noncompliance, including suspension or debarment. (2 CFR 200. 113; 31 U.S.C. 3321).

Criminal Penalties Associated with Mishandling of Funds

The following statement from the NSLP regulations describes the penalties for the misuse or fraudulent use of program funds:

Whoever embezzles, willfully misapplies, steals or obtains by fraud any funds, assets or property provided under the National School Lunch Program and/or School Breakfast Program [and/or Special Milk Program] whether received directly or indirectly, shall if such funds, assets, or property are of a value of \$100 or more, be fined no more than \$25,000 or imprisoned not more than 5 years or both; or if such funds, assets or property are of a value of less than \$100, be fined not more than \$1,000 or imprisoned not more than 1 year or both. Whoever receives, conceals, or retains for personal use or gain, funds, assets or property provided under the National School Lunch Program and School Breakfast Program, whether received directly or indirectly, knowing such funds, assets or property have been embezzled, willfully misapplied, stolen or obtained by fraud, shall be subject to the same penalties.

Termination of the Permanent Agreement for Financial Fraud or Misuse of Funds

If serious deficiencies, such as fraud or misuse of funds, occur, and corrective action is not practical, TDA will terminate the CE's participation in the SNP. In this case, TDA may also refer the matter to the appropriate local, state, and/or federal authorities.

Termination of the Permanent Agreement for Noncompliance with Audit Requirements

TDA may terminate the Permanent Agreement effective the first day of the month following the month in which the audit was due for any of the following reasons:

1. TDA does not receive the audit by the specified due date.
2. The CE submits an audit that does not meet audit requirements as defined in USDA regulations.
3. The CE requests but is not granted an extension of the audit due date and does not submit an acceptable audit as required.
4. The CE requests and is granted an extension of the due date but fails to submit an acceptable audit by the extended due date.

Unacceptable Audit Notification

TDA will notify the CE in writing that the audit is unacceptable. The CE must submit an acceptable audit within 30 calendar days of the date of the notice.

Extenuating Circumstances

If TDA determines that extenuating circumstances resulted in the CE's inability to submit an acceptable audit, TDA may conduct an additional audit or have an additional audit conducted through a third-party contract. The CE must pay all costs associated with such an audit. The CE does not have the right to appeal this decision.

Unacceptable CE Response to Audit Findings

As described in the *CE Response to Audit Findings—Corrective Action Plan* subsection in this section, if the audit findings indicate that the CE has submitted claims for reimbursement that are incorrect, the CE must amend the impacted claims⁷¹ and take corrective action to prevent further violations. If the CE does not amend its claims and/or take appropriate corrective action, TDA may take fiscal action for any violations found during an audit.

Once the CE's Permanent Agreement has been terminated for failure to comply with the audit requirement, the CE must provide an acceptable audit for any outstanding audit year(s) and comply with audit requirement to be eligible to administer the program in the future.

⁷¹ When an audit finding results in the need for an upward or downward claim adjustment, the 60-calendar day claim rule is suspended. However, the CE must contact TDA before attempting to adjust claims. See *Administrator's Reference Manual (ARM), Section 20, Counting & Claiming* for additional information on this topic.