

Administrative Budget Guidance Family Day Care Homes

Sponsoring organizations must submit an administrative budget to the State annually, and the State agency must review institution budgets and must limit allowable administrative claims by each sponsoring organization to the administrative costs approved in its budget. [7 CFR 226.7(g)].

The Federal Government has identified costs that are generally allowable for all institutions that expend Federal funds. However, due to limitations imposed by CACFP statutory, regulatory, and policy considerations, some costs that are listed in the fiscal regulations may not be allowable CACFP costs. Therefore, Sponsoring organizations must refer to FNS Instruction 796-2, Rev. 4 *Financial Management in the Child and Adult Care Food Program*, when preparing a budget and reporting expenditures eligible for CACFP reimbursement.

The budget must demonstrate the institution's ability to manage Program funds in accordance with this part, FNS Instruction 796-2 Rev 4, *Financial Management in the Child and Adult Care Food Program*, 7 CFR 226, *Child and Adult Care Food Program* and 2 CFR part 200 *Uniform Grant Guidance*.

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

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

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

All sponsors using Federal non-profit food service funds must follow applicable procurement regulations. Conducting proper procurement helps to ensure that sponsors receive the best product possible for the best price. It also helps to ensure there is free and open competition and that taxpayer funds are being spent wisely.

I. Considerations for Preparing the CACFP Administrative Budget

Each sponsoring organization of day care homes is entitled to administrative reimbursement.

Each fiscal year every sponsor must:

- Certify the sponsor has read the ODE Administrative Budget Guidance and FNS Instruction 796–2 Rev 4, Financial Management in the Child and Adult Care Food Program.
- Submit an administrative budget, which reflects anticipated needs for the coming fiscal year. The budget will also include estimated carryover funds from the previous fiscal year, if applicable. The budget is completed prior to the beginning of the fiscal year and includes projected income from CACFP administrative carryover funds per ODE CNP calculations.
- The budget must include detail of all line items, including a justification of line items in the sponsor explanation section and provide supporting documentation of all shared costs. ODE CNP will need to approve the method of the cost allocation plan.
- Disclose all related-party and less-than-arms-length transactions.
- Determine if there are items requiring Specific Prior Written Approval.
- Report all non-program funds that will be used to support the CACFP program; including the source, total amount and what expenses the other funds will be applied to.
- Provide additional information to ODE CNP, as requested.
- Follow the approved budget while making spending decisions and charging costs, and request revisions per requirements.
- Report current fiscal year administrative expenses and carryover expenses accurately and per ODE CNP requirements

ODE CNP reviews the budget to ensure the individual line items are **necessary, reasonable, and allowable** use of CACFP funds, per FNS Instruction 796-2 Rev. 4.

The budget may NOT exceed the number of projected homes times rates (number of homes claimed in May), plus any ODE CNP projected carryover funds.

II. Administrative Reimbursement

CACFP regulations establish limits on the amount of administrative payments sponsoring organizations of day care homes can receive. Payments will be made based the homes times rates calculation.

The budget must identify an adequate level of funding for all required administrative functions, including but not limited to training, monitoring, financial management, record keeping and reporting. As part of the budget approval process, ODE CNP must determine if adequate funds are available for CACFP program purposes.

The budget must reflect each institutions anticipated expenses and income for the fiscal year. In order to develop a budget that closely approximates all anticipated expenses, sponsors will need to spend time both evaluating prior year expenses and planning for current fiscal year expenses.

Each sponsor will need to evaluate their business needs to identify any potential new expenses that may occur in the upcoming fiscal year in addition to all routine monthly expenses. Potential new expenses could include but are not limited to: the need to budget for the purchase of a new computer, information technology services, upgraded software, or upgraded company cell phones. Remember, once the budget is approved by ODE, sponsors must adhere to the budget. If the budget is well thought out and includes all anticipated upcoming expenses it will be an accurate reflection of the institution and eliminate the need for budget revisions.

There is no guarantee that payments will cover actual costs incurred. Organizations must maintain solvency to meet CACFP eligibility requirements and have other funds to pay for unallowable costs in the case improper payments are identified.

ODE CNP has the authority and responsibility to determine that all institutions are financially viable; establish an over claim if the Sponsor used CACFP administrative funds improperly; or declare a Sponsor seriously deficient on the basis of its improper use of CACFP administrative funds.

III. General Budget Criteria

To charge administrative costs to CACFP, the non-profit sponsoring organizations must have authorization of the Board of Directors and the approval of ODE CNP. Public sponsoring organizations must have authorization from the Financial Office Contact and the approval of ODE CNP.

To be allowable, the costs:

- Must represent an actual operating/administrative cost incurred in the normal course of conducting the program;
- Must be **necessary, reasonable and allowable** for proper and efficient administration of the program, and within the guidelines of the Food and Nutrition Service (FNS) Instruction 796-2, Rev. 4, Financial Management;
- Have Prior Approval and Specific Prior Written Approval, when applicable, by ODE CNP;
- Must be authorized or not prohibited under state or local laws or regulations;
- Conform to any limitations or exclusions set forth in FNS Instruction 796-2, Rev. 4, Federal laws, or the governing regulations as to types or amount of cost items;
- Must be accorded consistent treatment through the application of generally accepted accounting principles;
- Cannot be assignable or included as a cost to any other federally financed program in either the current or prior period;
- Must be net of all applicable credits;
- Must be properly allocated; and
- Must be adequately documented

IV Budget as a Management Tool

Typically, the budget is based on reimbursement income from the average number of homes the sponsor estimates it will claim each month; not to exceed the number of homes claimed the previous May, plus program income, if any, and carryover funds.

Some sponsors may overestimate their budgets to assure reimbursement potential. However, the practice of inflating the budget tends to increase expenditures in excess of available reimbursement, thereby jeopardizing Sponsor financial viability. ODE CNP cannot approve a budget that will jeopardize Sponsor financial viability.

The budget is a tool for the Sponsor and ODE CNP to estimate the cost of running the Sponsor's program. The Sponsor should try to have actual expenditures closely approximate the budget. The budget must accurately reflect what is occurring in the Sponsoring organization at any given time.

As a best management practice:

- Use the budget when making spending decisions. If an item is not in the approved budget, the Sponsor will need to submit a revision before making the expense;
- Use the budget when charging expenses to the program. If an expense is not in the approved budget, the sponsor must charge the cost to non-CACFP funds;
- Sponsors must review the budget monthly to ensure they adhere to line item totals when claiming administrative costs throughout the year;
- Sponsors must regularly track and reconcile the year-to-date status of the administrative expenditures and the approved budget amounts; and
- Sponsors must make revisions when changes in participation or activities occur, or the sponsor needs to make expenses not included in the budget.

Non-Program Funds: The budget must demonstrate an institution's ability to manage the CACFP Family Day Care Home Sponsorship and document financial viability. An Institution must demonstrate that it has adequate financial resources to operate the CACFP on a daily basis, and has adequate sources of funds to continue to pay employees or suppliers during periods of temporary interruptions in Program payments and/or to pay debts when fiscal claims have been assessed against the institution. Sponsoring organizations must have an additional source or sources of non-CACFP funding. These funds must be available to cover over claims or any unallowable costs. The budget must identify a source of non-program funds that could be used to pay over claims or other unallowable costs.

V. Budget Revisions

Once the administrative budget is approved by ODE CNP, the sponsor is expected to adhere to the budget (i.e., pay salaries, contracts, rent, equipment, software, etc. as stated in the budget). ODE CNP will evaluate adherence to the approved budget during sponsor administrative reviews.

Without ODE CNP approval, sponsors may shift small amounts of money between line items in the approved budget, provided the total dollar amount of the budget is not increased, and no line item is increased by \$1,000 or 10 percent, whichever is less. The sponsor must keep proper documentation of these shifts and the reasons for doing so.

Sponsors must request a budget revision when changes occur in family day care home participation, or other activities occur, which impact the administrative reimbursement. Sponsors must also request a budget revision if changes occur which impact the expenses of the CACFP program.

ODE CNP approval for revisions must be received before making proposed expenditures. Supporting documentation will be required for all line item revisions or additions to the budget. Costs incurred prior to the effective date of the budget revision are not allowed. The sponsoring organization's Board of Directors must approve budget revisions prior to submission to ODE CNP

****** If a sponsor needs to complete a budget revision, contact the Finance and Audit Specialist to request the Budget Revision Excel Spreadsheet. Submit the revised budget form and all documentation to the Finance and Audit Specialist. Be sure to allow ample time for the review and approval process. Sponsors may not incur expenses for new budget items until the Budget Revision is approved by ODE CNP.

Budgets may not be revised after the end of the federal fiscal year

VI. Eligibility of Costs

Refer to FNS Instruction 796-2, Rev. 4, and 2 CFR Part 200 for detailed information on CACFP financial management, including allowable and unallowable costs.

When preparing the budget, refer to FNS Instruction 796-2, Rev. 4, to determine if costs are allowable or unallowable, require disclosure, or require Specific Prior Written Approval.

1. Disclosure:

Sponsors are required to disclose all related-party transactions, less-than-arms-length transactions, and board-staff relationships. Sponsors must provide any additional information needed for the State agency to make an informed decision on the allowability of the institution's budgeted or claimed costs.

Examples of less than arm's length transactions and related party transactions include, but are not limited to, if a board member is related to an employee of the organization; if a participating provider is related to the board or employees; if the organization pays a related-party or enters into a less-than-arms-length transaction for goods or services or when a contractor or vendor may be viewed as a related-party or less-than-arms-length transaction

All related-party transactions and less-than-arms-length transactions must be disclosed to ODE CNP, during the budget process, or if during the year a potential change occurs a disclosure must be provided. Failing to disclose required information will result in the disallowance of the cost and may subject the institution, its principals, employees and others to the administrative and legal remedies available to the ODE CNP and FNS.

- 2. Prior Approval:** All costs require prior approval. These are costs that, by either type or amount, require disclosure for ODE CNP to make an informed decision about the allowability of the costs. When disclosed fully and properly, ODE CNP approval of the budget indicates that the item is approved, unless ODE CNP specifically disallows the cost in writing.
- 3. Specific Prior Written Approval:** (796-2 Rev 4, Exhibit I)
Certain costs are *not* allowed unless ODE CNP has provided the sponsor with specific prior written approval before the cost is incurred. Such costs are not customarily incurred in the routine operation of the CACFP but can sometimes be necessary and reasonable for proper and effective program operations.

Special consideration is required whenever a transaction lacks independence, or the integrity of the transaction could be compromised. Examples of costs requiring special consideration, but not limited to these examples, include: all less-than-arms-length transactions; compensation to members of non-profit institutions trustees, directors, associates, and officers or their immediate families; and all special lease arrangements. When a special consideration exists, specific prior written approval is required.

The sponsor must adequately identify, provide information and request approval of these costs during the annual budget approval process or submit a separate request to ODE CNP. ODE CNP must approve or deny these specific requests in writing.

VII. Depreciation

Depreciation is the expense associated with the use of equipment, vehicles and facilities in the program. Depreciation may be claimed as an allowable operating cost. Donated equipment may not be depreciated.

All depreciation claimed for federal reimbursement must be documented. All records must be retained during the life of the equipment for three years after the end of the federal fiscal year during which an equipment item is fully depreciated. Records must be retained beyond this point if audit findings have not been resolved.

Depreciation is based on acquisition cost and the life expectancy of the asset. The computation must exclude the cost of any portion of the equipment donated or borne directly, or indirectly, by the federal government through charges to the federal grant programs or otherwise, regardless of whom owns or has owned the asset. The cost of depreciation on idle or obsolete equipment is unallowable. Refer to FNS Instruction 796-2 Rev. 4 for additional information on depreciation.

Adequate property records must be maintained. Any generally accepted method of computing depreciation may be used. However, the method of computing depreciation must be consistently applied for all like assets for all federally sponsored programs. The depreciation method must result in equitable charges considering the use of assets and the benefits to the program.

No depreciation may be allowed on any assets considered fully depreciated.

VIII. Direct and Indirect Cost Allocation

When the benefits of a direct cost cannot be specifically identified as an operating or administrative cost, or if the direct cost benefits both allowable and unallowable activities, or the cost benefits more than one program for multi-program sponsors, this shared cost must be allocated. The method used must allocate the cost based on the benefits received, not the source of funds available to pay for the cost. Institutions must assign a method for allocating shared costs that most closely and reasonably reflects the degree of benefit afforded to each program/function.

Allocation methods must be approved as part of the administrative budget. Sponsors must submit a cost allocation plan when indirect costs are listed in the budget. Sponsors must include the basis for any specified rate.

Allocated Direct Costs:

Direct costs must be allocated when:

- The benefits of a direct cost cannot be specifically identified as operating or administrative costs
- The direct cost benefits allowable and unallowable activities
- The direct cost benefits more than one State for multi-state institutions.

The Sponsoring organizations must submit their cost allocation plan with the budget. The method used must allocate the cost based on the benefits received, not the source of funds available to pay for the cost. ODE CNP must provide the sponsor with specific prior written approval of the allocation method that the institution will use to prorate the cost.

Indirect Costs: Organizations requesting to charge indirect administrative costs to the CACFP must have a current approved indirect cost plan from their cognizant agency. If ODE is the cognizant agency, Contact ODE CNP for information on requesting an indirect cost rate. If ODE is not the cognizant agency, attach a copy of your organization's approved cost allocation plan and rate.

IX. Allowable Labor Costs

As per FNS Instruction 796-2, Rev 4, labor costs are allowable when the amounts claimed are based upon hourly rates that are reasonable for the service provided. Salaries or hourly rates for administrative labor will be considered reasonable when the rates charged are consistent with rates paid for similar work in the area in which the sponsor is located, the years of experience, tasks associated with the position, and the range of responsibility. The rates for similar sponsors and/or agencies will also be a factor as will the ability of the agency to maintain program integrity. Program labor may include fringe benefits, Social Security withholding tax, and retirement benefits. Sponsoring organizations must also follow all applicable local, state, federal and labor laws.

ODE CNP will use the established salary scales updated for each fiscal year, for the positions of Executive Director, Program Director, and Compliance Monitor. These updated scales are sent to sponsors each year after USDA sends the rate change notification.

Time and attendance reports, time distribution records and payroll records must document administrative labor for both salaried and hourly employees. A time sheet must track the hours and days worked on a monthly basis and contain a certification statement signed by the employee and supervisor, which confirm that hours reported are true and fairly represent employees work effort.

Labor costs associated with personnel who work part-time in the CACFP and part-time in other duties must be prorated based on hours worked for each activity. The time distribution reports, generally in one-hour increments, may be used to compute the amount of time spent on each program activity. Full time is considered to be 173 hours per month.

The performance of the sponsoring organization functions and the adequacy of resources allocated to those functions will also be considered. ODE CNP will evaluate whether the organization can afford the costs it has budgeted, within the constraints of its available funding, without jeopardizing program operations. A cost may be allowable, reasonable and necessary and *still* be inappropriate if it diverts a disproportionate level of resources from other, critical administrative functions. Sponsoring organizations must accurately allocate salary costs for employees who work on other programs besides the CACFP and provide documentation supporting this allocation.

Sponsoring organizations must provide staff to adequately meet the needs of home review, including early mornings, evenings and weekends. Normal business hours are Monday through Friday, 8:00 a.m. to 5:00 p.m., or as determined by the Board of Directors.

Cost of Living adjustments

When cost of living adjustments are proposed in the budget, they will be limited to the ODE CNP published salary ranges, when approved by both the Board of Directors and ODE CNP. Cost of living increases must be granted to all CACFP employees of the sponsoring organization

Merit and Longevity pay increases

When proposed in the budget, merit and/or longevity pay increases must be based on a plan established and administered by the sponsor's Board of Directors and approved in advance by ODE CNP. Raises must have board approval and be offered to employees equitably. Submit a copy of the board minutes approving the raises. If raises are included in the budget, employees (who are also board members) benefiting from the increase may not be included in the board members voting.

When raises are awarded, include your pay policy for issuing raises and step increments along with board minutes approving the raise. If raises have not been approved as a part of the agency's original budget, a budget amendment must be submitted and approved prior to increasing salary expenditures.

Bonuses

Bonuses are not allowed. Awards of minimal value (e.g., service pins, certificates of appreciation) are allowable when directly related to work performed on the CACFP.

Holiday, vacation leave and sick leave benefits

Holiday and vacation leave benefits must be reasonable and consistent with such benefits provided for similar work. Specifically, paid holiday leave may not exceed the holiday schedule established by the Board of Directors.

Sick leave and vacation policy must have board approval and be offered to all employees equitably. Submit a copy of the board minutes approving the sick leave and vacation policy and a copy of the policy. To pay employees for unused sick leave and vacation, it must be included in the approved budget and be charged during the appropriate fiscal year.

Sponsoring organizations must also follow all applicable local, state, federal, and labor laws. Benefits must be offered in a consistent and equal manner to all employees.

X. Allowable Equipment and Supplies Costs

Equipment includes items that have a useful life expectancy of more than one year and an acquisition cost of \$10,000 or more per unit. A unit is defined as all components required making the piece of equipment operational.

- Equipment is generally charged to the CACFP via depreciation. Sponsors must submit a depreciation schedule for approval by ODE CNP and only the depreciated amount of the item can be included in the budget. Some equipment may be directly expensed at the time of purchase if approved in advance by ODE CNP. Sponsors must submit justification for directly expensing equipment, but if approved, the full cost of the equipment could be budgeted. Sponsors must submit a specific written request to purchase items costing more than \$5,000, and ODE CNP must issue specific prior written approval, before purchases can be made. Approval of budgetary line items does not constitute prior ODE CNP approval to purchase specific equipment.

Durable supplies have a useful life expectancy of less than two years (but greater than one year) and an acquisition cost of less than \$10,000 per unit.

- Durable supplies and office supplies may be charged directly to the CACFP at the time they are purchased provided they are part of the approved budget. This is known as direct expensing.

Office supplies are those items costing less than \$5,000 with less than one-year useful life expectancy.

FNS retains an interest in any equipment purchased with Federal funds with a value of \$10,000 or more. Alert ODE CNP when planning to dispose of any equipment purchased with Federal funds having a value of \$10,000 or more.

If an alternate funding source is used for purchasing equipment, CACFP cannot be charged rental costs. However, depreciation based on a percentage of the total acquisition cost would be allowable if approved by ODE CNP at the time of request.

XI. Budget Approvals

Before approving an institutions budget, the state agency must ensure that the budget has enough information to allow the Finance and Audit Specialist to determine the allowability of all budgeted costs. If at any point the specialist is less than confident that all budgeted costs are allowable, more information will be requested from the sponsor. There will be instances when the specialist will need to question the institution about a cost or the value of a cost item. The specialist will work with the institution to make adjustments to these items in the budget. If the institution refuses to make changes or provide the appropriate documentation, the state agency must not approve that portion of the budget, or may deny approval of the entire budget.

ODE CNP will notify all sponsors in writing of both annual budget approvals and budget revision approvals.

If the budget in its entirety or if a budget line item(s) is not approved by ODE CNP, all sponsors will be notified in writing and will be given a copy of the CACFP Appeal Procedure.