

# **BUDGET BASICS TRAINING – TOPIC: ALLOWABLE AND UNALLOWABLE COSTS**



# Acknowledgment Statement

2

You understand and acknowledge that:

- ❑ the training you are about to take does not cover the entire scope of the program; and that
- ❑ you are responsible for knowing and understanding all handbooks, manuals, alerts, notices and guidance, as well as any other forms of communication that provide further guidance, clarification or instruction on operating the program.

# Training Objectives

3

By the end of this training, participants will be able to:

- Define allowable and unallowable costs.

# Training Outline

4

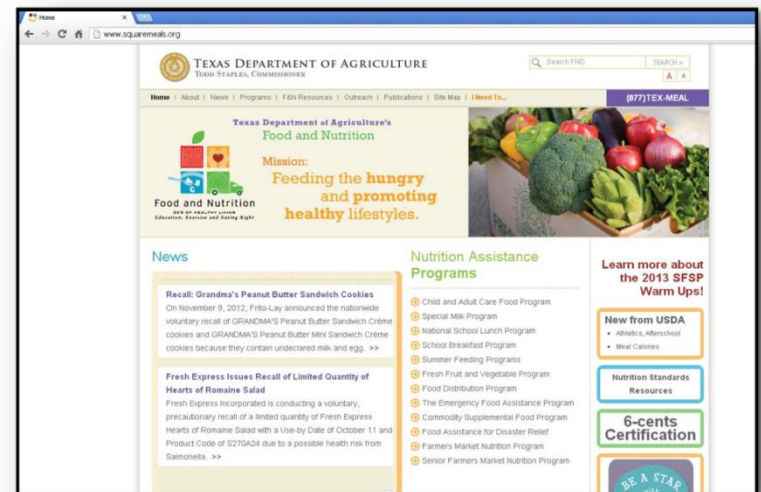
- ❑ Introduction
- ❑ Allowable and Unallowable Costs
- ❑ Conclusion

# References for this Training

5

- ❑ FNS Instruction 796-2, Revision (Rev.) 4, Financial Management – Child and Adult Care Food Program
  - <http://www.fns.usda.gov/sites/default/files/796-2%20Rev%204.pdf>

- ❑ CACFP Handbooks
  - TDA Square Meals Website  
<http://www.squaremeals.org>



Under F&N resources, select Tools & Links, then select Links and choose FNS Instruction 796-2 under the Government heading

# Allowable and Unallowable Costs

# Generally Allowable Costs are:

- ❑ Customary (for example, food, food service supplies, and food service labor)
- ❑ Allowed by FNS Instruction 796-2, Rev. 4, circulars, regulations, policy and guidance
- ❑ Disclosed in the budget submitted
- ❑ Approved in advance through the budget



# CE responsibility for accounting for costs

CEs are responsible for accounting for costs accurately and for maintaining records to show that costs claimed have been paid, are allowable to CACFP, and comply with financial management requirements found in FNS Instruction 796-2, Rev. 4, Financial Management – Child and Adult Care Food Program





# How do CEs account for all costs?

All food service program costs must be accounted through the consistent use of Generally Accepted Accounting Principles (GAAP).



# What is GAAP?

GAAP is a set of rules about:

How costs and income are treated by a business

The kinds of financial records that must be maintained

The form and content of a business's basic financial information



# Accounting For Costs

- ❑ Costs funded from CACFP reimbursements must be necessary, reasonable, properly classified, properly allocated and allowable
- ❑ Allowable costs must be allocated so that only the allowable share of the costs is assigned to the CACFP. These costs may be direct or indirect.
- ❑ In all cases, allowable costs must be prior approved through the budget approval process.

# Accounting For Costs

- ❑ Costs must be properly documented, properly disclosed, properly procured, and included in the approved CACFP budget
- ❑ FNS Instruction 796-2, Rev. 4 describes levels of approval for costs



# What is the definition of allowable costs?

- ❑ Allowable costs are necessary, reasonable, authorized, current, properly allocated, and documented
- ❑ They must not be included as a cost to any other Federally financed program
- ❑ They must:
  - Conform to any limitations or exclusions
  - Be treated consistently through the use of GAAP



# An allowable cost **MUST** be...



A bona fide obligation – for example, an actual cost that the organization has a legal obligation to pay



Aligned with GAAP



A CACFP cost

Does operating the CACFP cause this cost to occur?

Yes = A CACFP cost

No = Not a CACFP cost

# What is a necessary cost?

A necessary cost represents an activity or function that:

- Is ordinary – routine, common place
- Must be accomplished to fulfill regulatory requirements
- Is necessary for the operation of the CACFP in total or in part

In total meaning that if not for the CACFP the cost would not be incurred. In part meaning that the cost would be incurred for normal business purposes, but a portion can be attributed to the CACFP.

Is this activity required for the organization to properly operate the CACFP?

- Yes = Cost is necessary
- No = Cost is not necessary

# What is a reasonable cost?

A reasonable cost fits the organization's needs and the organization's financial condition.

Can the organization afford to incur the cost?

Would you pay this much if you had to take the money out of your personal account?

- Yes = Cost is reasonable
- No = Cost is not reasonable





# What is the definition of unallowable costs?

- ❑ Unallowable costs are made unallowable by FNS Instruction 796-2, Rev. 4, applicable laws, and regulations
- ❑ Unallowable costs cannot be funded with CACFP funds, and must be accounted for separately from CACFP accounts
- ❑ In addition, costs that are not properly documented, not properly disclosed, not properly procured, or not included in the approved CACFP budget are unallowable



# Are these costs allowable? Why or why not?

A CE includes the last week of September's wages on the budget submitted for October approval.

Answer: No. This cost isn't current.



# Are these costs allowable? Why or why not?

The purchase of a copier was approved in the budget. The copier will be used 100% of the time by the CACFP. The CE did not maintain a receipt of purchase.

Answer: No. The cost is not documented.



# What are Labor Costs?

- ❑ Labor costs are payments and compensation given to individuals for performing CACFP functions
  - Limited to employed individuals
  - Limited to work during the current fiscal year
  - In accordance with the written compensation policy
  - Properly documented
  - Necessary and reasonable



# What is the difference between Administrative Labor and Operating Labor?

## Administrative

Labor that is necessary for: planning, organizing and managing CACFP. For example, Director.

## Operating

Labor that is necessary for: menu planning, preparing and serving meals, clean-up, supervision of children during the meal service, and on-site preparation of CACFP records (such as meal count and menu records). For example, Cook.

# What are examples of allowable Administrative and Operating Labor Costs?

- ❑ Employee salaries and wages
- ❑ Employment taxes
- ❑ Overtime, compensatory time, and holiday pay
- ❑ Fringe benefits: paid holidays, vacation leave, military leave, health benefits, life and disability insurance and retirement benefits





# What are examples of unallowable Travel Costs?

- ❑ Personal travel
- ❑ Non-CACFP travel
- ❑ Commuting
- ❑ Mileage allowance costs when actual costs are charged for the same vehicle
- ❑ Costs for fuel, insurance, and maintenance when mileage allowance is charged for the same vehicle





# What are examples of Materials and Supplies Items?

- ❑ Items that cost less than \$5000.00 AND
- ❑ Items that are durable (life expectancy of 1+ years): Desks, chairs, applicable computers and software OR
- ❑ Items that are expendable (life expectancy less than 1 year): Copier paper, pens, pencils, envelopes, stationary



# What is the difference between Durable and Expendable Costs?

**Durable**

Costs for necessary and reasonable supplies at the time of purchase

**Expendable**

Costs of materials and supplies actually used within one month

# Conclusion



Costs funded from CACFP reimbursements must be  
**allowable**

An allowable cost must be a bona fide obligation,  
aligned with GAAP, and a CACFP cost.

Costs that are not properly documented, not properly  
disclosed, not properly procured, or not included in the  
approved CACFP budget are unallowable

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29

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