Date: February 9, 2001       Reference #: NSLP/SBP 2001-05
To: National School Lunch/School Breakfast Program (NSLP/SBP) Contractors
Subject: Allowable Costs for Fringe Benefits

This Notice clarifies information on Allowable Costs in Section 4, Managing the Program, of your NSLP/SBP Handbook.

The United States Department of Agriculture (USDA) has issued the following clarification regarding the allowability of employee bonuses, awards dinners, and other employee fringe benefits as a cost to the nonprofit school food service account.

The standard for allowable expenditures of a nonprofit school food service is that they represent allowable costs under applicable Federal cost principles and program regulations. The principles are established that items of employee compensation may be allowed to the extent that all of the following are met:

1. The cost must be necessary and reasonable for the services rendered.

   Reasonableness is a matter of professional judgement. 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 decision was made to incur the cost.

2. The cost must conform to written established policies of the governmental or private nonprofit organization.

   Fringe benefits must be granted based on written policies, which include but are not limited to the following:

   a. The bonuses, or fringe benefits, represent an integral part of the personnel compensation policy of the school district, city, town or other local governmental entity. In this respect, the bonuses, or fringe benefits, need not be available to all classes of the governmental unit's employees; their availability to any class of employees must simply represent official policy.

   b. The school board, or other elected governing body has budgeted for the fringe benefit. Such an official action would make the fringe benefit a de facto element of the school food authority's personnel compensation policy.
c. An official responsible for the school food service organization has the discretionary authority to award the fringe benefit or bonus. For example, the position description of the applicable assistant superintendent, or the plan of organization establishing the school food service, may authorize that official to do so.

3. Costs must be charged in relation to benefits received.

Costs for fringe benefits and bonuses are allocated, or charged, to Federal awards (the nonprofit school food service account) in a manner consistent with the pattern of benefits attributable to the employees whose salaries and wages are being charged. No charges may be made to the nonprofit school food service account which are not related to the time these employees have worked on behalf of that account.

4. Costs must be applied uniformly to Federal and non-Federal activities.

Costs, or total compensation, must be consistent with policies, regulations and procedures that apply uniformly to both Federal awards and non-Federal activities of your organization. A school food service operation may encompass both Federal and non-Federal activities. Non-Federal activities may include catering, a la carte, adult meals, vending, concessions, etc. So long as any fringe benefits or bonuses are applied uniformly for their Federal and non-Federal activities, this requirement would be met.

Please contact your Area Program office if you have any questions.