Reply to
Attn. of:  CACFP-247

Subject:  Child and Adult Care Food Program (CACFP) Policy Memoranda

To:  STATE AGENCY DIRECTORS (Special Nutrition Programs)  -  Colorado DH, Iowa, Kansas, Missouri DH, Montana DHES, Nebraska ED, North Dakota, South Dakota, Utah and Wyoming ED

Attached is a list of policy questions and answers that have been raised subsequent to our April 3, 1991 memorandum, CACFP-230. If you have questions regarding this information, please contact my staff at (303) 844-0359.

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Attachment
CHILD AND ADULT CARE FOOD PROGRAM (CACFP) QUESTIONS AND ANSWERS

1. Q. Are the costs for computers/software and the computer consultant services allowable?

A. The acquisition of computer equipment is allowable only upon specific prior approval by Food and Nutrition Service (FNS). However, depreciation of computers is an allowable cost without FNS approval and is based on the acquisition cost of the equipment. Depreciation would occur over a 5-year period and sponsoring organizations (SOs) would report the monthly depreciation on the claim for reimbursement. Monthly depreciation would be 1/60 (12 months x 5 years) or 1.667 percent of the acquisition cost. Software costing $500 or more would also be depreciated over a 5-year period of time. Professional services such as to hire a consultant to write or update a software program is a category of cost that is allowable subject to prior FNS approval.

2. Q. Is depreciation required for nonexpendable equipment/vehicles over $500. If so, how is the period of time over which the equipment is depreciated determined?

A. Depreciation is required for nonexpendable equipment. The Internal Revenue Service (IRS) depreciates office furniture over 7 years, office machines or equipment over 5 years, and vehicles over a 5-year period. The State Agency (SA) may use the IRS time frames for depreciation. Vehicles would be depreciated using acquisition costs, which would not include interest.

3. Q. What guidelines apply to leasing of equipment, i.e., computers, copiers, telephone systems? If these are leased under a lease-to-purchase option, must they be purchased at the end of the lease at fair market value or may they be purchased at any agreed upon amount, ($1.00 for example)? What restrictions apply to the leasing agent? Can a sponsor who has incorporated her own SO purchase equipment from personal funds and lease it to her organization? Are there guidelines on length of lease in this situation? To whom does the equipment belong at the end of the lease? What guidance should be given to sponsors who have equipment leases currently in effect?

A. Leases for equipment, i.e., computer and copiers, are allowable if the rates are reasonable, taking into consideration such factors as rental costs of comparable equipment, alternatives available, and type, life expectancy, condition and value of equipment leased. A lease with an option to purchase or one that creates material equity in the equipment is also allowable only up to the amount that would be allowed had the SO purchased the equipment on the lease date; e.g., monthly depreciation. In a lease with an option to purchase, the SO would need to look carefully at the terms of the lease to be
sure it is cost effective. The purchase price at the end of the lease would not be a cost to the CACFP so it would be an issue between the SO and the vendor. Leases under less-than-arms-length are allowable only up to the amount that would be allowed had the SO purchased the equipment. This amount would be monthly depreciation. A lease in which a sponsor would purchase equipment with personal funds and then lease the equipment to her SO would be less-than-arms-length. There are no guidelines on the length of such leases. The terms of the lease that is signed would determine who would own the equipment at the end of the lease.

4. Q. Are there any general guidelines on salaries, i.e., percentage of salary in relation to total budget, number of employees in relationship to number of homes sponsored, etc.?

A. There are no general guidelines regarding salaries. Circulars only address the reasonableness of the salary for services rendered and if the salary is comparable to that paid for similar work in the labor market. The SA may want to establish its own guidelines in this area.

5. Q. Is there any guidance on employee bonuses paid at the end of the year when the Board of Directors voted to pay a bonus?

A. Incentive compensation to employees is allowable if the overall compensation is determined to be reasonable and the incentive compensation is paid based on an established plan that was in place prior to services being rendered. A bonus paid at the end of the year by vote of the Board of Directors would have to meet the two criteria for incentive compensation to be allowable.

6. Q. Is there ever a situation when interest is an allowable cost?

A. Interest is never an allowable cost.

7. Q. Can mileage costs greater than the prevailing State rate be approved for SOs?

A. Mileage allowance of not more than the SA’s prevailing rate may be charged to the CACFP. An SA would normally not approve more than the SA rate in the SO’s budget. If an SO paid a higher mileage rate, it would have to do so with other than CACFP funds.
8. Q. Are there guidelines on what indirect costs may be paid from CACFP administrative funds? What percentage of indirect costs may be charged to the Program if there is no existing indirect cost rate agreement?

A. Indirect costs and rates are discussed in Circular No. A-122, Cost Principles for Nonprofit Organizations, Attachment A. There is no set percentage of indirect costs that can be charged to the CACFP when there is no existing indirect cost rate. We suggest the SA work with their Finance staff and SOs to determine the allowable indirect costs. When an SO is audited, the auditor may assist the organization in identifying its indirect costs.

9. Q. An inventory must be maintained for any equipment with a purchase price of $500 or more and a life of more than 2 years. Are there guidelines to determine life of various pieces of equipment? Are there guidelines stating what must be included on the inventory? How many prior years is needed to complete a physical inventory? Must equipment be physically marked with an inventory number and/or name? Is an annual physical inventory required on equipment?

A. There are no guidelines to determine the useful life of a piece of equipment. If a unit of equipment costs $500, it is assumed that its useful life is at least 2 years and property records are maintained on it. Circular No. A-110, Attachment N, Property Management Standards, lists the property record requirements as follows:

- Description
- Manufacturer’s serial number or other identification
- Acquisition date and cost
- Unit acquisition cost
- Source of property
- Percentage of Federal funds used in acquisition
- Location, use and condition
- Ultimate disposition data, including sales price or method used to determine fair market value
- Whether title vests in the SO or Federal Government

A physical inventory must be completed at least once every 2 years and reconciled with the property records. SOs should establish property records on all nonexpendable equipment purchased with CACFP funds, for which they have records. The equipment does not have to be physically marked.
10. **Q.** What are the disposition procedures for equipment of an SO which is planning to cease participation in the CACFP?

   **A.** If an item of equipment had a unit cost of $1,000 or more, the SA may reserve the right to require the SO to transfer the equipment to another institution participating in the CACFP. Disposition procedures must be provided to the SO within 120 days after it ceases to participate in the Program.

   If the SA does not require transfer of equipment with a unit of cost of $1,000 or more, it may be retained or sold. The Federal government would have a right to an amount calculated by multiplying the current fair market value or proceeds from sale by the Federal share of the equipment. If the equipment is sold, $100 or 10 percent of the total sales proceeds, whichever is greater, may be deducted and retained for selling and handling expenses.

   Equipment with a unit acquisition cost of less than $1,000 may be sold, retained or otherwise disposed of with no further obligation to the Federal government.

11. **Q.** A participant enrolled in an Adult Day Care Center is receiving Supplemental Security Disability Income (SSDI). Would these benefits make the participant categorically eligible?

   **A.** No. SSDI benefits fall under Title II. To be categorically eligible, the assistance must fall under Title XVI.

12. **Q.** Is it acceptable for the SA to identify brand names of foods when listing creditable foods for the CACFP?

   **A.** SAs should refrain from using brand names as it appears to be an endorsement of a particular product, especially when there are other brands of products that would also be creditable.

13. **Q.** Is there a simple guideline to follow in determining creditable bread products in CACFP, particularly in day care homes? Of concern are items such as pumpkin bread, zucchini bread, sweet muffins, etc. When cereals, cornmeal, pumpkin, fruit, etc., are added to the products, it seems the weight and ratio of ingredients could change substantially. Overall, would products meet requirements if there were 2 cups of flour/cereal/meal/bran for every cup of sugar/fat combination?

   **A.** Since the weight of ingredients could change substantially, we do not think it would be a good idea to attempt a simple guideline based on the ratio of flour, sugar, and fat. Pages 117 and 119 of the Food Buying Guide deal with the criteria for determining acceptable breads and bread alternates and provide a chart on
acceptable breads and bread alternates. Also, we would encourage the SAs to review questionable recipes to determine if the predominant ingredient by weight is a whole-grain or enriched meal or flour and provide this information to the SOs.

14. Q. If the first ingredient on a muffin/quick bread mix is flour, would the product be creditable? Are there any guidelines for crediting products prepared from Bisquick type mixes?

A. When flour is listed as the first ingredient in a muffin/quick bread mix, it would be the primary ingredient by weight but you would need to determine if it was whole-grain and/or enriched before accepting the product as an allowable bread or bread alternate. The same guidelines would apply for Bisquick type mixes.

15. Q. Is it acceptable for a child care center to receive funds from other sources for the food service?

A. Yes, this is acceptable since CACFP reimbursement does not cover all food service costs. The SA monitors the costs/CACFP reimbursement during reviews to ensure that the center's food service is not a profit making operation.