

Additional Information:

United States Department of Agriculture Uniform Federal Assistance Regulations, 7 CFR Parts 3016, 3019, and 3052.

www.gpo.gov/nara/cfr/index.html

United States Department of Agriculture, Child and Adult Care Food Program Regulation, 7 CFR Part 226.

www.usda.gov/cnd

United States Department of Agriculture, Food and Nutrition Service, Instruction 796-2, Rev. 3, Financial Management -Child and Adult Care Food Program.

Office of Management and Budget Circulars: A-87, August 29, 1997; A-102, March 11, 1988; A-110, November 29, 1993; A-122, June 1, 1998; and A-133, June 24, 1997.

www.whitehouse.gov

United States General Services Administration, Federal Acquisition Regulations, 48 CFR Part 31.

www.gsa.gov

Contact State administering agencies or United States Department of Agriculture, Food and Nutrition Service Regional Offices for a copy of FNS Instruction, 796-2, Rev. 3, Financial Management -Child and Adult Care Food Program.



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CACFP
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**CHILD and ADULT
CARE FOOD
PROGRAM**

**FNS INSTRUCTION
796-2, Rev. 3**

**# 5
ALLOWABLE
LABOR COSTS**

*This is the fifth in a series of brochures on
FNS Instruction 796-2, Revision 3.*

Allowable labor costs are the necessary and reasonable costs that result from performing program administrative and operating functions.

What is the difference between administrative and operating labor?

Administrative labor includes planning, organizing and managing the nonprofit food service, while operating labor includes the preparation and service of meals to participants.

What is a necessary labor cost?

A labor cost is necessary when the activity or function:

- Is generally recognized as ordinary;
- Is required for the institution to operate the program; and
- Must be accomplished to fulfill regulatory requirements for proper and efficient operation of the program.

How do I decide if the amount of a necessary labor cost is reasonable?

The decision that a cost is reasonable is a judgment made using the prudent person standard. Consideration is given to:

- The institution's needs;
- The institution's financial condition, i.e., can the institution afford to incur the cost;
- The skill, experience and education level of the employee performing the activity;

- The conditions of the market place; and
- Whether the cost is consistent with the amount paid by the institution or others for similar nonFederal work.

What resources are available to compare labor compensation costs?

A variety of resources are available including:

- U.S. Department of Labor, Bureau of Labor Statistics;
- State Department of Labor;
- State & local unemployment commissions;
- For public institutions, the pay scale for similar occupations; and
- Classified ads and Internet job sites.

What are the general guidelines for determining allowable labor costs?

- Each element of compensation is reasonable in relation to the services provided;
- The compensation conforms to the institution's written compensation policy;
- The compensation is for program work performed during the current period; and
- The compensation is earned and paid to individuals employed by the institution.

Are there any labor costs that are unallowable?

Yes. Unallowable labor costs include:

- Any payment for services or benefits to individuals not employed by the institution,

except for certain family health care benefits;

- Compensation that is inconsistent with the institution's written compensation policy;
- Retroactive salary or wage increases;
- Increases solely to maximize available reimbursement;
- Compensation in any form based on the number of homes recruited;
- Noncompliance with Federal and State employment compensation or taxation requirements;
- Compensation in any form to repay debts, overclaims or disallowances; and
- Labor costs that are not determined and documented in accordance with Generally Accepted Accounting Principles (GAAP) and FNS Instruction 796-2 or the State equivalent.

Where can I find more information on the different categories of labor costs?

For a quick reference, please refer to CACFP Brochure # 6, *Labor Cost Categories*. For detailed information, refer to FNS Instruction 796-2, Rev. 3.

NOTE: Additional requirements may apply. Consult 796-2, Rev. 3 and the appropriate administering agency for more information.