



**United States  
Department of  
Agriculture**

Food and  
Nutrition  
Service

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Alexandria, VA  
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November 1, 2001

**SUBJECT:** FNS Instruction 796-2, Revision 3

**TO:** Regional Directors  
Child Nutrition Programs

This memorandum provides additional guidance on the implementation of FNS Instruction 796-2, Revision 3. Please share this information with your State agencies.

**Question 1:** Is the Revised Instruction significantly different than Revision 2?

**Answer:** No. The Instruction was expanded and reformatted to respond to statutory requirements, State agency and institution requests for more detailed guidance and provide a more user friendly format. Five new paragraphs, five new cost categories and 4 new subtopics were added. Attached is a list of these changes.

**Question 2:** Does the size, complexity or sophistication of an institution affect how we apply the revised Instruction?

**Answer:** Yes. The financial management needs of an institution and the State agency's response to those needs will vary. Since the Instruction was revised to address the financial management needs of a wide variety of Child and Adult Care Food Program institutions, some aspects of the revised Instruction apply to all institutions, while others only apply in specific situations.

**Question 3:** What are some of the elements of the revised Instruction that apply to all institutions regardless of size?

**Answer:** Generally, these elements apply to all institutions:

- Cost allowability criteria
- Cost approval requirements, such as prior approval and specific prior written approval requirements
- Recordkeeping requirements
- Maintaining and monitoring the nonprofit food service account
- Maintaining adequate financial management systems, including compliance with Generally Accepted Accounting Principles
- Complying with State agency financial management requirements

The following only apply in specific situations:

- Cost allocation requirements
- Indirect cost plans and indirect cost rates
- Sponsored facility payment and reconciliation reports

Recordkeeping requirements for USDA donated foods

Question 4: Since the Instruction provides more guidance on allowable costs, are budgets still needed?

Answer: Yes. The revised Instruction is a tool that State agencies and institutions use in the budget and review processes, but the Instruction does not replace the budget or the budget approval process. Prior to approving or renewing each institution's CACFP participation, the State agency must make a judgment whether the institution has the viability, accountability and capability to participate in the Program. The budget review process is an integral component in this decision because preparation of a realistic and viable budget is an attribute of an administratively capable and fiscally accountable institution. For sponsoring organizations, the budget identifies how the sponsor will apply its financial resources to accomplish its management plan and meet program requirements. For independent centers, the budget allows the State agency to determine the types and amount of funds devoted to operating and administrative purposes and permits the State agency to determine if the center is adequately funding its food service operations while still ensuring that sufficient resources are devoted to program administrative requirements.

Question 5: Must the State agency offset allowable close out costs against CACFP debts owed by an institution?

Answer: Yes. While the availability of close out costs and the Federal government's obligation to fund allowable close out costs is required by 7 CFR Parts 3016.50 and 3019.71, these same regulations (§§3016.52 and 3019.73) require that allowable close out costs must be offset against outstanding debts owed to the CACFP. Information on how to offset allowable close out costs against outstanding CACFP debts was included in FNS Instruction 796-2, Revision 3 to provide State agencies with more guidance on this subject.

Question 6: Can a State agency implement the revised Instruction only for day care home sponsors?

Answer: No. The revised Instruction applies to all institutions.

**Original Signed**

STANLEY C. GARNETT  
Director  
Child Nutrition Division

Attachment

FNS Instruction 796-2, Revision 3

New Paragraphs:

Part VIII, Standards for Allowable Costs.

- B. Disclosure
- E. Prior Approval

Part IX, Basic Guidelines for CACFP Payments and Use of Funds.

- A. Reimbursement Methods
- B. Applicable Reimbursement Methods
- C. Advance Payments

Cost Categories:

Part VIII, I. Selected Items of Cost

<u>Added</u>	<u>Deleted</u>
# 2 Administrative Appeal Costs	Payroll Preparation
#12 Day Care Home Licensing Standard Costs	Personnel Administration
#14 Employee Morale, Health and Welfare Costs	Procurement Service
#20 General Business Expenses	Pre-Agreement Costs
#38 Termination Costs	Legislative Expenses

Subtopics:

Part IX, D. Other

- #2 Center Administrative Costs
- #8 Loans
- #9 CACFP Close out Procedures

Part IX, E. Records

- #2 Sponsored center and day care home reconciliation record