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MEMORANDUM 2016 - 2017 CACFP BUDGET REQUIREMENTS

TO: 2016 – 2017 CACFP INSTITUTIONS
FROM: HEALTH AND NUTRITION UNIT
SUBJECT: 2016 BUDGET APPLICATION REQUIREMENTS
DATE: JULY 5, 2016

This memorandum contains information regarding the 2016 CACFP Budget requirements and the required documentation that must be submitted or uploaded related to the Budget in the 2016 CACFP Application in order to submit a complete application. The additional information is being requested with the implementation of the Office of Management and Budget (OMB) regulation, commonly referred to as the Super-Circular or Uniform Guidance (2 CFR Part 200), which contains in part Federal grant management rules, cost principles, and audit requirements. The cost principles and audit requirements in the Uniform Guidance apply to all non-profit entities. The cost principles for for-profit entities are located in the Federal Acquisition Regulations (FAR) at 48 CFR Part 31. However, the Uniform Guidance related to the Federal Grant Management rules apply to all institutions.

Tools to assist with the preparation of budgets are located in the Special Nutrition Program (SNP) website resource library under the heading Financial Management & Budgets. A few of the documents included to assist with the preparation of Budgets are USDA Guidance for Management Plans and Budgets dated December 2013, FNS Instruction 796-2, Rev. 4 Financial Management in the Child and Adult Care Food Program, and the *USDA Memorandum CACFP 08-2015 Assessing Costs in the Child and Adult Care Food Program*. This information supplements and provides additional details related to information provided during the 2016 CACFP training. This Memorandum also includes references to Memorandums that provide additional information on the following subjects: Less-Than-Arms-Length Transactions, Internal Controls, and Resources for Institutions.

DHS is in the process of preparing additional training modules on the following subjects: (1) Basic Accounting, (2) Basics for Budgeting, and (3) Financial Management and Internal Control. These training modules will be uploaded to the SNP website resource library when the modules are finalized. Additionally, DHS is researching additional resources and contacts for institutions to utilize for improving their financial management and internal control processes.

BUDGETS- INFORMATION & REQUIRED SUPPORTING DOCUMENTATION

The budget is the institution's financial plan also described as a business action plan expressed in dollars that estimates revenues and expenses for a specific period of time. The Budget must reflect the institution's anticipated needs and anticipated financial resources to operate the CACFP.

All institutions are required to meet the following performance standards: (1) Performance Standard 1: Financial Viability and Management, (2) Performance Standard 2: Administrative Capability, and (3) Performance Standard 3: Program Accountability. The criteria listed below were obtained from the USDA Guidance for Management Plans and Budget Handbook (December 2013) and 7 CFR §226.6(b)(18).

Financial Viability and Management

- Adequate financial resources are available to operate the CACFP on a daily basis (funding sources).
- Adequate sources of funds are available to withstand temporary interruptions in Program payments including funds to pay employees during periods of temporary interruptions in CACFP payments (with non-Program funds).
- Adequate resources are available to pay debts when fiscal claims have been assessed against the institution (with non-Program funds).
- The institution can document its financial viability. For example, via audits and financial statements.
- The submitted budget contains costs that are necessary, reasonable, allowable, and documented.

Administrative Capability

- Appropriate and effective management practices in place to ensure CACFP-compliant operations;
- Adequate number and type of qualified staff;
- Adequate number of monitoring staff (sponsoring organization);
- Written policies and procedures that assign CACFP responsibilities and duties
- Written policies and procedures that ensure compliance with civil rights requirements

Program Accountability

CACFP Institutions must have written internal controls and other management systems in place to guarantee fiscal accountability and other CACFP operational requirements.

- Non-Profit – An independent governing board of directors with adequate governance of the program.
- For-Profit – Owner's accountability will be evaluated.

- Fiscal accountability including written financial systems with management controls and recordkeeping systems to account for and retain required Program records.
- Meal service operations comply with CACFP requirements.

The Budget and related supporting documentation are necessary so that DHS may determine whether expenditures are allowable, necessary, reasonable, and documented. Additionally, DHS must assess whether the Institution (Sponsor) is financially viable, administratively capable, and accountable. Included in this assessment is determining whether the Institution meets the following (a) has adequate resources to operate the CACFP on a daily basis, (b) has adequate resources to pay employees during periods of temporary interruptions in CACFP payments (with non-Program funds), (c) has adequate resources to pay debts when fiscal claims have been assessed against them with non-Program funds, (d) can continue to operate when fiscal claims are assessed against the institution, (e) meets the regulatory requirements, (f) has non-Program revenue sources to pay for unfunded costs, (g) has policies, procedures and internal controls for administration of the program. Please note that the list below is not all inclusive and additional information may be requested by the staff reviewing the budget. Any additional information requested should be submitted within five (5) business days.

Supporting documentation required to be submitted includes, but is not limited to, the following:

- (1) Detail of Institution's Management & Administrative Structure:** This may be represented as an organizational chart which identifies the line of authority and indicates the responsibilities and operating hierarchy of the Institution. This should include the institution as a whole and the child nutrition programs.
- (2) Institution's Policies and Procedures:** Policies and procedures are a set of documents that set forth principles, rules, authorities, responsibilities and actions for the institution's management and operations. Policies and Procedures typically identify what is to be done, who is to do it, and how it should be done. Written policies and procedures are essential to the effective and efficient operation of an Institution and its programs. The Institution's written policies and procedures should include the following information:
 - Financial Policies, Procedures and Internal Controls – see #3 below.
 - Conflict of Interest Policy
 - Employee Code of Conduct
 - Payroll and Documenting Time (Timekeeping)
 - Travel Expenses
 - Delegation of Authority
 - Safeguarding of Assets
 - Job Descriptions
 - Record Retention and Destruction
 - Confidentiality
 - Training Procedures

- Procurement and Purchasing Procedures
- Capitalization Policy
- Process for determining compensation of the Institution's management and other officers or key employees which includes review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision.

NOTE: Once the Institutions written policy, procedures, and internal controls are uploaded to the SNP application or provided to HNU staff, only changes to the policies, procedures, and internal controls must be provided to DHS.

(3) Institution's Financial Management Policies, Procedures and Internal Controls – A financial management system encompasses the written procedures that the institution's management and/or the board of directors utilize to (a) collect, record and classify transactions, (b) identify all funds received and expended, (c) ensure accurate, current and complete disclosure of financial results of program operations, (d) adequately identify the source and application of funds for federally funded activities, (e) compare actual and budgeted financial results, (f) ensure that safeguards and controls are in place to prevent and detect improper financial activities by employees, and (g) ensure reliable reporting of all systems. Components of a financial management system include but are not limited to: (i) chart of accounts, (ii) financial statements, (iii) required program forms, (iv) accounting tools including manual or automated spreadsheets, (v) bank reconciliations, (vi) institution organizational standard operating procedures, (vii) general ledger, (viii) management plan, and (ix) budget. Financial policies, procedures, and internal controls should include, but may not be limited to, the following:

- Chart of Accounts with description of accounts
- Authorization of Signers
- Property management for equipment and supplies purchased with Federal funds including institution's capitalization policy
- Timekeeping and allocation of time between Program and non-program activities including Payroll and documenting time
- Procedures for determining the reasonableness, allocability, and allowability of cost in accordance with applicable cost principles and terms of the grant award
- Cost Allocation Plans
- Payroll and Documenting Time
- Travel Expenses
- Cash receipts and disbursements including accounts receivable and accounts payable
- Financial Reporting both internal and external
- Contributions
- Inventory and Property Records
- Safeguarding of Assets
- Reconciliation of Bank Statements including Petty Cash and Checking Account
- Indirect Costs /Administrative Costs

- Financial Statement Review/Audit
 - Internal Controls of grant funds including: approval and documentation of expenses, separation of duties, delegations of authority, check issuance, cash receipts, cash management, bank reconciliation, travel and payroll.
 - Site management and monitoring
 - Closeout of Grants
- (4) **Non-Profit Institutions Only - Board Meeting Minutes:** Official board meeting minutes for the past year. At a minimum, minutes from the previous three meetings are required. (For-Profit sponsoring organizations are not required to have a board since the owner takes overall responsibility for the CACFP.)
- (5) **Financial Statements:** The Financial Statements must include an Income Statement (Statement of Activities) and Balance Sheet (Statement of Financial Position). If available, the Institution should also submit the Statement of Owner's Equity (Statement of Functional Expenses) and Statement of Cash Flows. The most recent financial statements must be submitted. The financial statements for the 2016 application must be for a period ended no earlier than December 2015. Institutions that have a June 30 fiscal year end, must submit their financial statements for the period ended June 30, 2016. The financial statements submitted do not have to be audited financial statements.
- (6) **Tax Returns:**
- **Non-Profit: IRS Form 990 Return of Organization Exempt from Income Tax:** The most recent Form 990
 - **For-Profit:** 2015 Tax Return
- (7) **Supporting Source Documentation – Revenues:** Source documentation related to Revenues includes but is not limited to the following: (i) previous 3 months of Bank Statements, (ii) other grant agreements, if applicable, (iii) support for contributions & donations, if applicable, and (iv) documentation relating to how unfunded costs, unallowable costs, or over-claims assessed will be covered with non-program funds. The institution must submit at a minimum the previous three months bank statements and a signed statement stating how the Institution will cover unfunded costs, unallowable costs, and potential over claims.
- (8) **Supporting Source Documentation – Expenditures:** Source documentation related to expenditures: Including but not limited to: (i) procurement policy including estimates and bids, (ii) contracts for services, (iii) lease agreements, (iv) floor plans – allocation support for rent, (v) payroll registers and/or W-2s, (vi) depreciation support if applicable, (viii) approved cost allocation plan, (ix) bank statements, (x) Form 990's if applicable, (xi) supporting documentation and allocation for utilities, and (xii) supporting documentation for any other expenses. The documents submitted may be from the prior year if the transaction has not been executed or supporting documentation related to estimates for the expenditures.
- (9) **Job Descriptions:** Job Title and Job Description for all administrative and operating staff including salary and/or rate of pay
- (10) **Disclosure of Less-Than-Arms-Length Transactions:** Information should include a description of the transaction and necessary supporting documentation related to the transaction. For additional information see the Less-Than-Arms-Length Transaction Memorandum.

- (11) Detailed Descriptions of Budget Line Items:** Description and details of all line items in the budget, including where appropriate additional dollar amounts.

TOOLS FOR PREPARATION OF BUDGETS

Following are tools to assist with the preparation of the institution's budget which are located in the SNP website resource library under the heading Financial Management and Budgets. These tools are also included on the USDA's website. Included are the following documents:

- Guidance for Management Plans and Budgets (December 2013)
- USDA Memorandum CACFP 08-2015 Assessing Costs in the Child and Adult Care Food Program
- FNS Instruction 796-2, Rev. 4 Financial Management for the Child and Adult Care Food Program

OVERVIEW OF ADDITIONAL MEMORANDUMS

- (1) Less-Than-Arms-Length Transactions (a/k/a Related Party Transaction) Memorandum** This Memorandum defines and discusses Less-Than-Arms-Length transactions. All less-than-arms-length transactions must be disclosed to the State Agency. Additional supporting source documentation is required to be submitted with the budget for less-than-arms-length transactions, and specific prior written approval is required related to these expenditures. This Memorandum is available on the SNP website resource library under the Financial Management and Budget heading.
- (2) Financial Management System Memorandum:** Financial-management is that aspect of management which is directed to the effective control over, and accountability for, all funds, property, and other assets to assure that they are safeguarded and used efficiently to fulfill authorized purposes. Financial management includes such activities as budgeting, accounting, costing standards, management of revenues, management of property, procurement standards, and fiscal audits. Records of these activities must be supported by source documents to accurately and completely disclose the sources and applications of funds. The FNS Instruction 796-2, Rev. 4 Financial Management in the Child and Adult Care Food Program includes information on financial management of the CACFP including information regarding allowable and unallowable costs. Additionally, the OMB Super-Circular (2 CFR Part 200) contains information on the federal grant rules, cost principles, and audit requirements. The FNS Instruction 796-2, Rev. 4 has not been revised to reflect the changes made by the Uniform Guidance (2 CFR Part 200).
- (3) Internal Controls Memorandum:** Internal controls refer to the process implemented by an Institution that is designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) Effectiveness and efficiency of operations; (b) Reliability of reporting for internal and external use; and (c) Compliance with applicable laws and

regulations. (See 2 CFR §200.61, Guidance on Management Plans and Budgets, 7 CFR 226.6(b)(18), FNS Instruction 796-2, Rev. 4).

- (4) Resources for Sponsors:** Summary of Applicable Regulations Specific to Budgets, Financial Management & Internal Controls with links to web-site.

ADDITIONAL RESOURCES

Following are resources that provide information related to Budgeting, Financial Management and Internal Controls. These resources are available in the SNP website resource library under the heading Financial Management & Budget.

Additional USDA Guidance

USDA Policy Memorandums that may assist Institutions with specific questions regarding financial management, budget, and internal controls. Note that all USDA Policy Memorandums may be found on the USDA's website and on the SNP website.

- USDA Guidance for Management Plans and Budgets dated December 2013
- *USDA Policy Memorandum CACFP 08-2015 Assessing Costs in the Child and Adult Care Food Program dated February 25, 2015*
- *USDA Policy Memorandum SP 02-2016; CACFP 02-2016; SFSP 02-2016 Questions and Answers on the Transition to and Implementation of 2 CFR Part 200 dated October 30, 2015*
- *USDA Policy Memorandum SP30-2015, SFSP 18-2015, CACFP 16-2015 Office of Management and Budget Super-Circular 2 CFR 200*

NOTE: Institutions may also find the USDA Guidance for Management Plans and Budgets: A Child and Adult Care Food Program Handbook dated December 2013 useful in assisting with Management and Budget Plans.

Select Requirements & Regulations

- 2 CFR Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards; Final Rule dated December 26, 2013
- FNS Instruction 796-2, Rev. 4 Financial Management – Child and Adult Care Food Program
- 7 CFR Part 226 Child and Adult Care Food Program

Internal Control Resources

- GAO – United States General Accounting Office
 - GAO Standards for Internal Control in the Federal Government dated September 2014 (aka “Green Book”)
- COSO – Committee of Sponsoring Organizations of the Treadway Commission –not included in the resource library. May be located at www.coso.org
 - COSO Internal Control – Integrated Framework Executive Summary dated May 2013
 - COSO Internal Control – Integrated Framework Principles
 - COSO Enhancing Board Oversight (March 2012)