

Montana Department of Public Health & Human Services	Policy
	SH CACFP 2016 – 1 Rev 1
	Section: Sponsors of Day Care Homes
Child and Adult Care Food Program	Subject: Determining Allowability of Costs
	Date Revised 5/1/2021

Determining Allowability of Costs

Sponsoring Organizations of day care homes are not allowed to use CACFP funds to pay for operating costs of a meal service. All costs for Sponsoring Organizations must be accounted for through the consistent use of the U.S. generally accepted accounting principles ([U.S. GAAP](#)). CACFP statutory, regulatory, and policy considerations of some costs that are listed in this fiscal regulation may not be allowable as CACFP costs. Therefore, State agencies must refer to [FNS Instruction 796-2, Rev. 4 Financial Management](#) in the Child and Adult Care Food Program, when reviewing a Sponsoring Organizations expenditure for CACFP reimbursement.

CACFP funds may be used to pay for costs that meet FNS’s definition of allowable, are reasonable and necessary. All costs must be approved by the SA **prior** to the costs being incurred.

The SA must review the costs and determine if they are allowable. Then the costs must be determined if they are necessary for the operation of the program and reasonable.

“Specific” Prior Written Approval

Certain situations require special consideration when determining whether the amounts and types of expenses are reasonable Program costs. These costs must have written approval from the SA prior to being incurred. FNS Instruction 796-2, Rev. 4 Exhibit I contains the table that lists all of the expenses that require Specific prior written approval.

Necessary and Reasonable

A cost is allowable when it meets the guidelines of FNS Instruction 796-2, Rev. 4. However, for purposes of the CACFP, the cost must also be necessary and reasonable. Necessity is determined by the nature of the activity, while reasonableness is determined by the amount of the cost. A cost is necessary when the activity or function is:

- Generally recognized as ordinary,
- Required for the institution to operate the Program, and
- Accomplished as part of operating the Program according to regulatory requirements.

A cost is considered reasonable when the amount of the cost reflects what a sensible or practical person would pay in the same situation. In business, there is sometimes an abundance of funds so luxuries become the norm, but extravagance is not appropriate for a business operating CACFP, that is a Federally funded Program. The costs to the Program must be

reasonable for a publicly funded Program. These costs are the result of sound business practice.

Costs are reported on an accrual basis (expenses and income recorded when incurred) or a cash basis (expenses and income reported when paid/received).

All Sponsoring Organizations will provide their budget and any expenses requiring specific prior written approval in the Annual Sponsor Management Plan (SMP) Section 2: Financial Viability & Controls. All expenses may be changed throughout the year when an amended budget is submitted, reviewed, and approved in writing by the SA **prior** to the expenses being incurred.

References: FNS Guidance for Management Plans and Budgets pgs. 20-22; FNS Instruction 796-2, Rev. 4; [7 CFR 226.15(e)(6)(ii)]

This Institution is an equal opportunity Provider.