# MW S&CNP: SA 05-1 January 15, 2003

# FY 03 School and Community Nutrition Programs Policy Memorandum # 03-08

Clarification Concerning Food Service Management Company (FSMC)

Cost Reimbursable Contracts

State Directors

Child Nutrition Programs

The Office of Management and Budget (OMB) has determined that OMB Circular requirements stating that allowable costs must be net of all credits, discounts, and rebates, do **NOT** apply to the nonprofit school food service account for expenditures resulting from the contracts between the school food authority (SFA) and the FSMC. This is a departure from our previous understanding of this issue. However, OMB made clear that State agencies (SAs) and SFAs can require through contractual terms that FSMCs charge the SFAs only for actual costs which are net of all credits, discounts, and rebates.

Therefore, FNS strongly encourages that SFAs include in their cost-reimbursable contracts with FSMCs such contractual terms that require the FSMC to charge the SFA only for actual costs, net of all credits, discounts, rebates, and allowances. This will ensure that SFAs pay only the actual net costs incurred by the FSMCs. Any SFA that does not include such provisions in cost-reimbursable contracts could be liable to the FSMC for payment of costs in excess of the actual net costs incurred by the FSMC. Further, FNS will fully support SAs and SFAs that elect to require contract terms that protect the financial integrity of the School Nutrition Programs.

If you have any questions, please contact Sandra Lehner of my staff at 312-353-6697.

**JOHN KWIT** for

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Regional Director

Special Nutrition Programs