

# BEST PRACTICES

## Introduction

Federal regulations require School Food Authorities (SFAs) that have cost reimbursable contracts with Food Service Management Companies (FSMCs) receive the full value of any discounts, rebates and applicable credits (credits) that accrue as a result of purchases made by FSMCs for the SFA.

These regulations for cost reimbursable contracts are in place to make the identification of credits more transparent to SFAs and to maximize Federal funds for the service of healthy and nutritious meals to students through the School Meal Programs. These best practices are intended to assist SFAs with meeting this requirement.

### *A RESOURCE FOR SCHOOL FOOD AUTHORITIES*

*Monitoring Cost  
Reimbursable  
Contracts for  
Rebates, Discounts,  
and Applicable  
Credits*

## Executing the Contract

An important first step in complying with these requirements is to ensure that your contracts include all necessary provisions. **Cost reimbursable contracts** must include the following provisions [7 CFR Part 210.21 (f)(1)(i),(iv),(v),(vi)]:

- ✚ The mandatory return of all credits to the SFA's nonprofit food service account.
- ✚ The frequency and the method FSMCs will use for reporting credits on invoices and billing statements (e.g., monthly, quarterly, annually).
- ✚ All credits must be clearly identified on billing statements and invoices submitted by FSMCs to the SFA.
- ✚ All records of credits must be maintained by FSMCs, and made available to SFAs and State agencies upon request.
- ✚ The reporting of credits by FSMCs is required no less frequently than annually; however, State agencies may approve more frequent reporting. FNS encourages monthly reporting to facilitate SFA monitoring of the credits.

### Helpful Tip

SFAs must obtain documentation from the FSMC to allow for the identification of allowable and unallowable costs, and reconciliation of all rebates, discounts and applicable credits.

## Monitoring the Contract

The SFA's responsibilities do not end when the contract is signed. Monitoring the contract throughout the year is essential to ensure the SFA receives the full value of credits and is in compliance with Federal regulations. Monitoring activities may include the following best practices:

- ✚ Begin the process of monitoring the contract immediately by identifying the person or persons within the SFA who will be responsible for oversight.
- ✚ Designate the position that will monitor the credits (e.g., school food service director, school business or procurement official or other SFA-designated employee).
- ✚ Examine the invoices and other documentation provided by the FSMC as agreed to in the contract. Remember, it is important to maintain this documentation as support for credits and for review by the State agency.
- ✚ Determine the percentage of credits reported in relation to the value of food purchased early in the contract year as a benchmark for future comparison.
- ✚ Calculate the average credit-purchase proportion received (see example on the left). The industry average is between 10 to 15 percent.
- ✚ Examine products to ensure that to the maximum extent practicable, domestic commodities are purchased. Visit storage facilities (freezers, refrigerators, and dry storage) to observe the origin of purchased food printed on food labels and case units.

### Helpful Tip

#### Credit-Purchase Proportion equals

Value of Credit Reported  
divided by  
Value of Purchased Food

$$CPP = VCR \div VPF$$

### Additional Resources

Policy Memorandum  
SP-23-2013

USDA State Agency Guidance to  
Procurement Web-Based  
training:

<http://nfsmi.org/Templates/TemplateDefault.aspx?q=cEIEPTIzOA>

Contact your State agency for  
additional assistance and  
support.

## Questioning Discrepancies

If you notice potential discrepancies during monitoring activities, follow up with the FSMC to resolve the issues. If necessary, request additional documentation from the FSMC to substantiate these discrepancies. Potential discrepancies to consider may include:

- ✚ Frequency of reporting that does not agree with contract provision.
- ✚ Labels identifying countries other than the U.S. may serve as a red flag that the FSMC is not complying with contractual provisions regarding "Buy American", possibly resulting in lower credits.
- ✚ Credit-purchase proportions that fall below the average credit-purchase proportion established early in the year.