



United States Department of Agriculture

School Foodservice Indirect Cost Study

Nutrition Assistance Program Report
Food and Nutrition Service
Office of Policy Support

March 2014

USDA is an equal opportunity provider and employer.



School Foodservice Indirect Cost Study

Authors:

Frederic B. Glantz
Carissa Climaco
Anne St. George
Christopher W. Logan
Elizabeth Giardino
Marina Komarovsky
Vinh Tran

Submitted by:

Abt Associates
55 Wheeler St.
Cambridge, MA 02138
in partnership with
Kokopelli Associates

Project Director:

Carissa Climaco

Submitted to:

Office of Policy Support
Food and Nutrition Service
3101 Park Center Drive
Alexandria, VA 22302

Project Officer:

John R. Endahl

This study was conducted under Contract number AG-3198-D-11-0047 with the Food and Nutrition Service, United States Department of Agriculture.

This report is available on the Food and Nutrition website: <http://www.fns.usda.gov/research-and-analysis>

Suggested Citation:

Glantz, Frederic B., Carissa Climaco, Anne St. George, Christopher W. Logan, Elizabeth Giardino, Marina Komarovsky, and Vinh Tran. *School Foodservice Indirect Cost Study*. Project Officer: John R. Endahl. Prepared by Abt Associates for the U.S. Department of Agriculture, Food and Nutrition Service, March, 2014.

Acknowledgements

The lead authors want to acknowledge the contributions of other Abt Associates team members to this report. Marina Komarovsky led State-level data collection, and Ben Cushing, RJ de la Cruz, Elizabeth Giardino, Kelly Patlan, and Vinh Tran completed the interviews with State Education Agency (SEA) Financial Management officials and State Child Nutrition (CN) officials. John Sokolowski of Abt SRBI served as Survey Director and led the development of the web-based surveys of Local Education Agency (LEA) Business Managers and School Food Authority (SFA) Directors. He worked with programmers and a team of interviewers who followed up with respondents to complete their surveys. Ms. Giardino, Mr. Tran, and Gabrielle Greene monitored the study telephone helpline and email account to promptly address questions from web survey respondents. Nancy McGarry provided all programming analysis for the survey data. Maria Boyle coordinated and worked through feedback received on the draft report. As Project Quality Advisor, Meryl Finkel provided helpful comments on drafts and revisions of the report. Jan Nicholson was our intrepid production specialist.

We would also like to acknowledge the guidance and support of the USDA FNS Project Officer, John Endahl. We would like to thank the FNS Regional Study Liaisons, who provided valuable assistance to this study by working with the State CN Divisions to provide contact information for the LEA and SFA level surveys and to follow up with respondents to complete surveys.

We would also like to thank Mary Gougisha and the Indirect Cost Group at the U.S. Department of Education who put us in touch with the appropriate staff at SEAs. Barbara Nissel served as the external reviewer to the study, and we would like to thank her for her review and thoughtful feedback on the data collection instruments and the draft report.

Finally, the authors thank the all of the study's survey respondents for their valuable time spent providing the information that this report is based on, through interviews, survey, and financial reports and documentation.

Table of Contents

Acknowledgements	i
Executive Summary	1
Introduction	1
Overview of Indirect Costs.....	2
Data Collection and Study Sample	6
Findings	7
1. Introduction	13
1.1 Federal Regulations Regarding SFA Costs.....	14
1.2 Overview of Indirect Costs and the Allocation of Indirect Costs	15
1.3 Study Objectives	20
1.4 Data Collection	21
1.5 Organization of the Report.....	25
2. Methodology.....	27
2.1 Sampling Frame	27
2.2 Sample Size.....	28
2.3 Sample Selection.....	29
2.4 Contact Information	29
2.5 Updates on Sampled SFAs.....	29
2.6 Final Disposition of the Sample and Response Rates	30
2.7 Final Survey Weights.....	31
3. Objective 1: Establishing Public School District Indirect Cost Rates and Allocation Plans.....	35
3.1 States’ Role in Setting or Approving LEA Indirect Cost Allocation Plans	35
3.2 Public LEAs Charging and Recovering Indirect Costs	46
3.3 Summary of Key Findings	54
4. Objective 2—Charging Indirect Costs to the School Foodservice Account.....	57
4.1 Charging Indirect Costs	57
4.2 Notification About Being Charged for Indirect Costs	64
4.3 Summary of Key Findings	67
5. Objective 3—Recovery of Indirect Costs	69
5.1 Recovering Current Year Indirect Costs for Grants and Programs.....	69
5.2 Recovering Prior Years’ School Foodservice Indirect Costs.....	75
5.3 Summary of Key Findings	76
6. Objective 4—Treatment of Indirect Costs by Private Schools and Private School Systems	77
6.1 Issues: Why Is this Important?.....	77
6.2 Establishing Indirect Cost Rates or Cost Allocation Plans	78
6.3 Communicating Indirect Cost Rates to LEAs and SFA Directors	79

6.4	Charging and Recovery of Indirect Costs for Food Service	80
6.5	Assuring Compliance and Providing Training.....	82
6.6	Summary of Key Findings	84
7.	Conclusions	85
	References.....	87

Appendix A: Analytic Tables—State Data Analysis

Appendix B: Analytic Tables—Public LEA and SFA Data Analysis

Appendix C: Analytic Tables—Public LEA and SFA Data Analysis, By Size

Appendix D: Analytic Tables—Public LEA and SFA Data Analysis, By Poverty Rate

Appendix E: Analytic Tables—Public LEA and SFA Data Analysis, By FNS Region

Appendix F: SEA Finance Officer Survey

Appendix G: State Child Nutrition Director Telephone Survey

Appendix H: LEA Business Manager Web Survey (Module 1)

Appendix I: LEA Business Manager Web Survey

Appendix J: SFA Director Web Survey

Appendix K: Web Survey Methodology

Appendix L: Recoding Process to Determine LEAs with a Method for Indirect Costs Recovery

Appendix M: Final Web Survey Response Rates

Executive Summary

Introduction

Indirect costs in the National School Lunch and Breakfast Programs (NSLP and SBP) have taken on increasing importance in recent years as school budgets have become much tighter.¹ Local Education Agencies (LEAs) have the ability to charge and recover indirect costs from a variety of school programs that receive Federal or State funds, including foodservice. However, very little is known about the policies and procedures that dictate how indirect costs are determined, charged and recovered from foodservice programs or School Food Authorities (SFAs). A 2006 report of an SFA director survey cited increasing numbers of LEAs² charging for indirect costs, a lack of information about indirect costs among SFA directors, and a wide variety of reported indirect cost allocation methods.³

In response to these concerns and a mandate from Congress, the USDA Food and Nutrition Service (FNS) contracted with Abt Associates to conduct the *School Foodservice Indirect Cost Study* in order to collect and analyze up-to-date, SY 2011-2012 data on LEAs' policies and procedures for calculating, charging, and recovering indirect costs attributable to their school foodservice operations. The ultimate goal of this study was to provide USDA, Congress, and other stakeholders the necessary information to understand the extent to which LEAs identify, charge, and recover indirect costs attributable to their school foodservice operations. The study also examined whether LEAs treat indirect costs attributable to their school foodservice operations the same way that they treat indirect costs attributable to other grants and programs.

The following were the principal research questions for the study:

- What percent of LEAs have an indirect cost rate?
- Do LEAs that have an indirect cost rate calculate the indirect costs that are attributable to school foodservice and to other programs administered by the LEA, and do they charge these costs to programs?
- Do LEAs that charge any or all of the calculated indirect costs to the school foodservice account actually recover these charges by transferring funds from the school foodservice account to the LEA general fund?

¹ American Association of School Administrators, "Weathering the Storm: How the Economic Recession Continues to Impact School Districts", March 2012.
https://www.aasa.org/uploadedFiles/Policy_and_Advocacy/files/Weathering_the_Storm_Mar_2012_FINAL.pdf.

² The term LEA includes both public school districts and independent public charter schools. The study also included data collection and analysis with private schools and school systems serving as SFAs. A private school system is a group of private schools operating under a single organization, such as an Archdiocese for Catholic schools.

³ School Nutrition Association. (2006). *2006 Indirect Cost Study*. National Harbor, MD: School Nutrition Association Government Affairs Team. <http://www.edweek.org/media/sna2006survey-01foodservice.pdf>. The survey had a response rate of 23 percent.

These questions are at the heart of what is required to meet the Congressional mandate. Other important but ancillary questions had to be addressed to fully meet the requirements of the Congressional mandate, including:

- What is the role of the State Education Agencies (SEAs) in establishing or approving LEAs’ indirect cost rates?
- Are the indirect costs charged or recovered by LEAs from school foodservice consistent with Federal and State allocation requirements?
- What are the types and amounts of indirect costs charged and recovered by LEAs from the school foodservice account?
- What are the types and amounts of indirect costs that LEAs could, but do not, charge and recover from the school foodservice account?
- What is the impact of LEAs charging and recovering indirect costs from the nonprofit school foodservice account?

Overview of Indirect Costs

The terminology used to discuss indirect costs is unfamiliar to most people not versed in accounting practices. Below in Exhibit ES.1 we present the definitions of the terms used throughout this report as a guide for non-technical readers.⁴

Exhibit ES-1: Glossary

Glossary	
Direct costs	Costs that an LEA identifies as directly related to a specific objective, such as school foodservice or any other grant or program. For the purposes of this report, direct costs are considered as “identified” if the LEA elects to charge them to a grant or program.
Indirect costs	Costs that are incurred by an LEA that benefit (i.e., support) programs or activities (such as school foodservice) but that are not practical to identify as direct costs, such as general administrative costs (e.g., payroll processing) or facilities costs (e.g., utilities). Under Federal cost principles, indirect costs may be allocated among the benefitting programs or activities using an approved cost allocation plan that is fair and reasonable.
Indirect cost allocation plan	A description of the procedures and computations that an LEA proposes to use to allocate indirect costs among benefitting programs or activities. This plan must be approved by the SEA before the LEA uses it to allocate indirect costs. In many States, the SEA uses financial information routinely provided by its LEAs to calculate each LEA’s approved indirect cost rate. In such cases, the LEA need not submit a formal indirect cost allocation plan for SEA approval

⁴ Additional guidance on terminology on the processes related to direct and indirect costs is available in *Indirect Costs” Guidance for State Agencies and School Food Authorities*, USDA/FNS, July 7, 2011.

Glossary	
Indirect cost pool	The set of indirect costs identified by an LEA in its indirect cost allocation plan and used in the allocation of indirect costs.
Indirect cost rate	The ratio of an indirect cost pool to the base of direct costs, i.e., the direct costs of programs and activities that benefit from the indirect costs. The indirect cost allocation plan defines both the indirect cost pool and the base of direct costs. Multiplying the indirect cost rate by the direct cost of a program yields the indirect cost of the program.
Restricted indirect cost rate	An indirect cost rate with an indirect cost pool that is restricted to comply with educational programs that provide funds to state and local jurisdictions under the stipulation that the federal funds be used to "supplement and not supplant" on-going educational services. This means that state and local agencies are expected to use their own tax revenue or other financial resources to finance the educational services, including related administrative costs.
Unrestricted indirect cost rate	An indirect cost rate with an indirect cost pool that is not restricted to comply with the "supplement not supplant" provision. Unrestricted indirect cost rates may be used to allocate indirect costs to grants and programs, including school foodservice, that do not restrict what indirect costs may be charged (other than the general considerations of allowable costs for Federally funded programs).
Calculating indirect costs	Application of the State-approved methods for allocating indirect costs to a grant or program to determine the indirect costs that are attributable to the grant or program.
Charging indirect costs	An accounting transaction that identifies an amount of indirect costs as an expense of a grant or program for reporting and reimbursement purposes. Charging indirect costs is equivalent to sending a bill to the grant or program. The amount of indirect cost charged may be equal to or less than the calculated indirect cost.
Recovering indirect costs	The transfer of funds from a grant or program's account to the LEA's general fund to offset a charge for indirect costs. Recovery is equivalent to receiving payment.

Sources:

Indirect Costs" Guidance for State Agencies and School Food Authorities, USDA/FNS, July 7, 2011.

Department of Education Cost Allocation Guide for State and Local Governments, September 2009.

Accounting dictionary from accountingtools.com.

Defining Indirect Costs

As indicated above, the USDA school meals programs and other Federal grants and programs often use a variety of resources that are provided by the LEA, including:

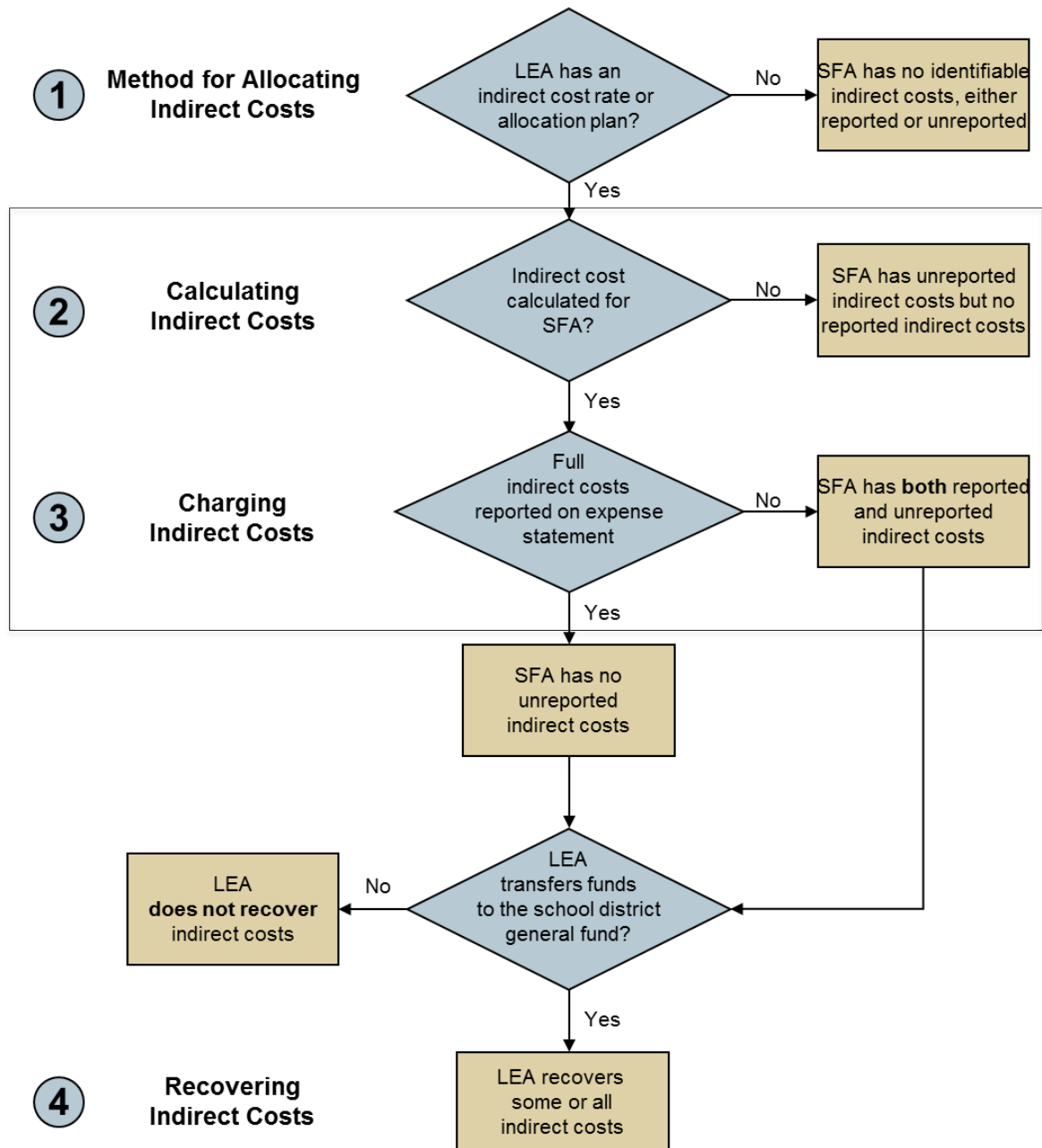
- administrative or support functions performed by LEA personnel (e.g., accounting, data processing, payroll, personnel, purchasing, storage, and transportation, and custodial);
- facilities, equipment, supplies, and services (e.g., energy, communications and transportation) provided or purchased by the LEA; and
- employee benefits, payroll taxes, and insurance.

Allocating Indirect Costs

Figure ES.1 presents a flow chart to facilitate the understanding of the concepts of identifying, charging and recovering indirect costs. The figure illustrates the four basic concepts that are used throughout this

report to describe how LEAs treat indirect costs attributable to school foodservice and other grants and programs run by LEAs, as discussed below. For ease of illustration, the figure refers specifically to the allocation of indirect costs for school foodservice to the SFA.

Figure ES.1 Overview of Reporting of Indirect Costs Attributable to School Foodservice



1. *Method for allocating the indirect costs.* Since indirect costs by definition are not directly traceable to school foodservice and other grants and programs run by an LEA, an LEA must have some method for allocating these costs before it can charge them to a grant or program. Indirect cost rates are one of several methods available to LEAs. Whatever method is used by an LEA, it must first be approved by the State and in compliance with applicable Federal regulations and guidance (including FNS guidance, if indirect costs are charged to school foodservice). If an LEA has no method for allocating indirect costs, it has no **identifiable** indirect costs.
2. *Calculating indirect costs attributable to school foodservice and other grants and programs.* When an LEA applies its indirect cost rate or other method to allocate indirect costs to school foodservice or any other grant or program, it calculates the amount of indirect costs that is attributable to the program. The calculated indirect cost of school foodservice is the maximum amount of money that the LEA might charge to the school foodservice account. If the LEA has a method of allocating indirect costs but does not calculate indirect costs for a program, then all of that program's indirect costs are unreported (i.e., these costs do not appear as a program expense in the LEA's financial statements).
3. *Charging indirect costs attributable to school foodservice and other grants and programs.* Once an LEA has calculated the amount of indirect costs that is attributable to a program, the LEA must decide how much, if any, of these indirect costs it will charge to the program's account. Once an LEA charges indirect costs to a program, such as school foodservice, the amount charged becomes a formal expense item (i.e., it is a reported cost). If the program account does not have sufficient revenues to offset this charge, the account will have a deficit. LEAs are not required to charge the same proportion of attributable indirect costs to school foodservice and other grants and programs. LEAs may charge some programs for all, or some, of their indirect costs, while not charging other programs at all for their indirect costs.⁵

Although steps (2) and (3) are conceptually separate, in practice an LEA calculates the indirect costs attributable to a program only if it is going to charge the program for the calculated indirect costs. From this perspective, calculating and charging indirect costs are one and the same step. Figure ES.1 illustrates this fact by combining steps (2) and (3) in the same box.

LEAs with indirect cost allocation methods fall into three groups: (a) all school foodservice indirect costs are unreported; (b) all school foodservice indirect costs are reported; (c) there is a mix of reported and unreported school foodservice indirect costs. For example, an LEA may calculate that its school foodservice indirect cost is \$100,000 but only charge \$25,000 because that is the amount of funds available (total revenues less total reported direct costs). The reported indirect cost is the maximum amount that the LEA can recover.

4. *Recovering indirect costs.* An LEA recovers indirect costs by transferring funds from a program's account (such as the school foodservice account) to the LEA's general fund. An LEA may charge indirect costs to school foodservice or other programs and elect to recover all, some, or none of the

⁵ According to USDOE guidance, amounts not claimed under one award may not be shifted to another award, unless specifically authorized by legislation or regulation.

indirect costs that have been charged. When an LEA recovers indirect costs from the school foodservice account, those funds are not available to spend on school foodservice equipment or other resources that might be beneficial to purchase. LEAs sometimes charge indirect costs but then establish an accounting entry so that the funds will be recovered from the program account at a later time when funds are available. As with charging indirect costs, LEAs are not required to treat school foodservice and other grants and programs the same way with regard to recovering indirect costs.

Data Collection and Study Sample

The *School Foodservice Indirect Cost Study's* research questions examine indirect costs from four perspectives: a) the SEA; b) the State Child Nutrition (CN) Division; c) the LEA; and d) the SFA. The study conducted four primary data collection efforts corresponding to each of these perspectives.

State-Level Data Collection

At the State level, data were collected through two telephone surveys: a survey of the SEA Finance Officers, the officials responsible for setting or approving LEA indirect cost rates, and a survey of State CN Directors, who were responsible for administering the National School Lunch Program (NSLP) and School Breakfast Program (SBP). The SEA Finance Officer survey included questions regarding the State's role in setting and/or approving LEA indirect cost rates; the use of restricted and unrestricted indirect cost rates; the support functions included in the indirect cost pool for calculating indirect cost rates; and procedures for adjusting indirect cost rates to account for under- or over-recovery of indirect costs.

The survey of State CN Directors addressed the role of the State CN Division in establishing and approving LEA indirect cost rates; its role, timing, and procedures for notifying school foodservice directors of the computed or approved indirect cost rate; the guidance, if any, provided by the CN Division to SFAs regarding recovery of indirect costs from school foodservice; the reporting of indirect costs charged and recovered to SFAs to the CN Division; and the States' monitoring and verifying compliance with Federal regulations regarding indirect cost allocation to and recovery from school foodservice accounts. State-level data collection was conducted from August to November 2012.

LEA and SFA-Level Data Collection

Two web surveys collected data from a sample of SFAs and their LEAs. The first survey collected data from the LEA official(s) responsible for the allocation of indirect costs, generally identified as the LEA Business Manager. The second survey collected information from SFA Directors, who were responsible for administering the NSLP and SBP. Both surveys were conducted in LEAs and private schools.

The LEA Business Manager Web Survey addressed three main processes: establishing and obtaining State approval for the LEA's indirect cost rate or the indirect cost allocation plan not based on an indirect cost rate; applying the approved indirect cost rate (or allocation plan using an alternate method) to school foodservice and to grants and programs where this is permissible; and recovering indirect costs charged to the school foodservice and to grant and program accounts. The survey also asked about the use of restricted and unrestricted indirect cost rates; the components of indirect costs used by the LEA (i.e., what is included in the indirect cost pool); the base of direct costs for computing indirect cost rates; the types and timing of communication the LEA had with the SFA about indirect costs; and descriptions of changes in recent years in the LEA's practices for recovering indirect costs.

The SFA Director Web Survey obtained information regarding the SFA Director's knowledge of indirect costs attributable to school foodservice. This survey focused on whether, when, and how information regarding the LEA's indirect cost rate and intent to charge the SFA for indirect costs attributable to school foodservice operations was communicated to the SFA.

LEA-level web survey invitations were emailed in November 2012, and once an LEA Business Manager Survey was completed, the corresponding SFA Director was emailed a link to complete their web survey. The LEA and SFA web surveys closed in February 2013.

Study Sample

The study was designed to include a nationally representative sample of public SFAs participating in the NSLP.⁶ (While data collection included LEAs, the sampling unit was the SFA.) The sample was designed to produce reliable national estimates overall and for various subgroups such as FNS region, SFA size, and SFA poverty level. The study was also designed to include a small nationally representative sample of private schools and private school systems that serve as SFAs (referred to as private school SFAs). Data from the sample of private school SFAs were used for exploratory analysis of indirect costs for these institutions.

The sampling frame for the study was the database created by FNS from the Form FNS-742 SFA Verification Summary Report (VSR) for SY 2010-2011. The database contained 14,875 records for public school SFAs in the sampling universe (i.e. excluding Guam and Puerto Rico), and 3,890 records for private school SFAs.

The initial study sample included 2,373 public school SFAs. The final response rate to the LEA Business Manager Survey was 72.7 percent. The final response rate for the SFA Director Survey was 65.8 percent. (These response rates were lower than our target of 80 percent).

To develop national estimates for all public SFAs and for sub-group analyses, each responding SFA was assigned a sampling weight, taking into account sampling probability and a nonresponse adjustment. The nonresponse adjustment accounted for any nonresponse bias. The final weights ensure that tabulations from the final sample produce nationally representative estimates.

Findings

The results from the study are based on self-reported information from survey respondents and not from an audit of State, LEA or SFA operations. The study documented that most SFAs are not charged indirect costs, and that school foodservice bears indirect costs less often than other programs.

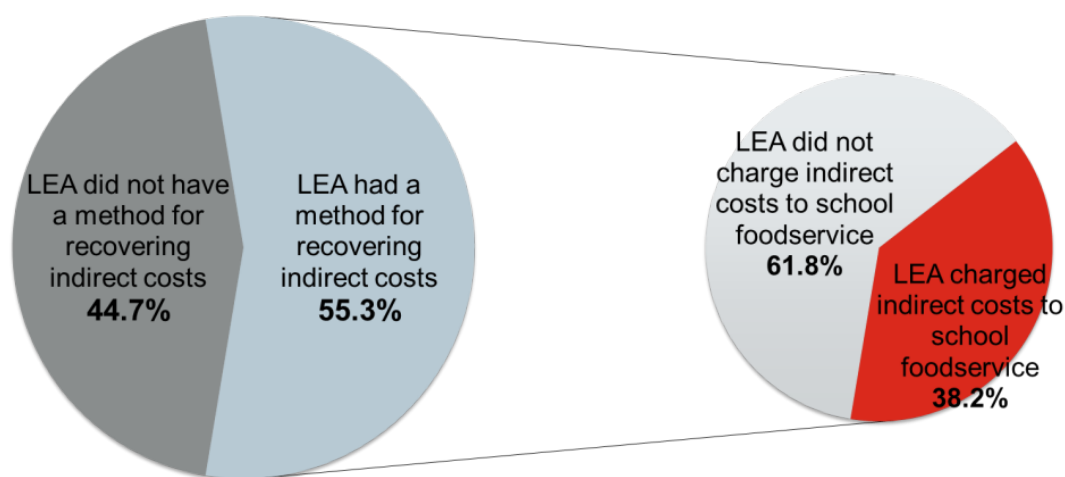
- Just over half (55.3 percent) of all LEAs reported that they had a method for recovering indirect costs (Figure ES.2). Forty-three percent of all LEAs indicated they had an indirect cost rate, and 2.1 percent indicated some other method to allocate indirect costs.⁷

⁶ SFAs in the U.S. territories, including Guam and Puerto Rico, were excluded.

⁷ The remaining 10.2 percent of LEAs with a method for recovering indirect costs did not specify their method for allocating indirect costs, but they did provide information on calculating or recovering indirect costs from school foodservice or from other grants and programs.

- Looking at LEAs by size, 77.5 percent of large LEAs (5,000 or more students) had a method for recovering indirect costs. Sixty-two percent of medium LEAs (1,000-4,999 students), and 44.5 percent of small LEAs (less than 1,000 students) had a method for recovering indirect costs.
- Among all large LEAs, 44.6 percent calculated indirect costs for foodservice and 35.6 percent recovered some or all of those indirect costs. Among all medium-sized LEAs, 24.9 percent calculated indirect costs for foodservice and 17.1 percent recovered some or all of those indirect costs. Among all small LEAs, 11.5 percent calculated indirect costs for foodservice and 3.6 percent recovered some or all of those indirect costs.
- Among LEAs that had a method for recovering indirect costs, 83.9 percent calculated and charged indirect costs to one or more programs, but just 38.2 percent calculated and charged indirect costs specifically to school foodservice.⁸
- Finally, among the LEAs that charged indirect costs to the school foodservice account, 61.2 percent recovered at least a portion of these costs. Substantially more LEAs (84.3 percent) that charged other grants and programs for indirect costs recovered at least a portion of those costs.

Figure ES.2 Overview of SFA Reporting of Indirect Costs Attributable to School Foodservice

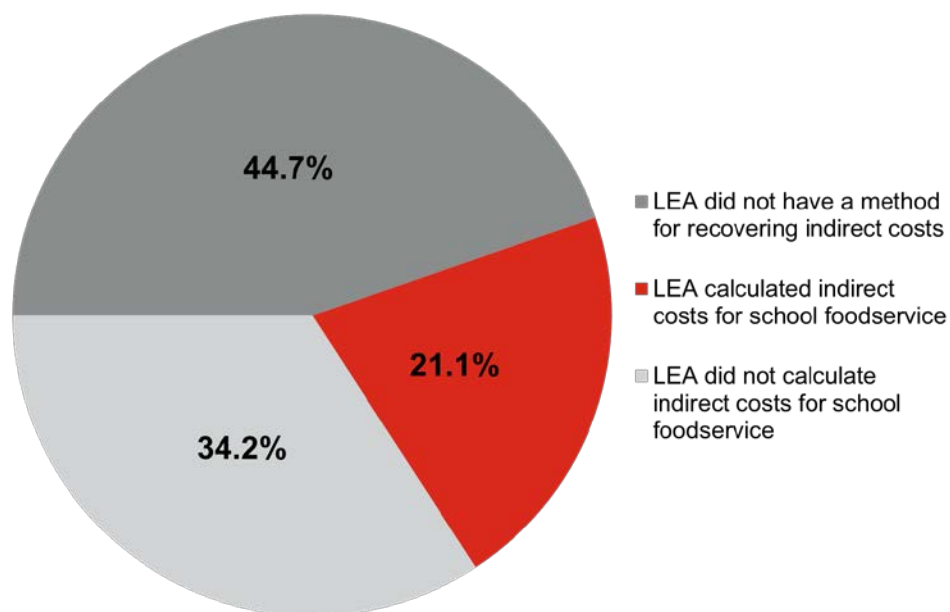


Combining these results leads to the following conclusions:

- Among all LEAs, 21.1 percent calculated and charged indirect costs for school foodservice⁹ (Figure ES.3).

⁸ As shown in Figure ES.2, 61.8 percent of LEAs that had a method for recovering indirect costs did not charge indirect costs to school foodservice. This includes LEAs that had not yet decided to calculate indirect costs for school foodservice when they responded to the survey. The web survey period was November 2012 to February 2013. It is plausible that some LEAs subsequently did calculate indirect costs for school foodservice for SY 2011-2012 after completing the web survey.

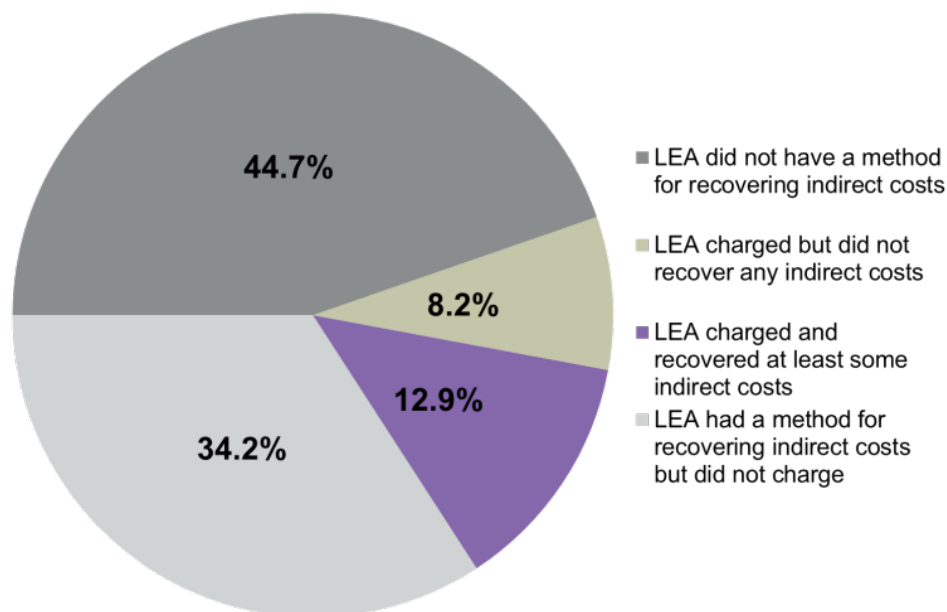
Figure ES.3 Charging of Indirect Costs to School Foodservice, Percentage of All LEAs, SY 2011-2012



- Only 12.9 percent of all LEAs recovered at least a portion of indirect costs from school foodservice (Figure ES.4).
- With respect to other grants and programs, 43.2 percent of all LEAs calculated indirect costs, and 36.4 percent recovered at least a portion of indirect costs.

⁹ The calculation of this result is based on the finding that out of the 55.3 percent that had a method for calculating indirect costs, 38.2 percent charged indirect costs to school foodservice (38.2 percent of 55.3 percent =21.1 percent). The computation of other percentages for all LEAs follows the same logic.

Figure ES.4 Recovery of Indirect Cost Charges from School Foodservice, Percentage of All LEAs, SY 2011-2012



In addition to these key results, the study provided important findings on a number of other issues regarding the charging and recovery of indirect costs, as summarized below.

Setting Indirect Rates

- SEAs played a major role in establishing the indirect cost rate(s) or indirect cost allocation plans used by LEAs to allocate their indirect costs to their programs and activities.

Although a State Child Nutrition (CN) Division was occasionally involved in the process, the SEA Financial Management Division almost always set or approved indirect cost rates or cost allocation plan for LEAs.

- The SEA’s Financial Management Division computed or approved a restricted indirect cost rate in all 49 States where it had some involvement in the process of setting or approving LEA indirect cost rates. (The U.S. Department of Education allows only a restricted set of indirect costs to be allocated to many of its grants and programs.) In 38 States, the SEA also computed or approved unrestricted LEA indirect cost rates.
- The indirect cost pools for both restricted and unrestricted indirect cost rates typically included salaries and benefits, workers’ compensation, and supplies and expendable equipment. Audit fees, travel, and other miscellaneous costs were rarely reported as included in the rates. The indirect cost pool generally covered support functions such as accounting, information technology, budget, finance and payroll, personnel administration, and purchasing and contracting.
- In all but three states, SEAs (through the SEA Financial Management Division, the State CN Division, or both) provided some form of notification or guidance to SFAs regarding the computed or approved indirect rates for their LEAs.

Charging and Recovering Indirect Costs

The study provided insight into LEAs' decisions about charging and recovering indirect costs attributable to school foodservice.

- About three-fifths (61.8 percent) of LEAs that had indirect rates did not charge their SFAs for some or all indirect costs. LEAs gave several reasons for this choice:
 - The school foodservice account had insufficient funds to cover all of the indirect costs;
 - The LEA chose to bear the indirect costs attributable to school foodservice;
 - The LEA did not charge any grants and programs for indirect costs;
 - The LEA did not know that it could charge school foodservice for indirect costs; or
 - The LEA never charged the school foodservice account for indirect costs.
- Most LEAs that charged their SFAs for indirect costs in SY 2011-2012 did not give their SFAs sufficient notice of the intent to charge. Only 31 percent of LEAs that charged indirect costs to school foodservice had notified the SFA of their intent to charge before the end of SY 2010-2011. Regardless of the timing, notification was primarily given orally in-person.
- Based on the results of this study, it appears that any potential adverse effects of recovering indirect costs from school foodservice are confined to, at most, the one out of eight SFAs from which LEAs recovered some or all of the indirect costs charged to foodservice. Conversely, seven out of eight LEAs do not recover funds from the school foodservice account for any of the resources that the LEA provides to support school meals using general revenue. An in-depth investigation of SFA finances would be required to determine whether recovery of indirect costs from SFAs results in adverse impacts, such as constraints on staffing, meal quality, or investment in equipment. The forthcoming *School Nutrition and Meal Cost Study* will provide an opportunity to investigate the relationship between charging indirect costs and SFA finances.

Private Schools

- While the study focused on public SFAs, the research questions also included the extent to which private schools charge and recover indirect costs. Data were obtained from the 62 responses to the survey of private school SFA Business Managers and in-depth interviews with three large private school SFAs that had charged indirect costs to school foodservice. Similar to the public SFAs, private schools seldom had a method for recovering indirect cost, and even fewer reported that they actually charged indirect costs. In the three large private school SFAs, a variety of methods were used to charge and recover indirect costs from school foodservice.

1. Introduction

Indirect costs in the National School Lunch and Breakfast Programs (NSLP and SBP) have taken on increasing importance in recent years as school budgets have become much tighter.¹⁰ Local Education Agencies (LEAs) have the ability to charge and recover indirect costs from a variety of school programs that receive Federal or State funds, including foodservice. However, very little is known about the policies and procedures that dictate how indirect costs are determined, charged and recovered from foodservice programs or School Food Authorities (SFAs). A 2006 report of an SFA director survey cited increasing numbers of LEAs¹¹ charging for indirect costs, a lack of information about indirect costs among SFA directors, and a wide variety of reported indirect cost allocation methods.¹²

Although SFAs and LEAs are often discussed as if they are separate entities, in fact, an SFA is just as much a part of an LEA as any of its schools or its athletic department. If one were to look at an organization chart of an LEA, its SFA would typically be identified as a support department reporting to the LEA's business manager or, on occasion, directly to superintendent of schools. SFA directors must operate within the parameters set by the LEA and individual school principals. The SFA director might be responsible for planning, preparing, and serving school meals, but (within program guidelines and requirements) LEAs establish the prices charged for reduced-price and paid student meals, and school principals set the time that meals are served and the length of the meal periods.

However, an SFA is different from other departments run by an LEA in two important ways. First, SFAs generate their own revenues. They earn Federal reimbursements and receive State funds for school meals programs. In addition, SFAs sell meals to students and adults—at prices determined by the LEA. The LEA typically (but not always) expects the SFA to be self-sufficient and operate at the break-even level, where revenues from all sources are equal to total expenditures. Second, as participants in the NSLP and/or the SBP, SFAs must comply with the Federal and State regulations governing these programs. As discussed in the next section, these regulations include provisions regarding the maintenance of a separate school foodservice account, the requirement that an SFA must be run on a nonprofit basis, and the treatment of indirect costs.

Every business or nonprofit organization that has more than one product or operating department has indirect costs, and in this respect, an LEA is no different from any other organization. In producing any product or service there are costs that are directly traceable to the production of the product or service.

¹⁰ American Association of School Administrators, “Weathering the Storm: How the Economic Recession Continues to Impact School Districts”, March 2012.
https://www.aasa.org/uploadedFiles/Policy_and_Advocacy/files/Weathering_the_Storm_Mar_2012_FINAL.pdf.

¹¹ The term LEA includes both public school districts and independent public charter schools. The study also included data collection and analysis with private schools and school systems serving as SFAs. A private school system is a group of private schools operating under a single organization, such as an Archdiocese for Catholic schools.

¹² School Nutrition Association. (2006). *2006 Indirect Cost Study*. National Harbor, MD: School Nutrition Association Government Affairs Team. <http://www.edweek.org/media/sna2006survey-01foodservice.pdf>. The survey had a response rate of 23 percent.

Because such costs are directly traceable to the end product or service, they are considered to be “*direct costs*.” For example, a company that operates several restaurants is able to account for or trace the cost of food, supplies, labor, and equipment used in each of its individual locations. These are direct costs associated with each of the company’s restaurants. However, some of the company’s costs are not directly traceable to any of its individual restaurants. For example, general company management costs including labor and materials benefit not only the company as a whole, but are also essential to the success of each of the company’s individual restaurants. Because such costs are not directly traceable to each individual restaurant, they are considered to be “*indirect costs*.”

Similarly, a school district’s central administrative staff and central support functions are essential to running a school district, but cannot be directly traceable to any of the many programs run by the district, and are examples of an LEA’s indirect costs. As with any business, the LEA’s indirect costs represent real costs of all of the LEA’s programs that benefit from these central LEA activities. In this respect, indirect costs are a legitimate and necessary cost of operating a school foodservice program.

For the USDA school meals programs, the challenge posed by indirect costs is to allow LEAs to recover real, legitimate indirect costs that support school foodservice, while assuring that the share charged to school foodservice is equitable. LEAs have discretion to affect the level of school foodservice revenues, the direct cost of school foodservice operations, the resulting surplus, and the extent to which that surplus is transferred to the LEA’s general fund in payment of indirect costs. There is, therefore, a potential for LEA administrators to abuse this discretion by treating school foodservice as a source of funds to support other LEA activities for which funds may be more constrained. To address the need for equitable treatment of indirect costs, the way in which an LEA calculates its total indirect costs and the methods used to allocate its indirect costs to school foodservice and other programs and grants are subject to U.S. Department of Education regulations, and in the case of school foodservice, to USDA Food and Nutrition Service (FNS) regulations.

Congress recognized the importance of indirect costs to school foodservice and mandated that USDA “conduct a study to assess the extent to which school food authorities participating in the National School Lunch Program ... pay indirect costs” (P.L. 111-296). Abt Associates, with its partner, Kokopelli Associates LLC, conducted this congressionally mandated *School Foodservice Indirect Cost Study* for the USDA Food and Nutrition Service.

1.1 Federal Regulations Regarding SFA Costs

FNS program regulations cover many aspects of school foodservice operations. The regulations specify the minimum requirements for meals served to students under the NSLP and SBP; the criteria for eligibility for free and reduced-price meals; the reimbursement rates for school meals served to children in all income eligibility categories (including students paying the full price for school meals); the maximum prices that can be charged for reduced-price meals; and many other aspects of running a school foodservice program. Of particular importance for this study are the regulations requiring SFAs to operate

on a nonprofit basis and the regulations dealing with LEAs’ indirect costs as they apply to school foodservice.¹³

The requirements to operate on a nonprofit basis and maintain a separate set of accounts distinguish SFAs from other departments or operations run by an LEA. For example, if an LEA’s athletic department generates a surplus, an LEA is free to use this surplus to cover other LEA operating costs. However, if an SFA generates a surplus, Federal regulations specify that the SFA’s cash reserves (total revenues less expenses) may not exceed three months’ operating expenses, and these funds may not be used for anything that does not directly benefit its school foodservice program.¹⁴ However, if an SFA operates at a deficit, the Federal regulations permit its LEA to cover this deficit with funds from the LEA’s general fund (which is supported from local taxes and other sources). It is this asymmetrical relationship between SFA and LEA finances that often results in some confusion when it comes to an LEA’s treatment of its SFA’s share of the LEA’s indirect costs.

1.2 Overview of Indirect Costs and the Allocation of Indirect Costs

This section presents a simplified overview of indirect costs and the process by which LEAs allocate indirect costs to school meals programs and to other programs funded by Federal grants. As the terminology used to discuss indirect costs is unfamiliar to most people not versed in accounting practices, the following glossary defines the terms used throughout this report as a guide for non-technical readers.¹⁵

Glossary	
Direct costs	Costs that an LEA identifies as directly related to a specific objective, such as school foodservice or any other grant or program. For the purposes of this report, direct costs are considered as “identified” if the LEA elects to charge them to a grant or program.
Indirect costs	Costs that are incurred by an LEA that benefit (i.e., support) programs or activities (such as school foodservice) but that are not practical to identify as direct costs, such as general administrative costs (e.g., payroll processing) or facilities costs (e.g., utilities). Under Federal cost principles, indirect costs may be allocated among the benefitting programs or activities using an approved cost allocation plan that is fair and reasonable.

¹³ It is important to note that requirements that SFAs operate on a nonprofit basis apply to an LEA’s entire school foodservice program; however, the regulations do not require that each individual Federal program run by an SFA (NSLP, SBP, and SMP) operate on a nonprofit basis. SFAs are not required to maintain separate accounts for each program run by the SFA. An SFA can generate a surplus from one or more programs (such as the NSLP) as long as the SFA as a whole operates on a non-profit basis as defined by FNS regulations.

¹⁴ USDA, Food and Nutrition Service, *Indirect Costs: Guidance for State Agencies and School Food Authorities*, SP 41-2011, July 7, 2011.

¹⁵ Additional guidance on terminology on the processes related to direct and indirect costs is available in *Indirect Costs: Guidance for State Agencies and School Food Authorities*, USDA/FNS, July 7, 2011.

Glossary	
Indirect cost allocation plan	A description of the procedures and computations that an LEA proposes to use to allocate indirect costs among benefiting programs or activities. This plan must be approved by the SEA before the LEA uses it to allocate indirect costs. In many States, the SEA uses financial information routinely provided by its LEAs to calculate each LEA's approved indirect cost rate. In such cases, the LEA need not submit a formal indirect cost allocation plan for SEA approval
Indirect cost pool	The set of indirect costs identified by an LEA in its indirect cost allocation plan and used in the allocation of indirect costs.
Indirect cost rate	The ratio of an indirect cost pool to the base of direct costs, i.e., the direct costs of programs and activities that benefit from the indirect costs. The indirect cost allocation plan defines both the indirect cost pool and the base of direct costs. Multiplying the indirect cost rate by the direct cost of a program yields the indirect cost of the program.
Restricted indirect cost rate	An indirect cost rate with an indirect cost pool that is restricted to comply with educational programs that provide funds to state and local jurisdictions under the stipulation that the federal funds be used to "supplement and not supplant" on-going educational services. This means that state and local agencies are expected to use their own tax revenue or other financial resources to finance the educational services, including related administrative costs.
Unrestricted indirect cost rate	An indirect cost rate with an indirect cost pool that is not restricted to comply with the "supplement not supplant" provision. Unrestricted indirect cost rates may be used to allocate indirect costs to grants and programs, including school foodservice, that do not restrict what indirect costs may be charged (other than the general considerations of allowable costs for Federally funded programs).
Calculating indirect costs	Application of the State-approved methods for allocating indirect costs to a grant or program to determine the indirect costs that are attributable to the grant or program.
Charging indirect costs	An accounting transaction that identifies an amount of indirect costs as an expense of a grant or program for reporting and reimbursement purposes. Charging indirect costs is equivalent to sending a bill to the grant or program. The amount of indirect cost charged may be equal to or less than the calculated indirect cost.
Recovering indirect costs	The transfer of funds from a grant or program's account to the LEA's general fund to offset a charge for indirect costs. Recovery is equivalent to receiving payment.

Sources:

Indirect Costs" Guidance for State Agencies and School Food Authorities, USDA/FNS, July 7, 2011.

Department of Education Cost Allocation Guide for State and Local Governments, September 2009.

Accounting dictionary from accountingtools.com.

1.2.1 Defining Indirect Costs

As indicated above, the USDA school meals programs and other Federal grants and programs often use a variety of resources that are provided by the LEA, including:

- administrative or support functions performed by LEA personnel (e.g., accounting, data processing, payroll, personnel, purchasing, storage, and transportation, and custodial
- facilities, equipment, supplies, and services (e.g., energy, communications and transportation) provided or purchased by the LEA; and

- employee benefits, payroll taxes, and insurance.

There are several ways in which an LEA may account for these costs.

- Costs which the LEA can and chooses to identify as costs related to school foodservice are treated as direct school foodservice costs. These costs may be charged to the school foodservice account as reported on the SFA's expense statement. (In this document, "reported" school foodservice costs are those that are charged to the school foodservice account, and "unreported" school foodservice costs are those that are identifiable but are not charged to the school foodservice account.) If costs are identified as related to school foodservice, but not are charged to the school foodservice account and instead are absorbed by the LEA through its general fund, these are unreported direct costs.
- Costs incurred by an LEA that are not practical to identify with specific programs or activities (such as school foodservice) may be allocated among the benefitting programs or activities, using a method approved by the State. Many LEAs use cost allocation plans or *indirect cost rates* to distribute such costs to benefitting activities.¹⁶ If the LEA does not charge all of the identifiable indirect costs of school foodservice to the school foodservice account, then it has unreported indirect costs.
- Costs incurred by an LEA that are not practical to identify with specific programs or activities may simply be absorbed by the LEA. These are in theory indirect costs, because the SFA benefits from them, but they are not identified as such.

1.2.2 Allocating Indirect Costs

Figure 1.1 presents a flow chart to facilitate the understanding of the concepts of identifying, charging and recovering indirect costs. The figure illustrates the four basic concepts that are used throughout this report to describe how LEAs treat indirect costs attributable to school foodservice and other grants and programs run by LEAs, as discussed below. For ease of illustration, the figure refers specifically to the allocation of indirect costs for school foodservice to the SFA.

1. *Method for allocating the indirect costs.* Since indirect costs by definition are not directly traceable to school foodservice and other grants and programs run by an LEA, an LEA must have some method for allocating these costs before it can charge them to a grant or program. Indirect cost rates are one of several methods available to LEAs. Whatever method is used by an LEA, it must first be approved by the State and in compliance with applicable Federal regulations and guidance (including FNS guidance, if indirect costs are charged to school foodservice). If an LEA has no method for allocating indirect costs, it has no **identifiable** indirect costs.
2. *Calculating indirect costs attributable to school foodservice and other grants and programs.* When an LEA applies its indirect cost rate or other method to allocate indirect costs to school foodservice or any other grant or program, it calculates the amount of indirect costs that is attributable to the program. The calculated indirect cost of school foodservice is the maximum amount of money that the LEA might charge to the school foodservice account. If the LEA has a method of allocating indirect costs but does not calculate indirect costs for a program, then all of that program's indirect

¹⁶ The Office of Management and Budget sets guidelines for which indirect costs are allowable to be allocated to grants and programs receiving Federal funds; individual programs may have additional restrictions.

costs are unreported (i.e., these costs do not appear as a program expense in the LEA's financial statements).

3. *Charging indirect costs attributable to school foodservice and other grants and programs.* Once an LEA has calculated the amount of indirect costs that is attributable to a program, the LEA must decide how much, if any, of these indirect costs it will charge to the program's account. Once an LEA charges indirect costs to a program, such as school foodservice, the amount charged becomes a formal expense item (i.e., it is a reported cost). If the program account does not have sufficient revenues to offset this charge, the account will have a deficit. LEAs are not required to charge the same proportion of attributable indirect costs to school foodservice and other grants and programs. LEAs may charge some programs for all, or some, of their indirect costs, while not charging other programs at all for their indirect costs.¹⁷

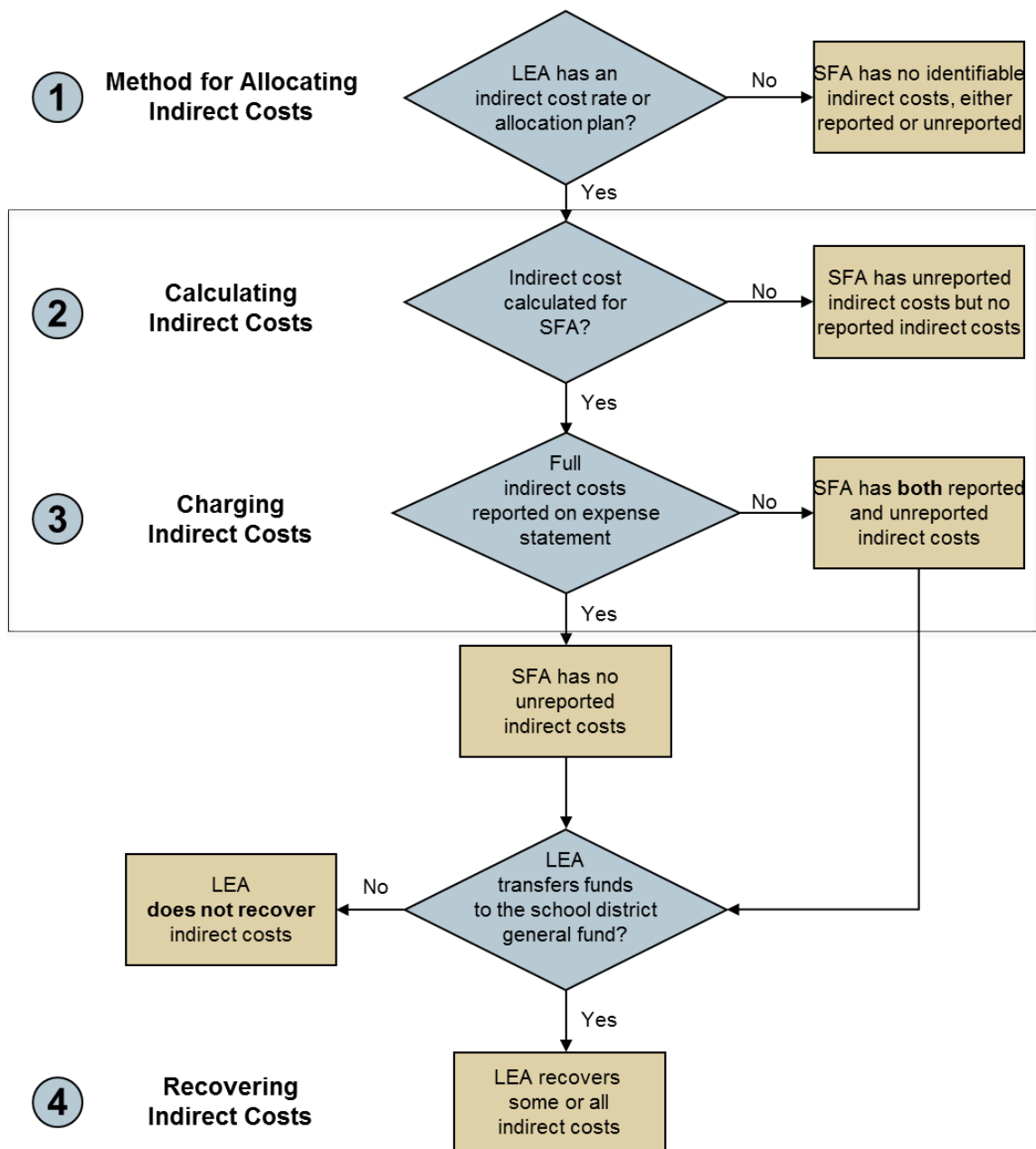
Although steps (2) and (3) are conceptually separate, in practice an LEA calculates the indirect costs attributable to a program only if it is going to charge the program for the calculated indirect costs. From this perspective, calculating and charging indirect costs are one and the same step. Figure ES.1 illustrates this fact by combining steps (2) and (3) in the same box.

LEAs with indirect cost allocation methods fall into three groups: (a) all school foodservice indirect costs are unreported; (b) all school foodservice indirect costs are reported; (c) there is a mix of reported and unreported school foodservice indirect costs. For example, an LEA may calculate that its school foodservice indirect cost is \$100,000 but only charge \$25,000 because that is the amount of funds available (total revenues less total reported direct costs). The reported indirect cost is the maximum amount that the LEA can recover.

4. *Recovering indirect costs.* An LEA recovers indirect costs by transferring funds from a program's account (such as the school foodservice account) to the LEA's general fund. An LEA may charge indirect costs to school foodservice or other programs and elect to recover all, some, or none of the indirect costs that have been charged. When an LEA recovers indirect costs from the school foodservice account, those funds are not available to spend on school foodservice equipment or other resources that might be beneficial to purchase. LEAs sometimes charge indirect costs but then establish an accounting entry so that the funds will be recovered from the program account at a later time when funds are available. As with charging indirect costs, LEAs are not required to treat school foodservice and other grants and programs the same way with regard to recovering indirect costs.

¹⁷ According to USDOE guidance, amounts not claimed under one award may not be shifted to another award, unless specifically authorized by legislation or regulation.

Figure 1.1. Overview of SFA Reporting of Indirect Costs Attributable to School Foodservice



1.3 Study Objectives

The objective of the *School Foodservice Indirect Cost Study* was to collect and analyze up-to-date, SY 2011-2012 data on LEAs’¹⁸ policies and procedures for calculating, charging, and recovering indirect costs attributable to their school foodservice operations. The ultimate goal of this study was to provide USDA and Congress the necessary information to assess the extent to which LEAs identify, treat, and charge indirect costs attributable to their school foodservice operations. The study also examined whether LEAs treat indirect costs attributable to their school foodservice operations the same way that they treat indirect costs attributable to grants and programs.

To address the Congressional mandate, it was necessary to examine several key questions related to the reporting and recovery of indirect costs attributable to school foodservice, including:

- *Does the LEA have an indirect cost rate?* The School Lunch and Breakfast Cost Study II (SLBCS-II) reported that nearly all (95 percent) school districts had an indirect cost rate in SY 2005-06.¹⁹ Given the increased fiscal pressure that most LEAs have experienced over the last five or six years it is possible that this proportion might have increased to an even higher level since SLBCS-II.²⁰
- *If an LEA has an indirect cost rate, does it calculate the indirect costs that are attributable to school foodservice?* SLBCS-II reported that, in SY 2005-06, the vast majority (79 percent) of all school districts (and 83 percent of school districts with an indirect cost rate) did not calculate the indirect costs attributable to school foodservice. Applying the district’s indirect cost rate to its school foodservice operations is a necessary first step for a district to charge and ultimately recover indirect costs attributable to school foodservice.
- *If an LEA calculates the indirect costs attributable to school foodservice, does it charge any, or all, of these costs to the school foodservice account?* In this context, “charging” indirect costs means that they appear as an expense on the school foodservice financial statement. There are many possible reasons why an LEA that calculates the indirect costs attributable to school foodservice might elect not to charge the full amount of these costs to the school foodservice account. The full indirect cost is usually the product of the most inclusive indirect cost rate and the applicable base of direct costs. SLBCS-II reported that only 9 percent of all school districts (but 56 percent of districts that calculated the indirect costs attributable to school foodservice) charged the full amount to school foodservice, and 7 percent of all school districts charged some but not all indirect costs to school foodservice.²¹

¹⁸ The term LEA includes both public school districts and independent public charter schools. The study also included data collection and analysis with private schools and school systems serving as SFAs. A private school is a group of private schools operating under a single organization, such as an Archdiocese for Catholic schools.

¹⁹ U.S. Department of Agriculture, Food and Nutrition Service, Office of Research, Nutrition and Analysis, *School Lunch and Breakfast Cost Study-II*, Final Report, by Susan Bartlett, et al. Project Officer: Patricia McKinney and John R. Endahl. Alexandria, VA: 2008.

²⁰ Due to the small sample for SLBCS-II (120 LEAs), there was insufficient power to test for differences between the measures reported by SLBCS-II and the measures reported by the present study.

²¹ SLBCS-II did not identify any LEAs that calculated indirect costs of school foodservice but did not charge any of these costs to the school foodservice account.

- If an LEA charges any or all of the calculated indirect costs to the school foodservice account, does the LEA actually recover these charges (i.e., are funds transferred from the school foodservice account to the LEA general fund)? SLBCS-II reported that only 4 percent of all school districts (44 percent of school districts that charged all indirect costs to the school foodservice account) recovered all of these indirect costs.

These questions are at the heart of what is required to meet the Congressional mandate. Other important, but somewhat ancillary, questions had to be addressed to fully meet the requirements of the Congressional mandate, including:

- What is the role of the State Education Agencies (SEAs) in establishing or approving LEAs' indirect cost rates?
- Are the indirect costs charged or recovered by LEAs from school foodservice consistent with Federal and State allocation requirements?
- What are the types and amounts of indirect costs charged and recovered by LEAs from the school foodservice account?
- What are the types and amounts of indirect costs that LEAs could, but do not, charge and recover from the school foodservice account?
- What is the impact of LEAs charging and recovering indirect costs from the nonprofit school foodservice account?

The *School Foodservice Indirect Cost Study* was designed to fully address these questions. The results from the study are based on the survey responses and not from an audit of State, LEA or SFA operations. The specific research questions under these broad topics are identified later in this report, in the context of the discussion of results in Chapters 3-6.

1.4 Data Collection

The *School Foodservice Indirect Cost Study's* research questions examine indirect costs from four perspectives: a) the State Education Agency (SEA); b) the State Child Nutrition (CN) Division; c) the Local Education Agency (LEA); and d) the School Foodservice Authority (SFA). The study included four primary data collection efforts corresponding to each of these perspectives. At the state level, data were collected through two telephone surveys. Data from LEAs and SFAs were collected through web surveys.

1.4.1 State Telephone Surveys

Two telephone surveys were used to collect data at the state level. The first collected data from the SEA officials responsible for setting or approving LEA indirect cost rates. The second collected information from State CN Directors who were responsible for administering the National School Lunch Program (NSLP) and School Breakfast Program (SBP).

State Finance Officer Survey

A telephone survey instrument was developed for SEA Finance Officers to obtain the information needed to address the study's research questions related to the State's role in setting and/or approving LEA indirect cost rates. This instrument addressed the following areas:

- The role of the SEA in establishing and/or approving LEA indirect cost rates;
- The use of restricted and unrestricted indirect cost rates;
- The support functions included in the indirect cost pool²²; and
- Procedures for adjusting for indirect cost rates to account for under- or over-recovery of indirect costs.

While the SEA Finance Officer Telephone Survey included general items regarding State policies and procedures, it also obtained information regarding the establishment of the specific indirect cost rates for the LEAs that were included in the study sample.

The SEA Finance Officer Telephone Survey is included as Appendix A.

State Child Nutrition Director Survey

As with the SEA Finance Officers, a telephone survey instrument was developed for State CN Directors to obtain the information needed to address the study's research questions related to the State CN Division's role in setting and/or approving LEA indirect cost rates (which was expected to be minimal).²³ The primary focus of the State CN Director Telephone Survey was to obtain information regarding the CN Divisions' role in communicating information about approved indirect cost rates to SFAs. This instrument addressed the following areas:

- The role of the CN Division in in establishing and/or approving LEA indirect cost rates;
- The role of the CN Division plays in notifying school foodservice directors of the computed or approved indirect cost rate;
- The timing and procedure used by the CN Division to notify SFAs about the computed or approved indirect cost rate;
- The guidance, if any, provided by the CN Division to SFAs regarding recovery of indirect costs;
- The reporting of indirect costs charged/recovered to SFAs to the CN Division; and
- The States' monitoring and verifying compliance with Federal regulations regarding the allocation of indirect costs and/or recovery of indirect costs from school foodservice accounts.

The State CN Directors Telephone Survey is included as Appendix B.

1.4.2 LEA and SFA Web Surveys

Two instruments were used to collect data for the sampled SFAs. The first collected data from the official(s) responsible for setting LEA indirect cost rates or indirect cost allocation plans. Although their titles varied from LEA to LEA, for convenience, these officials are referred to here as LEA Business Managers. The second, and considerably briefer instrument²⁴ collected information from SFA Directors who were responsible for administering the NSLP and SBP in LEAs and private schools.

²² In LEA accounting, the set of identified indirect costs is known as the indirect cost pool.

²³ While most State Child Nutrition Directors are housed in the State Department of Education, there are a few States where the Child Nutrition Division is housed elsewhere (e.g., Department of Agriculture).

²⁴ The LEA Business Manager survey contained a total of 70 questions, the SFA Director survey contained 29 questions.

SLBCS-II developed an Indirect Cost Interview Guide that was administered in-person to school district Business Managers. The instrument was adapted for use as a web survey to obtain nearly all of the information to address the *School Foodservice Indirect Cost Study's* LEA and SFA research questions. In many cases, some research questions at the district level could be answered by either the SFA Director or the LEA Business Manager. For example, in some SFAs both the SFA Director and the LEA Business Manager are both likely to be involved with business matters and know if the district has an indirect cost rate that is applied to school foodservice and whether or not any of the indirect costs that were attributable to school foodservice were actually recovered by the LEA. In other SFAs, the SFA Director may be primarily responsible for supervising meal production, and might have little, if anything, to do with the business aspects of the SFA. In such LEAs, the LEA Business Manager is the *de facto* SFA Director for purposes of gathering information about school foodservice indirect costs. The LEA Business Manager would be able to answer questions regarding the district's indirect cost rate as well as whether school foodservice is charged for any indirect costs and if such charges are recovered by the LEA, while the SFA Director may or may not be able to answer questions related to school foodservice indirect costs. Therefore, the study obtained most of the information regarding school foodservice indirect costs from the LEA Business Manager Web Survey. The study developed a brief web survey instrument to be completed by SFA Directors. This brief survey obtained information regarding the SFA Director's knowledge of indirect costs attributable to school foodservice.

LEA Business Manager Web Survey

The LEA Business Manager Web Survey addressed the process of establishing, and obtaining State approval for, its indirect cost rate or indirect cost allocation plan; applying the approved indirect cost rate (or allocation plan using an alternate method) to school foodservice and grants and programs where this is permissible; and the LEA's recovery of any indirect costs charged to the school foodservice and grant and program accounts. The experience in SLBCS-II indicated that in many LEAs, the LEA Business Managers responded to questions regarding the establishment of indirect cost rates by saying that they simply took what the State gave them and used it without modification. Thus, survey respondents were asked if they simply use what the State gives them. If a respondent said yes, then the web survey instrument skipped over detailed questions regarding the establishment of indirect cost rate. In these cases the information obtained from the State was filled-in for these LEAs. The survey also requested financial reports and documentation on the final information on indirect costs for SY 2011-2012. This instrument addressed the following areas:

- The method used by the LEA to allocate indirect costs role of the SEA in establishing and/or approving LEA indirect cost rates;
- The use of restricted and unrestricted indirect cost rates;
- The components of indirect costs used by the LEA (i.e., what is included in the indirect cost pool);
- The types and timing of communication the LEA had with the SFA about indirect costs;
- Information on the calculation and recovery of indirect costs from school foodservice;
- Recovery of indirect costs for other grants and programs; and
- Descriptions of changes in recent years in the LEA's practices for recovering indirect costs.

Data collection through the web surveys included an initial survey module (Module 1) to collect respondent information and confirm he or she is the appropriate respondent for the LEA Business manager Web Survey. The LEA Web Survey Module 1 is included as Appendix C. The LEA Business Manager Web Survey is included as Appendix D.

SFA Director Web Survey

The SFA Director Web Survey obtained information regarding the SFA Director's knowledge of indirect costs attributable to school foodservice. This instrument focused on if, when, and how information regarding the LEA's indirect cost rate information and district plans to charge the SFA for indirect costs attributable to school foodservice operations was sent to the SFA. This instrument addressed the following areas:

- The types and timing of communication that the SFA received from the LEA about its plans for charging indirect costs;
- The types and timing of communication that the SFA received from the LEA about actual charges and recovery of indirect costs; and
- The items and services the LEA directly charged to school foodservice.

The SFA Director Web Survey is included as Appendix E.

1.4.3 Data Collection Period

Data collection began in August 2012 with the State-level surveys. Data collection was staged such that the State-level surveys were completed before the LEA Business Manager and SFA Director web surveys began. This allowed the telephone interviewers to remind the State CN Directors and SEA Finance Officers that the web surveys to sampled school districts were about to begin in their States. The State officials were also prepared for any questions about the study that they might receive from LEA Business Managers and/or SFA Directors when they received their emailed invitations to complete the web survey. The State-level surveys were completed in November 2012.

District-level web survey invitations were emailed in November 2012. Email invitations were initially sent to the LEA Business Managers only, and once an LEA Business Manager Survey was completed, the corresponding SFA Director was emailed a link to complete their web survey. An initial survey module confirmed contact information, identified how long the respondent was in their position and thus whether he or she would be the appropriate respondent to answer questions about SY 2011-2012. Through the initial survey module, it could be determined whether the LEA Business Manager also served as the SFA Director, making an SFA Director Web survey not applicable. In these cases, once the LEA Business Manager survey was completed, no SFA Director Web survey invitation was sent to the listed SFA Director.²⁵

As data collection progressed, a series of mail and email reminders were sent to those who had not yet completed the surveys. The mailed reminders proved to be an effective way to reach respondents who did not appear to have received their email invitations, possibly due to spam filters or other email blocking protocols, and to find new respondents if the original contact was no longer with the LEA. Follow up also included telephone reminders. Through the telephone reminders, respondents were offered an opportunity

²⁵ The analysis focused primarily on responses to the LEA Business Manager Survey. Those analyses that addressed question from the perspective of the SFA were based on responses to the SFA Director Survey. These analyses were conducted independently; none of the analyses conducted were limited to the sample of LEAs for which we had both a completed LEA Business Manager Survey and a completed SFA Director Survey.

to complete the survey by phone, and a number of SFA Director Web surveys were completed with project staff by phone.

The District-level web surveys closed in February 2013.

1.5 Organization of the Report

The final report of the *School Foodservice Indirect Cost Study* is organized as follows:

- *Chapter 1: Introduction.* This chapter has introduced the issue of indirect costs for school foodservice and presented the study objectives.
- *Chapter 2: Methodology.* In this chapter, the survey methodology and sampling selection is presented. Disposition of the sample, final response rates, and the weighting of the respondent data is also documented.
- *Chapter 3: Objective 1—Establishing Public School District Indirect Cost Rates and Allocation Plans.* This is the first of three chapters presenting findings for public LEAs and their practices with regard to indirect costs. In this chapter, analysis is presented from the state-level surveys on their role in establishing indirect cost rates and allocation plans. The chapter then includes analysis of the processes used by LEAs in calculating indirect costs.
- *Chapter 4: Objective 2—Charging Indirect Costs to the School Foodservice Account.* This chapter presents district-level findings on LEAs that allocate and charge indirect costs to school foodservice and to other grants and programs.
- *Chapter 5: Objective 3—Recovery of Indirect Costs from the School Foodservice Account.* This chapter presents findings on LEAs' recovery of indirect costs from school foodservice and from other grants and programs.
- *Chapter 6: Treatment of Indirect Costs by Private Schools and Private School Systems.* Although legislation did not require a study of private schools, data collection and analysis included an exploratory look at the indirect cost processes at private schools. Findings from case studies of three private schools are presented in this chapter.
- *Chapter 7: Summary and Conclusions.* In this chapter the key findings of the School Foodservice Indirect Cost Study are summarized.
- *Appendices.* Appendices to the report provide tables of all survey results (Appendices A-E), survey instruments (Appendices F-J), survey methodology details (Appendix K), analysis process for determining LEAs with a process for recovering indirect costs (Appendix L), and final web survey response rates (Appendix M).

2. Methodology

The study was designed to include a nationally representative sample of public SFAs. Data collection included a telephone survey of *all* States and a web survey of a *sample* of SFAs and their corresponding LEAs. The target population for this survey was all public SFAs participating in the NSLP and SBP. A nationally representative probability sample of SFAs was selected from this population.²⁶

The sample was designed to provide national estimates with a 95% confidence interval of ± 5 percentage points. This sample allowed for the types of subgroup analyses needed to answer the questions posed by Congress. Specifically, this sample was designed to provide a 90% confidence interval of ± 5 percentage points for estimates for each FNS region; for small (enrollment < 1,000), medium (enrollment 1,000 to 4,999), and large (enrollment $\geq 5,000$) SFAs; and for high poverty (at least 60 percent of enrollment approved for free and reduced-price meals) and low-poverty SFAs (less than 60 percent of enrollment approved for free and reduced-price meals)²⁷.

The study was also designed to include a small nationally representative sample of private schools/school districts. However, unlike the sample of public SFAs, which were used to produce reliable national estimates practices and procedures related to school foodservice indirect costs, data from the sample of private schools/school districts were used for exploratory analysis of indirect costs for these institutions. This chapter discusses the sampling design for public SFAs.

2.1 Sampling Frame

In order to draw an efficient, nationally representative sample of SFAs for the study, and to permit the rapid completion of a contact database of sampled SFAs necessary to meet the deadline for the report to Congress specified in P.L. 111- 296, the sampling frame needed the following characteristics:

- Include all SFAs or be a nationally representative sample of SFAs; and
- Have SFA-level information on variables needed for sampling: size (e.g., enrollment or numbers of lunches and breakfasts) and the proportion of students approved for free/reduced price meals.

The database created by FNS from the Form FNS-742 SFA Verification Summary Report (VSR) for SY 2010-2011 met these criteria and was used as the sample frame for the *School Foodservice Indirect Cost Study*. This database, which is compiled annually, contained the most up-to-date information on all SFAs participating in the NSLP. In addition, it provided a “rich” sample frame in that it contained information on several key SFA characteristics such as enrollment; number of students approved for free, reduced-price, and paid meals. The database contained 14,875 records for public school SFAs in the sampling universe (i.e. excluding Guam and Puerto Rico), and 3,890 records for private school SFAs. However, the VSR data files do not include contact information for SFAs. As described below, the SFA contact

²⁶ SFAs in the U.S. territories, including Guam and Puerto Rico, were excluded.

²⁷ Although FNS did not specify a requirement for minimum detectable differences (MDDs), this sample provides 80% power to detect differences of .2 standard deviations (with $\alpha_2=.10$) between subgroups of the population of SFAs. This translates into a difference of about 10 percentage points.

information was obtained from the FNS Regional Offices and the LEA contact information was obtained from the SEA Finance Officers.

2.2 Sample Size

A sample of 1,897 completed surveys was needed to obtain the required level of precision for public SFAs. Based on the target 80 percent response rate (to meet the guidelines of the Office of Management and Budget), this required an initial sample of 2,373 public school SFAs. In addition to the overall sample, the sampling frame was constructed to ensure a sufficient sample of SFAs in the various subgroup categories required by FNS: FNS region, SFA size, and SFA poverty level. A sample of 271 completed interviews was required to obtain the desired level of precision in each public SFA size class. With an expected 80 percent response rate, an initial sample of 339 SFAs in each size class was required. Similarly, an initial sample of 339 SFA was needed in each of the 7 FNS regions (for a total initial sample of 2,373 SFAs) to obtain 271 completed surveys in each region (a total of 1,897 completed surveys). To meet these objectives, the population of SFAs was first stratified by region and then the SFAs in each region were stratified the by size class. The total initial sample of 2,373 SFAs was allocated to each size group in each region in proportion to the number of SFAs in each size group in the population.

The allocation of the total public SFA sample by region and size is shown in Exhibit 2.1 and was designed to be proportional to the national distribution of SFAs by size and region taken from the FNS' VSR Data Set for 2010-11. The population and the allocated sample size in each stratum are also shown in Exhibit 2.1.

Exhibit 2.1. Distribution of Public SFA Population and Initial Sample by Sampling Strata

	Public SFA Size Class							
	Small		Medium		Large		Total	
	Population	Sample	Population	Sample	Population	Sample	Population	Sample
Region								
Mid-Atlantic	533 35.9%	122 36.0%	723 48.7%	165 48.7%	230 15.5%	52 15.3%	1,486 100.0%	339 100.0%
Midwest	1,942 51.8%	175 51.6%	1,477 39.4%	134 39.5%	328 8.8%	30 8.8%	3,747 100.0%	339 100.0%
Mountain Plains	1,776 74.3%	252 74.3%	464 19.4%	66 19.5%	149 6.2%	21 6.2%	2,389 100.0%	339 100.0%
Northeast	775 44.6%	151 44.5%	795 45.7%	155 45.7%	169 9.7%	33 9.7%	1,739 100.0%	339 100.0%
Southeast	264 21.5%	73 21.5%	610 49.6%	168 49.6%	356 28.9%	98 28.9%	1,230 100.0%	339 100.0%
Southwest	1,302 59.6%	202 59.6%	624 28.6%	97 28.6%	257 11.8%	40 11.8%	2,183 100.0%	339 100.0%
Western	1,108 52.7%	179 52.8%	551 26.2%	89 26.3%	442 20.9%	71 20.9%	2,101 100.0%	339 100.0%
Total	7,700	1,154	5,244	874	1,931	345	14,875	2,373
Poverty Rate								
Low (≤59%)	4,646	699	3,877	646	1,342	240	9,865	1,582
High (≥60%)	3,054	459	1,367	228	589	105	5,010	791
Total	7,700	1,154	5,244	874	1,931	345	14,875	2,373

Source: Form FNS-742 School Foodservice Authority (SFA) Verification Summary Report (VSR) Database for SY 2010-2011.

Note: SFAs in U.S. territories, including Guam and Puerto Rico, were excluded.

Before finalizing the sample, it was confirmed that the sample included at least 339 SFAs in each of the two poverty strata and in each of the three size strata.

2.3 Sample Selection

Sample selection was finalized in May 2012. The population of public SFAs was stratified by region and size creating 21 strata for sample selection. Stratification by region and size ensured representation by region and size class. Within each region and size stratum an equal probability systematic sample of SFAs was selected after sorting the SFAs by State and poverty level. Systematic sampling after sorting of SFAs gives proportional representation to States and poverty levels in the sample.

2.4 Contact Information

State-level contact information for the State CN Directors was obtained through FNS in May 2012. Contact information for the SEA Finance Officers was requested and received from the Indirect Cost Group within the Office of the Chief Financial Officer at the U.S. Department of Education. Updated SEA contact data were received in April 2012. These contacts included the person most appropriate to answer questions about the SEA's role in setting indirect cost rates and approving indirect cost allocation plans.

Working with the FNS Regional Offices, contact information for SFA Directors was obtained from State Child Nutrition Directors. Contact information for the LEA Business Managers was requested from the SEA Finance Officers in June 2012. As noted above, the SEA Finance Officer contact data were received from the Indirect Cost Group at the U.S. Department of Education. For each State, a spreadsheet listing the sampled SFAs was emailed to the SEA Finance Officer along with information about the study and a request for contact information for the LEA Business Managers. Study staff followed up on the requests throughout the summer, and most of the LEA Business Manager contact information was received by the end of August 2012. When necessary, project staff found contact information through online searches and LEA websites and by calling LEAs directly.

2.5 Updates on Sampled SFAs

The sampling frame was based on the VSR for SY 2010-2011. The reference school year for the study is SY 2011-2012, and contact data were being compiled as the reference school year was ending. As staff compiled contact information for the sampled SFAs, some updates and changes were discovered which affected the status of an SFA selected for the study. In some situations, SFAs were removed from the study. A description of situations and circumstances of certain SFAs and how each was handled within the sample are described below. Adjustments were made to the final sample weights to account for these changes to the initial sample.

2.5.1 Public LEA Closed

If the sampled SFA was found to be associated with a public LEA that had closed since SY 2010-2011 the SFA was removed from the sample since there was no entity to contact and survey.

2.5.2 Public LEA Merged with Another Public LEA

For a few sampled SFAs, it was found that since SY 2010-2011, the associated public LEA had merged or joined a neighboring LEA. For all cases that were found, the receiving LEAs also happened to have been included in the study sample. The resulting SFA was kept in the sample.

2.5.3 No Longer Participating in NSLP

In compiling the contact information for the web surveys, it was discovered that since SY 2010-2011, some SFAs no longer were participating in the NSLP. Those SFAs were removed from the sample.

2.5.4 Residential Child Care Institutions

A small number of sampled SFAs were residential child care institutions (RCCIs). In mid-September, after consultation with FNS, it was decided that RCCIs should not be included in the study. Some entities were identified as RCCIs because that was listed in their SFA name. Others were identified as RCCIs when as contact information was compiled. All sampled SFAs that appeared to be RCCIs, whether from their listed SFA name or through the process to compile contact data, were contacted to confirm their status as an RCCI. Confirmed RCCIs were removed from the sample. A question was also added to the web surveys to screen out respondents whose SFA was affiliated with an RCCI.

2.5.5 Issues with Burden for Respondents for Multiple SFAs

In reviewing the contact data, it was found that some respondents were listed as the contact for multiple SFAs. Typically, these were public charter schools where school foodservice is handled centrally for multiple schools. To relieve the survey burden on these respondents, the sample file was reviewed for records with duplicate contact information. Through a random selection process, one SFA was selected for each duplicate respondent, and the SFAs not selected were removed from the sample.

2.6 Final Disposition of the Sample and Response Rates

Data collection through the web surveys began in November 2012, and the web surveys closed at the end of February 2013. The web surveys were implemented by Abt SRBI. A detailed description of the web survey methodology is presented in Appendix K.

As described in the previous section, sampled SFAs were determined to be ineligible to participate in the study for various reasons. In all, a total of 119 SFAs of the initial sample file were determined to be ineligible for the study. (Exhibit 2.4) Additional information on the number of SFAs determined to be ineligible for the study is presented in Appendix K.

Exhibit 2.4 presents the final disposition and response rates for the LEA Business Manager Web Survey and the SFA Director Web Survey. Of the total initial sample of 2,376, including three additional SFAs whose LEAs had merged with other LEAs to form new LEAs, there were 2,257 eligible to complete the LEA Business Manager Web Survey. With 1,640 total respondents, the final response rate was 72.7 percent. This response rate is lower than our target of 80 percent.

While there were 2,257 eligible to complete the LEA Business Manager Web Survey, of those, 392 also served as the SFA Director. For those cases, the respondents only completed the LEA Business Web Survey and were not eligible to complete the SFA Director Web Survey. There were 1,865 eligible respondents for the SFA Director Web Survey. With 1,227 total respondents, the final response rate was 65.8 percent. This response rate is lower than our target of 80 percent.

The lower response rate for the SFA Director Web Survey compared to the LEA Business Manager Survey is in part due to confusion about the two surveys. Many SFA Directors believed that since a survey had been completed by the LEA Business Manager, there was no need for them to complete the SFA Director Web Survey. Through a series of telephone reminders, it was clarified that there were two

separate web surveys for the study, and this increased the number of completed SFA Director Web Surveys. Another reason for the lower than expected response rates for both surveys is that LEA Business Managers and SFA Directors who would have been able to answer the survey questions, but were unreachable because they no longer worked for the LEA, were counted as eligible respondents in the computation of the study’s response rates. Had these individuals been considered ineligible the response rate for the LEA Business Manager Survey would have been 76.2 percent and the response rate for the SFA Director Survey would have been 71.0 percent. These response rates are in line with response rates achieved for similar studies conducted for FNS and other Federal agencies.

Exhibit 2.4. LEA Business Manager Web Survey and SFA Director Web Survey: Final Disposition and Response Rates

Disposition	Response
Total Initial Sample ^a	2,376
Total Eligible Respondents	2,257
Total Ineligible Respondents	119
Total Eligible Respondents for the LEA Business Manager Survey	2,257
Completed LEA Business Manager Surveys	1,640
LEA Business Manager Survey Nonrespondents ^b	617
LEA Business Manager Survey Response Rate	72.7%
Total Eligible Respondents for the SFA Director Survey ^c	1,865
Completed SFA Director Surveys	1,227
SFA Director Survey Nonrespondents ^d	638
SFA Director Survey Response Rate	65.8%

^a The Total Initial Sample includes three additional SFAs who were the result of sampled SFAs that had merged with other SFAs since the date of the sampling frame database, SY 2010-2011.

^b LEA Business Manager Survey Nonrespondents included 105 LEAs for which the reference year Business Manager was no longer with the LEA.

^c The difference in the number of Total Eligible Respondents for the LEA Business Manager Survey and the Total Eligible Respondents for the SFA Director Survey is 392. These represent districts where the LEA Business Manager was the SFA Director. For those cases, only the LEA Business Manager Survey was completed.

^d SFA Director Survey Nonrespondents included 138 SFAs for which the reference year SFA Director was no longer with the LEA.

2.7 Final Survey Weights

To develop national estimates and for all sub-group analyses, each responding SFA was assigned a sampling weight. There are two components to each SFA’s sampling weight.

1. Base weight, and a
2. Nonresponse adjustment

The development of each component is described below.

2.7.1 Base Weights

Each selected SFA was assigned a base weight equal to the inverse of the probability of selection of the selected SFA. The sample was selected using stratified systematic sampling that included 21 strata. Within each stratum a sample was using equal probability systematic sampling. Therefore the base sampling weight for an SFA in a stratum is the ratio of the number of SFAs in the population in the stratum to the number selected in the stratum:

$$B_h = \frac{N_h}{n_h}$$

where :

N_h = number of SFAs in the population in stratum h , and

n_h = number of SFAs selected in stratum h .

The base weight for an SFA applied to its responses to both the LEA Business Manager Survey and the SFA Director Survey.

2.7.2 Nonresponse Adjustment

Because there was nonresponse to each of the surveys, the sum of the base weights of responding LEAs or SFAs would be less than 1. Without adjusting the base weights to account for nonresponse, the weighted estimates would not represent the entire population of LEAs or SFAs. Since the appropriate respondent for each of the two surveys was different, the response rate for each survey was different. Therefore, a separate nonresponse adjustment was made to the base weight for each LEA and its corresponding SFA. Described below is the nonresponse adjustment for the LEA Business Manager Survey base weights. The same procedure was used for the SFA Director Survey base weights.

After data collection, the sample of LEAs was divided into the following four groups:

1. Respondents (completed LEA Business Manager Surveys) = n_{h1}
2. Nonrespondents (eligible LEAs that did not complete the Business Manager Survey) = n_{h2}
3. Ineligible for the survey (e.g, RCCIs) = n_{h3} , and
4. Nonrespondents with unknown eligibility = n_{h4} .

The first step in the process was to estimate the number of eligible SFAs in the category of unknown SFAs, \hat{n}_{h4} .

$$\hat{n}_{h4} = \left(\frac{n_{h1} + n_{h2}}{n_{h1} + n_{h2} + n_{h3}} \right) n_{h4} .$$

The nonresponse adjustment to the LEA Business Manager Survey base weight to account for known and estimated eligible non-respondents is given by

$$r_h = \frac{n_{h1} + n_{h2} + n_{h3}}{n_{h1}} .$$

The nonresponse-adjusted base weight, which is assigned to each respondent to the LEA Business Manager Survey is

$$B_{ah} = r_h B_h .$$

This weight was used for producing population estimates, standard errors and for all other statistical analyses.

3. Objective 1: Establishing Public School District Indirect Cost Rates and Allocation Plans

The Healthy, Hunger-Free Kids Act (HHFKA) of 2010 directed USDA to conduct a study of indirect costs that would examine LEAs' "allocation of indirect costs to, and the methodologies used to establish indirect cost rates for, school food authorities participating in the school lunch program." This chapter addresses this part of the legislation calling for this study. As discussed in Chapter 1, the benefits that SFAs receive from resources provided by their LEAs (including functions and activities conducted by central LEA staff, as well as shared facilities and services at the LEA and school levels) are essential to the successful operation of a school foodservice program. These resources cannot be directly traced to the school foodservice program or any other grant or program run by the LEA, so they represent the LEA's indirect costs.

The expenses that LEAs can allocate as indirect costs to grants and programs using non-local funds are governed by U.S. Department of Education, FNS, and State regulations. An LEA cannot arbitrarily decide what activities and functions are included in its indirect costs, nor can an LEA arbitrarily allocate its indirect costs among all of the programs it runs including its school foodservice program. An LEA has many options regarding what is included in its indirect costs. Federal regulations specify what cannot be included, but do not specify what must be included in an LEA's indirect costs. Similarly, an LEA has several options regarding the method used to allocate its indirect costs. In fact, there is no Federal regulation that requires an LEA to calculate its indirect cost, nor is there any Federal regulation that requires an LEA to allocate its indirect costs among the various programs run by the LEA.

This chapter examines the process by which LEA indirect costs are determined and allocated among the various programs run by an LEA. Each section begins with a list of the specific research questions (RQ) that address these issues, followed by a discussion of the findings of the analyses conducted to answer each of the questions.

3.1 States' Role in Setting or Approving LEA Indirect Cost Allocation Plans

3.1.1 RQ: What is the role of the State Education Agency (SEA) in determining how public school districts²⁸ allocate indirect costs to their program/activities?

3.1.2 RQ: Who is responsible for establishing the State cost allocation plan for school districts and/or approving school district indirect cost rates?

SEAs played a major role in establishing the indirect cost rate(s) or indirect cost allocation plans used by LEAs to allocate their indirect costs to their programs/activities. Although a State Child Nutrition (CN) Division was occasionally involved in the process, setting or approving an LEA's indirect cost rate of cost allocation plan was almost always done by SEA Financial Management.

An LEA's indirect cost rate or cost allocation plan is applicable to all grants and programs run by an LEA. School foodservice is one of several, perhaps many, grants and programs to which an LEA allocates

²⁸ Although research questions refer to "public school districts," independent public charter schools also operate the school meals programs, so the text refers to LEAs as the more inclusive term.

its indirect costs. As a result, the State Child Nutrition (CN) Division is not the organization with the most interest in determining or approving how an LEA allocates its indirect cost. In 42 of the 50 States and the District of Columbia²⁹, the State CN Division had no role at all in determining LEA indirect costs or allocation plans. By contrast, in 49 States, SEA Financial Management set or approved LEAs’ indirect costs and/or method of allocating indirect costs (Exhibit 3.1). Only three States had a Child Nutrition or Financial Management Division with responsibility for indirect cost allocation plans (which use factors other than indirect cost rates).

Exhibit 3.1 Number of State Child Nutrition and SEA Financial Management Divisions with Roles in Determining How Public LEAs Allocate Indirect Costs to Their Programs/Activities in Reporting Expenses: SY 2011–2012

Type of State Education Agency Role	Child Nutrition		Financial Management		Both Divisions	
	Has a Role	Doesn't Have a Role	Has a Role	Doesn't Have a Role	Have Roles	Don't Have Roles
Any type of role	9	42	49	2	9	2
Role with indirect cost rate	8	43	49	2	8	2
Role with indirect cost allocation plan	1	50	2	49	0	48

Source: State Child Nutrition Director Survey (Q3A), SEA Finance Officer Survey (Q2).

N = 51.

3.1.3 RQ: What type of indirect cost rates do SEAs compute and/or approve for public school districts?

The SEA’s Financial Management Division computed or approved a *restricted* indirect cost rate in all 49 States where it has some involvement in the process of setting or approving LEA indirect cost rates. In 38 of these States it also computed or approved LEA *unrestricted* indirect cost rates.

Many education programs and grants that are authorized by Federal legislation contain a provision which requires that the federal funds be used to "supplement and not supplant" on-going educational services. Since State and local tax revenues are used to support existing education programs in an LEA, the provision prevents an LEA from using money intended for a specific program or grant to be used to reduce State and local tax revenues that are currently being spent in support of such other programs. An LEA’s indirect costs typically include general management costs (e.g., the Superintendent’s salary). Including such indirect costs in an LEA’s indirect cost rate would result in “supplanting” local revenues with Federal funds. A *restricted cost rate* excludes such general management costs from an LEA’s indirect costs before the indirect cost rate is calculated. Federal grants and programs that do not contain the "supplement and not supplant" clause are permitted to include the general management costs that are excluded from the restricted cost rate. Such indirect cost rates are referred to as *unrestricted indirect cost rates*. The NSLP and SBP permit use of an unrestricted indirect cost rate, but States have discretion to specify that LEAs may only use restricted indirect cost rates for these programs. Exhibit 3.2 shows the types of indirect cost rates that SEAs permitted LEAs to use.

²⁹ Throughout the document, when the text refers to “51 States” it includes the 50 States plus the District of Columbia.

Exhibit 3.2 Types of Indirect Cost Rates Computed or Approved by States for Public LEAs: SY 2011–2012

Type of Indirect Cost Rate	Number of State Education Agencies
Both restricted and unrestricted rates	38
Restricted rate only	11
Unrestricted rate only	0
No rules, regulations, or guidance on computing indirect costs	2
Total State Education Agencies	51

Source: SEA Finance Officer Survey (Q4A).

N = 51.

There are two typical approaches for setting indirect cost rates.³⁰ In one approach, LEAs submit an “Indirect Cost Rate Proposal” (ICRP) to the SEA each year. The ICRP is accompanied by the LEA’s audited annual financial report for the school year used in setting the indirect cost rate. The ICRP may contain an LEA’s request for a specific restricted and/or unrestricted cost rate for the upcoming school year, or may just contain the information required by the SEA for the SEA to compute the LEA’s indirect cost rates. Under the other approach, the SEA computes indirect cost rate(s) for all LEAs or those that request them, using LEA financial reports routinely submitted to the SEA. In this approach, the financial reports serve the role of the ICRP. Since many Federal programs and grants contain the “supplement and not supplant” clause, restricted indirect cost rates are more widely-applicable, and 49 States compute or approve this type of indirect cost rate. However 38 SEAs³¹ also compute or approve unrestricted cost rates. It is important to note that an LEA is not required to apply an unrestricted cost rate for programs where this is permissible. It is quite possible that an LEA might elect to use its restricted indirect cost rate for all of its Federal programs and grants including school foodservice.

³⁰ The discussion of approaches to setting indirect cost rates is based on USDA-FNS, *Child Nutrition Reauthorization 2010: Indirect Cost Guidance* (SP 41-2011, July 2011) and on authors’ notes from the review of State cost allocation documents conducted for the *School Lunch and Breakfast Cost Study II* (Bartlett et al., 2008).

³¹ When actions reported in the SEA Finance Officer Survey are referenced, the text simply refers to these as actions of the SEA. Actions by the State Child Nutrition Division are explicitly referenced as such.

3.1.4 RQ: What types of costs are included in each type of indirect cost rate?

3.1.5 RQ: What support functions, i.e., overhead costs, are included in each type of indirect cost rate?

About 80 to 90 percent of SEAs allowed LEAs to include salaries and benefits, workers' compensation, and supplies and expendable equipment as indirect costs in both restricted and unrestricted indirect cost rates. Audit fees, travel, and other miscellaneous costs were rarely permitted to be included in either restricted or unrestricted cost rates. Other types of costs were far more often permitted to be included in unrestricted indirect cost rates than in restricted indirect cost rates. For the most part, SEAs permit the same types of programs to be included in the base of direct costs used in computing both restricted and unrestricted indirect cost rates.

Looking at support functions included in the pool of indirect costs used in computing restricted and unrestricted cost rates, several support functions are almost always included in both restricted and unrestricted rates, including accounting, budget, finance, and payroll; data processing and information technology; administration of benefits, personnel, and human resources; and purchasing and contracting.

Exhibit 3.3 shows the numbers of SEAs that allowed LEAs to include various types of costs in their restricted and unrestricted indirect cost rates. The types of costs tend to fall into three categories:

1. *Costs that tend to be included in both restricted and unrestricted rates.* These include wages and salaries, employee benefits and payroll taxes, workers' compensation, and supplies and expendable equipment.
2. *Costs that are included more frequently in unrestricted than in restricted rates.* These include equipment rental, energy (e.g., gas, oil, and electricity), water and sewer, communications (e.g., telephone and internet), supplies and expendable equipment, insurance, and other purchased services.
3. *Costs that are rarely included in either restricted or unrestricted rates.* These include audit fees, travel, and miscellaneous other costs.

Exhibit 3.3 Types of Costs Treated as Indirect Costs in Restricted and Unrestricted Indirect Cost Rate: SY 2011–2012

Type of Cost	Number of State Education Agencies	
	Restricted Indirect Cost Rate	Unrestricted Indirect Cost Rate
Total, all SEAs with type of indirect cost rate**	49	38
Salaries and wages	44	33
Employee benefits and payroll taxes	43	33
Workers' compensation	43	32
Supplies and expendable equipment	39	31
Communications (telephone, internet)	36	34
Equipment rental	30	28
Energy (gas, oil, or electricity)**	27	35
Water or sewer**	27	35
Insurance (liability, auto, etc.)*	33	32
Other purchased services*	31	27
Audit fees	3	2
Travel	2	1
Other	4	3

Source: SEA Finance Officer Survey (Q4B).

SEAs that had a restricted indirect cost rate, N=49. SEAs that had an unrestricted indirect cost rate, N=38. Two SEAs had no role in computing or approving indirect costs rates or allocation plans.

Tests of statistical significance compared the proportion of States with a restricted indirect cost rate and the proportion of States with an unrestricted indirect cost rate, and the proportion of States that treated each type of cost as an indirect cost in the restricted indirect cost rate or the unrestricted indirect cost rate.

*Difference is statistically significant at the 95 percent confidence level. **Difference is statistically significant at the 99 percent confidence level.

SEAs allowed more or less the same types of programs to be included in the direct cost base used in computing LEAs' restricted and unrestricted indirect cost rates (Exhibit 3.4). Nearly all SEAs allowed LEAs to include regular day instructional programs, special education programs, and vocational education programs to be included in the direct cost base. Other programs such as adult education, school foodservice, and other Federal and State programs were often allowed to be included (in about three out of four SEAs or more) in the direct cost base for both restricted and unrestricted indirect cost rates.

Exhibit 3.4 Types of Programs Included in the Base of Direct Costs in Restricted and Unrestricted Indirect Cost Rates: SY 2011–2012

Type of Program	Number of State Education Agencies	
	Restricted Indirect Cost Rate	Unrestricted Indirect Cost Rate
Regular day instructional programs	49	38
Special education programs	48	37
Occupational or career/technical day programs	48	37
Adult education programs	40	33
School lunch and other foods service	42	33
Other U.S. Department of Education programs	40	31
Other Federal programs	37	31
Other State programs	36	30

Source: SEA Finance Officer Survey (Q4D).

SEAs that had a restricted indirect cost rate, N=49. SEAs that had an unrestricted indirect cost rate, N=38. Two SEAs had no role in computing or approving indirect costs rates or allocation plans.

Tests of statistical significance compared the proportion of States that included each type of program in the base of direct costs in restricted indirect cost rates or unrestricted indirect cost rates. Differences in types of program were not statistically significant.

The support functions included in the pool of indirect costs used in computing restricted and unrestricted cost rates are shown in Exhibit 3.5. Several support functions were almost always included in both restricted and unrestricted rates. These include:

- Accounting, budget, finance, and payroll;
- Data processing and information technology;
- Administration of benefits, personnel, and human resources; and
- Purchasing and contracting.

Nearly all SEAs included these support functions in the indirect cost rates that they had (restricted indirect cost rates, unrestricted indirect cost rates, or both). All other support functions were far more frequently included in unrestricted indirect cost rates than in restricted indirect cost rates. Examples include: general administration (20 SEAs vs. 10 SEAs); custodial and janitorial (33 SEAs vs. 12 SEAs); and refuse disposal, pest control, and sanitation (34 SEAs vs. 12 SEAs). The functions least often included in both types of indirect cost rates (12 or fewer SEAs) were school board, medical services, and research and planning.

Exhibit 3.5 Support Functions Included in the Pool of Indirect Costs for Restricted and Unrestricted Indirect Cost Rate: SY 2011–2012

Support Function	Number of State Education Agencies	
	Restricted Indirect Cost Rate	Unrestricted Indirect Cost Rate
Accounting, budget, finance and payroll	47	37
Data processing operations and programming	46	36
Administration of personnel, benefits and human resources	45	36
Purchasing and contracting	44	37
Storage and transportation of goods*	22	25
Equipment and vehicle operations and maintenance**	16	26
Building operations and maintenance**	14	35
Refuse disposal, pest control, other sanitation**	12	34
Custodial and janitorial**	12	33
Providing and maintaining uniforms**	12	19
Security**	11	32
General administration and policy (Superintendent's office, etc.)**	10	20
Medical services (nurses, school clinic, etc.)	10	12
School board*	8	12
Research and planning	1	2
Other	3	3

Source: SEA Finance Officer Survey (Q4C).

SEAs that had a restricted indirect cost rate, N=49. SEAs that had an unrestricted indirect cost rate, N=38. Two SEAs had no role in computing or approving indirect costs rates or allocation plans.

Tests of statistical significance compared the proportion of States that included each type of support function in the pool of indirect costs for restricted indirect cost rates or unrestricted indirect cost rates.

*Difference is statistically significant at the 95 percent confidence level. **Difference is statistically significant at the 99 percent confidence level.

3.1.6 RQ: What methods do States permit school districts to use to adjust indirect cost rates to compensate for under- or over-recovery of indirect costs?³²

Most SEAs (36) permitted LEAs to adjust indirect cost rates to compensate for under- or over-recovery of indirect costs. Of these, most (33) SEAs permitted LEAs to make an adjustment using a fixed rate with carry forward method. Only 5 of the 36 SEAs allowed LEAs to use a provisional rate with a final rate method.

An LEA’s indirect cost rate or cost allocation plan is set before the start of the school year, based on either a prior year’s actual costs or a projection of the coming year’s costs. However, the actual indirect and direct costs are not known at the time the rate or allocation plan is finalized. Once the actual costs are finalized after the school year ends, they are almost always different from the estimated costs used to set the indirect cost rate or allocation plan. As a result, an LEA may under- or over-recover indirect costs from its programs and grants. For example, consider an LEA for which the SEA approves a 10 percent indirect cost rate for SY 2010-11 expecting that the total direct costs for the LEA will be \$1million and the indirect costs will be \$100,000. The LEA then allocates indirect costs to applicable programs and

³² This section also addresses the public LEA and SFA-Level Research Question: “What methods are used by school districts to adjust indirect cost rates to compensate for under-or over-recovery of indirect costs.”

grants at the rate of 10 percent of direct costs (for example, \$50,000 in indirect costs allocated based on direct costs of \$500,000). If, however, when the SY 2010-11 financial statements are final, it turns out that the actual indirect costs were only \$90,000 instead of the anticipated \$100,000, but the direct costs are \$1 million as expected, then the actual ratio of indirect costs to direct costs was only 9 percent. The difference between 9 and 10 percent of the \$500,000 in direct costs subject to allocation of indirect costs is \$5,000. If the LEA actually recovered this extra \$5,000, the costs would be unallowable. Therefore, the over-recovered indirect costs must be returned to the programs and grants from which it was collected. Similarly, if the actual cost base was higher than the anticipated cost base, then the LEA would not have recovered all of the indirect costs it was entitled to collect. There are two allowable methods of adjusting for over- or under-recovery of indirect costs.

- *Fixed rate with carry forward.* This method uses a fixed indirect cost rate for the year. Any over- or under recovery is carried forward by subtracting any over-recovery from the next year's indirect cost pool (i.e. the numerator of the indirect cost rate), or adding any under-recovery to, the indirect cost pool. When the new rate is applied in the next school year the amount of indirect costs recovered will compensate for any over- or under-recovery of indirect costs in the previous school year.
- *Provisional rate with final rate.* This method differs from the fixed rate carry forward method in that the indirect cost rate used during the fiscal year is provisional. The final rate is based on the actual ratio of indirect to direct costs when the costs for the year are finalized. If the final rate is the same as the provisional rate, then the LEA has not over- or under-recovered indirect costs from its programs and grants. However, if use of the provisional rate has resulted in over- or under-recovery of indirect costs from the LEA's programs and grants, the indirect costs for the programs and grants are recalculated using the final rate. Any difference between the amounts recovered based on the provisional rate and the amount that should have been recovered based on the new final rate is then credited to each program or grant's indirect cost line (in cases of over-recovery) or charged to the indirect cost line (in cases of under-recovery).

Although both methods are allowable under Federal cost principles, FNS prefers that the fixed rate with carry forward method be used in the school meals programs because of the inherent time lags and accounting complexities involved when using a provisional rate with a final rate (USDA, 2011).

Exhibit 3.6 shows the distribution of SEAs by the type of method(s) LEAs were permitted to use to adjust for over- and under-recovery of indirect costs. Thirteen SEAs did not have any approved method for making this adjustment³³. Among the 36 SEAs that had an approved method, 31 permitted LEAs to use only the fixed rate with carry forward method; three SEAs permitted LEAs to use only the provisional rate with final rate method; and two SEAs gave LEAs the choice of using either method. These results may reflect the relative simplicity and timeliness of the fixed rate with carry forward method, the preference by FNS, or other unknown factors.

³³ The survey did not provide any information on whether, in States that did not have an adjustment method, LEAs retained over-recoveries or whether LEAs can charge programs and grants for under-recoveries.

Exhibit 3.6 Methods Permitted to Adjust Indirect Costs for Under- or Over-Recovery of Indirect Costs: SY 2011–2012

Adjustment Method	Number of State Education Agencies
Provisional rate with final rate only	3
Fixed rate with carry-forward only	31
Both provisional rate with final rate and fixed rate with carry-forward permitted	2
Total	36

Source: SEA Finance Officer Survey Q5.

N = 51. Two SEAs had no role in computing or approving indirect costs rates or allocation plans. Thirteen States have no adjustment method.

3.1.7 RQ: What actions, if any, do SEAs take to ensure that public school districts are applying the appropriate approved indirect cost rate agreement? Is any training provided to SFAs to ensure they understand how to apply the rate?

The majority of SEAs (39) took actions to ensure that indirect costs allocated were allowable under Federal cost principles, in addition to the SEA’s role in setting or approving indirect cost rates. Three types of SEA review of LEA financial statements were conducted in 21 or more States. The majority of State CN Divisions (38) provided some form of guidance to SFAs about charging and/or recovering indirect costs.

Exhibit 3.7 presents the actions taken by SEAs to ensure that LEAs applied the methods used in the appropriate approved indirect cost agreement. These were in addition to the SEAs’ oversight of the calculation of indirect cost rates or cost allocation plans. Most often, SEAs reviewed LEAs’ supporting financial documentation before approving (or computing) an LEA’s indirect cost rate or cost allocation plan (35 SEAs). Twenty-five SEAs reviewed LEAs’ indirect cost proposals or allocation plans, and 21 SEAs reviewed the indirect costs charged by LEAs in the previous year to ensure that these charges were consistent with the approved indirect cost rate or cost allocation plan. Only three SEAs specifically stated that they used year-end audits to ensure compliance with Federal cost principles regarding indirect costs. However, SEAs may have overlooked general-purpose audits in responding to this question.

Exhibit 3.7 Actions Taken by SEA Financial Management to Ensure that Indirect Costs Allocated Were Allowable Under Federal Cost Principles: SY 2011–2012

Action	Number of State Education Agencies
No action taken (other than calculating or approving indirect cost rates)	9
Some action taken (other than calculating or approving indirect cost rates)	39
Reviewed indirect cost rate proposals or allocation plans	25
Reviewed financial statements supporting computation of indirect cost rates	35
Reviewed actual indirect cost charges and/or basis of charges for prior year	21
Used an audit process	3
Don't know	1
Total	49

Source: SEA Finance Officer Survey (Q6).

N = 51. Two SEAs had no role in computing or approving indirect costs rates or allocation plans. Percentages do not sum to 100 due multiple responses.

State CN Divisions provided guidance to LEAs regarding applicable rules for charging and/or recovering indirect costs attributable to their school foodservice programs. Most often this guidance was in the form

of written materials—mailed, e-mailed or available on a website. Twenty-one State CN Divisions provided related in-person training, and five States provided training through teleconferences or web conferences (Exhibit 3.8).

Exhibit 3.8 Guidance Provided by State Child Nutrition Division Regarding Charging and/or Recovery of Indirect Costs from School Foodservice Accounts: SY 2011-2012

Guidance Provided	Number of State Education Agencies
No guidance provided	12
Some guidance provided	38
State Child Nutrition Division sent written guidance by regular mail service	5
State Child Nutrition Division sent written guidance by email	29
State Child Nutrition Division posted written guidance on its website	23
State Child Nutrition Division provided training in person	21
State Child Nutrition Division provided training remotely by teleconference or through the web	5
State Child Nutrition Division provided guidance over the phone	2
State Child Nutrition Division provided technical assistance	2
Other guidance was provided	1
Don't know	1
Total	51

Source: State Child Nutrition Director Survey (Q7).

N = 51. Percentages do not sum to Totals due multiple responses. In the 13 States where no guidance was provided or the respondent did not know whether guidance was provided by the State CN Division, 10 were States where the SEA Financial Management Division did provide some guidance.

3.1.8 RQ: What was the process used by SEAs to notify SFA directors of their computed or approved indirect cost rates?

Most SEAs (42) provided some form of notification to the SFAs in their State regarding the computed/approved indirect cost rate(s) for their LEAs.

In 42 States, a division of the SEA notified SFAs³⁴ of the computed/approved indirect cost rate(s) for their LEAs. Most often the State CN Divisions (23) provided this notification. In 19 other States, notification was provided by SEA Financial Management. In one State, notification was provided by a State agency other than the SEA.³⁵ In five States, no notification was provided to School Foodservice Directors (Exhibit 3.9).

Exhibit 3.9 State Agency that Notified School Foodservice Authorities about Computed or Approved Indirect Cost Rates or Allocation Plans: SY 2011–2012

State Agency/Division	Number of States
State Child Nutrition Division	23
State Education Agency finance or federal reporting office	19
Other State Agency	1
No State Agency notified school foodservice authorities (SFAs)	5
Total all States	48

Source: State Child Nutrition Director Survey (Q5D).

N = 48. Three States had indirect cost rate procedures but did not respond to the question about whether any State agency notified SFAs of the computed indirect cost rates for their LEAs.

The timing of notification about indirect cost rates is of great importance to SFA directors. Receiving notification before the end of the previous school year or between the end of one school year and the start of another allows SFA directors to use this information in their planning/budgeting for the upcoming school year.³⁶ Among the 18 State CN Divisions that specified the timing of their notice to SFAs about indirect costs, 12 provided notice before the start of the school year.³⁷ Regardless of the timing of the States’ notification of LEAs approved indirect cost rate(s), the most important timing is when an LEA notifies its SFA of its intent to charge the SFA for indirect costs attributable to school foodservice. This timing is discussed in the next section.

³⁴ Question 5D in the State Child Nutrition Director Survey asks about the process SEAs used to notify SFA directors. Notifying School Foodservice Directors is the same thing as contacting a School Food Authority (SFA), so the term School Food Authorities (SFA) or SFA Directors is used interchangeably throughout the report.

³⁵ The Other State Agency was listed as the “Controller”.

³⁶ In later sections of this report, SFA receipt of notification from their LEA about indirect cost rates before the end of the previous school year, and not between the end of the previous school year and the beginning of the current school year, is used to indicate sufficient timing of notification.

³⁷ The SEA Finance Officer Survey did not collect information on the timing of notification to SFAs.

3.2 Public LEAs Charging and Recovering Indirect Costs

The previous section discussed the findings regarding SEAs' roles in setting or approving indirect cost rates for LEAs in their States. If an LEA intended to allocate its indirect costs among its programs and grants, then it is required to obtain State approval for its indirect cost rate(s) or cost allocation plan. A major finding of this study is that nearly half of all LEAs (44.7 percent) did not have a method for recovering indirect costs, whether with an indirect cost rate or cost allocation plan (Exhibit 3.10).³⁸

Without an approved method for charging and recovering indirect costs, these LEAs have no justifiable way to charge and recover indirect costs from school foodservice or any other grant or program run by the LEA. As such, none of the other research questions regarding LEAs' indirect costs are applicable to these LEAs. Out of the approximately 14,000 public LEAs in the country, only 7,751 had a known method of allocating indirect cost. The vast majority of these LEAs (71.6 percent) had only an indirect cost rate.

The results from the study are based on the survey responses and not from an audit of State, LEA or SFA operations. With the finding that 44.7 percent of LEAs did not have a method for recovering indirect costs, 55.3 percent of LEAs did have a method for recovering indirect costs. This finding includes LEAs that indicated they had an indirect cost rate or some other method for allocating indirect costs not based on an indirect cost rate. In addition, it includes LEAs whose survey responses indicated they calculated or recovered indirect costs for school foodservice or other grants and programs, even though they did not report having an indirect cost rate or other allocation method. While nearly all States had a procedure to calculate or approve indirect cost rates for LEAs, the allocation methods identified by the LEAs were not necessarily State-approved. (The question of whether LEAs used State-approved methods is discussed in Section 3.2.2.) The majority of LEAs with a method for recovering indirect costs had an indirect cost rate.³⁹

³⁸ This finding is based on the LEA Business Manager Web Survey and represents the knowledge and practices of those respondents. Given the fact that 38 States reported that they computed LEA indirect cost rates, it is possible that some LEAs have indirect cost rates computed by the SEA and could charge indirect costs but are unaware of this. If all LEAs obtained indirect cost rates in the States that compute them, 83.8 percent of LEAs would have State-computed indirect cost rates. This figure includes LEAs that know they have an indirect cost rate, those that have one computed by the State and do not know it, and those that could have one but don't request one. SEAs that computed indirect cost rates did not specify whether they do so for all LEAs or only upon request, so the percentage that have a rate but do not know it is unknown. Nevertheless, if the LEA is unaware of its indirect cost rate, it will not charge indirect costs to school foodservice or other programs and grants. Combining the 83.8 percent of LEAs that could have State-computed indirect cost rates with the 5.6 percent that could not but do have another indirect cost allocation method, the upper bound for the percentage of LEAs with indirect cost methods would be 89.4 percent. As a point of comparison, the SLBCS-II found that 95 percent school districts had indirect cost rates that could be used to recover indirect costs. This figure, based on a sample of 122 SFAs, included all LEAs in States where the SEA computed indirect cost rates for all LEAs, regardless of whether the LEAs were aware of their rates. Differences in data collection methods and sampling error may be factors in the difference between the 95 percent estimate from SLBCS-II and the 89 percent upper bound estimate from the present study for the proportion of LEAs with indirect cost rates.

³⁹ Appendix L provides details on the survey-based analysis undertaken to determine which LEAs had any method, and not specifically an approved method, to recover indirect costs. The 55.3 percent of all LEAs includes those with an indirect cost rate (42.9 percent), those with another method for allocating indirect costs (2.1 percent), and those LEAs that did not indicate having an indirect cost rate or other allocation plan but

Exhibit 3.10 Methods LEAs Used or Planned to Use to Allocate or Charge Indirect Costs in SY 2011–2012

Methods	Public LEAs	
	Number	Percent
LEA did not have a method for recovering indirect costs	6,271	44.7
LEA had an indirect cost rate, allocation plan or other method of recovering indirect costs	7,751	55.3
Total All LEAs ^a	14,022	100.0
LEA had an indirect cost rate only	5,551	71.6
LEA had an allocation plan only	301	3.9
LEA had an allocation plan and an indirect cost rate	472	6.1
LEA had some other method for recovering costs	1,427	18.4
Total LEAs that had an indirect cost rate, allocation plan or other method for indirect costs ^b	7,751	100.0

Source: LEA Business Manager Web Survey (Qs 2a, 2e, 2f, 3a, 10a, 12a, 13a, 14a)

Notes: Rows may not sum to totals due to rounding of the weighted responses. Rows may not sum to 100 percent due to rounding. Some responses represented in the table are based on multiple questions.

^aWeighted total of 14,022 LEAs are represented in the survey.

^bWeighted total of 7,751 LEAs had an indirect cost rate, allocation plan or other method of recovering costs.

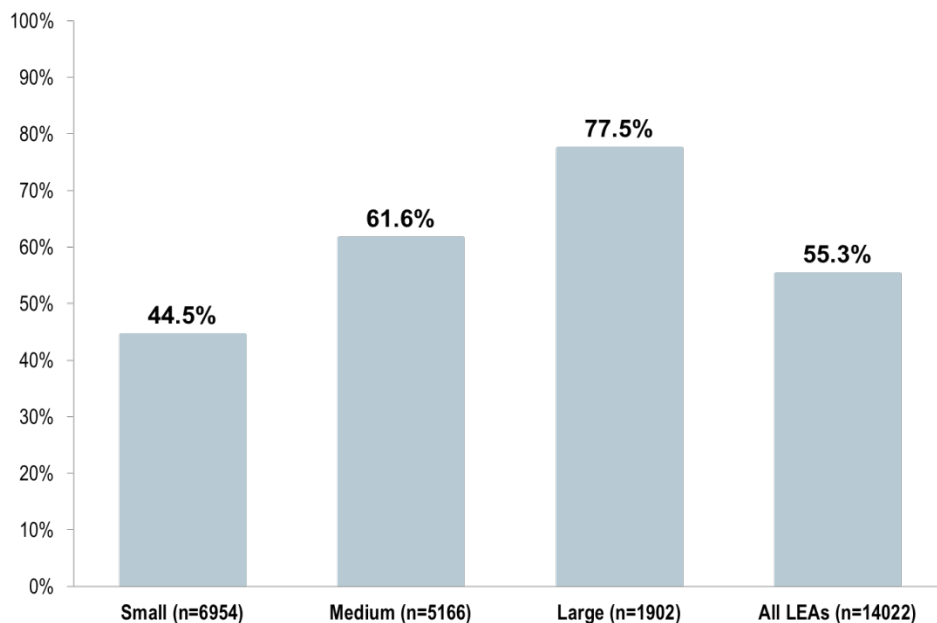
Figure 3.1 summarizes the percent of LEAs, by size category, that had a method to recover indirect costs. Again, overall there were 55.3 percent of LEAs with a method to recover indirect costs. Looking at LEAs by size, 44.5 percent of small LEAs (less than 1,000 students) had a method for recovering indirect costs. Sixty-two percent of medium LEAs (1,000-4,999 students) and 77.5 percent of large LEAs (5,000 or more students) had a method for recovering indirect costs.⁴⁰ Looking further into the large LEAs, about half were in the largest category of LEAs (those with 10,000 or more students) and 88.1 percent of these had a method to recover indirect costs. LEAs with 5,000 to 9,999 students had a method to recover indirect costs less often (69.4 percent) than the largest LEAs.⁴¹

responded in the LEA Business Manager Web Survey that they calculated or recovered indirect costs for school foodservice or other grants and programs (10.2 percent).

⁴⁰ The differences in having a method for recovering indirect costs by LEA size (small, medium, and large) were statistically significant at the 99% level.

⁴¹ The difference in having a method for recovering indirect costs between large LEAs with 5,000 to 9,999 students and the largest LEAs (with 10,000 or more students) was statistically significant at the 99% level.

Figure 3.1 Percent of All LEAs that Had a Method for Recovering Indirect Costs, SY 2011-2012, by LEA Size



3.2.1 RQ: Who established the indirect cost rate or allocation plan used by school districts?

The vast majority of LEAs with any method of allocating indirect costs used an indirect cost rate(s) calculated directly by their SEA or another method of allocating indirect costs provided by their SEA.

Nearly a quarter (24.3 percent) of the 7,751 LEAs with a method of recovering indirect costs LEAs did not specify which State agency established or approved their indirect cost rate(s) or cost allocation plans. (Exhibit 3.11) Of those LEAs that identified an agency, the vast majority (93.7 percent) used an indirect cost rate or allocation plan provided or approved by their SEA. A small portion of LEAs (5.9 percent) calculated their own indirect cost rate(s) or used their own allocation plan without seeking State approval. The few remaining LEAs established their own indirect cost rate(s) or cost allocation plans and obtained their SEA’s approval to use this plan. Given that all but two SEAs have a direct role in setting or approving indirect cost rates or cost allocation plans⁴², it is not surprising that nearly all LEAs used an indirect cost allocation method established or approved by the SEA.

⁴² See Exhibit 3.1 above.

Exhibit 3.11 Agency that Established the Indirect Cost Rate or Allocation Plan Used By LEAs

Agency	Public LEAs	
	Number	Percent
LEA did not specify agency that established their indirect cost rate or allocation plan	1,883	24.3
LEA specified agency that established their indirect cost rate or allocation plan	5,869	75.7
Total LEAs that had an indirect cost rate, allocation plan or other method for indirect costs	7,751	100.0
Total LEAs that specified agency that established their indirect cost rate or allocation plan	5,869	100.0
State Education Agency	5,497	93.7
LEA established rate/allocation plan and obtained SEA approval	24	0.4
LEA established rate/allocation plan	348	5.9

Source: LEA Business Manager Web Survey (Qs 2b, 2c, 2d, 3b, 3c)

Notes: Rows may not sum to totals due to rounding. Some responses represented in the table are based on multiple questions. Detail does not sum to total because LEAs were allowed to provide multiple responses; 125 LEAs that had State approved methods and also stated that they used the LEA's own method are included only in the row labeled "State Education Agency."

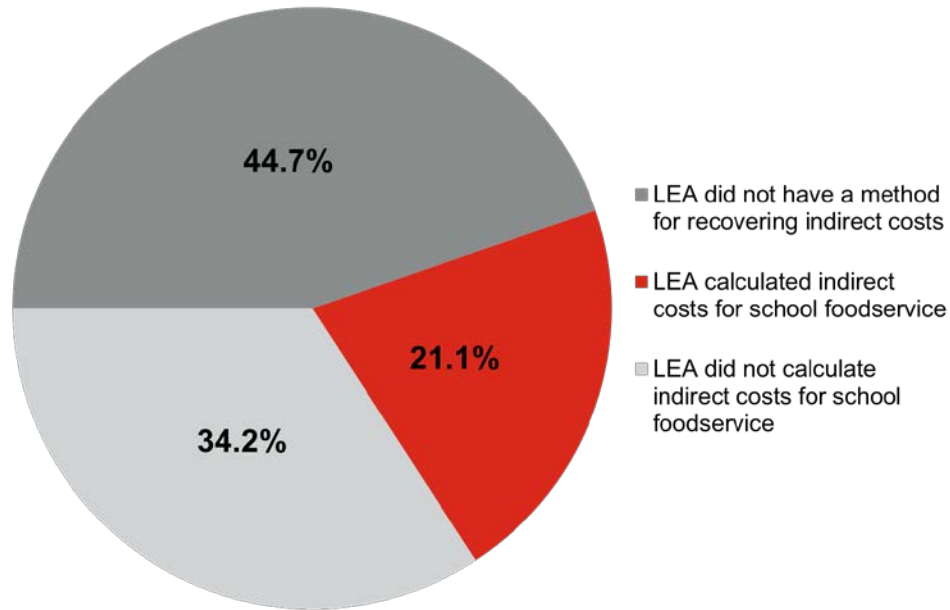
3.2.2 RQ: What is the process being used by LEAs to calculate indirect costs? Does this vary by program?

A relatively small proportion (21.1 percent) of all LEAs calculated indirect costs for their school foodservice programs, while a larger minority (43.2 percent) of LEAs calculated indirect costs for their other grants and programs. Most LEAs that calculated indirect costs for school foodservice or other grants and programs used indirect cost rates based on a State formula.

As presented above, 44.7 percent of LEAs did not have a method for recovering indirect costs. Of the 55.3 percent that did have a method to recover indirect costs, primarily with an approved indirect cost rate or cost allocation plan, 38.2 percent calculated indirect costs for school foodservice.⁴³ Thus, among all public LEAs, only 21.1 (=38.2 percent of 55.3) percent calculated indirect costs for school foodservice (Figure 3.2).

⁴³ See Appendix B, Exhibit B-5.

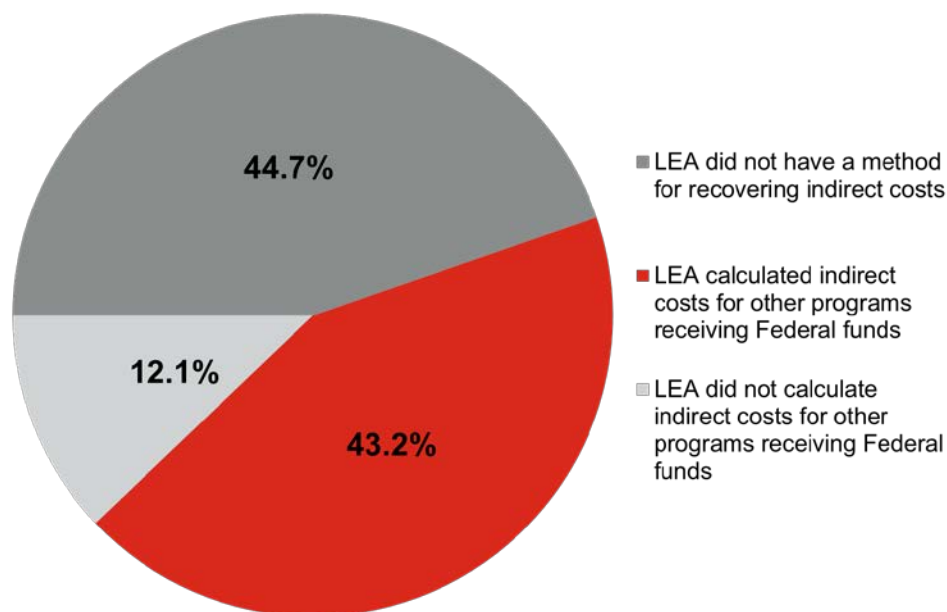
Figure 3.2 Percent of All LEAs that Calculated Indirect Costs for School Foodservice, SY 2011-2012



For other programs receiving Federal funds, 78.1 percent of LEAs that had a method for recovering indirect costs calculated indirect costs attributable to the other programs,⁴⁴ which is 43.2 percent of all LEAs. (Figure 3.3) Nearly twice as many LEAs calculated indirect costs for other programs receiving Federal funds than for school foodservice.

⁴⁴ See Appendix B, Exhibit B-6.

Figure 3.3 Percent of All LEAs that Calculated Indirect Costs for Other Programs Receiving Federal Funds, SY 2011-2012



Although school meal program regulations permit LEAs to use an unrestricted rate to allocate indirect costs to their school foodservice programs, among LEAs that specified the type of rate used to calculate indirect costs for school foodservice, more than twice as many LEAs indicated that they used only a restricted rate (27.2 percent) than an unrestricted rate (10.6 percent). (Exhibit 3.12) Given that restricted rates are lower than unrestricted rates, this is an indication that most LEAs are not attempting to charge and recover as much revenue indirect costs from their SFA as permitted by the regulations, even among the relatively few LEAs that take the first step in calculating indirect costs.⁴⁵ Since some grants and programs do not permit LEAs to use an unrestricted rate while others permit the use of unrestricted rates, it is not possible to draw any conclusions about whether LEAs are calculating smaller amounts of the type of indirect costs than they could for rate(s) that LEAs apply to their other grants and programs.

⁴⁵ As presented in Appendix Exhibit B-9, in the Appendix, the mean and median values for the Unrestricted Indirect Cost Rates Used or Planned to be used for Other Programs Receiving Federal Funds in SY 2011-2012 were 13.7 and 13.0, respectively.

As presented in Appendix Exhibit B-10, the mean and median values for the Restricted Indirect Cost Rates Used or Planned to be used for Other Programs Receiving Federal Funds in SY 2011-2012 were 5.7 and 3.7, respectively.

Exhibit 3.12 Method Used By LEAs to Calculate Indirect Costs for School Foodservice and Other Programs in SY 2011–2012

Methods	School Foodservice	Other Programs & Grants
LEA did not specify who provided method	19.2	24.9
Indirect cost rate based on State formula	62.9	55.7
Unknown method provided by the State	11.4	16.8
LEA used its own method or formula	6.6	2.6
Total LEAs calculating indirect costs for school foodservice and for other programs	100.0	100.0
Indirect cost rate based on State formula		
Restricted indirect cost rate based on State formula	27.2	35.3
Unrestricted Indirect cost rate based on State formula	10.6	4.4
Unknown type of indirect cost rate based on State formula	25.1	16.0
Total indirect cost rate based on State formula	62.9	55.7

Source: LEA Business Manager Web Survey (Qs 2a, 2e, 2f, 3a, 10a, 12a, 13a, 14a)

Notes: Rows may not sum to 100 percent due to rounding.

3.2.3 RQ: What support functions are included in indirect cost pools (accounting and finance, purchasing, payroll/personnel, equipment maintenance, etc.)? Do these special functions ever include portions of teachers' salaries?

A broad array of support functions were frequently included in indirect cost pools. Four support functions were typically included in the indirect cost pools for both restricted and unrestricted indirect cost rates: 1) accounting, budget, finance and payroll; 2) data processing operations and programming; 3) administration of personnel, benefits and human resources; and 4) purchasing and contracting. Each of these support function was included as an indirect cost in both restricted and unrestricted rates for at least 80 percent of LEAs. Other support functions were included far more frequently in unrestricted indirect cost rates. Teachers' salaries were rarely included as indirect costs in either restricted or unrestricted rates.

Given that restricted indirect cost rates are intended to avoid supplanting local funds with Federal funds, unrestricted indirect cost rates tended to include a broader range of support functions than restricted rates. For example, building operations and maintenance were included in 84.5 percent of LEAs' unrestricted cost rates but in only 26.4 percent of LEAs' restricted rates, and custodial and janitorial services were included in 76.5 percent of unrestricted rates but in only 23.9 percent of restricted rates (Exhibit 3.13).⁴⁶ School board and medical costs were the categories least often included in indirect cost rates.

⁴⁶ LEAs reported support functions other than the specified list being included more often in restricted rates than in unrestricted rates. This finding likely represents more diversity of responses for restricted rates due to the greater number of LEAs with these rates, rather than an indication that restricted rates are in some way more inclusive.

Exhibit 3.13 Support Functions Included in LEAs' Unrestricted and Restricted Cost Rates in SY 2011–12

Support Functions	Unrestricted Rate		Restricted Rate	
	Number	Percent	Number	Percent
Total all LEAs with an indirect cost rate in SY 2011–12	4,276	100.0	5,901	100.0
Accounting, budget, finance and payroll	3,689	86.3	4,999	84.7
Purchasing and contracting*	3,669	85.8	4,721	80.0
Administration of personnel, benefits and human resources	3,636	85.0	4,848	82.2
Building operations and maintenance**	3,611	84.5	1,555	26.4
Data processing operations and programming	3,559	83.2	4,870	82.5
Refuse disposal, pest control, other sanitation**	3,484	81.5	1,535	26.0
Custodial and janitorial**	3,269	76.5	1,410	23.9
Security**	2,983	69.8	945	16.0
Equipment and vehicle operations and maintenance**	2,685	62.8	1,641	27.8
Storage and transportation of goods**	2,017	47.2	2,448	41.5
General administration and policy**	1,898	44.4	428	7.2
Providing and maintaining uniforms**	1,506	35.2	869	14.7
School board**	729	17.0	512	8.7
Medical/health services and supplies**	709	16.6	679	11.5
Other support functions**	157	3.7	744	12.6
Teachers' salaries ^a	152	3.5	185	3.1

Source: LEA Business Manager Web Survey (Qs 2e, 2f, 5, 6a). SEA Finance Officer Telephone Survey (Qs 4c, 4e.)

Tests of statistical significance compared the proportion of LEAs that included each type of support function in the unrestricted indirect cost rate or restricted indirect cost rate.

*Difference is statistically significant at the 95 percent confidence level. **Difference is statistically significant at the 99 percent confidence level.

Notes: Detail does not sum to total because LEAs were allowed to provide multiple responses. Some responses represented in the table are based on multiple questions. Options for each item were Yes, No, or Don't Know. Respondents that marked Don't Know for all items were dropped.

^a This item is part of another series of questions. The base has a weighted n of 4,376.

A weighted total of 7,751 LEAs had an indirect cost rate, allocation plan or other method of recovering indirect costs, of which 4,276 indicated they had an unrestricted indirect cost rate and provided information on included support functions, and 5,901 indicated they had a restricted indirect cost rate and provided information on included support functions.

3.2.4 RQ: What types of programs or objectives are included in the base for computing indirect costs?

The array of programs included in the base of direct costs for computing indirect costs varied little across LEAs. School foodservice was included less often than educational programs for elementary and secondary school students but still represented a direct cost in the base for over 80 percent of LEAs' indirect cost rates.

Many programs and objectives can be included in the direct cost base of an indirect cost rate. The most frequently included programs were those that serve elementary and secondary school students, including regular day instructional programs (about 88 percent of LEAs with indirect cost rates), special education programs (about 86 percent), and occupational or career/technical day programs (about 85 to 86 percent). School foodservice was included slightly less often (about 81 to 82 percent). A variety of other unspecified programs were included in indirect costs in 73 percent of LEAs or more.

Exhibit 3.14 Programs or Objectives Included in the Direct Cost Base for the LEAs' Unrestricted and Restricted Indirect Cost Rates in SY 2011–12

Programs	Unrestricted Rate		Restricted Rate	
	Number	Percent	Number	Percent
Total all LEAs with an indirect cost rate in SY 2011–12	4,271	100.0	5,868	100.0
Regular day instructional programs*	3,770	88.3	5,142	87.6
Special education programs**	3,658	85.6	5,043	85.9
Occupational or career/technical day programs*	3,656	85.6	4,986	85.0
School lunch program or other school foodservice	3,449	80.8	4,807	81.9
Adult education	3,404	79.7	4,411	75.2
U.S. Department of Education program not listed above**	3,317	77.7	4,512	76.9
Other Federal programs not listed above	3,261	76.4	4,274	72.8
State programs not listed above	3,243	75.9	4,395	74.9

Source: LEA Business Manager Web Survey (Qs 2e, 2f, 7). SEA Finance Officer Telephone Survey (Q 4d).

Tests of statistical significance compared the proportion of LEAs that included each type of program in the direct cost base for unrestricted indirect cost rates or restricted indirect cost rates.

*Difference is statistically significant at the 95 percent confidence level. **Difference is statistically significant at the 99 percent confidence level.

Notes: Rows may not sum to Totals due to rounding of the weighted responses. Rows may not sum to 100 percent due to rounding. Detail does not sum to total because LEAs were allowed to provide multiple responses. Some responses represented in the table are based on multiple questions. Options for each item were Yes, No, or Don't Know. Respondents that marked Don't Know for all items were dropped.

A weighted total of 7,751 LEAs had an indirect cost rate, allocation plan or other method of recovering indirect costs, of which 4,271 indicated they had an unrestricted indirect cost rate and provided information on programs and objectives included in the direct cost base, and 5,868 they had a restricted indirect cost rate and provided information on programs and objectives included in the direct cost base.

3.3 Summary of Key Findings

Taken together, the findings in this chapter indicate that the following are the typical features of the process of establishing indirect cost rates or allocation plans:

- The State's Finance Management Agency computed or approved indirect cost rates, usually both restricted and unrestricted rates.
- A broad array of types of costs and support functions were included in indirect cost rates, and unrestricted rates were somewhat more inclusive. These findings were consistent between the SEA and LEA surveys.
- The same types of programs were generally included in the base of direct costs used in computing both restricted and unrestricted indirect cost rates. At the LEA level, school foodservice was included less often than educational programs for elementary and secondary school students but still represented a direct cost in the base for over 80 percent of LEAs' indirect cost rates.
- Most SEAs permitted LEAs to adjust indirect cost rates to compensate for under- or over-recovery of indirect costs, took actions to ensure that indirect costs allocated were allowable under Federal cost principles, and provided some form of notification to the SFAs in their State regarding the computed/approved indirect cost rate(s) for their LEAs.
- The vast majority of LEAs with any method of allocating indirect costs used an indirect cost rate(s) calculated directly by their SEA or a method of allocating indirect costs provided by their SEA.

The two most important findings in this chapter were the following points:

- Almost half (44.7 percent) of LEAs did not have an indirect cost rate or other method for recovering indirect costs, even though methods were available in almost all States.
- Of the 55.3 percent of LEAs that did have a method for recovering indirect costs, 38.2 percent calculated indirect costs for school foodservice. This means that only one-fifth (21.1 percent) of all LEAs calculated indirect costs for their school foodservice programs, while a larger minority (43.2 percent) of LEAs calculated indirect costs for their other grants and programs. Most LEAs that calculated indirect costs for school foodservice or other grants and programs used indirect cost rates based on a State formula.

Taken together, these findings provide an important context for the discussion of charging and recovery of indirect costs that follows. For roughly 80 percent of SFAs, the allocation of indirect costs was not a financial issue, and the school foodservice program was not bearing the costs of resources provided by the LEA with funds from other sources.

4. Objective 2—Charging Indirect Costs to the School Foodservice Account

The HHFKA stipulates that the indirect cost study should examine indirect costs that LEAs charge to their school foodservice programs. This chapter addresses LEA practices with regard to charging indirect costs to school foodservice and other programs; methods, timing, and content of notification to SFAs about indirect costs that may be charged to school foodservice; recent changes in those practices; and consistency with requirements for allocating indirect costs to school foodservice. Figure 1.1 illustrated all of the steps from obtaining an approved indirect cost rate or cost allocation plan to charging and recovering indirect costs. It may be useful for readers to refer back to this figure while following the discussion below.

4.1 Charging Indirect Costs

4.1.1 RQ: What percentage of LEAs allocate or charge indirect costs to any program or grant receiving Federal funds including food service?

4.1.2 RQ: What percentage of LEAs allocate or charge indirect costs to the food service program?

The vast majority of LEAs with methods of calculating indirect costs (84 percent) charged these costs to some or all grants and programs. However, these LEAs represented fewer than half of all LEAs. Only one in five LEAs charged indirect costs to their school foodservice program.

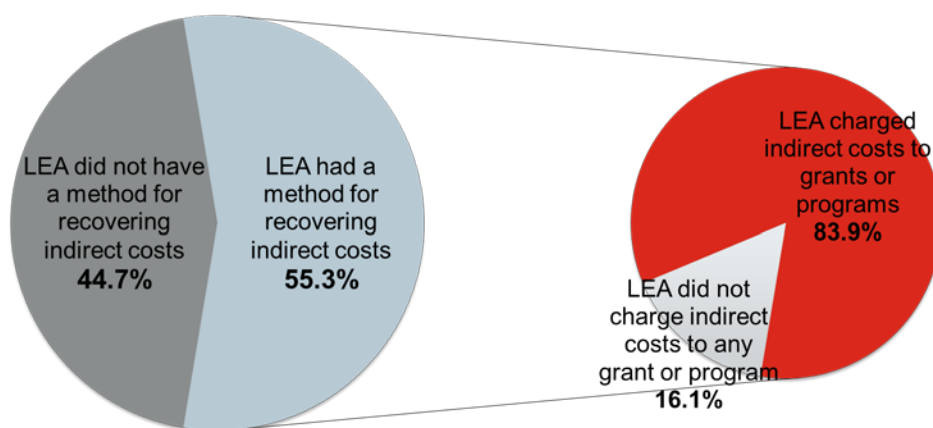
As discussed in Chapter 3, in SY 2011-2012, only 55.3 percent (7,751) of LEAs had a method for recovering the indirect costs attributable to Federal grants and programs, including the school foodservice program (see Exhibit 3.10).⁴⁷ Again, this is any method for recovering indirect costs, and not specifically an approved method. Having an approved method of allocating indirect costs gives an LEA the option of charging indirect costs to its Federal grants and programs; it does not require an LEA to charge indirect costs to any, or all, of its Federal grants and programs. An LEA that had an approved method of calculating indirect costs has an option to allocate or charge indirect costs to the grants and programs that it operates, or absorb some or all of these costs out of general revenues.

Exhibit 3.10 details the methods used by these LEAs to allocate and charge indirect costs to their grants and programs. More than three quarters (77.7 percent) of those LEAs used some type of indirect cost rate, which was sometimes paired with another method. Only 18 percent of these LEAs did not have any type of indirect cost rate, but rather used some other method for allocating indirect costs.

⁴⁷ It is important to recognize that two surveys were administered, one to LEA Business Managers and one to SFA Directors. The presentation in this chapter selects the most appropriate source for the answers to the research questions. Research questions which address actions taken by an LEA were addressed using responses to the LEA Business Manager Survey. Similarly, research questions which address actions taken by, or information received by, SFA Directors were addressed using responses to the SFA Director Survey. It is also important to keep in mind that in 392 of the LEAs included in the study sample, the LEA Business Manager functions as the SFA Director and was not requested to complete the SFA Director Survey. For these reasons, the surveys represent different populations with different sample sizes and response rates.

Nearly 84 percent (83.9 percent) of all LEAs that had a method for recovering indirect costs charged indirect costs attributable to one or more grants or programs, potentially but not necessarily including school foodservice (Figure 4.1). The most common approach was that LEAs charged indirect costs to some, but not all, grants and programs using an indirect cost rate. Only 13.6 percent of LEAs with a method for allocating indirect costs definitely charged indirect costs to all grants and programs. (Exhibit 4.1)

Figure 4.1: LEAs Charging Indirect Costs to Grants and Programs, SY 2011-2012



On the other hand, just 16.1 percent of LEAs that had a method for allocating indirect costs did not charge indirect costs to any grants or programs.⁴⁸ This included LEAs that had not yet decided to calculate indirect costs for school foodservice when they responded to the survey. The web survey period was November 2012 to February 2013. It is plausible that some LEAs subsequently did calculate indirect costs for grants and programs for SY 2011-2012 after completing the web survey.

⁴⁸ LEAs were asked whether they **calculated** indirect costs for school foodservice and for other grants and programs. They also were asked whether they **charged** indirect costs for school foodservice; this question was not asked regarding other grants and programs due to the study's focus on school foodservice. Only 64 LEAs that calculated indirect costs for school foodservice did not charge them. Therefore, we use the responses regarding the calculation of indirect costs as the best available data on the percentage of LEAs charging indirect costs.

Exhibit 4.1: Methods LEAs Used or Planned to Use to Allocate or Charge Indirect Costs to Grants or Programs in SY 2011–2012

Methods	Public LEAs	
	Number	Percent
Charged indirect costs to all grants or programs using an indirect cost rate	814	10.5
Charged indirect costs to some grants or programs using an indirect cost rate	2,456	31.7
Charged indirect costs using an indirect cost rate, but did not specify whether it was for all or some grants or programs	54	0.7
Charged indirect costs for all grants or programs using an unspecified indirect cost method ^a	239	3.1
Charged indirect costs for some grants or programs using an unspecified indirect cost method ^a	2319	29.9
Charged indirect costs using an unspecified indirect cost method ^a but did not specify whether it was for all or some grants or programs	624	8.0
Had an indirect cost method but did not charge indirect costs to any grant or program	1,245	16.1
Total LEAs	7,751	100.0

Source: LEA Business Manager Web Survey (Qs 2a, 2e, 2f, 3a, 10a, 12a, 13a, 14a)

Notes: Rows may not sum to Totals due to rounding of the weighted responses. Rows may not sum to 100 percent due to rounding. Some responses represented in the table are based on multiple questions.

^a Unspecified indirect cost method may be an indirect cost rate, cost allocation plan, or other method.

There were, however, differences among different types of LEAs⁴⁹. Large LEAs charged for indirect costs to any grant or program more often (94.8 percent) than medium (83.5 percent) and small size LEAs (79.2 percent). Also, high-poverty LEAs charged for indirect costs more often than low-poverty LEAs (90.2 vs. 80.5 percent).^{50 51}

LEAs charged their school foodservice program for indirect costs about half as often as they charged other Federally funded grants and programs. Of the LEAs with a method for recovering indirect costs, only 38.2 percent charged their school foodservice program for any indirect costs in SY 2011-2012, while 78.1 percent charged other programs receiving Federal funds (Figure 4.2).

As with all grants and programs, there were differences in charging indirect costs to school foodservice among LEAs by size. In SY 2011-2012, only 25.8 percent of small LEAs with a method for recovering indirect costs charged indirect costs to their school foodservice program.⁵² This compared with 40.5

⁴⁹ The SFA size categories were based on student enrollment: Small=less than 1,000; Medium=1,000-4,999; and Large=5,000 or more.

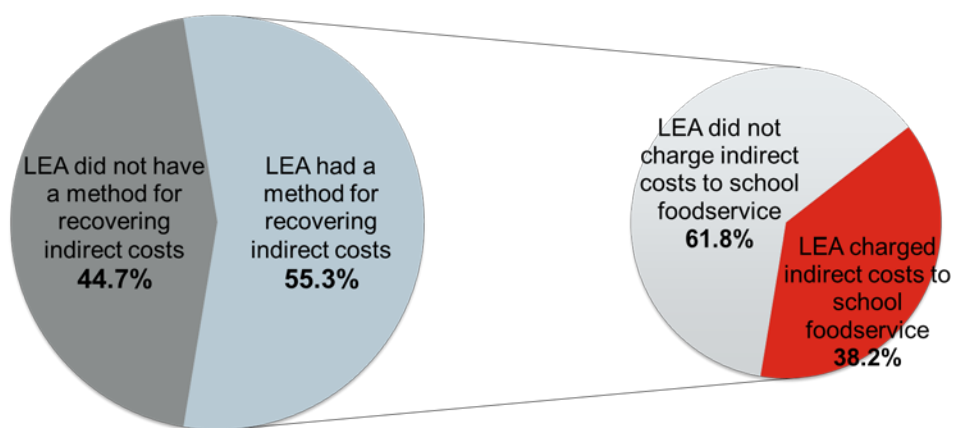
⁵⁰ Estimates for LEAs by size are presented in Appendix C (See Exhibit C-2). Estimates for LEAs by poverty rate are presented in Appendix D (See Exhibit D-2). Estimates for each of the seven FNS regions are presented in Appendix E.

⁵¹ The differences in charging for indirect costs by LEA size were found to be statistically significant at the 99% level. The differences in charging for indirect costs by LEA poverty rate were found to be statistically significant at the 99% level.

⁵² See Appendix C, Exhibit C-21.

percent of medium-size LEAs and 57.5 percent of large LEAs.⁵³ The percentages were similar, however, between high and low poverty LEAs (40.5 percent and 36.9 percent).⁵⁴

Figure 4.2: LEAs Charging Indirect Costs to School Foodservice, SY 2011-2012



Looking at the bigger picture, of all public LEAs in the country, fewer than half (46.4 percent) charged any of their grants and programs for indirect costs, and only 21.1 percent charged their school foodservice program for at least some of their indirect costs in SY 2011-2012 (Figures 4.3 and 4.4).⁵⁵

⁵³ The differences in charging school foodservice for indirect costs by LEA size were statistically significant at the 99% level. There was no statistically significant difference (at the 95% level) in the proportion of LEAs that charged school foodservice for indirect costs by LEA poverty rate.

⁵⁴ See Appendix D, Exhibit D-21.

⁵⁵ Only 55.3 percent of LEAs had a method of recovering indirect costs in SY 2011-2012, and of these, 83.9 percent charged any of their grants and programs for indirect costs $[(0.553) \times (0.839) = 0.464]$, and 38.2 percent charged their school foodservice program for indirect costs $[(0.553) \times (0.382) = 0.211]$.

Figure 4.3: Percent of All LEAs that Charged Indirect Costs to All Grants and Programs, SY 2011-2012

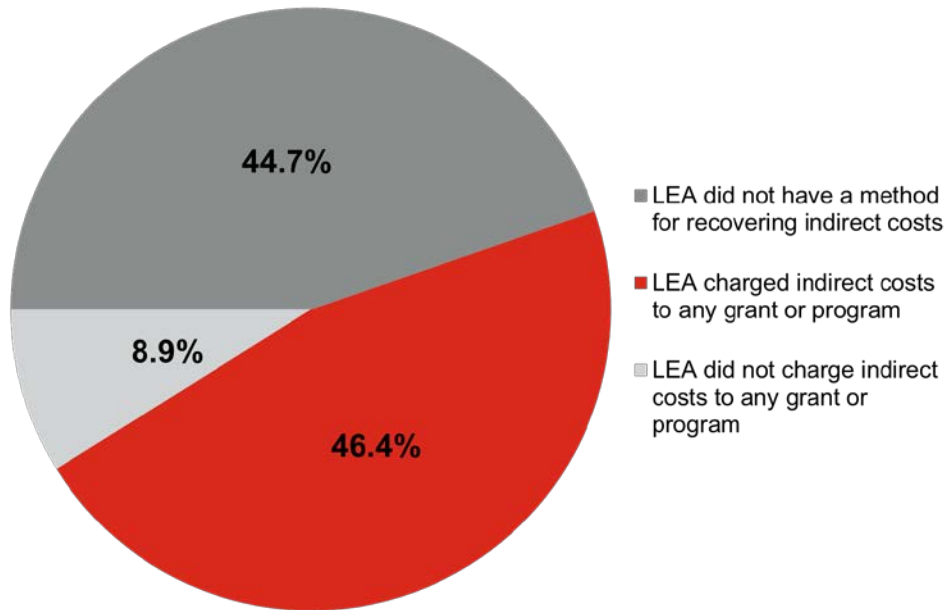
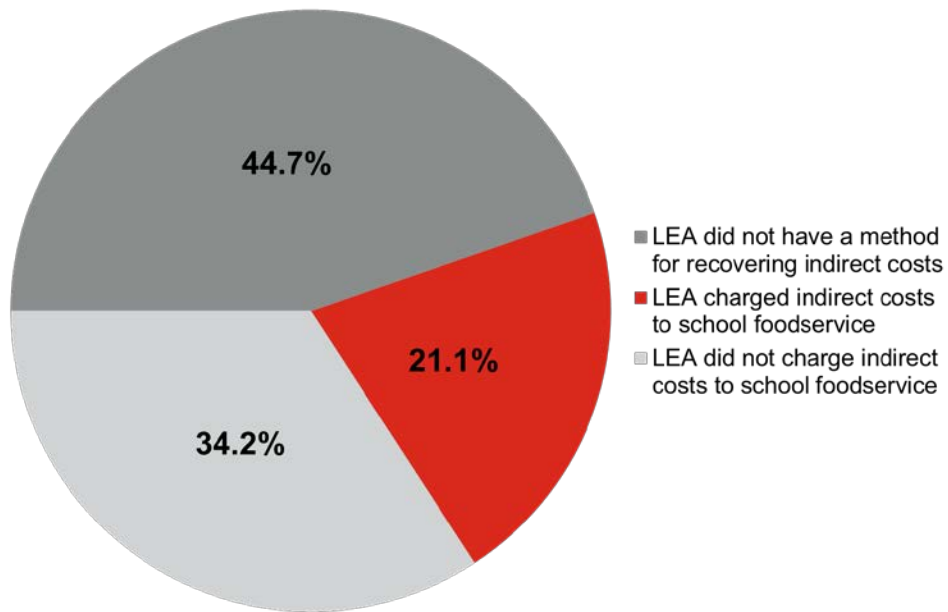
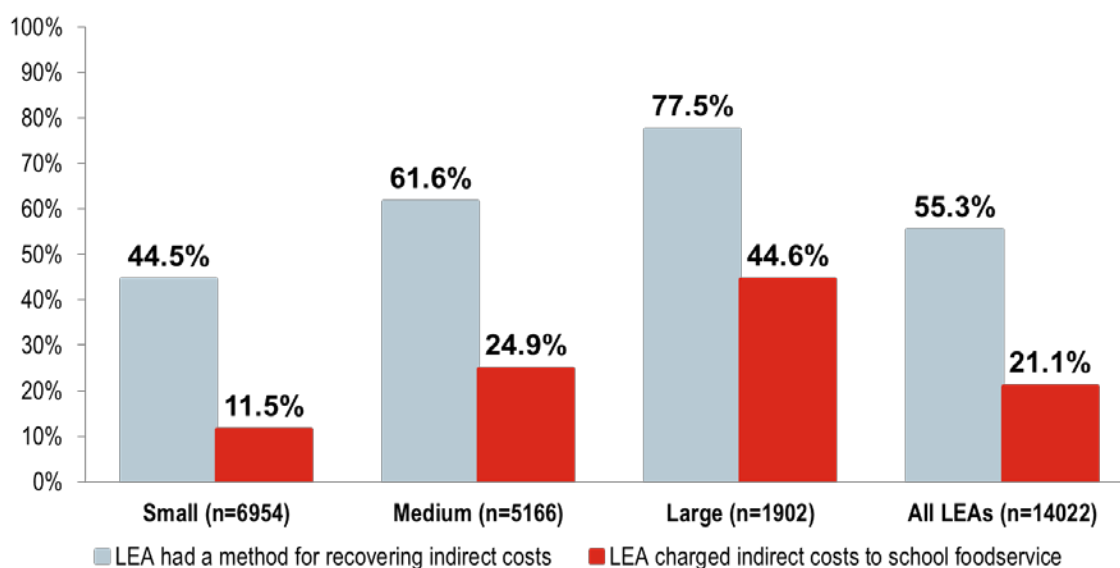


Figure 4.4: Percent of All LEAs that Charged Indirect Costs to School Foodservice, SY 2011-2012



As shown in Figure 4.5, both the availability of a method to recover indirect costs and the decision to charge indirect costs to school foodservice increased with the size category of the LEA. Again, overall 22.1 percent of LEAs charged indirect costs to school foodservice. Among small LEAs (less than 1,000 students), 12 percent charged indirect costs to school foodservice. Twenty-five percent of medium LEAs (1,000-4,999 students) and 44.6 percent of large LEAs (5,000 or more students) charged indirect costs to school foodservice.⁵⁶ Looking further into the large LEAs, 57 percent of the largest LEAs (10,000 or more students) charged indirect costs to school foodservice. These LEAs were also the most likely (88 percent) to have a method to recover indirect costs. Among large LEAs with 5,000 to 9,999 students, 69 percent had an indirect cost recovery method and 35 percent charged indirect costs to school foodservice.⁵⁷

Figure 4.5: Percent of All LEAs that Charged Indirect Costs to School Foodservice, SY 2011-2012, by LEA Size



4.1.3 RQ: What are the reasons that some LEAs do not charge school foodservice all of the indirect costs that are attributable to school foodservice?

Not all LEAs with a method of recovering indirect costs to their grants and programs charged school foodservice. LEAs noted many reasons for not charging indirect costs to school foodservice, and for over 60 percent, it had been their policy to not charge the school foodservice account for indirect costs.

When the school foodservice account was charged for indirect costs, the amount was on average about half of the calculated amount of indirect costs.

⁵⁶ The differences in charging indirect costs to foodservice by LEA size (small, medium, and large) were statistically significant at the 95% level.

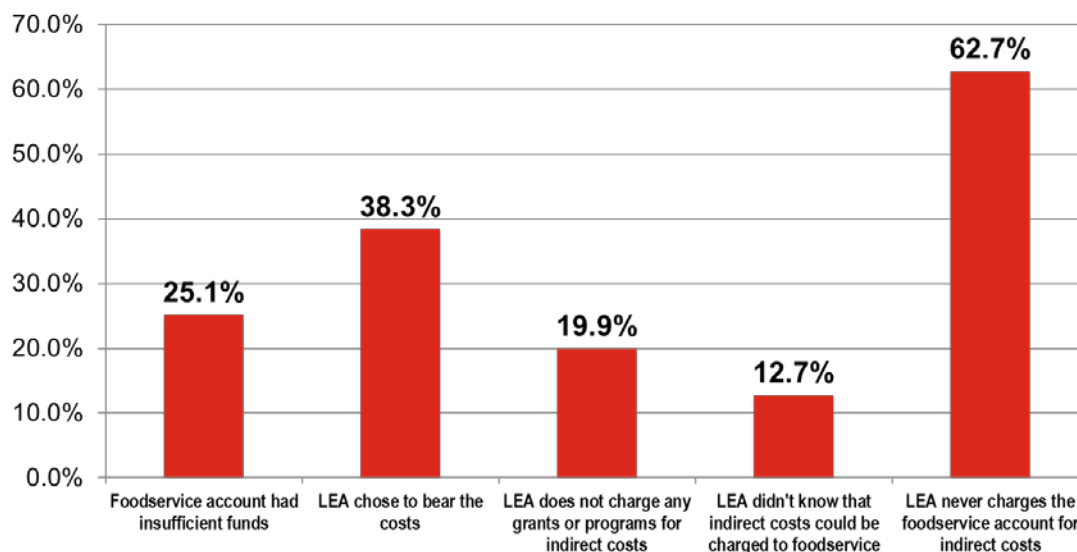
⁵⁷ The difference in charging indirect costs to foodservice between large LEAs with 5,000 to 9,999 students and the largest LEAs (with 10,000 or more students) was statistically significant at the 99% level.

As shown above, most LEAs with a method for recovering indirect costs from their grants and programs did not charge school foodservice for indirect costs in SY 2011-2012. There were five primary reasons for not charging SFAs any of the indirect costs attributable to school foodservice:

- The school foodservice account had insufficient funds to cover all of their indirect costs⁵⁸;
- LEAs chose to bear the costs of some or all of the indirect costs attributable to school foodservice;
- LEAs do not charge any of their grants and programs for indirect costs;
- LEAs did not know that they could charge school foodservice for indirect costs; and
- LEAs never charged the school foodservice account for indirect costs.

Figure 4.6 shows the reasons LEAs did not charge school foodservice for indirect costs. LEAs could identify more than one reason for not charging any indirect costs, and most often, the LEAs stated they never charged indirect costs to school foodservice (62.7 percent). Nearly 40 percent noted their LEA did not charge their SFAs and instead chose to bear the costs, and a quarter of LEAs noted that the school foodservice had insufficient funds to cover indirect costs. In addition, nearly 13 percent of LEAs indicated that they were unaware that the regulations allowed them to charge indirect costs to foodservice.

Figure 4.6: Reasons LEAs Did Not Charge Any Indirect Costs to School Foodservice, SY 2011-2012



Note: LEAs could indicate multiple reasons for not charging any indirect costs attributable to school foodservice.

Even among the SFAs that charged school foodservice for indirect costs in SY 2011-2012, many did not charge the SFA for all of the indirect costs attributable to the school foodservice program. That is, they

⁵⁸ LEAs that charged only *some* indirect costs are not included in this analysis.

charged the SFA less than the amount resulting from the application of their method of allocating indirect costs to their school foodservice program. On average, the percent of indirect costs calculated for school foodservice that was actually charged to school foodservice was 49.5 percent.⁵⁹

4.2 Notification About Being Charged for Indirect Costs

This study addressed several research questions regarding when, how, and by whom SFA Directors received information about their LEA's approved indirect costs rate (s) or allocation plan, and notification of their LEA's intent to charge the school foodservice account for indirect costs in SY 2011-2012. These research questions are discussed together in this section.

- 4.2.1 RQ: When was the SY 2011–2012 indirect cost rates communicated to the school foodservice program?
- 4.2.2 RQ: How was the SY 2011–2012 indirect cost rates communicated to the school foodservice program?
- 4.2.3 RQ: What agency notified SFA of the LEA's SY 2011-1012 Indirect Cost Rate?
- 4.2.4 RQ: Was school foodservice notified about the LEA's SY 2011–2012 indirect cost the same way as in previous years?
- 4.2.5 RQ: Did school foodservice receive notification of the LEA's SY 2011–2012 indirect cost rate earlier or later than in previous years?
- 4.2.6 RQ: Was the SFA provided with a copy of the currently approved negotiated indirect costs rate agreement each year?

SFAs that were charged for indirect costs were not usually given sufficient notice by their LEA of the intent to charge. Only 31 percent of LEAs that charged indirect costs to school foodservice had notified the SFA of their intent to charge prior to the end of SY 2010-2011. Notification was primarily orally in-person. SFAs noted that they were most often notified about the intent to charge indirect costs by their LEA (71.9 percent) and that the method of notification had not changed compared to recent years.

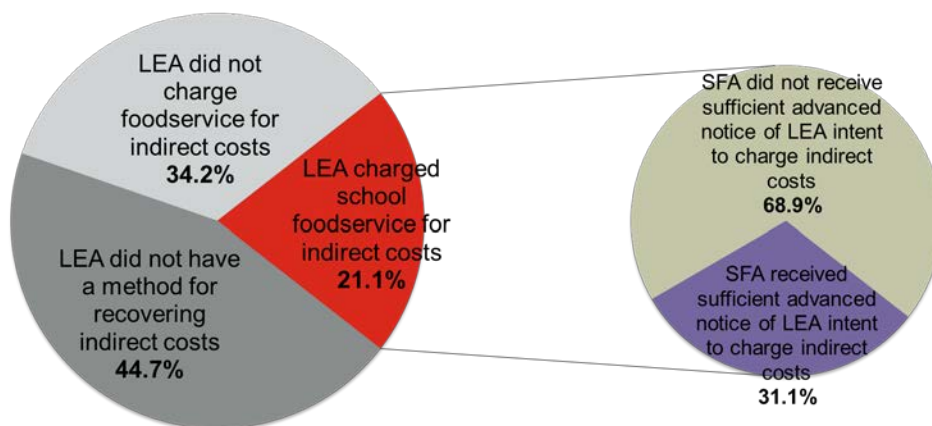
It has been reported that many SFA Directors are not notified of their LEA's intention to charge the school foodservice account for indirect costs, or are not give enough advance notice for them to adjust their budgets accordingly (SNA, 2006). Although this issue is quite important and can seriously affect an SFA's ability to operate at a break-even level, it is only relevant to those LEAs that intended to charge school foodservice for indirect costs. Since only 55.3 percent of LEAs had a method for recovering indirect costs in SY 2011-2012, the issue was irrelevant to 44.7 percent of all SFAs. It was shown above that only 21.1 percent of LEAs had a method for charging indirect costs and charged some or all of these costs to their school foodservice program. All of these LEAs that charged school foodservice for indirect costs reported that they provided some form of notice to their school foodservice program of their intent to charge the school foodservice account for indirect costs in SY 2011-2012.

The issue then is not whether LEAs notified their SFAs of their intent to charge them for indirect costs in SY 2011-2012, but whether these LEAs provided sufficient advance notice for SFA Directors to act on this information. As shown in Figure 4.7, of all SFAs charged for indirect costs in SY 2011-2012, 31.1

⁵⁹ See Appendix B, Exhibit B-4.

percent were given sufficient advance notice of their LEA's intent to charge the SFA for indirect costs. These SFAs received notice before the end of SY 2010-2011, presumably before they finalized their budget for SY 2011-2012.⁶⁰ Although 34.8 percent received notification during the summer between SY 2010-2011 and SY 2011-12, by this time most SFAs had finalized their budgets and staffing for the coming year. Another 29.8 percent were notified during SY 2011-2012 or after the end of SY 2011-2012 (but before the financial statements for the school year were closed). The remaining 4.3 percent of LEAs indicated some other timing of notification, although it was unclear whether or not the timing gave sufficient notice of the intent to charge indirect costs to school foodservice.⁶¹ Exhibit 4.2 provides additional detail on LEAs' communication to SFAs for their intent to charge indirect costs in SY 2011-2012.

Figure 4.7: Advanced Notification by LEAs to SFAs on Intent to Charge Indirect Costs, SY 2011-2012



⁶⁰ Notification before the end of the prior school year was defined as sufficient notice for the purposes of this analysis, in consultation with FNS. This definition does not represent official FNS policy.

⁶¹ LEAs that did not report notification before the end of SY 2010-2011, including those with unknown timing, were classified as not giving sufficient advance notice of the intent to charge indirect costs.

Exhibit 4.2: LEA-Reported Timing of Communication to SFA about Indirect Costs for SY 2011-2012

	Public LEAs	
	Number	Percent
Indirect cost process was established prior to SY 2010-2011	63	2.9
While school was in session for SY 2010-2011	613	28.2
Between the end of SY 2010-2011 and the start of SY 2011–2012	757	34.8
While school was in session for SY 2011–2012	499	23.0
After the end of school for SY 2011–2012	147	6.8
Other timing	94	4.3
Total LEAs	2,172	100.0

Source: LEA Business Manager Web Survey (Qs 2a, 3a, 8a, 9a, 10a 12a, 13a, 14a). Respondents who indicated they were both the LEA Business Manager and the SFA Director for SY 2011-2012 were not asked questions about communications between the LEA and the SFA about indirect costs.

A weighted total of 2469 LEAs provided the SFA with notification about indirect costs that might be charged; of which 2172 responded to this question (165 responded Don't Know and 132 did not respond).

LEAs that charged school foodservice for indirect costs in SY 2011-2012 used a range of methods to notify SFAs about indirect costs, and often multiple methods were used. By far, the most common means of notification among these LEAs was in-person oral notification; 67.6 percent of these LEAs notified their SFA Director this way. USPS or intra-district mail was used by 19.3 percent of these LEAs, and email was used by 16.2 percent of LEAs⁶².

Among LEAs that charged food service for indirect costs in SY 2011-2012, in-person oral notification was used more often by small LEAs (78.0 percent) and medium-size LEAs (77.0 percent) than by large SFAs (48.3 percent). By contrast, large LEAs used e-mail far more often (26.9 percent), than small (3.8 percent) LEAs or medium-size LEAs (13.3 percent).⁶³ By poverty rate, there were similar proportions of LEAs that used in-person, oral communication as at least one method to tell their SFAs about indirect costs. Nearly 70 percent (69.2 percent) of low poverty LEAs and 65 percent (64.8 percent) used in-person, oral communication. More low poverty LEAs (18.8 percent) than high poverty LEAs (11.7 percent) communicated about indirect costs by email.^{64 65}

⁶² See Appendix B, Exhibit B-24. Also in Appendix B (Exhibit B-27), SFA Directors reported somewhat different proportions for the ways in which they were notified. A smaller proportion of SFA Directors were notified in-person orally (36.9 percent), and higher proportions were notified by e-mail (31.4 percent) and/or USPS mail or intra-district mail system (24.1 percent).

⁶³ The differences in LEA notification through in-person, oral communication and by email by LEA size were found to be statistically significant at the 99% level.

⁶⁴ See Appendix C, Exhibit C-24.

⁶⁵ The differences in LEA notification by email by LEA poverty rate were found to be statistically significant at the 99% level. There was no statistically significant difference (at the 95% level) in the proportion of LEAs that notified through in-person, oral communication by LEA poverty rate.

SFAs reported that most commonly, the LEA administration (71.9 percent) and/or the State Child Nutrition Agency (37.3 percent) provided notification about its indirect cost rate.⁶⁶ For 9 out of 10 SFAs, the method by which they received this notification was the same as in previous years.⁶⁷

4.3 Summary of Key Findings

Although the issue of charging indirect costs to school foodservice has received much public attention, only 21.1 percent of all LEAs charged their SFA for any indirect costs in SY 2011-2012. This finding reflects two key facts. First, almost half of all LEAs did not have a method for recovering indirect costs from any of their grants and programs, including school foodservice. This placed a ceiling on the proportion of SFAs that could possibly have been legitimately charged for indirect costs in SY 2011-2012. Second, LEAs with a method for recovering indirect costs charged school foodservice far less often (38.2 percent) than any grants and programs (83.9 percent). LEAs charged, on average, about half of the calculated indirect costs for school foodservice.

Similarly, when SFAs are informed of their LEA's intent to charge them for indirect costs has also been an issue. However, the issue applies just to the 21 percent of all LEAs charged their SFA for indirect costs in SY 2011-2012. Among these LEAs, the finding that a substantial proportion (68.9 percent) did not provide their SFA with sufficient advance notification of their intent is a potential source of concern. However, this is a narrowly confined problem, as only 14.5 percent of all public SFAs (68.9 percent of 21.1 percent) did not receive enough advance notification to adequately plan for indirect cost charges when preparing their budgets for SY 2011-2012. The study did not point to any potential sources of concern regarding how SFAs were notified and by whom.

⁶⁶ See Appendix B, Exhibit, B-25.

⁶⁷ See Appendix B, Exhibit B-28.

5. Objective 3—Recovery of Indirect Costs

Chapter 4 discussed LEAs' practices for charging indirect costs to its grants and programs including school foodservice. However, charging indirect costs and recovering indirect costs are not the same things. Charging is equivalent to sending an SFA a bill for indirect costs; recovering is equivalent to getting paid for that bill. Recovering indirect costs requires that funds be transferred from the school foodservice account to the LEA's general fund. LEAs may charge their grants and programs for indirect costs but not recover any or all of the indirect costs charged. This chapter addresses LEA practices with regard to recovering indirect costs from school foodservice and other programs and recovery of indirect costs in future school years.

5.1 Recovering Current Year Indirect Costs for Grants and Programs

As discussed in Chapter 4, in SY 2011-2012 only 46.4 percent of all LEAs charged indirect costs to any of their grants and programs, and only 21.1 percent charged their school foodservice program for any indirect costs. The extent to which indirect costs are recovered is relevant only to these LEAs.

5.1.1 RQ: What percentage of LEAs recover indirect costs from any program receiving Federal funds? What percentage of LEAs recover indirect costs from school foodservice? Are indirect costs recovered more frequently from school foodservice?

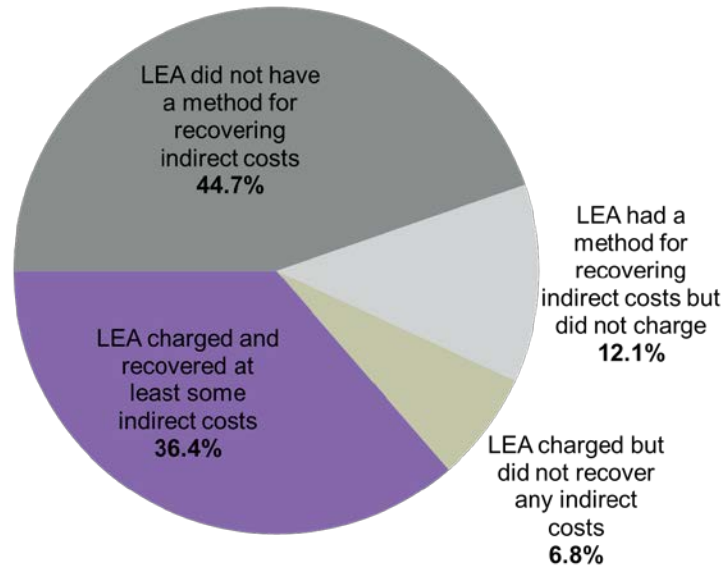
Recovery of indirect costs from foodservice was less common than recovery of indirect costs from other grants and programs. About one-third of all LEAs recovered at least some indirect costs from one or more of their grants and programs, but only 13 percent of all LEAs recovered any indirect costs from school foodservice.

As shown in Chapter 4, LEAs are more likely to charge indirect costs to any grant and program receiving Federal funds than they are to charge indirect charges to their school foodservice programs. This pattern was also reflected in the recovery of indirect costs (Figure 5.1). With this analysis, recovery of indirect costs from school foodservice was compared to recovery of indirect costs from other grants and programs, which are grants and programs excluding school foodservice. Over two-fifths (43.2 percent) of all LEAs charged indirect costs to their other grants and programs. Of these LEAs, 84.3 percent recovered some or all of the indirect costs charged. Thus, 36.4 percent of all LEAs recovered some or all of the indirect costs charged, and 6.8 percent did not recover any of the indirect costs that they charged to their grants and programs.⁶⁸

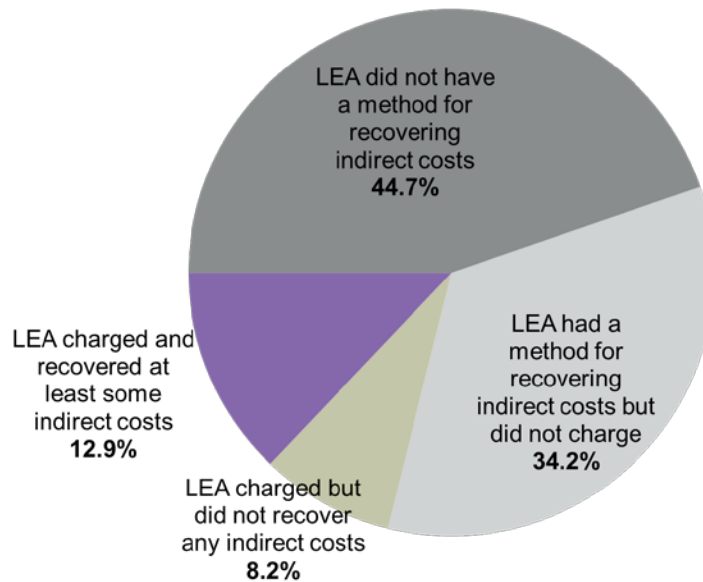
⁶⁸ See Appendix B, Exhibit B-32. 55.3 percent of all LEAs had a method for calculating and charging indirect costs, and of these, 78.1 percent charged indirect costs to grants and programs, excluding school foodservice $[(.553)*(.781)=.432]$; 84.3 percent recovered indirect costs from these other grants and programs, $[(0.843)*(0.432)= 0.364]$, so 6.8 percent did not recover from other grants and programs $(43.2-36.4=6.8)$

Figure 5.1 LEA Recovery of Indirect Cost Charges, SY2011-2012

Other Grants and Programs



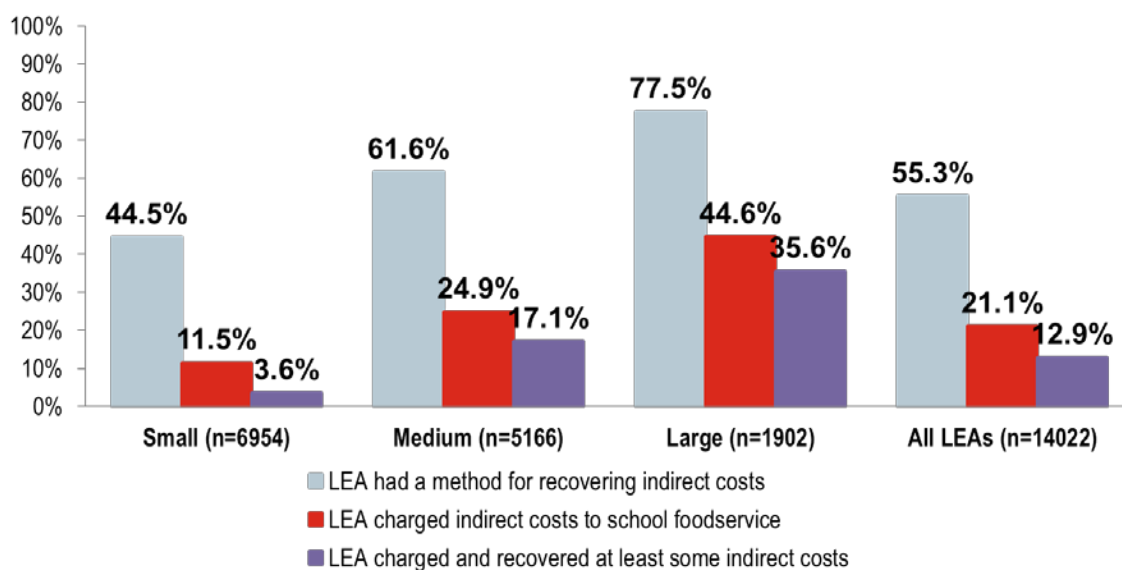
School Foodservice



Among LEAs that charged indirect costs to their school foodservice programs, 61.2 percent⁶⁹ recovered indirect costs. Only 12.9 percent of all LEAs recovered any indirect costs from school foodservice.⁷⁰ Thus, almost three times as many LEAs recovered indirect costs from other grants and programs as from school foodservice.

Figure 5.2 summarizes the percent of LEAs, by size category, that had a method to recover indirect costs, charged indirect costs to school foodservice, and recovered at least some indirect costs from school foodservice. Again, overall there were 12.9 percent of LEAs that charged and recovered indirect costs from school foodservice. Looking at LEAs by size, 3.6 percent of small LEAs (less than 1,000 students) recovered indirect costs from school foodservice. Seventeen percent of medium LEAs (1,000-4,999 students) and 35.6 percent of large LEAs (5,000 or more students) recovered indirect costs from school foodservice.⁷¹ Looking further into the large LEAs, the largest LEAs (10,000 or more students) more often recovered indirect costs from school foodservice: 52.5 percent versus 22.4 percent among LEAs with 5,000 to 9,999 students.⁷² As discussed in Chapter 4, the largest LEAs were the most likely to have a method to recover indirect costs and to charge indirect costs to school foodservice.

Figure 5.2: Percent of All LEAs that Charged and Recovered Indirect Costs from School Foodservice, SY 2011-2012, by LEA Size



⁶⁹ See Appendix B, Exhibit B-31. This percentage includes LEAs that recovered or had planned to recover some or all indirect costs attributed to school foodservice.

⁷⁰ This estimate is based on 21.1 percent of all LEAs that charged indirect costs to school foodservice, and 61.2 percent of LEAs that recovered or planned to recover indirect costs from school foodservice (See Appendix B, Exhibit B-31) $[(0.612) \times (0.211) = 0.129]$.

⁷¹ The differences in recovering indirect costs from school foodservice by LEA size (small, medium, and large) were statistically significant at the 99% level.

⁷² The difference in recovering indirect costs from school foodservice between large LEAs with 5,000 to 9,999 students and the largest LEAs (with 10,000 or more students) was statistically significant at the 99% level.

5.1.2 RQ: What are the reasons the LEAs did not recover or plan to recover all indirect costs attributable to school foodservice for SY 2011–2012?

5.1.3 RQ: What are the reasons the LEAs did not recover or plan to recover all indirect costs attributable to other grants or programs that received Federal funds for SY 2011–2012?

For LEAs that charged indirect costs to their school foodservice programs in SY 2011-2012 but did not recover all of the indirect costs charged, the primary reasons were that LEAs made the decision to bear these costs and/or the SFAs did not have the funds with which to pay these costs. LEAs did not recover indirect costs from other grants and programs for very similar reasons.

In examining the reasons why LEAs did not recover all of the indirect costs charged to school foodservice, it is important to keep in mind that only 21.1 percent of all LEAs charged school foodservice for any indirect costs in SY 2011-2012. The LEAs that did not recover all of the indirect costs fall into two distinct groups:

- LEAs that did not recover any of the indirect costs charged to school foodservice (8.2 percent), and
- LEAs that recovered some but not all of the indirect costs charged to school foodservice (12.9 percent).

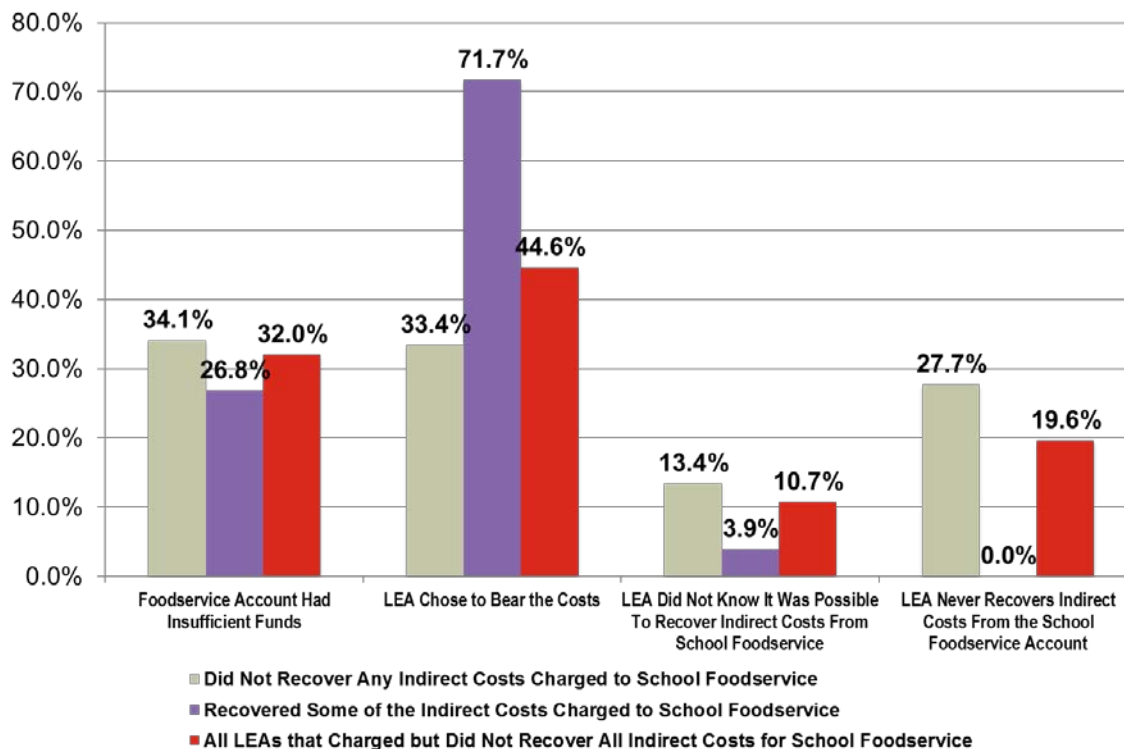
Figure 5.3 presents the primary reasons given by LEAs for not recovering all of the indirect costs charged to school foodservice in SY 2011-2012. Of the LEAs that did not recover any indirect costs from school foodservice in SY 2011-2012, 27.7 percent had a policy of not recovering indirect costs from school foodservice. Other major reasons why some LEAs did not recover any indirect costs from school foodservice were insufficient funds in the school foodservice account to pay for indirect costs (34.1 percent) and that the LEA chose to bear these costs in SY 2011-2012 (33.4 percent).⁷³ As discussed below, some LEAs elected to charge school foodservice for indirect costs even when they were aware that the SFA did not have the funds to pay for these costs. Somewhat surprisingly, particularly since these LEAs had charged school foodservice for indirect costs, 13.4 percent of LEAs that did not recover any indirect costs from school foodservice were not aware that recovering indirect costs from school foodservice was permissible under NSLP and SBP regulations.

Among LEAs that recovered some but not all of the indirect costs charged to school foodservice, the most common reason was that the LEA made a decision to bear some of the indirect costs attributable to school foodservice in SY 2011-2012 (71.7 percent). The second most common reason for only recovering some of the indirect costs attributable to school foodservice was because the school foodservice account had insufficient funds (26.8 percent). Of LEAs that recovered some indirect costs charged to school foodservice, 3.9 percent were unaware that the regulations permitted them to charge and recover indirect costs from school foodservice. This result has been interpreted as LEAs who recovered some indirect costs, but did not know it was possible to recover all indirect costs.⁷⁴

⁷³ For these LEAs, it is not an LEA policy, but a decision that is made on a year-to-year basis.

⁷⁴ The 3.9 percent of LEAs that recovered some indirect costs charged to school foodservice yet did not know it was possible to recover indirect costs from school foodservice was based on one respondent. The survey

Figure 5.3: Reasons LEAs Did Not Recover All Indirect Costs Charged to School Foodservice in SY 2011-2012



Note: Analysis is based on an unweighted n=161 (weighted n=1,260), including 121 (weighted n=891) that did not recover any indirect costs and 49 (weighted n=369) that recovered some indirect costs from school foodservice. Appendix B, Exhibit B-33 provides additional details about the weighted responses.

Among LEAs that did not recover all of the indirect costs charged to other grants and programs in SY 2011-2012, the primary reasons were quite similar to the reasons for not recovering all of these costs from school foodservice: LEAs chose to bear these costs (44.1 percent); grants had insufficient funds to pay for indirect costs (35.2 percent); indirect costs were not included in the grants’ budgets (32.1 percent); and/or the LEA never recovers indirect costs from any grants or programs (16.3 percent).⁷⁵

question was, “What are the reasons why your LEA did not, or will not, recover (any/all) of the indirect costs calculated for the school foodservice account for SY2011-2012?” It is possible the respondent was indicating that he or she did not know it was possible to recover *all* of the indirect costs calculated for school foodservice.

⁷⁵ See Appendix B, Exhibit B-34.

5.1.4 RQ: Are indirect costs charged and recovered in a manner consistent with requirements for the allocation of indirect costs and school foodservice operations?

To address this research question, analysis was done to look at the notification about indirect costs and the timing of this notification. Based on these criteria, about one-fifth of the relatively few LEAs that charged SFAs for indirect costs definitely followed the FNS guidance on notification.

FNS provides guidance to SFAs on issues related in indirect costs. There is no formal checklist to determine if an LEA is charging and recovering school foodservice indirect costs in a manner that is consistent with program requirements. The intent of this study was not to conduct audits of LEA and SFA business and financial operations.

In examining this question it is again important to keep in mind that only 21.1 percent of all LEAs charged school foodservice for indirect costs in SY 2011-2012 and that only 12.9 percent of all LEAs recovered any of the indirect costs charged to school foodservice. Thus, the population to which this question applies is the minority of LEAs that recovered indirect costs from school foodservice. With this in mind, this study categorized LEA practices in charging and recovering as being fully consistent, partially consistent, or not consistent with requirements for notification regarding indirect costs. This typology was based on two questions:

1. Did the LEA provide its SFA with information about the indirect costs that it might be charged for SY 2011-2012?
2. Did the LEA provide this information in a timely manner, before the end of SY 2010-11 or between the end of SY 2010-11 and the start of SY 2011-2012?

If an LEA answered yes to both questions, it was considered to be charging and recovering indirect costs from school foodservice in a manner consistent with program requirements. If it answered yes to only one of the questions it was considered to be in partially consistent with the requirements. If an LEA answered no to both questions it was not considered to be charging and recovering school foodservice indirect costs in a manner consistent with the requirements. Only about one-fifth (22.4 percent) of the LEAs that charged school foodservice for indirect costs in SY 2011-2012 did so in a manner consistent with both requirements. About two-fifths (43.6 percent) were in partial compliance; and another 13.7 percent did not satisfy either of the conditions established by this analysis. The remaining 20.3 percent of LEAs that charged school foodservice for indirect costs did not provide sufficient information and therefore could not be categorized.⁷⁶

⁷⁶ See Appendix B, Exhibit B-22. If the LEAs that could not be categorized are excluded, then 28.1 percent of LEAs that charged and recovered indirect costs from school foodservice would have met the notification requirements and 54.7 would have partially met the notification requirements.

Exhibit 5.1: Proportion of LEAs that Charged and Recovered Indirect Costs in a Manner Consistent with Requirements for Notification about Indirect Costs in SY 2011–2012

	Public LEAs	
	Number	Percent
LEA indicated charging or recovering indirect costs from school foodservice in a manner inconsistent with requirements for notification about indirect costs to school foodservice	259	13.7
LEA indicated charging or recovering indirect costs from school foodservice in a manner fully consistent with requirements for notification about indirect costs to school foodservice	423	22.4
LEA indicated charging or recovering indirect costs from school foodservice in a manner partially consistent with requirements for notification about indirect costs to school foodservice	823	43.6
Unknown whether LEA charged or recovered indirect costs from school foodservice in a manner consistent with requirements for notification about indirect costs to school foodservice	383	20.3
Total LEAs that recovered or planned to recover indirect costs from school foodservice for SY 2011-2012	1,888	100.0

Source: LEA Business Manager Web Survey (Qs 8a, 9a, 12a, 12b, 12c)

Notes: Rows may not sum to Totals due to rounding of the weighted responses. Rows may not sum to 100 percent due to rounding.

A weighted total of 1888 LEAs recovered or planned to recover indirect costs from school foodservice in SY 2011-2012.

To categorize an LEA as having charged or recovered indirect costs from school foodservice in a manner consistent with requirements to allocate indirect costs to school foodservice, data were assessed on whether the LEA 1) provided the SFA with information about indirect costs that might be charged, and 2) provided the SFA with this information before the end of SY 2010-2011. Only LEAs that indicated they recovered or planned to recover indirect costs from school foodservice are included.

5.2 Recovering Prior Years' School Foodservice Indirect Costs

5.2.1 RQ: What percentage of LEAs that have agreed to cover school foodservice indirect costs in past years attempt to recover those costs in future school years?

5.2.2 RQ: What percentage of LEAs that have agreed to cover indirect costs in past years have formal written agreements with their SFAs to recover those costs in future school years?

Although permitted to do so by the program regulations, LEAs virtually never recovered indirect costs from school foodservice accrued in previous school years that had not been recovered.

Program regulations permit LEAs to recover indirect costs accrued to, but not recovered from, their school foodservice programs in previous school years. However, to do so the regulations require an LEA to have a written agreement in place with its SFA before closing the books for the year in which the indirect costs were accrued. This regulation is designed to prevent LEAs from recovering previously unrecovered school foodservice indirect costs on an ad hoc basis when the school foodservice account has enough funds available to pay for previous years' unrecovered indirect costs in addition to the current year's indirect costs.

Although permitted by the regulations, LEAs virtually never recovered previously unrecovered indirect costs from school foodservice. In fact, the number of LEAs in the study sample that reported recovering

indirect costs from previous years was too small to develop reliable estimates of the proportion of SFAs doing so. Similarly, the number of such LEAs in the study sample was too small to reliably estimate the proportion of LEAs that had written agreements in place with their SFA permitting them to recover prior years' indirect costs.

5.3 Summary of Key Findings

About one-fifth of LEAs charged their school foodservice programs for indirect costs, and of those that do, about 60 percent recovered any of the indirect costs charged. Looking at the issue in terms of all public LEAs, only 12.9 percent of all public LEAs recovered any indirect costs from their school foodservice programs. The proportion of LEAs that recovered indirect costs from other grants and programs was much larger but still represented just one-third of all LEAs. There were two primary reasons for not recovering indirect costs from either school foodservice or other grants and programs. First, many LEAs chose to bear these costs, either as a matter of LEA policy or based on decisions made each school year; and second, because these programs did not have the funds to pay for these costs. Finally, while program regulations permit LEAs to recover indirect costs that were not recovered in the year in which they were accrued to recover these costs in future years, virtually no LEAs do so.

6. Objective 4—Treatment of Indirect Costs by Private Schools and Private School Systems

6.1 Issues: Why Is this Important?

In setting the objectives for the *School Foodservice Indirect Cost Study*, the Food and Nutrition Service (FNS) included research questions about the extent to which private schools charged and recovered indirect costs. To address these questions, the evaluation team collected data from several sources about the reporting and recovery of indirect costs attributable to school foodservice by private schools and private school systems that participate in the NSLP⁷⁷. This chapter summarizes the data and discusses the findings regarding this topic for a select number of large private school systems.

The LEA Business Manager Survey included a small sample of private schools and private school systems (106 eligible respondents and 62 completed surveys, as shown in Exhibit M.2 in Appendix M.)⁷⁸ The results from these surveys revealed that the majority of private schools did not have a method for recovering indirect cost, as less than a quarter (14 private schools) reported that they had an indirect cost rate, allocation plan, or other method of recovering indirect costs.⁷⁹ Additionally, among the private schools that had a method of recovering indirect costs, only 11 reported that they actually charged indirect costs. Thus, although some private schools did have an indirect cost method, overall, very few private schools used the method to charge or recover indirect costs. Due to the limited information from responses to the surveys and the evidence suggesting that few private schools charged indirect costs to school foodservice, the survey data for private schools were not analyzed in depth, and therefore no such analysis is presented in this report.

In lieu of this analysis, and after consultation with FNS, telephone follow up interviews were conducted with three large private school systems to develop case studies. The respondents were purposively selected because they indicated in the LEA Business Manager Web Survey that they had an indirect cost method and planned to recover indirect costs from the National School Lunch and Breakfast Program (NSLP and SBP) for SY 2011-2012. Additionally, State Education Agency (SEA) Finance Officers and State Child Nutrition (CN) Directors also responded to the SEA and CN surveys⁸⁰ in the States where

⁷⁷ Private school systems are groups of schools operated by the same organization, such as an archdiocese or a non-profit educational management company. For ease of discussion, when this chapter refers to “private schools,” private school systems are implicitly included unless there is an explicit distinction between individual schools and school systems.

⁷⁸ As discussed in Chapter 2, the web surveys of LEA Business Managers and SFA Directors gathered information from Business Managers or Chief Financial Officers of private schools (as well as public LEAs) about how indirect costs are applied in the financial reporting for school foodservice. Respondents to this survey provided information on how indirect costs were calculated and allocated to their programs and activities including school foodservice.

⁷⁹ These results are based on sample respondents and are not weighted.

⁸⁰ As part of the study, telephone interviews were conducted with all State Child Nutrition (CN) Directors and all State Education Agency (SEA) Finance Officers. In addition to data related to public LEAs, the State CN and SEA surveys gathered data on the respondent agencies’ roles in the setting or approving of private schools’

these large private school systems were located. Information from these State surveys and the follow up interviews at the local level provided more detail about the process and method used by these three large private school systems to charge and recover indirect costs.⁸¹ In this chapter, these three respondents are referred to as the *private school SFAs*, as they held agreements with their States for the NSLP and SBP programs.

Admittedly, the sample is small and not statistically representative of the experiences of the full universe of private schools that calculate and recover indirect costs from programs and grants. Therefore, the findings cannot be generalized. However, responses from the SEA and CN interviews provided information about how the State established indirect cost rates/methods, notified and communicated these methods to LEAs and SFAs, and provided guidance and oversight to the three private school SFAs. The LEA Business Manager Web Survey, and follow up conversations with Business Managers or Chief Financial Officers provided information on how indirect costs for school foodservice were calculated, charged, and recovered by these three private school SFAs.

This chapter summarizes the key findings from these surveys and interviews for the three private school SFAs. The results are organized by the main research topics explored in this study, including:

- Establishing indirect cost rates/methods;
- Communicating indirect cost rates to LEAs and SFA directors;
- Charging and recovery of indirect costs for food service; and
- Assuring compliance and training.

6.2 Establishing Indirect Cost Rates or Cost Allocation Plans

In this section we present and discuss the State’s role in setting or approving private schools’ indirect cost rates or cost allocations plans, focusing on the three States where the three private school SFAs were located. The section concludes by providing information on the types of indirect cost methods used by the SEAs⁸² for private schools in their States including the three private school SFAs profiled in this chapter. The findings are based on data reported in the SEA Finance Officer Survey and the Business Manager survey and follow up interviews, and apply specifically to the States where the three public school SFAs were located.

Role of the SEA: The three SEAs all played a key role in establishing the indirect cost rate(s) or cost allocation plans used by private school SFAs to allocate indirect costs to their federal food programs/activities.

indirect cost rates or cost allocation plans, communications with private School Food Authorities (SFAs) about approved indirect costs rates, and oversight of the allocation and recovery of school foodservice indirect costs in private schools and school systems.

⁸¹ The data from the three large private school systems included information obtained in conversations and email exchanges to clarify survey responses and any cost materials provided by the Business Managers.

⁸² In this chapter, the term “the SEAs” includes the SEA Finance Office and CN Divisions, unless otherwise specified.

Establishing cost allocation plans, and/or approving indirect cost rates: Two private school SFAs used indirect cost percentage rates that were provided or approved by their State Departments of Education. The third private school SFA used a cost allocation plan established and approved annually by the SEA.

A Federal or State agency established and/or approved indirect cost percentage rates or plans for the private school SFAs. The private school SFAs indicated that the State Department of Education was involved in the process of establishing and approving their indirect cost rates, or cost allocation plans. For example, one SEA used a methodology approved by the US Dept. of Education, and another used a methodology that was originally authorized by USDA/FNS (as discussed in the next section). In the third case, the cost allocation plan was established, and was approved annually, by the State Education Agency's Division of Food and Nutrition.

According to the SEA surveys, the role of the SEA in determining how private schools allocated indirect costs to their programs/activities involved either the SEA computing the indirect cost rate, approving applications or cost allocation plans, or providing general guidance to private school SFAs about the approved indirect cost methodology. The details varied among the three States. For example, if a private school SFA requested a higher indirect cost rate than the average for all private schools for the restricted rate then (in one State) the SEA would need to approve the private school SFA's application for the indirect cost percentage rate. Similarly, if a private school wanted to charge indirect costs, then the SEA would provide guidance on the approved indirect cost methodology.

These three private school SFAs demonstrated a diversity of methods, as illustrated by the fact that each SEA approved a different indirect cost method. These methods are described in more detail in the section on Charging and Recovery of Indirect Costs for Food Service

6.3 Communicating Indirect Cost Rates to LEAs and SFA Directors

This section presents information about who communicated the approved indirect cost methods to the private school SFAs, and how the private school SFAs are notified about approved indirect cost rates or cost allocations plans. These findings were based on data reported in the SEA Finance Officer and State CN Director surveys for the three States.

Notification about computed or approved indirect costs, indirect cost rates or cost allocation plans: According to the State CN Director survey, the States notified private school SFAs about computation and approval of indirect cost rates or cost allocation plans either by providing links to guidelines on State websites or through direct communication.

Each State provided notification about computation and approval of indirect cost rates or cost allocation plans to LEAs and SFA directors. Depending on the State, the responsible party was the SEA's finance or federal reporting office, the financial department in the Division of Food and Nutrition, or the CN Division. One SEA provided notification on the restricted rate to private schools by directing the school foodservice directors to review the relevant materials posted on the State website. In another State, the CN Division sent emails to food service directors at private schools about the State's approved indirect cost factor rate. In the third State, the SEA provided notification and guidance for the cost allocation plan in the form of instructions in a Corrective Action Plan letter specifically directed to the private school SFA within the last five years.

6.4 Charging and Recovery of Indirect Costs for Food Service

Below are details on the indirect cost methods used by the private school SFAs, the type of costs and support functions that are charged to the school foodservice account, and the extent to which indirect costs charged to school foodservice are recovered. These results were based on data reported in the SEA Finance Officer Survey for the three States, on data for the three private school SFAs from the LEA Business Manager Web Surveys, and on the follow up interviews with the Business Managers or Chief Financial Officers.

Methods used to calculate indirect cost for school foodservice: The indirect cost methods used by the three private school SFAs depended on the guidance from the State. The approved method was different for each of the three private school SFAs. One SFA used a restricted rate, another an indirect cost factor rate, and the third used a cost allocation method.

Each approved indirect cost method for each of the three private schools is described below:

Restricted Rate: The SEA in this state instructed private schools to use a restricted rate for allocating indirect costs to programs or activities in reporting expenses. According to the SEA, the agency computed or approved restricted indirect cost rates for private schools. The indirect rates from all private schools are averaged to give one indirect cost rate. Private schools must apply if they wish to use a rate higher than the average, using an application for restricted indirect cost rates for not-for-profit community based organizations. The SEA then needed to approve the application for this indirect cost rate.

The private school SFA charged indirect costs incurred to the school foodservice account, with the intent of capturing such costs as utilities and maintenance for the cafeteria and classrooms at each school used to provide breakfast, lunch, and snacks to students. In SY 2011-2012, the final restricted indirect cost rate for this private school SFA was approximately 10 percent. The school foodservice director said that program costs typically break down into 45 percent for food purchases, 45 percent for direct labor, and 10 percent for indirect costs. Any remaining costs that are not related to, or unallowable for, the federal food programs are paid for by the general account.

Indirect Cost Factor Rate: According to the SEA in this State, if a private school wanted to charge any indirect costs, the only method that it allowed was a 10 percent indirect cost option that was initially presented in a 1978 USDA FNS memo dated June 28, 1978 (referred to as FNS (CN) Instruction 796-1 Memo). The memo provided three different indirect cost options that the State agency could exercise for indirect cost rate assignment for private schools and Residential Child Care Institutions (RCCIs). According to a recent FNS communication, this instruction is now obsolete. However, it is the indirect cost method still used by this private school SFA.

Using this methodology, a 10 percent indirect cost factor rate was applied to salaries and employee fringe benefits of the food service employees at each school that operates the NSLP and SBP. The indirect costs calculated by the indirect cost rate factor method are not based on total costs, but only on the amount of the salaries and employee benefits. Therefore, the SEA did not consider this option to be an indirect cost rate, which is likely why it was termed an indirect cost factor rate. The funds recovered via the indirect cost factor rate are used to reimburse the schools within the private school SFA for the share of the costs of facilities used for school foodservice.

Cost Allocation Plan: Based upon direction from its SEA, the third private school SFA was authorized to allocate costs that are not directly attributable to any of the individual food programs that it operates. The

direct cost basis of allocation was the total food cost for each of the food programs operated by the private school SFA, including the three FNS food programs (NSLP, CACFP, and Summer Meals) and one non-Federal community food program. The total food costs represented all food costs, procurement and warehousing of food, assembling and packaging of food, and distribution that was spent by the organization for the Federal and non-Federal food programs. Indirect costs were allocated to the Federal programs (e.g., NSLP, CACFP, Summer Meals) in proportion to the total food costs that each of these programs generated.

For purposes of coming up with allocation percentages, the private school SFA reported these total food costs per program to the SEA. The total food cost for each program divided by the total food costs for all Federal and non-Federal food programs yielded the allocation percentages. Each program's allocation percentage was multiplied by the indirect cost categories to calculate the program's share of indirect costs. As a hypothetical example, if the total food costs of all food programs for the past fiscal year was \$10 million dollars, and \$2.5 million of that total food cost amount was spent on the NSLP, then 25 percent of any indirect costs would be charged to the NSLP.

Type of costs: The most common type of costs that were included in the indirect rate by the two private school SFAs that used the restricted or indirect cost factor rates were expenses related to the operation of facilities. However, as mentioned above the indirect cost factor rate method was not based on actual indirect costs, but was a reimbursement for indirect costs that were the share of facilities used for school foodservice.

The private school SFA that used the cost allocation method identified a wider variety of indirect costs, including labor, supplies and equipment, and purchased services.

Teachers' salaries were not included in any of the three indirect cost methods.

Support functions: The most common support function included in the indirect rate among all three private school SFAs was building operations and maintenance. Both private school SFAs that used the restricted or indirect cost factor rates also charged the school foodservice account for other facilities-related services. The private school SFA that used the cost allocation plan and the one with the restricted rate method also included data processing operations in their indirect costs. The cost allocation plan had the most inclusive indirect cost pool.

Both private school SFAs that used indirect cost rate methods charged the school foodservice account for building operations and maintenance, refuse disposal, pest control, other sanitation, and custodial and janitorial services. (Again, please note that the indirect costs for the indirect cost factor method were not based on actual indirect costs, but were a reimbursement for indirect costs that were the share of facilities used for school foodservice). Other support functions and costs included in the restricted indirect cost rate included data processing operations, supplies and expendable equipment, improvements, and food purchases.

The support functions charged by the private school SFA that used the cost allocation method included data processing operations and programming, general administration and policy, building operations and maintenance, equipment and vehicle operations and maintenance.

Extent of recovery of indirect costs: The three private school SFAs had different approaches to recovery of indirect costs charged to the school foodservice account for SY 2011-2012.

The private school SFA that used an approved restricted indirect cost rate reported recovering all school foodservice indirect costs. The other two private school SFAs recovered some, but not all of the calculated indirect costs.

The private school SFA that used the pre-established indirect cost factor rate reported that it recovered some, but not all of the calculated indirect cost. All indirect costs were not recovered under this method because a standard 10 percent rate is charged to salaries and benefits. These funds reimbursed the parochial school system for the indirect cost that are a share of the facilities used for food service, but the SFA indicated that the amount recovered did not reflect the actual indirect cost expenses.

At the time of completing the LEA Business Manager Web Survey, the private school SFA that used the approved cost allocation method had not yet determined the proportion of indirect costs or the extent to which their indirect costs would be recovered because of the timing of the cost allocation process for SY 2011-2012. The total indirect costs and the allocation percentage for each program and the amount of indirect costs recovered could not be determined until the end of the fiscal year, after all actual total revenue and expenses were accounted and approved for each food program by the SEA. In the follow up interview, this private school SFA indicated that it did not recover all indirect costs because it operated at deficit in SY 2011-2012. When the NSLP and SBP programs operated at a deficit (as in SY 2011-2012), the SFA charged indirect costs to the school foodservice account, but did not recover all of them. On the other hand, if the SFA had a surplus, it would have recovered all indirect costs. Over its 40 years of sponsoring the NSLP and SBP programs, this private school SFA has had more surpluses than losses, so it has been able to absorb the costs in years when it operates at a deficit.

Recovery of indirect costs in later school years: All three private school SFAs reported that they did not plan to recover any unrecovered indirect costs in later school years. None of the private school SFAs was aware that they needed a formal loan agreement to recover indirect costs in later school years.

Based on the facts that none of the private school SFAs planned to recover any indirect costs in future years, and they were not aware of a need for a formal loan agreement to allow for the process of future recovery, these private school SFAs did not appear to know that recovering indirect costs in future years was an option.

Changes to indirect cost methods: The method for calculating and/or charging indirect costs to the food service account has not changed over the last five years for any of the private school SFAs. None of the private school SFAs planned to change their indirect cost method for SY 2012-2013.

6.5 Assuring Compliance and Providing Training

This section describes the actions taken by the State to assure that the indirect costs allocated in SY 2011-2012 were allowable under Federal cost principles and the types of training and/or materials provided by the SEAs. These findings were based on data reported in the SEA Finance Officer and State CN Director surveys, as well as information reported by Business Managers of the three private school SFAs.

Compliance: Information from the SEA surveys indicated that different actions were taken by the SEAs to assure that private schools in their States were applying the appropriate approved indirect cost method. According to the State CN Director survey, private schools were also required to report total direct cost and indirect costs charged to the school foodservice account. Other financial reporting requirements varied by SEA. All three private school SFAs reported that they annually conducted an OMB A-133 Audit.

According to the SEA Finance Officer and State CN Director surveys for the private schools that use the restricted and indirect cost factor rates, there were several actions and financial items that the SEAs required to assure private schools were applying the approved indirect cost rate agreement. First, both SEAs only allowed the use of indirect cost rates computed or approved by the SEA, but beyond this the requirements differed between SEAs. In particular, for the SEA that only approved the restricted rate required that the private schools also report total direct costs and revenues of school foodservice to the State CN Division.

The SEA that approved the use of the indirect cost factor rate by one private school SFA provided by the SEA, and reviewed the actual indirect cost charges and/or basis of charges for the prior year. This SEA also required all financial items be reported to the State CN Division, including total direct costs, the indirect cost rate, indirect costs charged to school foodservice, indirect costs recovered from the school foodservice account, as well as food supplies, equipment, labor and fringe.

According to the LEA Business Manager and State CN surveys, the private school SFA that used the cost allocation method must submit a budget, the cost allocation plan, and total direct costs and indirect costs charged to the school foodservice account to the SEA each year. This information was reviewed and approved annually by the SEA.

All three private school SFAs also reported that they conducted an OMB A-133 audit on their Federal grants annually, and the report is submitted to the Federal Audit Clearinghouse. The audit is typically performed by an independent certified public accountant (CPA) and encompasses both financial and compliance components. One responsibility of the auditor was to determine whether the costs charged to Federal grants—including indirect costs—are allowable under OMB and other Federal regulations.

Training: The SEAs that approved the restricted and indirect cost factor rates provided training or written materials to the private school SFAs on a variety of indirect cost topics.

All three private school SFAs attended annual training provided by the SEAs to learn about any changes to regulations, requirements, and procedures for the NSLP and SBP programs, including to indirect cost methods.

According to the SEAs that approved the restricted and indirect cost factor rates, training or written materials on the allocation of indirect costs has been provided to SFAs annually over the past five years. These SEAs also provided some written guidance or training materials on other topics, such as the approved indirect cost methodology (computing, adjusting), fiscal guidelines on allowable direct and indirect costs, the recovery process, and Federal regulations.

The SEA that approved the cost allocation plan did not provide information about training or materials for private school SFAs, but indicated that no indirect cost rates were used by the private schools in that State. However, the private school SFA reported that the SEA provided instructions on how to apply the cost allocation rate for indirect costs in a Corrective Action Plan letter back in 2009.

All three private school SFAs reported that communication of the approved indirect cost methods was provided by the SEAs at annual training, by distributing training materials, or both. All private school SFAs attend the annual training to learn about new program regulations, requirements, and any changes in procedures, including indirect cost methods. However, none of the indirect cost methods have changed for the private schools SFAs in the past five years.

6.6 Summary of Key Findings

Although the findings cannot be generalized to the universe of private schools, information from these surveys and private school SFAs interviews illustrated the varied ways that these SFAs calculate, charge, and recover indirect costs from programs and grants.

Results from all private schools from the LEA Business Manager Web Survey revealed the following key points.

- Some of the private schools did charge indirect costs to school foodservice, but data from the survey suggested that not many private schools had a method of charging or recovering indirect costs. In the survey, 14 out of 62 private school Business Manager respondents reported having an indirect cost method.
- Charging of indirect costs from school foodservice did not appear to be widespread among private schools. Only 11 of the 62 private schools reported that they charged indirect costs.

Surveys and interviews with the SEAs and the three large private school SFAs provided the following insights:

- The SEAs were involved in setting or approving their indirect cost rates or cost allocation plans. Communication of the approved indirect cost methods was conducted by the SEAs via annual trainings and provision of training materials, or instructions.
- The indirect cost methods used by the private school SFAs were based on guidance from the SEA and varied considerably, as each private school SFA reported a different indirect cost allocation approach.
- Recovery of indirect costs also varied among the private school SFAs. Two recovered some and one recovered all of the indirect costs charged to the school foodservice account. The limiting factors were different: for one SFA, the indirect cost factor rate did not include all of its indirect costs, while for the other the limiting factor was the operating deficit.
- In the States where the three private school SFAs were located, the SEAs oversaw compliance with the approved methods of indirect cost allocation and recovery through restrictions on the methods that can be used and annual reviews of indirect costs. The private school SFAs checked and documented their compliance through annual OMB A-133 Audits.

7. Conclusions

Indirect costs in the National School Lunch and Breakfast Programs (NSLP and SBP) have taken on increasing importance in recent years as school budgets have become much tighter. Through the *School Foodservice Indirect Cost Study*, SY 2011-2012 data were collected and analyzed on State Education Agency (SEA), State Child Nutrition Agency, and Local Education Agency (LEA) policies and procedures for calculating, charging, and recovering indirect costs attributable to LEAs' school foodservice operations and other programs receiving Federal funds. The ultimate goal of the study was to provide USDA and Congress the necessary information to assess the extent to which LEAs identify, treat, and charge indirect costs attributable to their school foodservice operations. The study results provide a comprehensive picture of these processes in SY 2011-2012, as summarized below.

At the State level, the SEA Financial Management division computed or approved indirect cost rates for public LEAs, usually both restricted and unrestricted rates (except in two States that had no such procedures). The vast majority of LEAs with any method of allocating indirect costs used an indirect cost rate(s) calculated directly by their SEA or another method of allocating indirect costs provided by their SEA. Almost half (44.7 percent) of LEAs did not have an indirect cost rate or other method for recovering indirect costs, even though methods were available in almost all States.

The same types of programs were generally included in the base of direct costs used in computing both restricted and unrestricted indirect cost rates. At the LEA level, school foodservice was included less often than educational programs for elementary and secondary school students but still represented a direct cost in the base for over 80 percent of LEAs' indirect cost rates. A broad array of types of costs and support functions were included in indirect costs, and unrestricted rates were somewhat more inclusive. Teachers' salaries were rarely included in indirect costs.

Of the 55.3 percent of LEAs that did have a method for recovering indirect costs,⁸³ 83.9 percent calculated indirect costs for at least some grants and programs. A key finding of the study is that 38.2 percent of LEAs with a method for recovering indirect costs actually calculated indirect costs for school foodservice. That translates into only one-fifth (21.1 percent) of all LEAs calculating indirect costs for their school foodservice programs. A larger minority (43.2 percent) of LEAs calculate indirect costs for grants and programs other than school foodservice. Thus, LEAs calculated indirect costs for school foodservice half as often as for other grants and programs.

Nearly all LEAs that calculated indirect costs for school foodservice also charged indirect costs, so it is appropriate to treat these two steps as one process. The finding that only 21.1 percent of all LEAs calculated and charged school foodservice for indirect costs provides an important context for any discussion of charging and recovery of indirect costs. For almost 80 percent of SFAs, the allocation of

⁸³ A survey-based analysis was used to determine which LEAs had any method, and not specifically an approved method, to recover indirect costs. The 55.3 percent of all LEAs includes those with an indirect cost rate (42.9 percent), those with another method for allocating indirect costs (2.1 percent), and those LEAs that did not indicate having an indirect cost rate or other allocation plan but responded in the LEA Business Manager Web Survey that they calculated or recovered indirect costs for school foodservice or other grants and programs (10.2 percent).

indirect costs was not a financial issue, and the school foodservice program was not bearing the costs of resources provided by the LEA with funds from other sources. On average, LEAs charged about half of the calculated indirect costs for school foodservice; as discussed below, only a fraction of the LEAs that charged any indirect costs to school foodservice actually transferred the funds to recover those costs.

SFAs can face financial problems if they are not informed of their LEA's intent to charge them for indirect costs in time to budget for this expense. Again, the issue applies just to the 21.1 percent of all LEAs that charged their SFA for indirect costs in SY 2011-2012. Among these LEAs, a substantial proportion (68.9 percent) did not provide their SFA with sufficient advance notification, and of their intent, and this is a potential source of concern. However, this was a confined problem, as only 14.5 percent of all public SFAs (68.9 percent of 21.1 percent) did not receive enough advance notification to adequately plan for indirect cost charges when preparing their budgets for SY 2011-2012. The study did not point to any potential sources of concern regarding how SFAs were notified and by whom.

Relatively few LEAs charged their school foodservice programs for indirect costs, and of those that did, less than half recovered any of the indirect costs charged. Looking at the issue in terms of all public LEAs, only 12.9 percent of all public LEAs recovered any indirect costs from their school foodservice programs, compared to 36.4 percent of LEAs that recovered indirect costs from other grants and programs. There were two primary reasons for not recovering indirect costs from school foodservice or from other grants and programs. First, many LEAs chose to bear these costs, either as a matter of LEA policy or based on decisions made each school year; and second, because these programs did not have the funds to pay for these costs. Finally, while program regulations permitted LEAs to recover indirect costs that are not recovered in the year in which they are accrued to recover these costs in future years, virtually no LEAs did so.

Based on the results of this study, it appears that any potential adverse effects of recovering indirect costs from school foodservice were confined to one out of eight SFAs (12.9 percent). Nevertheless, for these SFAs the potential adverse consequences could be serious. An in-depth investigation of SFA finances would be required to determine whether this minority of SFAs experiences adverse impacts, such as constraints on staffing, meal quality, or investment in equipment. The forthcoming *School Nutrition and Meal Cost Study* will provide an opportunity to investigate the relationship between charging indirect costs and SFA finances.

References

American Association of School Administrators. (2012) *Weathering the Storm: How the Economic Recession Continues to Impact School Districts*.

School Nutrition Association. (2006). *2006 Indirect Cost Study*. National Harbor, MD: Author.

U.S. Department of Agriculture. (1992). *Child Nutrition Meal Cost Methodology Study: Final Report*, by Frederic Glantz, et al. Project Officer: Susan T. Batten. Alexandria, VA: 1992. Available at: <http://www.fns.usda.gov/Ora/menu/Published/CNP/FILES/CNMealCost.pdf>

U.S. Department of Agriculture. (1994). *School Lunch and Breakfast Cost Study: Final Report*, by Frederic Glantz, et al. Project Officer: John Endahl. Alexandria, VA: 1994. Available at: http://www.fns.usda.gov/Ora/menu/Published/CNP/FILES/Lunch_BreakfastCost.pdf

U.S. Department of Agriculture. (2008). *School Lunch and Breakfast Cost Study-II: Final Report*, by Susan Bartlett, et al. Project Officers: Patricia McKinney and John Endahl. Alexandria, VA: 2008. Available at: www.fns.usda.gov/Ora/menu/Published/CNP/FILES/MealCostStudy.pdf

U.S. Department of Agriculture. (2011). *Indirect Costs: Guidance for State Agencies & School Food Authorities*. Available at: http://www.fns.usda.gov/cnd/governance/Policy-Memos/2011/SP41-2011_os.pdf