

## SCHOOL FOODSERVICE INDIRECT COST STUDY (SUMMARY)

### Background

The Healthy, Hunger-Free Kids Act (HHFKA) directed USDA to study the extent to which school food authorities (SFAs) participating in the National School Lunch Program (NSLP) and School Breakfast Program (SBP) pay indirect costs to local education agencies (LEAs). It specifically requested an assessment of the methodologies used to establish indirect costs, the types and amounts of indirect costs that are charged and not charged to the school foodservice account, and the types and amounts of indirect costs recovered by LEAs.

The principal research questions for the study are:

- What percent of LEAs have an indirect cost rate?
- Do LEAs determine indirect costs specifically attributable to school foodservice and, if so, do they charge these costs to the program?
- Do LEAs that charge any or all of the indirect costs to the school foodservice account actually recover these charges?

### Methods

To address the research questions, information was collected from four perspectives: (1) the State education agency finance officer, (2) the State child nutrition director, (3) the LEA business manager, and (4) the SFA director.

State-level data were collected through telephone surveys conducted from August to November 2012. Two Web surveys collected data from a nationally representative sample of SFAs and their LEAs conducted from November 2012 to February 2013. A total of 1,640 LEA business managers (73 percent) and 1,227 SFA directors (66 percent) completed the surveys. Data collection focused on school year 2011-12.

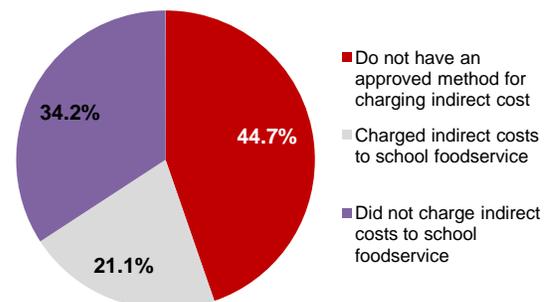
The results from the study are based on self-reported information from survey respondents and

are not associated with an audit of State, LEA, or SFA operations.

### Findings

- **Just over half (55.3 percent) of all LEAs had a method for calculating an indirect cost rate.** The vast majority of these LEAs used a rate calculated directly by their State education agency (SEA) or another method of allocating indirect costs provided by their SEA. The mean restricted indirect cost rate for foodservice in SY 2011-12 was 6.2 percent, while the mean unrestricted indirect cost rate was 13.7 percent.<sup>1</sup>

Figure 1: Charging of Indirect Costs to School Foodservice: Percentages of All LEAs; SY 2011-2012

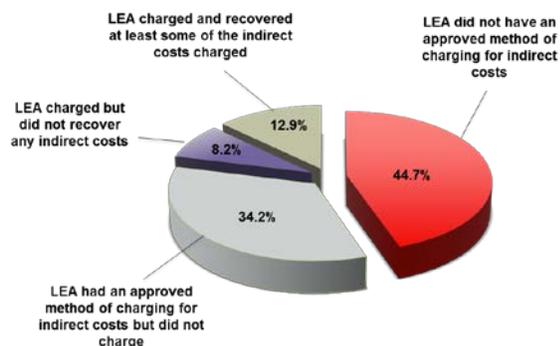


<sup>1</sup> "Restricted Indirect Cost Rates" are used with grant programs that limit expenditures to those that supplement but do not supplant State or local effort. For example, all No Child Left Behind and Individuals with Disabilities Education Act Federal programs use the restricted rate.

"Non-Restricted (or Unrestricted) Indirect Cost Rates" apply to Federal programs that allow Federal funds to supplement and/or supplant local funds. The legislation authorizing the School Meal Programs does not require use of a restricted rate; therefore, the general fund may bill the school foodservice at the unrestricted rate.

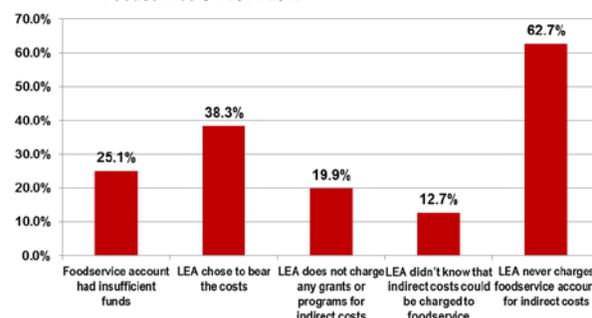
- **Just 21.1 percent of all LEAs calculated and charged indirect costs specifically to school foodservice.**

Figure 2: Foodservice Programs



- **Nearly twice as many LEAs calculated indirect costs for grants and programs other than school foodservice.** For other programs receiving Federal funds, 43.2 percent of all LEAs calculated indirect costs attributable to the other programs.
- **Larger LEAs are more likely than others to charge and recover some indirect costs.** Of the large LEAs (5,000 or more students), 45 percent calculated indirect costs for foodservice. One-fourth of medium LEAs (1,000-4,999 students) and 12 percent of small LEAs (fewer than 1,000 students) calculated indirect costs for foodservice.
- **Most charges of indirect costs to the school foodservice do not result in actual recovery of funds.** Only about 13 percent of all LEAs had any funds transferred to the LEA's general fund to pay indirect costs charged to the school foodservice account.
  - Almost three times as many LEAs (36.4 percent) recovered indirect costs from other grants and programs than from school foodservice.
  - The primary reasons that LEAs did not recover all of the indirect costs charged to the foodservice were that LEAs made the decisions to bear these costs and/or the SFAs did not have the funds with which to pay these costs.

Figure 3: 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

The study also provided important findings on a number of other issues regarding the charging and recovery of indirect costs, as summarized below.

- 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. 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 provided some form of notification or guidance to SFAs regarding the computed or approved indirect rates for their LEAs.

### For More Information

Frederic B. Glantz *et al.* (2014). School Foodservice Indirect Cost Study Final Report. Prepared by Abt Associates, Inc. Alexandria, VA: U.S. Department of Agriculture, Food and Nutrition Service. Project Officer: John Endahl. Available online at: [www.fns.usda.gov/research-and-analysis](http://www.fns.usda.gov/research-and-analysis).