

Commissioner's Memo  
7/22/2016

## Unpaid Meal Charges: Local Meal Charge Policy and Clarification on Collection of Delinquent Meal Payments

### Memo Information

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Unit Child Nutrition

Regulatory Authority USDA School Policy Memos SP 46-2016 and SP 47-2016; Healthy Hunger Free Kids Act of 2010

Response Required YES

Attention Superintendents; Principals; General Business Manager

### Primary Contact Information

Name Karen Franklin

Phone Number 501-324-9502

Email [Karen.Franklin@arkansas.gov](mailto:Karen.Franklin@arkansas.gov)

### Memo Text

This memorandum has two purposes:

1. To address the need for school food authorities (SFAs) participating in the Food and Nutrition Service (FNS) National School Lunch Program (NSLP) and School Breakfast Program (SBP) to institute and clearly communicate a meal charge policy, which would include, if applicable, the availability of alternate meals. Because all students in participating schools may receive reimbursable school meals, all SFAs must have a policy in place for children who are participating at the reduced price or paid rate, but either do not have money in their account or in hand to cover the cost of the meal at the time of service. Such a policy ensures that school food service professionals, school administrators, families, and students have a shared understanding of expectations in these situations.
2. To clarify the processes of designating delinquent debt that has been determined to be uncollectable as bad debt and obtaining assistance to offset bad debt losses. Additionally, this memorandum clarifies how Federal Government regulations and the U.S. Department of Agriculture (USDA) definition of "bad debt" apply to the nonprofit school food service account (NSFSA) when unpaid meal charges are not collected.

### Establishing a Meal Charge Policy

It is important that meal charge and alternate meal policies (if applicable) are clearly communicated to school administrators, school food service professionals, families, and students. Developing and communicating meal charge policies prevents confusion for students and families and promotes effective financial management of the school meal programs.

Parents or guardians of all children in attendance at schools participating in a Federal school meal service program must be informed of the availability of reimbursable school meals and must be provided information about applying for free or reduced price meals (7 CFR 245.5). This is consistent with the Richard B. Russell National School Lunch Act (NSLA), which states at 42 U.S.C. 1758(b)(2)(A) that SFAs shall publicly announce the income eligibility guidelines for free and reduced price meals on or before the opening of school annually. Federal regulations at 7 CFR 210.12 also require that SFAs promote activities to involve students and parents or guardians in the school meal programs and inform families about the availability of the SBP. Including students, families, and the school community in establishing and developing a communication plan for the meal charge policy complements the public announcement of meal eligibility requirements in 7 CFR 245.5 and is consistent with the involvement required in 7 CFR 210.12.

Information about the availability of the school meal programs and their benefits may be communicated using a variety of methods, but the regulation requires that all families are notified. This notification is in addition to general releases such as public releases to local media outlets or those posted on school or district websites. For example, many school districts send the school meal application and instructions on how to apply in a back-to-school packet mailed to families. Consistent with this long-established practice, stakeholder feedback indicated that many SFAs also use existing notification methods to communicate their meal charge policies to parents, guardians, and students.

Based on these provisions, FNS has determined that students and their parents or guardians also must be informed about how students who pay the full or reduced price cost of a reimbursable meal are impacted by having insufficient funds on hand or in their account to purchase a meal. Therefore, no later than July 1, 2017, all SFAs operating NSLP and/or SBP must have a written and clearly communicated meal charge policy in order to ensure a consistent and transparent approach to this issue. Policies developed at the SFA level must be provided to the State agency during the Administrative Review.

### **Meal Charge Policy Considerations**

SFAs have discretion in developing the specifics of individual policies including the level at which the policy is developed. SFAs must develop and implement an SFA-level policy for each school operating the NSLP and SBP. While the policy is developed at the SFA-level, the policy may vary for elementary, middle, and high schools, as discussed below.

In developing a meal charge policy, FNS encourages adoption of policies that allow children to receive the nutrition they need to stay focused during the school day, minimize identification of children with insufficient funds to pay for school meals, and maintain the financial integrity of the nonprofit school food service account (NSFSA). However, the specific policy is at the discretion of the SFA. Policies may allow students to charge all types of available reimbursable meals, offer alternate meals, impose a limit on charges, or allow neither meal charges nor offer alternate meals. Additionally, policies may be consistent for all students or vary based on student grade levels.

Meal Charge Policies in schools that sell a la carte foods in the cafeteria should include information regarding charge policies for a la carte foods in addition to charge policies for reduced or paid reimbursable student meals.

SFAs also must include policies regarding the collection of delinquent meal charge debt in the written meal charge policy. In establishing policies regarding collection of delinquent debt, SFAs are encouraged to consider the benefits of potential collections in the context of the costs that would be incurred to achieve those collections.

Please note that, as with all aspects of program operations, food service management companies must operate in compliance with meal charge policies established by the SFA.

### **Policy Communications**

SFAs must ensure that the policy is provided in writing to all households at the start of each school year and to households that transfer to the school during the school year. Additionally, SFAs are encouraged to include the policy in student handbooks and/or in online portals households use to access student accounts. SFAs are encouraged to use multiple methods to disseminate the policy. The written policy also could be provided again to the household through mail or email the first time the policy is applied to a specific student.

SFAs must provide the meal charge policy to all school or SFA-level staff responsible for policy enforcement. This includes school food service professionals responsible for collecting payment for meals at the point of service, staff involved in notifying families of low or negative balances, and staff involved in enforcing any other aspects of the meal charge policy. School social workers, school nurses,

the homeless liaison, and other staff members that may assist students in need also should be informed of the policy. FNS also encourages SFAs to provide information about the policy to principals, assistant principals, and other administrators to ensure they are familiar with and supportive of the policy.

### **Policy Development Resources**

FNS is currently developing resources that State agencies and SFAs can use in their efforts to create an effective meal charge policy. These resources, which will be available on the school meal programs website (<http://www.fns.usda.gov/school-meals/child-nutrition-programs>) in 2016, include:

- A handbook summarizing best practices that FNS collected from State agencies, SFAs, schools, and other key stakeholders working to overcome the challenge of unpaid meal charges;
- Webinars sharing ideas and strategies submitted from local-level officials during FNS' open comment period about unpaid meal charges from October 2014 through January 2015; and
- Relevant policy memoranda and guidance documents developed by FNS, including guidance on the process of designating delinquent debt that has been determined to be uncollectable as bad debt and obtaining assistance to offset bad debt losses, and clarification on how the definition of "bad debt" applies to the NSFSA when unpaid meal charges are not collected.

The best practice resources available from FNS are designed to provide examples of strategies to use as a starting point when designing a meal charge policy that meets State and local needs.

The Food and Nutrition Service (FNS) recognizes that meal charge policies and delinquent accounts are important issues for school food authorities (SFAs), schools, students, and their families. It is very difficult for school food service professionals to see a hungry child in the cafeteria without the funds needed to pay for a meal. Further, unpaid meal charges can create challenges for schools because they rely on student payments, in addition to Federal reimbursements, to provide healthy, appealing, and affordable meals to all students.

There has been confusion about how unpaid meal charges must be handled when all collection efforts have been exhausted.

### **Delinquent Debt**

Unpaid meal charges, like any other money owed to the NSFSA, are considered "delinquent debt" when payment is overdue, as defined by State or local policies. The debt is classified as delinquent as long as it is considered collectable and efforts are being made to collect it. A debt owed to the NSFSA (i.e., an account receivable) is an asset. As such, the debt remains on the accounting documents until it is either collected or is determined to be uncollectable and written off.

Unpaid meal charges may be carried over at the end of the school year (i.e., beyond June 30) as a delinquent debt and collection efforts may continue into the new school year. This allows SFAs to work with families to establish longer repayment plans and to continue pursuing collection efforts when students change schools in the district or move outside the district. SFAs must make reasonable efforts to collect unpaid meal charges classified as delinquent debt and the cost of these efforts is an allowable use of NSFSA funds. A reasonable timeframe and methods for collecting unpaid meal charges can be established either at the SFA level. The Federal Government does not define "reasonable" collection methods or regulate how long a debt may be considered delinquent. Instead, FNS expects SFAs to rely on State and local policies for such determinations. In establishing policies regarding collection of delinquent debt, SFAs should ensure that efforts do not have a negative impact on the children involved, but focus primarily on the parents or guardians responsible for providing funds for meal purchases. SFAs also are encouraged to consider whether the benefits of potential collections outweigh the costs which would be incurred to achieve those collections. Policies regarding the collection of unpaid meal charges should be included in the written meal charge policy that is required of all SFAs participating in the Federal school meal programs no later than July 1, 2017 (see SP-46, *Local Meal Charge Policies*, July 8, 2016).

### **Bad Debt**

When local officials determine that further collection efforts for delinquent debt are useless or too costly, the debt must be reclassified as "bad debt." Federal Regulations at 2 CFR 200.426 define bad debts as

“debts which have been determined to be uncollectable....” Debts are considered assets because they represent money due to the NSFSA. However, once a delinquent debt is reclassified as a bad debt it is no longer considered an asset because it is, by definition, uncollectable. Therefore, bad debts must be written off as operating losses.

National School Lunch Program (NSLP) and School Breakfast Program (SBP) regulations require SFAs to “comply with the requirements to account for all revenues and expenditures of [its] nonprofit school food service” and to “meet the requirements for the allowability of nonprofit school food service expenditures in accordance with this part and 2 CFR 200, Subpart E” [7 CFR 210.19(a)(1) and 7 CFR 220.13(i)]. Therefore, expenditures from the NSFSA must meet the standards for allowable costs set out in the Federal cost principles at 2 CFR Part 200, Subpart E.

Section 200.426 of Subpart E states that “Bad debts...arising from uncollectable accounts and other claims, are unallowable. Related collection costs, and related legal costs, arising from such debts after they have been determined to be uncollectable are also unallowable.” Therefore, NSFSA resources may not be used to cover costs related to the bad debt, such as continued legal and collection costs.

Additionally, while bad debt must be written off as an operating loss, this particular operating loss may not be absorbed by the NSFSA, but must be restored using non-Federal funds. These funds may come from the school district’s general fund, special funding from State or local governments, school or community organizations, or any other non-Federal sources. Once delinquent meal charges are converted to bad debt, records relating to those charges must be maintained in accordance with the record retention requirements in 7 CFR 210.9(b)(17) and 7 CFR 210.15(b).

### **Additional Resources**

FNS is currently developing resources State agencies and SFAs can use in their effort to create effective meal charge and delinquent account policies. These resources are intended to provide a variety of strategies to use as a starting point for establishing policies that meet State and local needs. These resources will be made available on the school meal programs website (<http://www.fns.usda.gov/school-meals/child-nutrition-programs>) in 2016 and will include:

- A handbook summarizing best practices that FNS collected from State agencies, SFAs, schools, and other key stakeholders;
- Webinars sharing ideas and strategies submitted by local-level officials; and
- Other relevant policy memoranda and guidance documents developed by FNS.

### **In conclusion:**

1. Before July 1, 2017 each School Food Authority operating the National School Lunch Program or School Breakfast Program must have implemented a written charge policy that is published to all households explaining the process and procedure the SFA will use when a student’s meal account balance is not current.
2. In addition each SFA must determine when a “delinquent debt” is considered a “bad debt” and have the audit trail to show the SFA has paid bad debt charges to the non-profit school food service account out of non-federal funds (with audit trail).

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### Attachments

- [CNU-17-XXX--SP\\_46-2016\\_Unpaid\\_Meal\\_Charges\\_Local\\_Meal\\_Charge\\_Policies.pdf](#)
- [CNU-17-XXX--SP\\_47-2016\\_Unpaid\\_Meal\\_Charges\\_Clarification\\_on\\_Collections.pdf](#)