

Contracting with a Food Service Management Company (FSMC) Frequently Asked Questions

Question

Answer

If a company submits language stating that the FSMC will net off invoices instead of showing the discounts on the weekly/monthly invoices, how will the client know they are getting the discounts submitted in the bid?

The School Food Authority (SFA) must obtain documentation of the amounts that are netted off. The rebates do not have to be on the invoice itself, but if they are not, backup documentation must be provided to the SFA to ensure the SFA is receiving these rebates, discounts and credits.

How is it possible for a FSMC to submit a proposal containing lower food costs in a year with 13-15% inflation rate? How can such discounts be given now, if the FSMC has never provided these in the past?

Each FSMC has their own way of disclosing rebates, discounts and credits. If the SFA is unsure of how to compare all of the bids received, the SFA must request documentation or an explanation of how the bidders arrived at the cost projections. This will assist the SFA in comparing proposals on an even level.

Is it possible for a bidder to submit discounts exactly equal to their administrative fee? How do the discounts and the administrative fee equate?

If the bidders are equating or tying the amount of the rebates and discounts, they must return the amount of the administrative fee they charge, since this is negating the intent of the new rule, and is not allowed.

Administrative fees are allowed, but are to be based on administrative type overhead costs like printing, travel, clerical support, data processing as applicable, etc.. They are not to be an arbitrarily added fee. Administration fees must be determined in the Projected Operating Costs.

Is there a cap placed on the FSMC management fee? Is there any guidance as to how much a FSMC can increase their rates from one year to the next?

There is no rule as to a cap that a FSMC can charge for the management fee. The SFA must keep an eye on this and ask questions as to why it has increased or choose a lower bidding company who keeps their fees more in tow with the contract. If the fees do increase, the SFA must make sure that the fees are for contracted items. The FSMC cannot add new items to a contract (cannot increase more than the Consumer Price Index).

Is a FSMC allowed to only charge the SFA for the revenues that a SFA receives through the CN Programs? For instance, the SFA receives \$5,000 from the Division of Food and Nutrition (DFN) for their reimbursable meals and the SFA receives \$5,000 from A La Carte, Reduced and Paid meals and the only amount due to the vendor would be \$10,000 (more like a Profit and Loss contract).

This financial arrangement is not allowed for several reasons. First, revenue is accruing directly to the FSMC, this is not allowed. But even if revenue accrued to the SFA and the SFA then paid it to the FSMC, this would seem to be a cost-plus-a-percentage-of-income arrangement. Though there is actually no cost, just 100% of income, it is still not allowed. (A cost reimbursable contract is allowed; it's the percent of income part that is **not** allowed.)

Citation: "Contracts that permit all income and expenses to accrue to the food service management company and "cost-plus-a-percentage-of-cost" and "cost-plus-a-percentage-of-income" contracts are prohibited." (7 CFR 210.16(c))

A SFA is not allowed to pay interest with foodservice money, but is a SFA allowed to pay interest with income from other sources?

As long as the SFA agrees to pay interest from the SFA's general fund and not from the school food service account, this would be an allowed transaction.