



BRIGHT FROM THE START  
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**MEMORANDUM**

Date: July 20, 2005

To: All CACFP Sponsoring Organizations

From: Jackie Romain, Director  
Nutrition Services

RE: Guidance for Establishing Compensation Plans

This policy memo is to provide guidance for establishing compensation plans in accordance with federal regulations on Financial Management for all sponsoring organizations that participate in the Child and Adult Care Food Program (CACFP). For the purpose of this memorandum, administrative labor costs are defined as costs associated with administrative labor, employment taxes, and fringe benefits.

FNS Instruction 796-2 Rev. 3 requires institutions to establish and maintain a written compensation plan for every element of compensation charged to the Program. Elements of compensation include salaries/hourly rates, employment taxes and fringe benefits, overtime compensation, holiday pay and incentive payments/awards and severance pay.

The compensation plan must include the following:

- 1) Rates of pay
- 2) Hours of work including breaks and meal periods
- 3) The institution's plan and payment schedule for regular compensation, employment taxes, fringe benefits, overtime, compensatory time, holiday pay, awards, severance pay, and payroll tax withholding.
  - a. Overtime, compensatory time, holiday pay, incentive payments/awards, and severance pay require specific prior written approval from Department of Early Learning Care and Learning (DECAL) for each instance and should be included in the institution's plan and payment schedule when applicable.

The compensation plan must reflect the requirements of the United States Department of Labor's Fair Labor Standards Act (FLSA) for all FLSA nonexempt employees.

## 1. Rates of Pay

Compensation costs must be deemed necessary and reasonable for the performance of actual CACFP services (7 C.R.F. 226.6(b)(18)(i)(C) and FNS Instruction 796-2 Rev. 3). Therefore, salaries or hourly rates for administrative labor must be consistent with rates paid for similar or exact positions in the same area in which the institution is located or with the amounts reported by US Department of Labor or Georgia Department of Labor for compensation for that field of employment in the same or a comparable geographical location. Institutions may determine a salary or hourly rate based on the salary/hourly rate range for a specific occupation provided by the US or GA Department of Labor. Although, it is common practice to offer the mean or median salary/hourly rate for a specific occupation, it is also recommended that a starting salary be offered at a rate that allows for yearly increases without reaching the range maximum.

In addition to a general listing of occupational wages, Georgia's Department of Labor also provides a listing of wages for various occupations by education and training; however, it is not a complete and comprehensive listing. DECAL realizes that in some cases, an employee's salary or hourly rate as reported by US Department of Labor and/or GA Department of Labor may not be consistent with the employee's credentials (i.e. education, skills, experience, and/or certifications); therefore, the institution may request in writing specific prior written approval from DECAL for an increase in the institution's level of compensation to an employee(s). However, please keep in mind that although compensation rates may be increased to reflect an employee's credentials, it must also be consistent with rates for that specific occupation. Moreover, compensation increases may not be made due to an increase in the number of facilities recruited or solely for the purpose of maximizing available reimbursement. DECAL reserves the right to determine what is a necessary and reasonable cost according to federal regulations.

Also, institutions that have employees who perform Program duties along with non-Program duties are required to prorate administrative labor costs, appropriately. Moreover, an institution that is an administrative sponsor and also acts as a daycare home sponsor must separately prorate administrative labor costs of employees who work on both sponsorships in addition to prorating operating labor and/or non-Program activities (Please Review DECAL's Labor Cost Documentation Memo dated May 23, 2005).

Salaries or hourly rates must be based on either the US or GA Department of Labor rates paid for a similar/comparable position when the exact position is not listed for a specific geographic location. Please visit the following web pages:

The US Department of Labor at [www.bls.gov/oes/current/oes\\_ga.htm#otherlinks](http://www.bls.gov/oes/current/oes_ga.htm#otherlinks)

Georgia Department of Labor at [www.dol.state.ga.us/em/occupational\\_wages.htm](http://www.dol.state.ga.us/em/occupational_wages.htm)

The institution's compensation plan and supporting documents used to ensure that all labor costs for positions of the Institution are not only necessary but also reasonable according to FNS Instruction 796-2 Rev. 3 and the US/GA Department of Labor must be attached to the Viability, Capability and Accountability (VCA) Checklist to be submitted as part of the Renewal application process. In addition to documents previously listed, sponsoring organizations are also required to submit other related information. This information includes but is not limited to, written job descriptions for full-time, part-time, and contract employees that are assigned to perform CACFP duties, descriptions of qualifications for CACFP positions, and resumes of individuals employed by the institution who will perform CACFP duties (Please review Policy No. CACFP/04-30).

2. Hours of Work

Time and attendance and/or time distribution reports are needed for all labor costs charged to the Program for hourly or salaried employees for part-time, full-time, or piece-work. In some cases, it may be necessary for some employees to submit both reports or a combined report and in others cases, only a time and attendance report may be required. Please review DECAL's Labor Cost Documentation Memo dated May 23, 2005.

3. The Institution's Plan and Payment Schedule

a. Regular compensation

As previously listed, salary and hourly rates must reflect US Department of Labor FLSA for all FLSA nonexempt employees. Also, salaries and wages for positions at the institution should be comparable to salaries/wages for similar position in the same geographical area. A schedule providing projected dates for compensation disbursement is also required.

b. Employment and Social Security taxes

Institutions must pay its share of their employee's Federal, State, and local tax such as Social Security withholding and state unemployment tax; however, because these taxes are based on wage benefits, institutions must record employment taxes in the same manner (i.e. cash or accrual) and at the same time as the wage benefit. Religious organizations may request exemption from Social Security and Medicare taxes. Please review Internal Revenue Service's (IRS) Employer's Tax Guide supplement (Publication 15-A).

c. Fringe Benefits

Institutions may use Program funds to pay its share of fringe benefits for Program employees or employees who perform Program duties when all employees receive the same benefits. Institutions must also record fringe benefits costs in the same manner (i.e. cash or accrual) and at the same time as the wage benefit. Similar to wages, fringe benefits must be prorated for employees who work on both Program and non-Program activities. There are several stipulations for fringe benefits costs, please review FNS Instruction 796-2 Rev.3.

d. Overtime, Compensatory time, Holiday pay, Incentives payments/Awards, and Severance pay

Overtime, compensatory time, holiday pay, incentives payments/awards, and severance pay have several stipulations and require special consideration and specific prior approval from DECAL. Please review FNS Instruction 796-2 Rev.3.

e. Payroll Tax Withholding

All institutions participating in the CACFP that hire employees (not contractors) to perform CACFP duties and/or pay employees with CACFP funds are required to withhold, report, and pay employment taxes regardless if the institution has proprietary (for profit) or nonprofit status. Although, 501(c) 3 tax-exempt nonprofit organizations are exempt from federal and some state income taxes, employees of these institutions are not exempt from employment taxes. Before an institution hires employees, it must have a federal Employer Identification Number (EIN), and the institution is responsible for withholding certain taxes from its employee's paycheck; this is not the case for contractors. Keep in mind, management responsibilities cannot be contracted out; however, institutions may contract out specific administrative tasks that are not Program responsibilities of the sponsoring organization (i.e. bookkeeping and data processing). Please review Policy No. CACFP/02-22. As part of the institution's compensation plan, a schedule providing dates for filing and payment of taxes is required.

Employment taxes include but are not limited to the following:

1. Federal income tax withholding (FITW); Social security and Medicare taxes (FICA)- Forms W-2, W-3 and W-4, 941, and 1099-(contractors only),
2. GA state income tax withholding- Forms G-4, G-7, G-1003.
3. GA unemployment tax –Non-profit organizations are exempt from federal unemployment tax, also known as FUTA, but are required to pay GA state unemployment tax if four (4) or more workers are employed. For profit organizations must pay both federal and state unemployment taxes. Regardless of an organization’s status (nonprofit/for-profit), all state unemployment tax must be paid by the employer without any deduction from the wages of any employee.

For more detailed information on withholding, depositing, reporting, or paying employment taxes. Please review the following:

Internal Revenue Service’s (IRS) Employer’s Tax Guide (Publication 15) and its supplement (Publication 15-A). Available at:  
<http://www.etax.dor.ga.gov/taxguide/1204empTaxGuide.pdf> and  
[www.irs.gov/pub/irs-pdf/p15a.pdf](http://www.irs.gov/pub/irs-pdf/p15a.pdf), respectively.

Georgia Department of Revenue’s Employer Tax Guide. Available at:  
[www.etax.dor.ga.gov/taxguide/1204empTaxGuide.pdf](http://www.etax.dor.ga.gov/taxguide/1204empTaxGuide.pdf)

Georgia Department of Labor’s Unemployment Insurance: The Employer’s Handbook. Available at: [www.dol.state.ga.us/pdf/forms/dol224.pdf](http://www.dol.state.ga.us/pdf/forms/dol224.pdf)

If you have any questions concerning this memorandum, please contact the Policy Administrator at (404) 651-7181.