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**FISCAL YEAR 2016  
CHILD AND ADULT CARE FOOD PROGRAM  
FAMILY DAY CARE HOME SPONSOR MEMORANDUM #5**

**TO:** Family Day Care Home Sponsors

**FROM:** Marla J. Moss, Director  
Office of School Support Services

**DATE:** November 18, 2015

**SUBJECT:** Procurement Standards and Resource Management Requirements  
Related to Franchise Agreements

The Food and Nutrition Service (FNS) is aware that school food authorities and program operators may be operating the National School Lunch Program (NSLP), School Breakfast Program (SBP), and other Child Nutrition Programs (CNP), in a way that includes offering reimbursable meals and non-program foods (a la carte sales, catering, adult meals, etc.) using foods from popular franchise restaurants through a franchise agreement. Upon review, such franchise agreements contained a number of serious flaws which are out of compliance with applicable Federal law.

Franchise agreements often have provisions that are inherently problematic for the CNP because they entail having a school or sponsor essentially "buy" into an agreement with a commercial vendor for the purpose of exclusively marketing or selling that company's good or services as opposed to having that vendor submit a bid for its products during a competitive process. While it may be possible to sell the products of a franchise, those products must be competitively procured from among competitively solicited franchises. Failure to properly compete violates competitive procurement standards as required in program regulations and 2 CFR 200.318-326 (formerly 7 CFR Parts 3016.36 and 3019.40-48, as applicable), and for schools operating NSLP and SBP, regulations on competitive food services in 7 CFR Parts 210.11 and 220.12 and use of nonprofit food service account (NFSA) funds in 7 CFR 210.14(a).

Other concerns found include:

- Improperly procured franchise equipment using NFSA funds
- Restrictions on the sale of other food causing possible noncompliance with meal patterns
- Improper separation of NFSA funds and possible access to the NFSA funds by the franchise
- Agreement duration with automatic renewal

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Because of the varied nature of franchise agreements, it is strongly recommended that program operators have their program's and/or state's legal counsel review, beforehand, any agreements entered into with franchise operations to ensure they do not violate applicable federal, state, or local law. In the event the program operator competitively procures food from a franchise vendor in compliance with applicable requirements, they should also contact their local inspection officials to determine the requirements to purchase and resell food.

For questions regarding this memorandum, contact the Child and Adult Care Food Program office at 517-373-7391.