UNITED STATES DEPARTMENT OF AGRICULTURE

None FOOD FOR PROGRESS PROGRAM
None SECTION 416(b) PROGRAM

I. PROGRAM OBJECTIVES

The U.S. Department of Agriculture (USDA) donates agricultural commodities for use in carrying out assistance programs in developing countries and friendly countries. Such countries are often emerging democracies that have made a commitment to introduce or expand private enterprise elements into the agricultural sectors of their economies.

II. PROGRAM PROCEDURES

General Overview

The Food for Progress Program and the Section 416(b) Program (Foreign Food Aid Donation Programs) are Commodity Credit Corporation (CCC) programs. CCC implements these programs through personnel of the Foreign Agricultural Service (FAS) and Farm Service Agency (FSA). The CCC, a wholly-owned government corporation within the USDA, may acquire agricultural commodities under various surplus removal and agricultural price support programs and make them available for various domestic and foreign food assistance programs. Under the Food for Progress Act of 1985, CCC may purchase commodities from the market for donation overseas.

Recipients under the Foreign Food Aid Donation Programs are known collectively as Cooperating Sponsors. The CCC makes commodities available to the Cooperating Sponsors for use in the operation of charitable and economic development activities in eligible foreign countries. Cooperating Sponsors may be foreign governments or private entities including non-profit organizations located in the United States but operating programs overseas which are registered with the United States Agency for International Development (7 CFR section 1499.3).

The two programs have different criteria for determining what qualifies as an eligible foreign country.

Food for Progress Program – Commodities made available under this program, regardless of funding source, must be donated for use in developing countries and emerging democracies that have made commitments to introduce or expand free enterprise elements in their agricultural economies. Within these constraints, USDA gives priority consideration to proposals for countries that:

a. Have economic and social indicators that demonstrate the need for assistance, including indicators related to income, undernourishment, movement toward freedom, and food imports; or

b. Are in transition, either politically or economically, including countries that show potential toward strong private sector growth and development or that are recovering from conflict.

Section 416(b) Program – Section 416(b) of the Agricultural Act of 1949 authorizes the donation of CCC-owned commodities in excess of domestic program requirements to carry out food assistance programs in developing and friendly countries.

Program Operation

General

A Cooperating Sponsor must file a Plan of Operation with the CCC under the Section 416(b) Program. The CCC is also authorized to require such a plan under the Food for Progress Program (7 CFR section 1499.5). This Plan of Operation becomes part of an agreement between the CCC and the Cooperating Sponsor. The plan or agreement stipulates, among other things, the nature of the project the sponsor proposes to operate, the country in which such operations will take place, the types and quantities of commodities needed, the purpose for which the commodities will be used, and the use of either direct distribution or monetization of commodities. The Cooperating Sponsor is responsible for fulfilling the reporting requirements concerning logistics, monetization, and quarterly financial reports.

Direct Distribution

A direct distribution by the Cooperating Sponsor involves the distribution of donated commodities directly to individuals or charitable institutions in the host country referred to as Recipient Agencies (e.g., hospitals, schools, kindergartens, orphanages, homes for the elderly). These Recipient Agencies then use the commodities in serving their clientele.

Recipient Agencies

A Cooperating Sponsor must enter into an agreement with a Recipient Agency prior to the transfer of any commodities, sales proceeds, or program income to the Recipient Agency. The agreement must require the Recipient Agency to compensate the Cooperating Sponsor for any agricultural commodities or other assets generated by the program that are not used for purposes expressly provided for in the agreement, or that are lost, damaged, or misused as the result of the Recipient Agency's failure to exercise reasonable care.

Monetization

A monetization agreement authorizes the Cooperating Sponsor to sell the commodities in the applicable foreign country and use the sales proceeds to support its programmatic activities in accordance with the signed agreement. To the maximum extent possible, the Cooperating Sponsor is expected to conduct the sale of commodities through the private sector of the host country's economy. A Cooperating Sponsor's agreement with the CCC may also provide for bartering commodities in exchange for goods and services to support program operations.

In addition to commodities, the CCC's agreement with the Cooperating Sponsor may provide the Cooperating Sponsor cash assistance to fund program administrative and operational expenses. Program regulations also authorize cash advances for this purpose. Such cash awards may be made only after approval of a program operating budget submitted by the Cooperating Sponsor.

Source of Governing Requirements

Commodity donations are authorized by the Food for Progress Act of 1985 (7 USC 1736o) (Food for Progress Program) and Section 416(b) of the Agricultural Act of 1949 (7 USC 1431(b)) (Section 416(b) Program). Implementing regulations are found at 7 CFR part 1499.

Availability of Other Program Information

For more information, contact the Director, Food Assistance Division, FAS, USDA at 1250 Maryland Avenue, S.W., Suite 400, Washington, D.C. 20024. Contacts may also be made through (202) 720-4221 (voice); (202) 690-0251 (fax); or info@fas.usda.gov (E-mail).

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this Federal program, the auditor must determine, from the following summary (also included in Part 2, "Matrix of Compliance Requirements"), which of the 12 types of compliance requirements apply, and then determine which of the applicable requirements is likely to have a direct and material effect on the Federal program at the auditee. For each such requirement, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit.

A. *Activities Allowed or Unallowed*	*B.* *Allowable Costs/Cost Principles*	*C.* *Cash Management*	*E.* *Eligibility*	*F.* *Equipment and Real Property Management*	*G.* *Matching, Level of Effort, Earmarking*	*H.* *Period of Performance*	*I.* *Procurement and Suspension and Debarment*	*J.* *Program Income*	*L.* *Reporting*	*M.* *Subrecipient Monitoring*	*N.* *Special Tests and Provisions*
Y	Y	Y	N	Y	N	Y	Y	Y	Y	N	Y

A. Activities Allowed or Unallowed

1. *Use of Funds*

The Plan of Operation and agreement set forth the description of the activities for which commodities, monetized proceeds, or program income shall be used.

Except as approved in advance by CCC, the Cooperating Sponsor shall ordinarily bear all costs incurred subsequent to CCC's delivery of commodities at U.S. ports or intermodal points (7 CFR section 1499.7(d)).

With prior written approval from CCC, the Cooperating Sponsor may use CCC funds for administrative expenses under the Food for Progress Program. Administrative expenses include expenses incurred for the purchase of goods and services directly related to program administration and monitoring of distribution and monetization operations (7 CFR section 1499.7(b)(3)).

2. *Use of Commodities and Monetization Proceeds*

A Cooperating Sponsor must use USDA commodities furnished under the Foreign Food Aid Donation Programs, and proceeds from the sale of such commodities if applicable, for purposes expressly provided for in its agreement with the CCC (7 CFR sections 1499.10(a) and 1499.12(d)).

Agreements with Cooperating Sponsors implementing Section 416(b) projects may provide for the use of proceeds from monetization operations to fund administrative expenses (7 USC 1431(b)(7)(F)).

C. Cash Management

1. *Cash Advances from the CCC*

A Cooperating Sponsor may request an advance of up to 85 percent of the amount of an approved program operating budget. Cash advances furnished by the CCC must be deposited in interest bearing accounts. Any interest earned on such advances must be used for the same purposes as the cash advances themselves (7 CFR sections 1499.7(f) and (g)).

2. *Commodity Monetization Proceeds*

A Cooperating Sponsor must deposit all proceeds from the sale of USDA-donated commodities under monetization agreements into interest bearing accounts. Exceptions are permitted where this practice is prohibited by local law or custom of the importing country, or the CCC determines that enforcing the requirement would impose an undue burden on the sponsor (7 CFR section 1499.12(c)).

F. Equipment and Real Property Management

To the extent required by the program agreement, a Cooperating Sponsor must furnish the CCC and FAS with inventory lists of equipment and real property acquired with proceeds from the sale of donated commodities, interest, and other program income (OMB No. 0551-0035). When such assets are no longer needed for program purposes, the sponsor must dispose of them in accordance with 7 CFR section 1499.12(g).

H. Period of Performance

Any portion of a cash advance not obligated by the Cooperating Sponsor within 180 days of receipt, and any related interest, must be refunded to the CCC within 30 days after the Cooperating Sponsor's obligational authority over the funds has expired (7 CFR section 1499.7(h)).

CCC will not pay any cost incurred by the Cooperating Sponsor prior to the date of the program agreement (7 CFR section 1499.7(c)).

I. Procurement and Suspension and Debarment

A Cooperating Sponsor must follow commercially reasonable practices in procuring goods and services and when engaging in construction activity in accordance with its agreement with the CCC (7 CFR section 1499.12(f)).

J. Program Income

Program income includes interest on sale proceeds and money received by the Cooperating Sponsor, other than monetization proceeds, as a result of carrying out approved activities (7 CFR section 1499.1). A Cooperating Sponsor must use program income for program purposes identified in its agreement with the CCC (7 CFR section 1499.5).

L. Reporting

1. Financial Reporting

a. SF-270, *Request for Advance or Reimbursement* – Not Applicable

b. SF-271 – *Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable

c. SF-425, *Federal Financial Report* – Not Applicable

d. *Financial Statement (OMB No. 0551-0035)* – Any Cooperating Sponsor that receives an advance of CCC funds must file quarterly financial statements with the CCC.

Key Line Items – The following line items contain critical information:

(1) Cash on hand at beginning of the quarter.

(2) CCC advances received during the quarter.

(3) Interest earned during the quarter.

(4) Expenditures for administrative and Internal Transportation, Storage, and Handling (ITSH) costs during the quarter. Both categories of cost must be subdivided into sub-categories identified in instructions issued by the FAS.

(5) Cash on hand at the end of the quarter.

2. Performance Reporting

a. CCC Form 620, *Logistics Report (OMB No. 0551-0035)* – A Cooperating Sponsor must submit this report to the FAS semiannually for each agreement. If commodities are distributed directly, the sponsor must continue submitting reports until all commodities made available under the agreement have been distributed. In the following detail, quantities of commodities are reported in terms of net metric tons (NMT) unless otherwise specified (7 CFR section 1499.16(c)(1)).

Key Line Items – The following line items contain critical information:

(1) *Commodity Delivery Table* – The following data relating to **shipping** of each commodity provided for in the agreement:

(a) *Amount received at port*.

(b) *Ocean losses/damages*.

(c) *Amount received at warehouse*.

(d) *Inland loses/damages*.

(2) *Freight Charges* – The dollar amount of claims for a reduction or recovery of freight charges in both local currency and U.S. dollar equivalents. Claims generated by the ocean and inland portions of the shipment should be separately identified.

(3) *Warehouse Losses* – The following data relating to **storage** of each commodity provided for in the agreement:

(a) *Warehouse losses/damages*.

(b) *Balance available for distribution*.

(4) *Direct Distribution* – The following data relating to **direct distribution** of each commodity provided for in the agreement:

(a) *Amount distributed*.

(b) *Distribution losses/damages*.

(c) *Type of institution reached and number of institutions reached*.

(d) *Number of benefiting individuals*.

(5) *Warehouse Inventory Status* – The warehouse inventory status of each commodity provided for in the agreement: beginning

inventory, total received in warehouse, total dispatched from warehouse, warehouse losses, and ending inventory.

b. CCC Form 621, *Monetization Report (OMB No. 0551-0035)* – A Cooperating Sponsor must submit this report to the FAS semiannually for each agreement that provides for monetization of the commodities. Reports are required until all the commodities have been sold and the proceeds disbursed for authorized purposes. If a monetization project involves a revolving loan program, current FAS policy requires the Cooperating Sponsor to submit reports only through repayment of the first loan cycle.

Methods a Cooperating Sponsor may use to determine prevailing local market prices for monetization purposes include, but are not limited to, soliciting sealed bids, using public auctions, involving commodity exchanges, or obtaining written statements from the agricultural attaché or minister for foreign agricultural affairs in the host country. The FAS home page provides agricultural attaché contact information. (https://www.fas.usda.gov/ofso/overseas_post_directory/printable_directory.asp)

Key Line Items – The following line items contain critical information:

Part I – *Sales*:

For each commodity provided for in the agreement: the amount sold, the price per MT (metric ton), exchange rate, proceeds generated in LC (local currency), and proceeds generated in USD (U.S. dollar equivalent).

Part II – *Barter*:

For each commodity used in barter exchanges: the type and amount bartered, the commodity/service received, and the domestic price on transaction date for commodity bartered and commodity/service received.

Part III – *Deposits to Special Funds Account*:

The following classes of funds deposited, both in local currency and in the equivalent number of U.S. dollars: sales of commodities, interest, other program income.

Part IV – *Disbursements from Special Funds Account*:

The amount of each disbursement, in both local currency and U.S. dollars, and a brief statement of the use of funds.

Part V – *Balance of Special Funds Accounts*:

Beginning and ending balances of special fund accounts, both in local currency and in U.S. dollars.

3. Special Reporting – Not Applicable

N. Special Tests and Provisions

Recipient Agencies

Compliance Requirement – The Plan of Operation is required to describe the Recipient Agencies that will be involved in the program and a description of each Recipient Agency's capability to perform its responsibilities (7 CFR section 1499.5(a)(3)). A Recipient Agency is defined as an entity located in the foreign country that receives commodities or commodity sale proceeds from a Cooperating Sponsor for the purpose of implementing activities (7 CFR section 1499.1).

The Cooperating Sponsor must enter into a written agreement with a Recipient Agency before transferring USDA commodities, monetization proceeds, or other program income to that entity. Such an agreement must require the Recipient Agency to pay to the Cooperating Sponsor the value of any commodities provided by USDA, sales proceeds, or other program income not used for purposes expressly permitted under the Cooperating Sponsor's own agreement with the CCC; or that are lost, damaged, or misused as the result of the Recipient Agency's failure to exercise reasonable care (7 CFR section 1499.11(a)).

The Cooperating Sponsor must ensure that the activities of any Recipient Agency that receives $25,000 or more in commodities or commodity sales proceeds are subjected to on-site inspection. The Cooperating Sponsor may meet this requirement by relying upon independent audits of the Recipient Agencies or by conducting its own on-site reviews (7 CFR section 1499.17).

Audit Objectives – Determine whether (1) the Cooperating Sponsor entered into written agreements with the Recipient Agencies, (2) the use of the Recipient Agencies was consistent with the Plan of Operation, and (3) the Cooperating Sponsor monitored the activities of Recipient Agencies to ensure proper performance of assigned activities and use of commodities, monetized proceeds, and program income.

Suggested Audit Procedures

Select a sample of Recipient Agencies and ascertain if:

a. The Cooperating Sponsor entered into a written agreement with the Recipient Agency.

b. The Cooperating Sponsor's use of the Recipient Agency was consistent with the Plan of Operation.

c. The Cooperating Sponsor appropriately monitored the activities of the Recipient Agency to ensure proper performance of assigned activities and use of commodities, monetized proceeds, and program income.

UNITED STATES DEPARTMENT OF AGRICULTURE

CFDA 10.500 COOPERATIVE EXTENSION SERVICE

I. PROGRAM OBJECTIVES

The National Institute of Food and Agriculture (NIFA) provides formula grant funds to the 1862 land-grant institutions and the 1890 land-grant institutions for cooperative agricultural extension work which consists of the development of practical applications of research knowledge and practical demonstrations of existing or improved practices or technologies in agriculture, home economics, and rural energy, and related subjects to persons not attending or resident in colleges.

II. PROGRAM PROCEDURES

The Cooperative State Research, Education, and Extension Service (CSREES) became the NIFA on October 1, 2009, per Section 7511(a)(4) of the Food, Conservation, and Energy Act (FCEA) of 2008 (Pub. L. No. 110-246). All authorities of CSREES were transferred to NIFA.

The First Morrill Act of 1862 provided for the establishment of the 1862 land-grant institutions which are located in the 50 States, the District of Columbia, the Commonwealth of Puerto Rico, and the insular areas of American Samoa, Guam, Micronesia, Northern Marianas, and the Virgin Islands. The Second Morrill Act of 1890 provided for the support of the 1890 land-grant institutions, including Tuskegee University and West Virginia State University, which are located in 16 States.

The 1862 land-grant institutions receive formula grant funds for cooperative extension work under Sections 3(b) and (c) of the Smith-Lever Act (7 USC 343(b) and (c)) and the 1890 land-grant institutions, including Tuskegee University and West Virginia State University, receive formula grant funds for cooperative extension work under Section 1444 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 (NARETPA). The only exception is the District of Columbia, which receives extension funds under the District of Columbia Public Postsecondary Education Reorganization Act, Pub. L. No. 93-471, as opposed to Sections 3(b) and (c) of the Smith-Lever Act.

Funds are allocated to the land-grant institutions based on specified formulas. These formulas are based on the farm and rural populations of each state and include an equal portion distributed to all eligible institutions. These funds support the activities commonly referred to as "base programs."

Formula funds are also provided to the 1862 and 1890 land-grant institutions under Section 3(d) of the Smith-Lever Act for the Expanded Food and Nutrition Education Program (EFNEP), which is authorized under Section 1425 of NARETPA. These funds are made available to the 1862 and 1890 land-grant institutions in the 50 States, the District of Columbia, the Commonwealth of Puerto Rico, and the insular areas of American Samoa, Guam, Micronesia, Northern Marianas, and the Virgin Islands. To enable low-income individuals and families to engage in nutritionally sound food purchasing and preparation practices, EFNEP provides for employment and training of professional and paraprofessional aides to engage in direct nutrition education of low-income families and in other appropriate nutrition education programs. To the

maximum extent practicable, program aides are hired from the indigenous target population. Section 7403 of the FCEA amended Section 3(d) of the Smith-Lever Act to provide 1890 institutions and the 1862 institution in the District of Columbia full eligibility to receive funds authorized under Section 3(d) of the Smith-Lever Act (7 USC 343(d)), including EFNEP funds.

The 1862 and the 1890 land-grant institutions were required to submit a 5-Year Plan of Work which describes the extension programs that they intend to administer (7 USC 344 and 3221). Final Revised Guidelines for State Plans of Work for the Agricultural Research and Extension Formula Funds (Guidelines) were published in the *Federal Register* on January 25, 2006, 71 FR 4101-4112.

Source of Governing Requirements

The laws governing this program are codified at 7 USC 301-349, 3221, 3222, 3222d, and 3319.

Availability of Other Program Information

Additional program information is available from the NIFA website at http://www.nifa.usda.gov.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this Federal program, the auditor must determine, from the following summary (also included in Part 2, "Matrix of Compliance Requirements"), which of the 12 types of compliance requirements apply, and then determine which of the applicable requirements is likely to have a direct and material effect on the Federal program at the auditee. For each such requirement, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit.

A. Activities Allowed or Unallowed	*B. Allowable Costs/Cost Principles*	*C. Cash Management*	*E. Eligibility*	*F. Equipment and Real Property Management*	*G. Matching, Level of Effort, Earmarking*	*H. Period of Performance*	*I. Procurement and Suspension and Debarment*	*J. Program Income*	*L. Reporting*	*M. Subrecipient Monitoring*	*N. Special Tests and Provisions*
Y	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N

A. Activities Allowed or Unallowed

1. Formula grant funds may be spent only for the furtherance of cooperative extension work and according to the 5-Year Plan of Work approved by NIFA (7 USC 344 and 3221(d)). This 5-Year Plan of Work may be integrated with the research component of the land-grant institution which is funded under the Hatch Act, and/or the 5-Year Plan of Work may be a joint plan between an 1862 land-grant institution and an 1890 land-grant institution if they are both located in the same State (see Section II.A.1 of the Guidelines, 71 FR 4108).

2. No portion of Smith-Lever Act funds and Section 1444 funds of NARETPA may be applied directly or indirectly "to the purchase, erection, preservation or repair of any building or buildings, or the purchase or rental of land" (7 USC 345 and 3221(e)).

3. No portion of Smith-Lever Act funds and Section 1444 funds under NARETPA may be applied directly or indirectly in college course teaching or lectures in college (7 USC 345 and 3221(e)).

B. Allowable Costs/Cost Principles

1. *Indirect Costs* – No indirect costs or tuition remission may be charged against the formula grant funds authorized under the Smith-Lever Act or under Section 1444 of NARETPA (7 USC 3319).

2. *Retirement Contributions* – Retirement and pension contributions paid from grant funds for individuals whose salaries are paid in whole or in part with grant funds are capped at 5 percent. The deposits and contributions of Federal origin must be at least equaled by the grantee (7 USC 331).

G. Matching, Level of Effort, Earmarking

1. Matching

a. *1862 Land-Grant Institutions in the 50 States* – All formula funds provided to the 1862 land-grant institutions in the 50 States under Sections 3(b) and (c) of the Smith-Lever Act must be 100 percent matched. In-kind contributions are not allowed as match for formula funds authorized under Sections 3(b) and (c) of the Smith-Lever Act (7 USC 343(e)). Funds provided under Section 3(d) of the Smith-Lever Act (7 USC 343(d)) for EFNEP do not require any matching contributions (7 USC 3175).

b. *1862 Land-Grant Institution in the District of Columbia* – There is no matching requirement for funds awarded to the 1862 land-grant institution in the District of Columbia. The District of Columbia Public Postsecondary Education Reorganization Act (Pub. L. No. 93-471) was amended by Section 7417 of FCEA to eliminate this matching requirement effective October 1, 2008 (Section 208 of Pub. L. No. 93-471, as amended). Funds provided under Section 3(d) of the Smith-Lever Act (7 USC 343(d)) for EFNEP do not require any matching contributions (7 USC 3175).

c. *1862 Land-Grant Institutions in the Commonwealth of Puerto Rico and the insular areas of American Samoa, Guam, Micronesia, Northern Marianas, and the Virgin Islands* – The Commonwealth of Puerto Rico and the insular areas must meet a 50 percent matching requirement of the Federal formula funds (7 USC 343(e)(4) and 7 USC 301 (note)). The Secretary of Agriculture may waive the matching funds requirement for

any fiscal year if the Secretary determines that the government of the insular area will be unlikely to meet the matching requirement for the fiscal year (7 USC 343(e)(4)). "Matching funds" means cash contributions and excludes in-kind matching contributions. Matching funds must be used to support research and extension activities as identified in the approved 5-Year Plan of Work (7 USC 343(e); 7 CFR part 3419).

d. *1890 Land-Grant Institutions, including Tuskegee University and West Virginia State University* –Recipients must match 100 percent of Federal funds from non-Federal sources. These land-grant institutions may apply for a waiver of the matching funds requirement in excess of 50 percent for any fiscal year. "Matching funds" means cash contributions and excludes in-kind matching contributions. Matching funds must be used to support research and extension activities as identified in the approved 5-Year Plan of Work or for approved qualifying educational activities. Matching funds must be available in the same Federal fiscal year as the Federal funds. 1890 Land-Grant Institutions, including Tuskegee University and West Virginia State University, may carryover matching funds from one fiscal year to the following fiscal year (7 USC 3222d and 7 CFR part 3419). Funds provided under Section 3(d) of the Smith-Lever Act (7 USC 343(d)) for EFNEP do not require any matching contributions (7 USC 3175).

2. Level of Effort – Not Applicable

3. Earmarking – Not Applicable

H. Period of Performance

Smith-Lever Act formula funds distributed to the 1862 land-grant institutions may be carried forward 5 years from the year allocated. For Section 1444 of NARETPA funds allocated to the 1890 land-grant institutions, including Tuskegee University and West Virginia State University, no more than 20 percent of the funds received in any fiscal year may be carried forward to the succeeding fiscal year (7 USC 3221(a)).

L. Reporting

1. Financial Reporting

a. SF-270, *Request for Advance or Reimbursement* – Not Applicable

b. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable

c. SF-425, *Federal Financial Report* – Applicable

2. Performance Reporting – Not Applicable

3. Special Reporting – Not Applicable

UNITED STATES DEPARTMENT OF AGRICULTURE

CFDA 10.551 SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP)
CFDA 10.561 STATE ADMINISTRATIVE MATCHING GRANTS FOR THE SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM

I. PROGRAM OBJECTIVES

The objective of SNAP is to help low-income households buy the food they need for good health.

II. PROGRAM PROCEDURES

Administration

The U.S. Department of Agriculture (USDA), Food and Nutrition Service (FNS) administers SNAP in cooperation with State and local governments.

State human services agencies (or county human services agencies under the oversight of the State government) certify eligibility and provide benefits to households. They also provide nutrition education. FNS provides funding for State administration and benefits, and oversees the operation of State agencies to ensure compliance with Federal laws and regulations. In addition, FNS is solely responsible for authorizing and monitoring retail stores that accept SNAP benefits in exchange for food.

Federal Funding of Benefits and State Administrative Costs

The Federal Government pays 100 percent of the value of SNAP benefits and generally reimburses States for 50 percent of their costs to administer the program, except for those functions listed in III G.1., "Maching, Level of Effort, Earmarking - Matching. SNAP's authorizing statute places no cap on the amount of funds available to reimburse States at the 50 percent rate for allowable administrative expenses. No reimbursement is allowed for State expenditures for activities undertaken as a condition of settlement of quality control claims against the State for low payment accuracy.

States receive Federal funds for SNAP nutrition education and obesity prevention (SNAP-Ed) activities based on a formula. The State agency must use these funds for the administrative costs of planning, implementing, and operating a SNAP-Ed program in accordance with its approved SNAP-Ed Plan. The Federal Government pays 100 percent of the costs. However, the State agency is prohibited from obligating additional Federal funds for SNAP-Ed activities.

Certification

Eligibility for SNAP is based primarily on income and resources. Although there are a number of available State design options that can affect benefits for recipients, a key feature of the program is its status as an entitlement program with standardized eligibility and benefits.

Assessing Need

Households generally cannot exceed a gross income eligibility standard set at 130 percent of the Federal poverty standard. Households also cannot exceed a net income standard, which is set at 100 percent of the Federal poverty standard. The net income standard allows specified deductions from gross income, e.g., a standard deduction and deductions for medical expenses (elderly and disabled only), excess shelter costs, and work expenses. Non-financial eligibility criteria include school status, citizenship/legal immigration status, residency, household composition, work requirements, and disability status. Some non-citizens are ineligible to participate in the program. Able-bodied adults without dependents are subject to a time limit for receiving benefits if certain requirements are not met.

A total of 42 States have adopted the policy known as broad based categorical eligibility (BBCE). This policy allows a State to base SNAP eligibility determinations on households' receipts of Temporary Assistance for Needy Families (TANF)-funded non-cash benefits or services (CFDA 93.558). Depending on the eligibility criteria of the TANF program used to confer SNAP categorical eligibility, the BBCE may enable a State to (1) use a higher threshold (up to 200 percent of the poverty level) when applying the gross income test, and (2) eliminate the asset test altogether.

Application Process for SNAP Benefits

The application process for SNAP benefits includes the completion and filing of an application form, an interview, and the verification of certain information. In addition to using information supplied by the applicants, State or county agencies use data from other agencies, such as the Social Security Administration and the State employment security agency, to verify the household's identity, income, resources, and other eligibility criteria.

Benefits

Benefit amounts vary with household size and income. As required by law, allotments for various household sizes are revised October 1 of each year to reflect the cost of the Thrifty Food Plan, a model plan for a low-cost nutritious diet that is developed and costed by USDA. The benefits each household receives are used to purchase food at authorized retail stores. States issue benefits in the form of debit cards, which recipients can use to purchase food. This is known as electronic benefits transfer (EBT).

Benefit Redemption

Generally, households must use program benefits to purchase foods for preparation and consumption at home. There are, however, a very few exceptions to this general policy. For example, there are provisions for seniors, disabled persons, and homeless persons to use program benefits in authorized restaurants and for residents of some small institutional settings to participate in the program.

The State's EBT contractor is responsible for settlement, or payment, to retailers that have accepted EBT cards for food purchases. The contractor's "concentrator bank" makes the payment through the National Automated Clearing House (ACH) system. The concentrator bank is reimbursed for the payments by a draw made on the State's EBT benefit account with the U.S. Treasury. States usually authorize their EBT contractors to make these draws, although some States draw the cash and pay the concentrator banks themselves. The State is responsible for reconciling the payments made to retailers by its EBT contractor with the amounts drawn from its EBT account with the U.S. Treasury.

States must obtain an examination reports by an independent auditor of the State EBT service providers (service organizations) regarding the issuance, redemption, and settlement of benefits under SNAP in accordance with the American Institute of Certified Public Accountants Statement on Standards for Attestation Engagements (AT) Section 801, *Reporting on Controls at a Service Organization*. Appendix VIII to the Supplement provides additional guidance on these examinations and service auditor reports, referred to as a "service organization control (SOC) 1 type 2 report." In performing audits of SNAP under 2 CFR part 200, subpart F, an auditor may use these SOC 1 type 2 reports to gain an understanding of internal controls and obtain evidence about the operating effectiveness of controls.

State Responsibilities

A State administering SNAP must sign a Federal/State Agreement that commits it to observe applicable laws and regulations in carrying out the program. Although legislation provides a measure of administrative flexibility, the authorizing legislation remains highly prescriptive. Both the law and regulations prescribe detailed requirements for (1) meeting program goals, such as providing timely service and rights to appeal; and (2) ensuring program integrity, such as verifying eligibility, establishing and collecting claims for benefit overpayments, and prosecuting fraud.

To ensure that States operate in compliance with the law, program regulations and their own Plans of Operation, each State is required to have a system for monitoring and improving its administration of SNAP, particularly the accuracy of eligibility and benefit determinations. This performance monitoring system includes management evaluation reviews, quality control reviews, and reporting to FNS on program performance. State agencies shall conduct management evaluation reviews once every year for large project areas, once every 2 years for medium project areas, and once every 3 years for small project areas, unless an alternative schedule is approved by FNS. Projects are classified as large, medium, or small based on State determinations. The State must also ensure corrective action in response to the detection of program deficiencies.

Federal Oversight and Compliance Mechanisms

FNS oversees State operations through an organization consisting of headquarters and seven regional offices. FNS program oversight includes budget review and approval, reviews of financial and program reports and State management review reports, and on-site FNS reviews. Each year FNS headquarters conveys to its regions the concerns that were elevated to the national level through audits or other mechanisms. Regions combine this with their knowledge of individual States to inform the States of possible vulnerabilities to include in their internal management reviews and corrective action plans.

Although FNS uses technical assistance extensively to promote improvements in State operation of the program, reward and enforcement mechanisms are also available. FNS awards performance bonuses related to payment accuracy, correctness of benefit denial actions, program access, and timely processing of applications. Performance bonus payments are required to be used only for SNAP expenses, including investments in technology; improvements in administration and distribution; and actions to prevent fraud, waste, and abuse. The provisions took effect with the performance bonus payments awarded in 2014 for fiscal year 2013 efforts. FNS also assesses penalties related to payment accuracy. FNS has other mechanisms to recover losses and the cost of negligence. For other forms of noncompliance, FNS has the authority to give notice and, if improvements do not occur, withhold administrative funds from States for failure to implement program requirements.

USDA's Office of Inspector General (OIG) has primary responsibility for investigating authorized retailers, but the OIG has delegated most such authority to FNS. Consequently, FNS makes most of the investigations of retailers. The Retailer Investigations Branch of the FNS Retailer Operations Division conducts undercover investigations. FNS also uses EBT transaction data to identify retailers who engage in trafficking. SNAP legislation and regulations provide for sanctions against such retailers, which may be temporary or permanent depending on the severity of the violations. In certain circumstances, monetary penalties may be imposed.

Certification Quality Control System

SNAP maintains an extensive quality control system required by law and regulation. The system provides State and national measures of the accuracy of eligibility and benefit amount determination (often referred to as payment accuracy), both underpayment and overpayment, and of the correctness of actions to deny, terminate, or suspend benefits.

Measurement

States are required to select a statistical sample of cases, both active (currently receiving benefits) and negative case actions (benefits denied); review the active cases for eligibility and benefit amount; and review the negative cases for the correctness of the decision to deny benefits. Review methods in this sample are generally more intensive than those used in determining eligibility. States submit findings of all sampled cases, including incomplete and not-subject-to-review cases, to an automated database maintained by the Federal Government. State quality control data allow a State to be aware on an ongoing basis of its level of accuracy, and allow for the identification of trends and appropriate corrective action.

The applicable FNS regional office reviews each State's sampling plan annually and re-reviews a statistical subsample of the State quality control reviews. The FNS re-review process provides feedback to each State on its quality control system. FNS uses the State's sample and the FNS subsample in a regression formula (described in regulation) to determine payment error rates and negative case error rates. By law, the payment error rate is the combined value of overpayments and under payments to participating households. The FNS national office also reviews its regional operations and provides technical assistance to assure consistency in the national quality control system.

Corrective Action and Penalties

There is a specific legislative requirement for corrective action by any State with a payment error rate above 6 percent. Program regulations require corrective action for any negative case error rate that exceeds one percent. FNS maintains an extensive system of technical assistance for States as they develop and implement corrective action. FNS also monitors the implementation of corrective action plans. States with persistently high error rates are assessed fiscal liabilities based on the amount of benefits issued in error.

Implications of Quality Control for the Compliance Supplement

The SNAP Quality Control system uses an intensive State review of a sample of active cases across the United States to measure the accuracy of SNAP eligibility determinations and benefit amounts. An FNS re-review of a subset of those cases follows. Information from Federal program oversight indicates that this sampling system is operating adequately to provide assurances that FNS is measuring the accuracy of eligibility decisions and that these data provide a basis for corrective action to improve the accuracy of eligibility decisions. Therefore, the Quality Control System sufficiently tests individual eligibility in SNAP.

However, in those situations where computer systems are integral to the operation of the program, e.g., automated eligibility determination, the auditor should perform tests as deemed necessary to obtain assurance of the integrity of these systems. In those instances where multiple programs share the same systems, e.g., automated intake systems for Temporary Assistance for Needy Families (TANF), SNAP, Medicaid, etc., testing may be done as part of the work on multiple programs.

Source of Governing Requirements

SNAP is authorized by the Food and Nutrition Act of 2008 (7 USC 2011 *et seq.*), which replaced the Food Stamp Act of 1977, as amended. This description of SNAP procedures incorporates provisions of the following amendments to the Act: the Food, Conservation, and Energy Act of 2008 (Pub. L. No. 110-246, 122 Stat. 923, enacted June 18, 2008) and the Agriculture Act of 2014 (Pub. L. No. 113-79, 128 Stat. 649, enacted February 7, 2014). SNAP regulations are found in 7 CFR parts 271 through 285.

Availability of Other Program Information

Additional program information is available from FNS's SNAP site at http://www.fns.usda.gov/snap.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this Federal program, the auditor must determine, from the following summary (also included in Part 2, "Matrix of Compliance Requirements"), which of the 12 types of compliance requirements apply, and then determine which of the applicable requirements is likely to have a direct and material effect on the Federal program at the auditee. For each such requirement, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit.

A. *Activities Allowed or Unallowed*	*B.* *Allowable Costs/Cost Principles*	*C.* *Cash Management*	*E.* *Eligibility*	*F.* *Equipment and Real Property Management*	*G.* *Matching, Level of Effort, Earmarking*	*H.* *Period of Performance*	*I.* *Procurement and Suspension and Debarment*	*J.* *Program Income*	*L.* *Reporting*	*M.* *Subrecipient Monitoring*	*N.* *Special Tests and Provisions*
Y	Y	Y	N	Y	Y	Y	Y	N	Y	Y	Y

Note: Generally, E, "Eligibility," G.1, "Matching," I, "Procurement and Suspension and Debarment" (with respect to procurement), and N, "Special Tests and Provisions," apply only to State governments. However, when States have delegated to the local governments functions normally performed by the State as administering agency, e.g., eligibility determination, issuance of SNAP, etc., the related compliance requirements will apply to the local government.

A. Activities Allowed or Unallowed

Funds made available for administrative costs must be used to screen and certify applicants for program benefits, issue benefits to eligible households, conduct fraud investigations and prosecutions, provide fair hearings to households for which benefits have been denied or terminated, conduct nutrition education activities, prepare financial and special reports, operate automated data processing (ADP) systems, monitor subrecipients (where applicable), and otherwise administer the program. Portions of the award made available for specific purposes, such as ADP systems development or Employment and Training (E&T) activities, must be used for such purposes (7 CFR part 277).

SNAP-Ed funds must be used for the administrative costs of planning, implementing, and operating a SNAP-Ed program in accordance with the State's approved SNAP-Ed Plan. However, the State agency is prohibited from obligating additional Federal funds for SNAP-Ed activities (7 CFR section 272.2(d)(2)).

E. Eligibility

1. Eligibility for Individuals

The auditor is not required to test eligibility because detail testing of the individual case files is performed by the quality control unit and reviewed by FNS and the automated system supporting eligibility determinations and processing and tracking food stamp issuances is tested under III.N.1, "Special Tests and Provisions - ADP System for SNAP."

2. Eligibility for Group of Individuals or Area of Service Delivery – Not Applicable

3. Eligibility for Subrecipients – Not Applicable

G. Matching, Level of Effort, Earmarking

1. Matching

The State is required to pay 50 percent of the costs of administering the program. Exceptions to this 50 percent reimbursement rate include 100 percent grants to:

a. Administer the E&T component of the program (7 CFR section 277.4(b)) (**Note**: States receive a 100 percent grant for the E&T component and must pay 50 percent for E&T costs that exceed that grant); and

b. Provide SNAP-Ed services. A State's SNAP-Ed costs are 100 percent federally funded, up to the level of its formula-generated Federal SNAP-Ed grant. That amount is the maximum level of Federal financial participation in a State's SNAP-Ed costs; any SNAP-Ed costs incurred beyond that level must be borne by the State (7 USC 2036a, Section 241 of Pub. L. No. 111-296, 124 Stat. 3183, December 13, 2010).

The Federal reimbursement will decrease and the State share of administrative costs will increase by an amount equal to certain common certification costs grandfathered into the States' TANF grant levels but attributable to SNAP (7 USC 2025(k)). The amount of each State's downward adjustment was determined by the Department of Health and Human Services, and the States were notified by letter.

Costs of payment error rate reduction activities conducted under reinvestment agreements with FNS are not eligible for any level of Federal reimbursement. Private in-kind contributions are not allowable to count toward the State's share of the program's administrative cost (7 CFR sections 277.4(c) and 275.23(e)(10)).

2. Level of Effort – Not Applicable

3. Earmarking – Not Applicable

I. Procurement and Suspension and Debarment

1. *ADP Systems Development* – For competitive acquisitions of ADP equipment and services costing $5 million or more (combined Federal and State shares), the State must submit an Advanced Planning Document (APD) for the costs to be approved and allowable as charges to FNS. This threshold is for the total project cost. Effective March 3, 2014, the $5 million threshold was increased to $6 million. Contracts resulting from noncompetitive procurements of more than $1 million and contracts for EBT systems, regardless of cost, also must be provided to FNS for review (7 CFR section 277.18).

2. For procurement activity covered by the USDA implementation of the A-102 Common Rule (see Part 3 of the Supplement for effective dates), regardless of whether the State elects to follow State or Federal rules, the following requirements must be followed for procurements initiated on or after October 1, 2000:

   a. A State or local government shall not award a contract to a firm it used to orchestrate the procurement leading to that contract. Examples of services that would disqualify a firm from receiving the contract include preparing the specifications, drafting the solicitation, formulating contract terms and conditions, etc. (7 CFR section 3016.60(b)).

   b. A State or local government shall not apply in-State or local geographical preference, whether statutorily or administratively prescribed, in awarding contracts (7 CFR section 3016.60(c)).

3. For procurements covered by the USDA adoption of 2 CFR part 200 and the regulations at 2 CFR section 416.1, the following applies:

   a. A prospective contractor that develops or drafts specifications, requirements, statements of work, invitations for bids, requests for proposals, contract term and conditions or other documents for use by a State shall be excluded from competing for such procurements. Such prospective contractors are ineligible for contract awards resulting from such procurements regardless of the procurement method used. However, prospective contractors may provide States with specification information related to a State procurement and still compete for the procurement if the State, and not the prospective contractor, develops or drafts the specifications, requirements, statements of work, invitations for bid, and/or requests for proposals used to conduct the procurement (2 CFR section 416.1(a)).

   b. Procurements by States shall be conducted in a manner that prohibits the use of statutorily or administratively imposed in-State or local geographic preferences except as provided for in 2 CFR section 200.319(b) (2 CFR section 416.1(b)).

L. Reporting

1. Financial Reporting

a. SF-270, *Request for Advance or Reimbursement* – Not Applicable

b. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable

c. SF-425, *Federal Financial Report* – Applicable

2. Performance Reporting – Not Applicable

3. Special Reporting

Note: The requirement for State agencies to automate their SNAPs includes automation of reporting requirements (7 CFR section 272.10(b)(2)(vi)). The testing to ensure accuracy and completeness of the following reports should be coordinated with the testing of the ADP System for SNAP (see III.N.1, "Special Tests and Provisions – ADP Systems for SNAP").

a. FNS-46 – *SNAP Issuance Reconciliation Report (OMB No. 0584-0080)*. This monthly report is used to account for benefits issued during a report month for each issuance reconciliation point. The FNS-46 reports the reconciliation of SNAP benefits actually issued with the State's (or county's in county-run operations) Master Issuance File. The Master Issuance File contains records on all households eligible to receive benefits (such as a listing of the households and the benefits each is authorized to receive). Actual issuances may be recorded in the Record for Issuance (RFI) or alternative filing system. The RFI is created from the Master Issuance File and shows the amount of benefits the household is eligible to receive and the actual amount issued. Generally, one FNS-46 covers the entire State. However, if a State concurrently operates more than one type of issuance system (e.g., over-the-counter issuance, mail issuance, etc.), its FNS-46 report(s) must separately identify the amount of benefits issued under each system.

Key Line Items – The following line items contain critical information:

(1) Line 6 – *Total Issuance this month*

(2) Line 7 – *Returns during current month*

(3) Line 9 – *Value of authorized replacements(s) transacted*

b. FNS-209 – *Status of Claims Against Households (OMB No. 0584-0069)*. If a household receives more SNAP benefits than it is entitled to receive, the State must establish a claim against that household and demand

repayment (7 CFR section 273.18(a)). The State is required to create and maintain a system of records for monitoring these claims against households. These State systems generate the data entered on the FNS-209 report. The minimum requirements for such systems are listed at 7 CFR section 273.18(m). The State is permitted to retain a portion of the collected repayments: 35 percent of the recovered funds from claims involving fraud or other intentional program violations; 35 percent of the funds recovered from claims generated by inadvertent household errors, collected by reducing a person's unemployment compensation benefits; and 20 percent of the recovered funds from inadvertent household error claims collected by other means. No portion of funds recovered from agency-error overpayments may be retained (7 CFR section 273.18(k)).

Key Line Items – The following line items contain critical information:

(1) Line 3a *Beginning Balance* and line 13 *Ending Balance* – represent the beginning and ending balances, respectively, of the claims. Columns A, B, and C represent the number and amount of claims by claim type (i.e., intentional program violation, inadvertent household error, and State agency administrative error). The aggregate value of claims activity from the subunits should equal the State totals. The beginning and ending balances should represent the total of individual claims that comprise these balances.

(2) Line 14 *Cash, Check, and M.O.* – represents total claims payments made in the form of cash, checks, or money orders.

(3) Line 15 *SNAP* – represents all payments in the form of EBT benefit returns.

(4) Line 16 *Recoupment* – represents the value of collections made through allotment reductions.

(5) Line 17 *Offset* – represents the total value of collections made by offsetting restored benefits against outstanding claim balances.

(6) Line 18b *Cash Adj.*(+ or -) – represents amendments or corrections to the collection summary of a previous report.

(7) Line 18c *Non-Cash Adj.* (+ or -) – represents amendments or corrections to the collection summary of a previous report relative to the return of SNAP, recoupment, or offsetting transactions.

(8) Line 19 *Transfers* (+ or -) – represents the claims that were contained in the collection summary of a previous report and which are being transferred from one claim category to another claim category.

(9) Line 20a *Cash Refunds* – represents the value of cash refunds provided to households that overpaid claims.

(10) Line 20b *Non-Cash Refunds* – represents the value of non-cash refunds provided to households that overpaid claims.

(11) Lines 21 *Total*, and 28 *Total Letter of Credit Adjustments* – represent the Total Collection Summary and the Total Letter of Credit Adjustments. The aggregate value of claims collection activity from the subunits should equal the State totals.

N. Special Tests and Provisions

1. ADP System for SNAP

Note: See III.E.1, "Eligibility – Eligibility for Individuals," for the reason why the testing of the ADP system for SNAP is under this special test and provision instead of under Eligibility.

Compliance Requirements – State agencies are required to automate their SNAP operations and computerize their systems for obtaining, maintaining, utilizing, and transmitting information concerning SNAP (7 CFR sections 272.10 and 277.18). This includes: (1) processing and storing all case file information necessary for eligibility determination and benefit calculation, identifying specific elements that affect eligibility, and notifying the certification unit of cases requiring notices of case disposition, adverse action and mass change, and expiration; (2) providing an automatic cutoff of participation for households which have not been recertified at the end of their certification period by reapplying and being determined eligible for a new period (7 CFR sections 272.10(b)(1)(iii) and 273.10(f) and (g)); and (3) generating data necessary to meet Federal issuance and reconciliation reporting requirements.

Audit Objectives – Determine whether the State administering agency's ADP system for SNAP is meeting the requirements to: (1) accurately and completely process and store all case file information for eligibility determination and benefit calculation; (2) automatically cut off households at the end of their certification period unless recertified; and, (3) provide data necessary to meet Federal issuance and reconciliation reporting requirements.

Suggested Audit Procedures

Because of the diversity of ADP hardware and software systems, it is not practical for the Compliance Supplement to provide suggested audit procedures to address each system. See Part 3, E.1.a (suggested audit procedures for eligibility for individuals relating to automated systems) in this Supplement for other guidance concerning testing ADP systems. In addition, FNS has developed a review tool for use by State and Federal staff in conducting pre- and post-implementation reviews of States' automated SNAP systems. The review tool can be found at

http://www.fns.usda.gov/sites/default/files/apd/SNAP_System_Integrity_Review_Tool.pdf. The auditor should test the ADP system to ascertain if the system:

a. Accurately and completely processes and stores all case file information for eligibility determination and benefit calculation.

b. Automatically cuts off households from SNAP at the end of their certification period unless the household is recertified.

c. Provides data necessary to meet Federal issuance and reconciliation reporting requirements. **Note**: This testing should be coordinated with the testing of III.L.3, "Reporting – Special Reporting."

2. EBT Reconciliation

Compliance Requirement – States must have systems in place to reconcile all of the funds entering into, exiting from, and remaining in the system each day with the State's benefit account with Treasury and EBT contractor records. This includes a reconciliation of the State's issuance files of postings to recipient accounts with the EBT contractor. States (generally through the EBT contractor that operates the EBT system) must also have systems in place to reconcile retailer credit activity as reported into the banking system to client transactions maintained by the processor and to the funds drawn down from the EBT benefit account with Treasury. States' EBT system processors should maintain audit trails that document the cycle of client transactions from posting to point-of-sale transactions at retailers through settlement of retailer credits. The financial and management data that comes from the EBT processor is reconciled by the State to the SNAP issuance files and settlement data to ensure that benefits are authorized by the State and funds have been properly drawn down. States may only draw Federal funds for authorized transactions, i.e., electronic point-of-sale purchases supported by entry of a valid personal identification number (PIN) or purchases using manual vouchers with telephone verification supported by a client signature and an EBT contractor authorization number (7 CFR sections 274.3(a)(1) and 274.4(a)).

Audit Objective – Determine whether the State reconciles retailer activity to client transactions, to its issuance files of postings to recipient accounts with the EBT contractor, and to postings to and drawdown activity from the State's benefit account with Treasury.

Suggested Audit Procedures

a. Verify that the State has a system in place to reconcile total funds entering into, exiting from, and remaining in the system each day.

b. Select and test a sample of reconciliation(s) to verify that discrepancies are followed up and resolved. This is generally a contractor duty.

c. Verify that the State or its contractor has a system in place to reconcile retailer credits against the information entered into the Automated Clearinghouse network and to the amount of funds drawn down by the State or the State's fiscal agent (the EBT contractor).

d. Ascertain if the State or its contractor has recorded any non-Federal liabilities in the daily EBT reconciliation, i.e., transactions which cannot be charged to the program. If so, verify that the non-Federal liabilities were funded by non-Federal sources (i.e., the State or the contractor).

3. EBT Card Security

Compliance Requirement – The State is required to maintain adequate security over, and documentation/records for, EBT cards, to prevent their theft, embezzlement, loss, damage, destruction, unauthorized transfer, negotiation, or use (7 CFR section 274.8(b)(3)).

Audit Objective – Determine whether the State maintains security over EBT cards.

Suggested Audit Procedures

a. Observe the physical security over EBT cards, and/or other negotiable instruments used in the issuance process.

b. Verify that EBT cards returned from the Postal Service are returned to inventory or destroyed.

4. Quality Control Unit

Compliance Requirement – The State or local government must establish a quality control unit that is independent of program operations (7 CFR section 275.2(b)).

Audit Objective – Determine whether the quality control unit is organizationally independent of program operations.

Suggested Audit Procedure

Ascertain that the quality control unit is organizationally independent of program operations.

UNITED STATES DEPARTMENT OF AGRICULTURE

CFDA 10.553 SCHOOL BREAKFAST PROGRAM (SBP)
CFDA 10.555 NATIONAL SCHOOL LUNCH PROGRAM (NSLP)
CFDA 10.556 SPECIAL MILK PROGRAM FOR CHILDREN (SMP)
CFDA 10.559 SUMMER FOOD SERVICE PROGRAM FOR CHILDREN (Summer Food Service Program) (SFSP)

I. PROGRAM OBJECTIVES

The objectives of the child nutrition cluster programs are to (1) assist States in administering food services that provide healthful, nutritious meals to eligible children in public and non-profit private schools, residential child care institutions, and summer recreation programs; and (2) encourage the domestic consumption of nutritious agricultural commodities.

II. PROGRAM PROCEDURES

General Overview

At the Federal level, these programs are administered by the Food and Nutrition Service (FNS) of the U.S. Department of Agriculture (USDA). FNS generally administers these programs through grants to State agencies. Each State agency, in turn, enters into agreements with subrecipient organizations for local level program operation and the delivery of program benefits and services to eligible children. The types of organizations that receive subgrants under each program are described below under "Program Descriptions." In cases where a State agency is not permitted or is not available to administer the program(s), they are administered directly by FNS regional offices. The regional offices then perform the administrative functions for local program operators that are normally performed by a State agency (7 CFR sections 210.3, 215.3, 220.3, and 225.3). For purposes of this discussion, State agencies and FNS regional offices are referred to collectively as "administering agencies."

Under 7 CFR part 250 (General Regulations and Policies – Food Distribution), USDA makes donated agricultural commodities available for use in the operation of all child nutrition programs except the SMP. FNS enters into agreements with State distributing agencies for the distribution of USDA donated foods. The State distributing agencies, in turn, enter into agreements with local program operators, which are defined collectively as "recipient agencies." A State may designate a recipient agency to perform its storage and distribution duties. A State distributing agency may engage a commercial food processor to use USDA-donated foods in the manufacture of food products, and then deliver such manufactured products to recipient agencies.

Program Descriptions

Common Characteristics

The programs in the Child Nutrition Cluster are all variants of a basic program design having the following characteristics:

a. Local program operators provide prepared meals to children in structured settings. Four types of meal service may be authorized: breakfast, lunch, snacks, and supper. Milk-only service may be authorized under the SMP. The types a particular program operator may offer are determined first by the respective program's authorizing statute and regulations, and second by the program operator's agreement with its administering agency.

b. While all children in attendance are entitled to receive these program benefits, children whose households meet stated income eligibility criteria generally receive their meals (or milk, where applicable) free or at a reduced price. With certain exceptions, children not eligible for free or reduced price meals or free milk must pay the full prices set by the program operator for these items. A program meal must be priced as a unit.

   There are two systems of charging for program meals: "pricing" and "nonpricing" programs. In a pricing program, children who do not qualify for free meals pay a separate fee for their meals. The fee may be collected at the point of service; through a separate daily, weekly, or monthly meal charge or meal ticket payment; by earmarking a portion of the child's tuition payment expressly for food service; or through an identifiable reduction from the standard tuition rate for meals provided by parents. In a nonpricing program, no separate identifiable charges are made for meals served to enrolled children. Examples of organizations that often operate nonpricing programs include juvenile detention centers, boarding schools, other residential child-care institutions, and some private schools.

c. Federal assistance to local program operators takes the form of cash reimbursement. In addition, USDA donates food under 7 CFR part 250 for use in preparing meals to be served under the NSLP, SBP, and SFSP.

d. To obtain cash and donated food assistance, a local program operator must submit monthly claims for reimbursement to its administering agency. All meals (and half-pints of milk under SMP) claimed for reimbursement must meet Federal requirements and be served to eligible children.

e. The program operator's entitlement to reimbursement payments is generally computed by multiplying the number of meals (and/or half-pints of milk under the SMP) served by a prescribed per-unit payment rate (called a "reimbursement rate"). Different reimbursement rates are prescribed for different categories and types of service. "Type" refers to the kind of service (breakfast, lunch, milk, etc.), while "category" refers to the beneficiary's eligibility (free, reduced price, or paid). Under this formula, a local program operator's entitlement to funding from its administering agency is generally a

function of the categories and types of service provided. Therefore, the child nutrition cluster programs are said to be "performance funded."

Characteristics of Individual Programs

The program-specific variants of this basic program model are outlined below.

a. *School Nutrition Programs* (NSLP and SBP) – These programs target children enrolled in schools. For program purposes, a "school" is a public or non-profit private school of high school grade or under, or a public or licensed non-profit private residential child-care institution. At the local level, a school food authority (SFA) is the entity with which the administering agency makes an agreement for the operation of the programs. A SFA is the governing body (such as a school board) legally responsible for the operation of the NSLP and/or SBP in one or more schools. A school operated by a SFA may be approved to serve breakfast and lunch. A school participating in the NSLP that also has an afterschool care program with an educational or enrichment component may also be approved to serve afterschool snacks. See also the description of the SMP below.

b. *SFSP* – The SFSP is directed toward children in low-income areas when school is not in session. It is locally operated by approved sponsors, which may include public or private non-profit SFAs, public or private non-profit residential summer camps, or units of local, municipal, county or State governments or other private non-profit organizations that develop a special summer or other school vacation program providing food service similar to that available to children during the school year under the NSLP and SBP.

   A meal service feeding site under a sponsor's oversight may be approved to serve breakfast, lunch, snacks, and/or supper. Residential camps and migrant sites may receive reimbursement for up to three meals, or two meals and one snack, per child per day. All other sites may receive reimbursement for any combination of two meals (except lunch and supper) or one meal and one snack per child per day. All participating children receive their meals free. Participating summer camps must identify children eligible for free or reduced price meals and may receive SFSP meal reimbursement only for meals served to such children.

   Although USDA-donated foods are made available under the SFSP, they are restricted to sponsors that prepare the meals to be served at their sites and those that have entered into an agreement with a SFA for the preparation of meals.

c. SMP – The SMP provides milk to children in schools and child-care institutions that do not participate in other Federal meal service programs. However, schools operating the NSLP and/or SBP may also participate in the SMP to provide milk to children in half-day pre-kindergarten and kindergarten programs where children do not have access to the NSLP and SBP. A SFA or institution operating the SMP as a pricing program may elect to serve free milk but there is no Federal requirement that it do so. The SMP has no reduced price benefits.

Program Funding

FNS furnishes funds to State agencies by letter of credit. The State agencies use the meal reimbursement funds to support program operations by SFAs, institutions, and sponsors under their oversight, and the administrative funds to fund their own administrative costs. Funding for FNS regional office-administered programs is handled through FNS's Integrated Program Accounting System.

Funding Program Benefits

FNS provides cash reimbursement to each State agency for each meal served under the NSLP, SBP, and SFSP and for each half pint of milk served under the SMP. The State agency's entitlement to cash assistance for NSLP and SBP meals, NSLP snacks, and SMP milk not reimbursed at the "free" rate is determined by multiplying the number of units served within the State by a "national average payment rate" set by FNS. Cash reimbursement to a State agency under the SFSP is the product obtained by multiplying the number of meals served by maximum rates of reimbursement established by FNS.

FNS sets the national average payment rate or maximum rate of reimbursement for each type of meal service (breakfast, lunch, snack, supper) within each program. A national average payment rate is also set for each eligibility category within the NSLP and SBP. Basic levels of cash assistance are provided for all lunches and breakfasts, respectively. This basic rate is increased by two cents for each lunch served in SFAs in which 60 percent or more of the lunches served during the second preceding school year were served free or at a reduced price. Additional assistance is provided for lunches and breakfasts served to children eligible for free or reduced price meals. A higher rate of reimbursement is paid for each breakfast served free or at reduced price in schools determined to be in "severe need." A "severe need" school is one in which at least 40 percent of the school lunches served in the second preceding school year were served free or at reduced price. Milk served free under the SMP is funded at the average cost of milk. Since all meals are served free under the SFSP, all meals of the same type are funded at the same rate.

Beginning in Fiscal Year 2013, SFAs are eligible to receive performance-based cash reimbursement per lunch. Section 201 of the Healthy, Hunger-Free Kids Act of 2010 (HHFKA) (Pub. L. No. 111-296) mandated an update of the nutritional standards for school lunches and breakfasts, resulting in new meal patterns and limits on total calories, saturated and trans fat, and sodium. SFAs receive the performance-based cash reimbursement when they implement the new standards. The performance-based cash reimbursement is currently 6 cents per lunch. The final rule (7 CFR part 210) detailing the new standards, which went into effect on July 1, 2012, specifies the requirements for the SFAs' initial compliance with the new meal standards as well as the monitoring of ongoing compliance.

State agencies earn donated food assistance based on the number of program meals served in schools participating in the NSLP and for certain sponsors participating in the SFSP. The State agency's level of donated food assistance is the product of the number of meals served in the preceding year multiplied by the national average payment for donated foods.

FNS adjusts the national average payment rates and maximum rates for reimbursement annually for NSLP, SBP, and SFSP to reflect changes in the Consumer Price Index and for the SMP to reflect changes in the Producer Price Index. FNS adjusts donated food assistance rates annually to reflect changes in the Price Index for Food Used in Schools and Institutions. The current announcements of all these assistance rates is available at http://www.fns.usda.gov/school-meals/rates-reimbursement (7 CFR sections 210.4(b), 220.4(b), 215.1, and 225.9(d)(9)).

A State agency uses the cash assistance obtained through performance funding to reimburse participating SFAs and sponsors for eligible meals served to eligible persons. Like "national average payments" to States, reimbursement payments are also made on a per-meal (performance funding) basis. SFAs and SFSP sponsors receive donated foods to the extent they can use them for program purposes; however, certain types of products are limited by an entitlement.

Funding State-Level Administrative Costs

In addition to funding for reimbursement payments to SFAs and sponsors, State agencies receive funding from several sources for costs they incur to administer these programs.

a. *State Administrative Expense (SAE) Funds* - These funds are granted under CFDA 10.560, which is not included in the Child Nutrition Cluster.

b. *SFSP State Administrative (SAF) Funds* - In addition to regular SAE grants, administrative funds are made available to State agencies under CFDA 10.559 to assist with administrative costs of the SFSP (7 CFR section 225.5). The State agency must describe its intended use of the funds in a Program Management and Administrative Plan submitted to FNS for approval (7 CFR section 225.4).

Source of Governing Requirements

The programs included in this cluster are authorized by the Richard B. Russell National School Lunch Act, as amended (NSLA) (42 USC 1751 *et seq*.) and the Child Nutrition Act of 1966, as amended (CNA) (42 USC 1771 *et seq*.). The implementing regulations for each program are codified in parts of 7 CFR as indicated: National School Lunch Program (NSLP), part 210; School Breakfast Program (SBP), part 220; Special Milk Program for Children (SMP), part 215; and, Summer Food Service Program for Children (SFSP), part 225. Regulations at 7 CFR part 245 address eligibility determinations for free and reduced price meals and free milk in schools and institutions. Regulations at 7 CFR part 250 give general rules for the receipt, custody, and use of USDA donated foods provided for use in the Child Nutrition Cluster of programs.

Availability of Other Program Information

Additional program information is available from the FNS's Child Nutrition site at http://www.fns.usda.gov/cnd. Information on the distribution of USDA donated foods for the Child Nutrition Cluster programs is available from the FNS Food Distribution website at http://www.fns.usda.gov/fdd/programs/schcnp/.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this Federal program, the auditor must determine, from the following summary (also included in Part 2, "Matrix of Compliance Requirements"), which of the 12 types of compliance requirements apply, and then determine which of the applicable requirements is likely to have a direct and material effect on the Federal program at the auditee. For each such requirement, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit.

A. *Activities Allowed or Unallowed*	*B.* *Allowable Costs/Cost Principles*	*C.* *Cash Management*	*E.* *Eligibility*	*F.* *Equipment and Real Property Management*	*G.* *Matching, Level of Effort, Earmarking*	*H.* *Period of Performance*	*I.* *Procurement and Suspension and Debarment*	*J.* *Program Income*	*L.* *Reporting*	*M.* *Subrecipient Monitoring*	*N.* *Special Tests and Provisions*
Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

A. Activities Allowed or Unallowed

Sponsors are not required to separately report operating and administrative costs, although they must maintain records of them. Sponsor reimbursement is no longer related to operating and administrative cost comparisons; it is determined solely by applying the applicable meals times rates formula. Separate rates are used to compute reimbursement for operating and administrative costs, but a sponsor can use its entire reimbursement payment for any combination of operating and administrative costs (Title VII, Section 738 of Pub. L. No. 110-161, December 26, 2007).

E. Eligibility

1. Eligibility for Individuals

Any child enrolled in a participating school or summer camp, or attending a SFSP meal service site, who meets the applicable program's definition of "child," may receive meals under the applicable program. In the case of the NSLP and SBP, children belonging to households meeting nationwide income eligibility requirements may receive meals at no charge or at reduced price. Children who have been determined ineligible for free or reduced price school meals pay the full price, set by the SFA, for their meals. Children attending SFSP meal service sites receive their meals at no charge (7 CFR sections 225.15(f), 245.1(a), and 245.3(c); definition of "subsidized lunch (paid lunch)" at 7 CFR section 210.2; and definitions of "camp," "closed enrolled site," "open site," and "restricted open site" at 7 CFR section 225.2).

a. *General Eligibility*

The specific groups of children eligible to receive meals under each program are identified in the respective program's regulations.

(1) *School Nutrition Programs (NSLP and SBP)* – A "child" is defined as: (a) a student of high school grade or under (as determined by the State educational agency) enrolled in an educational unit of high school grade or under, including students who are mentally or physically handicapped (as determined by the State) and who are participating in a school program established for the mentally or physically handicapped; (b) a person who has not reached his/her twenty-first birthday and is enrolled in a public or non-profit private residential child care institution; or (c) for snacks served in afterschool care programs operated by an eligible school, a person who is 18 years of age or under, except that children who turn 19 during the school year remain eligible for the duration of the school year (42 USC 1766a(b); definition of "child" at 7 CFR sections 210.2 and 220.2).

(2) *SFSP* – A "child" is defined as: (a) any person 18 years of age and under; and (b) a person over 18 years of age, who has been determined by the State educational agency or a local public educational agency to be mentally or physically handicapped, and who participates in a public or non-profit private school program established for the mentally or physically handicapped (Definition of "children" at 7 CFR section 225.2).

(3) *SMP* – Schools operating this program use the same definition of "child" that is used in the NSLP and SBP, except for provision (3) under the definition of "child" at 7 CFR section 210.2 regarding snacks served in afterschool care programs. Where the program operates in child-care institutions, as defined in 7 CFR section 215.2, a "child" is any enrolled person who has not reached his/her nineteenth birthday (7 CFR section 215.2).

b. *Eligibility for Free or Reduced Price Meals or Free Milk*

(1) *General Rule: Annual Certification* – A child's eligibility for free or reduced price meals under a Child Nutrition Cluster program may be established by the submission of an annual application or statement which furnishes such information as family income and family size. Local educational agencies (LEAs), institutions, and sponsors determine eligibility by comparing the data reported by the child's household to published income eligibility guidelines. In addition to publishing income eligibility information in the *Federal Register*, FNS makes it available on the FNS website at

http://www.fns.usda.gov/school-meals/income-eligibility-guidelines.

(a) *School Nutrition Programs* – Children from households with incomes at or below 130 percent of the Federal poverty level are eligible to receive meals or milk free under the School Nutrition Programs. Children from households with incomes above 130 percent but at or below 185 percent of the Federal poverty level are eligible to receive reduced price meals. Persons from households with incomes exceeding 185 percent of the poverty level pay the full price (7 CFR sections 245.2, 245.3, and 245.6; section 9(b)(1) of the NSLA (42 USC 1758 (b)(1)); sections 3(a)(6) and 4(e) of the CNA (42 USC 1772(a)(6) and 1773(e))).

(b) *SFSP* – While all SFSP meals are served at no charge, the sponsors of certain types of meal service sites must make individual determinations of eligibility for free or reduced price meals in accordance with 7 CFR section 225.15(f). See III.E.3, "Eligibility - Eligibility for Subrecipients," for more information.

(c) *SMP* – Eligibility for free milk in SFAs electing to serve free milk is limited to children of households meeting the income eligibility criteria for free meals under the School Nutrition Programs. The SMP has no provision for reduced price benefits (Definition of "free milk" at 7 CFR section 215.2, and 7 CFR sections 215.7(b), 245.3, and 245.6).

(2) *Direct Certification* – Annual eligibility determinations may also be based on the child's household receiving benefits under the Supplemental Nutrition Assistance Program (SNAP), Food Distribution Program on Indian Reservations (FDPIR), the Head Start Program (CFDA 93.600) (42 USC 1758(b)(6)(A)), or, under most circumstances, the Temporary Assistance for Needy Families (TANF) program (CFDA 93.558) (42 USC 1758(b)). A household may furnish documentation of its participation in one of these programs; or the school, institution, or sponsor may obtain the information directly from the State or local agency that administers these programs. Certain foster, runaway, homeless, and migrant children are categorically eligible for free school lunches and breakfasts (42 USC 1758(b)(5); 7 CFR section 245.6(b)).

(3) *Direct Certification for Children Receiving Medicaid Benefits* - Section 103 of the HHFKA provided for a series of demonstration projects on conducting direct certification for students in households receiving Medicaid benefits. This method is used only to certify children eligible for free school lunches and breakfasts. Seven States are currently conduct demonstration projects. The States of California, Florida, Illinois, Kentucky, Massachusetts, New York, and Pennsylvania are authorized to conduct statewide direct certification with Medicaid data throughout all LEAs. In California, participation is limited to selected school districts.

To be eligible for direct certification for free meals under the demonstration projects, a child must meet both of the following criteria:

(a) The child receives, or lives in the household (as defined in 7 CFR section 245.2) with a child who receives, medical assistance under the Medicaid program, and

(b) The child is a member of a family with an income, as measured by the Medicaid program, before the application of any expense, block, or other income disregard imposed by State Medicaid policies, that does not exceed 133 percent of the Federal poverty guidelines for the family size used in the Medicaid eligibility determination. Department of Health and Human Services Poverty Guidelines are available at http://aspe.hhs.gov/poverty/index.cfm.

Households with eligible children directly certified for free meals under the demonstration projects are not required to submit applications for school meal benefits and are not subject to the verification requirements at 7 CFR section 245.6a (42 USC 1758(b)(15)).

(4) *Exceptions* – The following are exceptions to the requirement for annual determinations of eligibility for free or reduced price meals and free milk under the Child Nutrition Cluster programs.

(a) *Puerto Rico and the Virgin Islands* – These two State agencies have the option to provide free meals and milk to all children participating in the School Nutrition Programs, regardless of each child's economic circumstances. Instead of counting meals and milk by type, they may determine the percentage that each type comprises of the total count using statistical surveys. The survey design must be approved by FNS (7 CFR section 245.4).

(b) *Special Assistance Certification and Reimbursement Alternatives* – Special Assistance Certification and Reimbursement Alternatives, Provisions 1, 2, 3, and the Community Eligibility Provision (CEP) are authorized by Section 11(a)(1) of the NSLA (42 USC 1759a(a)(1)) and Section 104 of HHFKA. Provision 1 may be used in schools where at least 80 percent of the children enrolled are eligible for free or reduced price meals. Under Provision 1, eligibility determinations for children eligible for free meals under the School Nutrition Programs must be made once every two consecutive school years. Children who qualify for reduced price meals are certified annually (42 USC 1759a(a)(1)(B) and (F); 7 CFR section 245.9(a)).

For Provisions 2, 3, and the CEP, extended cycles are allowed for eligibility determinations. Since the schools also use alternative meal counting and claiming procedures, descriptions of Provisions 2, 3, and the CEP are presented below in III.L.3, "Reporting - Special Reporting."

(c) *SFSP Open Sites and Restricted Open Sites* – Determinations of individual household eligibility are not required for meals served free at SFSP "open sites," or at Arestricted open sites. See III.G.3, "Eligibility – Eligibility for Subrecipients," for more information.

c. *Reduced Price Charges for Program Meals*

The SFA sets meal prices. However, the price for a reduced price lunch or breakfast may not exceed $0.40 and $0.30, respectively (see definition of "reduced price meal" in 7 CFR section 245.2).

2. Eligibility for Group of Individuals or Area of Service Delivery – Not Applicable

3. Eligibility for Subrecipients

Administering agencies may disburse program funds only to those organizations that meet eligibility requirements. Under the NSLP, SBP and SMP, this means the definition of "school food authority" (SFA) as described at 7 CFR sections 210.2, 215.2, and 220.2, respectively. Eligible SFSP organizations are described at 7 CFR section 225.2 under the definition of "sponsor." Additional organizational eligibility requirements apply to the SFSP, NSLP Afterschool Snacks, and the SBP at the school or site level (see detail below).

a. *SFSP* – Federal regulations at 7 CFR section 225.2 define sites in four ways:

(1) *Open Sites* – At an open site, meals are made available to all children in the area where the site is located. This area must be one in which poor economic conditions exist (one in which at least 50 percent of the children are from households that would be eligible for free or reduced price school meals under the NSLP and the SBP). Data to support a site's eligibility may include: (a) free and reduced price eligibility data maintained by schools that serve the same area; (b) census data; or (c) other statistical data, such as information provided by departments of welfare and zoning commissions.

(2) *Restricted Open Sites* – A restricted open site is one that was initially open to broad community participation, but at which the sponsor has restricted attendance for reasons of safety, security, or control. A restricted open site must serve an area in which poor economic conditions exist, and its eligibility may be documented with the same kinds of data listed above for open sites.

(3) *Closed Enrolled Sites* – A closed enrolled site makes meals available only to enrolled children, as opposed to the community at large. Its eligibility is based not on serving an area where poor economic conditions exist, but on the eligibility of enrolled children for free or reduced price school meals. At least 50 percent of enrolled children must be eligible for free or reduced price school meals. The sponsor must determine their eligibility through the application process described at 7 CFR section 225.15(f).

(4) *Camps* – Eligible camps include residential summer camps and nonresidential day camps that offer regularly scheduled food service as part of organized programs for enrolled children. A camp need not serve an area where poor economic conditions exist. Instead, the camp's sponsor must determine each enrolled child's eligibility for free SFSP meals through the application requirements at 7 CFR sections 225.15(e) and (f). Unlike other sponsors, the sponsor of a camp receives reimbursement only for meals served to children eligible for free or reduced price school meals (7 CFR section 225.14(d)(1)).

b. *SBP – Severe Need Schools* – In addition to the national average payment, FNS makes additional payments for breakfasts served to children qualifying for free or reduced price meals at schools that are in severe need. The administering agency must determine whether a school is eligible for severe need reimbursement based on the following eligibility criteria: (1) the school is participating in or desiring to initiate a breakfast

program and (2) 40 percent or more of the lunches served to students at the school in the second preceding school year under the NSLP were served free or at a reduced price. Administering agencies must maintain on file, and have available for reviews and audits, the source of the data to be used in making individual severe need determinations (42 USC 1773(d); 7 CFR section 220.9(d)).

c. *NSLP – Afterschool Snacks* – Reimbursement for afterschool snacks is made available to those school districts which (1) operate the NSLP in one or more of their schools and (2) sponsor or operate afterschool care programs with an educational or enrichment purpose. In the case of snacks served at an eligible site located in the attendance area of a school in which at least 50 percent of the enrolled children are certified eligible for free and reduced price school meals, all snacks are served free and are reimbursed at the free rate regardless of individual eligibility. Schools and sites not located in such an area may also participate, but they must count and claim snacks as free, reduced price and paid, depending on the eligibility status of the children served, and they must maintain documentation of eligibility for children receiving free or reduced price snacks (42 USC 1766a).

G. Matching, Level of Effort, Earmarking

1. Matching

NSLP - State Revenue Matching Requirement

The State is required to contribute State-appropriated funds amounting to at least 30 percent of the funds it received under Section 4 of the NSLA in the school year beginning July 1, 1980, unless otherwise exempted by 7 CFR section 210.17. In the fall of each year, FNS furnishes each State with a report giving data for the State's use in determining its matching requirements. However, the State revenues derived from the operation of the NSLP and State revenues expended for salaries and administrative expenses of the NSLP at the State level are not considered in this computation. In States with per capita income lower than the national average, the 30 percent match is proportionately reduced (sections 7(a)(1) and (2) of the NSLA, and 7 CFR section 210.17(a)).

a. *Private School Exemption* – States that are prohibited by law from disbursing State appropriated funds to non-public schools are not required to match "General Cash Assistance" (Section 4) funds expended for meals in such schools, or to disburse to such schools any of the State revenue required to meet the matching requirements. Also, the matching requirements do not apply to schools in which the program is administered by a FNS regional office (7 CFR section 210.17(b)).

b. *Applicable State Revenues* – State revenues, appropriated or used specifically for program purposes, are eligible for meeting the matching requirement. States use a number of methods to apply funds toward the matching requirement. For example, they may (1) disburse such funds directly to SFAs, generally on a per-meal basis; (2) pay bills that SFAs would otherwise have had to pay themselves (such as FICA payments for school food service workers); and (3) track State-appropriated funds that SFAs have indirectly applied to the program through transfers from their general funds to their school food service funds (7 CFR section 210.17(d)).

2. Level of Effort – Not Applicable

3. Earmarking – Not Applicable

I. Procurement and Suspension and Debarment

1. *Procurement*

a. For procurement activity covered by the A-102 Common Rule (see Part 3 of the Supplement for effective dates), regardless of whether the State elects to follow State or Federal rules, the following requirements must be followed for procurements initiated by State agencies, SFAs, institutions, and sponsors.

(1) A State agency, SFA, institution, or sponsor shall not award a contract to a firm it used to orchestrate the procurement leading to that contract. Examples of services that would disqualify a firm from receiving the contract include preparing the specifications, drafting the solicitation, formulating contract terms and conditions, etc. (7 CFR sections 3016.60(b) and 3019.43).

(2) A State or local government shall not apply in-State or local geographical preference, whether statutorily or administratively prescribed, in awarding contracts ((7 CFR sections 210.21(g), 215.14a(e), 220.16(f) and 225.17).

b. For procurements covered by the USDA adoption of 2 CFR part 200 and the regulations at 2 CFR section 416.1, the following applies:

(1) A prospective contractor that develops or drafts specifications, requirements, statements of work, invitations for bids, requests for proposals, contract term and conditions, or other documents for use by a State under this program shall be excluded from competing for such procurements. Such prospective contractors are ineligible for contract awards resulting from such procurements regardless of the procurement method used. However, prospective contractors may provide States with specification information related to a State

procurement and still compete for the procurement if the State, and not the prospective contractor, develops or drafts the specifications, requirements, statements of work, invitations for bid, and/or requests for proposals used to conduct the procurement (2 CFR section 416.1(a)).

(2) Procurements by States under this program shall be conducted in a manner that prohibits the use of statutorily or administratively imposed in-State or local geographic preferences except as provided for in 2 CFR section 200.319(b) (2 CFR section 416.1(b)).

c. *Procurement of Unprocessed Agricultural Products* - Notwithstanding the requirements noted in paragraph 1.a.(2) or 2 CFR section 200.319(b), an SFA, institution, or sponsor operating one or more Child Nutrition Cluster programs may use a geographical preference for the procurement of unprocessed agricultural products, both locally grown and locally raised (7 CFR sections 210.21(g), 215.14a(e), 220.16(f), and 225.17(e)).

d. *Contracts With Food Service Management Companies* – Before awarding a contract to a food service management company, or amending such a contract, an SFA operating the NSLP and SBP and sponsors operating the SFSP must (1) obtain its administering agency's review and approval of the contract terms; (2) incorporate all changes required by the administering agency; (3) obtain written administering agency approval of any changes made by the SFA or sponsor or its food service management company to a pre-approved prototype contract; and (4) when requested, submit procurement documents for administering agency inspection (7 CFR sections 210.16(a)(10), 210.19(a)(5), 220.7(d)(1)(ix), and 225.15(m)(4)).

e. *Cost-Reimbursable Contracts*

(1) Cost-reimbursable contracts awarded by SFAs operating the NSLP, SMP, and SBP, including contracts with cost-reimbursable provisions and solicitation documents prepared to obtain offers of such contracts, must include the following provisions:

(a) Allowable costs will be paid from the nonprofit school food service account to the contractor net of all discounts, rebates and other applicable credits accruing to or received by the contractor or any assignee under the contract, to the extent those credits are allocable to the allowable portion of the costs billed to the SFA.

(b) Billing documents submitted by the contractor will either separately identify allowable and unallowable portions of each cost, or include only allowable costs and a certification that payment is sought only for such costs.

(c) The contractor's determination of its allowable costs must be made in compliance with applicable departmental and program regulations and the OMB cost principles.

(d) The contractor must identify the amount of each discount, rebate, and other applicable credit on bills and invoices presented to the SFA for payment and individually identify the amount as a discount, rebate, or in the case of other applicable credits, the nature of the credit. If approved by the State agency, the SFA may permit the contractor to report this information on a less frequent basis than monthly, but no less frequently than annually.

(e) The contractor must identify the method by which it will report discounts, rebates and other applicable credits allocable to the contract that are not reported prior to conclusion of the contract.

(f) The contractor must maintain documentation of costs and discounts, rebates and other applicable credits, and must furnish such documentation upon request to the SFA, the State agency, or the USDA (7 CFR section 210.21(f)).

(2) No cost resulting from a cost-reimbursable contract may be paid from the SFA's nonprofit school food service account if (a) the underlying contract does not include the provision in paragraph (1)(a); or (b) such disbursement would result in the contractor receiving payments in excess of the contractor's actual, net allowable costs (7 CFR sections 210.21(f)(2), 215.14a(d)(2), and 220.16(e)(2)).

2. *Suspension and Debarment* – Mandatory awards by pass-through entities to subrecipients are excluded from the suspension and debarment rules (2 CFR section 417.215(a)(1)).

L. Reporting

1. Financial Reporting

a. SF-270, *Request for Advance or Reimbursement* – Not Applicable

b. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable

c. SF-425, *Federal Financial Report* – Not Applicable

d. FNS-13, *Annual Report of State Revenue Matching (OMB No. 0584 - 0075)* – This report is due 120 days after the end of each school year and identifies the State revenues to be counted toward meeting the State revenue matching requirement (7 CFR section 210.17(g)).

Key Line Item – The following line item contains critical information:

Line 5 – *State revenues to be counted toward the State Revenue Matching Requirement*

e. *FNS-777, Financial Status Report (OMB No. 0584-0067)* – This report captures the State agency's cumulative outlays (expenditures) and unliquidated obligations of Federal funds for the programs and program components that comprise the Child Nutrition Cluster. FNS uses the data captured by this report to monitor State agencies' program costs and cash draws (7 CFR sections 210.20(a)(2), 215.11(c)(2), 220.13(b)(2), and 225.8(b)). Two different versions of this form are made available for use by State agencies: one for reporting on Child Nutrition Program funds, and the other for reporting the status of the State agency's SAE grant. This enables the State agency to separately report on its SAE grant which, unlike the program funds, is a 2-year grant.

Key Line Items – The following line items contain critical information:

Line 10.g. – *Total Federal share of outlays*

Line 10.j. – *Total Federal share of unliquidated obligations*

Line 10.n. – *Advances only*

Note: Columns 1 through 5 of the FNS-777 pertain to the Child and Adult Care Food Program (CACFP) (CFDA 10.558), which is not part of the Child Nutrition Cluster. The CACFP is described elsewhere in this Compliance Supplement, beginning on page 4-10.558-1.

2. Performance Reporting – Not Applicable

3. Special Reporting

a. *State Agency Special Reporting*

To receive funds for the Child Nutrition Cluster programs, a State agency administering one or more of these programs compiles the data gathered on its subrecipients' claims for reimbursement into monthly reports to its FNS regional office. Such reports present the number of meals, by category and type, served by SFAs or sponsors under the State agency's oversight during the report period.

An initial monthly report, which may contain estimated participation figures, is due 30 days after the close of the report month. A final report containing only actual participation data is due 90 days after the close of the report month. A final closeout report is also required in accordance with the FNS closeout-schedule. Revisions to the data presented in a 90-day report must be submitted by the last day of the quarter in which they are identified. However, the State agency must immediately submit an amended report if, at any time following the submission of the 90-day report, identified changes to the data cause the State agency's level of funding to change by more than (plus or minus) 0.5 percent. The specific reports for each program are described below.

(1) FNS-10, *Report of School Program Operations (OMB No. 0584-0594)* – This report captures meals served under the NSLP and SBP, and half-pints of milk served under the SMP (7 CFR sections 210.5(d), 210.8, 215.10, 215.11, 220.11, and 220.13).

Key Line Items – The following line items contain critical information:

(a) Item 5 – *National School Lunch Program*:

- Line 5a – *Total lunches served in the NSLP*
- Line 5b1 – *Lunches served in school food authorities that qualify the State for additional payment*
- Line 5b2 – *Lunches served in school food authorities certified for performance based reimbursement*
- Line 5c – *Total afterschool snacks served in all approved schools and sites*
- Line 5d – *Total afterschool snacks served in area eligible schools and sites*

(b) Line 6 – *School Breakfast Program (Include schools with severe need)*

(c) Line 7 – *School Breakfast Program (Severe need only)*

(d) Line 8 – *Commodity Schools (Lunches only)*

(e) Item 9 – *Special Milk Program*:

- Line 9a – *Schools (Include Residential Child Care Institutions)*
- Line 9b – *Nonresidential Child Care Institutions*
- Line 9c – *Summer Camps*

(f) Item 10 – *No. of Meals Served in Private Schools Only*:

- Line 10a – *National School Lunch Program*
- Line 10b – *Afterschool snacks*
- Line 10c – *Afterschool snacks served in area eligible schools and sites*
- Line 10d – *School Breakfast Program (Include Severe Need)*
- Line 10e – *Severe Need School Breakfast Program*

(g) Item 11 – *No. of Meals Served in Residential Child Care Institutions (RCCIs) Only*:

- Line 11a – *National School Lunch Program*
- Line 11b – *NSLP - Snacks*
- Line 11c – *School Breakfast Program (Include Severe Need)*
- Line 11d – *Severe Need School Breakfast Program*

(2) FNS-418, *Report of the Summer Food Service Program for Children (OMB No. 0584-0594)* – This report documents the number of meals served under the SFSP by sponsors under the State agency's oversight. Unlike the FNS-10, which is submitted year round, the FNS-418 is filed only for the months when the program is in operation (7 CFR sections 225.8(b) and 225.9(d)(5)).

Key Line Items – The following line items contain critical information:

Part A - Meals Served

(a) Lines 5 through 7 – *Breakfasts*

(b) Lines 8 through 10 – *Lunches*

(c) Lines 11 through 13 – *Suppers*

(d) Lines 14 through 16 – *Snacks*

(e) Lines 17 through 19 – *Total*

b. *Subrecipient Special Reporting*

To receive reimbursement payments for meals (and milk served under the SMP), a SFA, institution, or sponsor must submit claims for reimbursement to its administering agency (7 CFR sections 210.8(b), 225.9(d), and 225.15(c)(2)). The claiming process is as follows:

(1) *Claiming – General Process*

At a minimum, a claim must include the number of reimbursable meals/milk served by category and type during the period (generally a month) covered by the claim. All meals claimed for reimbursement must (a) be of types authorized by the SFAs, institution's, or sponsor's administering agency; (b) be served to eligible children; and (c) be supported by accurate meal counts and records indicating the number of meals served by category and type (7 CFR sections 210.7(c), 210.8(c), and 225.9(d)).

(a) *School Nutrition Programs* – The following types of service may be authorized for schools participating in these programs: breakfast, lunch, afterschool snack (if the school operates an afterschool care program), and milk (under the SMP). A school may be approved for the SMP only if it (i) does not operate any other Federal Child Nutrition meal service programs; or (ii) operates the NSLP and/or SBP, but makes milk available to children in half-day pre-kindergarten or kindergarten programs who do not have access to the NSLP and SBP. All claims must be supported by accurate meal counts by category and type taken at the point of service or developed through an approved alternative procedure (7 CFR sections 210.7, 210.8, 215.8, 215.10, 220.9, and 220.11).

(b) *SFSP* – The meals that may be claimed under the program are breakfast, lunch, supper, and snack. Food service sites other than camps and sites which primarily serve migrant children may claim either one meal each day (a breakfast, a lunch, a supper, or a snack), or two meals each day if one is a lunch or supper and the other is a breakfast or a snack. Camps or sites which serve meals primarily to migrant children may serve three meals or two meals and one snack (7 CFR sections 225.9(d), 225.15(c), and 225.16).

(2) *Claiming – Exceptions*

As noted in III.E.1.b, "Eligibility for Individuals – Eligibility for Free or Reduced Price Meals or Free Milk," schools operating the School Nutrition Programs under Special Assistance Certification and Reimbursement Alternative Provisions 2 and 3 may use alternative counting and claiming procedures. Under either provision, the schools must serve meals at no charge to all children regardless of income eligibility for program benefits; and the SFA pays, from sources other than Federal funds, for the costs of serving the lunches or breakfasts that are in excess of the value of assistance received under the NSLA and CNA (42 USC 1759a(a)(1)).

(a) *Provision 2* – Provision 2 has a 4-year cycle for annual notification and certification for free and reduced price meals. In the first year, schools must take daily counts of the number of meals served by meal category (paid, free, reduced price) and establish the percentage of meals served by category each month. In the second, third and fourth school years, schools must count only the total number of reimbursable meals served each month; the monthly percentages established in the first year are then applied to the counts taken in the corresponding months of the current year. At the end of 4 years, the cycle may be extended for another 4 years if the State determines that the economic condition of the school's enrollment has not improved. Additional 4-year extensions may be approved on the same basis (42 USC 1759a(a)(1)(C) and (D); 7 CFR section 245.9(b)).

(b) *Provision 3* – Provision 3 has a 4-year cycle. Cash reimbursement and donated food assistance are provided at the same level as the school received in the last year free and reduced price applications were taken and daily meal counts by category and type were made, adjusted for inflation, the number of operating days, and enrollment.

Schools opting for this alternative are not required to make annual free and reduced price eligibility determinations. Free and reduced price eligibility determinations and daily meal counts by income category are only required during a base year which is not included as part of the 4-year cycle. Provisions exist for authorizing subsequent 4-year extensions if the economic condition of the school's enrollment has not improved (42 USC 1759a(a)(1)(E); 7 CFR section 245.9(d)).

(c) *Community Eligibility Provision (CEP)* – Section 104(a) of the HHFKA provides an alternative reimbursement method for high poverty LEAs, also on a 4-year cycle. To be eligible for the CEP, schools must: (1) have a minimum of 40 percent of identified students directly certified for free meals in the school year prior; (2) agree to serve free lunches and breakfasts to all students; and (3) agree to cover with non-Federal funds any costs of providing free meals to all students that exceed the Federal reimbursement. No household applications for free and reduced price meals are collected, and reimbursement is based on claiming percentages (not to exceed 100 percent) derived from the percentage of students directly certified, multiplied by a factor of 1.6.

The CEP became available nationwide to all eligible LEAs and schools in the school year beginning July 1, 2014 (42 USC 1759a(a)(1)(F)).

M. Subrecipient Monitoring

1. General Reviews

State agencies administering the programs included in the Child Nutrition Cluster are required to perform specific monitoring procedures in accordance with 7 CFR sections 210.18, 210.19(a)(4), 220.8(j), 220.8(o)(9), and 220.13(f) (NSLP and SBP); 7 CFR section 215.11 (SMP); and 7 CFR section 225.7 (SFSP). Section 207 of HHFKA amended Section 22 of the Richard B. Russell National School Lunch Act (42 USC 1796c) by requiring FNS to prescribe and administer a "unified system...to ensure that local food service authorities participating in the [NSLP and SBP]...comply with those Acts..." FNS developed a State administrative review process that (1) combined elements of the existing Coordinated Review Effort (CRE) and School Meals Initiative (SMI) review processes; (2) accounted for the transition from a 5-year to a 3-year review cycle; and (3) incorporated review of the SBP for any SFA that operates both programs. The unified administrative review system is prescribed by 7 CFR section 210.18. Beginning with the 2013-14 school year, FNS authorized State agencies to either

(1) adopt the new administrative review process in its entirety; or (2) continue using the existing CRE process in its entirety, plus a weighted nutrient analysis.

a. *Administrative Reviews*

An administrative review is the comprehensive on-site evaluation of a SFA operating the NSLP/SBP. Every SFA must receive an administrative review during each review cycle. The cyclical scheduling of reviews is outlined below.

b. *Follow-up Reviews*

A follow-up review is an on-site inspection of a SFA, subsequent to an administrative review, to ensure that the SFA has corrected deficiencies disclosed by the administrative review. Follow-up reviews are not required for State agencies opting to use the new administrative review procedures. However, for those State agencies continuing to use CRE procedures, follow-up reviews are required as outlined in 7 CFR section 210.18(i).

c. *Additional Administrative Reviews (AAR)*

State agencies are required to make AARs of selected LEAs that have a demonstrated level of, or are at high risk for, administrative error. AARs are in addition to regular cyclical administrative reviews.

Section 207 of the HHFKA (implemented by amendments to 7 CFR sections 210.18(c)(1) and (2) in 77 FR 4088, January 26, 2012) changed the administrative review cycle from 5 years to 3 years, effective July 1, 2013. The 2012-13 school year was the final year of the final 5-year cycle; the 2013-14 school year was the first year of the new 3-year cycle (42 USC 1769c(b)(3) and 42 USC 1776(h); 7 CFR section 210.18).

2. Certification Activity

In addition to the subrecipient monitoring requirements above, State agencies administering the NSLP and SBP are required to conduct certification activity. The objective of such activity is to ensure that SFAs are complying with the updated nutritional standards mandated by Section 201 of the HHFKA. Before providing the performance-based reimbursement (currently 6 cents per lunch served) to SFAs, a State agency must certify that SFAs can demonstrate that they are serving school meals that meet the updated nutritional standards. SFAs have three options to demonstrate compliance. Options 1 and 2 entail State agency desk reviews of documentation submitted by SFAs. Option 1 documentation includes menus and nutrient analysis, while option 2 documentation consists of menus and a simplified nutrient analysis. For option 3, SFAs can be certified over the course of a regular State agency-conducted administrative review, if the State

offers that option. This type of review is required only one time per SFA (7 CFR section 210.7(d)).

N. Special Tests and Provisions

1. Verification of Free and Reduced Price Applications (NSLP)

Compliance Requirement – By November 15th of each school year, the LEA (or State in certain cases) must verify the current free and reduced price eligibility of households selected from a sample of applications that it has approved for free and reduced price meals, unless the LEA is otherwise exempt from the verification requirement. The verification sample size is based on the total number of approved applications on file on October 1st.

A State agency may, with FNS approval, assume from LEAs under its jurisdiction the responsibility for performing the verifications. If the LEA performs the verification function it must be in accordance with instructions provided by the State agency. The LEA must follow up on children whose eligibility status has changed as the result of verification activities to put them in the correct category.

LEAs (or State agencies) must select the sample by one of the following methods:

a. Standard Sample Size. The lesser of 3 percent or 3000 of the approved applications on file as of October 1, selected from error-prone applications. For this purpose, error prone applications are those showing household incomes within $100 monthly or $1,200 annually of the income eligibility guidelines for free and reduced price meals.

b. Alternative Sample Sizes

(1) The lesser of 3 percent or 3,000 applications selected at random from approved applications on file as of October 1 of the school year, or

(2) The sum of: (a) the lesser of 1 percent of all applications identified as error-prone or 1,000 error-prone applications, and (b) the lesser of 1/2 of 1 percent of, or 500, approved applications in which the household provided, in lieu of income information, a case number showing participation in the SNAP, TANF, or FDPIR.

(3) The use of alternative sample sizes is available only as follows:

(a) Any LEA may qualify if its non-response rate for the preceding school year's verification was less than 20 percent; or

(b) An LEA with more than 20,000 children approved by application for free and reduced price meals may qualify if its non-response rate for the preceding year had improved over the rate for the second preceding year by at least 10 percent.

"Non-response rate" is defined as the percentage of approved household applications selected for verification for which the LEA has not obtained verification information (7 CFR section 245.6a(a)).

Sources of information for verification include written evidence, collateral contacts, and systems of records, as described in 7 CFR section 245.6a(b) (42 USC 1758(b)(3)(D) and (H)).

Beginning in School Year 2014-2015, certain LEAs were required to conduct a second review of initial eligibility determinations for free and reduced-price school meals and to submit the results of the reviews, including the number of reviewed applications for which the eligibility determinations changed and the type of change made. State agencies are required to submit a report to FNS using the FNS-742A, the LEA Second Review of Applications Report (OMB No. 0584-0026). Affected LEAs are those that demonstrated high levels of, or a high risk for, administrative error associated with certification, verification, and other administrative processes (7 CFR section 245.11).

Audit Objectives – Determine whether the LEA (or State) selected and verified the required sample of approved free and reduced price applications and made the appropriate changes to eligibility status and, if applicable, properly conducted the second review of applications.

Suggested Audit Procedures

a. Obtain the current family size and income guidelines published by FNS.

b. Through examination of documentation, ascertain that:

(1) The sampling and verification of free and reduced price applications were performed, as required, including, if applicable, the second reviews of applications.

(2) Changes were made to eligibility status based on documentation and other information obtained through the verification process.

2. Accountability for USDA-Donated Foods

The following compliance requirements do not apply to recipient agencies (as defined at 7 CFR section 250.3), including SFAs and SFSP sponsors. Auditors making audits of recipient agencies are not required to test compliance with these requirements.

Compliance Requirements

a. *Maintenance of Records*

Distributing and subdistributing agencies (as defined at 7 CFR section 250.3) must maintain accurate and complete records with respect to the receipt, distribution, and inventory of USDA-donated foods including end products processed from donated foods. Failure to maintain records required by 7 CFR section 250.16 shall be considered *prima facie* evidence of improper distribution or loss of donated foods, and the agency, processor, or entity may be required to pay USDA the value of the food or replace it in kind (7 CFR sections 250.16(a)(6) and 250.15(c)).

b. *Physical Inventory*

Distributing and subdistributing agencies shall take a physical inventory of all storage facilities. Such inventory shall be reconciled annually with the storage facility's inventory records and maintained on file by the agency that contracted with or maintained the storage facility. Corrective action shall be taken immediately on all deficiencies and inventory discrepancies and the results of the corrective action forwarded to the distributing agency (7 CFR section 250.14(e)).

Audit Objectives - Determine whether an appropriate accounting was maintained for USDA-donated foods, that an annual physical inventory was taken, and the physical inventory was reconciled with inventory records.

Suggested Audit Procedures

a. Determine storage facility, processing, and end use locations of all donated foods, including end products processed from donated foods. Determine the donated food records maintained by the entity and obtain a copy of procedures for conducting the required annual physical inventory. Obtain a copy of the annual physical inventory results.

b. Perform analytical procedures and obtain explanation and documentation for unusual or unexpected results. Consider the following:

(1) Compare receipts, distribution, losses and ending inventory of donated foods for the audit period to the previous period.

(2) Compare distribution by entity for the audit period to the previous period.

c. Ascertain the validity of the required annual physical inventory. Consider performing the following steps, as appropriate:

(1) Observe the annual inventory process at selected locations and recount a sample of donated food items.

(2) If the annual inventory process is not observed, select a sample of significant donated foods on hand as of the physical inventory date and, using the donated food records, "roll forward" the balance on hand to the current balance observed.

(3) On a test basis, recompute physical inventory sheets and related summarizations.

(4) Ascertain that the annual physical inventory was reconciled to donated food records. Investigate any large adjustments between the physical inventory and the donated food records.

d. On a sample basis, test the mathematical accuracy of the donated food records and related summarizations. From the donated food records, vouch a sample of receipts, distributions, and losses to supporting documentation. Ascertain that activity is properly recorded, including correct quantity, proper period and, if applicable, correct recipient agency.

3. School Food Accounts

Compliance Requirement – A SFA is required to account for all revenues and expenditures of its non-profit school food service in accordance with State requirements. A SFA must operate its food services on a non-profit basis; all revenue generated by the school food service must be used to operate and improve its food services (7 CFR sections 210.14(a), 210.14(c), 210.19(a)(2), 215.7(d)(1), 220.2, and 220.7(e)(1)(i)).

Audit Objectives – Determine whether a separate accounting is made of the school food service, Federal reimbursement payments are promptly credited to the school food service account, and transfers out of the school food service account are for the benefit of the school food service.

Suggested Audit Procedures

a. Review the school food service accounting records and ascertain if a separate accounting is made for the school food service.

b. Test Federal reimbursement payments received monthly from the administering agency to ascertain if promptly credited to the food service account.

c. Test transfers out of the school food service account and ascertain if the transfers were for the benefit of the school food service.

4. Paid Lunch Equity

Compliance Requirement – A SFA participating in the NSLP is required to ensure that sufficient funds are provided to its nonprofit school food service accounts from lunches served to students not eligible for free or reduced price meals. A SFA currently charging less for a paid lunch than the difference between the Federal reimbursement rate for such a lunch and that for a free lunch is required to comply. This difference is known as "equity." There are two ways to meet this requirement: (a) by raising the prices charged for paid lunches; or (b) through contributions from other non-Federal sources. SFAs with an average weighted price at or above equity (currently $2.65 for school year 2014-15) have already met the requirement (42 USC 1760(p); 7 CFR sections 210.14(a) and 210.14(e)).

The calculations performed by the SFA to determine whether its paid lunch price requires adjustment are as follows:

a. Determine the weighted average price of paid lunches. This is determined based on the total number of paid lunches claimed for Federal reimbursement for the month of October in the previous school year, at each different price charged by the SFA (7 CFR section 210.14(e)(1)(i)).

b. Calculate the paid lunch equity requirement, which is the difference between the per meal Federal reimbursement for paid and free lunches received by the SFA in the previous school year (7 CFR paragraph 210.14(e)(1)(ii)).

c. If the paid lunch equity calculated in step b. is higher than the weighted average price the SFA had been charging, calculated in step a., the SFA must increase the average weighted price charged in the previous school year by the sum of 2 percent and the percentage change in the Consumer Price Index for All Urban Consumers. This is the minimum price the SFA should be currently charging for paid lunches (7 CFR paragraph 210.14(e)(3)).

Audit Objectives – Determine whether a SFA has correctly calculated its average paid lunch pricing requirement; correctly applied the calculations to the average paid lunch price; implemented the newly calculated paid lunch price; and received the equity contributions from non-Federal sources.

Suggested Audit Procedures

a. Verify the calculations performed by the SFA to determine whether its paid lunch price requires adjustment.

b. Verify that the SFA adjusted its average weighted paid lunch price in accordance with the results of the foregoing calculations, and are actually charging students the adjusted price.

c. Ascertain if the SFA met the equity requirement by furnishing additional funds from non-Federal sources.

d. If so, verify that the amount provided was sufficient to cover the difference between the amount calculated by the SFA and the amount actually charged for paid lunches.

IV. OTHER INFORMATION

FNS no longer requires recipient agencies to inventory USDA-donated food separately from purchased food. However, the value of donated foods used during a State or recipient agency's fiscal year is considered Federal awards expended in accordance with 2 CFR section 200.40 definition of "Federal financial assistance" and should be valued in accordance with 2 CFR section 200.502. Therefore, recipient agencies must determine the value of donated foods used. FNS recommends that recipient agencies use the value of donated foods delivered to them during the audit period for this purpose.

UNITED STATES DEPARTMENT OF AGRICULTURE

CFDA 10.557 SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC)

I. PROGRAM OBJECTIVES

The objective of the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) is to provide supplemental nutritious foods, nutrition education (including breastfeeding promotion and support), and referrals to health care for low-income persons during critical periods of growth and development. Such persons include pregnant women, breastfeeding women up to one year postpartum, non-breastfeeding women up to 6 months postpartum, infants (persons under one year of age), and children under age 5 determined to be at nutritional risk. Intervention during the prenatal period improves fetal development and reduces the incidence of low birth weight, short gestation, and anemia.

II. PROGRAM PROCEDURES

Administration

The U.S. Department of Agriculture (USDA) Food and Nutrition Service (FNS) administers the WIC Program through grants awarded to State health departments or comparable State agencies, Indian tribal governments, bands or intertribal councils, or groups recognized by the Bureau of Indian Affairs, U.S. Department of the Interior, or the Indian Health Service (IHS) of the U.S. Department of Health and Human Services (HHS). A State agency administering the WIC Program must sign a Federal/State Agreement that commits it to observe applicable laws and regulations in carrying out the program. The State agencies, in turn, award subgrants to local agencies to certify applicants' eligibility for WIC Program benefits and deliver such benefits to eligible persons.

Program Funding

The WIC Program is a grant program that is 100 percent federally funded. No State matching requirement exists. Funds are awarded by FNS on the basis of funding formulas prescribed in the WIC Program regulations.

FNS allocates federally appropriated funds to WIC State agencies as grants which are divided into two parts: a component for food costs and a component for Nutrition Services and Administration (NSA) costs. Resources made available to a State agency under these two components of its initial Federal WIC formula grant may be modified by the cumulative effect of the following requirements:

Reallocations and Recoveries

The WIC Program's authorizing statute and regulations require FNS to recover unspent funds and reallocate them to State agencies.

Conversion Authority

A State agency that submits a plan to increase WIC participation under a cost containment strategy, as outlined under the "Cost Containment Requirements" section below, in excess of the increases projected by FNS in the NSA funds allocation formula, may shift a portion of its food grant component to its NSA component. This "conversion authority" is a function of the "excess" participation increase and is determined by FNS (see III.A.2, "Activities Allowed or Unallowed - Exceptions").

Spending Options

Federal legislation and regulations authorize a State agency to shift a portion of its Federal WIC formula grant between grant periods (Federal fiscal years) (see III.H, "Period of Performance").

Rebates

A State agency may contract with a food manufacturer to receive a rebate on each unit of the manufacturer's product purchased with Food Instruments (FIs) redeemed by program participants. Such rebates are credits for food costs that are reported in the month in which the rebate was received.

Vendor, Participant, and Local Agency Collections

A State agency is authorized to retain Federal program funds recovered through claims action against vendors, participants, and local agencies, and to use such recoveries for program purposes (see III.B, "Allowable Costs/Cost Principles").

Program Income

Certain miscellaneous receipts a State agency collects as the result of WIC program operations are classified as program income (see III.J, "Program Income").

State Funding

Although the Federal Financial Participation (FFP) for WIC is 100 percent, some States voluntarily appropriate funds from their own revenues to extend WIC services beyond the level that could be supported by Federal funding alone.

Certification

Applicants for WIC Program benefits are screened at WIC clinic sites to determine whether they meet the eligibility criteria in the following categories: categorical, residency, income, and nutritional risk (see III.E.1, "Eligibility - Eligibility for Individuals").

Benefits

The WIC Program provides participants with specific nutritious supplemental foods, nutrition education (including breastfeeding promotion and support), and health services referrals at no cost. The authorized supplemental foods are prescribed from standard food packages according to the category and nutritional need of the participant. The seven food packages available are described in detail in WIC program regulations.

About 75 percent of the WIC Program's annual appropriation is used to provide WIC participants with monthly food package benefits. The remainder is used to provide additional services to participants and to manage the program. Additional services provided to WIC participants include nutrition education, breastfeeding promotion and support activities, and client services, such as diet and health assessments, referral services for other health care and social services, and coordination activities.

Food Benefit Delivery

Supplemental foods are provided to participants in any one of three ways, which are defined in program regulations at 7 CFR section 246.12(b) as follows:

Direct Distribution Food Delivery Systems (used in Mississippi, the San Felipe and Santo Domingo Indian Tribal Organizations in New Mexico, and in parts of Illinois, Idaho, West Virginia, and the Acoma-Canoncito-Laguna Hospital Board of New Mexico)

The State agency and/or its agent purchases supplemental foods in bulk and issues them to participants at designated distribution facilities.

Home Food Delivery Systems (used in Vermont and in parts of Alaska and North Dakota)

Arrangements with home food delivery contractors provide for the delivery of supplemental foods directly to participants' homes.

Retail Food Delivery System (used by most State agencies)

Negotiable FIs are issued directly to individual participants, who exchange them for authorized supplemental foods at retail stores approved as vendors by the State agency. Three types of systems are used to redeem the FIs: voucher systems, check systems, and electronic benefits transfer (EBT) systems. In a voucher system, the vendor submits the FIs directly to the State agency for payment; in a check system, vendors deposit FIs to their bank accounts and the State reimburses them through their banks; and in an EBT system, payment is transmitted to the vendor's financial institution via an Automated Clearing House process. Generally, a participant must use an FI within 30 days of the first date of use printed on the FI, and the vendor must submit the FI for payment within 60 days of that date. For EBT systems, the benefit balance associated with the EBT card or the EBT account cannot be redeemed after the end date specifically authorized by the State agency management information system.

Negotiable cash-value vouchers (CVV) are issued directly to participants, who exchange them for authorized fruits and vegetables at WIC-authorized retail stores and with farmers or farmers' markets authorized by the State agency (if the State agency elects to authorize farmers or farmers' markets). FIs and CVVs share several features. Both may be used in either a voucher or a check system. Both are negotiable for stated periods of time; a participant must generally use a FI or CVV within 30 days of the first date of use printed on the instrument, and a vendor must submit a CVV for payment within 60 days of that date. Unlike FIs, however, CVVs are issued with face values in standard denominations. Under EBT systems, the CVV (or Benefit) is established as a separate food category with a benefit unit of dollars rather than food quantities. No additional EBT card or voucher is issued by the State agency.

Each FI or CVV issued to a participant must have a unique serial number. A State agency is required to determine the ultimate disposition of all FIs and CVVs by serial number within 120 days of the first valid date for participant use. The State agency must adjust previously reported obligations for WIC food costs in order to account for actual FI or CVV redemptions and other changes in the status of FIs or CVVs. For EBT, the CVV benefit is accounted for as a unique benefit in the same manner as other food items in their food balance associated with an EBT card using a unique serial number assigned to the food benefit associated with an EBT card or account. Because WIC EBT uses off-line and on-line technology, the card number represents the unique serial number for off-line benefit tracking, while a unique benefit identification (ID) number is used for on-line tracking. This generally is a unique number associated with the entire electronic food benefit, including the CVV food category issued for the month.

Cost Containment Requirements

In an effort to use their food funding more efficiently, all WIC State agencies in the 50 States, the District of Columbia, Puerto Rico, Guam, the Virgin Islands, American Samoa, the Commonwealth of the Northern Marianas Islands, and most Indian tribal State agencies have implemented cost containment measures. Reducing the average food cost per person enables WIC to reach more participants with a given amount of funds. The most successful strategy has been the negotiation of competitive rebate contracts between State agencies and infant formula companies. Such contracts provide for the State agency to receive rebates on infant formula used in the program. Other cost containment measures used by State agencies include competitive bidding for infant cereal, meat, fruit, and vegetables; selection of retail vendors based on competitive prices; setting maximum redemption amounts for FIs or food items for EBT; authorizing the use of store or generic brands of supplemental foods; and using a home delivery or direct distribution food delivery system.

Vendor Cost Containment

Requirements for selecting and paying vendors on the basis of competitive prices are in 7 CFR section 246.12(g)(4). These requirements do not apply to farmers, farmers' markets, or to CVVs transacted by retail vendors. Unless FNS has granted a State agency an exemption, the State agency is now required to:

a. Implement or modify a vendor peer group system, whereby authorized vendors are classified into groups on the basis of common characteristics or criteria that affect food

prices. At least one such criterion must be a measure of geography, such as metropolitan or other statistical areas that form distinct labor and products markets.

b. Select and authorize vendors by applying competitive price criteria.

c. Set limits on payments to vendors within each peer group.

d. Identify vendors (called "above-50-percent vendors") that derive more than 50 percent of their annual food sales revenue from WIC FIs.

e. Comply with requirements designed to ensure that the use of above-50-percent vendors is cost neutral to the program (that is, that it does not result in higher WIC food costs than would have been the case if WIC participants had transacted their WIC FIs only at regular vendors). (See III.N.4, "Special Tests and Provisions - Authorization of Above-50-Percent Vendors.")

Federal Oversight and Compliance Mechanisms

FNS oversees State operations through an organization consisting of headquarters and seven regional offices. Federal program oversight encompasses review of the nine functional areas of the program: Organization and Management; Funding and Participation; Vendor Management; Information Systems; Certification, Eligibility, and Coordination; Nutrition Services; Civil Rights; Monitoring and Audits; and Food Delivery. Each year FNS regional offices evaluate as many of these areas as possible within available resource constraints, focusing on those areas they consider most need of review.

Although FNS uses technical assistance extensively to promote improvements in State operation of the WIC Program, enforcement mechanisms are also present. The misuse of funds through State or local agency negligence or fraud may result in the assessment of a claim. Claims may be established for funds lost due to FI or CVV theft or embezzlements or for unreconciled FIs or CVVs. FNS has other mechanisms to recover other losses and the cost of negligence. For other forms of noncompliance, FNS has the authority to give notice and, if improvements do not occur, withhold administrative funds for failure to implement program requirements.

FNS has identified the following circumstances that may indicate noncompliance with WIC program requirements: (1) redeemed FIs or CVVs which the issuing local agencies had reported as voided or unclaimed; (2) a large number of consecutively numbered, unreconciled FIs or CVVs issued by the same local agency; (3) redeemed FIs or CVVs that appear to have been validly issued but fail to match issuance records; and (4) participants that transacted all of their FIs or EBT balances on the same day as they were issued.

Source of Governing Requirements

The WIC Program is authorized by Section 17 of the Child Nutrition Act of 1966 (42 USC 1786). Program regulations are found at 7 CFR part 246.

Availability of Other Program Information

For additional information, contact the applicable FNS regional office. Regional office telephone and datafax numbers, and the States each regional office serves may be found on FNS's website (http://www.fns.usda.gov/wic). The WIC program regulations can be found at that website as well.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this Federal program, the auditor must determine, from the following summary (also included in Part 2, "Matrix of Compliance Requirements"), which of the 12 types of compliance requirements apply, and then determine which of the applicable requirements is likely to have a direct and material effect on the Federal program at the auditee. For each such requirement, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit.

A. *Activities Allowed or Unallowed*	*B.* *Allowable Costs/Cost Principles*	*C.* *Cash Management*	*E.* *Eligibility*	*F.* *Equipment and Real Property Management*	*G.* *Matching, Level of Effort, Earmarking*	*H.* *Period of Performance*	*I.* *Procurement and Suspension and Debarment*	*J.* *Program Income*	*L.* *Reporting*	*M.* *Subrecipient Monitoring*	*N.* *Special Tests and Provisions*
Y	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y

A. Activities Allowed or Unallowed

1. *General Rule*

a. Funds allocated to a State agency for food must be expended to purchase supplemental foods for participants or to redeem FIs or CVVs issued for that purpose. When supplemental foods are provided to participants via direct distribution, the related warehouse facilities costs shall be allowable food costs. Food funds can also be used to purchase breast pumps for participants (7 CFR section 246.14(a) and (b)). Federal program funds may not be used to pay for retroactive benefits to participants (7 CFR section 246.14(a)(2)).

b. Funds allocated for NSA must be used for the costs incurred by the State or local agency to provide participants with nutrition education, breastfeeding promotion and support, and referrals to other social and medical service providers; and to conduct participant certification, caseload management, food benefit delivery, vendor management, voter registration, and program management (42 USC 1786(h)(1)(C)(ii); 7 CFR sections 246.14(c) and (d)).

2. *Exceptions*

a. Funds allocated for food costs may be converted (be applied to NSA costs) (1) as a result of a State's plan to exceed participation levels projected by the Federal funding formula; or (2) after recovery as vendor or participant collections. Conversion due to planned participation increases is allowed only if such increases are expected to result from an approved cost containment plan (7 CFR sections 246.14(e) and 246.16(f)).

b. Funds allocated for NSA costs but not needed for such costs may be applied to food costs (7 CFR section 246.14(a)(2)).

3. *Distinguishing WIC from Non-WIC Services*

Under no circumstances may the WIC NSA grant component be charged for costs that are demonstrably outside the scope of the WIC Program. WIC services may include (a) some screening (excluding laboratory tests other than the blood work [hematological test] described below, which is required for determining WIC eligibility); (b) referrals for other medical/social services, such as immunizations, prenatal (before birth) care, perinatal care (near the time of birth from the 28th week of pregnancy through 28 days following birth), and well child care and/or family planning; and (c) follow-up on participants referred for such services. However, the cost of the services performed by other health care or social service providers to which the participant has been referred shall not be charged to the WIC grant. For example, the cost to screen, refer, and follow-up on immunizations for WIC participants may be charged to the WIC grant, but, the cost to administer the shot, or to purchase the vaccine or vaccine-related equipment, may not be charged to the WIC grant.

A hematological test for anemia, such as a hemoglobin, hematocrit, or free erythrocyte protoporphyrin test, is the only laboratory test required to determine a person's eligibility for WIC (7 CFR section 246.7(e)(1)). Accordingly, the cost of hematological tests for anemia is the only laboratory cost that may be charged to a WIC grant.

B. Allowable Costs/Cost Principles

1. *Applicable Credits*

The following items are credits against current vendor billings or prior expenditures:

a. *Rebates* – Rebates are credits for food costs that are reported in the month in which the rebate was received (7 CFR section 246.14(f)).

b. *Vendor Collections* – Post-payment vendor collections are funds collected through claims assessed against food vendors for errors and overcharges. Pre-payment vendor collections are improper payments prevented as a

result of reviews of FIs or CVVs prior to payment; they are credits against vendor billings.

c. *Participant Collections* – These are recoveries of improperly issued food benefits as the result of a participant, guardian, or caretaker intentionally making a false or misleading statement or withholding information.

d. *Local Agency Collections* – These are funds collected as a result of claims assessed against local agencies for program funds that were misused or otherwise diverted from program purposes due to local agency negligence or fraud.

A State agency must recognize, use, and account for these items in accordance with WIC program regulations. At its discretion, the State agency may credit vendor, participant, and local agency collections against expenditures for food and/or NSA costs. The State agency may apply vendor, participant, and local agency collections to food and/or NSA expenditures of: (1) the fiscal year in which the initial obligation was made; (2) the fiscal year in which the claim arose; (3) the fiscal year in which the collection is received; or (4) the fiscal year following the fiscal year in which the collection is received (42 USC 1786(f)(21); 7 CFR section 246.14(e)).

2. *Capital Expenditures*

a. FNS has authorized WIC State and local agencies to charge the full acquisition cost of non-computer equipment costing less than $25,000 per unit without obtaining prior FNS approval, and to allow local agencies under their oversight to do likewise. FNS regional offices retain the discretion to apply a lower dollar threshold to an individual State agency and to the local agencies under its oversight, provided certain requirements apply and the State agency receives written notice.

b. *Automated Data Processing (ADP) Projects*

FNS requires WIC State agencies to obtain prior approval to incur costs for certain ADP projects and to provide notification and/or documentation for others (7 CFR section 246.14(d)). Approval procedures are in FNS Handbook 901, *Advance Planning Document Handbook*, section 4.0.1 (available at http://www.fns.usda.gov/2014-02-28-fns-handbook-901-v17). .

Approval levels are as follows:

(1) A State agency must notify the applicable FNS regional office within 60 days of the initial expenditure or contract award for an ADP project costing in excess of $4,999, but less than $100,000; and

(2) A State agency must receive prior approval for (a) an ADP project that has a cost greater than $99,999; or (b) any ADP project associated with planning, developing, or deploying a new automation system.

C. Cash Management

The WIC program is subject to the provisions of the Cash Management Improvement Act (CMIA). However, rebates held in State accounts are exempt from the interest provisions of the CMIA (42 USC 1786(h)(8)(J); 7 CFR section 246.15(a)).

E. Eligibility

1. Eligibility for Individuals

Applicants for WIC Program benefits are screened at WIC clinic sites to determine their WIC eligibility. To be certified eligible, they must meet the following eligibility criteria (7 CFR sections 246.7(c), (d), (e), (g), and (l)):

a. *Categorical* - Eligibility is restricted to pregnant, postpartum, and breastfeeding women, infants, and children up to their fifth birthday (7 CFR sections 246.2 (definition of each category) and 246.7(c)).

b. *Identity and Residency* - Except in limited circumstances, WIC applicants must be physically present for eligibility screenings and provide proof of identity and residency. An applicant also must meet the State agency's residency requirement. Except in the case of Indian State agencies, the applicant must reside in the jurisdiction of the State. Indian State agencies may require applicants to reside within their jurisdiction. All State agencies may designate service areas for any local agency, and may require that applicants reside within the service area. A State agency must establish procedures, in accordance with guidance from FNS, to prevent the same individual from receiving duplicate benefits through participation at more than one local agency. Documentation of these determinations may consist of descriptions of documents evidencing the applicants' identities and residency (e.g., notations in the participant's file identifying specific documents that local agency staff have viewed and found acceptable), copies of the documents themselves, and/or the applicants' written statements of identity and residency when no other documentation exists. Certification procedures prescribed by the State agency set conditions for relying on these different forms of documentation (42 USC 1786(f)(23); 7 CFR sections 246.7(c)(1) and (c)(2)(i) and 246.7(i)(3) and (4)).

c. *Income* – An applicant must meet an income standard established by the State agency or be determined to be automatically (adjunctively) income-eligible based on documentation of his/her eligibility, or certain family members' eligibility, for the following Federal programs: (1) Temporary Assistance for Needy Families; (2) Medicaid; or (3) Supplemental Nutrition Assistance Program (formerly the Food Stamp Program). State agencies also may determine an individual automatically income-eligible based on documentation of his/her eligibility for certain State-administered programs. Documentation of income eligibility determinations may consist of descriptions of documents evidencing the sources and gross amounts of all income, such as wages, disability or Social Security/SSI payments, child support, alimony, etc., received by applicants and/or any members of their households (e.g., notations in the participant's file identifying specific documents that local agency staff have viewed and found acceptable), copies of the documents themselves, and/or the applicant's signed affidavit that his/her household income does not exceed the current WIC income eligibility guidelines when no other documentation exists. With limited exceptions, applicants who are not adjunctively or automatically income-eligible for WIC must provide documentation of family income at their initial or subsequent certification (42 USC 1786(d)(3)(D); 7 CFR sections 246.2 (definition of "family"), 246.7(c), and 246.7(d)).

Income Guidelines – The income standard established by the State agency may be up to 185 percent of the poverty income guidelines issued annually by HHS or State or local income guidelines used for free and reduced-price health care. However, in using health care guidelines, the income guidelines for WIC must be between 100 and 185 percent of the poverty income guidelines. These WIC income guidelines are issued each year in the *Federal Register* and are available on FNS's WIC website at http://www.fns.usda.gov/wic. Local agency income guidelines may vary as long as they are based on the guidelines used for free and reduced-price health care (7 CFR section 246.7(d)(1)). Income determinations based on State or local health care guidelines are subject to the definition of "family" in 7 CFR section 246.2, the definition of "income" in 7 CFR section 246.7(d)(2)(ii), and the exclusions from income in 7 CFR section 246.7(d)(2)(iv) (7 CFR sections 246.2 and 246.7(d)(2)).

Income Eligibility Determination – Except for applicants determined to be automatically income-eligible, income is based on gross income and other cash readily available to the family or economic unit. Certain Federal payments and benefits, listed at 7 CFR section 246.7(d)(2)(iv)), are excluded from the computation of income. The following payments to members of the Armed Forces and their families also are excluded: Family Subsistence Supplemental Allowance (7 CFR section 246.7(d)(2)(iv)(D)(33)); combat pay included under Chapter V of Title 37 (42 USC 1758(b)), as amended by Section 734(b) of Pub. L. No. 111-80.

Payments to Filipino veterans under the Filipino Veterans Equity Compensation Fund (section 1002 of ARRA, 123 Stat. 200) are also excluded. In addition, the State agency may exclude:

(1) Housing allowances received by military services personnel residing off military installations or in privatized housing, whether on or off-base (7 CFR section 246.7(d)(2)(iv)(A)(1)); and

(2) Any cost-of-living allowance provided to military personnel who are on duty outside the contiguous States of the United States (7 CFR section 246.7(d)(2)(iv)(A)(2)).

At a minimum, in-stream (away from home base) migrant farm workers and their families with expired Verification of Certification cards shall meet the State agency's income standard provided that the income of the family is determined at least once every 12 months (7 CFR section 246.7(d)(2)(ix)).

An Indian State agency, or a State agency acting on behalf of an Indian local agency, may submit reliable data that proves to FNS that the majority of Indian households in a local agency service area have incomes at or below the State agency's income guidelines. In such cases, FNS may authorize the State agency to permit the use of an abbreviated income screening process whereby an applicant affirms, in writing, that his/her family income is within the State agency's prescribed guidelines (7 CFR section 246.7(d)(2)(viii)).

State agencies may instruct local agencies to consider family income over the preceding 12 months or the family's current rate of income, whichever indicator more accurately reflects the family's income status. To provide more consistency and accountability, WIC has encouraged State agencies to define a family's current rate of income as all income received by the household during the month (30 days) prior to the date the application for WIC benefits is made, or, if the income assessment is being done prospectively, all income that will be available to the family in the next 30 days (see WIC Policy Memorandum No. 2013-3, Income Eligibility Guidance, issued April 26, 2013, which is available at http://origin.www.fns.usda.gov/wic/policyandguidance/wicpolicy-date.htm) (7 CFR sections 246.7(d)(2)(i) and (v)).

d. *Nutritional Risk* – A competent professional authority (e.g., physician, nutritionist, registered nurse, or other health professional) must determine that the applicant is at nutritional risk. While the broad guidelines for determining nutritional risk are set forth in WIC legislation and regulations, the specific allowable nutritional risk criteria are defined in WIC policy guidance, which is updated periodically. Each State agency may choose which allowable nutritional risk criteria will be used to

determine eligibility. At a minimum, the certifying agency must perform and/or document measurements of each applicant's height or length and weight. In addition, a hematological test for anemia must be performed or documented at certification if the applicant has no nutritional risk factor prescribed by the State agency other than anemia. Certified applicants with qualifying nutritional risk factors other than anemia must also be tested for anemia within 90 days of the date of certification. Program regulations set several exceptions to these general rules. The determination of nutritional risk may be based on current referral data provided by a competent professional authority who is not on the WIC staff (7 CFR sections 246.2 (definitions of "competent professional authority" and "nutritional risk") and 246.7(e)).

When an applicant meets all eligibility criteria, he/she is determined by WIC clinic staff to be eligible for program benefits. Certification periods are assigned to each participant based on categorical status for women, infants, and children (7 CFR section 246.7(g)).

A WIC local agency assigns each eligible person a priority classification according to the classification system described in 7 CFR section 246.7(e)(4). A person's priority assignment reflects the severity of his/her nutritional risk. If the local agency cannot immediately place the person on the program for lack of an available caseload slot, the person is placed on a waiting list. Caseload vacancies are filled from the waiting list in priority classification order. State agencies are expected to target program outreach and caseload management efforts toward persons at greatest nutritional risk (i.e., those in the highest priority classifications).

Pregnant women are certified for the duration of their pregnancy and for up to 6 weeks postpartum. Breastfeeding women may be certified approximately every 6 months, or up to one year postpartum or until the woman ceases breastfeeding, whichever occurs first (7 CFR section 246.7(g)(1)). Infants are certified at intervals of approximately 6 months, except that infants under 6 months of age may be certified for a period extending up to the child's first birthday, provided the quality and accessibility of health care services are not diminished. Children are certified for 6-month intervals ending with the last day of the month in which the child reaches the fifth birthday. State agencies also have the option to certify children for a period of one year if the State agency ensures that the child receives the required health and nutrition assessments (7 CFR section 246.7(g)(1)). Non-breastfeeding women are certified for up to 6 months postpartum. All categories of participants may be certified up to the last day of the last month of the certification period (7 CFR section 246.7(g)(1)).

2. Eligibility for Group of Individuals or Area of Service Delivery – Not Applicable

3. Eligibility for Subrecipients

A State agency may award WIC subgrants only to organizations meeting the regulatory definition of "local agency." Such organizations include public or private non-profit health agencies, human service agencies that provide health services, IHS health units, and Indian tribal groups described in the WIC program regulations (see definition of "local agency" in 7 CFR section 246.2).

H. Period of Performance

1. *Spend-Forward Option* – A State agency may spend NSA funds up to an amount equal to three percent of its total WIC formula grant for NSA costs of the following Federal fiscal year. With prior approval from its FNS regional office, the State agency may also spend NSA funds, in an amount that does not exceed one-half of one percent of its total WIC formula grant, for management information systems development costs during the following Federal fiscal year. Food funds may not be "spent forward" (42 USC 1786(i)(3)(A)(ii)(I); 7 CFR section 246.16(b)(3)(ii)).

2. *Backspend Option* – A State agency may:

   a. Spend up to one percent of the food component of its grant for food costs of the Federal fiscal year preceding the fiscal year for which the grant was awarded. This backspend authority may be raised as high as three percent with prior approval from FNS.

   b. Spend up to one percent of its NSA grant component for food and/or NSA costs of the Federal fiscal year preceding the fiscal year for which the grant was awarded (7 CFR section 246.16(b)(3)(i)).

J. Program Income

The State agency may use current-year program income for costs incurred in the current fiscal year and, with the approval of FNS, for costs incurred in previous or subsequent fiscal years. Currently, the following are the only funds FNS is aware of that WIC State agencies receive that are classified as program income: (1) royalties from printed publications; (2) nominal fees, not to exceed costs, for reproducing or mailing publications, videotapes, posters, etc.; (3) interest earned on rebate funds for infant formula and other foods; (4) general grants not tied directly to foods purchased, but made for inclusion of food items in a State's food package (such as certain grants from the private sector); (5) money received by the State agency as a result of civil money penalties or fines assessed against a vendor, and any interest charged in the collection of these penalties and fines; and (6) breastfeeding performance bonuses. A State agency may use program income for any combination of food and NSA costs or other costs that further the broad objectives of the program (7 CFR section 246.15(b)).

L. Reporting

1. Financial Reporting

a. SF-270, *Request for Advance or Reimbursement* – Not Applicable

b. SF-271, *Outlay Report and Request for Reimbursement for Construction Program*s – Not Applicable

c. SF-425, *Federal Financial Report* – Not Applicable

d. FNS-798, *WIC Financial Management and Participation Report (OMB No. 0584-0594)* – A State agency is required to submit monthly financial and program performance (participation) data (7 CFR section 246.25(b)).

Each WIC State agency uses the FNS-798 to report projected and actual Federal food expenditures and participation for each month of the fiscal year. Participation for any given month equals the sum of: (1) the number of individuals who received supplemental foods or FIs during that month; (2) the number of infants who received no supplemental foods or FIs, but whose breastfeeding mothers received supplemental foods or FIs during that month; and (3) the number of breastfeeding mothers who did not receive supplemental foods or FIs, but whose infant received supplemental foods or FIs. The regulatory definition of "participation" does not refer to CVVs; however, a participant receiving CVVs also would be receiving FIs or a CVV benefit via their EBT card (7 CFR section 246.2).

WIC State agencies also use the FNS-798 to provide the data FNS needs to conduct the annual grant reconciliation and closeout required by 7 CFR part 3016/2 CFR section 200.343. The FNS-798 presents the status of the report year grant and costs adjusted by the spending options (described under III.H, "Period of Performance"), which allow State agencies to shift a small portion of the WIC grant funds between Federal fiscal years. The FNS-798 closeout report is the State's official declaration of the final status of its grant and costs for the report year.

Key Line Items – The following line items contain critical information:

(1) Line 1 *Adjusted Gross Obligations* – reflects the amount of money, net of all credits used to fund food outlays except rebates, that a State agency estimates it will spend for each month's food orders or FI and CVV issuances.

(2) Line 2 *Estimated Rebates* – reflects the amount of money that a State agency estimates it will receive for rebates.

(3) Line 7 *Rebates Received* – reflects rebate payments received by the State from food manufacturers, such as infant formula companies.

(4) Line 12 *Net Federal Outlays and Unliquidated Obligations* – reflects the amount of payments, net of rebates billed, program income, post-payment vendor collections, participant collections, local agency collections, and other credits. The State's WIC program food cost ledger account should support this amount.

(5) Line 18 *Total Participation* - reflects the actual number of federally supported participants for elapsed months. The participation counts should be supported by FI issuance records and participant files.

(6) Line 26 *Net Federal Outlays and Unliquidated Obligations for NSA Costs* – reflects gross outlays and unliquidated obligations minus program income, post-payment vendor collections, participant collections, local agency collections, and other credits.

e. FNS-798A, *Addendum to WIC Financial Management and Participation Report – NSA Expenditures (OMB No. 0584-0594)* – State agencies prepare the FNS-798A annually to report (1) NSA expenditures by function for the fiscal year being closed out; (2) the method by which NSA expenditures were charged as indirect costs; and (3) the method by which the indirect cost amount was determined. FNS uses the amounts reported in nutrition education and breastfeeding promotion and support, two of the four functional categories on the FNS-798A, to determine whether the State agencies met the statutory minimum spending level for those functions.

Key Line Items –The following line items contain critical information:

(1) The following line items and columns contain critical information for *State-level* activities:

(a) Line 5a *Federal Outlays* - Column (03) – *State-Level Nutrition Education* - represents total outlays and unliquidated obligations made for State-level nutrition education costs supported by Federal grant funds and program income.

(b) Line 5a *Federal Outlays* - Column (04) – *State-Level Breastfeeding Promotion and Support* – represents total outlays and unliquidated obligations made for State-level breastfeeding promotion and support costs supported by Federal grant funds and program income.

(c) Line 5b *State Outlays* - Column (03) - *State-Level Nutrition Education* - represents total outlays and unliquidated obligations made for State-level nutrition education costs supported by State-appropriated funds plus the dollar value

of any in-kind contributions received from any Federal, State, or local funding source.

(d) Line 5b *State Outlays* - Column (04) – *State-Level Breast-feeding Promotion and Support* – represents total outlays and unliquidated obligations made for State-level breastfeeding promotion and support costs supported by State-appropriated funds plus the dollar value of any in-kind contributions received from any Federal, State, or local funding source.

(2) The following line items and columns contain critical information for *local-level* activities (Outlays and unliquidated obligations made by local agencies or made by the State agency for local clinics or other units in local communities that directly provide benefits to participants):

(a) Line 5a *Federal Outlays* - Column (07) – *Local-Level Nutrition Education* - represents total outlays and unliquidated obligations made for local-level nutrition education costs supported by Federal grant funds and program income.

(b) Line 5a *Federal Outlays* - Column (08) – *Local-Level Breast-feeding Promotion and Support* - represents total outlays and unliquidated obligations made for local-level breastfeeding promotion and support costs supported by Federal grant funds and program income.

(c) Line 5b *State Outlays* - Column (07) – *Local-Level Nutrition Education* -represents total outlays and unliquidated obligations made for local-level nutrition education costs supported by State-appropriated funds plus the dollar value of any in-kind contributions received from any Federal, State or local funding source.

(d) Line 5b *State Outlays* - Column (08) – *Local-Level Breast-feeding Promotion and Support* – represents total outlays and unliquidated obligations made for local-level breastfeeding promotion and support costs supported by State-appropriated funds plus the dollar value of any in-kind contributions received from any Federal, State or local funding source. (Refer to 7 CFR section 246.14(c).)

2. Performance Reporting – Not Applicable

3. Special Reporting – Not Applicable

M. Subrecipient Monitoring

State agencies must establish an ongoing management evaluation system which includes at least the monitoring of local agency operations, the review of local agency financial and participation reports, the development of corrective action plans, the monitoring of the implementation of corrective action plans, and on-site reviews. The on-site reviews of local agencies shall include evaluation of management, certification, nutrition education, civil rights compliance, accountability, financial management systems, and food delivery systems. These reviews must be conducted on each local agency at least once every 2 years, including on-site reviews of a minimum of 20 percent of the clinics in each local agency or one clinic, whichever is greater (7 CFR section 246.19(b)).

N. Special Tests and Provisions

1. Food Instrument and Cash-Value Voucher Disposition

Compliance Requirements – A State agency must account for all FIs issued within 120 days of the FI's first valid date for participant use. This requirement also applies to CVVs. The State agency must identify all FIs and CVVs as either issued or voided, and identify issued FIs and CVVs as either redeemed or unredeemed. Redeemed FIs and CVVs must be identified as one of the following: (1) validly issued, (2) lost or stolen, (3) expired, (4) duplicate, or (5) not matching valid enrollment and issuance records. State agencies generally do this by analyzing computer reports that provide detailed issuance and redemption information on each FI and CVV. In an EBT system, however, this requirement may be met by linking the Primary Account Number or benefit issuance ID number associated with the electronic transaction to valid enrollment and issuance records. EBT systems aggregate benefits for all participants in a family or household. Therefore, the benefits issued shall match benefits redeemed only at the aggregate (household or family) level. The State agency's management information system shall account for individual participant benefits aggregated for any family or household (7 CFR section 246.12(q)).

Audit Objective – Determine whether the State agency's FI and CVV disposition process complies with the foregoing requirements.

Suggested Audit Procedures

a. Obtain an understanding of the State agency's process for tracking FIs and CVVs. At a minimum, this includes ascertaining how the State agency:

   (1) Identifies the ultimate disposition of every FI and CVV; and

   (2) Follows up on redeemed FIs and CVVs that cannot be matched with valid issuances (State agencies do this by contacting the issuing local agencies and by other means).

b. Ascertain whether the State agency provides written guidance to local agencies on how to follow up on issued FIs and CVVs (redeemed and unredeemed).

c. Inspect disposition reports to ascertain that the State agency:

(1) Reconciled its records to issued FIs and CVVs on a one-to-one basis within 120 days from the FI's or CVV's first valid date for participant use;

(2) Followed up on redeemed FIs and CVVs that were not validly issued or validly used in order to determine their ultimate disposition;

(3) Obtained explanations for identified discrepancies; and

(4) Adjusted its accounting records and external reports in order to reflect the results of the disposition process.

2. Review of Redeemed Food Instruments and Cash-Value Vouchers

Compliance Requirements – A State agency operating a retail food delivery system must take the following actions to ensure that payments of WIC food funds to vendors conform to program regulations and the State agency's vendor, farmer, or farmers' market agreements to detect errors and, where applicable, enforce price limitations:

a. *FI and CVVs Review Process* – The State agency must have in place a process for reviewing all, or a representative sample of, FIs and CVVs submitted by vendors for redemption. For EBT systems, this would be a daily automated reconciliation process with follow-up procedures to resolve any discrepancies identified. The review is done on an aggregate basis rather than on a vendor, farmer, or farmers' market basis. Because of the wide disparity in the number of FIs and CVVs processed by State agencies, there are no criteria for determining what constitutes a representative sample, other than that it must be a representative sample of FIs and CVVs submitted (7 CFR section 246.12(k)(1)). At a minimum, this process must be able to detect:

(1) Redeemed monetary amounts that exceed the maximum monetary purchase amounts established by the State agency for each type of FI and CVV.

(a) For FIs, this includes checking for amounts exceeding maximum amounts based on peer groups, above-50-percent status, not-to-exceed amounts printed on the FIs, and thresholds used to indicate possible overcharging (a sanctionable violation that involves charging WIC customers more than non-WIC customers for the same food items). In EBT systems, the not-to-exceed edits are performed during daily processing of each purchase submitted for payment by authorized retail vendors.

(b) For CVVs, this includes checking thresholds used to indicate possible overcharging. In an EBT system, a CVV purchase that exceeds the EBT benefit balance for CVV purchases has one of three possible outcomes: (i) it is denied; (ii) the WIC customer is allowed to pay the portion not covered by EBT benefits, using another medium of exchange; or (iii) the number of purchased fruits and vegetables is reduced to bring the price within the available EBT benefit balance (7 CFR section 246.12(h)(3)(x)).

(2) Other errors, including purchase price missing; participant, parent/caretaker, or proxy signature missing; vendor identification missing; FIs and CVVs transacted or redeemed after the specified time period; and altered purchase price. EBT system errors generated by faulty vendor or system provider software must be identified, tracked, and resolved by the State agency or its contractor, as applicable.

(3) Questionable FIs and CVVs which, while they may not clearly contain errors, nevertheless require follow-up to determine if an error has occurred.

b. *Follow-up on Erroneous or Questionable FIs and CVVs* – The State agency must follow up on FIs containing errors and other questionable FIs and CVVs detected through this process within 120 days following detection. Regulations at 7 CFR sections 246.12(k)(2) through (k)(5) describe appropriate follow-up actions (7 CFR section 246.12(k)).

Audit Objectives – Determine whether the State agency's system and procedures for reviewing FIs and CVVs detects and follows up on erroneous or questionable FIs and CVVs.

Suggested Audit Procedures

a. Obtain an understanding of the State agency's process for detecting erroneous or questionable FIs and CVVs.

b. Review the State agency's reports or other documentation of the review process, showing the results for individual FIs and CVVs during the audit period. Select a sample of FIs and CVVs redeemed that are covered by this documentation and analyze it to identify any FIs containing errors. If the State agency does not review all FIs and CVVs, then draw the sample from only those FIs and CVVs the State agency did review. Compare the FIs and CVVs containing errors per the State agency's documentation against the results of analyzing the sample in order to determine whether the State agency's review process detected all erroneous or questionable FIs and CVVs.

c. Determine that the State agency followed up on all FIs and CVVs for which its review process detected errors or questionable items within the required 120-day timeframe.

3. Compliance Investigations of High-Risk Vendors

Compliance Requirements – A State agency operating a retail food delivery system must conduct compliance investigations, which consist of inventory audits and/or compliance buys, on a minimum of 5 percent of the vendors authorized as of October 1 of each year. Farmers are not included in this requirement. A State agency must conduct compliance investigations on its high-risk vendors up to the 5 percent minimum. High-risk vendors are identified at least once annually using criteria developed by FNS, and/or other statistically based criteria developed by the State agency and approved by FNS. If the number of high-risk vendors exceeds 5 percent of the total, then the State agency must prioritize vendors for investigative purposes based on their potential for noncompliance and/or loss. If the number of high-risk vendors falls short of 5 percent of the total, the State agency must randomly select enough additional vendors to meet the 5 percent requirement. When a compliance investigation discloses vendor violations, the State agency must take appropriate action against the vendor. Such action includes delaying payment or establishing a claim if a violation affects payment to the vendor; imposing sanctions mandated by program regulations for certain stated violations; and imposing other, less severe sanctions prescribed by the State agency's sanction schedule for lesser violations (7 CFR sections 246.2 (definitions of "compliance buy," "high-risk vendor," and "inventory audit"), 246.12(j)(4)(i) through (iii), 246.12(k)(2) through (4), and 246.12(l)(1) and (2)).

Audit Objectives – Determine whether the State agency made required compliance investigations and took appropriate actions against vendors.

Suggested Audit Procedures

a. Inspect the State agency's vendor files or database to identify the vendors designated as high risk, and to determine the total number of vendors for which compliance investigations were required during the audit period.

b. Inspect records to determine whether the State agency made the required compliance investigations and established claims against vendors or took other appropriate action based on the findings.

4. Authorization of Above-50-Percent Vendors

Compliance Requirements – Vendors that derive more than 50 percent of their annual food sales revenue from WIC FIs, and new vendor applicants expected to meet that criterion, are referred to as "above-50-percent vendors" (7 CFR section 246.2). Program regulations set restrictions on a State agency's authorization of such vendors to accept WIC FIs, and on the State agency's authority to disburse Federal WIC funds to them. The purpose of these restrictions is to ensure that the average price per FI type or food item that above-50-percent vendors charge WIC participants does not exceed the price charged by regular vendors, either within their peer groups or statewide. FI types are the unique grouping of food items and quantities. Food items are individual products from the EBT Authorized Product List. The outcome should be that the State agency's use of

above-50-percent vendors does not result in higher total food costs if WIC participants transact their FIs at such vendors rather than at regular vendors. As previously noted, this requirement does not apply to farmers or to CVVs transacted by retail vendors (see II, "Program Procedures - Vendor Cost Containment").

A State agency that chooses to authorize any above-50-percent vendor must:

a. obtain FNS certification of its vendor cost containment system at least every 3 years thereafter if the State continues to authorize above-50-percent vendors (7 CFR sections 246.12(g)(4)(i) and (vi));

b. ensure that the prices of above-50-percent vendors are not included with the prices of regular vendors for purposes of determining the competitive price selection criteria and maximum allowable reimbursement amounts for all vendors. (7 CFR section 246.12(g)(4)(i)(D)); and

c. at least quarterly, conduct statewide cost neutrality assessments by calculating and comparing the average redemption amounts for FIs (by type) or individual food items redeemed by regular vendors against those of above-50-percent vendors (7 CFR section 246.12(g)(4)(i)(D)).

Audit Objectives – Determine whether the State agency obtained the required FNS certification on the use of above-50-percent vendors and observed regulatory restrictions on the use of such vendors.

Suggested Audit Procedures

a. Determine if the State agency currently has agreements with any above-50-percent vendors.

b. If so, inspect records to verify that the State agency had identified and authorized those vendors.

c. Verify that FNS certification of the State vendor cost containment system was within the required time frames.

d. Inspect State agency records to determine that the State agency conducted the required quarterly cost neutrality assessments.

e. Obtain an understanding of how the State agency ensures that the prices charged by above-50-percent vendors are not included with the prices of regular vendors for purposes of determining the competitive price selection criteria and maximum allowable reimbursement amounts for all vendors. Inspect records of the State agency's competitive price selection criteria and maximum allowable reimbursement levels to determine that the State agency did not include the prices of above-50-percent vendors in these calculations.

UNITED STATES DEPARTMENT OF AGRICULTURE

CFDA 10.558 CHILD AND ADULT CARE FOOD PROGRAM (CACFP)

I. PROGRAM OBJECTIVES

The CACFP assists States, through grants-in-aid and donated foods, to initiate and maintain non-profit food service programs for eligible children and adults in nonresidential day care settings.

II. PROGRAM PROCEDURES

General Overview

The U.S. Department of Agriculture's (USDA) Food and Nutrition Service (FNS) administers the CACFP through grants-in-aid to States. The program is administered within most States by the State educational agency. In a few States, it is administered by an alternate agency, such as the State department of health or social services. At the discretion of the Governor, different agencies within a State may administer the program's child care and adult day care components.

CACFP benefits consist of nutritious meals and snacks served to eligible children and adults who receive care at participating child care centers, adult day care centers, outside-school-hours care centers, at-risk afterschool programs, family and group day care homes, and emergency shelters. These entities are discussed in more detail below. Child and adult day care centers and outside-school-hours care centers (often referred to collectively in this discussion as "centers"), as well as at-risk afterschool programs and emergency shelters, may operate independently under agreements with their State agencies, or they may participate under the auspices of sponsoring organizations. Day care homes may participate only through sponsoring organizations. An entity with which a State agency enters into an agreement for the operation of the CACFP, be it an independent center or a sponsoring organization, is known as an "institution."

A sponsoring organization usually does not provide child care services itself. Rather, it assumes administrative and financial responsibility for CACFP operations in centers and day care homes under its sponsorship. In that capacity, sponsoring organizations generally pass Federal funds received from their State agencies through to their homes and centers; in some cases, however, sponsoring organizations provide meals to their centers in lieu of cash reimbursement.

Child Care Centers

Eligible child care centers include public, private non-profit, and certain for-profit child care centers, Head Start programs, and other entities which are licensed or approved to provide day care services.

Adult Day Care Centers

Public, private non-profit, and certain for-profit adult day care facilities which provide structured, comprehensive services to nonresidential adults who are functionally impaired, or aged 60 and older, may participate in the CACFP. Eligible adult day care centers must provide a

structured, comprehensive program that provides a variety of health, social, and related support services to enrolled adult participants through an individual plan of care.

Outside-School-Hours Care Centers

Outside-school-hours care centers include public, private non-profit and certain for-profit organizations, licensed or approved to provide nonresidential child care services to enrolled children outside of school hours.

At-Risk Afterschool Programs

At-risk afterschool programs are structured, supervised programs that are organized primarily to provide care to children through age 18 after school hours and on weekends and holidays during the school year; provide educational or enrichment activities, and are located in low-income areas. Examples of organizations that typically offer such programs include the Boys & Girls Clubs, and the YMCA. In areas where Federal, State or local licensing or approval is not required, operators of these afterschool programs are required to comply with State or local health and safety requirements.

Emergency Shelters

Public and private non-profit emergency shelters which provide temporary shelter and food services to homeless children are eligible to participate in the CACFP. Eligible shelters may receive reimbursement for serving up to three meals each day to residents age 18 and younger.

Day Care Homes

A family or group day care home is a private home licensed or approved to provide day care services. As noted above, the provider of such services must sign an agreement with a sponsoring organization to participate in the CACFP; a day care home cannot enter into an agreement directly with the State agency. The sponsor provides training, monitoring, and technical assistance to homes under its sponsorship.

Program Funding

Federal assistance to institutions takes the form of cash reimbursement for meals served, and USDA-donated foods or cash in lieu of donated foods. An institution's entitlement to cash reimbursement is generally computed by multiplying the number of meals served, by category and type, by prescribed per-unit payment rates called "reimbursement rates." "Type" refers to the kind of meal service for which the institution seeks reimbursement (breakfast, lunch, snack, supper). For meals served in centers, "category" refers to the economic need of the child or adult to whom a meal is served; such meals are categorized as "paid," "reduced price," or "free." Meals served in day care homes are categorized by the tiering structure (tier I or II) described in III.E.1, "Eligibility - Eligibility for Individuals." Under this formula, an institution's entitlement to funding from its State agency is a function of the categories and types of services provided. An institution establishes its entitlement to reimbursement payments by submitting claims for reimbursement to its State agency.

Independent centers, sponsors of centers, and sponsors of day care homes may be approved to claim reimbursement for up to two reimbursable meals (breakfast, lunch or supper) and one snack, or two snacks and one meal, per enrolled participant per day. Operators of at-risk afterschool programs may claim reimbursement for one meal (typically supper) and one snack per child per day. Emergency shelters may claim up to three meals served to each resident child each day. The specific types of meals for which an institution may claim reimbursement payments are stated in its agreement with its State agency.

In addition to cash assistance, USDA makes donated foods, or cash-in-lieu of donated foods, available for use by institutions in operating the CACFP. FNS enters into agreements with State distributing agencies for the distribution of USDA-donated foods to CACFP institutions; the distributing agencies, in turn, enter into agreements with the institutions. The distributing agency may be the State CACFP State agency or a separate State agency.

Documentation Requirements

An institution operating the CACFP must have procedures in place to collect and maintain the documentation required at 7 CFR section 226.15(e). Examples of such documentation include (1) the institution's application and supporting documents submitted to its State agency; (2) records of enrollment of each CACFP participant; (3) records supporting the free and reduced price eligibility determinations for children and adults enrolled in centers and for providers' children in day care homes; (4) daily records indicating the number of children and adults in attendance and the number of meals served by type and category; (5) copies of receipts, invoices and other records of CACFP costs and income required by the State agency; (6) copies of claims for reimbursement submitted to the State agency; and (7) documentation of non-profit operation of food service.

Pricing of Program Meals

Child care, adult day care, and outside-school-hours care centers may charge a single fee to cover tuition, meals, and all other day care services; such arrangements are called nonpricing programs. Alternatively, they may operate pricing programs, in which separate fees are charged for meals. An institution must describe its pricing policy in a free and reduced price policy statement submitted to its State agency. The vast majority of these centers operate nonpricing programs. Nevertheless, institutions must determine the eligibility of children and adults enrolled at these centers for free or reduced price meals because such determinations affect the reimbursement rates for meals served to the participants. Family day care homes are prohibited from charging separately for meals. At-risk afterschool programs and emergency shelters are prohibited from charging for meals altogether.

Federal Assistance to States

Program funds are provided to States through letters of credit issued under the FNS Integrated Program Accounting System. The States, in turn, use the funds to reimburse institutions for costs of CACFP operations, as described above, and to support State administrative expenses.

Program Benefits

FNS provides a cash payment (called a "national average payment") to each State agency for each meal served under the CACFP. A State's entitlement to national average payments is mainly determined by the same performance-based (meals-times-rates) formula used by State agencies to compute reimbursement payments to institutions. From the State's standpoint, all funds received via this formula are pass-through funds that the State must use for reimbursement payments to institutions under its oversight.

FNS adjusts the national average payment rates on July 1 of each year. National average payments for meals served in centers are adjusted to reflect changes in the *Food Away From Home* series of the Consumer Price Index. Adjustments in national average payments for meals served in day care homes are based on changes in the *Food at Home* series of the Consumer Price Index.

The State's level of USDA-donated food assistance or cash in lieu of donated foods is based on the numbers of lunches and suppers served in centers in the preceding year, multiplied by the national average payment for donated foods. Donated food assistance rates are also adjusted every July 1 to reflect changes in the *Food Used in Schools and Institutions* series of the Consumer Price Index.

Sponsor Administrative Costs

Sponsoring organizations of family day care homes receive administrative funds related to the documented costs they incur in planning, organizing, and managing CACFP. They are the only CACFP institutions that may receive such assistance.

Sponsoring organizations of centers do not receive separate administrative cost reimbursement parallel to that received by sponsors of family day care homes. Instead, program regulations allow them to retain for their administrative costs a portion of the meal reimbursement payments generated by their centers.

State-Level Administrative Costs

FNS makes State Administrative Expense (SAE) funds available to State agencies for administrative expenses incurred in supervising and giving technical assistance to institutions participating in CACFP. SAE requirements are prescribed at 7 CFR part 235.

Additional funds are also available to States to help State agencies and institutions comply with Federal audit requirements, and to fund costs associated with performing administrative reviews of institutions after the audit requirements have been met. A State receives such assistance in an amount equal to one and one-half percent of the payments FNS made to the State for CACFP program reimbursement to institutions during the second fiscal year preceding the year for which the funds are to be made available.

Source of Governing Requirements

The CACFP is authorized at section 17 of the Richard B. Russell National School Lunch Act (NSLA) (42 USC 1766), as amended. The program regulations are codified at 7 CFR part 226. Regulations at 7 CFR part 250 provide general rules for the receipt, custody, and use of USDA-donated foods provided for use in the CACFP.

Availability of Other Program Information

Additional program information is available from the FNS website at http://www.fns.usda.gov/cnd. Information on the distribution of USDA-donated foods for the CACFP is available from the FNS Food Distribution website at http://www.fns.usda.gov/fdd/programs/schcnp/.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this Federal program, the auditor must determine, from the following summary (also included in Part 2, "Matrix of Compliance Requirements"), which of the 12 types of compliance requirements apply, and then determine which of the applicable requirements is likely to have a direct and material effect on the Federal program at the auditee. For each such requirement, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit.

A. *Activities Allowed or Unallowed*	*B.* *Allowable Costs/Cost Principles*	*C.* *Cash Management*	*E.* *Eligibility*	*F.* *Equipment and Real Property Management*	*G.* *Matching, Level of Effort, Earmarking*	*H.* *Period of Performance*	*I.* *Procurement and Suspension and Debarment*	*J.* *Program Income*	*L.* *Reporting*	*M.* *Subrecipient Monitoring*	*N.* *Special Tests and Provisions*
Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y

A. Activities Allowed or Unallowed

1. *Reimbursement for Operating Costs of Child and Adult Care Centers* – The administering agency determines whether centers and sponsors of centers under its oversight shall be reimbursed solely according to the meals-times-rates formula outlined in II, "Program Procedures," or at the lesser of meals-times-rates or actual, documented costs. Costs claimed by the institution as operating costs must be related to preparing and serving meals to children and/or adults under the CACFP (7 CFR section 226.11(c) and definition of "operating costs" in 7 CFR section 226.2).

2. *Reimbursement for Sponsoring Organizations' Administrative Costs* – Administrative costs are those related to planning, organizing, and managing a food service under the CACFP (7 CFR section 226.2).

a. *Sponsoring Organizations of Centers* – There is no provision for sponsoring organizations of centers to receive reimbursement for administrative costs. However, a sponsor may retain a portion of a center's meal reimbursement, not to exceed 15 percent, for its own administrative expenses (42 USC 1766(f)(2)(C)(i); 7 CFR section 226.16(b)(1)). The method to determine the portion a sponsoring organization may retain is described in III.G.3, "Matching, Level of Effort, Earmarking - Earmarking."

b. *Sponsoring Organizations of Family Day Care Homes* – In addition to their meal reimbursement payments, sponsoring organizations of family day care homes may receive reimbursement for their administrative costs (7 CFR section 226.12). The formula a State agency must use to determine a sponsoring organization's entitlement to administrative payments is also described in III.G.3, "Matching, Level of Effort, Earmarking - Earmarking."

3. *Use of Reimbursements* – Reimbursement payments shall be used solely for the conduct of the food service operation or to improve such food service operations, principally for the benefit of the enrolled participants (7 CFR section 226.15(e)(13)).

C. Cash Management

A sponsoring organization must disburse advance and meal reimbursement payments to centers and day care homes under its sponsorship within five working days of receiving them from its State agency (7 CFR sections 226.16(g) and (h)).

E. Eligibility

1. Eligibility for Individuals

a. *General Eligibility*

Any individual may receive meals under the CACFP if he/she:

(1) Meets the definition of "children" or "adult participant" at 7 CFR section 226.2. These definitions are:

(a) "Children" means (i) persons 12 years of age and under; (ii) children of migrant workers 15 years of age and under; (iii) persons of any age who have one or more disabilities and who are enrolled in an institution or child-care facility serving a majority of persons who are age 18 and under; (iv) for emergency shelters, persons age 18 and under; and (v) for at-risk afterschool care centers, persons age 18 and under at the start of the school year (see definitions of

"children," "enrolled child," and "persons with disabilities" at 7 CFR section 226.2).

(b) "Adult participant" means "a person enrolled in an adult day care center who is functionally impaired... or 60 years of age or older" (Definitions of "adult participant" and "enrolled participant" are available at 7 CFR section 226.2).

(2) Receives care at a participating institution. The individual must:

(a) Be enrolled in a child or adult care center or other nonresidential institution that provides day care;

(b) Reside in an emergency shelter; or

(c) Attend an at-risk afterschool program or outside-school-hours care center (7 CFR section 226.15(e)(2), definitions of "enrolled child" and "enrolled participant" are available at 7 CFR section 226.2).

b. *Eligibility for Free or Reduced Price Meals*

(1) *Children and Adults Enrolled in Centers* – While an independent center or sponsoring organization of centers receives Federal cash reimbursement for all meals served in centers, it receives higher levels of reimbursement for meals served to children and adults who meet Income Eligibility Criteria published by FNS for meals served free or at reduced price. Participants from households with incomes at or below 130 percent of poverty are eligible for free meals; and participants with household incomes between 130 percent and 185 percent of poverty are eligible for reduced price meals. The Income Eligibility Guidelines and Reimbursement Rates are published in the *Federal Register* and on the FNS website at http://www.fns.usda.gov/cnd. Institutions must determine each enrolled participant's eligibility for free and reduced price meals in order to claim reimbursement for the meals served to that individual at the correct rate (7 CFR sections 226.15(e)(2), 226.17(b)(8), 226.19(b)(7)(i), and 226.19a(b)(8)).

A participant's eligibility may be established by the following methods:

(a) *General Rule: Household Application* – The participant's household may submit an income eligibility statement that provides information about household size and income. The information submitted by each household is compared with USDA's published Income Eligibility Guidelines. A household is not required to furnish documentation to support the information given in its income eligibility statement; however, that information is subject to verification under 7 CFR section 226.23(h) (7 CFR sections 226.23(e)(1)(ii) and (iii), and 226.23(e)(4)).

(b) *Exception: Categorical Eligibility* – Children and adults may be determined categorically eligible for free and reduced price meals by virtue of their participation in certain other programs. For children, such programs include the Supplemental Nutrition Assistance Program (SNAP), Food Distribution Program on Indian Reservations (FDPIR), or State programs funded through Temporary Assistance for Needy Families (TANF). Categorically eligible adults include those who receive SNAP, FDPIR, Supplemental Security Income (SSI), or Medicaid benefits. Categorically eligible participants must indicate on the income eligibility statement the other program for which they are eligible. No income eligibility statement is required for foster children or children participating in the Head Start Program or for pre-kindergarten children participating in the Even Start Program, nor is any eligibility determination required beyond documenting their participation in Head Start or Even Start (7 CFR sections 226.23 (e)(1)(iv) and (v); 42 USC 1766(c)(6)).

(2) *Children Enrolled in Family Day Care Homes* – A tiering structure prescribed by program statute and regulations forms the basis for meal reimbursement payments to sponsoring organizations of day care homes. A home is classified as tier I or tier II, depending on the home's location or the provider's income eligibility.

Tier I day care homes are those operated by providers whose own household meets the income standards for free or reduced price meals, as outlined above, or those located in low-income areas. A low-income area is one where at least 50 percent of the children are eligible for free or reduced price school meals. Sponsoring organizations may use school enrollment data or census data to

determine if a home is located in a low-income areas (7 CFR sections 226.2 (definitions of "low-income area" and "tier I day care home") and 226.15 (e)(3) and (f)).

Tier II homes are those day care homes which do not meet the location or provider income criteria for a tier I home. Per-meal reimbursement rates for meals served in tier II homes are lower than corresponding rates for tier I homes. The provider in a tier II home may nevertheless elect to have the sponsoring organization determine the income-eligibility of enrolled children, so that meals served to those children who qualify for free and reduced price meals would be reimbursed at the higher tier I rate (7 CFR section 226.23(e)(1)(i)).

Meals served to a day care home provider's own children are not reimbursable unless all of the following conditions are met: (a) such children are enrolled and participating in the CACFP during the time of the meal service; (b) enrolled, nonresidential children are present and participating in the CACFP; and (c) the provider's own children are eligible for free or reduced price meals (7 CFR section 226.18(e)).

(3) *Children Attending At-Risk Afterschool Programs* – Eligible afterschool programs must be located in geographical areas where 50 percent or more of the children are eligible for free or reduced price meals under the School Nutrition Programs (CFDA 10.553 and 10.555), as demonstrated by the free and reduced price eligibility data maintained by the school serving the area. Individual eligibility determinations for children attending these programs are not required (42 USC 1766(r)).

(4) *Children Residing in Emergency Shelters* – Children residing in emergency shelters are categorically eligible to receive meals at no charge (42 USC 1766(t)(5)(C)).

2. Eligibility for Group of Individuals or Area of Service Delivery – Not Applicable

3. Eligibility for Subrecipients

a. State agencies may disburse CACFP funds only to those organizations that meet the eligibility requirements stated in the following program requirements: (1) generic requirements for all institutions at 7 CFR section 226.15 and 42 USC 1766(a)(6) and (d)(1); (2) additional requirements for sponsoring organizations at 7 CFR section 226.16; (3) additional requirements for child care centers (whether independent or sponsored) at 7 CFR section 226.17; (4) additional requirements for day

care homes (which must be sponsored) at 7 CFR section 226.18; (5) additional requirements for outside-school-hours centers at 7 CFR section 226.19; (6) additional requirements for adult day care centers (whether independent or sponsored) at 7 CFR section 226.19a; (7) additional requirements for at-risk afterschool programs at 7 CFR section 226.17a; and (8) additional requirements for emergency shelters at 42 USC 1766(t).

b. For-profit child care and outside-school-hours care centers may participate in the CACFP if they meet either of the following two criteria: (1) at least 25 percent of the enrolled children or 25 percent of the licensed capacity, whichever is less, are funded under Title XX of the Social Security Act; or (2) at least 25 percent of the children in their care are eligible for free or reduced price meals. Children who participate only in the at-risk afterschool component of the program must not be considered in determining whether the institution met this 25 percent threshold (42 USC 1766(a)(2)(B); 7 CFR section 226.11(c)(4)).

c. For-profit adult day care centers may be eligible for CACFP if at least 25 percent of their participants receive benefits under Title XIX or Title XX of the Social Security Act (7 CFR section 226.2 (definition of "for-profit center")).

G. Matching, Level of Effort, Earmarking

1. Matching – Not Applicable

2. Level of Effort – Not Applicable

3. Earmarking

a. *Sponsoring Organizations of Day Care Homes* –

(1) Administrative cost reimbursement to sponsoring organizations of day care homes is limited to the appropriate monthly rates per home, multiplied by the number of operating homes in each month (42 USC 1766(f)(3)(B)).

(2) Starting with funds made available to sponsors in Federal Fiscal Year 2011, sponsors of a day care home may elect to carry over unspent CACFP administrative funds for use in the following fiscal year. The amount a sponsor may carry over may not exceed 10 percent of the sponsor's limit under the homes-times-rates formula described in a.(1) (42 USC 1766(f)(3)(B)(iii)).

b. *Sponsoring Organizations of Centers* - There is no provision for sponsoring organizations of centers to receive a separate reimbursement for administrative costs. However, sponsors may retain up to 15 percent from a center's reimbursement for its administrative expenses. State agencies may waive this limit if certain regulatory criteria are met (7 CFR sections 226.6(f)(1)(vi) and 226.16(b)(1)).

H. Period of Performance

A day care home sponsor that carries CACFP administrative funds forward into the following fiscal year must spend the carryover funds during that fiscal year (see III.G.3.a, "Matching, Level of Effort, Earmarking - Earmarking – Family Day Care Home Sponsors") (42 USC 1766(f)(3)(B)(iii)).

I. Procurement and Suspension and Debarment

1. For procurement activity covered by USDA implementation of the A-102 Common Rule, regardless of whether the State elects to follow State or Federal rules, the following requirements must be followed:

   a. A State agency or institution shall not award a contract to a firm it used to orchestrate the procurement leading to that contract. Examples of services that would disqualify a firm from receiving the contract include preparing the specifications, drafting the solicitation, formulating contract terms and conditions, etc. (7 CFR sections 3016.60(b) and 3019.43).

   b. A State or local government shall not apply in-State or local geographical preference, whether statutorily or administratively prescribed, in awarding contracts (7 CFR section 3016.60(c)).

2. For procurements covered by the USDA adoption of 2 CFR part 200 and the regulations at 2 CFR section 416.1, the following applies:

   a. A prospective contractor that develops or drafts specifications, requirements, statements of work, invitations for bids, requests for proposals, contract term and conditions or other documents for use by a State under this program shall be excluded from competing for such procurements. Such prospective contractors are ineligible for contract awards resulting from such procurements regardless of the procurement method used. However, prospective contractors may provide States with specification information related to a State procurement and still compete for the procurement if the State, and not the prospective contractor, develops or drafts the specifications, requirements, statements of work, invitations for bid, and/or requests for proposals used to conduct the procurement (2 CFR section 416.1(a)).

b. Procurements by States under this program shall be conducted in a manner that prohibits the use of statutorily or administratively imposed in-State or local geographic preferences except as provided for in 2 CFR section 200.319(b) (2 CFR section 416.1(b)).

3. *Procurement of Unprocessed Agricultural Products* - Notwithstanding the requirements in paragraph 1.b or in 2 CFR section 200.319(b), an institution operating the CACFP may use a geographical preference for the procurement of unprocessed agricultural products, both locally grown and locally raised (Section 4302 of Pub. L. No. 110-246, 122 Stat. 1887, June 18, 2008).

4. *Suspension and Debarment* – Mandatory awards by pass-through entities to subrecipients are excluded from the suspension and debarment rules (2 CFR section 417.215(a)(1)).

L. Reporting

1. Financial Reporting

a. SF-270, *Request for Advance or Reimbursement* – Not Applicable

b. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable

c. SF-425, *Federal Financial Report* – Not Applicable

d. *FNS-777, Financial Status Report (OMB No. 0584-0067)* – This report captures the State agency's cumulative outlays (expenditures) and unliquidated obligations of Federal funds for the CACFP. FNS uses the data captured by this report to monitor State agencies' program costs and cash draws (7 CFR section 226.7(d)). Two different versions of this form are made available for use by State agencies: one for reporting on program funds, and the other for reporting the status of the State agency's SE grant. This enables the State agency to separately report on its SAE grant which, unlike the program funds, is a 2-year grant.

Key Line Items – The following line items contain critical information:

Line 10.g. – *Total Federal share of outlays*

Line 10.j. – *Total Federal share of unliquidated obligations*

Line 10.n. – *Advances only*

Note: Columns 1 through 5 of the FNS-777 pertain to the CACFP. The remaining columns capture financial data on other Child Nutrition Programs, which are described under the title "Child Nutrition Cluster" (beginning on page 10.553-1 of this Compliance Supplement).

2. Performance Reporting – Not Applicable

3. Special Reporting

a. *State Agency Special Reporting*

FNS-44, *Report of the Child and Adult Care Food Program (OMB No. 0584-0594)* – To receive CACFP funds, a State agency administering the program compiles the data gathered on its subrecipients' claims for reimbursement into monthly reports to its FNS regional office. Such reports present the number of meals served, by category and type, in institutions under the State agency's oversight during the report month.

An initial monthly report, which may contain estimated participation figures, is due 30 days after the close of the report month. A final report containing only actual participation data is due 90 days after the close of the report month. A final closeout report is also required, in accordance with the FNS closeout schedule. Revisions to the data presented in a 90-day report must be submitted by the last day of the quarter in which they are identified. However, the State agency must immediately submit an amended report if, at any time following the submission of the 90 day report, identified changes to the data cause the State agency's level of funding to change by more than (plus or minus) 0.5 percent.

Key Line Items – The following line items contain critical information:

(1) *Part A – No. Homes*

(a) Line 6 – *No. of sponsoring organizations of day care homes administering between (ranges for numbers of homes given in columns)*

(b) Line 7 – *No. of homes for which sponsors are eligible to receive reimbursement based on rate for (ranges for numbers of homes given in columns)*

(2) *Part E*

(a) Lines 22 through 30 – *Breakfasts*

(b) Lines 31 through 39 – *Lunches*

(c) Lines 40 through 48 – *Suppers*

(d) Lines 49 through 57 – *Snacks*

(e) Lines 58 through 60 – *Total Free, Reduced Price, and Paid Meals Served (Respectively)*

b. *Subrecipient Special Reporting*

To receive reimbursement payments for meals served, an institution must submit claims for reimbursement to its State agency. A claim must include the number of meals served by category and type during the period (generally a month) covered by the claim. All meals claimed for reimbursement must be of types authorized by the institution's State agency; must be served to eligible children or adults; and must be supported by accurate meal counts and records indicating the number of meals served by category and type. Reimbursement is not allowed for meals served to a participant who is not enrolled for care (if applicable), meals served in excess of an institution's licensed or authorized capacity, meal types that are not approved in the institution's agreement with its State agency, or meals served in excess of the maximum number of approved meal services (7 CFR sections 226.10(c), 226.17(b)(4), 226.17a(p), 226.19(b)(5), and 226.19a(b)(6)).

(1) *Meals Served in Child and Adult Care Centers* – Several variants are available for reporting participation under the meals-times-rates reimbursement formula. They include (a) reporting actual meal counts by category and type; (b) applying "blended per-meal rates" to actual counts of meals served by type; and (c) applying the center's "claiming percentage" for each category to its actual count of each type of meal served. The claiming percentage for each category is the ratio of enrolled persons eligible for meals in that category to all enrolled persons. The institution's agreement with its State agency identifies the variant to be used (7 CFR sections 226.9(b) and 226.11(b)).

(2) *Meals Served in Day Care Homes* – Like a sponsor of centers, a day care home sponsor must claim reimbursement for meals by category and type. With respect to day care homes, however, "category" refers to the tiering structure (tier I or tier II) rather than to an individual's income eligibility, as described under III.E.1, "Eligibility - Eligibility for Individuals" (7 CFR section 226.13(b)).

To develop the information needed to prepare a claim, the sponsoring organization requires each day care home under its sponsorship to report the number of reimbursable meals served during each claim month. The sponsoring organization collects the number of meals served, by type, from tier I homes and from tier II homes that elect not to request the sponsoring organization to make individual income eligibility determinations for enrolled children (7 CFR sections 226.13(d)(1) and (2)). If a tier II day care home provider has elected to have its sponsoring organization make individual income eligibility determinations, program regulations

provide several options for reporting the number of meals eligible for reimbursement at the tier I and II rates, respectively (7 CFR section 226.13(d)(3)).

The reimbursement rates for lunches and suppers served in day care homes whose sponsoring organizations have elected to receive USDA-donated foods are reduced by the value of the foods (7 CFR section 226.13(c)).

(3) *Meals Served in At-Risk Afterschool Programs* – Reimbursement payments for snacks served to children in at-risk afterschool programs are limited to one meal and one snack per child per day. Meals and snacks served in at-risk afterschool programs are provided at no charge and reimbursed at the "free" rate (7 CFR sections 226.17a(j), (k), and (n)).

(4) *Meals Served in Emergency Shelters* – A shelter or its sponsoring organization may claim reimbursement only for three meals, or two meals and one snack, per child per day. All such meals are provided at no charge and reimbursed at the "free" rate (42 USC 1766(t)(5)(B) and (C)).

An institution must report such information, in addition to meal counts, as its State agency determines necessary to support the reimbursement claimed. For centers and sponsors of centers in States that elect to reimburse at the lesser of meals-times-rates or documented costs, such information includes their operating (meal production) costs (7 CFR sections 226.7(m), 226.9(c) and (d), 226.10(c), and 226.11(d)). This aspect of the claiming process is discussed in III.A, "Activities Allowed or Unallowed."

M. Subrecipient Monitoring

The State agency is responsible for monitoring the institution's non-profit status to ensure that all reimbursements shall be used solely for the conduct of the food service operation or to improve such food service operations, principally for the benefit of the enrolled participants (7 CFR section 226.7(b)) and 42 USC 1766 (d)(1)(B)).

The State agency is required to assess institutional compliance by performing on-site reviews of independent centers, sponsoring organizations of centers, and sponsoring organizations of day care homes, including reviews of new organizations, in accordance with a schedule prescribed in 7 CFR section 226.6(m) and 42 USC 1766 (d)(2)(A).

N. Special Tests and Provisions

Accountability for USDA-Donated Foods

Compliance Requirements

The following compliance requirements do not apply to recipient agencies (as defined at 7 CFR section 250.3), including CACFP institutions. Auditors making audits of recipient agencies are not required to test compliance with these requirements.

a. *Maintenance of Records*

Distributing and subdistributing agencies (as defined at 7 CFR section 250.3) must maintain accurate and complete records with respect to the receipt, distribution, and inventory of USDA-donated foods including end products processed from donated foods. Failure to maintain records required by 7 CFR section 250.16 shall be considered prima facie evidence of improper distribution or loss of donated foods, and the agency, processor, or entity may be required to pay USDA the value of the food or replace it in kind (7 CFR sections 250.16(a)(6) and 250.15(c)).

b. *Physical Inventory*

Distributing and subdistributing agencies and institutions shall take a physical inventory of all storage facilities. Such inventory shall be reconciled annually with the storage facility's inventory records and maintained on file by the agency which contracted with or maintained the storage facility. Corrective action shall be taken immediately on all deficiencies and inventory discrepancies and the results of the corrective action forwarded to the distributing agency (7 CFR section 250.14(e)).

Audit Objectives – Determine whether an appropriate accounting was maintained for USDA-donated foods, that an annual physical inventory was taken, and that the physical inventory was reconciled with inventory records.

Suggested Audit Procedures

a. Determine storage facility, processing, and end use locations of all donated foods, including end products processed from donated foods. Ascertain the donated food records maintained by the entity and obtain a copy of procedures for conducting the required annual physical inventory. Obtain a copy of the annual physical inventory results.

b. Perform analytical procedures, and obtain explanation and documentation for unusual or unexpected results. Consider the following:

(1) Compare receipts, distributions, losses and ending inventory of donated foods for the audit period to the previous period.

(2) Compare distribution by entity for the audit period to the previous period.

c. Ascertain the validity of the required annual physical inventory. Consider performing the following steps, as appropriate:

(1) Observe the annual inventory process at selected locations and recount a sample of donated food items.

(2) If the annual inventory process is not observed, select a sample of significant donated foods on hand as of the physical inventory date and, using the donated food records, "roll forward" the balance on hand to the current balance observed.

(3) On a test basis, recompute physical inventory sheets and related summarizations.

(4) Ascertain that the annual physical inventory was reconciled to donated food records. Investigate any large adjustments between the physical inventory and the donated food records.

d. On a sample basis, test the mathematical accuracy of the donated food records and related summarizations. From the donated food records, vouch a sample of receipts, distributions, and losses to supporting documentation. Ascertain that activity is properly recorded, including correct quantity, proper period and, if applicable, correct recipient agency.

IV. OTHER INFORMATION

FNS no longer requires recipient agencies to inventory USDA-donated foods separately from purchased food. However, the value of donated foods used during a State or recipient agency's fiscal year is considered Federal awards expended in accordance with 2 CFR section 200.40, definition of "Federal financial assistance," and should be valued in accordance with 2 CFR section 200.502. Therefore, recipient agencies must determine the value of donated foods used. FNS recommends that recipient agencies use the value of donated food delivered to them during the audit period for this purpose.

UNITED STATES DEPARTMENT OF AGRICULTURE

CFDA 10.566 NUTRITION ASSISTANCE FOR PUERTO RICO

I. PROGRAM OBJECTIVES

The objective of the Puerto Rico Nutrition Assistance Program (NAP) is to help needy residents of the Commonwealth of Puerto Rico (PR) meet their nutritional needs.

II. PROGRAM PROCEDURES

Administration

Funds for the NAP are appropriated annually. The Food and Nutrition Service (FNS) of the USDA provides an annual block grant to the PR Department of the Family to cover the full cost of program benefits and 50 percent of the costs of administering the program. As a condition of receiving the grant, PR must submit an annual plan of operation for review and approval by FNS. FNS provides funding increments to PR's NAP letter-of-credit authorization on the basis of budget estimates contained in the approved plan. FNS also monitors program operations to assure program integrity. These monitoring activities include reviewing financial reports and making on-site management reviews of selected program operations (7 CFR sections 285.2(a), 285.2(b), and 285.3).

Benefits

Under the NAP, participating households receive nutritional benefits. They must use these program benefits to purchase foods for preparation and consumption at home. The amount of a household's monthly benefit payment depends on the household's characteristics, financial circumstances, and the funds available for distribution. PR establishes the eligibility and benefit levels for the program. The benefits are revised October 1 of each year to consider the nutritional needs of PR's needy population and to provide for the distribution of available block grant funds.

A household receives its monthly benefit payment electronically. PR issues each client household a debit card with which to access the benefits. All of the benefits (100 percent) are issued for food purchases. These benefits are distributed in a proportion of 75 percent for the purchase of eligible food items in certified retailers and the remaining 25 percent for purchases in eligible food items in certified retailers and non-certified retailers. Any transaction made at authorized retailers involving food purchases is at no charge to the participant. PR monitors retailer and household compliance.

Benefit Redemption

NAP benefits are administered through an electronic benefit transfer (EBT) system. PR establishes a benefit account to control the issuance and use of each household's benefits. Benefit issuance takes the form of posting monthly increments to the client's account: 75 percent to the non-cash account and 25 percent to the cash account. ATM transactions generate charges against the client's cash account. Purchases at authorized retailers generate on-line

charges against the client's non-cash account; these are resolved by crediting the retailers for the amount of client purchases. PR must reconcile the funds exiting the EBT system and paid to retailers with amounts drawn from its EBT benefit account with the Government Development Bank (GDB). Cash drawn from PR's letter-of-credit is used to settle accounts with the GDB. A service provider is used to process NAP EBT transactions.

PR obtains an examination by an independent auditor of the EBT service provider (service organization) regarding the issuance, redemption, and settlement of benefits in accordance with the American Institute of Certified Public Accountants (AICPA) Statement on Standards for Attestation Engagements (AT) Section 801, Reporting on Controls at a Service Organization. Appendix VIII to the Supplement provides additional guidance on these examinations. In testing compliance under the NAP, an auditor may use these SOC 1 type 2 reports to gain an

Source of Governing Requirements

The NAP is authorized by Section 19 of the Food and Nutrition Act of 2008. USDA regulations pertaining to NAP are found in 7 CFR part 285. Many program requirements are established through PR's approved annual plan of operation.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this Federal program, the auditor must determine, from the following summary (also included in Part 2, "Matrix of Compliance Requirements"), which of the 12 types of compliance requirements apply, and then determine which of the applicable requirements is likely to have a direct and material effect on the Federal program at the auditee. For each such requirement, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit.

A. *Activities Allowed or Unallowed*	*B.* *Allowable Costs/Cost Principles*	*C.* *Cash Management*	*E.* *Eligibility*	*F.* *Equipment and Real Property Management*	*G.* *Matching, Level of Effort, Earmarking*	*H.* *Period of Performance*	*I.* *Procurement and Suspension and Debarment*	*J.* *Program Income*	*L.* *Reporting*	*M.* *Subrecipient Monitoring*	*N.* *Special Tests and Provisions*
Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

A. Activities Allowed or Unallowed

The annual plan of operation submitted by the PR Department of the Family must include a description of PR's program for providing nutrition assistance to needy persons. The nutrition assistance PR actually provides must conform to the approved plan (7 CFR section 285.3(b)(3); PR Annual Plan of Operation).

E. Eligibility

1. Eligibility for Individuals

The PR Department of the Family is required to identify in its annual plan the population eligible for NAP benefits. In testing the propriety of eligibility determinations and disbursements for NAP benefits, the auditor shall apply the eligibility criteria established by the PR Department of the Family and identified in the annual plan (7 CFR section 285.3(b)(2)).

2. Eligibility for Group of Individuals or Area of Service Delivery – Not Applicable

3. Eligibility for Subrecipients – Not Applicable

G. Matching, Level of Effort, Earmarking

1. Matching

The NAP grant provided by FNS is intended to cover 100 percent of PR's expenditures for NAP benefits and 50 percent of the related administrative expenses. PR must provide funds for its 50 percent share of the administrative expenses (7 CFR section 285.2(a)).

2. Level of Effort – Not Applicable

3. Earmarking – Not Applicable

H. Period of Performance

Payments received by PR for a fiscal year may not exceed the amount authorized for the grant or the total NAP cost eligible for funding, whichever is less, for that fiscal year. Funds for payments for any prior fiscal year expenditures must be claimed against the funding for that fiscal year; however, funds collected from claims are credited to the fiscal year in which the collection occurred (7 USC 2027(e); 7 CFR section 285.2(b)).

PR may carry forward not more than two percent of its grant for use in the following fiscal year (7 USC 2028(a)(2)(D); Section 4124 of Pub. L. No. 107-171, 116 Stat. 325-326, May 13, 2002).

J. Program Income

Examples of program income generated by NAP operations include collections of claims assessed against recipient households for program benefits improperly issued to them, annual certification and recertification fees collected from retailers, and fines collected from retailers for sanctions imposed against them. Collections of recipient claims must be credited to the NAP benefit account and re-issued as program benefits. Collections from retailers may be credited to either the benefits or administrative costs account. All

amounts must be reported as program income on the FNS-778, *Financial Status Report – PR*. (Government of Puerto Rico State Plan of Operation for FY 2015, Revised June 2015, pages 47 and 51).

L. Reporting

1. Financial Reporting

a. SF-270, *Request for Advance or Reimbursement* – Not Applicable

b. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable

c. SF-425, *Federal Financial Report* – Applicable

d. FNS-778, *Financial Status Report – PR* – This report captures PR's cumulative outlays (expenditures) and unliquidated obligations of Federal funds for NAP as a whole, for the administrative and benefits components of PR's NAP grant, and for the cost of key functions supported by the NAP grant's administrative cost component. FNS uses the data captured by this report to monitor PR's NAP costs and cash draws. The FNS-778 also functions as a workpaper that feeds the SF-425 (Government of Puerto Rico State Plan of Operation for FY 2015, Revised June 2015, pages 52 and 54).

Key Line Items – The following line items contain critical information:

Line 10.b. – *Total outlays this report period*

Line 10.c. – Less: *Program income credits*

Line 10.j. – *Total Federal share of unliquidated obligations*

2. Performance Reporting – Not Applicable

3. Special Reporting – Not Applicable

N. Special Tests and Provisions

EBT Reconciliation

Compliance Requirements – PR must perform all the following:

a. Record and compare payments to the Daily Activity File and the Daily Payments Summary File prepared by the EBT Services provider for the Department of the Family (PR Annual Plan of Operation, H., Program Administration, 2.a., Reconciliation System (EBT)).

b. Perform the following reconciliations (PR Annual Plan of Operation, H., Program Administration, 2.a., Reconciliation System (EBT)):

(1) Benefits authorized equal benefits posted.

(2) Benefits accessed by recipients (net EBT account debits/credits) equal benefit amount transactions approved by the EBT services provider.

(3) Net EBT account debits/credits equal amount paid to merchants and financial institutions (plus/minus authorized adjustments).

(4) Amount paid to merchants and financial institutions equal funds requested by the EBT services provider (plus/minus authorized adjustments).

PR's EBT service provider maintains transaction trails that document the cycle of household transactions from the posting of point-of-sale transactions at retailers through the settlement of retailer credits (PR Annual Plan of Operation, G., Criteria for Distribution of Funds, 7, Electronic Benefit Transfer - EBT Family Card, and H., Program Administration, 2.a., Reconciliation System (EBT)).

Audit Objectives – Determine whether PR performs the required comparisons and reconciliations.

Suggested Audit Procedures

a. Ascertain if PR has a process in place to perform the required comparisons and reconciliations.

b. Test a sample of comparisons and reconciliations to ascertain if they are properly performed and that there is proper follow-up and resolution of discrepancies.

UNITED STATES DEPARTMENT OF AGRICULTURE

CFDA 10.565 COMMODITY SUPPLEMENTAL FOOD PROGRAM
CFDA 10.568 EMERGENCY FOOD ASSISTANCE PROGRAM (ADMINISTRATIVE COSTS)
CFDA 10.569 EMERGENCY FOOD ASSISTANCE PROGRAM (FOOD COMMODITIES)

I. PROGRAM OBJECTIVES

The objective of the Food Distribution Cluster is to strengthen the nutrition safety net through the provision of U.S. Department of Agriculture (USDA)-donated foods (USDA Foods) to low-income persons. Included in the cluster are the Commodity Supplemental Food Program (CSFP) and the Emergency Food Assistance Program (TEFAP).

CSFP provides a package of USDA Foods to low-income elderly people at least 60 years of age and to eligible women, infants and children who were certified and received benefits as of February 6, 2014. CSFP Food packages are not intended to provide a complete diet, but rather provide the nutrients that are typically lacking in the diets of the target population.

TEFAP provides USDA Foods to low-income households for home consumption, or for use in prepared meals at emergency feeding sites for low-income persons.

II. PROGRAM PROCEDURES

The Food and Nutrition Service (FNS) of the USDA enters into agreements with State distributing agencies for the distribution of USDA Foods, and provides funding for the administrative costs these organizations incur in performing this function. State agencies may administer both CSFP and TEFAP or either, as well as other USDA nutrition assistance programs. These agencies are often the State departments of agriculture, health, social services, or education.

State agencies may further enter into agreements with one or more subrecipients for local program operations. In food distribution program regulations and in the sections of this Food Distribution Cluster that refer to both TEFAP and CSFP, subrecipients are referred to as "recipient agencies." The TEFAP specific term for subrecipients is "Eligible Recipient Agencies" (ERA). The CSFP specific term is "local agencies." The types of organizations that may operate Food Distribution Cluster programs locally are described below under "Program Descriptions." State agencies pass most administrative funding down to these recipient agencies.

Program Descriptions

Common Characteristics

CSFP and TEFAP are variants of a basic program design having the following characteristics:

a. USDA purchases and provides food and administrative funds to State agencies, which in turn provide the USDA Foods and a portion of the administrative funds to recipient agencies.

b. State agencies must submit a plan of operation to the applicable FNS Regional Office and have a Federal-State agreement on file. In CSFP, the plan of operation is referred to as the State Plan. In TEFAP, it is referred to as the Distribution Plan.

c. Public agencies and private non-profit organizations possessing tax-exempt status under the Internal Revenue Code can participate in the programs as recipient agencies. Examples include food banks, food pantries, and community action organizations.

d. Program participants must meet income eligibility requirements to qualify for household distribution of USDA Foods. Determinations are generally made by recipient agencies, in accordance with the criteria and procedures established by the State agencies.

e. The program benefits generally consist of USDA Foods issued to program participants for use in meal preparation at home. The one exception is that some TEFAP ERAs operate emergency feeding sites where USDA Foods are used in preparing meals for service to low-income persons.

Characteristics of Individual Programs

a. *CSFP* –Elderly people at least 60 years of age may be eligible for CSFP if they meet all eligibility criteria. Prior to passage of the Agriculture Act of 2014 (2014 Farm Bill) (Pub. L. No. 113-79), pregnant and breastfeeding women, women up to one year postpartum, infants, and children up to age 6 also were eligible to participate in CSFP on the same basis as elderly persons. However, Section 4102 of the 2014 Farm Bill amended CSFP eligibility requirements to phase out the participation of women, infants, and children and transition it to a seniors-only program. As a result, women, infants and children who apply to participate in CSFP on February 7, 2014, or later cannot be certified to participate in the program. Women, infants, and children who were certified and receiving program benefits as of February 6, 2014, can continue to receive assistance until they are no longer eligible under the program rules than were in effect on February 6, 2014.

   Program participation is limited each year, based upon available resources and appropriated funding. Each participating State agency receives an authorized caseload level. Caseload is the number of people each State agency is permitted to serve on an average monthly basis over the course of the caseload cycle (January through December).

Administrative funding is provided each fiscal year per each caseload slot assigned to the State agency and is adjusted annually for inflation. State agencies may retain a percentage of administrative funding, but must provide the remainder to local agencies unless FNS approves the State agency to retain a larger amount.

To gain access to its USDA Foods and administrative funds, a State agency must have a State Plan and a Federal-State Agreement on file with the applicable FNS regional office. The State Plan must include the criteria listed at 7 CFR section 247.6(c), including a plan for the storage and distribution of USDA Foods.

State agencies may enter into an agreement with a subdistributing agency, such as another State agency, a local governmental agency, or a nonprofit organization, to perform most functions that are normally performed by the State agency, such as entering into agreements with local agencies, ordering USDA Foods, or making arrangements for the storage and transportation of USDA Foods to local agencies. Ultimately, however, the State agency is responsible for all aspects of CSFP administration. CSFP currently operates in 46 States, two Indian tribal organizations, and the District of Columbia.

b. *TEFAP* – USDA Foods are distributed through TEFAP either for household use, or for use at feeding sites that serve prepared meals to needy persons.

At the local level, the program is operated by ERAs. ERAs include Emergency Feeding Organizations (EFOs), charitable institutions (such as hospitals and retirement homes), summer camps for children, child nutrition programs that provide food service, nutrition programs under the Older Americans Act of 1965 (Nutrition Program for the Elderly) (Pub .L. No. 89-73), and disaster relief programs. EFOs include public and private non-profit organizations that provide nutrition assistance to relieve situations of emergency and distress through the provision of food to needy persons, such as food banks, food pantries, and soup kitchens.

An ERA may receive a TEFAP subgrant directly from the State agency, or from another ERA. In designating ERAs, a State agency may give priority to existing food bank networks and other organizations whose primary function is to facilitate the distribution of food to low-income households, including food from sources other than USDA. However, a State agency must provide USDA Foods to all EFOs within its distribution network before providing USDA Foods to other types of ERAs. A State may delegate its storage and distribution functions to one or more food banks or other ERAs.

USDA provides USDA Foods to State agencies, and the State agencies arrange for their delivery to ERAs. State agencies are prohibited from charging ERAs any type of fee for providing this service (7 CFR section 251.9(d)). FNS also awards each State agency a cash grant for the administrative cost of carrying out its TEFAP food delivery and oversight functions. The State agency, in turn, awards subgrants to its ERAs and/or incurs administrative costs on their behalf. The amounts of USDA Foods and administrative funds a State agency may receive are determined through an allocation formula described at 7 CFR section 251.3(h). USDA may provide bonus USDA Foods in

addition to the formula-generated entitlement USDA Foods. Bonus foods are foods purchased by USDA under its market support authorities and donated to FNS.

To gain access to USDA Foods and administrative funds, a State agency must have a distribution plan and a Federal-State Agreement on file with the applicable FNS regional office. The distribution plan gives the State agency's criteria for awarding subgrants to ERAs and for certifying households eligible for TEFAP benefits. Both the Federal-State Agreement and the State agency's agreements with its ERAs may be amended at any time due to program changes or at the request of either party.

The ERAs that conduct household issuance and/or prepared meal activities are known as "distribution sites." Some distribution sites use mostly paid employees to carry out their missions, while others rely heavily on the services of volunteers.

Source of Governing Requirements

CSFP is authorized by Sections 4(a) and 5 of the Agriculture and Consumer Protection Act of 1973 (7 USC 612c note; Pub L. No. 93-86), as amended. Program regulations are found at 7 CFR parts 247 and 250; if these conflict, 7 CFR part 247 prevails.

TEFAP is authorized by the Emergency Food Assistance Act of 1983 (Pub. L. No. 98-8) (7 USC 7501-7516), as amended. Program regulations are found at 7 CFR parts 250 and 251; if these conflict, 7 CFR part 251 prevails.

Availability of Other Program Information

More information on the Food Distribution Cluster programs can be found on the FNS Food Distribution Programs website. The web link for CSFP information is http://www.fns.usda.gov/csfp/commodity-supplemental-food-program-csfp. The web link for TEFAP information is http://www.fns.usda.gov/tefap/emergency-food-assistance-program-tefap.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this Federal program, the auditor must determine, from the following summary (also included in Part 2, "Matrix of Compliance Requirements"), which of the 12 types of compliance requirements apply, and then determine which of the applicable requirements is likely to have a direct and material effect on the Federal program at the auditee. For each such requirement, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit.

A. Activities Allowed or Unallowed	*B. Allowable Costs/Cost Principles*	*C. Cash Management*	*E. Eligibility*	*F. Equipment and Real Property Management*	*G. Matching, Level of Effort, Earmarking*	*H. Period of Performance*	*I. Procurement and Suspension and Debarment*	*J. Program Income*	*L. Reporting*	*M. Subrecipient Monitoring*	*N. Special Tests and Provisions*
Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	Y

A. Activities Allowed or Unallowed

Administrative Activities – For both CSFP and TEFAP, a State agency or recipient agency must use its administrative funds for activities for the administration of the programs. Such activities include, but are not limited to, transporting and storing USDA Foods within the State or within a recipient agency's service area, determining the eligibility of program applicants, publishing the times and locations of food distribution, and issuing USDA Foods to eligible persons (7 CFR sections 247.25 and 251.8(e)).

1. *CSFP* – In addition to the activities listed above, examples of activities for which CSFP administrative funds can be used include nutrition education, program outreach, and monitoring and review of program operations (7 CFR section 247.25(a)).

2. *TEFAP* – In addition to the activities listed above, allowable activities include processing USDA Foods. Under certain circumstances, a State agency may also use these funds for transporting USDA Foods to other States and transporting non-USDA Foods in from other States (7 CFR section 251.8(e)(1)).

   An ERA that receives USDA Foods from programs other than TEFAP may not use its administrative funds for the distribution of these foods, unless these foods were re-donated to TEFAP (see Food Distribution National Policy Memorandum FD-095, which is available at http://www.fns.usda.gov/use-tefap-administrative-funds-expenses-associated-foods-secured-other-sources-0. In addition, a State agency or ERA may use its administrative funds for certain activities associated with the distribution of non-USDA Foods donated by private individuals and organizations (7 CFR section 251.8(e)(1)).

E. Eligibility

1. Eligibility for Individuals

a. *CSFP*

Receipt of USDA Foods for Household Use – A local agency certifies households as eligible to receive a CSFP food package by applying categorical and income eligibility criteria as follows:

(1) *Categorical Eligibility*. Eligibility is limited to elderly (persons at least 60 years of age) and to women, infants, and children who

were certified and receiving CSFP benefits on February 6, 2014, and whose enrollment has continued without interruption (7 CFR section 247.9(a)).

(2) *Income Eligibility*. State agencies determine income eligibility guidelines for program participants, within the parameters of the income eligibility guidelines provided in program regulations: 7 CFR section 247.9(b) for women, infants, and children who were receiving benefits as of February 6, 2014, and 7 CFR section 247.9(c) for the elderly. They must be approved in advance by FNS as part of the State agency's State Plan.

(a) *Criteria for women, infants, and children* - The eligibility requirements in this section apply only to women, infants, and children who were certified and receiving CSFP benefits on February 6, 2014, and whose enrollment has continued without interruption. Effective February 7, 2014, no new applications from women, infants, or children may be approved. The State agency must set income eligibility limits that are at or below 185 percent of the Department of Health and Human Services Poverty Guidelines (see http://aspe.hhs.gov/poverty/index.cfm), but not below 100 percent of these guidelines. Women, infants, and children are also considered income eligible based on their participation in the Temporary Assistance for Needy Families (TANF) program (CFDA 93.558), the Supplemental Nutrition Assistance Program (SNAP) (CFDA 10.551), or Medicaid (CFDA 93.778). States may also choose to make these applicants automatically income eligible if they participate in one or more Federal, State, or local food, health, or welfare programs that have income eligible criteria equal to or lower than the established CSFP limits (7 CFR sections 247.9(b), (d), and (e)).

(b) *Criteria for elderly persons* - The State agency must set income eligibility limits that are at or below 130 percent of the Federal poverty income guidelines (7 CFR sections 247.9(c) though (e)).

(3) *Eligibility Criteria at State's Discretion* - In addition to categorical and income eligibility, the State agency may also require that applicants (a) be at nutritional risk, as determined by a physician or by local agency health staff; and/or (b) reside within the service area of a local agency when applying for benefits (7 CFR section 247.9(f)).

b. *TEFAP*

(1) *Receipt of USDA Foods for Household Use* – An ERA certifies households eligible to receive USDA Foods for household consumption by applying income eligibility criteria established by the State agency (7 CFR section 251.5(b)). These criteria are approved in advance by FNS as part of the State agency's distribution plan (7 CFR section 251.6(a)).

(2) *Receipt of Prepared Meals* – There is no means test for eligibility of persons receiving prepared meals. Their eligibility is derived from the ERA's eligibility to receive USDA Foods from TEFAP and use them in prepared meals (7 CFR section 251.5(a)(2)).

2. Eligibility for Group of Individuals or Area of Service Delivery – Not Applicable.

3. Eligibility for Subrecipients

a. A recipient agency must be either a public agency or a private entity possessing tax-exempt status under the Internal Revenue Code, and must enter into a written agreement with the State agency, or with another recipient agency where permitted, binding it to perform the duties of a recipient agency (7 CFR sections 247.4, 247.7(a), 251.3(d), and 251.5(a)).

b. For TEFAP, the State agency's distribution plan identifies the classes of organizations with which it will enter into such agreements (7 CFR section 251.6).

c. For TEFAP, recipient agencies providing prepared meals must have demonstrated, to the satisfaction of the State agency, or ERA to which they have applied for USDA Foods or administrative funds, that they serve predominantly needy persons (7 CFR section 251.5(a)(2)).

G. Matching, Level of Effort, Earmarking

1. Matching

a. *CSFP* – Not Applicable.

b. *TEFAP* – A State agency must match each Federal dollar expended for State-level TEFAP administrative costs with a dollar from non-Federal sources (7 CFR section 251.9(a)).

(1) *Exceptions* – The following Territories are exempted from the matching requirement in any fiscal year in which their respective required matching contributions would have fallen below $200,000: American Samoa, Guam, the Virgin Islands, and the

Commonwealth of the Northern Marianas (7 CFR section 251.9(b)).

(2) *Acceptable Matching Contributions* – Acceptable matching contributions include:

(a) Cash expenditures by the State agency for allowable State- or local-level TEFAP administrative costs (7 CFR section 251.9(c)(1)); and

(b) Certain non-cash contributions. These may include (i) the value of goods and services specifically identifiable with allowable State administrative costs; (ii) the value of goods and services contributed by the State agency to an ERA, which are specifically identifiable with allowable local-level administrative costs; and (iii) the value of third-party in-kind contributions, provided such contributions support functions meeting criteria stated in the program regulations (7 CFR section 251.9(c)(2)).

2. Level of Effort – Not Applicable

3. Earmarking

a. *CSFP* – All administrative funds provided to States must be passed through to local agencies, except that a State agency may retain for its own use an amount determined according to the following formula.

(1) 15 percent of the first $50,000 received,

(2) 10 percent of the next $100,000 received,

(3) 5 percent of the next $250,000 received, and

(4) A maximum of $30,000 if the administrative grant exceeds $400,000.

State agencies may retain additional administrative funds for their own use if they receive approval from the FNS Regional Office (7 CFR section 247.23).

b. *TEFAP* – A State agency must use at least 40 percent of its TEFAP administrative cost grant for costs that benefit ERAs that are EFOs. The State agency may do this by awarding subgrants directly to EFOs and/or by incurring costs the EFOs would otherwise have had to pay themselves (7 CFR section 251.8(e)(4)).

L. Reporting

1. Financial Reporting

a. SF-270, *Request for Advance or Reimbursement* – Not Applicable

b. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable

c. SF-425, *Federal Financial Report* – Applicable to CSFP; Not Applicable to TEFAP

d. FNS-667, *Report of the Emergency Food Assistance Program (TEFAP) Administrative Costs (OMB No. 0584-0293)* – This report captures the status of a State's TEFAP administrative cost grant in a manner that identifies the portions applied to State level costs, costs paid by the State on behalf of ERAs, and costs paid by the ERAs themselves. It thus facilitates the monitoring of a State's compliance with the State matching and 40 percent pass-through requirements (7 CFR section 251.10(d)).

Key Line Items – The following line items contain critical information:

(1) Line c. – *Net Outlays to Date*

(2) Line f. – *Total State Agency's Share of Net Outlays*

(3) Line k. – *Total Federal Share*

2. Performance Reporting – Not Applicable

3. Special Reporting

FNS-153, *Monthly Report of the Commodity Supplemental Food Program and Quarterly Administrative Financial Status Report* (*OMB No. 0584-0293*) – This report requests the number of CSFP participants in each category (women, infants, children, and elderly), the receipt and distribution of USDA Foods, and beginning and ending inventories, as well as other foods data; and on a quarterly basis, the cumulative amount of administrative funds expended and obligated, and the amounts remaining unobligated (7 CFR section 247.29(b)(2)).

Key Line Items – The following line items contain critical information:

a. Line 20(a) – *Outlays*

b. Line 20(b) – *Unliquidated Obligations*

c. Line 20(c) – *Total*

d. Line 20(d) – *Unliquidated Balances of Advances*

M. Subrecipient Monitoring

In both CSFP and TEFAP, a State agency must conduct oversight, including on-site reviews, of the recipient agencies to obtain reasonable assurance that they are operating the program(s) in compliance with program requirements (7 CFR sections 247.34 and 251.10(e)).

1. *CSFP* – A State agency must perform on-site reviews of all local agencies with which it has agreements, and of all storage facilities utilized by those local agencies, at least once every 2 years (7 CFR section 247.34).

2. *TEFAP* –At a minimum, the State agency's annual review coverage must include 25 percent of the ERAs that operate TEFAP as a subrecipient of the State agency and one-tenth or 20 (whichever is less) of the ERAs that operate TEFAP as subrecipients of other ERAs in the State. Review scheduling must enable State agency staff to observe regulatorily identified activities, such as the distribution of USDA Foods to households, meal service, and eligibility determinations (7 CFR section 251.10(e)).

N. Special Tests and Provisions

Accountability for USDA Foods

Compliance Requirements – Accurate and complete records must be maintained with respect to the receipt, distribution/use, and inventory of USDA Foods, including end products processed from USDA Foods in TEFAP. Failure to maintain records required by 7 CFR section 250.16 is considered *prima facie* evidence of improper distribution or loss of USDA Foods, and the agency processor or entity is liable for the value of the food or replacement of the food in kind (7 CFR sections 250.16(a)(6) and 250.15(c)).

Distributing and recipient agencies must take an annual physical inventory of all storage facilities. Such inventory must be reconciled annually with the storage facility's inventory records and maintained on file by the agency which contracted with or maintained the storage facility. Corrective action must be taken immediately on all deficiencies and inventory discrepancies and the results of the corrective action forwarded to the distributing agency (7 CFR section 250.14(e)).

Audit Objectives – Determine whether an appropriate accounting was maintained for USDA Foods, that an annual physical inventory was taken, and the physical inventory was reconciled with inventory records.

Suggested Audit Procedures

a. Determine storage facility, processing, and end use locations of all USDA Foods, including end products processed from donated foods. Determine the USDA Foods records maintained by the entity and obtain a copy of procedures for conducting the required annual physical inventory. Obtain a copy of the annual physical inventory results.

b. Perform analytical procedures, and obtain explanation and documentation for unusual or unexpected results. Consider the following:

(1) Compare receipts, usage/distribution, losses, and ending inventory of USDA Foods for the audit period to the previous period.

(2) If auditing at the State distributing agency level, compare distribution by entity for the audit period to the previous period.

(3) If auditing at the ERA level in TEFAP, compare relationship of usage of USDA Foods to production, meals served, or similar activity reports for the audit period to the same relationship for the previous period.

c. Ascertain the validity of the required annual physical inventory. Consider performing the following steps, as appropriate:

(1) Observe the annual inventory process at selected locations and recount a sample of USDA Foods items.

(2) If the annual inventory process is not observed, select a sample of significant USDA Foods on hand as of the physical inventory date and, using the USDA Foods records, "roll forward" the balance on hand to the current balance observed.

(3) On a test basis, recompute physical inventory sheets and related summarizations.

(4) Ascertain that the annual physical inventory was reconciled to USDA Foods records. Investigate any large adjustments between the physical inventory and the USDA Foods records.

d. On a sample basis, test the mathematical accuracy of the USDA Foods records and related summarizations. From the USDA Foods records, vouch a sample of receipts, usage/distributions, and losses to supporting documentation. Ascertain that activity is properly recorded, including the correct quantity, proper period, and, if applicable, correct ERA.

UNITED STATES DEPARTMENT OF AGRICULTURE

CFDA 10.582 FRESH FRUIT AND VEGETABLE PROGRAM

I. PROGRAM OBJECTIVES

The Fresh Fruit and Vegetable Program (FFVP) was created to foster healthy eating habits in children over the long term by providing fresh fruits and fresh vegetables to children attending elementary schools.

II. PROGRAM PROCEDURES

The FFVP is administered at the Federal level by the Food and Nutrition Service (FNS), an agency of the U.S. Department of Agriculture (USDA). FNS makes grants to States for the FFVP, and the States select eligible elementary schools to receive subgrants.

This program began as a pilot project operated in four selected States and one Indian Tribal Organization (ITO). Subsequent amendments to the Richard B. Russell National School Lunch Act (NSLA) added four additional states and two ITOs. However, the Consolidated Appropriations Act, 2008 (Pub. L. No. 110-161) and the Food, Conservation, and Energy Act of 2008 (Pub. L. No. 110-246) established the FFVP on a permanent basis, effective July 1, 2008, by authorizing it in a new Section 19 in the NSLA (42 USC 1769a). This legislation also authorized the program's expansion to all States, the District of Columbia, U.S. Virgin Islands, Guam and Puerto Rico. FNS awarded the first FFVP grants under Section 19 in July and October 2008.

A State's FFVP grant is determined through an allocation formula. FNS sets aside up to $500,000 for FNS administrative costs; FNS adds any recovered funds from the previous year and awards each State an amount equal to one percent from the balance; and allocates the remaining funds on the basis of population. Territories do not participate in the initial one-percent allocation. Adjustments are made to ensure that this formula does not diminish the FFVP funding levels that the original 16 participating States received.

Each State is required to have an application process leading to the selection of eligible elementary schools for participation in the FFVP. States must also conduct outreach to schools with the highest proportion of enrolled children eligible for free or reduced price meals under the National School Lunch Program (NSLP) (CFDA 10.555) and give priority consideration to these schools. After a State notifies a school of its priority consideration, the school must apply for FFVP participation according to procedures and criteria established by Section 19 of the NSLA (42 USC 1769a) and guidance from FNS.

A school that receives a FFVP subgrant must provide free fresh fruits and fresh vegetables to enrolled children during the school day. The school must use its subgrant funds for costs of purchasing, preparing, and serving the fresh fruits and fresh vegetables. FNS has issued extensive guidance on program requirements for the FFVP and allowable and unallowable costs.

Source of Governing Requirements

The FFVP is authorized by section 19 of the Richard B. Russell National School Lunch Act (42 USC 1769a). No program regulations have yet been issued.

Availability of Other Program Information

Additional program information is available on the FNS website at http://www.fns.usda.gov/ffvp/. Resources available at this site include a FFVP Handbook, Questions and Answers, technical assistance and implementation memoranda, prototype agreement forms, and a prototype FFVP claim for reimbursement. The FFVP Handbook is available at http://www.fns.usda.gov/sites/default/files/handbook.pdf

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this Federal program, the auditor must determine, from the following summary (also included in Part 2, "Matrix of Compliance Requirements"), which of the 12 types of compliance requirements apply, and then determine which of the applicable requirements is likely to have a direct and material effect on the Federal program at the auditee. For each such requirement, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit.

A. *Activities Allowed or Unallowed*	*B.* *Allowable Costs/Cost Principles*	*C.* *Cash Management*	*E.* *Eligibility*	*F.* *Equipment and Real Property Management*	*G.* *Matching, Level of Effort, Earmarking*	*H.* *Period of Performance*	*I.* *Procurement and Suspension and Debarment*	*J.* *Program Income*	*L.* *Reporting*	*M.* *Subrecipient Monitoring*	*N.* *Special Tests and Provisions*
Y	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	N

A. Activities Allowed or Unallowed

The school must make fresh fruits and fresh vegetables available at no charge to enrolled children during the school day, in one or more areas designated by the school. The school may not offer fresh fruits and fresh vegetables before school, during afterschool programs, or during regularly scheduled meals otherwise provided at school under the NSLP and SBP (42 USC 1769a(b) and (g)).

E. Eligibility

1. Eligibility for Individuals

All children enrolled in a participating school are eligible for FFVP benefits (42 USC 1769a(b)).

2. Eligibility for Group of Individuals or Area of Service Delivery – Not Applicable

3. Eligibility for Subrecipients

States select schools for participation in the FFVP. To be eligible for selection, a school must meet the following criteria:

a. It is an elementary school as defined in section 9101 of the Elementary and Secondary Education Act of 1965 (20 USC 7801) (42 USC 1769a(d)(1)(C)).

b. It operates the NSLP (42 USC 1769a(d)(1)(A)(i)).

c. At least 50 percent of its enrolled children are eligible for free or reduced price meals under the NSLP (42 USC 1769a(d)(1)(A)(i)).

G. Matching, Level of Effort, Earmarking

1. Matching – Not Applicable.

2. Level of Effort – Not Applicable

3. Earmarking

A State may reserve a portion of its FFVP grant allocation for costs of administering the program. This reserved amount may not exceed the lesser of: (a) the amount set by FNS (five percent of the State's total FFVP grant allocation) or (b) the amount required to pay the costs of one full-time coordinator for the program in the State. No State is required to employ a full-time FFVP coordinator; rather, this provision sets a cap on the amount of funds available for State administrative costs based on the salary scales of individual States (42 USC 1796a(i)(6)(B)).

L. Reporting

1. Financial Reporting

a. SF-270*, Request for Advance or Reimbursement* – Not Applicable

b. SF-271*, Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable

c. SF-425*, Federal Financial Report* – Applicable

2. Performance Reporting – Not Applicable

3. Special Reporting – Not Applicable

DEPARTMENT OF AGRICULTURE

CFDA 10.665 SCHOOLS AND ROADS – GRANTS TO STATES
CFDA 10.666 SCHOOLS AND ROADS – GRANTS TO COUNTIES

I. PROGRAM OBJECTIVES

The objectives of these programs are to (1) share Federal receipts from the national forests with the States in which the national forests are situated (CFDA 10.665), and (2) share Federal receipts from the national grassland with the counties in which the national grasslands are situated (CDFA 10.666). Generally, these funds are to be used for the benefit of public schools and public roads of the county or counties in which the national forest is situated.

II. PROGRAM PROCEDURES

General

Since the early 1900s, the Congress has enacted laws directing that a State or county be compensated for the presence of Federal lands in the State. The compensation may be based on Federal acreage or a county's population, but in most instances, the payments relate to a percentage of the receipts generated on Federal land. Federal laws requiring payments to States, based on national forest receipts, provide the basis and methodology of the compensation payments to the States but allow States to prescribe how the funds are spent for schools and roads in the county or counties in which the national forest is situated. All disbursement transactions are processed through the U.S. Treasury.

Program Operation

CFDA 10.665 - Schools and Roads - Grants to States

25-Percent Payment – An amount equal to the annual average of 25 percent of all amounts received for the applicable Federal fiscal year (FY) and each of the preceding 6 FYs from each national forest is paid to the States. Payments are to be used to benefit public schools and public roads of the county or counties in which the national forest is situated. The Forest Service calculates the payments and sends letters to the States advising them of the amount and of each county's historic percentage of the payment based on the county's acreage in the national forest. The Forest Service notifies the U.S. Treasury of the amounts to be paid, and the funds are electronically transmitted to the States. Payments are made around January following the close of the FY for which receipts were received. Payments are always made the year after the receipt year, which is used to calculate those payments made in the following payment year. The States verify the amount of each deposit with information received from the Forest Service, and then distribute the funds to the counties in which the national forests are situated.

State Payment (Secure Rural Schools and Community Self-Determination Act payment) – Each eligible county elects to receive either its share of the 25-Percent Payment, as described above, or its share of the State payment. State payments are authorized through FY 2015 receipt year (FY 2016 payment year).

Quinault Special Payment – 45 percent of the gross receipts generated by the Quinault Special Management Area is distributed to the State of Washington for the benefit of public roads and public schools. This amount is combined with the 25-Percent Payment to Washington State to make one payment. Washington State distributes Quinault payments to the counties as part of its 25-Percent Payment. These funds are separate from the 45 percent of gross receipts generated by the Quinault Special Management Area transferred to the Secretary of the Interior for use by the Quinault Indian Nation.

Arkansas Quartz Payment – 50 percent of the receipts from the sale of quartz mined on the Ouachita National Forest in Arkansas is distributed to Arkansas for the benefit of public roads and public schools of the counties in which the national forest is situated. The Forest Service calculates these payments by subtracting the quartz receipts from the forest receipts and applying the 50 percent rate to these quartz receipts. The quartz payment is added to the State's 25-Percent Payment and distributed in one payment.

Payments to Minnesota – Three-quarters of 1 percent of the fair appraised value of specified national forest lands in Cook, Lake, and St. Louis Counties is paid to the State. The Forest Service adds this amount to the 25 Percent Payment for the remainder of Minnesota and makes one payment to the State. The State distributes funds to Cook, Lake, and St. Louis counties according to the fair appraised value of the specified national forest lands in each county.

CFDA 10.666 - Schools and Roads - Grants to Counties

National Grasslands Payment – 25 percent of net revenues from national grasslands and land utilization projects (LUPs) administered under Title III of the Bankhead-Jones Farm Tenant Act (grazing receipts collected by the Forest Service and mineral receipts collected by the Department of the Interior, Office of Natural Resource Revenue, and transmitted to the Forest Service for distribution) is distributed to the 80 counties containing Forest Service national grasslands. Payments are made directly to the counties where the national grasslands and LUPs are located.

Source of Governing Requirements

25 Percent Payment - 16 USC 500

State Payment (Secure Rural Schools and Community Self-Determination Act Payment) – 16 USC 7101 to 7153, as amended and reauthorized in Section 524 of Pub. L. No. 114-10, 129 Stat. 178, April 16, 2015.

Quinault Special Payment – Pub. L. No. 100-638, Section 4(b)(2)

Arkansas Quartz Payment – Pub. L. No. 100-446, Section 323

Payments to Minnesota – 16 USC 577g and 577g-1

National Grasslands Payment – 7 USC 1012

Availability of Other Program Information

Program information for the Secure Rural Schools and Community Self-Determination Act may be found at http://www.fs.usda.gov/pts.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this Federal program, the auditor must determine, from the following summary (also included in Part 2, "Matrix of Compliance Requirements"), which of the 12 types of compliance requirements apply, and then determine which of the applicable requirements is likely to have a direct and material effect on the Federal program at the auditee. For each such requirement, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit.

A. *Activities Allowed or Unallowed*	*B.* *Allowable Costs/Cost Principles*	*C.* *Cash Management*	*E.* *Eligibility*	*F.* *Equipment and Real Property Management*	*G.* *Matching, Level of Effort, Earmarking*	*H.* *Period of Performance*	*I.* *Procurement and Suspension and Debarment*	*J.* *Program Income*	*L.* *Reporting*	*M.* *Subrecipient Monitoring*	*N.* *Special Tests and Provisions*
Y	Y	Y	N	N	Y	Y	N	N	Y	N	Y

A. Activities Allowed or Unallowed

1. *25-Percent Payment* funds must be used for public roads and public schools of the county or counties in which the national forest is situated (16 USC 500).

2. *State Payment* funds must be used for:

   a. Title I – Public roads and public schools of the county or counties in which the national forest is situated (16 USC 500);

   b. Title II – Special projects on Federal land as defined in 16 USC 7102(7) and on non-Federal land where projects would benefit the resources on Federal land. This portion of the State payment allocated to Title II is not paid to States or counties. It is reserved for special projects recommended by a Secure Rural Schools Act resource advisory committee and approved by the Secretary of Agriculture or authorized designee (16 USC 7101, 7112 and 7121-7128); or

c. Title III – This portion is paid to the State and then distributed by the State to the participating county. These are referred to in the authorizing legislation as "county funds" (16 USC 7141). A participating county shall use Title III county funds only to:

(1) Carry out activities under the Firewise Communities program to provide to homeowners in fire-sensitive ecosystems education on, and assistance with implementing, techniques in home siting, home construction, and home landscaping that can increase the protection of people and property from wildfires;

(2) Reimburse the participating county for search and rescue and other emergency services, including firefighting, that are

(a) performed on Federal land, as defined in 16 USC 7102(7), after the 45-day public comment period (see III.N, "Special Tests and Provisions – Public Comment"); and

(b) paid for by the participating county; and

(3) Develop community wildfire protection plans in coordination with the appropriate Secretary concerned (16 USC 7142).

3. *Quinault Special Payment* funds must be used for public schools and roads of the county or counties in which the national forest is situated (Pub. L. No. 100-638, Section 4(b)(2)).

4. *Arkansas Quartz Payment* funds must be used for public roads and public schools in the counties in Arkansas in which the Ouachita National Forest is located (Pub. L. No. 100-446, Section 323).

5. *Payments to Minnesota* funds have no restrictions on use (16 USC 577g and g-1).

6. *National Grasslands Payment* funds must be used for roads or schools in the county in which the land is located (7 USC 1012).

G. Matching, Level of Effort, Earmarking

1. Matching - Not Applicable

2. Level of Effort - Not Applicable

3. Earmarking

a. Section 524 of Pub. L. No. 114-10 locked-in the Title II and III elections by counties for FY 2014 and FY 2015 to the payment made for FY 2013. For the payments for FY 2014 and for FY 2015

(1) a county election to receive a formula payment;

(2) the county election to receive a share of the State's 25 Percent Payment or a share of the State (formula) payment; and

(3) the county election to allocate the share of the formula payment for Titles II and III,

will be the same elections made by the county for FY 2013 (16 USC 7112(b)(1).

A county may opt to return its allocation, in whole or part, to the U.S. Treasury. Similar information is posted on the Forest Service website (http://www.fs.usda.gov/pts).

b. County Allocations of State Payments (16 USC 7112)

(1) *$100,000 or less*. For payments for FY 2013 and prior years, an eligible county that receives $100,000 or less, could allocate 100 percent of its share to benefit public schools and roads under Title I. The total percentage allocated for the benefit of public schools and roads must be no less than 80 percent and no more than 85 percent. For the payments for FY 2014 and FY 2015, the county election will be the same as the elections made by the county in payment for FY 2013.

(2) $100,001 but less than $350,000. For payments for FY 2013 and prior years, if the county share of the State payment was more than $100,000 but less than $350,000, the county was required to allocate 15 percent to 20 percent of its share to Title II, Title III, or a combination of the two titles, or return this portion of the State payment to the U. S. Treasury. For the payments for FY 2014 and FY 2015, the county election will be the same as the election made by the county in payment for FY 2013.

(3) $350,000 or greater. For payments for FY 2013 and prior years, if the county share of the State payment was $350,000 or greater, the county was required to allocate 15 percent to 20 percent of its share to Title II, Title III, or a combination, of the two titles, or return this portion of the State payment to the U.S. Treasury. For these counties, the allocation for Title III projects could not exceed 7 percent. For the payments for FY 2014 and FY 2015, the county

election will be the same as the election made by the county in payment for FY 2013.

H. Period of Performance

The authority to initiate Title III projects terminates on September 30, 2017. Any county funds not obligated by September 30, 2018, shall be returned to the U.S. Treasury (16 USC 7144).

L. Reporting

1. Financial Reporting

a. SF-270, *Request for Advance or Reimbursement* – Not Applicable

b. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable

c. SF-425, *Federal Financial Report* – Not Applicable

d. *County's Certification of Title III Expenditures and Unobligated Funds* (*OMB No. 0596-0220)* - Not later than February 1 of the year after the year in which any Title III county funds were expended by a participating county, the participating county must submit a certification that the county funds expended in the applicable year have been used for the uses authorized under this title, including a description of the amounts expended and their uses. The participating county certification also must include the amount of Title III funds not obligated by September 30 of the previous year. Additional information about the annual certification of Title III expenditures is available at http://www.fs.usda.gov/main/pts/countyfunds.

Key Line Items – The following sections contain critical information:

(1) Expenditures

(2) Funds Not Obligated

2. Performance Reporting – Not Applicable

3. Special Reporting – Not Applicable

N. Special Tests and Provisions

Public Notice and Comment Period

Compliance Requirement - A participating county can use Title III county funds only after a 45-day public comment period, at the beginning of which the participating county must:

a. Publish in any publications of local record a proposal that describes the proposed use of the county funds; and

b. Submit the proposal to any resource advisory committee established under 16 USC 7125 for the participating county (16 USC 7142(b)).

Audit Objective – Determine whether the county has provided the required public notice.

Suggested Audit Procedures

a. Verify that the county provided public notice 45 days prior to using Title III funds.

b. Verify that the county submitted its proposal to use Title III county funds to the resource advisory committee, if any, 45 days prior to using the funds.

UNITED STATES DEPARTMENT OF AGRICULTURE

CFDA 10.760 WATER AND WASTE DISPOSAL SYSTEMS FOR RURAL COMMUNITIES
CFDA 10.781 WATER AND WASTE DISPOSAL SYSTEMS FOR RURAL COMMUNITIES – ARRA

I. PROGRAM OBJECTIVES

The Water and Waste Program is designed to assist rural communities in obtaining safe drinking water and adequate waste facilities, which are prerequisites for economic growth. In recent years, water and waste systems have been subject to increasingly stringent regulation under the Safe Drinking Water Act and the Clean Water Act. This program is instrumental in providing the financing to build or upgrade rural water and waste facilities.

II. PROGRAM PROCEDURES

Under this program, the United States Department of Agriculture's (USDA) Rural Utilities Service (RUS) awards direct loans, loan guarantees, and project grants for new and improved water and waste systems serving rural areas where financing is not available from commercial sources at reasonable rates and terms. The Water and Waste Program is authorized to provide loan and grant assistance to eligible applicants for water and waste disposal facilities in rural areas and towns of up to 10,000 people.

Eligible applicants include (1) a public body, such as a municipality, district, county, authority, Indian tribe, or other political subdivision of a State, Territory or commonwealth (7 CFR sections 1780.7(a)(1) and (a)(3)); or (2) an organization operated on a not-for-profit basis, such as a cooperative, association, or private corporation (7 CFR section 1780.7(a)(2)).

Direct Loans for Water and Waste Disposal Systems

To establish its eligibility for a loan, an applicant must demonstrate to RUS that it cannot finance the proposed project from its own resources or obtain sufficient credit to do so at reasonable terms or rates. In addition, the applicant must have the legal authority to construct, operate, and maintain the proposed facility, and to give security for and repay the proposed loan (7 CFR section 1780.7). A loan is repayable based on the useful life of the facility, State statute, or 40 years from the date of the note, whichever is sooner. Interest is charged at a poverty rate, intermediate rate, or market rate depending on the circumstances (7 CFR section 1780.13).

Project Grants for Water and Waste Disposal Systems

RUS makes grants in conjunction with direct loans for water and waste disposal projects serving the most financially needy communities in order to reduce user costs to a reasonable level. Grant amounts are based on a graduated scale that provides higher amounts for projects in communities that have lower income levels; however, a grant amount may never exceed 75 percent of a project's eligible development costs. To establish grant eligibility, an applicant must demonstrate to RUS that it serves a rural area whose median household income (MHI) falls below the statewide nonmetropolitan median household income (7 CFR section 1780.10).

Guaranteed Loans for Water and Waste Disposal Systems

RUS provides guaranteed loans and will guarantee 90 percent of eligible loss. The interest rate for guaranteed loans is negotiated between the recipient and the lender (7 CFR sections 1779.30 and 1779.33).

Source of Governing Requirements

The program is authorized by under Section 306 of the Consolidated Farm and Rural Development Act (7 USC 1926). **Additional funding is provided by Title I of the American Recovery and Reinvestment Act of 2009 (ARRA), (Pub. L. No. 111-5, 123 Stat. 118)**. Implementing regulations are at 7 CFR parts 1779 and 1780.

Availability of Other Program Information

RUS maintains a home page that provides general information about this program at http://www.rurdev.usda.gov/UWEP_HomePage.html.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this Federal program, the auditor must determine, from the following summary (also included in Part 2, "Matrix of Compliance Requirements"), which of the 12 types of compliance requirements apply, and then determine which of the applicable requirements is likely to have a direct and material effect on the Federal program at the auditee. For each such requirement, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit.

A. *Activities Allowed or Unallowed*	*B.* *Allowable Costs/Cost Principles*	*C.* *Cash Management*	*E.* *Eligibility*	*F.* *Equipment and Real Property Management*	*G.* *Matching, Level of Effort, Earmarking*	*H.* *Period of Performance*	*I.* *Procurement and Suspension and Debarment*	*J.* *Program Income*	*L.* *Reporting*	*M.* *Subrecipient Monitoring*	*N.* *Special Tests and Provisions*
Y	Y	Y	N	Y	Y	Y	Y	N	Y	N	N

A. Activities Allowed or Unallowed

1. Loan and grant funds may be expended on eligible project costs, as approved by RUS. These expenditures include items such as land acquisition, water rights, legal fees, engineering fees, construction costs, and the purchase of equipment (7 CFR section 1780.9).

2. Loan and grant funds may not be used for the following (7 CFR section 1780.10):

   a. Facilities which are not modest in size, design, and cost.

b. Loan or grant finder's fees.

c. The construction of any new combined storm and sanitary sewer facilities.

d. Any portion of the cost of a facility which does not serve a rural area.

e. That portion of project costs normally provided by a business or industrial user, such as wastewater pretreatment, etc.

f. Rental for the use of equipment or machinery owned by the applicant.

g. For other purposes not directly related to operating and maintaining the facility being installed or improved.

G. Matching, Level of Effort, Earmarking

1. Matching

Borrowers may be required to provide funds from their own or other sources as required in the grant agreement and the letter of conditions issued by RUS (7 CFR sections 1780.44(d) and (f)).

2. Level of Effort – Not Applicable

3. Earmarking – Not Applicable

L. Reporting Requirements

1. Financial Reporting

a. SF-270, *Request for Advance or Reimbursement* – Not Applicable

b. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable

c. SF-425, *Federal Financial Report* – Not Applicable

d. Form RD 442-2, *Statement of Budget, Income and Equity (OMB No. 0575-0015)* - This report covers financial operations relating to the borrower's water or waste disposal project. A borrower may submit this financial data on other forms, provided the forms are in a similar format. Also, an annual audit may be submitted in lieu of this form (7 CFR section 1780.47).

e. Form RD 442-3, *Balance Sheet (OMB No. 0575-0015)* - This report presents the financial status of the borrower's water or waste disposal project. A borrower may submit this financial data on other forms, provided the forms are in a similar format. Also, an annual audit may be submitted in lieu of this form (7 CFR section 1780.47).

2. Performance Reporting – Not Applicable

3. Special Reporting – Not Applicable

IV. OTHER INFORMATION

Interim Financing

After RUS has made a commitment on a loan, the borrower may obtain interim financing from commercial sources (e.g., a bank loan) for the construction period (7 CFR section 1780.39(d)). Expenditures from these commercial sources that will be repaid from the proceeds of the RUS loan should be considered Federal awards expended, included in determining Type A programs, and reported in the Schedule of Expenditures of Federal Awards.

Status of Outstanding Loan Balance After Project Completion

In years after the program funds are expended and construction is completed, and the only ongoing financial activity of the program is the payment of principal and interest on outstanding loan balances, the prior loan balances are not considered to have continuing compliance requirements under 2 CFR section 200.502(d). Prior loans that do not have continuing compliance requirements other than to repay the loans are not considered Federal awards expended and, therefore, are not required to be audited under 2 CFR part 200, subpart F.

However, this does not relieve the borrower of the requirement to file financial reports on these loans (which are not required to be audited) or otherwise comply with program requirements (e.g., maintaining insurance, depositing funds in federally insured banks, obtaining prior approval for sales of plant).

UNITED STATES DEPARTMENT OF AGRICULTURE

CFDA 10.766 COMMUNITY FACILITIES LOANS AND GRANTS
CFDA 10.780 COMMUNITY FACILITIES LOANS AND GRANTS (Community Programs)

I. PROGRAM OBJECTIVES

The objective of the Community Facilities (CF) direct loan, guaranteed loan, and grant programs is to provide loan or grant funds for the development of essential community facilities for public use in rural communities. Funds may be used to construct, enlarge, extend, or otherwise improve essential community facilities providing essential services primarily to rural residents and rural businesses. Funds are made available to public bodies, non-profit organizations, and federally recognized Indian tribes that are providing essential services to rural communities when financing is not available from their own resources or from commercial credit at reasonable rates and terms.

II. PROGRAM PROCEDURES

These programs are administered at the headquarters level by the United States Department of Agriculture (USDA) Rural Housing and Community Facilities Programs and in the field by USDA Rural Development field offices. Funds are made available directly to local governments, non-profit organizations, and Indian tribes in the form of direct loans, guaranteed loans, and grants. Funds are used for the development of essential community facilities in rural areas and towns of up to 20,000 population.

An essential community facility is one that (1) supports a function customarily provided by a local unit of government; (2) is a public improvement needed for orderly development of a rural community; (3) does not include private affairs, commercial, or business undertakings (except for limited authority for industrial parks); (4) is operated on a non-profit basis; and (5) is within the area of jurisdiction or operation for the public bodies eligible to receive assistance or a similar local rural service area of a not-for-profit organization owning and operating an essential community facility. A community may be a small city or town, county, or multi-county area depending on the type of essential community facility.

Guaranteed Loans

The purpose of the CF guaranteed loan program is to improve, develop, or finance essential community facilities in rural areas. This purpose is achieved through bolstering the existing private credit structure through the guarantee of quality loans that will provide lasting community benefits. Guaranteed loans are loans made and serviced by a lender and guaranteed by Rural Development. The processing of the loan and ensuring that the requirements placed on the borrower are met are the lender's responsibility.

CF Grants

Grant funds may be used to assist in the development of essential community facilities for health care, public safety, and community and public services in rural areas. Grants are targeted to the neediest communities that meet population criteria for loans and have a median household income below the higher of the poverty line or the eligible percentage (60, 70, 80, or 90 percent) of the State non-metropolitan median household income. The amount of CF grant funds provided for a facility may not exceed 75 percent of the cost of developing the facility.

Administration

RHS authorizes, monitors, and provides funding for administration of CF loans and grants. The USDA Rural Development State, local, district, and area offices monitor and evaluate the progress of the CF programs.

Certification

Eligibility for CF direct and guaranteed loan and grant assistance is based on (1) the type of organization applying for the loan (public body, non-profit organization, or federally recognized Indian tribe); (2) whether the applicant can demonstrate that it is unable to finance the proposed project from its own resources or from commercial credit at reasonable rates and terms; (3) whether the applicant has authority to develop, own, and operate the proposed facility; and (4) whether the applicant can legally borrow money and make payments on debts obligated. In the case of CF grants, there are additional requirements based on the median household income of the community.

Assessing Need

Applicants must have the legal authority to borrow and repay loans, pledge security for loans, and construct, operate, and maintain the facility. They must also be financially sound and able to organize and manage the facility effectively. Repayment of the loan must be based on tax assessments, revenues, fees, or other sources of money sufficient for operation and maintenance of reserves and debt retirement. The amount of CF grant assistance must be the minimum amount sufficient for feasibility purposes, which will provide for facility operation and maintenance, reasonable reserves, and debt repayment. The applicant's excess funds must be used to supplement eligible project costs.

Source of Governing Requirements

The program is authorized under the Consolidated Farm and Rural Development Act of 1972 (7 USC 1926). **Additional funding is provided by Title I of the American Recovery and Reinvestment Act of 2009 (ARRA), (Pub. L. No. 111-5, 123 Stat. 118)**.

Implementing regulations are:

CF Direct Loans	7 CFR part 1942, subpart A
CF Fire and Rescue Loans	7 CFR part 1942, subpart C
CF Guaranteed Loans	7 CFR part 3575, subpart A
CF Grant Programs	7 CFR part 3570, subpart B.

Availability of Other Program Information

Program regulations, Administrative Notices, and other program literature can be found on the USDA website at http://www.rurdev.usda.gov/RegulationsAndGuidance.html.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this Federal program, the auditor must determine, from the following summary (also included in Part 2, "Matrix of Compliance Requirements"), which of the 12 types of compliance requirements apply, and then determine which of the applicable requirements is likely to have a direct and material effect on the Federal program at the auditee. For each such requirement, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit.

A. *Activities Allowed or Unallowed*	*B.* *Allowable Costs/Cost Principles*	*C.* *Cash Management*	*E.* *Eligibility*	*F.* *Equipment and Real Property Management*	*G.* *Matching, Level of Effort, Earmarking*	*H.* *Period of Performance*	*I.* *Procurement and Suspension and Debarment*	*J.* *Program Income*	*L.* *Reporting*	*M.* *Subrecipient Monitoring*	*N.* *Special Tests and Provisions*
Y	Y	Y	N	Y	N	Y	Y	N	Y	N	N

A. Activities Allowed or Unallowed

1. *Activities Allowed* – Funds may be used to construct, enlarge, extend, or otherwise improve essential community facilities providing essential services primarily to rural residents and rural businesses. Examples of essential community facilities are fire, rescue, and public safety facilities; health services facilities; facilities providing community, social, or cultural services; transportation facilities such as streets, roads, and bridges; hydroelectric generating facilities; and recreation facilities (guaranteed loans only). Funds are used to pay reasonable fees and costs associated with the loan, interest on loans for up to 2 years, and the costs of acquiring interest in land and rights. Under certain circumstances, funds may also be used to purchase or lease equipment, pay initial operating expenses, refinance debts, and pay obligations for construction incurred before issuance of conditional commitment. The projects (including costs) are described in a project summary prepared by USDA Rural Development (7 CFR sections 1942.17(d), 3575.24, and 3570.61(b)).

2. *Activities Unallowed* – Loan funds may not be used to finance (a) on-site utility systems or businesses; (b) industrial buildings in connection with industrial parks; (c) community antenna television services; (d) electric generation except for hydroelectric or transmission facilities and telephone systems; (e) facilities which are not modest in size, design, or cost; and (f) loan or grant finder's fee (7 CFR sections 1942.17(d)(2) and 3575.25).

L. Reporting Requirements

1. Financial Reporting

a. SF-270, *Request for Advance or Reimbursement* – Not Applicable

b. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable

c. SF-425, *Federal Financial Report* – Not Applicable

d. RD 442-2, *Statement of Budget, Income, and Equity (OMB No. 0575-0015)* – This report covers financial operations relating to the borrower's CF project.

e. RD 442-3, *Balance Sheet (OMB No. 0575-0015)* – This report presents the financial status of the borrower's CF project.

2. Performance Reporting – Not Applicable

3. Special Reporting – Not Applicable

IV. OTHER INFORMATION

Interim Financing

After USDA has made a commitment on the loan, the borrower may obtain interim financing from commercial sources (e.g., a bank loan) during the construction period (7 CFR section 1942.17(n)(3)). Expenditures from these commercial loans which will be repaid from a CF loan should be considered Federal awards expended, included in determining Type A programs, and reported in the Schedule of Expenditures of Federal Awards.

Years after Project Completion

In years after the program funds are expended and construction is completed, and the only ongoing financial activity of the program is the payment of principal and interest on outstanding balances, the prior loan (including loan guarantees) balances are not considered to have continuing compliance requirements under 2 CFR section 200.502(d). Prior loans that do not have continuing compliance requirements other than to repay the

loans are not considered Federal awards expended and, therefore, are not required to be audited under 2 CFR part 200, subpart F.

However, this does not relieve the non-Federal entity of its obligation to file financial reports (which are not required to be audited) or otherwise comply with program requirements (e.g., maintaining insurance, depositing funds in federally insured banks, obtaining prior approval for sales of the facility).