
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 is 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. The program's authorizing legislation was amended in 1992 to make the independent states of the former Soviet Union eligible for commodity assistance under this program.

Section 416(b) Program - Commodities made available under Section 416(b) outside the scope of the Food for Progress Program may be used to support food assistance programs in friendly countries and developing 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, CCC Program Support Division, FAS, USDA at Stop 1031, 1400 Independence Avenue, S.W., Washington, D.C. 20250-1031. 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 a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

A. Activities Allowed and 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 Availability of Federal Funds

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 & 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-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271 - *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272 - *Federal Cash Transaction Report* - Not Applicable
- e. *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:

- (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 losses/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 benefitting 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 attache or minister for foreign agricultural affairs in the host country. The FAS home page on the Internet provides agricultural attache contact information. (http://www.fas.usda.gov/scripts/w/fasfield/ovc_frm.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

1. 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 which 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 Objective - 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

- a. Select a sample of Recipient Agencies and ascertain if:
 - 1) The Cooperating Sponsor entered into a written agreement with the Recipient Agency.
 - 2) The Cooperating Sponsor's use of the Recipient Agency was consistent with the Plan of Operation.
 - 3) 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 Cooperative State Research, Education, and Extension Service (CSREES) 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, uses of solar energy with respect to agriculture, home economics, and rural energy, and related subjects to persons not attending or resident in colleges.

II. PROGRAM PROCEDURES

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, 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 and the 1890 land-grant institutions, including Tuskegee 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 Postsecondary Education Reorganization Act, Pub. L. No. 93-471, as opposed to the Smith-Lever Act.

Funds are allocated to the land-grant institutions based on specified formulas, and these funds are made available to the land-grant institutions at the beginning of each quarter through the Department of Health and Human Services' Payment Management System (DHHS-PMS). These formulas are based on the farm and rural populations 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 land-grant institutions under section 3(d) of the Smith-Lever Act for the expanded food and nutrition education program which is authorized under section 1425 of NARETPA, and these funds are made available to the 1862 land-grant institutions in the 50 States, 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, the expanded food and nutrition education program 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.

The 1862 and the 1890 land-grant institutions are required to submit a 5-Year Plan of Work which describes the extension programs that it intends to administer for the period from October 1, 1999, through September 30, 2004 (7 USC 344 and 3221(d)(3)).

Source of Governing Requirements

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

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

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 CSREES (7 USC 344 and 3221(d)). The Guidelines for the State Plans of Work for Agricultural Research and Extension Formula Funds were published in the *Federal Register* on July 1, 1999 (64 FR 35910-35919). The 5-Year Plan of Work for fiscal year (FY) 2000 through FY 2004 was due July 15, 1999. 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 (64 FR 35916).
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

1. Matching

- a. *Smith-Lever Act Funds* - All allocations made to the 1862 land-grant institutions 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 allocations authorized under sections 3(b) and (c) of the Smith-Lever Act (7 USC 343(e)). Funds allocated under section 3(d) of the Smith-Lever Act for the expanded food and nutrition education program (EFNEP) do not require any matching contributions (7 USC 3175). Section 753(e) of the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 1999, enacted in Division A, section 101(a) of the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999, Pub. L. No. 105-277, 112 stat. 2681-33 (1999 Agriculture Appropriations Act) amended section 3(e) of the Smith-Lever Act to subject the land-grant institutions in the Commonwealth of Puerto Rico, Guam, and the Virgin Islands and pursuant to 7 USC 307 note, the insular areas of American Samoa, Micronesia, and Northern Marianas as well, to the same matching requirements as those applicable to an eligible institution (1890 land-grant institution) under section 1449 of NARETPA. Section 1449 requires institutions to provide specific amounts of matching funds from non-Federal sources for formula funds authorized under section 1444 of NARETPA. Section 1449 also provides that these matching funds may be used for agricultural research and extension activities that have been approved in the plan of work or for approved qualifying educational activities. In FY 2000, the matching requirement is 30 percent; in FY 2001, 45 percent; and in FY 2002 and thereafter 50 percent. The land-grant institutions in the Commonwealth of Puerto Rico, the insular areas of American Samoa, Guam, Micronesia, Northern Marianas, and the Virgin Islands may apply for a waiver of the matching funds requirement for FY 2000 only (7 USC 343(e) and 3222d).

- b. *Section 1444 of NARETPA Funds* - Section 226 of AREERA added section 1449 to NARETPA to require matching funds from non-Federal sources for formula funds authorized under section 1444 of NARETPA to the 1890 land-grant institutions, including Tuskegee University, for cooperative extension work. Section 1449 also provides that these matching funds may be used for agricultural research and extension activities that have been approved in the plan of work or for approved qualifying educational activities. In-kind matching contributions are not allowed for funds authorized under section 1444 of NARETPA. In FY 2000, the matching requirement is 30 percent, in FY 2001 45 percent, and FY 2002 and thereafter 50 percent. These land-grant institutions may apply for a waiver of the matching funds requirement for FY 2000 only (7 USC 3222d).

2. **Level of Effort** - Not Applicable

3. **Earmarking** - Not Applicable

H. Period of Availability of Federal Funds

Smith-Lever Act formula funds distributed to the 1862 land-grant institutions may be carried forward five years from the year allocated. For Section 1444 of NARETPA funds allocated to the 1890 land-grant institutions, including Tuskegee 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-269, *Financial Status Report* - This report is due from the 1862 land-grant institutions by April 1 (7 USC 344(b)) and from the 1890 land-grant institutions, including Tuskegee University, by December 1 (7 USC 3221(d)).
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transaction Report* - Not Applicable

2. **Performance Reporting** - Not Applicable

3. **Special Reporting** - Not Applicable

UNITED STATES DEPARTMENT OF AGRICULTURE**CFDA 10.551 FOOD STAMPS**
CFDA 10.561 STATE ADMINISTRATIVE MATCHING GRANTS FOR FOOD
STAMP PROGRAM**I. PROGRAM OBJECTIVES**

The objective of the Food Stamp Program 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 the Food Stamp Program in cooperation with State and local governments.

State welfare agencies (or county welfare agencies under the oversight of the State government) certify eligibility and provide benefits to households. FNS authorizes, monitors and investigates stores that redeem benefits, provides funding for State administration and benefits, and oversees the operation of State welfare agencies to ensure compliance with Federal laws and regulations.

Federal Funding of Benefits and State Administrative Costs

The Federal Government pays 100 percent of the value of Food Stamp Program benefits and generally reimburses States for 50 percent of their costs to administer the program (7 CFR section 277.4(b)), except for those functions listed in Part III G., Matching. The Food Stamp Program is an entitlement program. With one exception, its authorizing statute places no cap on the amount of funds available to reimburse States for allowable administrative expenses. The exception is that Federal reimbursement of administrative expenses for electronic benefit transfer (EBT) systems is capped to amounts previously spent for the Federal share of coupon issuance costs. 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.

Certification

Eligibility for food stamps is based primarily on income and resources. Although welfare reform increases 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 (7 CFR section 273.9(a)(1)). Households also cannot exceed a net income standard which is set at 100 percent of the Federal poverty standard (7 CFR section 273.9(a)(2)). 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, only some of which affect benefit amounts, include: age, school status, citizenship, residency, household composition, work requirements, and disability status. Some non-citizens are ineligible to participate in the program (7 USC 2015(f)). Able-bodied adults without dependents are subject to a time limit for receiving benefits if certain requirements are not met (7 USC 2015(o)).

Application Process

The application process includes completing and filing an application form, being interviewed and having certain information verified. In addition to using information supplied by the recipients, welfare agencies use data from other agencies, such as the Social Security Administration, the Internal Revenue Service, and the State employment security agency, to verify the household's identity and income.

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 redeemed for food in participating retail stores. Historically, the benefit form has been a paper coupon issued in denominations of \$1, \$5 and \$10. However, States are in the process of transferring to EBT systems, whereby recipients receive debit cards which they can use to purchase food at retailers. Welfare reform legislation requires all States to use EBT by 2002. In August 1999, about 65 percent of aggregate benefits were delivered by EBT, and all States were in some stage of planning or implementing EBT systems. In a limited number of situations, recipients may receive their benefits in cash.

Benefit Redemption

Generally, households must use program benefits for foods to be prepared and consumed at home. There are, however, some exceptions to this general policy. For example, there are provisions for the homeless to redeem food stamps in authorized restaurants and for residents of some small institutional settings to participate in the program. Retailers redeem the food stamps through the banking system without the direct involvement of State governments. However, the use of EBT increases State involvement in the redemption process; a State must reconcile the funds exiting the EBT system and paid to retailers with amounts drawn from its EBT benefit account with Treasury.

States must obtain an examination by an independent auditor of the State EBT service provider (service organization) regarding the issuance, redemption, and settlement of benefits under the Food Stamps program in accordance with the American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards (SAS) No. 70, Service Organizations. Appendix VII to this Supplement provides additional guidance on these examinations (7 CFR section 274.12(j)(5), OMB No. 0584-0500).

In performing audits under OMB Circular A-133 of the Food Stamps Program, an auditor may use these SAS 70 reports to gain an understanding of internal controls and obtain evidence about the operating effectiveness of controls.

State Responsibilities

A State administering the Food Stamp Program must sign a Federal/State Agreement that commits it to observe applicable laws and regulations in carrying out the program (7 CFR section 272.2(b)). Although the welfare reform legislation provided additional administrative flexibility, the Food Stamp Act 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, safeguarding coupon inventories, 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 the Food Stamp Program (7 CFR section 275.1(a)), particularly the accuracy of eligibility and benefit determinations. This performance monitoring system includes management reviews, reviews of quality control systems, and reporting to FNS on program performance. State agencies shall conduct a review once every year for large project areas, once every two years for medium project areas, and once every three 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 (7 CFR sections 275.2, 275.5, and 275.16-19).

Federal Oversight and Compliance Mechanisms

FNS oversees State operations through an organization consisting of headquarters and seven regional offices. In addition, about 60 field offices are often involved in State agency oversight.

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, enforcement mechanisms are also available. In addition to the financial rewards and penalties related to payment accuracy, FNS has other mechanisms to recover other losses and the cost of negligence (7 CFR sections 276.2 and 276.3). 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 (7 CFR section 276.4).

Certification Quality Control System

The Food Stamp Program maintains an extensive quality control system required by law and regulation (7 CFR sections 275.10-14). 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 decisions to deny, terminate, or (beginning in FY 2001) suspend benefits.

Measurement

States are required to select a statistically valid sample of cases and to review the cases for eligibility and benefit amount. 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 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. By law, the error rate is the combined value of overpayments and under payments to participating households. FNS headquarters also reviews its regional operations and provides technical assistance to assure consistency in the national quality control system.

Rewards and Penalties

A State with both an active payment error rate (improper certifications or benefit determinations) which is at or below 5.9 percent and a negative case error rate (improper denials of certification or benefits improperly terminated) that meets the standards set out at 7 CFR section 275.1(b) is eligible for an enhanced rate of administrative funding as follows: a one percentage point increase in funding for each full one-tenth of a percentage point that the State's active payment error rate is below 6 percent (7 CFR section 275.1(b)(2)). This enhancement to a State's funding level may not exceed a 10 percentage point increase for an active payment error rate below five percent (7 CFR section 277.4(b)(2)). States with error rates in excess of the national average are subject to penalties that are based on the amount of benefits issued in error. Those States pay a portion of the value of benefits in excess of the national average based on a sliding scale that increases as the State's error rate exceeds the national average (7 USC 2025(c)(1)(A) and 2025(c)(1)(C)).

The Food Stamp Act of 1977, as amended, allows States subject to potential quality control liabilities the option of either a direct repayment to the Federal government or, subject to approval by the Secretary, a reinvestment of all or a portion of these liabilities in unmatched State dollars used for activities designed to reduce payment errors through improvements in program administration (7 CFR section 275.23(e)(11)). All States have settled potential claims for Federal fiscal years 1992-1997 by agreeing to reinvest a portion of their liability in payment accuracy improvement activities that would promote the reduction of error rates and maintain

them at low levels. Settlement agreements require States that fail to achieve the established standard to invest additional State funds in such activities.

Corrective Action

There is a specific legislative requirement for corrective action by any State with an error rate above 6 percent (7 USC 2025 (c)(1)(B)). 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.

Recent Error Rates, Enhanced Funding, and Penalties

For Fiscal Year 1998, the combined national error rate was 10.69 percent. The overpayment error rate was 7.63 percent; the underpayment error rate was 3.07 percent. State error rates ranged from 2.11 percent to 17.67 percent; 22 States face potential liabilities totaling \$78.1 million as the result of high error rates for fiscal Year 1998. Error rates are updated annually.

Implications of Quality Control for the Compliance Supplement

The Food Stamp Program Quality Control system uses an intensive State review of more than 55,000 active cases across the United States to measure the accuracy of Food Stamp Program eligibility determinations and benefit amounts. An FNS re-review of more than 18,000 of those cases follows. These samples are statistically valid at the State and national level. 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 the Food Stamp Program.

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

Source of Governing Requirements

This description of Food Stamp Program procedures incorporates provisions of the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Welfare Reform, Pub. L. No. 104-193, August 22, 1996), the Balanced Budget Act of 1997 (Pub. L. No. 105-33, August 5, 1997); and the Agricultural Research, Extension and Reform Act of 1998 (Pub. L. No. 105-185, June 23, 1998). However, regulatory citations and form descriptions may be revised without any change in the policies described herein as the result of new regulations covering these legislative changes and regulatory streamlining that is currently underway in the Food Stamp Program. Food Stamp Program regulations are found in 7 CFR parts 271 through 285.

Availability of Other Program Information

Additional program information is available from FNS's Food Stamp site on the Internet at www.fns.usda.gov/fsp.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

Note: Generally, "E. Eligibility," "G. Matching," "I. Procurement," and "N. Special Tests and Provisions" only apply 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 food stamps, 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 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 activities, must be used for such purposes (7 CFR part 277).

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, ADP System for Food Stamps.

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 the 50 percent reimbursement rates are: (a) 100 percent grants to administer the Employment and Training Program, and (b) an increased reimbursement rate for States with high benefit payment accuracy rates (about eight States receive this money) (7 CFR section 277.4(b)).

For Federal fiscal years 1999 through 2002, the Federal reimbursement will be decreased and the State share of administrative costs will increase by an amount equal to certain common certification costs grand-fathered into the States' TANF grant levels but attributable to the Food Stamp Program (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 275.4(c) and 275.23(e)(11)(i)(C)).

2. Level of Effort - Not Applicable

3. Earmarking - Not Applicable

I. Procurement and Suspension and Debarment

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. In addition, noncompetitive acquisitions of \$1 million or more require an APD. 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).

L. Reporting

1. Financial Reporting

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Program* - Not Applicable

d. SF-272, *Federal Cash Transactions Report* - Not Applicable

2. Performance Reporting - Not Applicable

3. Special Reporting

Note: The requirement for State agencies to automate their food stamp program 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 Food Stamps (see III.N.1).

a. FNS-46 - *Food Stamp Program 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 food stamp 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 (Authorization to Participate (ATP), mail issuance, EBT, or cash-out), its FNS-46 report(s) must separately identify the amount of benefits issued under each system.

Key Line Items - The following line item 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 food stamp 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 (7 CFR section 273.18 (1)). States use a variety of manual and computer systems as the source for the line items on the FNS-209. At a minimum, a system must be able to produce a detailed listing of cases that reconciles to the beginning and ending balances on the FNS-209. 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; and 20 percent of the recovered funds from

claims involving inadvertent household errors. No portion of funds recovered from agency-error overpayments may be retained (7 USC 2025(a)).

The State agency completes the FNS-209 on a quarterly basis to detail the State's activities relating to claims against households. The form is due no later than 30 days after the end of each calendar quarter and is submitted to FNS even if the State agency has not collected any payments (7 CFR section 273.18(i)(2)).

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 *Food Stamps* - represents all payments in the form of food stamp coupons and 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 food stamps, 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.
- c. FNS-250 - *Food Coupon Accountability Report (OMB No. 0584-0009)*. Monthly, State Agencies must submit an FNS-250 to FNS reporting monthly food stamp coupon issuance and inventory by an individual or consolidated site. The FNS-250, or equivalent information, is provided by each coupon issuer and bulk storage point that distributes food stamps. The reports are to be submitted within 45 calendar days after the last day of coupon issuance each month, and should reach the FNS by the 15th day of the second month following the last day of coupon issuance for the month (7 CFR section 274.4(b)(1)). Verification of FNS-250 information will likely require test work at individual coupon issuers or bulk storage points.

Key Line Items - The following line items contain critical information.

1. Line 14 *Total Available* - represents the total number of food coupons that were available for the month. (Testing this line will require verifying lines 8-13.)
2. Line 15 *Ending Inventory* - represents the total number of food coupons that were on hand at the end of the month.
3. Line 16 *Inventory Difference* - represents the monthly issuance activity for coupon issuers and an unauthorized shortage in inventory for bulk storage locations.
4. Line 19 *Total Value of Coupon Books Issued* - represents the total value of coupons issued during the month based on the physical inventory.
5. Line 22 *Total Value of Coupons Issued Based on Documents* - represents the total value of coupons issued according to records.

N. Special Tests and Provisions

1. ADP System for Food Stamps

Note: See III.E.1, Eligibility for Individuals, for why the testing of the ADP system for food stamps is under this special test and provision instead of under eligibility.

Compliance Requirement - State agencies are required to automate their food stamp program operations and computerize their systems for obtaining, maintaining, utilizing, and transmitting information concerning the food stamp program (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 Objective - Determine whether the State administering agency's ADP system for food stamps 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) for other guidance in this Supplement concerning testing ADP systems. The auditor should test the ADP system to ascertain if the system:

- (1) Accurately and completely processes and stores all case file information for eligibility determination and benefit calculation.
- (2) Automatically cuts off households from food stamps at the end of their certification period unless the household is recertified.
- (3) Provides data necessary to meet Federal issuance and reconciliation reporting requirements. Note: This testing should be coordinated with the testing of Special Reporting (see III.L.1).

2. EBT Reconciliation

Compliance Requirement - States that use Electronic Benefit Transfer (EBT) 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 through 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 Food Stamp Program issuance files and settlement data to ensure that benefits are authorized by the State and that funds have been properly drawn down. States may only draw Federal funds for authorized transactions, i.e., on-line 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 274.12(a), 274.12(g)(1) and 274.12(j)(1)).

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. Issuance Document Security

Compliance Requirement - The State is required to maintain adequate security over, and documentation/records for, Authorization to Participate (ATP) cards, other documents authorizing issuance, EBT cards (7 CFR section 274.12(h)(3)), and the food stamp

coupons themselves to prevent: coupon theft, embezzlement, loss, damage, destruction; unauthorized transfer, negotiation, or use of coupons; and alteration or counterfeiting of coupons and other documents authorizing issuance (7 CFR sections 274.7(b) and 274.11(c)).

Audit Objective - Determine whether the State maintains security over instruments used to authorize issuance of food stamp benefits.

Suggested Audit Procedures

- a. Observe the physical security over food stamps, ATP cards, EBT cards, and/or other negotiable instruments used in the issuance process.
- b. Verify that food stamp coupons, ATP cards, and EBT cards returned from the Postal Service are returned to inventory or destroyed.

4. Physical Inventory

Compliance Requirement - Each coupon issuer and bulk storage point that distributes food stamps is required to prepare a Food Coupon Accountability Report (FNS-250) to report monthly coupon issuance and inventory (7 CFR section 274.4(b)). Each State agency must assure that day-to-day operations of all coupon issuers comply with regulations by performing a triennial on-site review, including physical inventory, of each coupon issuer and bulk storage site under its direction (7 CFR section 274.1(c)).

Audit Objective - Determine whether the State agency has conducted required triennial on-site reviews, including physical inventories, at coupon issuers and bulk storage points.

Suggested Audit Procedures

Determine by inquiry or inspection of records that the State agency conducts the required triennial reviews of coupon issuers and bulk storage points to ensure physical inventories are appropriate, inventories are made as required, and differences between recorded and actual inventories are reconciled.

5. Food Coupon Inventory Levels

Compliance Requirement - State agencies must monitor the coupon inventories of coupon issuers and bulk storage points to ensure that inventories are neither excessive nor insufficient to meet the issuance needs and requirements. Inventory levels are not to exceed a "six-month supply," taking into account coupons on hand and on order (7 CFR section 274.7(a)(1)). State agencies must review the FNS-250 and other reports including shipping and transfers, returned and/or replaced mail-issuances, improperly manufactured or mutilated coupons, and reports of shortage or overage of food coupon books to ensure the accuracy of monthly inventories, compliance with required inventory levels, and accuracy and reasonableness of coupon orders.

Audit Objective - Determine whether food stamp coupon levels are neither excessive nor insufficient to meet the issuer's requirements.

Suggested Audit Procedures

Verify that the State agencies determine that inventory levels at coupon issuers and bulk storage points are neither excessive nor insufficient to meet the issuance needs and requirements, and that inventory levels do not exceed a six-month supply, taking into account coupons on hand and on order.

6. 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 Procedures

- a. 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 (SFSPC)

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, 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 commodities. 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 the commodities 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, supplements (snacks), and supper. Milk service may be authorized only 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.
- c. Federal assistance to local program operators takes the form of cash reimbursement. In addition, USDA donates food (commodities) under 7 CFR part 250 for use in preparing meals to be served under the NSLP, SBP, and SFSPC.
- d. To obtain cash and commodity 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 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) 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 in which the SFA operates an after-school care program with an educational or enrichment component may also be approved to serve supplements. See also the description of the SMP, below.

- b. SFSPC - The SFSPC is directed toward children in low-income areas when school is closed for vacation. 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 feeding site under a sponsor's oversight may be approved to serve breakfast, lunch, supplements, and/or supper. Except for children enrolled in participating summer camps, all participating children receive their meals free. Participating summer camps must identify children eligible for free or reduced price meals and may charge those not income-eligible for free meals. Sponsors are reimbursed for operating (meal service) costs at the lesser of the performance funding formula outlined above or actual costs incurred (7 CFR section 225.9(d)(6)), except that participating summer camps can receive reimbursement only for meals served to children identified as income-eligible for free and reduced price meals (7 CFR section 225.6(e)(6)). In addition, sponsors receive payment for administrative costs under a formula described at 7 CFR section 225.9(d)(7).

Although USDA donated foods are made available under the SFSPC, 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 (See "Pricing of Program Meals," below) may elect to serve free milk but there is no Federal requirement that it do so. The SMP has no reduced price benefits (7 CFR part 215).

Meal Charges

There are two systems of charging for the program meals, "pricing" and "nonpricing" programs (7 CFR sections 245.10, and 225.6(c)(3)).

Pricing Programs

Pricing programs are those in which enrolled children who do not qualify for free meals are charged separate fees for their meals. Pricing may be: direct payment from the child at the time each meal is served; a separate daily, weekly, or monthly meal charge or meal ticket payment; a portion of the tuition payment specifically earmarked for food service; or, an identifiable reduction from the standard tuition rate for meals provided by parents. A meal must be priced as a unit. Meal prices are set by the SFA or sponsor.

Nonpricing Programs

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.

Funding of Benefits and State Administrative Costs

FNS furnishes funds to State agencies by letter of credit. The State agencies use the meal reimbursement funds to support program operations by SFAs and institutions 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 Agency Financial Management System (AFMS).

Funding Program Benefits

FNS provides cash reimbursement to each State agency for each meal served under the NSLP, SBP, and SFSPC 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 supplements, 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 SFSPC is the lesser of actual costs incurred (reimbursement paid to sponsors) or 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, supplement, 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. 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." Milk served free under the SMP is funded at the lesser of the national average payment rate for SMP "paid" milk or actual costs. Since all meals are served free under the SFSPC, all meals of the same type are funded at the same rate.

State agencies earn commodity assistance based on the number of program meals served in schools participating in the NSLP and for certain sponsors participating in the SFSPC. The State agency's level of commodity 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 SFSPC to reflect changes in the Consumer Price Index and for the SMP to reflect changes in the Producer Price Index. FNS adjusts commodity 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 can be found on the Internet at <http://www.fns.usda.gov/fncs> (7 CFR sections 210.4(b), 220.4(b), 215.1, and 225.9(d)(8)).

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 SFSPC sponsors receive commodities 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. SFSPC State Administrative 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 SFSPC (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.

Participant Eligibility and Program Benefits

Eligible Population

The child nutrition cluster programs exist to serve children. The specific groups of children eligible to receive meals under each program are identified in the respective program's regulations as follows: NSLP - 7 CFR section 210.2; SBP - 7 CFR section 220.2; SMP - 7 CFR section 215.2; and SFSPC - 7 CFR section 225.2.

- a. School Nutrition Programs (NSLP and SBP) - A "child" is defined as: (1) 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; (2) 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 (3) for meal supplements served in after-school 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 (7 CFR sections 210.2 and 220.2; 42 USC 1766a(b); section 108 of Pub. L. No. 105-336).
- b. SFSPC - A "child" is defined as: (1) any person 18 years of age and under; and (2) 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 (7 CFR section 225.2).

- c. 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 supplements served in after-school care programs. Where the program operates in child care institutions, as defined in 7 CFR section 215.2(e), a "child" is any enrolled person who has not reached his/her nineteenth birthday (7 CFR section 215.2(e-1)).

Determining Eligibility

Any child enrolled in a participating school or summer camp, or attending a SFSPC feeding site, who meets the applicable program's definition of "child" may receive meals under the applicable program. To receive meals free or at a reduced price, however, the children must belong to households meeting nationwide income eligibility requirements.

A child's eligibility for free or reduced price meals may be established by the submission of an annual application or statement which furnishes such information as family income and family size. A child's eligibility may also be established based on his/her household receiving benefits under the Food Stamp Program, Food Distribution Program on Indian Reservations (FDPIR) or, under most circumstances, the Temporary Assistance for Needy Families (TANF) program (42 USC 1758(b)). In order to establish a member's eligibility for free or reduced price meals under a child nutrition cluster program, a household may furnish documentation of its participation in one of these programs or the school or institution may obtain the information directly from the State or local agency that administers these programs.

Under the SMP, children of families whose income is at or below 130 percent of the poverty level are eligible to receive free milk. There is no provision for reduced price benefits.

Determining Eligibility - 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 and 3, are authorized by Section 11(a)(1) of the National School Lunch Act (NSLA) (42 USC 1759(a)(1)). 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. All other children are certified annually (7 CFR section 245.9(a)).

For Provisions 2 and 3, extended cycles are allowed for eligibility determinations. Since the schools also use alternative counting and claiming procedures, descriptions of Provisions 2 and 3 are included in the next section under "Claiming - Exceptions."

- c. SFSPC Open Sites - Determinations of individual household eligibility are not required for meals served free at SFSPC "open sites." See III.E.3.a for more information.

Claiming Reimbursement for Meals Served

To receive reimbursement payments for meals served to eligible persons, a SFA or sponsor must submit a monthly claim for reimbursement to its administering agency. The claiming process is described below.

Claiming - General Process

At a minimum, a claim must include the number of reimbursable units served by category and type during the month covered by the claim. All meals (and milk under the SMP) claimed for reimbursement must meet Federal requirements; must be served to persons eligible for the applicable category and type of service; and be supported by accurate meal counts and records.

- a. School Nutrition Programs - The following types of service may be authorized for schools participating in these programs: breakfast, lunch, supplement if the school operates an after-school care program, and milk if the SFA operates the SMP in schools that don't have NSLP and/or SBP and for children attending split-session kindergarten and pre-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. SFSPC - The meals that may be claimed under the program are: breakfast, lunch, supper, and supplement. Food service sites other than camps and sites which primarily serve migrant children may claim either: one meal each day, a breakfast, a lunch, or supplement; or two meals each day, if one is a lunch and the other is a breakfast or a supplement (7 CFR section 225.16(b)(4)). Camps or sites which serve meals primarily to migrant children may serve three meals or two meals and one supplement (42 USC 13(b)(2)).

Claiming - Exceptions

As noted under "Determining Eligibility - Exceptions," above, schools operating the School Nutrition Programs under Special Provisions 2 and 3 may use alternative counting and claiming procedures. Under either provision, the schools must serve free meals to all children regardless of income eligibility for program benefits; and the SFA must make up the difference between Federal program assistance and the cost of the free, reduced price and paid meals from sources other than Federal funds (42 USC 1759a(a)(1)(C) through (E)).

- a. Special Provision 2 - Provision 2 has a four 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 and third school years, schools must count only the total number of 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 four years, the cycle may be extended for another four years if the State determines that the economic condition of the community has not improved. Additional four-year extensions may be approved on the same basis.
- b. Special Provision 3 - Provision 3 has a four year cycle and is available for schools with high percentages of children eligible for free and reduced price meals. Cash reimbursement and commodity 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 and enrollment. Schools opting for this alternative are not required to make annual free and reduced price eligibility determinations or take daily meal counts. 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 four year cycle. Provisions exist for authorizing subsequent four-year extensions if the economic status of the community has not improved.

Source of Governing Requirements

The programs included in this cluster are authorized by the National School Lunch Act (NSLA) (42 USC 1751 *et seq.*) and the Child Nutrition Act (CNA) (42 USC 1771 *et seq.*). These Acts were recently amended by the William F. Goodling Child Nutrition Reauthorization Act of 1998 (Pub. L. No. 105-336, October 31, 1998.) The implementing guidance for each program is included 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 (SFSPC), part 225.

Availability of Other Program Information

Additional program information is available from the FNS's Child Nutrition site on the Internet at www.fns.usda.gov/cnd.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

A. Activities Allowed or Unallowed

1. Reimbursement for Meals

To be eligible for Federal reimbursement, meals must be served to eligible children and must be supported by accurate meal counts and records indicating the number of meals served by category and type. For the NSLP and SBP, meal count and claiming systems must comply with the requirements of 7 CFR sections 210.7, 210.8, 220.9, and 220.11, respectively. Requirements for meal reimbursement under the SFSPC are set forth under 7 CFR section 225.9(d).

2. Reimbursement for Sponsor Administrative Costs

SFSPC - Sponsor reimbursement is provided for central-level general administrative overhead, including such costs as site monitoring, preparation of claims and reports, and audits. Payment to sponsors for administrative costs will be the lesser of: actual net expenses incurred for administrative costs; or the number of meals by type actually served to eligible children multiplied by the administrative rates for those meals; or the administrative budget that was approved by the administering agency and included in the program agreement, along with any approved amendments to it (7 CFR section 225.9(d)(7)).

E. Eligibility

1. Eligibility for Individuals

- a. School Nutrition Programs - Eligible persons 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. Persons 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 a full price set by the SFA for the meals. In addition to being published in the *Federal Register*, income eligibility information is published on the USDA Food and Nutrition Service Home page (www.fns.usda.gov/cnd/) under Child Nutrition Programs, Income Eligibility Guidelines. Meal prices are set by the SFA. However, the maximum price for a reduced price lunch or breakfast is \$0.40 and \$0.30, respectively. Under the SMP, children of households whose income is at or below 130 percent of the poverty level are eligible to receive free milk. There is no provision under the SMP for reduced price benefits (7 CFR section 245.2(g); sections 9(b)(1) and 17(c)(4) of the NSLA, 42 USC 1758 (b)(1) and 42 USC 1766(c)(4); sections 3(a)(6) and 4(e) of the CNA of 1966, 42 USC 1772(a)(6) and 1773(e); and 7 CFR section 245.3).
- b. SFSPC - Free and reduced price eligibility requirements for the SFSPC are set forth in 7 CFR section 225.15(f).

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 SFSPC organizations are described at 7 CFR section 225.2 under the definition of "Sponsor." Additional organizational eligibility requirements apply to the SFSPC at the feeding site level (see detail below).

- a. **SFSPC - There are three categories of sites eligible to provide service under the SFSPC:**
 - (1) **Open Sites - Open sites must have aggregate data for their geographic area showing that 50 percent or more of the children in the area are eligible for free or reduced price meals. Sources for the eligibility information may include: (a) schools which maintain free and reduced price eligibility data and serve the same area; (b) census data; or (c) other statistical data, such as Food Stamp Program participation.**
 - (2) **Enrolled Sites - Enrolled sites may be established on an exception basis to reach isolated pockets of poverty. The sponsor does this by collecting data (income eligibility statements) from enrolled children showing that at least 50 percent are eligible for free or reduced price meals.**
 - (3) **Camps - Summer camps comprise the sole exception to the general site-based eligibility requirement. While sponsors of open or enrolled sites receive reimbursement payments for all meals served regardless of attending children's household income, sponsors of camps are reimbursed only for meals served to eligible children whose household income is at or below 185 percent of the poverty level. Therefore, camps must collect income eligibility statements to support meals claimed in accordance with 7 CFR sections 225.14(d) and 225.6(b)(8).**
- 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 normal reimbursement rate per meal established by the Secretary of Agriculture is insufficient to cover the costs of the school's**

breakfast program; (2) the school is participating in or desiring to initiate a breakfast program; and (3) 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. The administering agency is also responsible for establishing systems for determining breakfast costs (7 CFR section 220.9(e)).

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

Even though as a USDA entitlement program, the Child Nutrition Cluster is exempt from the A-102 Common Rule, they are covered by 7 CFR part 3015, which has requirements **more** restrictive but similar to the A-102 Common Rule.

L. Reporting

1. Financial Reporting

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Program* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable
- e. 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.

2. Performance Reporting - Not Applicable

3. Special Reporting

A State agency administering one or more of the child nutrition cluster 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 served, by category and type, by schools or sponsors 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 close-out report is also required, in accordance with the FNS close out-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.

- a. FNS-10, *Report of School Program Operations (OMB No. 0584-0002)* - 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.

Items 5 - 11.

- b. FNS-418, *Report of the Summer Food Service Program for Children (OMB No. 0584-0280)* - This report documents the number of meals served under the SFSPC by sponsors under the State agency's oversight. Unlike the FNS-10 and FNS-44 (Report of the Child and Adult Care Food Program), which are generally 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, Items 5 - 19.

M. Subrecipient Monitoring

State agencies administering the programs included in the Child Nutrition Cluster are required to perform specific monitoring procedures in accordance with 7 CFR section 210.18 (SBP and NSLP), 7 CFR section 215.11 (SMP), and 7 CFR section 225.7 (SFSPC).

N. Special Tests and Provisions

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

Compliance Requirement - By December 15th of each school year, the SFA (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 SFA is otherwise exempt from the verification requirement. The verification sample size is based on the total number of approved applications on file on October 31st (7 CFR section 245.6a(a)).

A State agency may, with FNS approval, assume from SFAs under its jurisdiction the responsibility for performing the verifications. If the SFA performs the verification function it must be in accordance with instructions provided by the State agency. The

SFA must follow-up on children determined ineligible for free and reduced price meals and change the category of such children determined ineligible.

SFAs (or State agencies) must select the sample by:

- a. Random sampling (the lesser of three percent or 3000 of the approved applications on file, all randomly selected) or
- b. Focused sampling, in which the SFA must verify a sample that is, at a minimum, the sum of:
 - (1) The lesser of one percent or 1000 of the total number of approved applications (both income and categorical) selected from households claiming income within \$100 monthly or \$1200 annually of the income eligibility guidelines for free and reduced price meals; and
 - (2) The lesser of .5 percent or 500 of the total number of applications that were approved based on categorical eligibility, selected from applications with a Food Stamp Program, FDPIR, or TANF case number.

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

Audit Objective - Determine whether the SFA (or State) selected and verified the required sample of approved free and reduced price applications.

Suggested Audit Procedures

- a. Obtain the current family size and income guidelines published by FNS.
- b. Through examination of documentation, ascertain that the sampling and verification of free and reduced price applications were performed, as required.

2. Accountability for Commodities

Compliance Requirement - Accurate and complete records shall be maintained with respect to the receipt, distribution/use, and inventory of 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 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 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 Objective - Determine whether an appropriate accounting was maintained for donated food commodities, 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 food commodities, including end products processed from donated foods. Determine the commodity 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, obtain explanation and documentation for unusual or unexpected results. Consider the following:
 - (1) Compare receipts, usage/distribution, losses and ending inventory of donated foods for the audit period to the previous period.
 - (2) If auditing at the distributing agency level, compare distribution by entity for the audit period to the previous period.
 - (3) If auditing at the recipient agency level, compare relationship of usage of donated 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 commodity items.
 - (2) If the annual inventory process is not observed, select a sample of significant commodities on hand as of the physical inventory date and, using the commodity 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 commodity records. Investigate any large adjustments between the physical inventory and the commodity records.
- d. On a sample basis, test the mathematical accuracy of the commodity records and related summarizations. From the commodity records, vouch a sample of receipts, usage/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(o-2), and 220.7(e)(1)(i)).

Audit Objective - Determine whether a separate accounting is made of 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.

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, and referrals to health care for low-income persons during critical periods of growth and development. Such persons include low-income pregnant women, breast-feeding women up to one year postpartum, non-breast-feeding women up to six months postpartum, infants (persons under one year of age), and children under age five 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). These WIC State agencies, in turn, award subgrants to local agencies to certify applicants' eligibility for WIC program benefits and deliver such benefits to eligible persons. Organizations eligible to serve as WIC local agencies include public or private non-profit health agencies, human service agencies which provide health services, and IHS health units.

Funding of WIC Program Costs

The WIC program is a grant program that is 100 percent federally-funded (7 CFR sections 246.16(a), (b), and (c)). 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 grant for food costs and a grant for Nutrition Services and Administration (NSA) costs. The objectives of the food grant funding formula are to provide program stability by maintaining each State agency's prior year operating level and to encourage program growth by providing a greater share of funds to those State agencies receiving comparatively less than their fair share of funds based on their WIC eligible population. The NSA funding formula strives to preserve a reasonable measure of funding stability, while promoting funding levels that provide equivalent service to participants, and to promote incentives for reducing food costs so that more persons may be served.

Resources available to a State agency for program purposes under the 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.

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).

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 (FI) redeemed by program participants. Such rebates are credits against prior expenditures made during the month in which the rebate was earned for WIC food costs. Rebates held in State accounts are exempt from the interest provisions of the Cash Management Improvement Act (CMIA), 31 USC 6501 *et seq.*, and 31 CFR part 205.

Vendor and Participant Collections

A State agency is authorized to retain Federal program funds recovered through claims action against vendors and participants and to use such recoveries for program purposes. Like rebates, post-payment vendor and participant collections are credits against prior expenditures for WIC food costs. Such credits may be applied to expenditures for food in: (1) the fiscal year in which the food instrument resulting in the collection was issued; (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. Pre-payment vendor collections are improper payments prevented, not recoveries of food outlays. Therefore, they represent credits to vendor billings, not prior expenditures. The State agency may credit up to 100 percent of its vendor and participant collections for NSA costs. This authority is in addition to the conversion authority related to cost containment initiatives outlined above (Section 17(f)(21) of the Child Nutrition Act of 1966, as amended (42 USC 1786(f)(21); 7 CFR section 246.14(e)(2)).

Program Income

Certain miscellaneous receipts a State agency collects as the result of WIC program operations are classified as program income (7 CFR section 246.15).

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 (7 CFR sections 246.7(c), (d), (e), and (g)).

Benefits

The WIC program provides participants with specific nutritious supplemental foods, nutrition education, 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 (7 CFR section 246.10). In general, infants receive iron-fortified formula, iron-fortified infant cereal, and fruit juices high in vitamin C. Participating women and children receive fortified milk and/or cheese, eggs, hot or cold cereals high in iron, fruit and vegetable juices high in vitamin C, and either peanut butter or dry beans/peas. In addition to these foods, certain breast-feeding women also receive tuna, carrots, and both peanut butter and dry beans/peas.

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 benefits and to manage the program. Additional benefits provided to WIC participants include nutrition education, breast-feeding 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 the following three ways (7 CFR section 246.12(b)):

Direct Distribution (used only in Mississippi and parts of Illinois)

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

Home Delivery (used in Vermont)

Contractual arrangements with dairies provide for the delivery of supplemental foods directly to participants' homes.

Retail Purchase System (used by most States)

Negotiable FIs are issued directly to individual participants and the participants exchange them for authorized supplemental foods at retail stores. Two types of retail systems are used: voucher systems and check systems. In a voucher system, the vendor submits the voucher directly to the State agency for payment; in a check system, vendors deposit checks to their bank accounts and the State reimburses the banks. A participant must use an FI within 30 days of its issuance date, and the vendor must submit the FI for payment within 90 days of the issuance.

Each FI issued to a participant must have a unique serial number. The State agency is required to reconcile all redeemed FIs to issuance records (generally created at the local agency level) by serial number within 150 days of the first valid date for participant use.

A State agency must adjust previously reported obligations for WIC food costs in order to account for actual FI redemptions and other changes in the status of FIs. A State agency is also subject to claims action for the value of redeemed, unreconciled FIs. While the State agency is required to reconcile all redeemed FIs to issuance records, FNS may determine that the reconciliation process has been satisfactorily completed if certain conditions have been met. These conditions are: (1) the State can demonstrate that all reasonable management efforts were devoted to achieving 100 percent reconciliation; and (2) 99 percent or more of redeemed FIs were reconciled (7 CFR section 246.23(a)(4)).

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, and most Indian Tribal State agencies have implemented cost containment activities (7 CFR sections 246.16(j) through (o)).

The Child Nutrition and WIC Reauthorization Act of 1989 (Pub. L. No. 101-147), enacted November 10, 1989, requires WIC State agencies to explore the feasibility of implementing one of four acceptable cost containment initiatives: competitive bidding, rebates, home delivery, or direct distribution. A substantial portion of WIC's participation increases is attributable to the success of 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.

State Responsibilities

A State administering the WIC program must sign a Federal/State Agreement that commits it to observe applicable laws and regulations in carrying out the program (7 CFR section 246.3(c)). Section 17 of the Child Nutrition Act of 1966 (42 USC 1786), the authorizing legislation for the WIC Program, prescribes the basic goals of the WIC program. States are required to establish an ongoing management evaluation system; to conduct monitoring reviews of each local agency at least biennially, including on-site reviews of 20 percent of the clinics in each local agency; and to monitor 10 percent of their authorized vendors annually (7 CFR section 246.12(i)). The State must also ensure corrective action is taken in response to the detection of program deficiencies and fully document the results of reviews and corrective action plans. Monitoring of local agencies encompasses evaluation of management, certification, nutrition education, civil rights compliance, accountability, financial management systems, and food delivery systems (7 CFR section 246.19(b)).

State and local agencies prepare a *WIC Local Agency Directory Report* (FNS-648), updated as needed, to inform FNS of additions, deletions, or address changes for the local agencies administering the WIC Program. FNS uses the data to maintain and issue a current WIC Local Agency Directory. This directory is used by FNS and State and local agencies to provide potential Program participants with the correct name, address and phone number of the nearest WIC local agency. FNS also uses this information for mailings of publications and other important information.

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 11 functional areas of the program, including vendor management, management information systems, funds management, certification and eligibility, nutrition services, and food delivery/food instrument accountability. Each year FNS Regional Offices evaluate one or more of these areas or other related areas in those States that they determine are in 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 (7 CFR section 246.23(a)). Claims may be established for funds lost due to food instrument theft or embezzlements or for unreconciled food instruments (7 CFR sections 246.23(a)(2) and (4)). 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 (7 CFR section 246.19(a)(2)).

FNS has identified the following circumstances that may be indicators of noncompliance with WIC program requirements: (1) redeemed FIs which the issuing local agencies had reported as voided or unclaimed; (2) a large number of consecutively numbered, unreconciled FIs issued by the same local agency; (3) FIs that appear to have been validly issued and used but, nevertheless,

fail to match existing issuance records; and, (4) participants that redeemed all of their FIs on the same day as they were issued.

Source of Governing Requirements

WIC Program regulations are found in 7 CFR part 246.

Availability of Additional Program Information

For additional information, contact the applicable FNS regional office. Regional office telephone and datafax numbers, and States each regional office serves may be found on FNS's Website (www.fns.usda.gov/wic)

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

A. Activities Allowed or Unallowed

1. Funds allocated to a State agency for food must be expended to purchase supplemental foods for participants or to redeem food instruments issued for that purpose. When supplemental foods are provided to participants via direct distribution, the warehouse facilities costs shall be allowable food costs. Beginning in Federal Fiscal Year (FY) 1999, food funds can also be used to purchase breast pumps for participants. Funds allocated for NSA must be used for the costs incurred by the State or local agency to provide participants with nutrition education, breast-feeding 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(a) through (d)).

There are two exceptions to the preceding rules. Funds allocated for NSA costs but not needed for such costs may be applied to food costs (7 CFR section 246.14(a)(2)). Funds allocated for food costs may be applied to NSA costs as a result of a State's plan to exceed participation levels projected by the Federal funding formula and/or vendor/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)).

Under no circumstances may the WIC grant be charged for costs which are demonstrably outside the scope of the WIC program. The cost for some screening (excluding laboratory tests), referrals for other medical/social services, such as

immunizations, prenatal (before birth)/perinatal (near the time of birth from the 28th week of pregnancy through 28 days following birth) care, well child care and/or family planning, and follow-up on participants referred for such services, may be charged to the Federal WIC grant. However, the cost of the services performed by other health care/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, the vaccine, and 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 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.

2. 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 to an individual State agency and to the local agencies under its oversight, provided certain requirements apply and the State agency receives written notice.

ADP Projects

FNS authorizes WIC State agencies to make ADP acquisitions with a total project cost of up to \$24,999 without prior FNS approval. Instead, WIC State agencies must notify the FNS Regional Office in writing of such purchases within 60 days of the expenditure or contract execution. ADP acquisitions with a total project cost of \$25,000 to \$499,999 require a written request for prior approval from the FNS Regional Office, including an explanation of the purchase(s), description of needs, and other information appropriate to the proposed acquisition (cost allocation, procurement documents, etc, as appropriate).

WIC State agencies are required to submit an Advanced Planning Document (APD) to request prior approval of automation acquisitions with a total project cost of \$500,000 or more. Prior approval from FNS is required for such costs to be allowable charges to the WIC grant.

Purchases of other capital assets, such as buildings, land and improvements to buildings or land that materially increase their value or useful life, costing more than \$5000, continue to require prior approval from FNS (7 CFR sections 241.14(d) and 3016.22).

B. Allowable Costs/Cost Principles

Rebates, vendor collections (post-payment vendor collections are funds collected by the recovery of claims assessed against food vendors for errors and overcharges; pre-payment vendor collections are improper payments prevented as a result of reviews of food instruments prior to payment) and participant collections (collections for improperly issued food benefits as the result of a participant, guardian or caretaker intentionally making a false or misleading statement or withholding information) are credits against vendor billings or prior expenditures. A State agency must recognize, use, and account for these items in accordance with program regulations. A State agency's failure to do so could result in overclaims against its Federal WIC grant and in cash management problems.

C. Cash Management

The WIC program is subject to the provisions of the CMIA; however, rebates are exempt from the interest provisions of the CMIA and its implementing regulations (Section 17(h)(8)(J) of the Child Nutrition Act; 42 USC 1786(h)(8)(J)).

E. Eligibility

1. Eligibility for Individuals

Applicants for WIC Program benefits are screened at WIC clinic sites to determine their WIC eligibility. Except in limited circumstances, WIC applicants must be physically present for such screenings. To be certified eligible, WIC applicants must meet the following eligibility criteria (7 CFR sections 246.7(c), (d), (e), (g) and (p)).

- a. *Categorical* - Eligibility is restricted to pregnant, postpartum, and breast-feeding women, infants, and children up to their fifth birthday (7 CFR sections 246.2 (definition of each category) and 246.7(c)).
- b. *Residency* - An applicant 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. Except under limited circumstances, WIC applicants must present proof of residency at certification (42 USC 1786(f)(23); 7 CFR section 246.7(c)(1)).
- c. *Income* - An applicant must meet an income standard established by the State agency or be determined to be automatically 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 (formerly Aid To Families With Dependent Children); (2) Medicaid; or (3) Food Stamps, i.e., adjunctive income-eligible. State agencies may also determine an individual automatically income-eligible, based on documentation of his/her eligibility for certain State-administered programs. With limited exceptions, applicants who are not adjunctively or automatically income eligible for WIC must provide documentation of family income at their initial certification or subsequent recertification (42 USC 1786(d)(3)(D); 7 CFR sections 246.2 (definition of "family"), 246.7(c), 246.7(d), and 246.7(e)(2)).

Income Guidelines: The income standard established by the State agency may be up to 185 percent of the income poverty guidelines issued annually by HHS, 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 poverty guidelines. 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)). The WIC income eligibility guidelines are issued each year in the *Federal Register* and are available on FNS's WIC Website (www.fns.usda.gov/wic).

Income Determination: Except for applicants determined 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 are excluded from the computation of income. In addition, the State agency may exclude the value of military families' off-base housing allowances but must implement such exclusion uniformly for all military families (7 CFR section 246.7(d)(2)(iv)).

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)(viii)).

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 its family income is within the State agency's prescribed guidelines.

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. However, applicants in which an adult member is unemployed shall have income determined based on the period of unemployment. A State or local agency may require verification of information which it determines necessary to confirm income eligibility.

- 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. Nutritional risk is defined by each State agency within broad guidelines set forth in WIC legislation and regulation. At a minimum, this determination must be based on measurement of height or length and weight, and on a hematological test for anemia. Such anemia testing is required of all applicants except infants under nine months of age and, at the State or local agency's discretion, children who are determined to be within the normal range at their last certification. The determination of nutritional risk may be based on 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 six weeks postpartum. Breast-feeding women may be certified for six-month intervals ending with the breast-fed infant's first birthday. Infants are certified at intervals of approximately six months, except that infants under six 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 six-month intervals ending with the month in which the child reaches the fifth birthday. Non-breast-feeding women are certified for up to six months postpartum.

2. **Eligibility of Group of Individuals or Area of Service Delivery - Not Applicable**
3. **Eligibility of Subrecipients**

A State agency may award WIC subgrants only to organizations meeting the definition of "local agency" in 7 CFR section 246.2. Such organizations are identified under "II. Program Procedures" above.

H. Period of Availability of Federal Funds

1. *Spend-Forward Option* - For WIC formula grant funds awarded for Federal fiscal years 1998 and after, a State agency may spend NSA funds up to an amount equal to one 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 no longer be "spent forward."
2. *Backspend Option* - For WIC formula grant funds awarded for Federal FY 1999 and after, 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; and/or
 - 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)); 42 USC 1786(i)(3)(A)).

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; and, (4) general grants not tied directly to foods redeemed, but made for inclusion of food items in a State's food package (such as certain grants from the private sector). 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-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Program* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable
- e. FNS-227, *WIC Program Annual Closeout Report (OMB No. 0584-0427)* - This report replaces the annual SF-269, Financial Status Report, as the official document used by WIC State agencies to provide the data needed by FNS to conduct the annual reconciliation and closeout of grants which is required by 7 CFR part 3016. The FNS-227 discloses WIC program funds and costs according to WIC's two grant components, food and NSA. The FNS-227 presents the status of the report year grant and costs adjusted by the spending options unique to WIC which allow a small portion of WIC grant funds to be shifted between Federal fiscal years. The FNS-227 is the State's official validation 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 9 *Gross Outlays and Unliquidated Obligations For Report Year Program Costs* - reflects the total of the State agency's outlays and unliquidated obligations for report year WIC program costs.
2. Line 10a *Rebates* - reflects the total annual credit to the Federal grant as a result of rebates collected.
3. Line 10b *Program Income* - reflects the total amount of gross income received by the State directly generated by a grant-supported activity, or earned only as a result of the grant agreement during the grant period.
4. Line 10c *Vendor/Participant Collections* - reflects the amount of post-payment vendor collections (i.e., funds collected by the recovery of claims assessed against food vendors for errors and overcharges) and participant collections. Pre-payment vendor collections are not reported in this line as they represent credits to vendor billings, not credits to gross expenditures. Participant collections are funds collected for improperly issued food benefits

as the result of a participant, guardian or caretaker making a false or misleading statement or withholding information.

- f. FNS-227A, *Addendum to WIC Program Annual Closeout Report - NSA Expenditures (OMB No. 0584-0427)* - The FNS-227A is prepared annually by State agencies 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 breast-feeding promotion and support, two of the four functional categories on the FNS-227A, to determine whether the State agencies met the statutory minimum spending level for those functions.

Key Line Items - The following line items and columns contain critical information for State-level activities.

1. 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.
2. Line 5a *Federal Outlays* - Column (04) - *State-Level Breast-feeding Promotion and Support* - represents total outlays and unliquidated obligations made for State-level breast-feeding promotion and support costs supported by Federal grant funds and program income.
3. 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.
4. Line 5b *State Outlays* - Column (04) - *State-Level Breast-feeding Promotion and Support* - represents total outlays and unliquidated obligations made for State-level breast-feeding 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.

Key Line Items - 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 which directly provide benefits to participants.

1. 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.
2. Line 5a *Federal Outlays* - Column (08) - *Local-Level Breast-feeding Promotion and Support* - represents total outlays and unliquidated obligations made for local-level breast-feeding promotion and support costs supported by Federal grant funds and program income.
3. 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.
4. Line 5b *State outlays* - Column (08) - *Local-Level Breast-feeding Promotion and Support* - represents total outlays and unliquidated obligations made for local-level breast-feeding 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))

- g. FNS-498, *WIC Monthly Financial Management and Participation Report (OMB No. 0584-0045)* - 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-498 to report projected and actual Federal food expenditures and participation for each month of the fiscal year. Participation for any given month equals the number of individuals who received supplemental foods or food instruments during that month plus the number of infants who received no supplemental foods or food instruments, but were breast-fed by participating women during that month.

The FNS-498 also reports actual NSA expenditures and unliquidated obligations and the source of funds available to support both food and NSA expenditures. The reporting of State-supported food expenditures and participation is optional. The States and FNS use this information for program monitoring, funds management, budget projections, monitoring caseload, policy development, and responding to requests from Congress and the interested public.

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

1. Line 1 *Gross Obligation* - reflects the amount of money, net of vendor and participant collections and program income, used to fund food outlays that a State agency estimates it will spend for each month's food orders or FI issuances.
2. Line 2 *Estimated Rebate* - reflects the amount of money that a State agency estimates it will receive for rebates.
3. Line 4 *Actual Outlays* - reflects the amount of payments for redeemed food instruments or the total amount of redeemed documents approved by the WIC program for payment, minus vendor and participant collections and program income used to fund food outlays for the report month. The State's WIC program food cost ledger account should support this amount.
4. Line 5 *Rebates Billed* - reflects the dollar value of bills or invoices submitted by the State to food manufacturers, such as infant formula companies, for rebate payments.
5. Line 11 *Total Federal 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 16c *Total Year-to-Date Administrative Costs* - reflects cumulative year-to-date payments made for WIC program NSA costs incurred up to the report month minus those payments funded with program income.

2. **Performance Reporting** - Not Applicable

3. **Special Reporting** - Not Applicable

N. **Special Tests and Provisions**

1. **One-to-One Reconciliation**

Compliance Requirement - A State agency must reconcile all redeemed FIs to issuance records within 150 days of the FI's first valid date for participant use. The State agency must determine whether each redeemed FI was: (1) validly issued and validly used; (2) used after being lost, stolen, or voided; (3) validly issued but used outside its valid use dates; (4) used pursuant to a duplicate issuance (either two FIs bearing the same serial number or a participant receiving duplicate benefits); or, (5) otherwise not matching issuance records. State agencies generally do this by analyzing computer reports that

provide detailed issuance and redemption information on each FI redeemed (7 CFR section 246.12(n)(1)).

Audit Objective - Determine whether the State agency's FI reconciliation process complies with the one-to-one reconciliation requirement.

Suggested Audit Procedures

- a. Obtain an understanding of the State agency's process for reconciling redeemed FIs. At a minimum, this includes ascertaining how the State agency:
 - (1) Identifies the ultimate disposition of every redeemed FI; and
 - (2) Follows up on redeemed FIs that cannot be matched with valid issuances (State agencies do this by contacting the issuing local agencies and by other means).
- b. Ascertain whether written guidance on how to follow up on unreconciled FIs exists for local agencies.
- c. Inspect reconciliation reports to ascertain that the State agency:
 - (1) Reconciled its records to issued FIs on a one-to-one basis within the 150 day time frame set by regulation;
 - (2) Followed-up on FIs that were not validly issued and 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 reconciliation process.
- d. Using State agency reconciliation reports for one or more months of the audit period, verify the State agency's non-reconciliation rate. The non-reconciliation rate should not exceed one percent. The State agency should use the following steps in performing the non-reconciliation rate calculation:
 - (1) Determine total FIs redeemed
 - (2) Determine total redeemed FIs initially identified as unreconciled (listed as redeemed with no record of issuance on exception report)
 - (3) Determine total redeemed FIs finally identified as unreconciled (after follow-up with local agencies/clinics)
 - (4) Calculate the unreconciled rate (#3 divided by #1)

- (5) Calculate total value of FIs redeemed
- (6) Calculate total value of FIs finally identified as unreconciled

2. Management Evaluations

Compliance Requirement - 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 visits. Monitoring of the 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 two 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)).

Audit Objective - Determine whether the State agency has conducted the required local agency management reviews and that the local agency management reviews cover the required areas.

Suggested Audit Procedures

- a. Ascertain that the State agency conducts the required local agency management reviews, including on-site visits of a minimum of 20 percent of the clinics in each local agency or one clinic, whichever is greater.
- b. Ascertain that the local agency management reviews include required areas.

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 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. In Virginia, the CACFP is directly administered by the FNS Mid-Atlantic Regional Office (MARO). For purposes of this discussion, State agencies and the MARO are referred to collectively as "administering agencies."

CACFP benefits consist of nutritious meals and snacks served to eligible children and adults who are enrolled for care at participating child care centers, adult day care centers, outside-school-hours care centers, after-school at-risk programs, and family and group day care homes. 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 after-school at-risk programs, may operate independently under agreements with their administering agencies, or they may participate under the auspices of sponsoring organizations. Day care homes may participate only through sponsoring organizations. An entity with which an administering 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 administering 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 proprietary child care centers, Head Start programs, and other entities which are licensed or approved to provide day care services. Proprietary child care centers may participate in the CACFP if at least 25 percent of their participants are funded under Title XX of the Social Security Act.

Adult Day Care Centers

Public, private non-profit, and proprietary adult day care facilities which provide structured, comprehensive services to nonresidential adults who are functionally impaired, or aged 60 and older, may participate in CACFP. Proprietary 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.

Outside-School-Hours Care Centers

Outside-school-hours care centers include public, private non-profit, and proprietary organizations, licensed or approved to provide nonresidential child care services to enrolled children outside of school hours. Proprietary organizations may participate as outside-school-hours care centers if at least 25 percent of their participants are funded under Title XX of the Social Security Act.

After-School At-Risk Programs

After-school at-risk programs are structured, supervised programs that: are organized primarily to provide care to at-risk 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 police athletic leagues, boys and girls' clubs, and the YMCA. In areas where Federal, State or local licensing or approval is not required, operators of these after-school programs are required to comply with State or local health and safety requirements.

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 CACFP; a day care home cannot enter into an agreement directly with the administering agency.

Program Funding

Federal assistance to institutions takes the form of cash reimbursement for meals served, and USDA donated commodities or cash in lieu of commodities. 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, supplement, 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 under "Participant Eligibility and Program Benefits," below. Under this formula, an institution's entitlement to funding from its administering agency is a function of the categories and types of services provided. An institution establishes its entitlement to reimbursement payments by submitting monthly claims for reimbursement to its administering 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, each day. Operators of after-school at-risk programs may claim reimbursement for one snack per child per day. The specific types of meals for which an institution may claim reimbursement payments are stated in its agreement with its administering agency.

In addition to cash assistance, USDA makes donated commodities or cash-in-lieu of commodities available for use by institutions in operating the CACFP (7 CFR section 226.5). FNS enters into agreements with State distributing agencies for the distribution of commodities to CACFP institutions; the distributing agencies, in turn, enter into agreements with the institutions. The distributing agency may be the CACFP administering 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: the institution's application and supporting documents submitted to its administering agency; records of enrollment of each CACFP participant; records supporting the free and reduced price eligibility determinations for children and adults enrolled in centers and for providers' children in day care homes; daily records indicating the number of children and adults in attendance and the number of meals served by type and category; copies of receipts, invoices and other records of CACFP costs and income required by the administering agency; copies of claims for reimbursement submitted to the administering agency; and documentation of non-profit operation of food service.

Participant Eligibility and Program Benefits

Eligible Population

7 CFR section 226.2 describes who may receive CACFP meal benefits.

Children means (a) persons 12 years of age and under, (b) children of migrant workers 15 years of age and under, (c) persons through age 18 years and enrolled in after-school at-risk programs (except that children who turn 19 during the school year remain eligible for the duration of the school year (42 USC 1766(r)), and (d) mentally or physically handicapped persons, as defined by the State, enrolled in an institution or a child care facility serving a majority of persons 18 years of age and under.

Adult participant means "a person enrolled in an adult day care center who is functionally impaired ... or 60 years of age or older." The adult component of CACFP is targeted to individuals who remain in the community and reside on their own or with family members. Individuals who reside in institutions are not eligible for CACFP benefits.

Determining Eligibility for Free and Reduced Price Meals - 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 for free or reduced price meals stated at 7 CFR section 226.23. Participants from households with incomes at or below 130 percent of poverty are eligible for free meals; and participants in centers with household incomes between 130 percent and 185 percent of poverty are eligible for meals at a reduced price. Institutions must determine each enrolled participant's eligibility for free and reduced price meals.

A participant's eligibility may be established by submission of an income eligibility statement which provides information about family size and income. The information submitted by each household is compared with USDA's published Income Eligibility Guidelines. In addition to being published in the *Federal Register*, income eligibility information is published on the FNS home page (www.fns.usda.gov/cnd/). 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 225.23(h).

This procedure is modified for children and adults who are categorically eligible for free and reduced price meals by virtue of their participation in certain other programs. For children, such programs include the Food Stamp Program, 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 Food Stamp Program, 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 children participating in the Head Start Program or for pre-kindergarten children participating in the Even Start Programs, nor is any eligibility determination required beyond documenting their participation in Head Start or Even Start (7 CFR section 226.23(e); 42 USC 1766(c)(6)).

Determining Eligibility - 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 that are located in low-income areas, or those for which the provider's household income is at or below 185 percent of the Federal income poverty guidelines. Sponsoring organizations may use census block group data or elementary school free and reduced price enrollment data to determine which areas are low-income (7 CFR sections 226.2 and 226.15 (e)(3)).

Tier II homes are those family 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 identify income-eligible 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 both of the following conditions are met: (1) other, nonresidential children are enrolled and participating in the meal service; and (2) the provider's own children are determined eligible for free and reduced price meals (7 CFR section 226.18(e)).

Determining Eligibility - After-School At-Risk Programs

Eligible after-school 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 Nos. 10.553 and 10.555), as demonstrated by the free and reduced price eligibility data maintained by the school serving the area. There is no eligibility determination for individual children attending these programs.

Reimbursement Payments to CACFP Institutions

General

Institutions must submit accurate monthly claims for reimbursement to their administering agencies in accordance with 7 CFR section 226.10(c). Reimbursement is not allowed for meals served to a participant who is not enrolled for care, meals served in excess of licensed or authorized capacity, meal types that are not approved in the institution's agreement with its administering agency, meals served in excess of the maximum number of approved meal services, or meals that do not meet Federal requirements.

Meals served at proprietary centers during a calendar month when less than 25 percent of the center's enrollment or licensed capacity (whichever is less) receive Title XIX or Title XX benefits may not be claimed for reimbursement. Meals served to adults which are claimed for reimbursement under part C of Title III of the Older Americans Act may not be claimed under the CACFP.

Payments for Meals Served in 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 above, or at the lesser of meals-times-rates or actual, documented costs. Several variants on the meals-times-rates formula are available. They include: (1) reporting actual meal counts by category and type; (2) applying "blended per-meal rates" to actual counts of meals served by type; and (3) 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 (7 CFR section 226.9).

Sponsoring organizations of centers do not receive separate reimbursement for their administrative costs parallel to that received by sponsors of family day care homes. However, such a sponsor may retain a portion of the meal reimbursement payments for such costs up to the amount approved by its administering agency.

Payments to Sponsoring Organizations of Day Care Homes

Reimbursement payments to sponsoring organizations of family day care homes consist of program (meal reimbursement) payments (7 CFR section 226.13) and administrative payments (7 CFR section 226.12).

The rates at which a sponsoring organization receives program payments for meals served in day care homes under its sponsorship are determined by the home's location or the provider's income, as described under "Participant Eligibility and Program Benefits," above. The sponsoring organization claims 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 (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 section 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 family day care homes whose sponsoring organizations have elected to receive USDA donated commodities is reduced by the value of the commodities (7 CFR section 226.13(c)).

Sponsoring organizations of family day care homes also 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 (7 CFR section 226.12).

Reimbursement for After-School At-Risk Programs

Operators of after-school at-risk programs are eligible to receive reimbursement for one snack per child per day. All snacks are reimbursed at the free rate.

Pricing of Program Meals

Institutions other than sponsoring organizations of family day care homes may charge a single fee (nonpricing program) to cover tuition, meals, and all other day care services, or they may charge separate fees for meals (pricing program). The institution must describe its pricing policy in a free and reduced price policy statement submitted to its administering agency. All day care homes and the vast majority of centers participate in CACFP as nonpricing programs, since the fees they charge cover all areas of their day care services. (7 CFR sections 226.23(b) and (c))

Federal Assistance to States

Program funds are provided to States through letters of credit issued under the FNS Agency Financial Management 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.

Funding 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 determined by substantially the same performance-based formula used by administering 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 adjusted on the basis of changes in the *Food at Home* series of the Consumer Price Index.

The State's level of commodity assistance or cash in lieu of commodities 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. Commodity 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.

Funding 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 meal reimbursement to institutions during the second fiscal year preceding the year for which the funds are to be made available (42 USC 1766(i)).

Availability of Other Program Information

Additional program information is available from the FNS site on the Internet at www.fns.usda.gov/cnd/.

Source of Governing Requirements

The CACFP is authorized at section 17 of the National School Lunch Act (NSLA) (42 USC 1766), as amended. The NSLA was amended by the William F. Goodling Child Nutrition

Reauthorization Act of 1998 (Pub. L. No. 105-366, October 31, 1998). The program regulations are issued by the USDA and codified at 7 CFR part 226.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

A. Activities Allowed or Unallowed

1. *Reimbursement for Meals* - To be eligible for Federal reimbursement, meals 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. Requirements for meal reimbursement payments are contained in 7 CFR sections 226.11 and 226.13. Reimbursement payments for snacks served to children in after-school at-risk programs are limited to one snack per child per day provided free of charge and are reimbursed at the "free" rate (42 USC 1766(r)).
2. *Reimbursement for Sponsoring Organization's Administrative Costs*
 - a. *Sponsoring Organizations of Day Care Homes* - In addition to their meal reimbursement payments, sponsoring organizations of family day care homes may receive reimbursement for administrative costs of planning, organizing, and managing the food service under the CACFP (7 CFR section 226.2). The formula a State must use to determine a sponsoring organization's entitlement to payments is also described in III.G.3., Earmarking.
 - b. *Sponsoring Organizations of Centers* - There is no provision for sponsoring organizations of centers to receive separate reimbursement for administrative costs. However, such a sponsoring organization may retain a portion of its meal reimbursement payments for such costs if authorized to do so by the management plan approved by its administering agency under 7 CFR 226.6(f)(2)).
3. *Use of Reimbursements* - 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 226.15(e)(12)).

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 their receipt from its administering agency (7 CFR sections 226.16(g) and (h)).

E. Eligibility**1. Eligibility for Individuals**

Eligibility requirements for free and reduced price meals are set forth in 7 CFR section 226.23. Individual determinations of eligibility for children enrolled in after-school at-risk programs are not required (42 USC 1766(r)).

2. Eligibility of Group of Individuals or Area of Service Delivery - Not Applicable**3. Eligibility for Subrecipients**

Administering agencies may disburse CACFP funds only to those organizations that meet the eligibility requirements stated in the following program regulations: (a) generic requirements for all institutions at 7 CFR section 226.15; (b) additional requirements for sponsoring organizations at 7 CFR section 226.16; (c) additional requirements for child care centers (whether independent or sponsored) at 7 CFR section 226.17; (d) additional requirements for day care homes (which must be sponsored) at 7 CFR section 226.18; (e) additional requirements for outside-school-hours centers at 7 CFR section 226.19; (f) additional requirements for adult day care centers (whether independent or sponsored) at 7 CFR section 226.19a; and (g) additional requirements for after-school at-risk programs at 42 USC 1766(r)).

G. Matching, Level of Effort, Earmarking**1. Matching - Not Applicable****2. Level of Effort - Not Applicable****3. Earmarking**

Administrative cost reimbursement to sponsoring organizations of day care homes is limited to the lesser of the following factors on a cumulative year-to-date basis: (a) the sponsoring organization's approved administrative budget; (b) actual administrative costs less income to the program; or (c) the appropriate monthly rates per home, multiplied by the number of operating homes in each month. In addition, during any fiscal year, administrative payments to a sponsoring organization may not exceed 30 percent of the total amount of administrative payments and program (meal reimbursement) payments for day care home operations (7 CFR section 226.12(a)).

L. Reporting**1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable
 - b. SF-270, *Request for Advance or Reimbursement* - Applicable
 - c. SF-271, *Outlay Report and Request for Reimbursement for Construction Program* - Not Applicable
 - d. SF-272, *Federal Cash Transactions Report* - Not Applicable
- 2. Performance Reporting** - Not Applicable
- 3. Special Reporting**
- a. FNS-44, *Report of the Child and Adult Care Food Program (OMB No. 0584-0078)* - 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 close-out report is also required, in accordance with the FNS close-out 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.

Parts A and E.

M. Subrecipient Monitoring

The administering agency is responsible to monitor 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)).

The administering agency is required to assess institutional compliance by performing 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(l).

N. Special Tests and Provisions

1. Accountability for Commodities

Compliance Requirement - Accurate and complete records shall be maintained with respect to the receipt, distribution/use, and inventory of 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 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 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 Objective - Determine whether an appropriate accounting was maintained for donated food commodities, that an annual physical inventory was taken, and the physical inventory was reconciled with inventory records.

Suggested Audit Procedures

- a. Ascertain storage facility, processing, and end use locations of all donated food commodities, including end products processed from donated foods. Ascertain the commodity 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, obtain explanation and documentation for unusual or unexpected results. Consider the following:
 - (1) Compare receipts, usage/distribution, losses and ending inventory of donated foods for the audit period to the previous period.
 - (2) If auditing at the distributing agency level, compare distribution by entity for the audit period to the previous period.
 - (3) If auditing at the institution level, compare relationship of usage of donated 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 commodity items.

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- (2) If the annual inventory process is not observed, select a sample of significant commodities on hand as of the physical inventory date and, using the commodity 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 commodity records. Investigate any large adjustments between the physical inventory and the commodity records.
- d. On a sample basis, test the mathematical accuracy of the commodity records and related summarizations. From the commodity records, vouch a sample of receipts, usage/distributions, and losses to supporting documentation. Ascertain that activity is properly recorded, including correct quantity, proper period and, if applicable, correct recipient agency.

UNITED STATES DEPARTMENT OF AGRICULTURE

CFDA 10.566 NUTRITION ASSISTANCE PROGRAM FOR PUERTO RICO

I. PROGRAM OBJECTIVES

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

II. PROGRAM PROCEDURES

Under NAP, participating households receive supplemental income in the form of checks that are issued up to twice monthly. The amount of the benefit payment depends on the household's characteristics, financial circumstances, and the funds available for distribution. The Commonwealth of Puerto Rico (PR) establishes the eligibility and benefit levels for the program.

Funds for the NAP are appropriated annually. The Food and Nutrition Service (FNS) of the USDA provides an annual 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 monthly 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) and 285.3).

USDA regulations pertaining to NAP are found in 7 CFR part 285.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look at Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

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)).

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 of Subrecipients - Not Applicable****G. Matching, Level of Effort, and/or Earmarking Requirements****1. Matching**

The NAP grant provided by FNS is intended to cover 100 percent of PR's expenditures for food assistance 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 Availability of Federal Funds**

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 (7 CFR section 285.2(b)).

L. Reporting**1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Program* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable

- 2. Performance Reporting - Not Applicable**
- 3. Special Reporting - Not Applicable**

UNITED STATES DEPARTMENT OF AGRICULTURE**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 Emergency Food Assistance Program (TEFAP) Cluster is to provide U.S. Department of Agriculture (USDA) donated commodities to low-income households for home consumption, and to provide hot meals prepared from USDA donated commodities to needy persons in congregate settings.

II. PROGRAM PROCEDURES

The Food and Nutrition Service (FNS) of the USDA administers TEFAP. FNS enters into agreements with State distributing agencies for the distribution of USDA donated commodities, and provides funding for the administrative costs these organizations incur in performing this function. The State distributing agencies with which FNS makes agreements for the operation of TEFAP are generally the same State agencies that administer other USDA commodity programs, such as State departments of agriculture, education, etc.

At the local (subrecipient) level, the program is operated by Eligible Recipient Agencies (ERAs). ERAs include public and private non-profit organizations that operate Emergency Feeding Organizations (EFOs), charitable institutions such as hospitals and retirement homes, summer camps for children, and child nutrition programs providing food service, nutrition programs under the Older Americans Act of 1965 (P.L. 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, soup kitchens, etc.

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. A State may delegate its storage and distribution functions to one or more food banks or other ERAs.

USDA provides commodities 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); 7 USC 7511). 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 value of TEFAP entitlement commodities and the amount of administrative funds a State agency may receive are determined through an allocation formula described at 7 CFR section 251.3(d). USDA may provide bonus commodities in addition to the formula-generated entitlement commodities.

To gain access to its commodities 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.

Determinations of households' eligibility for TEFAP benefits are generally made by ERAs in accordance with the criteria and procedures established by the State agency in its distribution plan. ERAs may issue commodities to members of eligible households in quantities suitable for meal preparation at home or they may use the commodities in the operation of feeding sites that serve prepared meals.

The ERAs that conduct these issuance and congregate feeding activities are known as "distribution sites." In some cases, distribution sites are operated by separate organizations as sub-subrecipients of other ERAs. Some distribution sites use mostly paid employees to carry out their missions, while others rely heavily on the services of volunteers.

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 incorporated into TEFAP a previously separate program entitled Commodities for Soup Kitchens and Food Banks (CFDA 10.571). Activities formerly conducted under that program are now deemed TEFAP activities, and residual stocks of commodities originally made available for that program are now deemed TEFAP commodities. Accordingly, CFDA 10.571 should not appear in a State's or subrecipient's Schedule of Expenditures of Federal Awards.

Source of Governing Requirements

TEFAP is authorized by the Emergency Food Assistance Act of 1983 (Pub. L. No. Law 98-8) (7 USC 7501-16), as amended by the Hunger Prevention Act of 1988 (Pub. L. No. 100-435) and the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Pub. L. No. 104-193). Program regulations are found at 7 CFR part 251.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

A. Activities Allowed or Unallowed

A State agency or ERA must use its administrative cost grant or subgrant for activities intrinsic to the processing, transportation, and distribution of TEFAP commodities within its State or service area. Such activities are listed at 7 CFR section 251.8(d)(1)(i)(A) through (E). Under certain circumstances, a State agency may also use these funds for: transporting TEFAP commodities to other States; and transporting non-USDA foods in from other States (7 USC 7505(d)).

An ERA that receives USDA non-program commodities and TEFAP commodities may use its administrative cost subgrant for the distribution of both classes of commodities. 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(d)(1)(ii)).

B. Allowable Costs/Cost Principles

While regulations issued under previous legislation had required State agencies and ERAs to use TEFAP administrative funds solely for direct costs, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 expressly identified State level indirect costs as allowable costs (Personal Responsibility and Work Opportunity Reconciliation Act of 1996, section 202A(c)(1)).

E. Eligibility

1. Eligibility for Individuals

- a. *Receipt of Commodities for Household Use* - An EFO certifies households eligible to receive TEFAP commodities 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)).
- b. *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 and use TEFAP commodities.

2. Eligibility for Group of Individuals or Area of Service Delivery - Not applicable.

3. Eligibility for Subrecipients

To receive commodities and TEFAP administrative funds, a public or non-profit private organization must have entered into an agreement with the State agency, or with another ERA, binding it to perform the duties of an ERA. The State agency's distribution plan identifies the classes of organizations with which it will enter into such agreements.

G. Matching, Level of Effort, Earmarking

1. Matching

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)).

Exceptions - The following States 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)).

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: (1) the value of goods and services specifically identifiable with allowable State administrative costs; (2) 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 (3) 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 State agency must use at least 40 percent of its TEFAP administrative cost grant for costs that benefit ERAs. The State agency may do this by awarding subgrants directly to ERAs, and/or by incurring costs the ERAs would otherwise have had to pay themselves (7 CFR section 251.8(d)(3)).

L. Reporting

1. Financial Reporting

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable
- e. FCS-667, *Report of the Emergency Food Assistance Program (TEFAP) Administrative Costs (TEFAP) (OMB No. 0584-0385)* - 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 - Not Applicable

M. Subrecipient Monitoring

A State agency must make on-site reviews of ERAs under its oversight, and of distribution sites operated by such ERAs, in accordance with its distribution plan. At a minimum, the State agency's annual review coverage must include 25 percent of its ERAs and one-third or 50 (whichever is less) of the distribution sites in the State. To the maximum extent practicable, review scheduling should enable State agency staff to observe TEFAP commodity issuance and prepared meal service operations (7 CFR section 251.10(e)).

N. Special Tests and Provisions

1. Accountability for Commodities

Compliance Requirement - Accurate and complete records shall be maintained with respect to the receipt, distribution/use, and inventory of 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 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 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 Objective - Determine whether an appropriate accounting was maintained for donated food commodities, 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 food commodities, including end products processed from donated foods. Determine

the commodity 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, obtain explanation and documentation for unusual or unexpected results. Consider the following:
 - (1) Compare receipts, usage/distribution, losses and ending inventory of donated 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, compare relationship of usage of donated 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 commodity items.
 - (2) If the annual inventory process is not observed, select a sample of significant commodities on hand as of the physical inventory date and, using the commodity 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 commodity records. Investigate any large adjustments between the physical inventory and the commodity records.

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

UNITED STATES DEPARTMENT OF AGRICULTURE

CFDA 10.570 NUTRITION PROGRAM FOR THE ELDERLY (COMMODITIES)

I. PROGRAM OBJECTIVES

The objectives of the Nutrition Program for the Elderly (NPE) is to improve the diets of elderly persons and increase the market for domestically produced foods acquired under surplus removal programs.

II. PROGRAM PROCEDURES

Section 311(a)(4) of the Older Americans Act of 1965 (OAA), as amended, (42 USC 3030a(a)(4)) authorizes the U.S. Department of Agriculture (USDA) to donate food commodities to States for use in providing nutrition services as authorized under Title III, Part C of the OAA. FNS enters into agreements with State distributing agencies for the distribution of USDA donated commodities. The State distributing agencies, in turn, enter into agreements with local program operators known as "recipient agencies." A State may designate a recipient agency to perform its storage and distribution duties. In the case of NPE, the State distributing agencies generally distribute the commodities to area agencies on the aging, which, in turn, distribute them to local service outlets. These entities use the commodities in preparing meals to be served to eligible persons in congregate feeding sites or delivered to eligible individuals' homes.

To the extent funds are available, a State's eligibility for NPE entitlement commodities is determined by multiplying the number of meals served to eligible persons by a per-meal payment rate established by FNS. Bonus commodities are provided in addition to the State's entitlement, and do not count against it.

Under section 311(b)(1) of the OAA (42 USC 3030a(b)(1)), a State may elect to receive any portion of its NPE entitlement in cash. The State agency on aging makes this determination, and FNS disburses the cash in lieu of NPE commodities to that State agency. The State agency, in turn, passes the cash through to area agencies on aging. Cash in lieu of NPE commodities must be used to purchase food for use in Title III elderly feeding operations.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

A. Activities Allowed or Unallowed

Commodities donated by USDA must be used in the preparation of meals served under Special Programs for the Aging, Title III, Part C (Nutrition Services). Cash paid in lieu of commodities must be used to purchase food for use in such meals (7 CFR section 250.42(c)(5)(ii)).

E. Eligibility

1. **Eligibility for Individuals** - Not Applicable
2. **Eligibility for Area of Service Delivery** - Not Applicable
3. **Eligibility for Subrecipients**

A State may provide USDA donated commodities and cash in lieu thereof only to area agencies on aging that operate Special Programs for the Aging under Title III, Part C of the OAA. An area agency on aging, in turn, may provide NPE assistance only to agencies that are under the jurisdiction, control, management, and audit authority of the network of State and area agencies on aging (7 CFR section 250.42(a)).

L. Reporting**1. Financial Reporting**

- a. SF-269, *Financial Status Report* - Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271, *Outlay Report and Request for Reimbursement for Construction Program* - Not Applicable
- d. SF-272, *Federal Cash Transactions Report* - Not Applicable

2. Performance Reporting - Not Applicable**3. Special Reporting**

FCS-586A, *Monthly Report of Meal Counts for Title III Nutrition Program for the Elderly (OMB No. 0584-0293)* - This report documents the number of meals served to elderly persons in congregate meal settings and by home delivery, respectively. Data gathered via this report form the basis for the State's entitlement to USDA donated commodities (and to cash in lieu thereof) under the NPE (7 CFR section 250.17(e)).

Key Line Items - The following line items contain critical information: Items 5 through 7.

M. Subrecipient Monitoring

Under 7 CFR section 250.19(b)(1), a State agency must make quadrennial reviews of each commodity recipient agency under its oversight. At least 25 percent of such agencies must be reviewed in each year of this quadrennial review cycle.

N. Special Tests and Provisions

1. Accountability for Commodities

Compliance Requirement - Accurate and complete records shall be maintained with respect to the receipt, distribution/use, and inventory of donated foods including end products processed from donated foods. Failure to maintain records required by section 250.16 shall be considered prima facie evidence of improper distribution or loss of donated 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 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 Objective - Determine whether an appropriate accounting was maintained for donated food commodities, 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 food commodities, including end products processed from donated foods. Determine the commodity 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, obtain explanation and documentation for unusual or unexpected results. Consider the following:
 - (1) Compare receipts, usage/distribution, losses and ending inventory of donated foods for the audit period to the previous period.
 - (2) If auditing at the distributing agency level, compare distribution by entity for the audit period to the previous period.
 - (3) If auditing at the recipient agency level, compare relationship of usage of donated 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 commodity items.

- (2) If the annual inventory process is not observed, select a sample of significant commodities on hand as of the physical inventory date and, using the commodity 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 commodity records. Investigate any large adjustments between the physical inventory and the commodity records.
- d. On a sample basis, test the mathematical accuracy of the commodity records and related summarizations. From the commodity records, vouch a sample of receipts, usage/distributions, and losses to supporting documentation. Ascertain that activity is properly recorded, including correct quantity, proper period and, if applicable, correct recipient agency.

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 objective of this program is to share receipts from the national forests with the States in which the national forests are situated. 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

25-Percent Payment - 25 percent of gross receipts generated on Forest Service lands during the fiscal year is distributed 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. Two payments are made to the States: an interim payment is made by October 15 on the basis of estimated third-quarter operating results, and a final payment is made in December, providing the balance of the actual receipts due to the counties. The Forest Service calculates both payments and sends letters to the States advising them of the amount and how much each county is to receive. The Forest Service notifies the U.S. Treasury of the amounts to be paid, and the funds are electronically transmitted to the States. The States verify the amount of each deposit with information received from the Forest Service, then distribute the funds to the counties in which the national forests are situated.

Spotted Owl Payment - Gross receipts are distributed to States for the benefit of counties. This special payment amount is in lieu of the amounts under the 25 Percent Payment for the States and is for selected counties to compensate them for the decline in timber harvests due to the protection of the northern Spotted Owl's habitat. If the Spotted Owl special payment amount exceeds the amount that would have been required under the 25 Percent Payment formula, the Forest Service pays the special payment amount in lieu of the 25 Percent Payment to the eligible counties within 18 national forests (8 in Oregon, 6 in California, and 4 in Washington). This payment is made as part of the 25 Percent Payment process and time frame. The Spotted Owl

payment to eligible counties in Washington, Oregon, and California is combined with the 25 Percent Payment for other counties in the States and distributed in the same manner.

Quinault Special Payment - Gross receipts are distributed from a special management area established to compensate the Quinault Indian tribe and the State of Washington for land that the Forest Service returned to the tribe. Based on gross receipts generated in the special management area, 45 percent is distributed to the State of Washington, 45 percent to the Quinault tribe, and 10 percent into a Forest Service timber management fund. 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 regular 25 Percent Payment.

Arkansas Smoky Quartz Payment - 50 percent of the receipts from the sale of quartz mined on the Ouachita National Forest in Arkansas is distributed to Arkansas. 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 lump sum.

Payments to Minnesota - Funds are distributed to Minnesota based on the fair appraisal value of Forest Service lands in three counties (Cook, Lake, and St. Louis). Three-quarters of 1 percent of the appraised value of 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.

National Grasslands Payment - 25 percent of net revenues from national grasslands (grazing receipts collected by the Forest Service and mineral receipts collected by the Minerals Management Service 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 grasslands are located.

Source of Governing Requirements

25 Percent Fund - 16 USC 500

Spotted Owl Payment - 16 USC 500 note

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

Arkansas Smoky 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 may be found on the Internet at www.fsweb.wo.fs.fed.us.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

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. *Spotted Owl 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 note).
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 Smoky Quartz Payment* funds must be used for public roads and public schools in the counties in which the Ouichita 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 and/or schools that are/were eligible for distribution of funds received under the Payment to States program (7 USC 1012).

UNITED STATES DEPARTMENT OF AGRICULTURE**CFDA 10.760 WATER AND WASTE DISPOSAL SYSTEMS FOR RURAL COMMUNITIES****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, 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) 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 for giving security for and repaying the proposed loan. (7 CFR section 1780.7) A loan is repayable in not more than 40 years or the useful life of the facility, whichever is less. 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 servicing 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 amount 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 (NMHI) (7 CFR section 1780.10).

Guaranteed Loans for Water and Waste Disposal Systems

RUS generally guarantees 80 percent loans but may, in extraordinary circumstances, raise the guarantee to level not to exceed 90 percent. The interest rate for guaranteed loans is negotiated between the recipient and the lender (7 CFR sections 1980.819 and 1980.823).

Source of Governing Requirements

The program is authorized by under Section 306 of the Consolidated Farm and Rural Development Act, as amended (7 USC 1926). Implementing regulations are 7 CFR part 1780.

Availability of Other Program Information

RUS maintains a home page on the Internet (www.usda.gov/rus/water/), which provides general information about this program.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

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.

- h. A judgment which would disqualify an applicant for a loan or grant as provided for in 7 CFR section 1780.7(g).

G. Matching, Level of Effort, Earmarking

Borrowers may be required to provide funds from other sources as specified in the grant agreement and the letter of conditions issued by RUS (7 CFR sections 1780.44(d) and (f)).

L. Reporting Requirements

1. Financial Reporting

- a. SF-269 - *Financial Status Report* - Not Applicable
- b. SF-270 - *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271 - *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272 - *Federal Cash Transaction Report* - Not Applicable
- f. 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.
- g. 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.

2. Performance Reporting - Not Applicable

3. Special Tests and Provisions - Not Applicable

IV. OTHER INFORMATION

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 balances are not considered to have continuing compliance requirements under OMB Circular A-133 section ____.205(d). Prior loans which 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 OMB Circular A-133. However, this does not relieve the non-Federal entity 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 plant).

UNITED STATES DEPARTMENT OF AGRICULTURE**CFDA 10.766 COMMUNITY FACILITIES LOANS AND GRANTS****I. PROGRAM OBJECTIVES**

The objective of the Community Facilities (CF) direct loan, guaranteed loan, and grant programs is to provide direct, guaranteed loan funds or grants to rural communities to construct, enlarge, expand, or otherwise improve essential community facilities in rural communities. Funds are made available to public bodies, non-profit organizations, or Federally recognized Indian tribes that are providing essential services to rural communities when financing is not available from other sources 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 Service (RHS) and in the field by USDA Rural Development field offices. Funds are made available directly to local governments, non-profit organizations, and Indian tribal organizations 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: (a) supports a function customarily provided by a local unit of government such as a fire and rescue or a health care facility; (b) is a public improvement needed for orderly development of a rural community; (c) does not include private affairs, commercial, or business undertakings (except for limited authority for industrial parks); and (d) 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 CF guaranteed loan assistance 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 which will provide lasting community benefits. Guaranteed loans are loans made by the lender and guaranteed by the Rural Housing Service. The processing of the loan and requirements placed on the organization receiving the loan are the lender's responsibility.

CF Grants

Grant funds may be used to assist in the development of essential community facilities 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 rate or 90 percent of the State

nonmetropolitan median household income. CF grant funds may not support more than 75 percent of the facility's cost and are based on eligibility criteria and the feasibility of the project.

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 assistance is based on: (a) the type of organization applying for the loan (public body, non-profit organization, or Federally recognized Indian tribe); (b) 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; (c) whether the applicant has authority to develop, own, and operate the proposed facility; and (d) whether the applicant can legally borrow money and make payments on debts obligated.

Grant assistance may be provided to entities located in eligible rural areas with populations of up to 20,000 and where the median household income of the service area is below the higher of the poverty line or 90 percent of the State nonmetropolitan median household income. Priority is given to applicants located in communities of 5,000 or less and where the median household income of the population to be served by the proposed facility is below the higher of the poverty line or 60 percent of the State nonmetropolitan median household income.

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. Grant assistance is based on the minimum amount sufficient for feasibility of the facility.

Source of Governing Requirements

The program is authorized under the Consolidated Farm and Rural Development Act of 1972. The program laws for CF direct and guaranteed loans are 7 USC 1926(a)(1) and for CF grants 7 USC 1926(a)(19).

Implementing regulations are:

Direct Loans	7 CFR part 1942
Guaranteed Loans	7 CFR part 3575
Grants	7 CFR part 3570.

III. COMPLIANCE REQUIREMENTS AND SUGGESTED AUDIT PROCEDURES

In developing the audit procedures to test compliance with the requirements for a Federal program, the auditor should first look to Part 2, Matrix of Compliance Requirements, to identify which of the 14 types of compliance requirements described in Part 3 are applicable and then look to Parts 3 and 4 for the details of the requirements.

A. Activities Allowed or Unallowed

1. *Community Facilities Direct Loans, Guaranteed Loans, and Grants* - Funds may be used to construct, enlarge, or improve essential community facilities providing essential service primarily to rural residents and rural businesses. Examples of essential community facilities are health services; community, social and cultural services; transportation facilities such as streets, roads, and bridges; hydroelectric generating facilities; and recreation facilities (guaranteed loans only). The projects (including costs) are described in a project summary prepared by USDA Rural Development (7 CFR sections 1942.17(d), 3575.24 and 25, and 3570.61(b)).
2. *Unallowed Activities* - 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 finders fee (7 CFR sections 1942.17(d)(2)) and 3575.24).
3. *Community Facility Guaranteed Loans* - Guaranteed funds may be used to pay the expenses that are part of the loan. Funds are used to pay reasonable fees and costs associated with the loan, interest on loans until the facility is self-supporting, and the costs of acquiring interest in land and rights. 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 (7 CFR section 3575.24).

L. Reporting Requirements

1. Financial Reporting

- a. SF-269, *Financial Status Report* - Not Applicable
- b. SF-270, *Request for Advance or Reimbursement* - Not Applicable
- c. SF-271 - *Outlay Report and Request for Reimbursement for Construction Programs* - Not Applicable
- d. SF-272 - *Federal Cash Transaction Report* - Not Applicable

- f. Form 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.
- g. Form 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 Reports - Not Applicable

IV. OTHER INFORMATION

Interim Financing

After RHS 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 OMB Circular A-133 section __.205(d). Prior loans which 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 OMB Circular A-133.

However, this does not relieve the non-Federal entity 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).