

## UNITED STATES DEPARTMENT OF AGRICULTURE

### ASSISTANCE LISTING 10.181 PANDEMIC RELIEF ACTIVITIES: FARM AND FOOD WORKER RELIEF (FFWR) GRANT PROGRAM

#### I. PROGRAM OBJECTIVES

The objective of the Pandemic Relief Activities: Farm and Food Worker Relief Grant Program is to support food related entities, including producers, processors, and distributors, in responding to the coronavirus, including measures to protect workers against novel coronavirus (COVID-19).

Assistance listing 10.181 includes the Pandemic Response and Safety Grant Program (PRS), Farm and Food Workers Relief Grant Program (FFWR), Seafood Processors Pandemic Response and Safety Grant Program (SPRS) and Tribal Seafood Pandemic Response and Safety Grant Program (TSPRS). However, this compliance supplement section only focuses on the requirements of the FFWR program. This is because the PRS and TSPRS programs closed for applications in 2022 and significant funding is not expected to be expended for periods covered by the 2024 compliance supplement. The SPRS funding to state agencies is also relatively small in size and scope and did not merit the creation of additional compliance supplement guidance. Auditors may use Part 7 of the Supplement to test these subprogram amounts if deemed necessary. However, recipients should report all amounts expended under Assistance Listing 10.181 on the Schedule of Expenditures of Federal Awards.

The program is authorized by the Title Consolidated Appropriations Act of 2021 Title VII – Nutrition and Agriculture Relief Subtitle B – Agriculture Section 751 Office of the Secretary. This program is implemented by the United States Department of Agriculture (USDA) Agriculture Marketing Service (AMS) Transportation and Marketing Grants Division.

This section will focus explicitly exclusively on the requirements of the FFWR program, which provided approximately \$670 million to fourteen nonprofit organizations and one tribal entity to provide one-time \$600 payments to eligible food and farm workers. The range for funded organizations is \$4.5 million to \$141 million focused on providing \$600 relief payments to farmworkers, meatpackers, and grocery workers.

#### II. PROGRAM PROCEDURES

##### A. Overview

FFWR is administered at the federal level by AMS of the USDA through fourteen nonprofit organizations and one tribal entity with an application process that ended on March 10, 2022. Entities were selected based on aggregate ranking by their capacity to distribute \$600 payments to eligible farmworkers, meatpackers, and grocery store workers. Funding is available from October 2022 through October 2024 or until funding is exhausted.

## **B. Requirements**

Eligible applicants must have worked as a farmworker, meatpacker or grocery worker during the COVID-19 pandemic defined as January 20, 2020, to May 11, 2023.

Applicants are only eligible to receive one payment and may be used as reimbursement for costs associated to the COVID-19 pandemic.

## **Program Descriptions**

Each organization will validate an applicant's identity and employment by submission of documents. Examples of these documents are state issued identification, passport foreign or domestic, W-2, paystub, written attestations, and visas. Organizations have various methods for intake of applications such as in person, online and onsite. Applicants must attest to that they incurred at least \$600 in COVID-19 related expenses and worked during the required timeframe.

## **Source of Governing Requirements**

FFWR is authorized by The Consolidated Appropriations Act of 2021, Division N, Title VII, subtitle B, Section 751 (Pub. L. No. 116-260). This authority provided at least \$1,500,000,000 to the USDA for grants and loans to small or midsized food processors or distributors, seafood processing facilities and processing vessels, farmers markets, producers, or other organizations to respond to coronavirus, including for measures to protect workers against the COVID-19.

## **Availability of Other Program Information**

More information on the FFWR program can be found on the AMS Grant Division Programs website. The web link for FFWR information is <https://www.ams.usda.gov/services/grants/ffwr>.

For specific information for the organizations selected to implement FFWR, area of focus and amounts received a detailed list can be found at the FFWR description of funded projects [https://www.ams.usda.gov/sites/default/files/media/2023\\_FFWR\\_DescriptionOfFundedProjects.pdf](https://www.ams.usda.gov/sites/default/files/media/2023_FFWR_DescriptionOfFundedProjects.pdf).

The FFWR Request for Application (RFA) can be found at the AMS USDA site [https://www.ams.usda.gov/sites/default/files/media/2022\\_FFWR\\_RFA.pdf](https://www.ams.usda.gov/sites/default/files/media/2022_FFWR_RFA.pdf).

The General Terms and Conditions of AMS are located at the AMS USDA site [https://www.ams.usda.gov/sites/default/files/media/FY2023\\_GeneralTermsandConditions.pdf](https://www.ams.usda.gov/sites/default/files/media/FY2023_GeneralTermsandConditions.pdf).

## **III. COMPLIANCE REQUIREMENTS**

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the following summary (also included in Part 2, "Matrix of Compliance Requirements"), which of the 12 types of compliance requirements have been identified as subject to the audit (noted with a "Y" in the summary matrix below), and then determine which of the compliance requirements that are subject to the audit are likely to have a direct and material effect on the federal program at the auditee. For each such compliance requirement subject to the audit, the auditor must use Part 3 (which includes generic details about

each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit. When a compliance requirement is shown in the summary below as “N,” it has been identified as not being subject to the audit. Auditors are not expected to test requirements that have been noted with an “N.” See the Safe Harbor Status discussion in Part 1 for additional information.

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

**A. Activities Allowed or Unallowed**

As described in Section 4.0 of the [RFA](#), recipients may include in their proposals activities for outreach, education, application evaluation & processing, and system improvements to properly implement the program. Approved Applications define those allowable activities of the grant recipient.

**B. Allowable Cost/Cost Principles**

Section 4.6 of the [RFA](#) specifies the allowable and unallowable direct and indirect costs specific to this Program, in addition to the general statement of allowable costs and applicable cost principles set out in Section 8 of the [AMS General Terms and Conditions](#).

**E. Eligibility**

Eligibility requirements for the FFWR Program are detailed in the [RFA](#) listed on pages 7 through 9. Eligibility of primary grant recipients is not relevant for the purposes of the single audit. Instead, auditors are to review the grant recipient’s documentation supporting that beneficiaries are eligible, as outlined in Section 3.2.

**1. Eligibility for Individuals**

As described in Section 3.2 of the [RFA](#), all eligible workers receiving relief under the FFWR program must provide sufficient proof of identify and proof of work in an eligible field during the COVID-19 pandemic. Specifically, employment documentation must show that the individual worked as a farmworker, meatpacker or grocery worker during the COVID-19 pandemic, defined as between January 20, 2020 and May 11, 2023, the official start and end dates of

the COVID-19 public health emergency, and that the beneficiary did not receive any other payments under this FFWR program.

Eligible beneficiaries are hired workers in farming activities, meatpacking, and grocery store work.

**Farmworkers and/or Meatpacking Workers Projects:** Hired workers are defined by the National Agricultural Statistics Service (NASS) as anyone, other than an agricultural service worker, who was paid for at least one hour of agricultural work on a farm or ranch, or in a meat processing facility.

Worker type is determined by what the employee was primarily hired to do, not necessarily what work was done during the pandemic. Types of workers include:

- a. **Field Workers:** Employees engaged in planting, tending, harvesting crops, and post-harvest activities as listed below, including operation of farm machinery on crop farms.
- b. **Livestock Workers:** Employees tending livestock, milking cows, or caring for poultry, including operation of farm machinery on livestock or poultry operations.
- c. **Meatpacking Workers:** Employees engaged in animal slaughtering and meat or poultry processing, including meat or poultry packaging.

To help eligible entities understand what worker occupations qualify as eligible beneficiaries, the table below provides the Standard Occupation Classification (SOC) codes and titles associated with field, livestock, and meatpacking workers. SOC codes are used by the Federal government to classify occupations (similar to how North American Industry Classification System (NAICS) codes are used for classifying business types). AMS expects beneficiaries across these worker types to be frontline workers, and not those working in management positions.

Type of Worker SOC Associated Titles:

Field Workers 45-2041 Graders and Sorters, Agricultural Products

Field Workers 45-2091 Agricultural Equipment Operators

Field Workers 45-2092 Farmworkers and Laborers, Crop, Nursery and Greenhouse

Field Workers 45-2099 Agricultural Workers, All Other

Field Workers 53-7064 Packers and Packagers, Hand

Livestock Workers 45-2041 Graders and Sorters, Agricultural Products

Livestock Workers 45-2093 Farmworkers, Farm, Ranch, and Aquacultural Animals

Livestock Workers 45-2099 Agricultural Workers, All Other

Livestock Workers 53-7064 Packers and Packagers, Hand

Meatpacking Workers 51-3023 Slaughterers and Meat Packers

Meatpacking Workers 51-3022 Meat, Poultry, and Fish Cutters and Trimmers  
Meatpacking Workers 51-3099 Food Processing Workers, All Other

**Grocery Store Workers Projects:** Individuals employed in front line service or first line supervisory roles in retail grocery establishments as outlined in NAICS 445110 including cashiers, butchers and meat cutters, food preparation occupations, stocking grocery floors, and other food related activities. Further delineation of these occupations through SOC codes is not available, therefore eligible entities should rely on the NAICS code to make eligibility determinations.

The following information applies to both project types.

### **Beneficiary Application Process and Self-Certification**

To apply for relief, workers will sign an application form which self-certifies that the individual incurred at least \$600 worth of expenses preparing for, preventing exposure to, and/or responding to the COVID-19 pandemic. The worker's signature on an application also serves as self-certification that the individual worked in an eligible field in the U.S. during the COVID-19 public health emergency. Finally, the attestation states that the accompanying documentation must be consistent with the contents of the self-certification and that the applicant has not already applied for relief with another grant recipient. This application must be accompanied by documentation which meets the following categories.

***Employment Verification:*** Workers are to submit documentation with sufficient detail to show employment in a related job field and with enough verifiable data to demonstrate authenticity and completeness. Documentation of employment at a food processing facility, meatpacking facility, farm, or grocery store may be demonstrated through evidence such as a W-2 tax form or paycheck stubs, employment letter or contract, H2A or H2B visa, photographic evidence of work in an eligible field, or a written and signed affidavit of work from an employer or employer representative. Grant recipients should have supporting documentation that, when taken together, demonstrate verifiable proof of employment of the eligible farm and food workers during the pandemic.

***Identity Verification:*** workers must also submit sufficient proof of identity to the grant recipient when requesting funds. Examples of such proof include legible and non-expired government-issued photo identification, two or more corroborating forms of non-photo identification, and/or other verified photo identification, as specified in the organization's standard operating procedures.

## **2. Eligibility for Group of Individuals or Area of Service**

Not Applicable

### **3. Eligibility for Subrecipients**

Not Applicable.

## **H. Period of Performance**

The Period of Performance requirements for the FFWR Program are detailed in the [RFA](#) pages 6 through 7 and are as follows:

FFWR projects were awarded in October 2022 for a period of 24 months (2 years), although it is acceptable to complete a project before the scheduled performance period end date. AMS may also grant a one-time no-cost extension, at the discretion of the agency.

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-270, *Request for Advance or Reimbursement* - Applicable
- b. SF-271, *Outlay Report and Request for Reimbursement for Construction Program* – Not Applicable
- c. SF-425, *Federal Financial Report* – Applicable. Interim report must be submitted no later than 90 calendar days after each annual performance period end date (block 26 of the Notice of Award).
- d. SF-425, *Federal Financial Report* – Applicable. Final report must be submitted no later than 120 calendar days after the performance reporting period (block 26 of the Notice of Award).

### **2. Performance Reporting**

Not Applicable

### **3. Special Reporting**

Not Applicable

### **4. Special Reporting for the Federal Funding Accountability and Transparency Act**

See Part 3. L for audit guidance

## **M. Subrecipient Monitoring**

The Subrecipient Monitoring requirements for the FFWR Program are detailed in the [AMS General Terms and Conditions](#) on page 7, Section 3.0.

## UNITED STATES DEPARTMENT OF AGRICULTURE

### ASSISTANCE LISTING 10.182 PANDEMIC RELIEF ACTIVITIES: LOCAL FOOD PURCHASE AGREEMENTS WITH STATES, TRIBES, AND LOCAL GOVERNMENTS

#### I. PROGRAM OBJECTIVES

The purpose of the Local Food Purchase Agreements with States, Tribes, and Local Governments (LFPA) and LFPA Plus program is to maintain and improve food and agricultural supply chain resiliency through the procurement of agricultural commodities to meet domestic requirements. The program achieves this purpose in the overarching goals:

- Provide an opportunity for state and tribal and territorial governments to strengthen their local and regional food system.
- Help to support local and socially disadvantaged farmers/producers through building and expanding economic opportunities.
- Establish and broaden partnerships with farmers/producers and the food distribution community, and local food networks, including non-profits to ensure distribution of fresh and nutritious foods in rural, remote, or underserved communities.

#### II. PROGRAM PROCEDURES

USDA's Agricultural Marketing Service (AMS) administers LFPA and LFPA Plus using non-competitive cooperative agreements to provide funding for state and tribal and territorial governments to purchase foods produced within the state or within 400 miles of the delivery destination to help support local, regional and underserved producers. The purpose of the program is to maintain and improve food and agricultural supply chain resiliency. The cooperative agreements allow the states, tribes and territories to procure and distribute local and regional foods and beverages that are healthy, nutritious, unique to their geographic areas and that meet the needs of the population. The food serves feeding programs, including food banks, schools and organizations that reach underserved communities. In addition to increasing local food consumption, the funds will help build and expand economic opportunity for local and underserved producers.

#### Source of Governing Requirements

LFPA is authorized by Section 1001 (b)(4) of the American Rescue Plan Act (P.L. 117-2).

LFPA Plus is authorized by Section 5(c) of the Commodity Credit Corporation Charter Act, Part 15 USC 714c(c).

#### Availability of Other Program Information

Additional program information is available on the AMS website.

LFPA: <https://www.ams.usda.gov/selling-food-to-usda/lfpacap>

LFPA Plus: <https://www.ams.usda.gov/selling-food-to-usda/lfpacap/plus>

### III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the following summary (also included in Part 2, “Matrix of Compliance Requirements”), which of the 12 types of compliance requirements have been identified as subject to the audit (noted with a “Y” in the summary matrix below), and then determine which of the compliance requirements that are subject to the audit are likely to have a direct and material effect on the federal program at the auditee. For each such compliance requirement subject to the audit, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit. When a compliance requirement is shown in the summary below as “N,” it has been identified as not being subject to the audit. Auditors are not expected to test requirements that have been noted with an “N.” See the Safe Harbor Status discussion in Part 1 for additional information.

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

#### A. Activities Allowed or Unallowed

Activities allowed or unallowed for LFPA and LFPA Plus are identified in the Request for Applications (RFA) and award agreements, available on the [LFPA](#) and [LFPA Plus](#) websites. All AMS awards are subject to the terms and conditions, cost principles, and other considerations described in the [AMS General Terms and Conditions](#).

The expectation of this program is for recipients to spend the pre-dominance of awarded funds on food purchases. Food purchases can include both fresh and minimally processed foods. Examples of allowable food products include fruits and vegetables (including 100% juices); grain products such as pastas and rice; meats (whole, pieces, or food items such as ground meats); meat alternates such as beans or legumes, and fluid milk and other dairy foods such as cheese and yogurt. Foods in a wide variety of minimal processing states (e.g., whole, cut, pureed, etc.) and/or forms (e.g., fresh, frozen, canned, dried, etc.) are also allowable.



Foods that are generally understood to be significantly processed or prepared are unallowable. Examples of unallowable products would include baked goods such as breads, muffins, or crackers; prepackaged sandwiches or meals; other prepared and/or pre-cooked items that come ready-to-eat or that require no further preparation beyond heating (e.g. chicken nuggets, fish sticks, pre-made pizzas, etc.).

All food purchased must meet the definition of domestically produced as well as the definition of local as defined in the LFPA and LFPA Plus requests for applications (RFA). (Definitions listed in section 1.2.1 in the LFPA and LFPA Plus RFAs.)

1. **Local or regional producers** are farmers, ranchers, producer, processors or distributors and other businesses involved in food production or distribution that are located in the state or tribal region or within 400 miles of the delivery destination.
2. **Local or regional food.** Locally and Regionally Produced Food means food that is raised, produced, aggregated, stored, processed, and distributed in the locality or region where the final product is marketed to consumers, so that the total distance that the **product** travels between the farm or ranch where the product originates and the point of sale to the end consumer is at most 400 miles, or both the final market and the origin of the product are within the same State, territory, or tribal land.
3. **Domestic Food.** “Agricultural Commodity” means a product grown, processed, and otherwise prepared for sale or distribution exclusively in the United States or its territories, except with respect to minor ingredients. Minor ingredients from nondomestic sources will be allowed to be utilized as a United States if such ingredients are not otherwise: (1) produced in the United States; and (2) commercially available in the United States at fair and reasonable prices from domestic sources. The following **ingredients** are determined by AMS Commodity Procurement as not available at fair and reasonable prices and are waived from U.S. origin restrictions: (1) Vitamin A (Retinol Palmitate), (2) Vitamin D, (3) Carageenan (stabilizing agent), (4) Sorbic Acid (preservative), (5) Potassium Sorbate (preservative), (6) Rennet (coagulant), (7) Items excepted from the Buy American Act under [FAR 25.104 Nonavailable Articles](#).

## **B. Allowable Costs/Cost Principles**

All AMS awards are subject to the terms and conditions, cost principles, and other considerations described in the AMS General Terms and Conditions. Under the Section 4.6.1 of the LFPA RFA, applicants may also request direct and indirect costs associated with developing and administering the program in accordance with 2 CFR 200.414.

In addition to food purchases, eligible entities may propose direct costs for outreach, program development, program administration, food storage, and distribution expenses. However, none of the Commodity Credit Corporation (CCC) funds may be used for

direct or indirect costs associated with developing or administering the program, as noted in Section 4.6.1 of the [LFPA Plus RFA](#).

## UNITED STATES DEPARTMENT OF AGRICULTURE

### ASSISTANCE LISTING 10.185 LOCAL FOOD FOR SCHOOLS COOPERATIVE AGREEMENT PROGRAM

#### I. PROGRAM OBJECTIVES

The purpose of the Local Food for Schools (LFS) is to increase purchasing of local and regional foods for distribution to schools. The program achieves this purpose in the overarching goals:

- Provide an opportunity for states to strengthen their local and regional food system.
- Help to support local and socially disadvantaged farmers/producers through building and expanding economic opportunities.
- Establish and broaden partnerships with farmers/producers and schools to ensure distribution of fresh and nutritious foods.

#### II. PROGRAM PROCEDURES

USDA's Agricultural Marketing Service (AMS) administers LFS using cooperative agreements with state governments for food assistance purchases of domestic local foods for distribution to schools. This program will strengthen the food system for schools by helping to build a fair, competitive, and resilient local food chain, and expand local and regional markets with an emphasis on purchasing from historically underserved producers and processors.

#### Source of Governing Requirements

LFS is authorized by Section 5(c) of the Commodity Credit Corporation Charter Act, Part 15 USC 714c(c).

#### Availability of Other Program Information

Additional program information is available on the AMS website at <https://www.ams.usda.gov/selling-food-to-usda/lfs>.

#### III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the following summary (also included in Part 2, "Matrix of Compliance Requirements"), which of the 12 types of compliance requirements have been identified as subject to the audit (noted with a "Y" in the summary matrix below), and then determine which of the compliance requirements that are subject to the audit are likely to have a direct and material effect on the federal program at the auditee. For each such compliance requirement subject to the audit, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit. When a compliance requirement is shown in the summary below as "N," it has been identified as not being subject to the audit. Auditors are not expected to test requirements that have been noted with an "N." See the Safe Harbor Status discussion in Part 1 for additional information.

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

**A. Activities Allowed or Unallowed**

Activities allowed or unallowed for LFS are identified in Section 4.6.1 of the [LFS request for applications](#) (RFA) the award agreements. Summaries of the awards agreements are available on the [LFS website](#). All AMS awards are subject to the terms and conditions, cost principles, and other considerations described in the [AMS General Terms and Conditions](#).

The expectation of this program is for recipients to spend awarded funds on food purchases. All food purchased must be unprocessed or minimally processed and must meet the definitions of domestic and local, as defined in section 1.1.1 of the [LFS RFA](#).

- Local or regional food.** Locally and Regionally Produced Food means food that is raised, produced, aggregated, stored, processed, and distributed in the locality or region where the final product is marketed to consumers, so that the total distance that the product travels between the farm or ranch where the product originates and the point of sale to the end consumer is at most 400 miles, or both the final market and the origin of the product are within the same state or territory.
- Domestic Food.** “Agricultural Commodity” means a product grown, processed, and otherwise prepared for sale or distribution exclusively in the United States or its territories, except with respect to minor ingredients. Minor ingredients from nondomestic sources will be allowed to be utilized as a United States product if such ingredients are not otherwise: (1) produced in the United States; and (2) commercially available in the United States at fair and reasonable prices from domestic sources. The following ingredients are determined by AMS Commodity Procurement as not available at fair and reasonable prices and are waived from U.S. origin restrictions: (1) Vitamin A (Retinol Palmitate), (2) Vitamin D, (3) Carageenan (stabilizing agent), (4) Sorbic Acid (preservative), (5) Potassium Sorbate (preservative), (6) Rennet (coagulant), (7) Items excepted from the Buy American Act under [FAR 25.104 Nonavailable Articles](#).

**B. Allowable Costs/Cost Principles**

As stated in Section 4.6.1 of the [LFS RFA](#), all costs specific to this cooperative agreement must be direct costs for food, food storage, and food distribution specific to this cooperative agreement. Indirect costs are not allowable. Funds used for food purchases must be used exclusively for domestic food products (also known as commodities) that are unprocessed or minimally processed. Examples of allowable food products include fruits and vegetables (including 100% juices); grain products such as pastas and rice; meats (whole, pieces, or food items such as ground meats); meat alternates such as beans or legumes, and fluid milk and other dairy foods such as cheese and yogurt. Foods in a wide variety of minimal processing states (e.g., whole, cut, pureed, etc.) and/or forms (e.g., fresh, frozen, canned, dried, etc.) are also allowable.

Foods that are generally understood to be significantly processed or prepared are unallowable. Examples of unallowable products would include baked goods such as breads, muffins, or crackers; prepackaged sandwiches or meals; other prepared and/or pre-cooked items that come ready-to-eat or that require no further preparation beyond heating (e.g. chicken nuggets, fish sticks, pre-made pizzas, etc.).

Applicants may not request direct or indirect costs associated with developing or administering the program.

## UNITED STATES DEPARTMENT OF AGRICULTURE

### ASSISTANCE LISTING 10.186 REGIONAL FOOD BUSINESS CENTERS PROGRAM

#### I. PROGRAM OBJECTIVES

The objective of the Regional Food Business Centers (RFBC) Program is to support a more resilient, diverse, and competitive food system. The [RFBCs are led by twelve cooperative agreement partners](#) (universities, non-profits, and community development financial institutions) and will offer coordination, technical assistance, and capacity building to small and mid-sized food and farm businesses (producers, processors, aggregators, and distributors) to create new markets and expand current linkages throughout the food supply chain. By strengthening connections between rural and urban areas, the RFBCs will drive economic opportunities across the regions, prioritizing service to underserved communities and businesses. Below is a list of the 12 Centers:

- Appalachia USDA Regional Food Business Center
- Delta USDA Regional Food Business Center
- Great Lakes Midwest USDA Regional Food Business Center
- Heartland USDA Regional Food Business Center
- National Intertribal Food Business Center
- Island and Remote Areas USDA Regional Food Business Center
- North Central USDA Regional Food Business Center
- Northeast USDA Regional Food Business Center
- Northwest and Rocky Mountain USDA Regional Food Business Center
- Rio Grande Colonias USDA Regional Food Business Center
- Southeast USDA Regional Food Business Center
- Southwest USDA Regional Food Business Center

The program is authorized and funded by the Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, Division N, Title VII, Subtitle B, Section 751. The program is implemented by the United States Department of Agriculture (USDA) Agricultural Marketing Service (AMS).

#### II. PROGRAM PROCEDURES

##### A. Overview

Twelve RFBCs, composed of lead applicants and key partners, will provide nationwide service to small and mid-sized food and farm businesses. Six of the RFBCs will focus service on the high priority areas of the Colonias, the Delta and Southeast, Appalachia, and Indian Country. Finalists for the RFBC program were groups of partners, including a Lead Applicant and at least two Key Partners, all of whom must represent eligible entities: state, local governments, Indian tribes, institutions of higher education, and nonprofit corporations. The RFBCs were selected through a competitive award process. Cooperative agreements were signed by AMS and lead applicants in fiscal year 2023, and periods of performance commenced July 1, 2023.

Those lead applicants are to oversee key partners, which encompass larger subawards approved as part of the initial cooperative agreement, as well as smaller Business Builder subawards, which will be awarded in 2024 and onward. Lead applicants and key partners may both be subject to single audit requirements, depending on the size of their awards.

The Business Builder subawards will be issued on a rolling basis with each subaward lasting for no more than two years. Business Builder subrecipients may receive funds from more than one RFBC but may not receive more than \$100,000 in total during the five-year performance period. These subawards may support staff time, business planning activities, software implementation, the purchase of equipment (such as food safety, processing and/or packaging equipment), value chain and supply chain coordination and innovation, product development, marketing and other associated expenses as outlined in the [RFA](#) in (page 9, Section 1.3.4)

## **B. Program Description**

The RFBCs will serve as a network of Centers and provide coordination, technical assistance, and capacity building to their respective regions and priority populations. The qualitative functions are to 1) act as coordinating entities across their regions with USDA, other federal, state and tribal agencies, and other RFBCs; 2) providing technical assistance to businesses impacted by the pandemic, supporting wide ranging regional needs including value chain/supply chain coordination, market development, and navigating and managing financial resources; and 3) financial assistance of up to \$100,000 to individual food businesses, projects focused on regional needs, and businesses that are working toward expansion and other investment.

## **Source of Governing Requirements**

The RFBC program is authorized and funded by the Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, Division N, Title VII, Subtitle B, Section 751. This authority provided at least \$360,000,000 to fund Centers.

## **Availability of Other Program Information**

More information on the RFBC program can be found on the AMS Local and Regional Foods Division website. The link for the RFBC information is <https://www.ams.usda.gov/services/local-regional/rfbc>. RFBCs are launching websites for each of the 12 agreements, which are linked to from the AMS website listed above. Some RFBCs launched those websites in 2023, and others will launch in 2024.

The RFBC Request for Application (RFA) can be found at the AMS USDA site <https://www.ams.usda.gov/sites/default/files/media/RegionalFoodBusinessCentersRFA.pdf>

## **III. COMPLIANCE REQUIREMENTS**

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Y	Y	N	Y	N	N	Y	N	N	Y	Y	N

**A. Activities Allowed or Unallowed**

The [general terms and conditions](#) for this program outline the overall allowable and unallowable costs and activities (Section 8.0, pages 8-15. The [program-specific terms and conditions](#) (Section 2.1, page 2) outline allowable special purpose equipment purchases for these subawards, which expands the definition of allowable equipment beyond the AMS general terms and conditions.. Pre-award costs were approved for some agreements.

Funding restrictions for the program, including the Business Builder subawards are outlined in the [RFA](#) (Section 4.6, page 19). Allowable costs associated with the program activities are outlined in the RFA (Section 1.3, pages 6-9) and are centered around coordination, technical assistance, and capacity building support for small- and mid-sized food and farm businesses.

**B. Allowable Costs/Cost Principles**

Costs charged to the RFBC Program must comply with the cost principles at 2 CFR Part 200, Subpart E. Approved indirect cost rates for lead applicants and key partners specified their plan to use either their Negotiated Indirect Cost Rate Agreements (NICRA) or the de minimis costs are outlined in the cooperative agreements, which were signed by the lead applicants. Subawards from the lead applicants to the key partners will outline those entities’ indirect cost rates. Indirect cost policies are outlined in the [RFA](#) (Section 4.6.2, page 20) and the [program-specific terms and conditions](#) (Section 2.2, page 2).



## **E. Eligibility**

As defined in the [Request for Applications](#) (pages 13-15), Eligible entities for lead applicants and key partners are Non-Federal Entities, which are defined in 2 CFR 200.1 as State, local governments, Indian tribes, Institutions of Higher Education (IHE), and nonprofit organizations. AMS reviewed and confirmed eligibility of lead applicants and key partners at the time of award.

### **1. Eligibility for Individuals**

Not Applicable

### **2. Eligibility for Group of Individuals or Area of Service**

Not Applicable

### **3. Eligibility for Subrecipients**

The [RFA](#) (Section 3.1, pages 13-15) outlined that project teams must be composed of at least one lead applicant and two key partners, all of whom must be eligible entities. Beyond this requirement, the lead applicant can determine eligibility for subrecipients to provide coordination and technical assistance, and what requirements must be met to apply for capacity building subawards. For-profit entities were not eligible to be either lead applicants or key partners of cooperative agreements. However, for-profit entities are eligible to be collaborators and to apply for the smaller Business Builder subawards. All applicant businesses and organizations must be domestically owned, and applicants' facilities must be physically located within the 50 States of the United States, the Commonwealth of Puerto Rico, the District of Columbia, the U.S. Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands.

AMS reviewed lead applicant and key partner eligibility prior to issuing cooperative agreements. RFBCs are to review Business Builder subaward eligibility on an ongoing basis. Business Builder subrecipients are eligible to the extent described in each lead applicant proposal and in amounts awarded that are within funding limits.

## **H. Period Of Performance**

The Period of Performance is 60 months (5 years), initiating with the effective date July 1, 2023. If activities cannot be completed within the performance period, extensions of up to 12 months may be granted at the agency's discretion.

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-270, Request for Advance or Reimbursement - Not Applicable.
- b. SF-271, Outlay Report and Request for Reimbursement for Construction Program – Not Applicable.
- c. SF-425, Federal Financial Report - RFBCs are required to submit Form SF-425 no later than 90 days after end of the agreement. Each cooperative agreement outlines each RFBC lead partner's reporting requirements, which determines the reporting frequency for each entity.

## 2. Performance Reporting

RFBCs will submit performance reports throughout the performance period. For the purposes of the single audit, only information on the number and dollar value of Business Builder subawards is to be reviewed. These awards are described on page 9 of the [RFA](#) in Section 1.3.4.

a. **Report Title:** *Regional Food Business Center Semiannual Performance Progress Report*

**OMB PRA Number:** *OMB No. 0581.0335*

**Reporting period/submission date/s:** *A Semi-Annual Progress Performance Report must be submitted to AMS within 30 days after the end of the first six months of the date of the signed agreement and 30 days after the end of each six-month period until the expiration date of the cooperative agreement, using the template provided to cooperators.*

**Link to the report:**

[https://www.ams.usda.gov/sites/default/files/media/RFBC\\_Semiannual\\_Report.pdf](https://www.ams.usda.gov/sites/default/files/media/RFBC_Semiannual_Report.pdf)

**The key line items below** from performance reports include quantifiable data subject to audit reviews. Other performance report information is qualitative and will be reviewed by AMS.

1. Line Item 13. How many Business Builder subawards have been distributed?
2. Line Item 14. Total funding awarded for Business Builder subawards in the past six months.
3. Line Item 25. Number of Business Builder Subawardees that were able to access new market channels.

## 3. Special Reporting

Not applicable

## 4. Special Reporting for the Federal Funding Accountability and Transparency Act

See Part 3.L for audit guidance.

## UNITED STATES DEPARTMENT OF AGRICULTURE

### ASSISTANCE LISTING 10.190 RESILIENT FOOD SYSTEMS INFRASTRUCTURE PROGRAM

#### I. PROGRAM OBJECTIVES

The objective of the Resilient Food Systems Infrastructure Program (RFSI) is to build resilience in the middle-of-the-food-supply-chain, to provide more and better markets to small farms and food businesses, to support the development of value-added products for consumers, fair prices, fair wages, and new and safe job opportunities.

The program is authorized by section 1001(b)(4) of the American Rescue Plan (ARP) Act of 2021 (Pub. L. 117—2).

RFSI used non-competitive cooperative agreements to obligate \$420 million of ARP funding, minus U.S. Department of Agriculture (USDA) administrative expenses, to states and territories via formula funding. The goal of the program is to keep profits circulating in rural communities and increase diversity in processing options in terms of business model approaches, geography, and availability to underserved communities.

#### II. PROGRAM PROCEDURES

##### A. Overview

Primary recipients of the U.S. Department of Agriculture's (USDA) RFSI funding are the agency, commission, or department responsible for agriculture within any of the 50 States, the District of Columbia, the Commonwealth of Puerto Rico, Guam, American Samoa, the U.S. Virgin Islands, and the Commonwealth of the Northern Mariana Islands.

States and territories will work in partnership with the USDA to make competitive subawards to support infrastructure in the middle of the supply chain for domestic food and farm businesses and other eligible entities. States and territories may use a limited portion of funds for state-led technical assistance to develop and/or strengthen supply chain coordination and targeted market development services for local and regional products.

##### B. Requirements

All states were awarded based on formula funding. A minimum of \$2 million was provided to all states regardless of their size or production. Infrastructure grants applicants may apply for a minimum of \$100,000 and a maximum of \$3 million. State Departments of Agriculture do not have a cost share or match requirement for the administration of the award. Infrastructure grants recipients are required to contribute 50 percent of the total proposed project to match federal funding. For historically underserved farmers, ranchers, or for other businesses that qualify under Small Business Administration categories of small disadvantaged businesses, women-owned small

business, or veteran-owned small businesses, the cost share is reduced to 25 percent of the project cost.

### **Program Descriptions**

States will authorize Infrastructure Grants for the purpose of expanding middle-of-the-food-supply-chain capacity for locally and regionally produced foods and offer more and better market opportunities and new streams of revenue to small and mid-sized agricultural producers, including those who may not have access to value-added opportunities or processing to meet market demand for premium or value-added products, such as underserved producers. The RFSI program will focus on funding Infrastructure Grant activities in each state that:

- a. Expand capacity for processing, aggregation and distribution of agricultural products to create more and better markets for producers;
- b. Modernize manufacturing, tracking, storage, and information technology systems;
- c. Enhance worker safety through adoption of new technologies or investment in equipment or facility improvements;
- d. Improve the capacity of entities to comply with federal, state, and local food safety requirements;
- e. Improve operations through training opportunities;
- f. Support construction of a new facility;
- g. Modernize or expand an existing facility (including expansion and modifications to existing buildings and/or construction of new buildings at existing facilities);
- h. Construction of wastewater management structures;
- i. Modernize processing and manufacturing equipment;
- j. Develop, customize, or install equipment that reduces greenhouse gas emissions, increases efficiency in water use, improves air and/or water quality, and/or meets one or more of USDA's climate action goals.

### **Source of Governing Requirements**

RFSI is authorized by Section 1001(b)(4) of the American Rescue Plan (ARP) Act of 2021 (Pub. L. 117—2), as amended, authorizes the United States Department of Agriculture (USDA), to make grants and agreements to maintain to improve food and agricultural supply chain resiliency.

### Availability of Other Program Information

More information on the RFSI program can be found on the AMS Grant Division Programs website. The web link for RFSI information is <https://www.ams.usda.gov/services/grants/rfsi>.

For specific requirements and the Program Scope that outlines amounts allotted to states the document may be found here [https://www.ams.usda.gov/sites/default/files/media/RFSI\\_ProgramScopeandRequirements.pdf](https://www.ams.usda.gov/sites/default/files/media/RFSI_ProgramScopeandRequirements.pdf).

General Terms and Conditions for USDA AMS grant programs can be found at [https://www.ams.usda.gov/sites/default/files/media/FY2023\\_GeneralTermsandConditions.pdf](https://www.ams.usda.gov/sites/default/files/media/FY2023_GeneralTermsandConditions.pdf).

### III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the following summary (also included in Part 2, “Matrix of Compliance Requirements”), which of the 12 types of compliance requirements have been identified as subject to the audit (noted with a “Y” in the summary matrix below), and then determine which of the compliance requirements that are subject to the audit are likely to have a direct and material effect on the federal program at the auditee. For each such compliance requirement subject to the audit, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit. When a compliance requirement is shown in the summary below as “N,” it has been identified as not being subject to the audit. Auditors are not expected to test requirements that have been noted with an “N.” See the Safe Harbor Status discussion in Part 1 for additional information.

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

#### A. Activities Allowed or Unallowed

1. Per the RFSI Program Scope and Requirements and individual state overviews of RFSI funds may be used to implement a project that is differentiated from an ongoing operation due to its limited duration. Examples of RFSI projects include:
  - a. Expanding processing capacities, including adding product types, increasing production volumes, and supporting new wholesale/retail

- product lines;
- b. Modernizing equipment or facilities through upgrades, repairs, or retooling; (e.g., adapting product lines for institutional procurement or adding parallel processing capacity);
  - c. Purchase and installation of specialized equipment, such as processing components, sorting equipment, packing and labeling equipment, or delivery vehicles;
  - d. Modernizing manufacturing, tracking, storage, and information technology systems;
  - e. Enhancing worker safety through adoption of new technologies or investment in equipment or facility improvements;
  - f. Construction of a new facility;
  - g. Increasing packaging and labeling capacities that meet compliance requirements under applicable laws (e.g. sealing, bagging, boxing, labeling, conveying, and product moving equipment);
  - h. Increasing storage space, including cold storage.
2. Per the [RFSI Program Scope and Requirements](#) and individual state overviews of RFSI, subrecipient funds may not be used to:
- a. Acquiring real property (including land purchases), or any interest therein;
  - b. Projects focused on meat and poultry processing or other ineligible agricultural products;
  - c. Activities that have received a Federal award from another Federal award program;
  - d. Claim expenses that have been or will be reimbursed under any Federal, State, or local government funding; and
  - e. Projects which have already received funding from another federal grant or subaward programs may not receive funding for the same activities through an Infrastructure Grant. However, Infrastructure Grants may build on the successes of prior funding, such as the USDA Regional Food Business Centers Business Builder subawards, to fund subsequent activities.

**B. Allowable Costs/Cost Principles****1. Special Equipment Purchases**

The RFSI Infrastructure Grant program allows specialized equipment purchases, including special purpose vehicles. Purchases of special purpose equipment (such as, canners, hulling processors, reverse osmosis systems, egg packing machines, flotation tanks, roasters, or other processing equipment, packing and labeling equipment, or delivery vehicles) are allowable when approved in the agreement budget or with prior written approval. Per the RFSI Program-Specific Terms and Conditions at

[https://www.ams.usda.gov/sites/default/files/media/RFSI\\_Specific\\_TermsandConditions\\_FY23.pdf](https://www.ams.usda.gov/sites/default/files/media/RFSI_Specific_TermsandConditions_FY23.pdf), all equipment purchases must meet the following criteria:

- a. Equipment is necessary for the technical activities of the agreement and is not otherwise reasonably available and accessible.
- b. Equipment is normally charged as a direct cost by the organization .
- c. Equipment must be used solely to meet the purpose of the program and objectives of the agreement.

States are to follow their applicable laws and procedures for the monitoring, titling, and disposal of equipment purchased with subaward funds, as outlined in 2 CFR 200.313(b). Closeout procedures should demonstrate with 2 CFR 200.344.

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

Not applicable.

**2. Eligibility for Group of Individuals or Area of Service Delivery**

Recipient entities are state agencies of agriculture receiving non-competitive agreements based on formula funding. According to the [RFSI Program Scope and Requirements](#) entities eligible for Infrastructure Grants made by states will be:

- a. Agricultural producers or processors, or groups of agricultural producers and processors
- b. Nonprofit organizations operating middle-of-the-supply-chain activities such as processing, aggregation, distribution of targeted agricultural products
- c. Local government entities operating middle-of-the-supply-chain activities such as processing, aggregation, distribution of targeted agricultural products

- d. Tribal governments operating middle-of-the-supply-chain activities such as processing, aggregation, distribution of targeted agricultural products.
- e. Institutions such as schools, universities, or hospitals bringing producers together to establish cooperative or shared infrastructure or invest in equipment that will benefit multiple producers middle-of-the-supply-chain activities such as processing, aggregation, distribution of targeted agricultural product.

All applicant businesses and organizations must be domestically owned, and applicants' facilities must be physically located within the 50 States of the United States, the Commonwealth of Puerto Rico, the District of Columbia, the U.S. Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands.

### **3. Eligibility for Subrecipients**

A Lead State Agency may establish subcontracts or subaward with partners and collaborators for activities under this program. This may include, but is not limited to, coordination and technical assistance activities, or to conduct outreach or other key activities for the Infrastructure Grant competition. The project abstract required by the states will detail subrecipient activities and if the award will result in subawards. If the state proposes to subaward funds to partners for the purpose of its coordination and technical assistance activities, then the contracts and/or proposals for those subaward partners must include information identifying the recipient organizations and how the activities proposed in that subaward align with the State's activities. For example, statements of work should describe eligible coordination, technical assistance, outreach, or training activities which align with the Program Scope and Requirements.

According to the [RFSI Program Scope and Requirements](#) entities eligible for Infrastructure Grants made by states will be:

- a. Agricultural producers or processors, or groups of agricultural producers and processors
- b. Nonprofit organizations operating middle-of-the-supply-chain activities such as processing, aggregation, distribution of targeted agricultural products
- c. Local government entities operating middle-of-the-supply-chain activities such as processing, aggregation, distribution of targeted agricultural products
- d. Tribal governments operating middle-of-the-supply-chain activities such as processing, aggregation, distribution of targeted agricultural products.
- e. Institutions such as schools, universities, or hospitals bringing producers together to establish cooperative or shared infrastructure or invest in equipment that will benefit multiple producers middle-of-the-supply-chain activities such as processing, aggregation, distribution of targeted agricultural product.



All applicant businesses and organizations must be domestically owned, and applicants' facilities must be physically located within the 50 States of the United States, the Commonwealth of Puerto Rico, the District of Columbia, the U.S. Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands.

## **G. Matching, Level of Effort, Earmarking**

### **1. Matching**

Infrastructure Grant sub-award recipients will be required to provide matching funds on a graduated scale.

Infrastructure grant recipients are required to contribute 50 percent of the total proposed project cost as a match to federal funding. Exceptions to this 50 percent contributions are:

- a. Historically underserved farmers and ranchers, or for other businesses that qualify under SBA categories of small disadvantaged business, women-owned small business, or veteran-owned small business, the required match funding contribution or cost share is reduced to 25 percent of the project cost. States must require that applicants self-certify in their Infrastructure Grant applications to being eligible for this reduced match.

All matching contributions must be committed or secured at the time an applicant is recommended for an award. Indirect costs may count toward the Infrastructure Grant applicant's match. Program income (as defined in 2 CFR 200.1) or any other Federal funds is an ineligible source of match or cost share.

According to the RFSI Program Scope and Requirements, State agencies are not required to provide matching funds for their State-led Supply Chain Coordination activities or other state costs to manage the program. Infrastructure Grant sub-award recipients will be required to provide matching funds on a graduated scale. This scale is outlined on page 10 of the [Program Scope and Requirements](#) in Section 1.5.3.

### **2. Level of Effort**

Not Applicable

### **3. Earmarking**

Not Applicable

## **L. Reporting**

### **1. Financial Reporting**

- a. SF-270, *Request for Advance or Reimbursement* - Applicable
- b. SF-271, *Outlay Report and Request for Reimbursement for Construction Program* – Not Applicable
- c. SF-425, *Federal Financial Report* – Applicable

**2. Performance Reporting**

Not Applicable.

**3. Special Reporting**

Not Applicable

**4. Special Reporting for Federal Funding Accountability and Transparency Act**

See Part 3. L for audit guidance.

**M. Subrecipient Monitoring**

Subaward monitoring must comply with the requirements of [Section 1.5 of the RFA, Infrastructure Grant Subaward Process](#), as well as the information outlined in state agency plans as approved by USDA AMS. Each state's subaward Request for Applications and state-specific Terms and Conditions are linked from the USDA AMS website at <https://www.ams.usda.gov/rfsi-rfa-status>.

## UNITED STATES DEPARTMENT OF AGRICULTURE

### ASSISTANCE LISTING 10.331 GUS SCHUMACHER NUTRITION INCENTIVE PROGRAM

#### I. PROGRAM OBJECTIVES

The objective of the Gus Schumacher Nutrition Incentive Program (GusNIP) is to fund, conduct, and evaluate projects that are designed to improve health and nutrition status by providing incentives to income-eligible consumers to increase the purchase of fruits and vegetables and prescriptions for fresh fruits and vegetables.

#### II. PROGRAM PROCEDURES

USDA's National Institute of Food and Agriculture (NIFA) administers GusNIP through three financial assistance programs:

1. The GusNIP Nutrition Incentive Program is a competitive grants program that funds projects designed to increase the purchase of fruits and vegetables by income-eligible consumers participating in the USDA Supplemental Nutrition Assistance Program (SNAP) and the USDA Nutrition Assistance Program (NAP) by providing financial incentives at the point of sale. Fruit and vegetable incentives are earned when making a purchase with SNAP/NAP benefits and can be redeemed by SNAP/NAP participants when making a future purchase. Eligibility to apply for GusNIP Nutrition Incentive Program grants is limited to governmental agencies and non-profit organizations.
2. The GusNIP Produce Prescription Program is a competitive grants program that funds projects that demonstrate and evaluate the impact of fresh fruit and vegetable prescriptions on the improvement of dietary health through increased consumption of fruits and vegetables, the reduction of individual and household food insecurity, and the reduction in healthcare use and associated costs. Eligibility to apply for GusNIP Produce Prescription Program grants is limited to governmental agencies and non-profit organizations. Grantees must partner with one or more healthcare providers to carry out a produce prescription project. The grantee may serve as both the prime awardee and the required healthcare partner.
3. NIFA funds the GusNIP Nutrition Incentive Program Training, Technical Assistance, Evaluation, and Information Centers (NTAE Centers) through cooperative agreements that are awarded on a competitive basis. The NTAE Centers provide training, technical assistance, evaluation, and informational support services to potential applicants and GusNIP grantees.

Specific requirements for each type of GusNIP project are identified in the requests for applications posted on NIFA's website.

#### Source of Governing Requirements

GusNIP is authorized by Section 4205 of the Agriculture Improvement Act of 2018 (Public Law No. 115-334). The laws governing the program are codified at 7 USC 7517.

**Availability of Other Program Information**

Additional program information is available on the NIFA website at <https://www.nifa.usda.gov/grants/programs/hunger-food-security-programs/gus-schumacher-nutrition-incentive-program>.

**III. COMPLIANCE REQUIREMENTS**

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the following summary (also included in Part 2, “Matrix of Compliance Requirements”), which of the 12 types of compliance requirements have been identified as subject to the audit (noted with a “Y” in the summary matrix below), and then determine which of the compliance requirements that are subject to the audit are likely to have a direct and material effect on the federal program at the auditee. For each such compliance requirement subject to the audit, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit. When a compliance requirement is shown in the summary below as “N,” it has been identified as not being subject to the audit. Auditors are not expected to test requirements that have been noted with an “N.” See the Safe Harbor Status discussion in Part 1 for additional information.

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

**A. Activities Allowed or Unallowed**

Activities allowed or unallowed for a GusNIP award will be identified in the award agreement. In general, GusNIP funds may be used to carry out nutrition incentive projects and/or produce prescription projects and related activities in accordance with the project designs outlined in the project proposals and award budgets that were approved by NIFA and incorporated into the award agreements.

NIFA allows three types of incentive models for the GusNIP Nutrition Incentive Program:

- 1) Fruits and vegetables for fruits and vegetables: SNAP/NAP participants purchase fruits or vegetables using their SNAP/NAP benefits and then receive incentives that are redeemable only for the purchase of fruits or vegetables.
- 2) SNAP/NAP eligible foods for fruits and vegetables: SNAP/NAP participants purchase any SNAP/NAP eligible food using their SNAP/NAP benefits and then receive incentives that are redeemable only for the purchase of fruits or vegetables.
- 3) Fruits and vegetables for any SNAP/NAP eligible food: SNAP/NAP participants purchase fruits or vegetables using their SNAP/NAP benefits and then receive incentives that are redeemable for the purchase of any SNAP/NAP eligible food.

The specific nutrition incentive models allowed for each individual GusNIP award is based on the project proposal that was approved by NIFA and incorporated into the award agreement.

GusNIP awards with an approved project design that includes spending SNAP/NAP benefits to earn/redeem incentives must operate through authorized SNAP/NAP firms and comply with all relevant SNAP/NAP regulations and operating requirements. GusNIP grantees and their SNAP/NAP partner firms must execute a signed Memorandum of Understanding to ensure that partner firms understand their roles and responsibilities and are held accountable for following GusNIP policy and SNAP/NAP rules and regulations.

## **G. Matching, Level of Effort, Earmarking**

### **1. Matching**

The amount of non-federal matching contributions required for a GusNIP award will be identified in the award agreement.

#### GusNIP Nutrition Incentive Program:

In general, recipients of GusNIP Nutrition Incentive Program grants must provide matching contributions on a dollar-for-dollar basis for all federal funds awarded. However, matching contributions may not be required for the supplemental funding awarded for COVID-19 relief under Section 755 of the Consolidated Appropriations Act of 2021 (Public Law No. 116-260). The amount of non-federal matching contributions required for a GusNIP award will be identified on the award face sheet.

The non-federal share of the cost of the project may be provided by a state, local government, or a private source. The matching requirement may be met through cash or in-kind contributions, including third-party in-kind contributions fairly evaluated, including facilities, equipment, or services. However, in the case of a for-profit entity, the non-federal share cannot include services of an employee of a

for-profit entity, including salaries paid or expenses covered by the employer (7 USC 7517 (b)(1)(D)(ii)).

Tribal agencies may be permitted to use funds provided to the Indian Tribe of the Tribal agency through a federal agency or other federal benefit to satisfy all or part of the non-federal cost share if such use is otherwise consistent with the purpose of such funds.

GusNIP Produce Prescription Program:

There is no matching requirement for GusNIP Produce Prescription Program grants.

GusNIP NTAE Centers:

There is no matching requirement for GusNIP NTAE Centers cooperative agreements.

**2. Level of Effort**

Not Applicable

**3. Earmarking**

Not Applicable

**L. Reporting**

**1. Financial Reporting**

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

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

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

**2. Performance Reporting**

Not Applicable

**3. Special Reporting**

Not Applicable

**4. Special Reporting for Federal Funding Accountability and Transparency Act**

See Part 3.L for audit guidance.

## UNITED STATES DEPARTMENT OF AGRICULTURE

### ASSISTANCE LISTING 10.542 PANDEMIC EBT FOOD BENEFITS (P-EBT)

#### I. PROGRAM OBJECTIVES

The objective of the of the Pandemic Electronic Benefit Transfer (P-EBT) program is to provide nutrition assistance on EBT cards for: (1) school age children who would have received free or reduced price school meals under the National School Lunch Program (NSLP) and School Breakfast Program (SBP) had their schools not been closed or operating with reduced hours for at least five (5) consecutive days due to the COVID-19 public health emergency; and (2) children in child care whose child care facility is closed or has reduced attendance or who live in the area of a school that is closed or has reduced attendance due to the COVID-19 public health emergency.

#### II. PROGRAM PROCEDURES

##### A. Overview

P-EBT was authorized and funded in section 1101 of the Families First Coronavirus Response Act (FFCRA, Pub. L. No. 116-127), and has been amended twice, most recently through the Consolidated Appropriations Act, 2021 (Pub. L. No. 116-260). The program is administered at the federal level by the Food and Nutrition Service (FNS) of the US Department of Agriculture (USDA) through grants to state agencies. Each state agency submits an application to operate the program for a given period. If approved, USDA enters into an agreement with the state agency to operate in accordance with their plan.

P-EBT was first authorized in March 2020 and was initially only available to school children. USDA provided guidance on program implementation and state agencies submitted plans detailing how their programs would operate within the guidance. USDA approved all fifty states, the District of Columbia, the US Virgin Islands, and Guam to implement P-EBT in school year (SY) 2019–2020 from the time that schools closed until the end of the school year. Congress amended the statute for SY 2020–2021 to: (1) revise programmatic requirements; (2) add an option for states to serve children in child care; and (3) allow Puerto Rico, the Commonwealth of the Northern Mariana Islands, and American Samoa to operate P-EBT programs. USDA issued updated guidance in January 2021 to reflect statutory changes and worked with state agencies to develop and approve plans to serve school children and children in child care through the end of federal fiscal year 2021.

##### B. Benefits

Through P-EBT, eligible children received benefits on EBT cards that could have been used to purchase food at stores that accepted Supplemental Nutrition Assistance Program (SNAP) benefits. They must have used these program benefits to purchase foods for preparation and consumption at home. The amount of a child's benefit payment depended on the daily rate established by USDA, and the number of days that the child did not

receive school meals due to COVID, or the status of child care or schools in the area. The daily rate for SY 2019–2020 was \$5.70, which is equal to the value of the USDA free reimbursement for one breakfast and one lunch in SY 2019–2020. For SY 2020–2021, the daily rate was \$6.82, which included the value of free reimbursement for one breakfast, one lunch, and one afterschool snack in that school year.

**C. Program Funding**

Since the program’s inception, the federal government has paid 100 percent of the value of P-EBT benefits. Beginning October 1, 2020, 100 percent of administrative costs have also been paid by the federal government. Food benefit funding was provided through an account with the Federal Reserve Bank of Richmond, in the same manner as SNAP food benefits. Administrative funds were provided through a grant to the state agency that administers SNAP. It was the responsibility of the recipient agency to request sufficient funds to cover all program costs, and to distribute funds among program partners (e.g., the agency that administered the school meals programs), as necessary.

**III. COMPLIANCE REQUIREMENTS**

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the following summary (also included in Part 2, “Matrix of Compliance Requirements”), which of the 12 types of compliance requirements have been identified as subject to the audit (noted with a “Y” in the summary matrix below), and then determine which of the compliance requirements that are subject to the audit are likely to have a direct and material effect on the federal program at the auditee. For each such compliance requirement subject to the audit, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit. When a compliance requirement is shown in the summary below as “N,” it has been identified as not being subject to the audit. Auditors are not expected to test requirements that have been noted with an “N.” See the Safe Harbor Status discussion in Part 1 for additional information.

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



## A. Activities Allowed or Unallowed

The authorizing statute, Section 1101 of the Families First Coronavirus Response Act (Pub. L. No. 116-127, as amended) is the authority for the administration of P-EBT. In addition, approved **state** agencies must implement the program in accordance with their approved plans. Use of funds made available for P-EBT must also comply with government accounting and record keeping requirements in 2 CFR 200.

### 1. Issuing benefit levels at the appropriate amount

**Compliance Requirements** State agencies determined benefit levels for individual students in a number of ways. Some state agencies counted the number of days that free or reduced price eligible students did not attend school in-person and therefore did not have access to meals at school. Other state agencies set common benefits for all children based on the predominant learning model (in-person, virtual, or mixed) at the school level or school district level. The FFCRA, as amended, provided for state agency use of simplifying assumptions and the use of “best feasibly available data” to identify eligible students and set benefit levels. State agencies used of these flexibilities as outlined in their USDA-approved state plans. Compliance with those plans is the objective of the audit.

**Audit Objectives** Confirm that state agencies set benefit levels consistent with the process outlined in their USDA-approved P-EBT plans.

### Suggested Audit Procedures

- a. Confirm that the state agency instructed schools and school districts appropriately in order to collect the data necessary to set benefit levels consistent with the terms of the state plan.
- b. Confirm that the state agency properly set benefit levels using the data collected from schools and school districts.
- c. Confirm that the state agency collected updated data from schools or school districts throughout the school year consistent with the terms of the state’s approved plan.

## E. Eligibility

### 1. Eligibility for States

All states, the District of Columbia, the US Virgin Islands, and Guam have been eligible to operate P-EBT programs since it was passed into law in March 2020. The October 2020 Continuing Appropriations Act, 2021, and Other Extensions Act (Pub. L. No. 116-159) amended the statute to extend eligibility to Puerto Rico, the Commonwealth of the Northern Mariana Islands, and America Samoa. State agencies and territories must submit an application and be approved by USDA to operate a P-EBT program.

## 2. Eligibility for Participants

The method of determining program eligibility varied based on the population of children, the time frame for which the determination was made, and changes to the statute over time.

For SY 2019–2020, schools were generally closed for in-person learning from early spring through the end of the school year. During this time period, eligible school children were those who would have received free or reduced-price meals, had their schools not been closed or operating with reduced hours for at least five (5) consecutive days due to COVID-19. For SY 2020–2021, many schools taught children at the school site at least part of the time and provide meals to children when they were learning in-person. Therefore, the same eligibility standards apply, but benefits were provided based on the number of days that the child did not receive free or reduced-price meals at the school because the school was closed or operating with reduced attendance or hours.

In accordance with the statute, state agencies could provide P-EBT benefits to children in child care beginning October 1, 2020. To be eligible to participate, a child: (1) must have been a member of a household that received SNAP benefits; (2) must have been enrolled in a covered child care facility (although the statute deems all SNAP-enrolled children under 6 to be enrolled in such a facility); and (3) must have been enrolled in a child care facility that was closed or had reduced attendance or hours, or one or more schools in the area of the child care facility, or in the area of the child’s residence, must have been closed or had reduced attendance or hours.

For SY 2020–2021, the statute allowed state agencies to propose simplified assumptions that made use of the best feasibly available data to determine that the status of a school or covered child care facility was open, closed, or did operate with a reduced number of days or hours; to identify children eligible for benefits; and to establish benefit levels and eligibility periods.

a. Targeting children eligible for free or reduced-price school meal benefits

**Compliance Requirements** Eligibility for P-EBT benefits is limited to children who would have received free or reduced-price meals at the schools had their schools not been closed or operating with reduced hours for at least five (5) consecutive days due to the COVID health emergency. The FFCRA allows state agencies to make simplifying assumptions and use best feasibly available data to identify eligible children and set benefit levels. The state agencies’ use of these flexibilities is documented in their USDA-approved state plans. The requirement, then, is for states to carry out their plans as approved by USDA. This process may rely on free or reduced-price eligibility from the prior school year, a USDA-approved use of “best feasibly available data.” Using SY 2019–2020 free and reduced price eligibility data is a common feature of USDA-approved plans.

Because most school districts served all school meals for free in SY 2020–2021 under the Summer Food Service Program (SFSP) or the NSLP’s Simplified Summer Option (SSO), they did not typically collect or process school meal applications at the start of the school year. As a result, USDA commonly approved the use of SY 2019–2020 free and reduced-price eligibility data to identify children eligible for P-EBT in SY 2020–2021.

**Audit Objectives** Confirm that state agencies identified the population of children eligible for free or reduced-price school meals by application or direct certification, and that the population includes all children enrolled in Community Eligibility Provision schools and schools in operation under 7 CFR 245.9, provisions 2 or 3.

### **Suggested Audit Procedures**

- (1) Confirm that the state agency is following the process described in its approved state plan.
- (2) Confirm that the state agency instructed its school districts to remove children on SY 2019–2020 free and reduced-price lists who are no longer enrolled in school in SY 2020–2021.

### **3. Eligibility for Subrecipients**

Not Applicable

## **L. Reporting**

### **1. Financial Reporting**

Review the Federal Financial Report (FFR) (SF-425/SF-425A) (OMB No. 0348-0061).

See Part 3.L for audit guidance.

### **2. Performance Reporting**

Not Applicable

### **3. Special Reporting**

Not Applicable

### **4. Special Reporting for Federal Funding Accountability and Transparency Act**

See Part 3.L for audit guidance.

**UNITED STATES DEPARTMENT OF AGRICULTURE****ASSISTANCE LISTING 10.551 SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP)****ASSISTANCE LISTING 10.561 STATE ADMINISTRATIVE MATCHING GRANTS FOR THE SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM****I. PROGRAM OBJECTIVES**

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

**II. PROGRAM PROCEDURES****A. Administration**

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

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

**B. Federal Funding of Benefits and State Administrative Costs**

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

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

## **C. Certification**

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

### *1. Assessing Need*

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

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

### *2. Application Process for SNAP Benefits*

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

## **D. Benefits**

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

## **E. Benefit Redemption**

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

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

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

## **F. State Responsibilities**

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

To ensure that states operate in compliance with the law, program regulations and their own Plans of Operation, each state is required to have a system for monitoring and improving its administration of SNAP, particularly the accuracy of eligibility and benefit determinations. This performance monitoring system includes management evaluation reviews, quality control reviews, and reporting to FNS on program performance. State agencies shall conduct management evaluation reviews once every year for large project areas, once every 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 regulations at 7 CFR

section 271.2, although states may request approval by FNS to use “management units” instead of project areas for management evaluation reviews. The state must also ensure corrective action in response to the detection of program deficiencies.

### **G. Federal Oversight and Compliance Mechanisms**

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

FNS also assesses penalties related to payment accuracy. FNS has other mechanisms to recover losses and the cost of negligence. For other forms of noncompliance, FNS has the authority to give notice and, if improvements do not occur, withhold administrative funds from states for failure to implement program requirements.

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

### **H. Certification Quality Control System**

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

#### *1. Measurement*

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

accuracy and allow for the identification of trends and appropriate corrective action.

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

## 2. *Corrective Action and Penalties*

Program regulations require corrective action for any of the following reasons: (1) a payment error rate of 6 percent or greater, (2) any negative case error rate that exceeds 1 percent, (3) deficiencies identified from any FNS review, Government Accountability Office (GAO) audit, contract audit, or reports to FNS regarding the implementation of major changes as discussed in 7 CFR 272.15, (4) a result of 5 percent or more of the state's quality control (QC) caseload being coded as incomplete, or (5) any state agency rules or procedures that lead to under issuances, improper denials, improper suspensions, improper terminations, or improper systemic suspension of benefits to eligible households. FNS maintains an extensive system of technical assistance for states as they develop and implement corrective action. FNS also monitors the implementation of corrective action plans. States with persistently high error rates are assessed fiscal liabilities based on the amount of benefits issued in error.

## 3. *Implications of Quality Control for the Compliance Supplement*

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

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



### Source of Governing Requirements

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

### Availability of Other Program Information

Other program information is available from FNS’s SNAP site at <https://www.fns.usda.gov/snap/supplemental-nutrition-assistance-program>.

## III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the following summary (also included in Part 2, “Matrix of Compliance Requirements”), which of the 12 types of compliance requirements have been identified as subject to the audit (noted with a “Y” in the summary matrix below), and then determine which of the compliance requirements that are subject to the audit are likely to have a direct and material effect on the federal program at the auditee. For each such compliance requirement subject to the audit, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit. When a compliance requirement is shown in the summary below as “N,” it has been identified as not being subject to the audit. Auditors are not expected to test requirements that have been noted with an “N.” See the Safe Harbor Status discussion in Part 1 for additional information.

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

#### A. Activities Allowed or Unallowed

Funds made available for administrative costs must be used to screen and certify applicants for program benefits, issue benefits to eligible households, conduct fraud investigations and prosecutions, provide fair hearings to households for which benefits

have been denied or terminated, conduct nutrition education activities, prepare financial and special reports, operate automated data processing (ADP) systems, monitor subrecipients (where applicable), and otherwise administer the program. Portions of the award made available for specific purposes, such as ADP systems development or Employment and Training (E&T) activities, must be used for such purposes (7 CFR Part 277).

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

## **G. Matching, Level of Effort, Earmarking**

### **1. Matching**

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

- a. Administer the E&T component of the program (7 CFR section 277.4(b)) (Note: States receive a 100 percent grant for the E&T component and must pay 50 percent for E&T costs that exceed that grant); and
- b. Provide SNAP-Ed services. A state's SNAP-Ed costs are 100 percent federally funded, up to the level of its formula-generated federal SNAP-Ed grant. That amount is the maximum level of federal financial participation in a state's SNAP-Ed costs; any SNAP-Ed costs incurred beyond that level must be borne by the state (7 USC 2036a, Section 241 of Pub. L. No. 111-296, 124 Stat. 3183, December 13, 2010).

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

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

### **2. Level of Effort**

Not Applicable

### 3. Earmarking

Not Applicable

#### I. Procurement and Suspension and Debarment

1. *ADP Systems Development* – For competitive acquisitions of ADP equipment and services costing \$6 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. 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 prior written approval (7 CFR section 277.18).
2. For procurement activity covered by the USDA implementation of the A-102 Common Rule (see Part 3 of the Supplement for effective dates), regardless of whether the state elects to follow state or federal rules, the following requirements must be followed for procurements initiated on or after October 1, 2000:
  - a. A state or local government shall not award a contract to a firm it used to orchestrate the procurement leading to that contract. Examples of services that would disqualify a firm from receiving the contract include preparing the specifications, drafting the solicitation, formulating contract terms and conditions, etc. (7 CFR section 3016.60(b)).
  - b. A state or local government shall not apply in-state or local geographical preference, whether statutorily or administratively prescribed, in awarding contracts (7 CFR section 3016.60(c)).
3. For procurements covered by the USDA adoption of 2 CFR Part 200 and the regulations at 2 CFR section 416.1, the following applies:
  - a. A prospective contractor that develops or drafts specifications, requirements, statements of work, invitations for bids, requests for proposals, contract term and conditions or other documents for use by a state shall be excluded from competing for such procurements. Such prospective contractors are ineligible for contract awards resulting from such procurements regardless of the procurement method used. However, prospective contractors may provide states with specification information related to a state procurement and still compete for the procurement if the state, and not the prospective contractor, develops or drafts the specifications, requirements, statements of work, invitations for bid, and/or requests for proposals used to conduct the procurement (2 CFR section 416.1(a)).
  - b. Procurements by states shall be conducted in a manner that prohibits the use of statutorily or administratively imposed in-state or local geographic

preferences except as provided for in 2 CFR section 200.319(b) (2 CFR section 416.1(b)).

## N. Special Tests and Provisions

### 1. ADP System for SNAP

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

**Audit Objectives** Determine whether the state administering agency's ADP system for SNAP is meeting the requirements to: (1) accurately and completely process and store all case file information for eligibility determination and benefit calculation; (2) automatically cut off households at the end of their certification period unless recertified; and (3) provide data necessary to meet federal issuance and reconciliation reporting requirements. (Note: References to the "ADP/CIS Model Plan" are outdated and no longer valid. Examination of 7 CFR section 272.10 should focus only on the functional requirements of SNAP automation and should disregard any references to the "ADP/CIS Model Plan" referenced in 7 CFR sections 272.10(a)(1) and 272.10(a)(2)).

#### Suggested Audit Procedures

Because of the diversity of ADP hardware and software systems, it is not practical for the Compliance Supplement to provide suggested audit procedures to address each system.

See Part 3, E.1.a (suggested audit procedures for eligibility for individuals relating to automated systems) in this Supplement for other guidance concerning testing ADP systems. In addition, FNS has developed a review tool for use by state and federal staff in conducting pre- and post-implementation reviews of states' automated SNAP systems.

The review tool can be found at

[http://www.fns.usda.gov/sites/default/files/apd/SNAP\\_System\\_Integrity\\_Review\\_Tool.pdf](http://www.fns.usda.gov/sites/default/files/apd/SNAP_System_Integrity_Review_Tool.pdf). The auditor should test the ADP system to ascertain if the system:

- a. Accurately and completely processes and securely stores all case file information for eligibility determination and benefit calculation.
- b. Automatically cuts off households from receiving SNAP benefits at the end of their certification period unless the household is recertified.

- c. Provides data necessary to meet federal issuance and reconciliation reporting requirements.

## 2. EBT Reconciliation

**Compliance Requirements** States must have systems in place to reconcile all of the funds entering into, exiting from, and remaining in the system each day with the state's benefit account with Treasury and EBT contractor records. This includes a reconciliation of the state's issuance files of postings to recipient accounts with the EBT contractor.

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

**Audit Objectives** Determine whether the state reconciles retailer credit 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 nonfederal liabilities in the daily EBT reconciliation (i.e., transactions which cannot be charged to the program). If so, verify that the nonfederal liabilities were funded by nonfederal sources (e.g., the state or the contractor).

### 3. EBT Card Security

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

**Audit Objectives** Determine whether the state maintains security over EBT cards.

#### Suggested Audit Procedures

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

## IV. OTHER INFORMATION

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

See Assistance Listing 10.000 for additional information regarding to waivers for this program due to COVID-19.

**UNITED STATES DEPARTMENT OF AGRICULTURE****ASSISTANCE LISTING 10.553 SCHOOL BREAKFAST PROGRAM (SBP)****ASSISTANCE LISTING 10.555 NATIONAL SCHOOL LUNCH PROGRAM (NSLP)****ASSISTANCE LISTING 10.556 SPECIAL MILK PROGRAM FOR CHILDREN (SMP)****ASSISTANCE LISTING 10.559 SUMMER FOOD SERVICE PROGRAM FOR CHILDREN (SFSP)****ASSISTANCE LISTING 10.582 FRESH FRUIT AND VEGETABLE PROGRAM (FFVP)****I. PROGRAM OBJECTIVES**

The objectives of the child nutrition cluster programs are to (1) assist states in administering and overseeing food service program operators that provide healthful, nutritious meals to eligible children in public and non-profit private schools, residential child care institutions, and summer programs; (2) foster healthy eating habits in children by providing fresh fruits and fresh vegetables to children attending elementary schools; and (3) encourage the domestic consumption of nutritious agricultural commodities.

**II. PROGRAM PROCEDURES****A. Overview**

The Child Nutrition Programs are administered at the federal level by the Food and Nutrition Service (FNS) of the US Department of Agriculture (USDA) through grants to state agencies. Each state agency 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.”

USDA makes donated agricultural commodities available for use in the operation of all child nutrition programs (except the SMP and FFVP). FNS enters into agreements with state distributing agencies for the distribution of USDA donated foods. The state distributing agencies enter into agreements with local program operators, which are defined collectively as “recipient agencies.” A state may designate a recipient agency to perform its storage and distribution duties. A state distributing agency may engage a commercial food processor to use USDA-donated foods in the manufacture of food products, and then deliver such manufactured products to recipient agencies.

**B. Subprograms/Program Elements****1. *Common Characteristics***

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

- a. Local program operators provide prepared meals to children in structured settings. Four types of meal service may be authorized: breakfast, lunch, snacks, and supper. Milk-only service may be authorized under the SMP. The types a particular program operator may offer are determined first by the respective program's authorizing statute and regulations, and second by the program operator's agreement with its administering agency.
- b. While all children in attendance are entitled to receive these program benefits, children whose households meet stated income eligibility criteria generally receive their meals (or milk, where applicable) free or at a reduced price. With certain exceptions, children not eligible for free or reduced price meals or free milk must pay the full prices set by the program operator for these items. A program meal must be priced as a unit.

The nonprofit school food service account is managed by local program operators who offer program and nonprogram foods to children during meal services. Program foods are the foods served in reimbursable meals. Nonprogram foods include any non-reimbursable foods and beverages purchased using the funds from the nonprofit school food service account. Nonprogram foods encompasses all other foods sold in school, including adult meals, foods sold outside of school hours, or any foods used for catering or vending activities. For the majority of local program operators, a la carte foods offered during meal service account for the largest share of nonprogram foods. To the maximum extent practicable, school food authorities must purchase commodities produced in the United States and food products processed in the United States substantially using commodities produced in the United States.

- c. Federal assistance to local program operators takes the form of cash reimbursement. In addition, USDA donates food under 7 CFR Part 250 for use in preparing meals to be served under the NSLP, SBP, and SFSP.
- d. To obtain cash and donated food assistance, a local program operator must submit monthly claims for reimbursement to its administering agency. All meals (and half-pints of milk under SMP) claimed for reimbursement must meet federal requirements and be served to eligible children.
- e. The program operator's entitlement to reimbursement payments is generally computed by multiplying the number of meals (and/or half-pints of milk under the SMP) served by a prescribed per-unit payment rate (called a "reimbursement rate"). Different reimbursement rates are prescribed for different categories and types of service. "Type" refers to the kind of service (breakfast, lunch, milk, etc.), while "category" refers to the beneficiary's eligibility (free, reduced price, or paid). Under this formula, a local program operator's entitlement to funding from its administering agency is generally a function of the categories and types of



service provided. Therefore, the child nutrition cluster programs are said to be “performance funded.”

## 2. *Characteristics of Individual Programs*

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

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

The NSLP/SBP’s Seamless Summer Option (SSO) allows eligible SFAs and schools to offer free meals to children during the summer months, during extended breaks in schools with year-round schedules, and during unanticipated closures. SFAs and schools that elect to participate in the SSO follow the same site eligibility requirements and operate under the same service models as sponsors and sites that participate in the Summer Food Service Program including the new rural non-congregate option beginning in FY 2023 (refer to 2b). However, SFAs and schools that participate in the SSO must serve meals that meet NSLP/SBP standards and must use the NSLP/SBP process to claim reimbursement from USDA.

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

Residential camps and migrant sites may receive reimbursement for up to three meals, or two meals and one snack, per child per day, whereas all other sites may receive reimbursement for any combination of two meals (except lunch and supper) or one meal and one snack per child per day. As of FY23, approved rural SFSP sponsors may provide non-congregate

meals in areas where no congregate meal service is available. Sponsors operating non-congregate meal service may provide up to ten days' worth of meals at a time for children (or parents/guardians, where permitted) to take home (from grab and go sites) or delivered to the home.

All participating children receive their meals free. Participating summer camps must identify children eligible for free or reduced price meals and may receive SFSP meal reimbursement only for meals served to eligible children.

Although USDA-donated foods are made available under the SFSP, they are restricted to sponsors that prepare the meals to be served at their sites and those that have entered into an agreement with an 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. An SFA or institution operating the SMP as a pricing program may elect to serve free milk but there is no federal requirement that it do so. The SMP has no reduced price benefits. SFAs must also purchase milk that is domestic and processing must occur in the United States.
- d. *FFVP* – The FFVP provides free fresh fruits and vegetables to children enrolled in high need elementary schools during the school day. The program prioritizes schools with the highest percentage of children certified as eligible for free and reduced price meals. The goal is to introduce children to fresh fruits and vegetables, to include new and different varieties, and to increase overall acceptance and consumption of fresh, unprocessed produce among children. The FFVP also encourages healthier school environments by promoting nutrition education.

## C. Program Funding

FNS provides funds to state agencies by letter of credit. The state agencies use meal reimbursement funds to support program operations by SFAs, institutions, and sponsors under their oversight, and administrative funds to fund their own administrative costs.

### 1. *Funding Program Benefits*

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

is the product obtained by multiplying the number of meals served by maximum rates of reimbursement established by FNS.

The basic rate is increased by two cents for each lunch served in SFAs in which 60 percent or more of the lunches served during the second preceding school year were served free or at a reduced price. A “severe need” school receives a higher rate and is one in which at least 40 percent of the school lunches served in the second preceding school year were served free or at reduced price. Milk served free under the SMP is funded at the average cost of milk. In addition, performance-based cash reimbursement is currently 7 cents per lunch for eligible schools.

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

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

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

A state agency’s FFVP grant is determined by FNS using an allocation formula per Section 19 of the Richard B. Russell National School Lunch Act, 42 U.S.C. 1769a. Eligible elementary schools must submit an FFVP application to the state agency. The selected elementary schools receive an amount per student for each school year. The exact amount of per student funding is determined by the state agency based on the total funds allocated to the state agency and the student enrollment at participating schools.

## 2. *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 ALN10.560, which is not included in the Child Nutrition Cluster.
- b. *SFSP State Administrative (SAF) Funds* – In addition to regular SAE grants, administrative funds are made available to state agencies under ALN 10.559 to assist with administrative costs of the SFSP (7 CFR section 225.5). The state agency must describe its intended use of the funds in a Program Management and Administrative Plan submitted to FNS for approval (7 CFR section 225.4).

### **Source of Governing Requirements**

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

### **Availability of Other Program Information**

Other program information is available online at USDA’s public website. The Child Nutrition Programs site pages are at <https://www.nutrition.gov/child-nutrition-programs>. The USDA Foods sites pages for the Child Nutrition Programs are at <https://www.fns.usda.gov/usda-foods>.

## **III. COMPLIANCE REQUIREMENTS**

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the following summary (also included in Part 2, “Matrix of Compliance Requirements”), which of the 12 types of compliance requirements have been identified as subject to the audit (noted with a “Y” in the summary matrix below), and then determine which of the compliance requirements that are subject to the audit are likely to have a direct and material effect on the federal program at the auditee. For each such compliance requirement subject to the audit, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit. When a compliance requirement is shown in the summary below as “N,” it has been identified as not being subject to the audit. Auditors are not expected to test requirements that have been noted with an “N.” See the Safe Harbor Status discussion in Part 1 for additional information.

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

**A. Activities Allowed or Unallowed**

Reimbursement for meals served is not based on costs; it is determined solely by applying the applicable meals times rates formula. For the SFSP, there are separate rates used to calculate reimbursement for operating and administrative costs, however, a sponsor can use its entire reimbursement payment for any combination of allowable operating and administrative costs. For the FFVP, eligible elementary schools may only use the awarded subgrant funds for allowable costs of purchasing, preparing, and serving the fresh fruits and fresh vegetables during school day; these funds may not be used for the service of school meals.

**B. Allowable Costs/Cost Principles**

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

**E. Eligibility**

**1. Eligibility for Individuals**

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

a. *General Eligibility*

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

- (1) *School Nutrition Programs (NSLP and SBP)* – A “child” is defined as (a) a student of high school grade or under (as determined by the state educational agency) enrolled in an educational unit of high school grade or under, including students who are mentally or physically handicapped (as determined by the state) and who are participating in a school program established for the mentally or physically handicapped; (b) a person who has not reached his/her twenty-first birthday and is enrolled in a public or non-profit private residential child care institution; or (c) for snacks served in afterschool care programs operated by an eligible school, a person who is 18 years of age or under, except that children who turn 19 during the school year remain eligible for the duration of the school year ( 42 USC 1766a(b); definition of “child” at 7 CFR sections 210.2 and 220.2).
- (2) *SFSP* – A “child” is defined as (a) any person 18 years of age and under; and (b) a person over 18 years of age, who has been determined by the state educational agency or a local public educational agency to be mentally or physically handicapped, and who participates in a public or non-profit private school program established for the mentally or physically handicapped (Definition of “children” at 7 CFR section 225.2).
- (3) *SMP* – Schools operating this program use the same definition of “child” that is used in the NSLP and SBP, except for provision (3) under the definition of “child” at 7 CFR section 210.2 regarding snacks served in afterschool care programs. Where the program operates in child-care institutions, as defined in 7 CFR section 215.2, a “child” is any enrolled person who has not reached his/her nineteenth birthday (7 CFR section 215.2).
- (4) *FFVP* – Only elementary school-aged children attending eligible elementary schools as defined in section 8101(19) of the Elementary and Secondary Education Act of 1965 (20 USC 7801) per the NSLA section 19 (42 USC 1769a(d)(1)(C)) that also operate the NSLP (42 USC 1769a(d)(1)(A)(i)) are eligible to participate.

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

- (1) *General Rule: Annual Certification* – A child's eligibility for free or reduced price meals under a Child Nutrition Cluster program

may be established by the submission of an annual application or statement which furnishes such information as family income and family size. Local educational agencies (LEAs), institutions, and sponsors determine eligibility by comparing the data reported by the child's household to published income eligibility guidelines. In addition to publishing income eligibility information in the *Federal Register*, FNS makes it available on the FNS website at <http://www.fns.usda.gov/school-meals/income-eligibility-guidelines>.

- (a) *School Nutrition Programs* – Children from households with incomes at or below 130 percent of the federal poverty level are eligible to receive meals or milk free under the School Nutrition Programs. Children from households with incomes above 130 percent but at or below 185 percent of the federal poverty level are eligible to receive reduced price meals. Persons from households with incomes exceeding 185 percent of the poverty level pay the full price (7 CFR sections 245.2, 245.3, and 245.6; section 9(b)(1) of the NSLA (42 USC 1758 (b)(1)); sections 3(a)(6) and 4(e) of the CNA (42 USC 1772(a)(6) and 1773(e))).
  - (b) *SFSP* – While all SFSP meals are served at no charge, the sponsors of certain types of meal service sites must make individual determinations of eligibility for free or reduced price meals in accordance with 7 CFR section 225.15(f). See III.E.3, “Eligibility - Eligibility for Subrecipients,” for more information.
  - (c) *SMP* – Eligibility for free milk in SFAs electing to serve free milk is limited to children of households meeting the income eligibility criteria for free meals under the School Nutrition Programs. The SMP has no provision for reduced price benefits (definition of “free milk” at 7 CFR section 215.2, and 7 CFR sections 215.7(b), 245.3, and 245.6).
- (2) *Direct Certification* – Annual eligibility determinations may also be based on the child's household receiving benefits under the Supplemental Nutrition Assistance Program (SNAP), Food Distribution Program on Indian Reservations (FDPIR), the Head Start Program (ALN 93.600) (42 USC 1758(b)(6)(A)), or, under most circumstances, the Temporary Assistance for Needy Families (TANF) program (ALN 93.558) (42 USC 1758(b)). A household may furnish documentation of its participation in one of these programs; or the school, institution, or sponsor may obtain the information directly from the state or local agency that administers these programs. Certain foster, runaway, homeless, and migrant

children are categorically eligible for free school lunches and breakfasts (42 USC 1758(b)(5); 7 CFR section 245.6(b)).

- (3) *Direct Certification for Children Receiving Medicaid Benefits* – Under demonstration authority in Section 9(b)(15) of the Richard B. Russell National School Lunch Act, 42 U.S.C. 1758(b)(15) (NSLA), FNS released an RFA inviting State agencies to establish new demonstration projects to evaluate the impact of using Medicaid data to directly certify students for free meal eligibility in the NSLP and SBP. Two States participate under this demonstration: Kentucky and New York. In addition, FNS conducts demonstration projects pursuant to the authority in Section 18(c) of the NSLA to test the effectiveness of using Medicaid data to directly certify students for both free *and* reduced price meal eligibility in the NSLP and SBP. As of SY 23-24 there are 36 States approved to conduct these demonstration projects: , Alabama, Arizona, California, Colorado, Connecticut, Delaware, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Louisiana, Maryland, Massachusetts, Michigan, Minnesota, Montana, Nebraska, Nevada, New Mexico, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Vermont, Virginia, Washington, West Virginia, Wisconsin, and Wyoming .

For the purpose of these demonstration projects, an eligible child is a child who receives, or lives in the household (as defined in 7 CFR section 245.2) with a child who receives medical assistance under the Medicaid program **and** is a member of a family with an income, as measured by the Medicaid program, before the application of any expense, block, or other income disregard that does not exceed the NSLP family size and income eligibility standards.

- **Free** school meal eligibility, 130 percent of the Federal Poverty Level (FPL) for the family size used by Medicaid (except for two States from the initial demonstration project that continue to participate under the free only eligibility of 133%);
- **Reduced price** school meal eligibility, 185 percent of the FPL for the family size used by Medicaid.

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



- (4) *Exceptions* – The following are exceptions to the requirement for annual determinations of eligibility for free or reduced price meals and free milk under the Child Nutrition Cluster programs.
- (a) *Puerto Rico* - Puerto Rico continues to elect the option to provide free meals and milk to all children participating in the School Nutrition Programs, regardless of each child's economic circumstances. Instead of counting meals and milk by type, they may determine the percentage that each type comprises of the total count using statistical surveys. The survey design must be approved by FNS (7 CFR section 245.4).
- (b) *Special Assistance Certification and Reimbursement Alternatives* – Special Assistance Certification and Reimbursement Alternatives, provisions 1, 2, 3, and the Community Eligibility Provision (CEP) are authorized by Section 11(a)(1) of the NSLA (42 USC 1759a(a)(1)) and Section 104 of HHFKA. Provision 1 may be used in schools where at least 80 percent of the children enrolled are eligible for free or reduced price meals. Under Provision 1, eligibility determinations for children eligible for free meals under the School Nutrition Programs must be made once every two consecutive school years. Children who qualify for reduced price meals are certified annually (42 USC 1759a(a)(1)(B) and (F); 7 CFR section 245.9(a)).
- For provisions 2, 3, and the CEP, extended cycles are allowed for eligibility determinations.
- (c) *SFSP Open Sites and Restricted Open Sites* – Determinations of individual household eligibility are not required for meals served free at SFSP “open sites” or at restricted open sites. Refer to 3. “Eligibility for Subrecipients,” for information on area eligibility.

c. *Reduced Price Charges for Program Meals*

The SFA sets meal prices. However, the price for a reduced price lunch or breakfast may not exceed \$0.40 and \$0.30, respectively.

**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, SMP, and FFVP this means the definition of “school food authority” (SFA) as described at 7 CFR sections 210.2, 215.2, and 220.2, respectively and in 2 CFR 200 under the definition of “subrecipient”. Eligible SFSP organizations are described at 7 CFR section 225.2 under the definition of “sponsor” and in 2 CFR 200 under the definition of “subrecipient”. Additional organizational eligibility requirements apply to the SFSP, NSLP Afterschool Snacks, and the SBP at the school or site level (see detail below).

- a. *SFSP* – Federal regulations at 7 CFR section 225.2 define sites in four ways:
  - (1) *Open Sites* – At an open site, meals are made available to all children in the area where the site is located. This area must be one in which poor economic conditions exist (one in which at least 50 percent of the children are from households that would be eligible for free or reduced price school meals under the NSLP and the SBP). Data to support a site’s eligibility may include (a) free and reduced price eligibility data maintained by schools that serve the same area; (b) census data; or (c) other statistical data, such as information provided by departments of welfare and zoning commissions.
  - (2) *Restricted Open Sites* – A restricted open site is one that was initially open to broad community participation, but at which the sponsor has restricted attendance for reasons of safety, security, or control. A restricted open site must serve an area in which poor economic conditions exist, and its eligibility may be documented with the same kinds of data listed above for open sites.
  - (3) *Closed Enrolled Sites* – A closed enrolled site makes meals available only to enrolled children, as opposed to the community at large. Its eligibility is based not on serving an area where poor economic conditions exist, but on the eligibility of enrolled children for free or reduced price school meals. At least 50 percent of enrolled children must be eligible for free or reduced price school meals. The sponsor may determine their eligibility through the application process described at 7 CFR section 225.15(f), or by documenting their eligibility using any of the data sources listed above for open sites.
  - (4) *Camps* – Eligible camps include residential summer camps and nonresidential day camps that offer regularly scheduled food service as part of organized programs for enrolled children. A

camp need not serve an area where poor economic conditions exist. Instead, the camp's sponsor must determine each enrolled child's eligibility for free SFSP meals through the application requirements at 7 CFR sections 225.15(e) and (f). Unlike other sponsors, the sponsor of a camp receives reimbursement only for meals served to children eligible for free or reduced price school meals (7 CFR section 225.14(d)(1)). EXCEPTION: National Youth Sports Program (NYSP) sites may document eligibility using any of the data sources listed above for open sites.

- (5) *Non-congregate meal service sites* – The Consolidated Appropriations Act, 2023 established a permanent non-congregate option for the SFSP and the NSLP's SSO. The legislation permits states to serve non-congregate meals through one of the options developed by USDA and the states through earlier USDA-authorized demonstration projects. Interim Final Regulations developed by USDA allow approved sponsors to provide non-congregate summer meals in rural areas when congregate meal service is not available. If the rural area meets the definition of an "area in which poor economic conditions exist" (per Program regulations at 7 CFR 225.2), then the meals for all children may be claimed for reimbursement. If the rural area does not meet the definition of an "area in which poor economic conditions exist", only the meals served to children who are eligible for free or reduced price meals under the National School Lunch Program (NSLP) may be claimed.
- b. *SBP – Severe Need Schools* – In addition to the national average payment, FNS makes additional payments for breakfasts served to children qualifying for free or reduced price meals at schools that are in severe need. The administering agency must determine whether a school is eligible for severe need reimbursement based on the following eligibility criteria: (1) the school is participating in or desiring to initiate a breakfast program, and (2) 40 percent or more of the lunches served to students at the school in the second preceding school year under the NSLP were served free or at a reduced price. Administering agencies must maintain on file, and have available for reviews and audits, the source of the data to be used in making individual severe need determinations (42 USC 1773(d); 7 CFR section 220.9(d)).
- c. *NSLP – Afterschool Snacks* – Reimbursement for afterschool snacks is made available to those school districts which (1) operate the NSLP in one or more of their schools and (2) sponsor or operate afterschool care programs with an educational or enrichment purpose. In the case of snacks served at an eligible site located in the attendance area of a school in which at least 50 percent of the enrolled children are certified eligible for free and reduced price school meals, all snacks are served free and are

reimbursed at the free rate regardless of individual eligibility. Schools and sites not located in such an area may also participate, but they must count and claim snacks as free, reduced price and paid, depending on the eligibility status of the children served, and they must maintain documentation of eligibility for children receiving free or reduced price snacks (42 USC 1766a).

- d. *FFVP* – Funding is awarded as a subgrant from the State agency only to eligible elementary schools as defined in section 8101(19) of the Elementary and Secondary Education Act of 1965 (20 USC 7801) per NSLA section 19 (42 USC 1769a(d)(1)(C)) that also operate the NSLP (42 USC 1769a(d)(1)(A)(i)) and are eligible to participate.

## **I. Procurement and Suspension and Debarment**

1. *Procurement* – All procurements must adhere to the requirements found in 2 CFR 200.318-322 and 400.2 except where these regulations are superseded by 2 CFR 416.1(a) or program regulations (7 CFR 210, 215, 220, and 225),.
  - a. A prospective contractor that develops or drafts specifications, requirements, statements of work, invitations for bids, requests for proposals, contract term and conditions, or other documents for use by a state under this program shall be excluded from competing for such procurements. Such prospective contractors are ineligible for contract awards resulting from such procurements regardless of the procurement method used. However, prospective contractors may provide states with specification information related to a state procurement and still compete for the procurement if the state, and not the prospective contractor, develops or drafts the specifications, requirements, statements of work, invitations for bid, and/or requests for proposals used to conduct the procurement (2 CFR 200.319(b) and 416.1(a)).
  - b. Procurements by states under this program shall be conducted in a manner that prohibits the use of statutorily or administratively imposed in-state or local geographic preferences except as provided for in 2 CFR section 200.319(b) (2 CFR section 416.1(b)).
  - c. Notwithstanding the requirements noted in paragraph 1.b above, an SFA, institution, or sponsor operating one or more Child Nutrition Cluster programs may use a geographical preference for the procurement of unprocessed agricultural products, both locally grown and locally raised (7 CFR sections 210.21(g), 215.14a(e), 220.16(f), 225.17(e) and 226.22(n)).
2. *Before Award*

Before awarding a contract to a food service management company, or amending such a contract, an SFA operating the NSLP and SBP and sponsors operating the SFSP must: (1) obtain its administering agency's review and approval of the

contract terms; (2) incorporate all changes required by the administering agency; (3) obtain written administering agency approval of any changes made by the SFA or sponsor or its food service management company to a pre-approved prototype contract; and (4) when requested, submit procurement documents for administering agency inspection (7 CFR sections 210.16(a)(10), 210.19(a)(5), 220.7(d)(1)(ix), and 225.15(m)(4)).

3. SFAs must, to the maximum extent practicable, purchase commodities produced in the United States and food products processed in the United States substantially using commodities produced in the United States 7 CFR section 210.21(d). For SFAs to comply with Section 12(n) of the NSLA, 42 USC 1760(n) and Program regulations at 7 CFR section 210.21(d), all food solicitations should include terms that require contractors to respond with prices and award contracts to responsive bidders and offerors to supply domestic foods and food products that comply with 7 CFR 210.21(d). Food suppliers include distributors, meal vendors, food service management company contracts, and processors of USDA Foods.

4. *Cost-Reimbursable Contracts*

The cost-reimbursable contract provisions below apply to all cost-reimbursable contracts awarded by SFAs. This contract type is often awarded to distributors of perishable and non-perishable foods and food products, produce, milk, bread, food service management companies, processors of USDA Foods, and labor surplus firms.

- a. Cost-reimbursable contracts awarded by SFAs operating the NSLP, SMP, and SBP, including contracts with cost-reimbursable provisions and solicitation documents prepared to obtain offers of such contracts, must include the following provisions:
  - (1) Allowable costs will be paid from the nonprofit school food service account to the contractor net of all discounts, rebates, and other applicable credits accruing to or received by the contractor or any assignee under the contract, to the extent those credits are allocable to the allowable portion of the costs billed to the SFA.
  - (2) Billing documents submitted by the contractor will either separately identify allowable and unallowable portions of each cost or include only allowable costs and a certification that payment is sought only for such costs.
  - (3) The contractor's determination of its allowable costs must be made in compliance with applicable departmental and program regulations and the OMB cost principles.
  - (4) The contractor must identify the amount of each discount, rebate, and other applicable credit on bills and invoices presented to the SFA for payment and individually identify the amount as a

discount, rebate, or in the case of other applicable credits, the nature of the credit. If approved by the state agency, the SFA may permit the contractor to report this information on a less frequent basis than monthly, but no less frequently than annually.

- (5) The contractor must identify the method by which it will report discounts, rebates, and other applicable credits allocable to the contract that are not reported prior to conclusion of the contract.
- (6) The contractor must maintain documentation of costs and discounts, rebates, and other applicable credits, and must furnish such documentation upon request to the SFA, the state agency, or the USDA (7 CFR section 210.21(f)).

- b. Costs resulting from a cost-reimbursable contract may not be paid from the SFA's nonprofit school food service account if (a) the underlying contract does not include the provision in paragraph a.(1) above; or (b) such disbursement would result in the contractor receiving payments in excess of the contractor's actual, net allowable costs (7 CFR sections 210.21(f)(2), 215.14a(d)(2), and 220.16(e)(2)).

## 5. *Suspension and Debarment*

Entitlement or mandatory awards required by statute that pass-through entities to subrecipients are excluded from the suspension and debarment rules (2 CFR section 417.215(a)(1)).

## **L. Reporting**

### **1. Financial Reporting**

- a. *SF-270, Request for Advance or Reimbursement* - Not Applicable.
- b. *SF-271, Outlay Report and Request for Reimbursement for Construction Program* - Not Applicable
- c. *SF-425, Federal Financial Report* - Applicable
- d. FNS-10: *Report of School Program Operations (PRA 0584-0002)* and FNS-418: *Report of the Summer Food Service Program for Children (PRA 0584-0594)*

Claims for Reimbursement-SFAs and sponsors must submit monthly claims for reimbursement for meals and snacks served to eligible students within 60 days following the last day of the month covered by the claim (7 CFR sections 210.8, 220.11, 215.10, and 225.15(c)). The State agency has an additional 30 days to submit a consolidated report

to FNS via the FNS-10 for NSLP/SBP and the FNS-418 for SFSP (7 CFR 210.5(d), 220.13(b)(2), 215.11(c)(2), and 225.8).

Recordkeeping-Each month's claim for reimbursement and all data used in the claims review process must be maintained on file. Failure to maintain such records may be grounds for denial of reimbursement for meals served and/or administrative costs claimed during the period covered by the records in question. Records are required to be retained for a period of three years after submission of the final Claim for Reimbursement for the fiscal year. Or, if audit findings have not been resolved, the records must be retained beyond the three-year period as long as required for the resolution of the issues raised by the audit. School food authorities are required to make the information available to the Department and the state agency upon request.

**2. Performance Reporting**

Not Applicable

**3. Special Reporting**

Not Applicable

**4. Special Reporting for Federal Funding Accountability and Transparency Act**

See Part 3.L for audit guidance.

**N. Special Tests and Provisions**

**1. Accountability for USDA-Donated Foods**

The following compliance requirements do not apply to recipient agencies (as defined at 7 CFR section 250.2), including SFAs and SFSP sponsors. Auditors making audits of recipient agencies are not required to test compliance with these requirements.

**Compliance Requirements**

*a. Maintenance of Records*

Distributing and subdistributing agencies (as defined at 7 CFR section 250.2) must maintain accurate and complete records with respect to the receipt, distribution, and inventory of USDA-donated foods, including end products processed from donated foods. Failure of the distributing agency, recipient agency, processor, or other entity to comply with recordkeeping requirements must be considered prima facie evidence of improper distribution or loss of donated foods and may result in a claim against such party for the loss or misuse

of donated foods, in accordance with § 250.16, or in other sanctions or corrective actions. (7 CFR sections 250.19(a))

b. *Inventory Management*

The distributing agency must ensure that donated foods at all storage facilities used by the distributing agency (or by a sub-distributing agency) are stored in a manner that permits them to be distinguished from other foods, and must ensure that a separate inventory record of donated foods is maintained. The distributing agency's system of inventory management must ensure that donated foods are distributed in a timely manner and in optimal condition. On an annual basis, the distributing agency must conduct a physical review of donated food inventories at all storage facilities used by the distributing agency (or by a sub-distributing agency), and must reconcile physical and book inventories of donated foods. The distributing agency must report donated food losses to FNS, and ensure that restitution is made for such losses. (7 CFR section 250.12(b)).

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

**Suggested Audit Procedures**

- a. Determine the storage facility for USDA Foods direct delivery products. Obtain a copy of the distributing agency's procedures for conducting the required annual physical inventory, the inventory results for the USDA Foods at commercial storage facilities, state storage facilities and any claim determinations. The distributing agency must report USDA Foods food losses to FNS and ensure that restitution is made for such losses. .
- b. Perform analytical procedures and obtain explanation and documentation for unusual or unexpected results. Consider the following:
  - (1) Compare receipts, distribution, losses, and ending inventory of donated foods for the audit period to the previous period.
  - (2) Compare distribution by entity for the audit period to the previous period.
- c. Ascertain the validity of the required annual physical inventory. Consider performing the following steps, as appropriate:
  - (1) Observe the annual inventory process at selected locations and recount a sample of donated food items.
  - (2) If the annual inventory process is not observed, select a sample of significant donated foods on hand as of the physical inventory date and, using the donated food records, "roll forward" the balance on hand to the current balance observed.



- (3) On a test basis, recompute physical inventory sheets and related summarizations.
  - (4) Ascertain that the annual physical inventory was reconciled to donated food records. Investigate any large adjustments between the physical inventory and the donated food records.
- d. On a sample basis, test the mathematical accuracy of the donated food records and related summarizations. From the donated food records, vouch a sample of receipts, distributions, and losses to supporting documentation. Ascertain that activity is properly recorded, including correct quantity, proper period and, if applicable, correct recipient agency.

## 2. Non-Profit School Food Service Accounts

### Compliance Requirements

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

**Audit Objectives** Determine whether a separate accounting is made of the school food service, federal reimbursement payments are correctly credited to the school food service account and transfers out of the school food service account are for allowable costs 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 correctly 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.

## 3. Paid Lunch Equity (NSLP)

**Compliance Requirements** In Section 767 of Division A of the Consolidated Appropriations Act 2021 (Pub. L. No. 116-260) (the Appropriations Act), Congress provides that only SFAs that had a negative balance in the nonprofit school food service account as of December 31, 2020, shall be required to establish prices for paid lunches according to the Paid Lunch Equity (PLE) provisions in Section 12(p) of the Richard B. Russell National School Lunch Act, 42 USC 1760(p) and implemented in National School Lunch Program regulations at 7 CFR 210.14(e). For school year (SY) 2023-2024,

SFAs with a positive or zero balance in the nonprofit school food service account as of June 30, 2022, are exempt from PLE pricing requirements found at 7 CFR 210.14(e)..

SFAs that had a negative balance are required to ensure that sufficient funds are provided to its nonprofit school food service accounts from lunches served to students not eligible for free or reduced price meals. An SFA currently charging less for a paid lunch than the difference between the federal reimbursement rate for such a lunch and that for a free lunch is required to comply. This difference is known as “equity.” There are two ways to meet this requirement: (a) by raising the prices charged for paid lunches; or (b) through contributions from other non-federal sources.

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

- a. Determine the weighted average price of paid lunches. This is determined based on the total number of paid lunches claimed for federal reimbursement for the month of October in the previous school year, at each different price charged by the SFA (7 CFR section 210.14(e)(1)(i)).
- b. Calculate the paid lunch equity requirement, which is the difference between the per meal federal reimbursement for paid and free lunches received by the SFA in the previous school year (7 CFR paragraph 210.14(e)(1)(ii)).
- c. If the paid lunch equity calculated in step b. is higher than the weighted average price the SFA had been charging, calculated in step a., the SFA must increase the average weighted price charged in the previous school year by the sum of 2 percent and the percentage change in the Consumer Price Index for All Urban Consumers. This is the minimum price the SFA should be currently charging for paid lunches (7 CFR paragraph 210.14(e)(3)).

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

### **Suggested Audit Procedures**

- a. Verify the calculations performed by the SFA to determine whether its paid lunch price requires adjustment.
- b. Verify that the SFA adjusted its average weighted paid lunch price in accordance with the results of the foregoing calculations and is actually charging students the adjusted price.
- c. Ascertain if the SFA met the equity requirement by furnishing additional funds from non-federal sources.

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

#### **IV. OTHER INFORMATION**

FNS no longer requires recipient agencies to inventory USDA-donated food separately from purchased food. However, the value of donated foods used during a state or recipient agency's fiscal year is considered federal awards expended in accordance with 2 CFR section 200.40 definition of "federal financial assistance" and must be valued in accordance with 2 CFR section 200.502(g). Therefore, recipient agencies must report the value of donated foods used according to the fair market value of donated foods at the time of receipt or the assessed value provided by the federal agency for this purpose.

FNS is particularly interested in ensuring that procurements adhere to federal standards regarding potential conflicts of interest and proper documentation and disclosure of any less than arm's-length transactions.

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**UNITED STATES DEPARTMENT OF AGRICULTURE****ASSISTANCE LISTING 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 to provide low-income pregnant, breastfeeding, and postpartum women, infants, and children to age 5 who have been determined to be at nutritional risk, supplemental nutritious foods, nutrition education, and referrals to health and social services at no cost. WIC also promotes and supports breastfeeding as the feeding method of choice for infants, provides substance abuse education, and promotes immunization and other aspects of healthy living.

The USDA's Food and Nutrition Service (FNS) makes funds available to participating state agencies (usually health departments). State agencies distribute the funds to participating local agencies, which operate WIC clinics. State and local agencies use WIC funds to pay the costs of specified supplemental foods provided to WIC participants, and to pay for specified Nutrition Services and Administration (NSA) costs, including the cost of nutrition assessments, blood tests for anemia, nutrition education, breastfeeding promotion and support, and health care referrals.

**II. PROGRAM PROCEDURES****A. Administration**

The USDA's FNS administers the WIC program through grants awarded to state health departments or comparable state agencies, Indian tribal organizations, bands or intertribal councils, or groups recognized by the Bureau of Indian Affairs, US Department of the Interior, or the Indian Health Service (IHS) of the US Department of Health and Human Services (HHS) ("ITOs"). A state agency administering the WIC program must sign a federal/state agreement that commits it to observe applicable laws and regulations in carrying out the program. The state agencies, in turn, award subgrants to local agencies to certify applicants' eligibility for WIC program benefits and deliver such benefits to eligible persons.

**B. Program Funding**

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

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

1. *Reallocations and Recoveries*

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

2. *Conversion Authority*

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

3. *Spending Options*

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

4. *Rebates*

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

5. *Vendor, Participant, and Local Agency Collections*

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

6. *Program Income*

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

7. *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.

### **C. Certification**

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

### **D. Benefits**

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

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

### **E. Food Benefit Delivery**

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

*Direct Distribution Food Delivery Systems* (used in West Virginia, Delaware, Pennsylvania, Maryland, and in parts of Illinois, for example)

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

*Home Food Delivery Systems* (used in parts of Alaska)

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

*Retail Food Delivery System* (used by most state agencies)

Negotiable FIs are issued directly to individual participants, who use them to obtain authorized supplemental foods at retail stores approved as vendors by the state agency. FIs can be either paper checks/vouchers or electronic benefit transfer (EBT) cards and may be processed by a bank and/or processor or the WIC state agency itself. For paper checks, the participant must use an FI within 30 days of the first date of use printed on the FI, and the vendor must submit the FI for payment within 60 days of that date. For EBT cards, the participant must redeem all benefits by the end of 30 days from the first date on which it was issued except for the first month of issuance. The benefit balance

associated with the EBT account cannot be redeemed after the end date specifically authorized by the state agency management information system.

Negotiable paper cash-value vouchers (CVVs) or EBT cash-value benefits (CVBs) are issued directly to participants, who use them to obtain authorized fruits and vegetables from WIC-authorized vendors or farmers or farmers' markets authorized by the state agency (if the state agency elects to authorize farmers or farmers' markets). FIs and CVVs/CVBs share several features. Both are negotiable for stated periods of time. Unlike other FIs, CVVs, and CVBs are issued with face values in standard denominations. Under EBT systems, the CVB is established as a separate food category with a benefit unit of dollars rather than food quantities. No additional EBT card or voucher is issued by the state agency.

Each paper FI or CVV issued to a participant must have a unique serial number. In EBT, the card number represents the unique serial number for off-line benefit tracking, while a unique benefit identification (ID) number is used for on-line tracking. A state agency is required to determine the ultimate disposition of all FIs and CVVs by serial number or ID number within 120 days of the first valid date for participant use. The state agency must adjust previously reported obligations for WIC food costs in order to account for actual FI or CVV redemptions and other changes in the status of FIs or CVVs. For EBT, the CVB is accounted for as a unique benefit in the same manner as other items in the food balance.

## **F. Cost Containment Requirements**

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

### **1. *Vendor Cost Containment***

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

- a. Maintain (and assess and modify, as necessary) a vendor peer group system, whereby authorized vendors are classified into groups on the basis of common characteristics or criteria that affect food prices. At least one such criterion must be a measure of geography, such as metropolitan or other statistical areas that form distinct labor and products markets.
- b. Select and authorize vendors by applying competitive price criteria.
- c. Set limits on payments to vendors within each peer group.
- d. Identify vendors (called “above-50-percent vendors”) that derive more than 50 percent of their annual food sales revenue from WIC FIs.
- e. Comply with requirements designed to ensure that the use of above-50-percent vendors is cost neutral to the program (that is, that it does not result in higher WIC food costs than would have been the case if WIC participants had transacted their WIC FIs only at regular vendors). (See III.N.4, “Special Tests and Provisions – Authorization of Above-50-Percent Vendors.”)

## 2. Infant Formula Cost Containment

As provided above, the most successful cost containment strategy is competitively bid infant formula rebate contracts between State agencies and infant formula manufacturers, as required by the Child Nutrition Act of 1966 (42 U.S.C. 1786), as amended, and implementing regulations. For 2022, total rebates received for WIC were approximately \$1.5 billion, the cost of providing benefits to an average of 1.32 million participants each month, or 21 percent of the estimated average monthly WIC caseload.

State agencies use savings generated by these kinds of strategies to provide benefits to more participants within the same total budget.

In response to a major infant formula manufacturer voluntarily recalling certain powder infant formula and related supply chain disruptions in 2022, FNS provided flexibility to WIC State agencies on certain federal requirements to ensure WIC participants could access the safe infant formula available in the marketplace. Further, the Access to Baby Formula Act of 2022 (P.L. 117-129) amended Section 17 of the Child Nutrition Act of 1966 (42 U.S.C. 1786) to provide USDA with permanent waiver authority to help ensure continuity of WIC services during emergency periods and supply chain disruptions impacting WIC. The Access to Baby Formula Act of 2022 (P.L. 117-129) also set forth requirements in section 17(h)(8)(L) of the Child Nutrition Act of 1966 (42 U.S.C. 1786) for State agencies to include language in their WIC infant formula rebate contracts that describes remedies in the event of an infant formula recall, including how an infant formula manufacturer would protect against disruption to program participants in the State.



All contracts entered into or renewed on or after May 21, 2022, the date of enactment of the Access to Baby Formula Act of 2022 (P.L. 117-129), must meet this requirement. FNS considers a new contract to be entered into upon award after a competitively bid process. Therefore, this requirement does not apply to contracts that were awarded and/or signed prior to May 21, 2022.

## **G. Federal Oversight and Compliance Mechanisms**

FNS oversees state operations through an organization consisting of headquarters and seven regional offices. Federal program oversight encompasses review of the nine functional areas of the program through management evaluations (MEs): Organization and Management; Funding and Participation; Vendor Management; Information Systems; Certification, Eligibility, and Coordination; Nutrition Services; Civil Rights; Monitoring and Audits; and Food Delivery. Each year, FNS issues a WIC ME Target Area Memorandum, which instructs regional offices what to evaluate via MEs the following year. Target Areas are established in order to focus FNS's oversight efforts on key areas related to WIC program integrity and operations. Usually, the Target Area comprises one functional area and risk-based MEs.

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

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

### **Source of Governing Requirements**

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

### **Availability of Other Program Information**

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

### III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the following summary (also included in Part 2, “Matrix of Compliance Requirements”), which of the 12 types of compliance requirements have been identified as subject to the audit (noted with a “Y” in the summary matrix below), and then determine which of the compliance requirements that are subject to the audit are likely to have a direct and material effect on the federal program at the auditee. For each such compliance requirement subject to the audit, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit. When a compliance requirement is shown in the summary below as “N,” it has been identified as not being subject to the audit. Auditors are not expected to test requirements that have been noted with an “N.” See the Safe Harbor Status discussion in Part 1 for additional information.

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

#### A. Activities Allowed or Unallowed

##### 1. General Rule

- a. Funds allocated to a state agency for food must be expended to purchase supplemental foods for participants or to redeem FIs or CVVs issued for that purpose. When supplemental foods are provided to participants via direct distribution, the related warehouse facilities costs shall be allowable food costs. Food funds can also be used to purchase breast pumps for participants (7 CFR sections 246.14(a) and (b)). Federal program funds may not be used to pay for retroactive benefits to participants (7 CFR section 246.14(a)(2)).
- b. Funds allocated for NSA must be used for the costs incurred by the state or local agency to provide participants with nutrition education, breastfeeding promotion and support, and referrals to other social and medical service providers; and to conduct participant certification, caseload management, food benefit delivery, vendor management, voter

registration, and program management (42 USC 1786(h)(1)(C)(ii); 7 CFR sections 246.14(c) and (d)).

## 2. *Exceptions*

- a. Funds allocated for food costs may be converted (be applied to NSA costs) (1) as a result of a state's plan to exceed participation levels projected by the federal funding formula; or (2) after recovery as vendor or participant collections. Conversion due to planned participation increases is allowed only if such increases are expected to result from an approved cost containment plan (7 CFR sections 246.14(e) and 246.16(f)).
- b. Funds allocated for NSA costs but not needed for such costs may be applied to food costs (7 CFR section 246.14(a)(2)).
- c. USDA has authority under the Access to Baby Formula Act of 2022 (P.L. 117-129) to waive or modify any statutory requirement under Section 17 of the Child Nutrition Act of 1966 (42 U.S.C. 1786) or any regulatory requirement in the event of a public health emergency and any subsequent renewals as declared by the Secretary of Health and Human Services, a presidentially declared major disaster, a presidentially declared emergency, and a supply chain disruption, provided that the following two conditions are met: 1) such requirements cannot be met by WIC State agencies under the conditions that prompted the emergency period, and 2) exercising the waiver authority is necessary to serve participants and does not substantially weaken the nutritional quality of supplemental foods. FNS is currently pursuing rulemaking to codify the Access to Baby Formula Act of 2022 (P.L. 117-129) requirements, including waiver authority, which is expected to publish in December 2023.

## 3. *Distinguishing WIC from Non-WIC Services*

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

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

## **B. Allowable Costs/Cost Principles**

### **1. *Applicable Credits***

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

- a. *Rebates* – Rebates are credits for food costs that are reported in the month in which the rebate was received (7 CFR section 246.14(f)).
- b. *Vendor Collections* – Post-payment vendor collections are funds collected through claims assessed against food vendors for errors and overcharges. Pre-payment vendor collections are improper payments prevented as a result of reviews of FIs or CVVs prior to payment; they are credits against vendor billings.
- c. *Participant Collections* – These are recoveries of improperly issued food benefits as the result of a participant, guardian, or caretaker intentionally making a false or misleading statement or withholding information.
- d. *Local Agency Collections* – These are funds collected as a result of claims assessed against local agencies for program funds that were misused or otherwise diverted from program purposes due to local agency negligence or fraud.

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

### **2. *Capital Expenditures***

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

and to the local agencies under its oversight, provided certain requirements apply and the state agency receives written notice.

- b. Automated Data Processing (ADP) projects. FNS requires WIC state agencies to obtain prior approval to incur costs for certain ADP projects and to provide notification and/or documentation for others (7 CFR section 246.14(d)). Approval procedures are in FNS Handbook 901, Advance Planning Document Handbook (available at <https://www.fns.usda.gov/apd/handbook-and-guidance>).

Approval levels are as follows:

- (1) A state agency must notify the applicable FNS regional office within 60 days of the initial expenditure or contract award for an ADP project costing in excess of \$4,999 but less than \$100,000; and
- (2) A state agency must receive prior approval for (a) an ADP project that has a cost greater than \$99,999; or (b) any ADP project associated with planning, developing, or deploying a new automation system.

## C. Cash Management

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

## E. Eligibility

### 1. Eligibility for Individuals

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

- a. *Categorical* – Eligibility is restricted to pregnant, postpartum, and breastfeeding women, infants, and children up to their fifth birthday (7 CFR sections 246.2 (definition of each category) and 246.7(c)).
- b. *Identity and Residency* – Except in limited circumstances, WIC applicants must be physically present for eligibility screenings and provide proof of identity and residency. An applicant also must meet the state agency's residency requirement. Except in the case of ITOs, the applicant must reside in the jurisdiction of the state. ITOs may require applicants to reside within their jurisdiction. All state agencies may designate service areas for any local agency and may require that applicants reside within the service area. A state agency must establish procedures, in accordance with

guidance from FNS, to prevent the same individual from receiving duplicate benefits through participation at more than one local agency. Documentation of these determinations may consist of descriptions of documents evidencing the applicants' identities and residency (e.g., notations in the participant's file identifying specific documents that local agency staff have viewed and found acceptable), copies of the documents themselves, and/or the applicants' written statements of identity and residency when no other documentation exists. Certification procedures prescribed by the state agency set conditions for relying on these different forms of documentation (42 USC 1786(f)(23); 7 CFR sections 246.7(c)(1) and (c)(2)(i) and 246.7(i)(3) and (4)).

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

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

section 246.7(d)(2)(ii), and the exclusions from income in 7 CFR section 246.7(d)(2)(iv) (7 CFR sections 246.2 and 246.7(d)(2)).

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

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

- (1) Housing allowances received by military services personnel residing off military installations or in privatized housing, whether on or off-base (7 CFR section 246.7(d)(2)(iv)(A)(1)); and
- (2) Any cost-of-living allowance provided to military personnel who are on duty outside the contiguous states of the United States (7 CFR section 246.7(d)(2)(iv)(A)(2)).

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

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

State agencies may instruct local agencies to consider family income over the preceding 12 months or the family's current rate of income, whichever indicator more accurately reflects the family's income status. To provide more consistency and accountability, WIC has encouraged state agencies to define a family's current rate of income as all income received by the household during the month (30 days) prior to the date the application for

WIC benefits is made, or, if the income assessment is being done prospectively, all income that will be available to the family in the next 30 days (see WIC Policy Memorandum No. 2013-3, Income Eligibility Guidance, issued April 26, 2013, which is available at <https://www.fns.usda.gov/wic/income-eligibility-guidance> (7 CFR sections 246.7(d)(2)(i) and (v)).

- d. *Nutritional Risk* – A competent professional authority (e.g., physician, nutritionist, registered nurse, or other health professional) must determine that the applicant is at nutritional risk. While the broad guidelines for determining nutritional risk are set forth in WIC legislation and regulations, the specific allowable nutritional risk criteria are defined in WIC policy guidance, which is updated periodically. Each state agency may choose which allowable nutritional risk criteria will be used to determine eligibility. At a minimum, the certifying agency must perform and/or document measurements of each applicant’s height or length and weight. In addition, a hematological test for anemia must be performed or documented at certification if the applicant has no nutritional risk factor prescribed by the state agency other than anemia. Certified applicants with qualifying nutritional risk factors other than anemia must also be tested for anemia within 90 days of the date of certification. Program regulations set several exceptions to these general rules. The determination of nutritional risk may be based on current referral data provided by a competent professional authority who is not on the WIC staff (7 CFR sections 246.2 (definitions of “competent professional authority” and “nutritional risk”) and 246.7(e)).

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

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

Pregnant women are certified for the duration of their pregnancy and for up to six weeks postpartum. Breastfeeding women may be certified approximately every six months, or up to one year postpartum or until the woman ceases breastfeeding, whichever occurs first (7 CFR section 246.7(g)(1)). Infants are certified at intervals of approximately 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 last day of the month in which the child reaches the fifth birthday. State agencies also have the option to certify children for a period of one year if the state agency ensures that the child receives the required health and nutrition assessments (7 CFR section 246.7(g)(1)). Non-breastfeeding women are certified for up to six months postpartum. All categories of participants may be certified up to the last day of the last month of the certification period (7 CFR section 246.7(g)(1)).

**2. Eligibility for Group of Individuals or Area of Service Delivery**

Not Applicable

**3. Eligibility for Subrecipients**

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

**H. Period of Performance**

1. *Spend-Forward Option* – A state agency may spend NSA funds up to an amount equal to 3 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 1 percent of its total WIC formula grant, for management information systems development costs during the following federal fiscal year. Food funds may not be "spent forward" (42 USC 1786(i)(3)(A)(ii)(I); 7 CFR section 246.16(b)(3)(ii)).
2. *Backspend Option* – A state agency may:
  - a. Spend up to 1 percent of the food component of its grant for food costs of the federal fiscal year preceding the fiscal year for which the grant was awarded. This backspend authority may be raised as high as 3 percent with prior approval from FNS.
  - b. Spend up to 1 percent of its NSA grant component for food and/or NSA costs of the federal fiscal year preceding the fiscal year for which the grant was awarded (7 CFR section 246.16(b)(3)(i)).

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**UNITED STATES DEPARTMENT OF AGRICULTURE****ASSISTANCE LISTING 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 nonprofit food service programs for the provision of nutritious foods that contribute to the wellness, healthy growth, and development of eligible children and elderly or impaired adults receiving care in nonresidential day care facilities and child care homes.

**II. PROGRAM PROCEDURES****A. Overview**

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

CACFP benefits consist of nutritious meals and snacks served to eligible children and adults who receive care at participating child care centers, adult day care centers, outside-school-hours care centers, at-risk afterschool programs, family and group day care homes, and emergency shelters, as defined in 7 CFR 226.2.

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

Public, private nonprofit, and certain for-profit adult day care facilities that provide structured, comprehensive services to nonresidential adults who are functionally impaired, or aged 60 and older.

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

At-risk afterschool programs are structured, supervised programs that are organized primarily to provide care to children through age 18 after school hours and on weekends and holidays during the school year; provide educational or enrichment activities; and located in low-income areas. Examples of organizations that typically offer such programs include the Boys & Girls Clubs, and the YMCA.

Public and private nonprofit emergency shelters that provide temporary shelter and food services to homeless children. Eligible shelters may receive reimbursement for serving up to three meals each day to residents ages 18 and younger.

A family or group day care home is a private home licensed or approved to provide day care services.

Child and adult day care centers and outside-school-hours care centers (often referred to collectively in this discussion as “centers”), as well as at-risk afterschool programs and emergency shelters, may operate independently under agreements with their state agencies, or they may participate under the auspices of sponsoring organizations. Day care homes may participate only through sponsoring organizations. An entity with which a state agency enters into an agreement for the operation of the CACFP, be it an independent center or a sponsoring organization, is known as an “institution.”

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

## **B. Program Funding**

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

### *1. Types of Assistance and Pricing of Meals*

FNS provides a cash payment (called a “national average payment”) to each state agency for each meal served under the CACFP which is adjusted on July 1 of each year. A state’s entitlement to national average payments is mainly determined by the same performance-based (meals-times-rates) formula used by state agencies to compute reimbursement payments to institutions. From the state’s standpoint, all funds received via this formula are pass-through funds that the state must use for reimbursement payments to institutions under its oversight.

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

the participants. Family day care homes are prohibited from charging separately for meals. At-risk afterschool programs and emergency shelters are prohibited from charging for meals altogether.

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

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

### **Source of Governing Requirements**

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

### **Availability of Other Program Information**

Other program information is available from the FNS website at <https://www.fns.usda.gov/cacfp>. Information on USDA Foods available for the CACFP can be found on the USDA Foods in Schools Foods Available List at <https://www.fns.usda.gov/usda-fis/usda-foods-available>.

## **III. COMPLIANCE REQUIREMENTS**

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the following summary (also included in Part 2, “Matrix of Compliance Requirements”), which of the 12 types of compliance requirements have been identified as subject to the audit (noted with a “Y” in the summary matrix below), and then determine which of the compliance requirements that are subject to the audit are likely to have a direct and material effect on the federal program at the auditee. For each such compliance requirement subject to the audit, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit. When a compliance requirement is shown in the summary below as “N,” it has been identified as not being subject to the audit. Auditors are not expected to test requirements that have been noted with an “N.” See the Safe Harbor Status discussion in Part 1 for additional information.

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

## A. Activities Allowed or Unallowed

### 1. *Reimbursement for Operating Costs of Child and Adult Care Centers*

CACFP centers and sponsors of centers shall be reimbursed solely according to the meals-times-rates formula outlined in II, “Program Procedures.” Costs claimed by the institution as operating costs must be related to preparing and serving meals to children and/or adults under the CACFP (7 CFR 226.11(c) and definition of “operating costs” in 7 CFR 226.2).

### 2. *Reimbursement for Operating Costs of Day Care Homes*

Day care homes under a sponsoring organization shall be reimbursed according to the meals-times-rates formulas based on whether the homes qualify as Tier I or Tier II. (See Section E on Eligibility).

### 3. *Reimbursement for Sponsoring Organizations’ Administrative Costs*

Administrative costs are those related to planning, organizing, and managing a food service under the CACFP (7 CFR 226.2).

- a. Sponsoring Organizations of Centers – There is no provision for sponsoring organizations of centers to receive reimbursement for administrative costs. However, a sponsor may retain a portion of a center’s meal reimbursement, not to exceed 15 percent, for its own administrative expenses (42 USC 1766(f)(2)(C)(i); 7 CFR 226.16(b)(1)).
- b. Sponsoring Organizations of Family Day Care Homes – In addition to their meal reimbursement payments, sponsoring organizations of family day care homes may receive reimbursement for their administrative costs (7 CFR 226.12).

4. *Use of Reimbursements*

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

**B. Allowable Costs/Cost Principles**

Institutions must account for all costs of operation through the consistent use of U.S. generally accepted accounting principles (U.S. GAAP). Some of these costs will be allowable operating or administrative costs of the Program while others will be unallowable

1. Allowable cost must be reasonable, necessary and authorized.
2. In determining which costs are allowable, sponsoring organizations should refer to [FNS Instruction 796-2, Revision 4](#).
3. In addition, sponsoring organizations must use 2 CFR Part 225, Cost Principles for State, Local, and Indian Tribal Governments; 2 CFR Part 230, Cost Principles for Nonprofit Organizations; and 48 CFR Part 31, Contract Cost Principles and Procedures, as applicable, when developing a cost allocation plan. An institution should contact its State education agency for additional guidance.

**C. Cash Management**

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

**E. Eligibility**

**1. Eligibility for Individuals**

a. *General Eligibility*

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

- (1) Meets the definition of “children” or “adult participant” at 7 CFR 226.2. These definitions are:
  - (a) “Children” means (i) persons 12 years of age and under; (ii) children of migrant workers 15 years of age and under; (iii) persons of any age who have one or more disabilities and who are enrolled in an institution or child care facility serving a majority of persons who are age 18 and under; (iv) for emergency shelters, persons age 18 and under; and (v) for at-risk afterschool care centers, persons age 18 and

under at the start of the school year (see definitions of “children,” “enrolled child,” and “persons with disabilities” at 7 CFR 226.2).

- (b) “Adult participant” means “a person enrolled in an adult day care center who is functionally impaired...or 60 years of age or older” (definitions of “adult participant” and “enrolled participant” are available at 7 CFR 226.2).
- (2) Receives care at a participating institution. The individual must:
  - (a) Be enrolled in a child or adult care center or other nonresidential institution that provides day care;
  - (b) Reside in an emergency shelter; or
  - (c) Attend an at-risk afterschool program or outside-school-hours care center (7 CFR 226.15(e)(2), definitions of “enrolled child” and “enrolled participant” are available at 7 CFR 226.2).

b. *Eligibility for Free or Reduced Price Meals*

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

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

- (a) General Rule: Household Application – The participant’s household may submit an income eligibility statement that provides information about household size and income. The information submitted by each household is compared with

USDA's published Income Eligibility Guidelines. A household is not required to furnish documentation to support the information given in its income eligibility statement; however, that information is subject to verification under 7 CFR 226.23(h) (7 CFR 226.23(e)(1)(ii) and (iii), and 226.23(e)(4)).

- (b) Exception: Categorical Eligibility – Children and adults may be determined categorically eligible for free and reduced price meals by virtue of their participation in certain other programs. For children, such programs include the Supplemental Nutrition Assistance Program (SNAP), Food Distribution Program on Indian Reservations (FDPIR), or state programs funded through Temporary Assistance for Needy Families (TANF). Categorically eligible adults include those who receive SNAP, FDPIR, Supplemental Security Income (SSI), or Medicaid benefits. Categorically eligible participants must indicate on the income eligibility statement the other program for which they are eligible. No income eligibility statement is required for foster children or children participating in the Head Start program or for pre-kindergarten children participating in the Even Start program, nor is any eligibility determination required beyond documenting their participation in Head Start or Even Start (7 CFR 226.23 (e)(1)(iv) and (v); 42 USC 1766(c)(6)).
- (2) *Children Enrolled in Family Day Care Homes* – A tiering structure prescribed by program statute and regulations forms the basis for meal reimbursement payments to sponsoring organizations of day care homes. A home is classified as tier I or tier II, depending on the home's location or the provider's income eligibility.

Tier I day care homes are those operated by providers whose own household meets the income standards for free or reduced price meals, as outlined above, or those located in low-income areas. A low-income area is one where at least 50 percent of the children are eligible for free or reduced price school meals. Sponsoring organizations may use school enrollment data or census data to determine if a home is located in a low-income areas (7 CFR sections 226.2 (definitions of "low-income area" and "tier I day care home") and 226.15 (e)(3) and (f)).

Tier II homes are those day care homes which do not meet the location or provider income criteria for a tier I home. Per-meal reimbursement rates for meals served in tier II homes are lower



than corresponding rates for tier I homes. The provider in a tier II home may nevertheless elect to have the sponsoring organization determine the income-eligibility of enrolled children so that meals served to those children who qualify for free and reduced price meals would be reimbursed at the higher tier I rate (7 CFR 226.23(e)(1)(i)).

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

- (3) *Children Attending At-Risk Afterschool Programs* – Eligible afterschool programs must be located in geographical areas where 50 percent or more of the children are eligible for free or reduced price meals under the School Nutrition programs (Assistance Listing 10.553 and 10.555), as demonstrated by the free and reduced price eligibility data maintained by the school serving the area. Individual eligibility determinations for children attending these programs are not required (42 USC 1766(r)).
- (4) *Children Residing in Emergency Shelters* – Children residing in emergency shelters are categorically eligible to receive meals at no charge (42 USC 1766(t)(5)(C)).

## **2. Eligibility for Group of Individuals or Area of Service Delivery**

Not Applicable

## **3. Eligibility for Subrecipients**

- a. An institution must meet the definition of “independent center” or “sponsoring organization” at 7 CFR 226.2. These definitions are:
  - (1) *Independent center* means a child care center, at-risk afterschool care center, emergency shelter, outside-school-hours care center or adult day care center which enters into an agreement with the state agency to assume final administrative and financial responsibility for program operations.
  - (2) *Sponsoring organization* means a public or nonprofit private organization that is entirely responsible for the administration of the food program in:
    - (a) One or more day care homes;

- (b) A child care center, emergency shelter, at-risk afterschool care center, outside-school-hours care center, or adult day care center, which is a legally distinct entity from the sponsoring organization;
  - (c) Two or more child care centers, emergency shelters, at-risk afterschool care centers, outside-school-hours care center, or adult day care centers; or
  - (d) Any combination of child care centers, emergency shelters, at-risk afterschool care centers, outside-school-hours care centers, adult day care centers, and day care homes. The term “sponsoring organization” also includes an organization that is entirely responsible for administration of the program in any combination of two or more child care centers, at-risk afterschool care centers, adult day care centers or outside-school-hours care centers, which meet the definition of for-profit center in this section and are part of the same legal entity as the sponsoring organization.
- (3) *For-profit center* means a child care center, outside-school-hours care center, or adult day care center providing nonresidential care to adults or children that does not qualify for tax-exempt status under the Internal Revenue Code of 1986. For-profit centers serving adults must meet the criteria described in paragraph (a) of this definition. For-profit centers serving children must meet the criteria described in paragraphs (b)(1) or (b)(2) of this definition, except that children who only participate in the at-risk afterschool snack and/or meal component of the program must not be considered in determining the percentages under paragraphs (b)(1) or (b)(2) of this definition.
- (a) A for-profit center serving adults must meet the definition of adult day care center as defined in this section and, during the calendar month preceding initial application or reapplication, the center receives compensation from amounts granted to the states under title XIX or title XX and 25 percent of the adults enrolled in care are beneficiaries of title XIX, title XX, or a combination of titles XIX and XX of the Social Security Act.
  - (b) A for-profit center serving children must meet the definition of child care center or outside-school-hours care center as defined in this section and one of the following conditions during the calendar month preceding initial application or reapplication:

- (i) Twenty-five percent of the children in care (enrolled or licensed capacity, whichever is less) are eligible for free or reduced-price meals; or
- (ii) Twenty-five percent of the children in care (enrolled or licensed capacity, whichever is less) receive benefits from title XX of the Social Security Act and the center receives compensation from amounts granted to the states under title XX.

Children who participate only in the at-risk afterschool component of the program must not be considered in determining whether the institution met this 25 percent threshold (42 USC 1766(a)(2)(B); 7 CFR 226.11(c)(4)).

- b. All institutions must meet the eligibility requirements stated in 7 CFR 226.15 and 42 USC 1766(a)(6) and (d)(1). In addition, as applicable, institutions must meet the type definitions in 7 CFR 226.2 and applicable additional requirements.
  - Sponsoring organizations: 7 CFR 226.16;
  - Child care centers (whether independent or sponsored): 7 CFR 226.17;
  - Day care homes (which must be sponsored): 7 CFR 226.18;
  - Outside-school-hours centers: 7 CFR 226.19;
  - Adult day care centers (whether independent or sponsored): 7 CFR 226.19a;
  - At-risk afterschool programs: 7 CFR 226.17a;
  - Emergency shelters: 42 USC 1766(t).

## **I. Procurement and Suspension and Debarment**

1. *Procurement* - For procurements covered by the USDA adoption of 2 CFR Part 200.318 and the regulations at 2 CFR section 416.1, the following applies:
  - a. A prospective contractor that develops or drafts specifications, requirements, statements of work, invitations for bids, requests for proposals, contract term and conditions, or other documents for use by a state under this program shall be excluded from competing for such procurements. Such prospective contractors are ineligible for contract awards resulting from such procurements regardless of the procurement method used. However, prospective contractors may provide states with specification information related to a state procurement and still compete

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

- b. Procurements by states under this program shall be conducted in a manner that prohibits the use of statutorily or administratively imposed in-state or local geographic preferences except as provided for in 2 CFR 200.319(b) (2 CFR 416.1(b)).
- c. Notwithstanding the requirements in paragraph 1.b above, an institution operating the CACFP may use a geographical preference for the procurement of unprocessed agricultural products, both locally grown and locally raised (7 CFR 226.22(n) and Section 9(j) of the NSLA (42 USC 1758(j))).

## 2. *Suspension and Debarment*

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

## M. **Subrecipient Monitoring**

As explained in 7 CFR 226.16(d) each sponsoring organization must provide adequate supervisory and operational personnel for the effective management and monitoring of the program at all facilities it sponsors. Each sponsoring organization must employ monitoring staff sufficient to meet the requirements of 7 CFR 226.16(b). At a minimum, Program assistance must include:

Pre-approval visits to each child care and adult day care facility for which application is made to discuss Program benefits and verify that the proposed food service does not exceed the capability of the child care facility;

1. ***Review elements.*** Reviews that assess whether the facility has corrected problems noted on the previous review(s), a reconciliation of the facility's meal counts with enrollment and attendance records for a five-day period, as specified in 7 CFR 226.16 (d)(4)(ii), and an assessment of the facility's compliance with the Program requirements pertaining to:
  - a. The meal pattern;
  - b. Licensing or approval;
  - c. Attendance at training;
  - d. Meal counts;
  - e. Menu and meal records; and

- f. The annual updating and content of enrollment forms (if the facility is required to have enrollment forms on file, as specified in 7 CRR 226.15(e)(2) and (3) §§ 226.15(e)(3)s
2. ***Reconciliation of meal counts.*** Reviews must examine the meal counts recorded by the facility for five consecutive days during the current and/or prior claiming period. For each day examined, reviewers must use enrollment and attendance records (except in those outside-school-hours care centers, at-risk afterschool care centers, and emergency shelters where enrollment records are not required) to determine the number of participants in care during each meal service and attempt to reconcile those numbers to the numbers of breakfasts, lunches, suppers, and/or snacks recorded in the facility's meal count for that day. Based on that comparison, reviewers must determine whether the meal counts were accurate. If there is a discrepancy between the number of participants enrolled or in attendance on the day of review and prior meal counting patterns, the reviewer must attempt to reconcile the difference and determine whether the establishment of an overclaim is necessary.
3. ***Frequency and type of required facility reviews.*** Sponsoring organizations must review each facility three times each year, except as described in 7 CFR 226.16 (d)(4)(iv). In addition:
  - a. At least two of the three reviews must be unannounced;
  - b. At least one unannounced review must include observation of a meal service;
  - c. At least one review must be made during each new facility's first four weeks of Program operations; and
  - d. Not more than six months may elapse between reviews.
4. ***Follow-up reviews.*** If, in conducting a facility review, a sponsoring organization detects ***one*** or more serious deficiency, the next review of that facility must be unannounced. Serious deficiencies are those described at 7 CFR 226.16 (1)(2), regardless of the type of facility.

## **N. Special Tests and Provisions**

### **1. Accountability for USDA-Donated Foods**

#### **Compliance Requirements**

##### **a. Maintenance of Records**

Distributing and subdistributing agencies (as defined at 7 CFR 250.3) must maintain accurate and complete records with respect to the receipt, distribution, and inventory of USDA-donated foods, including end products processed from

donated foods. Failure to maintain records required by 7 CFR 250.16 shall be considered prima facie evidence of improper distribution or loss of donated foods, and the agency, processor, or entity may be required to pay USDA the value of the food or replace it in kind (7 CFR 250.16(a)(6) and 250.15(c)).

b. Physical Inventory

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

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

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

**Suggested Audit Procedures**

- a. Determine storage facility, processing, and end use locations of all donated foods, including end products processed from donated foods. Ascertain the donated food records maintained by the entity and obtain a copy of procedures for conducting the required annual physical inventory. Obtain a copy of the annual physical inventory results.
- b. Perform analytical procedures and obtain explanation and documentation for unusual or unexpected results. Consider the following:
  - (1) Compare receipts, distributions, losses, and ending inventory of donated foods for the audit period to the previous period.
  - (2) Compare distribution by entity for the audit period to the previous period.
- c. Ascertain the validity of the required annual physical inventory. Consider performing the following steps, as appropriate:
  - (1) Observe the annual inventory process at selected locations and recount a sample of donated food items.
  - (2) If the annual inventory process is not observed, select a sample of significant donated foods on hand as of the physical inventory date and,

using the donated food records, “roll forward” the balance on hand to the current balance observed.

- (3) On a test basis, recompute physical inventory sheets and related summarizations.
  - (4) Ascertain that the annual physical inventory was reconciled to donated food records. Investigate any large adjustments between the physical inventory and the donated food records.
- d. On a sample basis, test the mathematical accuracy of the donated food records and related summarizations. From the donated food records, vouch a sample of receipts, distributions, and losses to supporting documentation. Ascertain that activity is properly recorded, including correct quantity, proper period and, if applicable, correct recipient agency.

#### **IV. OTHER INFORMATION**

1. The value of donated foods used during a state or recipient agency’s fiscal year is considered federal awards expended in accordance with 2 CFR 200.40, definition of “federal financial assistance,” and should be valued in accordance with 2 CFR 200.502. Therefore, recipient agencies must determine the value of donated foods used. FNS recommends that recipient agencies use the value of donated food delivered to them during the fiscal year being audited for this purpose.

**UNITED STATES DEPARTMENT OF AGRICULTURE****ASSISTANCE LISTING 10.565 COMMODITY SUPPLEMENTAL FOOD PROGRAM****ASSISTANCE LISTING 10.568 EMERGENCY FOOD ASSISTANCE PROGRAM  
(ADMINISTRATIVE COSTS)****ASSISTANCE LISTING 10.569 EMERGENCY FOOD ASSISTANCE PROGRAM  
(FOOD COMMODITIES)****I. PROGRAM OBJECTIVES**

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

CSFP provides a package of USDA Foods to low-income elderly people at least 60 years of age. CSFP food packages are not intended to provide a complete diet, but rather provide the nutrients that are typically lacking in the diets of the target population.

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

**II. PROGRAM PROCEDURES**

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

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

**Program Descriptions***Common Characteristics*

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

- a. USDA purchases and provides food and administrative funds to state agencies,



which in turn provide the USDA Foods and a portion of the administrative funds to recipient agencies.

- b. State agencies must submit a plan of operation to the applicable FNS Regional Office and have a federal-state agreement on file. In CSFP, the plan of operation is referred to as the state plan. In TEFAP, it is referred to as the distribution plan.
- c. Public agencies and private nonprofit organizations possessing tax-exempt status under the Internal Revenue Code can participate in the programs as recipient agencies. Examples include food banks, food pantries, and community action organizations.
- d. Program participants must meet income eligibility requirements to qualify for household distribution of USDA Foods. Determinations are generally made by recipient agencies in accordance with the criteria and procedures established by the state agencies.
- e. The program benefits generally consist of USDA Foods issued to program participants for use in meal preparation at home. The one exception is that some TEFAP ERAs operate emergency feeding sites where USDA Foods are used in preparing meals for service to low-income persons.

### *Characteristics of Individual Programs*

- a. *CSFP* – Elderly people at least 60 years of age may be eligible for CSFP if they meet all eligibility criteria. Prior to passage of the Agriculture Act of 2014 (2014 Farm Bill) (Pub. L. No. 113-79), pregnant and breastfeeding women, women up to one year postpartum, infants, and children up to age 6 also were eligible to participate in CSFP on the same basis as elderly persons. However, Section 4102 of the 2014 Farm Bill amended CSFP eligibility requirements to phase out the participation of this population and transition it to a seniors-only program. The phase-out was completed in 2020.

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

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

To gain access to its USDA Foods and administrative funds, a state agency must have a state plan and a federal-state agreement on file with the applicable FNS regional office. The state plan must include the criteria listed at 7 CFR section 247.6(c), including a plan for the storage and distribution of USDA Foods. State agencies may enter into an agreement with a subdistributing agency, such as

another state agency, a local governmental agency, or a nonprofit organization, to perform most functions that are normally performed by the state agency, such as entering into agreements with local agencies, ordering USDA Foods, or making arrangements for the storage and transportation of USDA Foods to local agencies. Ultimately, however, the state agency is responsible for all aspects of CSFP administration. CSFP currently operates in 50 states, six Indian tribal organizations, the District of Columbia, and Puerto Rico.

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

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

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

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

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

either party. State agencies may also, on an annual basis, submit an amendment to their distribution plan to receive Farm to Food Bank Project funding, which can be used to harvest, process, package, or transport commodities donated by agricultural producers, processors, or distributors for use by EFOs.

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

### **Source of Governing Requirements**

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

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

### **Availability of Other Program Information**

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

## **III. COMPLIANCE REQUIREMENTS**

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the following summary (also included in Part 2, “Matrix of Compliance Requirements”), which of the 12 types of compliance requirements have been identified as subject to the audit (noted with a “Y” in the summary matrix below), and then determine which of the compliance requirements that are subject to the audit are likely to have a direct and material effect on the federal program at the auditee. For each such compliance requirement subject to the audit, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit. When a compliance requirement is shown in the summary below as “N,” it has been identified as not being subject to the audit. Auditors are not expected to test requirements that have been noted with an “N.” See the Safe Harbor Status discussion in Part 1 for additional information.

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

**A. Activities Allowed or Unallowed**

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

1. *CSFP* – In addition to the activities listed above, examples of activities for which CSFP administrative funds can be used include nutrition education, program outreach, and monitoring and review of program operations (7 CFR section 247.25(a)).
2. *TEFAP* – In addition to the activities listed above, allowable activities include processing USDA Foods. Under certain circumstances, a state agency may also use these funds for transporting USDA Foods to other states and transporting non-USDA Foods in from other states (7 CFR section 251.8(e)(1)).

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

**E. Eligibility****1. Eligibility for Individuals****a. CSFP**

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

- (1) **Categorical Eligibility.** Eligibility is limited to the elderly (persons at least 60 years of age) (7 CFR section 247.9(a)).
- (2) **Income Eligibility.** State agencies determine income eligibility guidelines for program participants, within the parameters of the income eligibility guidelines provided in program regulations. The state agency must set income eligibility limits that are at or below 130 percent of the federal poverty income guidelines (7 CFR sections 247.9(b) through (e)). The income guidelines must be approved in advance by FNS as part of the state agency's state plan.
- (3) **Eligibility Criteria at State's Discretion** – In addition to categorical and income eligibility, the state agency may also require that applicants (a) be at nutritional risk, as determined by a physician or by local agency health staff; and/or (b) reside within the service area of a local agency when applying for benefits (7 CFR section 247.9(e)).

**b. TEFAP**

- (1) **Receipt of USDA Foods for Household Use** – An ERA certifies households eligible to receive USDA Foods for household consumption by applying income eligibility criteria established by the state agency (7 CFR section 251.5(b)). These criteria are approved in advance by FNS as part of the state agency's distribution plan (7 CFR section 251.6(a)).
- (2) **Receipt of Prepared Meals** – There is no means test for eligibility of persons receiving prepared meals. Their eligibility is derived from the ERA's eligibility to receive USDA Foods from TEFAP and use them in prepared meals (7 CFR section 251.5(a)(2)).

**2. Eligibility for Group of Individuals or Area of Service Delivery**

Not Applicable

### 3. Eligibility for Subrecipients

- a. A recipient agency must be either a public agency or a private entity possessing tax-exempt status under the Internal Revenue Code and must enter into a written agreement with the state agency, or with another recipient agency where permitted, binding it to perform the duties of a recipient agency (7 CFR sections 247.4, 247.7(a), 251.3(d), and 251.5(a)).
- b. For TEFAP, the state agency's distribution plan identifies the classes of organizations with which it will enter into such agreements (7 CFR section 251.6).
- c. For TEFAP, recipient agencies providing prepared meals must have demonstrated, to the satisfaction of the state agency, or ERA to which they have applied for USDA Foods or administrative funds, that they serve predominantly needy persons (7 CFR section 251.5(a)(2)).

## N. Special Tests and Provisions

### 1. Accountability for USDA Foods

**Compliance Requirements** Accurate and complete records must be maintained with respect to the receipt, distribution/use, and inventory of USDA Foods, including end products processed from USDA Foods in TEFAP. Failure to maintain records required by 7 CFR section 250.19 is considered prima facie evidence of improper distribution or loss of USDA Foods, and the agency processor or entity is liable for the value of the food or replacement of the food in kind (7 CFR sections 250.16 and 250.19(a)).

State distributing agencies must conduct an annual physical inventory of all storage facilities used by the distributing agency or by a subdistributing agency. Such inventory must be reconciled annually with the storage facility's inventory records and maintained on file by the agency which contracted with or maintained the storage facility. Corrective action must be taken immediately on all deficiencies and inventory discrepancies and the results of the corrective action forwarded to the distributing agency (7 CFR section 250.12(b)). In CSFP, a physical inventory also must be conducted annually at all storage and distribution sites where USDA Foods are stored (7 CFR section 247.28).

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

#### Suggested Audit Procedures

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

- b. Perform analytical procedures and obtain explanation and documentation for unusual or unexpected results. Consider the following:
- (1) Compare receipts, usage/distribution, losses, and ending inventory of USDA Foods for the audit period to the previous period.
  - (2) If auditing at the state distributing agency level, compare distribution by entity for the audit period to the previous period.
  - (3) If auditing at the ERA level in TEFAP, compare relationship of usage of USDA Foods to production, meals served, or similar activity reports for the audit period to the same relationship for the previous period.
- c. Ascertain the validity of the required annual physical inventory. Consider performing the following steps, as appropriate:
- (1) Observe the annual inventory process at selected locations and recount a sample of USDA Foods items.
  - (2) If the annual inventory process is not observed, select a sample of significant USDA Foods on hand as of the physical inventory date and, using the USDA Foods records, “roll forward” the balance on hand to the current balance observed.
  - (3) On a test basis, recompute physical inventory sheets and related summarizations.
  - (4) Ascertain that the annual physical inventory was reconciled to USDA Foods records. Investigate any large adjustments between the physical inventory and the USDA Foods records.
- d. On a sample basis, test the mathematical accuracy of the USDA Foods records and related summarizations. From the USDA Foods records, vouch a sample of receipts, usage/distributions, and losses to supporting documentation. Ascertain that activity is properly recorded, including the correct quantity, proper period, and, if applicable, correct ERA.

**UNITED STATES DEPARTMENT OF AGRICULTURE****ASSISTANCE LISTING 10.566 NUTRITION ASSISTANCE FOR PUERTO RICO****I. PROGRAM OBJECTIVES**

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

**II. PROGRAM PROCEDURES****A. Administration**

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

**B. Benefits**

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

A household receives its monthly benefit payment electronically. PR issues each client household a debit card with which to access the benefits. All of the benefits (100 percent) are issued for food purchases.

The Administration of the Socio-Economic Development of the Family (ADSEF) will continue supporting the Family Markets by setting aside a 4% of benefits exclusively to purchase nutritious fresh food at the Family Markets in participating regions and municipalities. The 4 % portion is included in the monthly adjustment as an "electronic voucher" and is calculated by applying the formula of the monthly adjustment.



### **C. Benefit Redemption**

NAP benefits are administered through an electronic benefit transfer (EBT) system. PR establishes a benefit account to control the issuance and use of each household's benefits. Beginning in 2001, NAP program rules provided that 75 percent of NAP benefits were redeemable for eligible food items at certified NAP retailers through EBT; the remaining 25 percent of benefits were available as cash and intended food purchases. Section 4025 of the Agricultural Act of 2014 requires the secretary to review cash nutrition assistance benefits in Puerto Rico by studying the history of cash benefits, barriers to redemption with non-cash benefits, usage of cash benefits for the purchase of nonfood items, and other factors. The provision also restricts the secretary from approving any nutrition assistance plan for FY 2017 that provides more than 20 percent of benefits in cash. Due to disasters, there was a temporary hold at 20 percent into FY 2018, which ended on December 31, 2017. In FY 2018, cash was limited to 15 percent of benefits; in FY 2019, cash is limited to 10 percent of benefits; in FY 2020, cash is limited to 5 percent; and in FY 2021, no benefits shall be in the form of cash. The secretary may make exemptions if discontinuation of cash benefits will have significant adverse effects.

ATM transactions generate charges against the client's cash account. Purchases at authorized retailers generate on-line charges against the client's noncash account; these are resolved by crediting the retailers for the amount of client purchases. PR must reconcile the funds exiting the EBT system and paid to retailers with amounts drawn from its EBT benefit account with Banco Popular. Cash drawn from PR's letter-of-credit is used to settle accounts with Banco Popular. A service provider is used to process NAP EBT transactions.

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

### **Source of Governing Requirements**

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

### **III. COMPLIANCE REQUIREMENTS**

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the following summary (also included in Part 2,

“Matrix of Compliance Requirements”), which of the 12 types of compliance requirements have been identified as subject to the audit (noted with a “Y” in the summary matrix below), and then determine which of the compliance requirements that are subject to the audit are likely to have a direct and material effect on the federal program at the auditee. For each such compliance requirement subject to the audit, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit. When a compliance requirement is shown in the summary below as “N,” it has been identified as not being subject to the audit. Auditors are not expected to test requirements that have been noted with an “N.” See the Safe Harbor Status Discussion in Part 1 for additional information.

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

**A. Activities Allowed or Unallowed**

The annual plan of operation submitted by the PR Department of the Family must include a description of PR’s program for providing nutrition assistance to needy persons. The nutrition assistance PR actually provides must conform to the approved plan (7 CFR section 285.3(b)(3); PR Annual Plan of Operation). In FY 2021, no benefits shall be in the form of cash. The secretary may make exemptions if discontinuation of cash benefits will have significant adverse effects.

**E. Eligibility**

**1. Eligibility for Individuals**

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

**2. Eligibility for Group of Individuals or Area of Service Delivery**

Not Applicable

### 3. Eligibility for Subrecipients

Not Applicable

### H. Period of Performance

Payments received by PR for a fiscal year may not exceed the amount authorized for the grant or the total NAP cost eligible for funding, whichever is less, for that fiscal year.

Funds for payments for any prior fiscal year expenditures must be claimed against the funding for that fiscal year; however, funds collected from claims are credited to the fiscal year in which the collection occurred (7 USC 2027(e); 7 CFR section 285.2(b)).

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

### L. Reporting

#### 1. Financial Reporting

- a. *SF-270, Request for Advance or Reimbursement* – Not Applicable
- b. *SF-271, Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable
- c. *SF-425, Federal Financial Report* – Applicable
- d. *FNS-778, Financial Status Report – PR* – This report captures PR's cumulative outlays (expenditures) and unliquidated obligations of federal funds for NAP as a whole, for the administrative and benefits components of PR's NAP grant, and for the cost of key functions supported by the NAP grant's administrative cost component. FNS uses the data captured by this report to monitor PR's NAP costs and cash draws. The FNS-778 also functions as a work paper that feeds the SF-425 (Government of Puerto Rico State Plan of Operation for FY 2019, pages 48 and 50).

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

1. Line 10.b. – *Total outlays this report period*
2. Line 10.c. – *Less: Program income credits*
3. Line 10.j. – *Total federal share of unliquidated obligations*

**2. Performance Reporting**

Not Applicable

**3. Special Reporting**

Not Applicable

**4. Special Reporting for Federal Funding Accountability and Transparency Act**

See Part 3.L for audit guidance.

**N. Special Tests and Provisions****1. EBT Reconciliation**

**Compliance Requirements** PR must perform all the following:

- a. Record and compare payments to the Daily Activity File and the Daily Payments Summary File prepared by the EBT Services provider for the Department of the Family (PR Annual Plan of Operation, H., Program Administration, 2.a., Reconciliation System (EBT)).
- b. Perform the following reconciliations (PR Annual Plan of Operation, H., Program Administration, 2.a., Reconciliation System (EBT)):
  - (1) Benefits authorized equal benefits posted.
  - (2) Benefits accessed by recipients (net EBT account debits/credits) equal benefit amount transactions approved by the EBT services provider.
  - (3) Net EBT account debits/credits equal amount paid to merchants and financial institutions (plus/minus authorized adjustments).
  - (4) Amount paid to merchants and financial institutions equal funds requested by the EBT services provider (plus/minus authorized adjustments).

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

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

**Suggested Audit Procedures**

- a. Ascertain if PR has a process in place to perform the required comparisons and reconciliations.
- b. Test a sample of comparisons and reconciliations to ascertain if they are properly performed and that there is proper follow-up and resolution of discrepancies.

## UNITED STATES DEPARTMENT OF AGRICULTURE

### ASSISTANCE LISTING 10.606 FOOD FOR PROGRESS PROGRAM

#### I. PROGRAM OBJECTIVES

The US 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

The Food for Progress Program is a Commodity Credit Corporation (CCC) program. CCC implements this program 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 nonprofit organizations located in the United States but operating programs overseas that are registered with the United States Agency for International Development (7 CFR section 1499.3).

The criteria for determining what qualifies as an eligible foreign country is as follows.

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

- a. Have economic and social indicators that demonstrate the need for assistance, including indicators related to income, undernourishment, movement toward freedom, and food imports; or
- b. Are in transition, either politically or economically, including countries that show potential toward strong private sector growth and development or that are recovering from conflict.

## **Program Operation**

### *Bellmon Amendment*

Adopted as Section 212 of the International Development and Food Assistance Act of 1977 and codified at 7. U.S.C. 1773(a), it applies to commodities under the Food for Peace Act. The authorizing legislation for Food for Progress incorporates the programs by reference to the amendment. The amendment says that implementing agencies (referred to herein as XXX) must determine before supplying in-kind food aid to a country, that adequate storage facilities are available in that country and that the distribution of the proposed commodities will not result in a substantial disincentive to, or interference with, domestic production or marketing to recipient countries.

### *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 semi-annual 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 is authorized by the Food for Progress Act of 1985 (7 USC 1736o) (Food for Progress Program). Implementing regulations are found at 7 CFR Part 1499.

**III. COMPLIANCE REQUIREMENTS**

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the following summary (also included in Part 2, “Matrix of Compliance Requirements”), which of the 12 types of compliance requirements have been identified as subject to the audit (noted with a “Y” in the summary matrix below), and then determine which of the compliance requirements that are subject to the audit are likely to have a direct and material effect on the federal program at the auditee. For each such compliance requirement subject to the audit, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit. When a compliance requirement is shown in the summary below as “N,” it has been identified as not being subject to the audit. Auditors are not expected to test requirements that have been noted with an “N.” See the Safe Harbor Status discussion in Part 1 for additional information.

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

**A. Activities Allowed or Unallowed**

1. *Use of Funds*

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



Except as approved in advance by CCC, the cooperating sponsor shall ordinarily bear all costs incurred subsequent to CCC's delivery of commodities at US 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)).

**C. Cash Management**

1. *Cash Advances from the CCC*

A cooperating sponsor may request an advance of up to the total amount specified in the agreement. 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 1499.6(f)(8)).

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 1499.11(g)).

**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).

**J. Program Income**

Program income includes interest on sale proceeds and money received by the cooperating sponsor, other than monetization proceeds, as a result of carrying out approved activities (7 CFR section 1499.1). A cooperating sponsor must use program

income for program purposes identified in its agreement with the CCC (7 CFR section 1499.5).

## **L. Reporting**

### **1. Financial Reporting**

- a. *SF-270, Request for Advance or Reimbursement* – Not Applicable
- b. *SF-271 – Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable
- c. *SF-425, Federal Financial Report* – Not Applicable
- d. *Semi Annual Financial Report (SAFR)* (OMB Control No. 0551-0035)– Per 7 CFR section 1499.13 a cooperating sponsor must submit a financial report with amounts in U.S. dollars to the FAS semiannually for each agreement. The report must provide an accurate accounting of sale proceeds, CCC-provided funds, interest earned, program income and voluntary committed cost sharing or matching contributions. This accounting is directly entered into the online Food Aid Information System (FAIS) as indicated here: <https://omb.report/icr/202012-0551-002/doc/106826501>. For access to these reports, please request copies from the auditee.

Key Line Items – Data reported under *Expenses this Reporting Period* contain critical line item information for the follow sections:

1. Monetization Sales Proceeds (\$) – (Relating to expenses utilizing commodity sales proceeds.)
2. CCC/FAS Cash (\$) - (Relating to expenses utilizing Commodity Credit Corporation funding provided, separate from monetization)
3. Cost Share (\$) (Relating to expenses utilizing resources contributed by the recipient)
4. Monetization and Sales Deposits (Relating to sales deposit, interest earned, other project income, disbursements, and other monetization transaction details actualized during the reporting period)

### **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)). For access to this report, please request a copy from the auditee.

*Key Line Items* – The following line items contain critical information that are supported by the sponsor accounting records and other source data:

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 US dollar (USD) equivalents. Claims generated by the ocean and inland portions of the shipment should be separately identified.
3. *Warehouse Losses* – The following data relating to storage of each commodity provided for in the agreement:
  - a. *Warehouse losses/damages*
  - b. *Balance available for distribution*
4. *Direct Distribution* – The following data relating to direct distribution of each commodity provided for in the agreement:
  - a. *Amount distributed*
  - b. *Distribution losses/damages*
  - c. *Type of institution reached and number of institutions reached*
  - d. *Number of benefiting individuals*
5. *Warehouse Inventory Status* – The warehouse inventory status of each commodity provided for in the agreement: beginning inventory, total received in warehouse, total dispatched from warehouse, warehouse losses, and ending inventory.

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

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

*Key Line Items* – The following line items contain critical information that are supported by the sponsor accounting records and other source data:

1. 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.

2. 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.

3. Part III – *Deposits to Special Funds Account*

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

4. Part IV – *Disbursements from Special Funds Account*

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

5. Part V – *Balance of Special Funds Accounts*

Beginning and ending balances of special fund accounts, both in local currency and in USD.

- c. *Semi-Annual Performance Report (SAPR)* (OMB Control No. 0551-0035) – Per 7 CFR section 1499.13 a cooperating sponsor must submit a performance report regarding progress measured against established indicators, baseline values, and targets to the FAS semiannually for each agreement. This reporting is directly entered into the online FAIS as indicated here: <https://omb.report/icr/202012-0551-002/doc/106826501>. For access to these reports, please request copies from the auditee. Implementers use indicators for monitoring progress in achieving results. Standard indicators are a common set of required indicators identified by FAS that must be used by all recipients, if applicable to the project. Custom indicators are additional project-specific performance indicators not included in the FAS list of standard indicators. More information about these indicators can be found at: [https://fas.usda.gov/sites/default/files/2019-06/fad\\_indicator\\_handbook\\_feb\\_2019\\_0.pdf](https://fas.usda.gov/sites/default/files/2019-06/fad_indicator_handbook_feb_2019_0.pdf).

Key Line Items – Only the data reported in the column “FY202X Actual” for the applicable standard and custom indicators contain critical line item information measuring actual progress relative to the current yearly target.

### 3. Special Reporting

Not Applicable

### 4. Special Reporting for Federal Funding Accountability and Transparency Act

See Part 3.L for audit guidance.

## N. Special Tests and Provisions

### 1. Recipient Agencies

**Compliance Requirements** The Plan of Operation is required to describe the recipient agencies that will be involved in the program and to provide a description of each recipient agency’s capability to perform its responsibilities (7 CFR section 1499.5(a)(3)). A recipient agency is defined as an entity located in the foreign country that receives commodities or commodity sale proceeds from a cooperating sponsor for the purpose of implementing activities (7 CFR section 1499.1).

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

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

**Audit Objectives** Determine whether (1) the cooperating sponsor entered into written agreements with the recipient agencies, (2) the use of the recipient agencies was consistent with the Plan of Operation, and (3) the cooperating sponsor monitored the activities of recipient agencies to ensure proper performance of assigned activities and use of commodities, monetized proceeds, and program income.

### **Suggested Audit Procedures**

Select a sample of recipient agencies and ascertain if:

- a. The cooperating sponsor entered into a written agreement with the recipient agency.
- b. The cooperating sponsor's use of the recipient agency was consistent with the Plan of Operation.
- c. The cooperating sponsor appropriately monitored the activities of the recipient agency to ensure proper performance of assigned activities and use of commodities, monetized proceeds, and program income. Appropriate monitoring by the cooperating sponsor would be evidenced by *monitoring trip reports, semi-annual performance reports, semi-annual financial reports, and mid-term and final evaluation reports.*"

**UNITED STATES DEPARTMENT OF AGRICULTURE****ASSISTANCE LISTING 10.649 STATE PANDEMIC ELECTRONIC BENEFIT TRANSFER (P-EBT) ADMINISTRATIVE COSTS GRANTS****I. PROGRAM OBJECTIVES**

The objective of the state Pandemic Electronic Benefit Transfer (P-EBT) Administrative Costs Grants is to help defray state costs associated with administering the P-EBT Initiative.

**II. PROGRAM PROCEDURES****A. Administration**

P-EBT is part of the US government response to the COVID-19 pandemic. The Families First Coronavirus Response Act of 2020 (Pub. L. No. 116–127), as amended by the Continuing Appropriations Act, 2021, the Other Extensions Act (Pub. L. No. 116-159), the Consolidated Appropriations Act, 2021 (PL 116-260), the American Rescue Plan Act of 2021 (PL 117-2), and the Consolidated Appropriations Act 2023 (PL 117-328) provides the secretary of agriculture authority to approve state agency plans to administer P-EBT. Through P-EBT, eligible school children receive temporary emergency nutrition benefits loaded on EBT cards that are used to purchase food. Children are eligible to receive P-EBT benefits if they were enrolled at a school that participated in the federal School Breakfast Program or National School Lunch Program; were eligible to get free or reduced-price meals for school year 2022–23; and the school was closed or operating with reduced hours or attendance for at least five consecutive days. Recent changes in legislation extended the initiative to cover children in child care as well.

**B. Federal Grants to SNAP State Agencies for State P-EBT Administrative Costs**

Authorization and funding for P-EBT was extended into fiscal year (FY) 2023 by the American Rescue Plan Act of 2021 (PL 117-2), and the Consolidated Appropriations Act 2023 (PL 117-328). In addition to other changes to P-EBT, this legislation provides 100 percent reimbursement for costs incurred by state Supplemental Nutrition Assistance Program (SNAP) and Child Nutrition (CN) agencies for the implementation and administration of P-EBT in FY 2023.

Under this authority, the Food and Nutrition Service (FNS) Agency directed regional offices to extend new FY 2023 P-EBT Administrative Cost Grant Awards to their respective SNAP state agencies as quickly as possible once a state's PEBT operational plan and the required FNS-366(a) - Administrative Cost Spending Plan Template, as modified, approved. The period of performance for the FY 2023 P-EBT State Administrative Cost Grants is October 1, 2022, through September 30, 2023.

In contrast to FY 2021 where P-EBT Administrative Cost Grant Awards were provided to the SNAP state agency, who in turn entered into an agreement with the Child Nutrition state agency to ensure their administrative costs were reimbursed, in FY 2023 FNS provided two options.

**Option 1:** Option 1 replicate the grant award approach used in FY 2021 and permits that a total grant award amount be provided to each state SNAP Agency, which will, in turn, work with the CN state agency to capture their costs as well. As a condition of the grant award, each SNAP state agency will be required to enter into the applicable funding arrangement, (e.g., a subgrant or Memorandum of Understanding (MOU), with the CN state agency(ies) within their state that operates P-EBT). These agreements will ensure that the SNAP and CN state agencies receive funding for all allowable administrative costs associated with the FY 2023 P-EBT Initiative. Under Option 1, the SNAP state agency is required to enter into the FNS-529, Grant Award document, but submit the financial reports and one FNS-366(a) that reflects FY 2023 administrative costs from both the SNAP and CN state agency.

**Option 2:** Option 2 provides the same award approach for FY 2023 that was added for FY 2022 and permits the awarding of separate grants to the SNAP and CN State agencies. If this option is chosen, the SNAP and CN State agencies will be required to submit individual FNS-366(a) – Administrative Spending Plans, reflecting the administrative costs each agency anticipates incurring in FY 2023. Each Agency will also be required to enter into a separate FNS-529, Grant Award Document and financial reports. Financial reports are addressed below.

Regardless of which award option is chosen, the total grant award amounts to be provided to each state CN and/or SNAP Agency must be reflected on a fully executed FNS-529, Grant Award Document, respectively.

The total grant award amounts provided to each state SNAP or CN agency are based on the approved state P-EBT plan, reflecting input from both SNAP and CN state agencies and a more detailed FNS-366(a), Program and Budget Summary, conveying the state agencies' administrative cost plan. These grant awards were provided to cover P-EBT administrative costs with a performance period from **October 1, 2022 to September 30, 2023**.

Also, of note is that the 2023 State P-EBT State Administrative Grant funding has two stages of release:

*First stage:* Initial allocations were released to regional offices for the SNAP state agencies in anticipation of Option 1. These funds were allowed to the regional offices for state and territories in October, 2022. In FY 2023, we advised that initial allocation **grant awards could be** released to a state or territory prior to the receipt of an approved P-EBT Implementation/Operational Plan and FNS-366(a) – Administrative Spending Plan, as long as they operated a P-EBT initiative in FY 2022. Additional funds will require approval of both the plan and FNS 366(a) -Administrative Spending Plan.

If SNAP and CN state agencies opt to move forward with Option 2 and believe that initial funds are also needed for the CN state agency the regional office is to reach out to the national office.

*Second stage:* Funds needed beyond the initial allocation, as requested by states and territories, will be considered and approved based on the option selected and will require that the state's P-EBT Implementation Plan is approved, along with a FNS-366(a)-



Administrative Cost Spending Plan.

Further, the enacted FY 2021 Omnibus and COVID Relief and Response Act clarified that these funds may have been sub-awarded to local agencies and cooperators such as local educational agencies and school food authorities. Separate FY 2023 P-EBT Local Administrative Cost Grants were awarded to Child Nutrition State agencies to address local level costs.

The FY 2023 P-EBT Local Level Grants again allowed for optional strategies. One of the options was provided with the intent of simplifying the administration of this grant. The flexibilities outlined below were made available upon State request and could be adopted individually or in whole.

*Simplification to Provide Funding for Local Costs*

**Flexibility 1** provides an alternative to collecting local cost information and submitting the costs on the Excel Template provided by FNS, by proposing a simplified methodology to determine the amount of administrative funding to support local level activities associated with P-EBT. These activities include but are not limited to reporting student-level or school level learning models to their States, fielding questions from the community, and collecting and processing applications solely for P-EBT.

The simplified method utilizes FNS’s research into the cost structure of school meal programs in order to provide an estimate of the costs of these local activities to determine the amount of administrative funds to request in lieu of collecting itemized cost information

Due to the wide variation in the number of P-EBT eligible children across local entities, FNS has developed the three simplified payment amounts, provided below, which are scaled utilizing the distribution of P-EBT eligible children in School Food Authorities (SFA).

Number of P-EBT Eligible Children in Local Entity	Streamlined Funding Amount per Local Entity
Less than 1,000	\$653
1,001–5,000	\$3,256
5,001–1,000,000+	\$6,180

*Note.* The table reflects \*2021 levels inflated by the BLS State and local government total compensation series 2021 and 2022 annual change for the first three quarters (3.85%).

While we anticipate that the majority of the local entities served by this grant will be school food authorities (SFAs), for any eligible local entity seeking reimbursement, the State agency will need to determine which streamlined funding tier the local entity falls within. To make this determination, the state agency must know the number of National School Lunch and Breakfast Program free and reduced price eligible children served by the local entity. State agencies may allow local entities to use any reference month within FY 2022 that reflects the highest count of free and reduced price eligible students. State agencies should ensure that documentation remains on file to support the highest count level.

**Under Flexibility 2**, grant awards will be provided by FNS regional offices to their respective CN State agencies based on identified reimbursable costs. State agencies will in turn reimburse schools, local agencies of the state, and other local units, for allowable P-EBT expenses. This flexibility permits state agencies the option of awarding eligible local entities the specified dollar amount by cost category outlined on the template spreadsheet.

Whether CN State agencies opt for Flexibility 1 or 2 they may use the attached Excel template to collect and submit local expenses to their respective regional offices by August 1, 2023. Templates submitted in August should include estimated total reimbursement needs for costs incurred by September 30, 2023. States must obligate all reimbursable funds by no later than September 30, 2023, with the subsequent close-out period allowing for any expenditures or adjustments.

As a condition of the grant award, each CN state agency will be required to enter into an applicable reimbursable funding arrangement with the appropriate entities within their state that have incurred local P-EBT administrative costs during FY 2023. Such entities may include, schools, local agencies of state, and other local units (i.e., subdivision of local government below the state level that have assisted with local P-EBT program delivery). Funds cannot be reimbursed directly to nonprofit or for-profit organizations, however, should one of these organizations enter a contract, grant, or other legal funding arrangement with a school, local agency of the state, or other local unit, funding may be provided.

To receive funding under either Flexibility outlined above, a state must have an approved FY 2023 P-EBT Plan on file. Local level administrative grant funds will be extended to CN state agencies using a FNS-529, Grant/Cooperative Award. Signature on this form indicates agreement to comply with the terms and conditions that will accompany the FNS-529, Grant Award.

State agencies must complete the following steps to receive a *Local Level P-EBT Administrative Cost grant award*:

- Have an approved P-EBT Plan on file with FNS.
- Agree to return the suggested template, or something tantamount, which will capture local level costs to be reimbursed to the CN State agency. State agencies may collect these costs in the manner that works for the State agency, however, these costs must be reported in the categories outlined in the Excel template.
- Sign a FNS-529, Grant and Cooperative Agreement Award Document, with accompanying terms and conditions.

Funding will be provided via a FNS-529 award issued. It is important to note that should a local entity choose Flexibility 1 they will only have one submission **as Flexibility 1 provides a proxy for annualized costs**.

Additionally, CN State agencies are expected to report quarterly on a separate CN Financial Report Form, FNS-425, via the Food Programs Reporting System (FPRS). As

the first interval for reimbursement occurs in March, grantees will only report for quarters 3 and 4 of federal fiscal year 2023. Grantees should report under the name “PAN-CN-CRRSAA.” These reports must be submitted within 30 days after the close of each quarter for FY 2023, Q3 and Q4. Quarters 1 and 2 will be posted as blank. The Final Financial Report must be submitted within 120 days of the termination date of the grant agreement.

### **C. Background**

On September 8, 2022, FNS’ SNAP and CN programs released a joint memo providing guidance to SNAP and CN state agencies to facilitate the development of state Implementation plans for school year (SY) 2022-2023. The jointly signed memo, along with the Q&As, advised SNAP and CN state agencies that prior to USDA releasing the grant for administrative funding, each SNAP state agency would be required to submit a P-EBT Spending Plan using the FNS-366(a) Program and Budget Summary statement. The funds, outside of the initial allocation, could not be released to the SNAP state agency’s letter-of-credit until this plan was submitted and approved.

The 100 percent administrative grant funds were available for all allowable P-EBT administrative costs incurred by the agencies within each state agency that operated the SNAP and the CN NSLP. Under Option 1, as a condition of the grant award, each SNAP state agency was required to enter into the applicable funding arrangement (e.g., a subgrant or MOU) with the state agency(ies) within their state that operated the CN NSLP. Under Option 2, the awards may be separated.

The total grant award amounts provided to each state SNAP agency or, if Option 2 chosen, each SNAP and CN agency, were based on the approved state P-EBT plan, reflecting input from both SNAP and CN state agencies and a more detailed FNS-366(a), Program and Budget Summary, Excel template conveying the state agencies administrative cost plan. These agreements ensured that the CN state agencies also received funding for all allowable administrative costs associated with the FY 2023 P-EBT Initiative. The instructions for the state P-EBT plan outlined the need for a FNS-366(a), Administrative Costs Spending Plan, Budget and Program Summary, submission, and provided additional guidance on the FNS-366(a), Excel template, used in connection with the FY 2023 P-EBT Administrative Cost Grant Awards.

### **D. State Responsibilities**

FY 2023 Administrative Cost Grant Award funding was provided to SNAP and CN state agencies using the FNS-529, Grant/Cooperative Agreement Award Document, with an accompanying terms and conditions document. In FY 2023, initial allocations were provided to SNAP and CN state agencies. Again, in FY 2023, in order to receive an initial allocation, state agencies did not need to have:

An approved state P-EBT implementation plan on file with FNS. FNS recognized that the administrative cost portion of the P-EBT implementation plan would be an iterative process and that states might need initial funding to continue the operations of P-EBT in FY 2023. Thus, initial funds were released in October 2022 prior to approved P-EBT Implementation

Plans, but any remaining funds were not be released until an approved state P-EBT approved plan, with remaining total funds not being released until a more detailed FNS-366(a), Excel template spending plan submission was approved under the Administrative Grant.

However, a FNS-529 was required to be completed in order to receive an initial allocation. Upon return of the FNS-529, the document was fully executed by obtaining the signature of the regional administrator, or as delegated to the GMASDs. Once executed, funds were provided to the state agency, at FNS discretion, through the state agency's letter-of-credit.

### **E. Federal Oversight and Compliance Mechanisms**

FNS oversees state operations through an organization consisting of headquarters and seven (7) regional offices. FNS program oversight of these grants included a review of the state agencies detailed FNS-366a, Program and Budget Summary template. Review of the FNS-366(a) was conducted at both the regional and national office level. This review included a general reasonableness check of the state submission and identified any questions to be asked or revisions to be requested.

The period of performance period associated with these grant awards was October 1, 2022 through September 30, 2023. Funds provided under this award were available for all necessary, allowable, and reasonable costs of implementing and administering P-EBT **incurred** during FY 2023. This includes both costs associated with the issuance of FY 2023 benefits and costs associated with the issuance of retroactive FY 2022 benefits in FY 2023. Costs for work performed outside of FY2023 could not be charged to this grant and must have been charged to the administrative funding made available in prior Fiscal Years. Grant funds are only available for allowable costs incurred during the performance period of the award. The performance period of an award cannot begin before its authorization and supporting appropriation are enacted. Consistent with these principles the 100 percent P-EBT administrative grant were limited to costs incurred during FY 2023.

Unallowable costs were those expenses that were (1) not necessary or reasonable for the administration of the FY 2023 P-EBT program; and (2) expenses already covered under another federal award.

Regular SNAP and CN State Administrative Expense (SAE) funds may not have been used to cover the costs of administering the FY 2023 P-EBT program.

### **Source of Governing Requirements**

These grants were authorized under The Families First Coronavirus Response Act of 2020 (Pub. L. No. 116-127), as amended by the Continuing Appropriations Act, 2021, the Other Extensions Act (Pub. L. No. 116-159), the Consolidated Appropriations Act, 2021 (PL 116-260), the American Rescue Plan Act of 2021 (PL 117-2), and the Consolidated Appropriations Act 2023 (PL 117-328). This legislation provided the secretary of agriculture authority to approve state agency plans to administer P-EBT.

**Availability of Other Program Information**

Other program information is available from FNS’s site at <https://www.fns.usda.gov/snap/state-guidance-coronavirus-pandemic-ebt-pebt>.

**III. COMPLIANCE REQUIREMENTS**

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the following summary (also included in Part 2, “Matrix of Compliance Requirements”), which of the 12 types of compliance requirements have been identified as subject to the audit (noted with a “Y” in the summary matrix below), and then determine which of the compliance requirements that are subject to the audit are likely to have a direct and material effect on the federal program at the auditee. For each such compliance requirement subject to the audit, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit. When a compliance requirement is shown in the summary below as “N,” it has been identified as not being subject to the audit. Auditors are not expected to test requirements that have been noted with an “N.” See the Safe Harbor Status discussion in Part 1 for additional information.

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

**A. Activities Allowed or Unallowed**

Funds provided under this award were available for all necessary, allowable and reasonable costs of implementing and administering P-EBT **incurred** during FY 2023. This included both costs associated with the issuance of FY 2023 benefits as well as costs associated with the issuance of retroactive benefits incurred in FY 2023.

In accordance with 2 CFR 200.403, examples of allowable costs under this grant include, salaries of personnel, outreach, equipment, supplies, support services (to include contracts for staffing or system related work that show clear allocation to the FY 2023 P-EBT program), or other expenses associated with the administration of the FY 2023 P-EBT program. These examples are not meant to be exhaustive, and other items may be approved, provided they are designed to administer the FY 2023 P-EBT program.

Unallowable costs are those expenses that are: (1) are not necessary or reasonable for the

administration of the FY 2023 P-EBT program; and (2) expenses already covered under another federal award.

## H. Period of Performance

1. Funds provided under the P-EBT State Administrative Cost Grants and the P-EBT Local Level Administrative Costs grants were available for all necessary, allowable and reasonable costs of implementing and administering P-EBT incurred during FY 2023. This included both costs associated with the issuance of FY 2023 benefits as well as costs associated with the issuance of retroactive benefits incurred in FY 2023.

## I. Procurement and Suspension and Debarment

1. *Systems Development* – States could incur costs related to competitive acquisitions of system changes and/or equipment and services to implement P-EBT. In accordance with 2 CFR 200.405, costs must have been allocable to the administration of P-EBT.

## L. Reporting

### 1. Financial Reporting

- a. SF-270, *Request for Advance or Reimbursement* – Not Applicable
- b. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable
- c. SF-425, *Federal Financial Report* – Applicable (for P-EBT, the FNS-778 is a SNAP version of the SF-425)

For the FY 2023 state P-EBT Administrative Cost Grants, if **Option 1** is chosen, SNAP state agencies will be responsible for including all administrative costs incurred by the SNAP and CN state agencies for reporting purposes. During the period of performance of the grant, the SNAP state agency will be expected to aggregate obligation and outlay data from all state agencies utilizing the award and report quarterly to USDA using the P-EBT specific instance of the FNS-778 Financial Status Report. Further guidance on the use of the FNS-778, including specific reporting timeframes, are also included in the terms and conditions to accompany the award. SNAP state agencies will be expected to report quarterly on a separate SNAP Financial Report Form, FNS-778, via the Food Programs Reporting System (FPRS). Grantees should report under the name “*PAN- SNAP P-EBT Admin-SNAP PEBT Administration Grant.*” These reports must be submitted within 30 days after the close of each quarter. The Final Financial Report must be submitted within 90 days of the expiration of the grant agreement.

If **Option 2** is chosen, each state agency will need to submit a financial report form as follows:

CN state agencies will be expected to report quarterly on the SF-425, Financial Status Report, whereas SNAP state agencies will be expected to report via the FNS-778. These reports will be submitted within FPRS under the report name “*PAN-CN-PEBT-Admin-CN PEBT Administration Grant.*” These reports must be submitted within 30 days after the close of each quarter. The Final Financial Report must be submitted within 90 days of the expiration of the grant agreement.

For the FY 2023 P-EBT Local Level Administrative Cost Grants, CN state agencies are expected to report quarterly on a separate CN Financial Report Form, FNS-425, via the Food Programs Reporting System (FPRS). As the first interval for reimbursement occurs in March, grantees will only report for quarters 3 and 4 of federal fiscal year 2023. Grantees should report under the name “*PAN-CN-CRRSAA.*” These reports must be submitted within 30 days after the close of each quarter for FY2023, Q3, and Q4. Quarters 1 and 2 will be posted as blank. The Final Financial Report must be submitted within 120 days of the termination date of the grant agreement.

During the period of performance of the grant, the CN state agency will aggregate obligation and outlay data from all state agencies utilizing the award and report quarterly to USDA.

**2. Performance Reporting**

Not Applicable

**3. Special Reporting**

Not Applicable

**4. Special Reporting for Federal Funding Accountability and Transparency Act**

See Part 3.L for audit guidance.

**UNITED STATES DEPARTMENT OF AGRICULTURE****ASSISTANCE LISTING 10.665 SCHOOLS AND ROADS – GRANTS TO STATES****ASSISTANCE LISTING 10.666 SCHOOLS AND ROADS – GRANTS TO COUNTIES****I. PROGRAM OBJECTIVES**

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

**II. PROGRAM PROCEDURES****A. 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 US Treasury.

**B. Program Operation****1. Assistance Listing 10.665 – Schools and Roads – Grants to States**

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

*State Payment (Secure Rural Schools and Community Self-Determination Act Payment) (SRS)* – Each eligible county elects to receive either its share of the 25-



Percent Payment, as described above, or its share of the state payment. The SRS program expired on October 1, 2023 and has not been reauthorized beyond FY 2023.

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

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

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

2. *Assistance Listing 10.666 – Schools and Roads – Grants to Counties*

*National Grasslands Payment* – Twenty-five percent of net revenues from national grasslands and land utilization projects (LUPs) administered under Title III of the Bankhead-Jones Farm Tenant Act (grazing receipts collected by the Forest Service and mineral receipts collected by the Department of the Interior, Office of Natural Resource Revenue, and transmitted to the Forest Service for distribution) is distributed to the 6 counties containing Forest Service national grasslands. Payments are made directly to the counties where the national grasslands and LUPs are located.

### **Source of Governing Requirements**

*25-Percent Payment* – 16 USC 500

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

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

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

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

*National Grasslands Payment* – 7 USC 1012

*Infrastructure Investment and Jobs ACT* – Pub. L. No. 117-58

**Availability of Other Program Information**

Program information for the Secure Rural Schools and Community Self-Determination Act may be found at [Secure Rural Schools Program | US Forest Service \(usda.gov\)](https://www.usda.gov/secure-rural-schools-program).

**III. COMPLIANCE REQUIREMENTS**

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the following summary (also included in Part 2, “Matrix of Compliance Requirements”), which of the 12 types of compliance requirements have been identified as subject to the audit (noted with a “Y” in the summary matrix below), and then determine which of the compliance requirements that are subject to the audit are likely to have a direct and material effect on the federal program at the auditee. For each such compliance requirement subject to the audit, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit. When a compliance requirement is shown in the summary below as “N,” it has been identified as not being subject to the audit. Auditors are not expected to test requirements that have been noted with an “N.” See the Safe Harbor Status discussion in Part 1 for additional information.

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

**A. Activities Allowed or Unallowed**

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

- a. Title I – Public roads and public schools of the county or counties in which the national forest is situated (16 USC 500);
- b. Title II – Special projects on federal land as defined in 16 USC 7102(7) and on nonfederal land where projects would benefit the resources on federal land. This portion of the state payment allocated to Title II is not paid to states or counties. It is reserved for special projects recommended by a Secure Rural Schools Act resource advisory committee and approved by the secretary of agriculture or authorized designee (16 USC 7101, 7112, and 7121-7128); or
- c. Title III – This portion is paid to the state and then distributed by the state to the participating county. These are referred to in the authorizing legislation as “county funds” (16 USC 7141). A participating county shall use Title III county funds only to:
  - (1) Carry out activities under the Firewise Communities program to provide to homeowners in fire-sensitive ecosystems education on, and assistance with implementing, techniques in home siting, home construction, and home landscaping that can increase the protection of people and property from wildfires;
  - (2) Reimburse the participating county for search and rescue and other emergency services, including firefighting, that are
    - (a) performed on federal land, as defined in 16 USC 7102(7), after the 45-day public comment period (see III.N, “Special Tests and Provisions – Public Comment,” below); and
    - (b) paid for by the participating county; and
  - (3) Develop community wildfire protection plans in coordination with the appropriate secretary concerned (16 USC 7142).
  - (4) Cover training costs and equipment purchases directly related to the emergency service
  - (5) Provide or expand access (Pub. L. No. 117-58) to—
    - (a) broadband telecommunications services at local schools; or
    - (b) the technology and connectivity necessary for students to use a digital learning tool at or outside of a local school campus.
  - (6) No county funds made available under this title may be used by any participating county for any lobbying activity, regardless of the purpose for which the funds are obligated on or before that date.

3. *Quinault Special Payment* funds must be used for public schools and roads of the county or counties in which the national forest is situated (Pub. L. No. 100-638, Section 4(b)(2)).
4. *Arkansas Quartz Payment* funds must be used for public roads and public schools in the counties in Arkansas in which the Ouachita National Forest is located (Pub. L. No. 100-446, Section 323).
5. *Payments to Minnesota* funds have no restrictions on use (16 USC 577g and g-1).
6. *National Grasslands Payment* funds must be used for roads or schools in the county in which the land is located (7 USC 1012).

**G. Matching, Level of Effort, Earmarking**

**1. Matching**

Not Applicable

**2. Level of Effort**

Not Applicable

**3. Earmarking**

- a. Public Law 117-70 allowed for county title allocation elections in FY 2022 and payment (1908 Act vs SRS) and title allocation elections (Title I,II,III) percentages in FY23.
  - (1) a county election will receive a formula payment in FY2023 between Title I, II, III by determining the different percentages in each title, which is determined by the certain distribution type (a minor, modest or major formula);
  - (2) a county election will receive a share of the state's 25-Percent Payment or a share of the state (formula) payment by determining which formula payment would benefit the county the most; and
  - (3) a county election will allocate the share of the formula payment for titles II and III, will be different for FY2022 and FY2023 since counties now had the ability to change those title allocation percentages (P.L 117-58).

A county may opt to return its allocation, in whole or part, to the US Treasury. Similar information is posted on the Forest Service website ([Title III FAQs | US Forest Service \(usda.gov\)](#)).

- b. County Allocations of State Payments (16 USC 7112)
- (1) For \$100,000 or less. For payments for FY 2022 and FY2023, an eligible county that receives \$100,000 or less, could allocate 100 percent of its share to benefit public schools and roads under Title I. The total percentage allocated for the benefit of public schools and roads must be no less than 80 percent and no more than 85 percent.
  - (2) For \$100,001 and equal to or less than \$349,999. For payments for FY 2022 and FY2023, the county was required to allocate 15 percent to 20 percent of its share to Title II, Title III, or a combination of the two titles, or return this portion of the state payment to the US Treasury.
  - (3) For \$350,000 or greater. For payments for FY 2022 and FY2023, if the county share of the state payment was \$350,000 or greater, the county was required to allocate 80-85 for Title I, 8-20% percent of its share to Title II, no more than 7 percent or less to Title III The county may also decide to return this portion of the state payment to the US Treasury.

## H. Period of Performance

The authority to initiate Title III projects terminates on September 30, 2025. Any county funds not obligated by September 30, 2026, shall be returned to the US Treasury (P.L. [117-58](#)).

## L. Reporting

### 1. Financial Reporting

- a. *SF-270, Request for Advance or Reimbursement* – Not Applicable
- b. *SF-271, Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable
- c. *SF-425, Federal Financial Report* – Not Applicable
- d. *County's Certification of Title III Expenditures and Unobligated Funds (OMB No. 0596-0220)* – Not later than February 1 of the year after the year in which any Title III county funds were expended by a participating county, the participating county must submit a certification that the county funds expended in the applicable year have been used for the uses authorized under this title, including a description of the amounts expended and their uses. The participating county certification also must include the amount of Title III funds not obligated by September 30 of the previous year. Additional information about the annual certification of

Title III expenditures is available at [Secure Rural Schools - Categories | US Forest Service \(usda.gov\) https://www.fs.usda.gov/working-with-us/secure-rural-schools/categories](https://www.fs.usda.gov/working-with-us/secure-rural-schools/categories).

*Key Line Items* – The following sections contain critical information:

1. *Expenditures*
2. *Funds Not Obligated*
2. **Performance Reporting**  
Not Applicable
3. **Special Reporting**  
Not Applicable
4. **Special Reporting for Federal Funding Accountability and Transparency Act**  
See Part 3.L for audit guidance.

## N. **Special Tests and Provisions**

### 1. **Public Notice and Comment Period**

**Compliance Requirements** A participating county can use Title III county funds only after a 45-day public comment period, at the beginning of which the participating county must:

- a. Publish in any publications of local record a proposal that describes the proposed use of the county funds; and
- b. Submit the proposal to any resource advisory committee established under 16 USC 7125 for the participating county (16 USC 7142(b)).

**Audit Objectives** Determine whether the county has provided the required public notice.

### **Suggested Audit Procedures**

- a. Verify that the county provided public notice 45 days prior to using Title III funds.
- b. Verify that the county submitted its proposal to use Title III county funds to the resource advisory committee, if any, 45 days prior to using the funds.

**UNITED STATES DEPARTMENT OF AGRICULTURE****ASSISTANCE LISTING 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 disposal 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 Clean Water Act. This program is instrumental in providing the financing to build or upgrade rural water and waste disposal facilities.

**II. PROGRAM PROCEDURES****A. Overview**

Under this program, the United States Department of Agriculture's (USDA) Rural Utilities Service (RUS) awards direct loans, loan guarantees, and project grants for new and improved water and waste disposal 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 incorporated areas up to 10,000 people. Eligible applicants include (1) a public body, such as a municipality, district, county, authority, or other political subdivision of a state, territory, or commonwealth; (2) an organization operated on a not-for-profit basis, such as a cooperative, association, or private corporation; or (3) Indian tribes on state and federal reservations and other federally recognized tribes (7 CFR 1780, section 1780.7(a)(3)).

**B. Direct Loans for Water and Waste Disposal Systems**

To establish its eligibility for a loan, an applicant must demonstrate to RUS that it cannot finance the proposed project from its own resources or obtain sufficient credit to do so at reasonable terms or rates. In addition, the applicant must have the legal authority to construct, operate, and maintain the proposed facility, and to give security for and repay the proposed loan (7 CFR 1780, section 1780.7). A loan is repayable based on the useful life of the facility, state statute, or 40 years from the date of the note, whichever is sooner. Interest is charged at a poverty rate, intermediate rate, or market rate depending on the circumstances (7 CFR 1780, section 1780.13).

**C. Project Grants for Water and Waste Disposal Systems**

RUS makes grants in conjunction with direct loans for water and waste disposal projects serving the most financially needy communities in order to reduce user costs to a reasonable level. Maximum grant amounts are based on a graduated scale that provides higher amounts for projects in communities that have lower income levels; however, a

grant amount may never exceed 75 percent of RUS eligible project development costs. To establish grant eligibility, an applicant must demonstrate to RUS that it serves a rural area whose median household income (MHI) falls below the statewide nonmetropolitan median household income (7 CFR 1780, section 1780.10). Grant monies are not necessarily awarded at the grant caps. The grant, if any, awarded represents the amount of subsidy needed to maintain reasonable rates for its users. As each system has unique costs associated with the delivery of safe and potable water, MHI is not the sole driver of grant contributions. Rather, the award amount is dependent upon financial review and determined on a case-by-case basis.

#### **D. Guaranteed Loans for Water and Waste Disposal Systems**

RUS provides guaranteed loans and will guarantee up to 90 percent of eligible loan loss. The interest rate and term for guaranteed loans are negotiated between the recipient and the lender (7 CFR 1779, sections 1779.30 and 1779.33).

#### **Source of Governing Requirements**

The program is authorized by Section 306 of the Consolidated Farm and Rural Development Act (7 USC 1926). Implementing regulations are at 7 CFR parts 1779 and 1780.

#### **Availability of Other Program Information**

RUS maintains a home page that provides general information about this program at <http://www.rd.usda.gov/programs-services/water-waste-disposal-loan-grant-program>.

### **III. COMPLIANCE REQUIREMENTS**

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the following summary (also included in Part 2, “Matrix of Compliance Requirements”), which of the 12 types of compliance requirements have been identified as subject to the audit (noted with a “Y” in the summary matrix below), and then determine which of the compliance requirements that are subject to the audit are likely to have a direct and material effect on the federal program at the auditee. For each such compliance requirement subject to the audit, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit. When a compliance requirement is shown in the summary below as “N,” it has been identified as not being subject to the audit. Auditors are not expected to test requirements that have been noted with an “N.” See the Safe Harbor Status discussion in Part 1 for additional information.



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

**A. Activities Allowed or Unallowed**

1. Loan and grant funds may be expended on eligible project costs, as approved by RUS. These expenditures include items such as land acquisition, water rights, legal fees, engineering fees, construction costs, and the purchase of equipment (7 CFR 1780, section 1780.9).
2. Loan and grant funds may not be used for the following (7 CFR 1780, section 1780.10):
  - a. Facilities that 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. The payment of a judgement which would disqualify an applicant for a loan under 1780.7.

**B. Allowable Costs/Cost Principles**

The auditor should test costs for allowable/unallowable activities when agency funds are used or when interim financing is used during construction.

**G. Matching, Level of Effort, Earmarking****1. Matching**

Under the direct loan and grant programs, borrowers may be required to provide funds from their own or other sources as required in the grant agreement and the letter of conditions issued, or security instruments, such as the grant agreement or loan documentation by RUS (7 CFR sections 1780.44(d) and (f)).

**2. Level of Effort**

Not Applicable

**3. Earmarking**

Not Applicable

**L. Reporting Requirements****1. Financial Reporting**

- a. *SF-270, Request for Advance or Reimbursement* – Not Applicable
- b. *SF-271, Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable
- c. *SF-425, Federal Financial Report* – Not Applicable
- d. *Form RD 442-2, Statement of Budget, Income and Equity (OMB No. 0575-0015)* – This report covers financial operations relating to the borrower's water or waste disposal project. A borrower may submit this financial data on other forms, provided the forms are in a similar format and signed and dated by the organization's official to certify the correctness of the information. Also, an annual audit may be submitted in lieu of this form (7 CFR 1780, section 1780.47).

*Key Line Items* – Page 1 only. Supplemental data is not tested by the auditor.

- e. *Form RD 442-3, Balance Sheet (OMB No. 0575-0015)* – This report presents the financial status of the borrower's water or waste disposal project. A borrower may submit this financial data on other forms, provided the forms are in a similar format and signed and dated by the organization's official to certify the correctness of the information. Also, an annual audit may be submitted in lieu of this form (7 CFR 1780, section 1780.47).

*Key Line Items* – All the sections, line items, and data elements in the report contain critical information.

**2. Performance Reporting**

Not Applicable

**3. Special Reporting**

Not Applicable

**4. Special Reporting for Federal Funding Accountability and Transparency Act**

See Part 3.L for audit guidance.

**IV. OTHER INFORMATION**

*Interim Financing*

After RUS has made a commitment on a loan, the borrower may be required to obtain interim financing from commercial sources (e.g., a bank loan) for the construction period (7 CFR 1780, section 1780.39(d)). Interim financing is required for all loans over \$500,000, except in documented instances where financing cannot be obtained at reasonable rates. Expenditures from these commercial sources that will be repaid from the proceeds of the RUS loan should be considered federal awards expended, included in determining Type A programs, and reported in the Schedule of Expenditures of Federal Awards.

*Status of Outstanding Loan Balance After Project Completion*

In years after the program funds are expended and construction is completed, and the only ongoing financial activity of the program is the payment of principal and interest on outstanding loan balances, the prior loan balances are not considered to have continuing compliance requirements under 2 CFR 200, section 200.502(d). Prior loans that do not have continuing compliance requirements other than to repay the loans are not considered federal awards expended and, therefore, are not required to be audited under 2 CFR Part 200, Subpart F.

However, this does not relieve the borrower of the requirement to file financial reports on these loans (which are not required to be audited) or otherwise comply with program requirements (e.g., maintaining insurance, depositing funds in federally insured banks, obtaining prior approval for sales of plant).

**UNITED STATES DEPARTMENT OF AGRICULTURE****ASSISTANCE LISTING 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 loan or grant funds for the development of essential community facilities for public use in rural communities. Funds may be used to construct, enlarge, extend, or otherwise improve essential community facilities providing essential services primarily to rural residents and rural businesses. Funds are made available to public bodies, nonprofit organizations, and federally recognized Indian tribes that are providing essential services to rural communities when financing is not available from their own resources or from commercial credit at reasonable rates and terms.

**II. PROGRAM PROCEDURES****A. Overview**

These programs are administered at the headquarters level by the United States Department of Agriculture (USDA) Rural Housing Service, and Community Facilities Programs and in the field by USDA Rural Development field offices. The Rural Housing Service authorizes, monitors, and provides funding for administration of CF loans and grants. Funds are made available directly to local governments, nonprofit organizations, and Indian tribes in the form of direct loans, guaranteed loans, and grants. Funds are used for the development of essential community facilities in rural areas and towns of up to 20,000 population. For guaranteed loans rural area is defined as any area of a state not in a city or town that has a population of more than 50,000 inhabitants and which excludes certain populations pursuant to 7 USC 1991 (a) (13) (H), according to the latest decennial census of the United States and not in the urbanized area contiguous and adjacent to a city or town that has a population or more than 50,000 inhabitants. The USDA Rural Development state, area, and local, offices monitor and evaluate the progress of the CF financed projects.

Applicant eligibility for CF direct and guaranteed loan and grant assistance is based on (1) the type of organization applying for the loan (public body, nonprofit organization, or federally recognized Indian tribe); (2) whether the applicant can demonstrate that it is unable to finance the proposed project from its own resources or from commercial credit at reasonable rates and terms; (3) whether the applicant has authority to develop, own, and operate the proposed facility; and (4) whether the applicant can legally borrow money and make payments on debts obligated. In the case of CF grants, there are additional requirements based on the median household income of the community.

Applicants must have the legal authority to borrow and repay loans, pledge security for loans, and construct, operate, and maintain the facility. They must also be financially sound and able to organize and manage the facility effectively. Repayment of the loan must be based on tax assessments, revenues, fees, or other sources of money sufficient for operation and maintenance of reserves and debt retirement. The amount of CF grant

assistance must be the minimum amount sufficient for feasibility purposes, which will provide for facility operation and maintenance, reasonable reserves, and debt repayment. The applicant's excess funds must be used to supplement eligible project costs.

## **B. Subprograms/Program Elements**

### *1. Direct Loans*

The purpose of the CF direct loan program is to provide affordable funding to develop essential community facilities for health care, public safety, education, and community and public services in rural areas. Funds may be used to construct, purchase, or improve essential community facilities. Under the provision of re-lending found at 7 CFR section 1942.30, the Agency may also make CF direct loans to eligible re-lenders who then in turn re-lend the funds to eligible applicants for eligible projects.

### *2. Guaranteed Loans*

The purpose of the CF guaranteed loan program is to improve, develop, or finance essential community facilities in rural areas. This purpose is achieved through bolstering the existing private credit structure through the guarantee of quality loans that will provide lasting community benefits. Guaranteed loans are loans made and serviced by a lender and guaranteed by Rural Development. The processing of the loan and ensuring that the requirements placed on the borrower are met are the lender's responsibility.

### *3. CF Grants*

Grant funds may be used to assist in the development of essential community facilities for health care, public safety, education, and community and public services in rural areas. Grants are targeted to the neediest communities that meet population criteria for loans and have a median household income below the higher of the poverty line or the eligible percentage (60, 70, 80, or 90 percent) of the state nonmetropolitan median household income. The amount of CF grant funds provided for a facility may not exceed 75 percent of the cost of developing the facility.

## **Source of Governing Requirements**

The program is authorized under the Consolidated Farm and Rural Development Act of 1972 (7 USC 1926).

Implementing regulations are:

- CF Direct Loans                      7 CFR Part 1942, Subpart A
- CF Fire and Rescue Loans        7 CFR Part 1942, Subpart C
- CF Grant Programs                 7 CFR Part 3570, Subpart B

**Availability of Other Program Information**

Program regulations, Administrative Notices, and other program literature can be found on the USDA website at <https://www.rd.usda.gov/programs-services/community-facilities>.

Administrative Notice to CF loan borrowers that alerted them to presentation of loan balance on SEFA at <https://www.rd.usda.gov/sites/default/files/an4889.pdf>.

CF Guaranteed Loans 7 CFR Part 5001.

**III. COMPLIANCE REQUIREMENTS**

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the following summary (also included in Part 2, “Matrix of Compliance Requirements”), which of the 12 types of compliance requirements have been identified as subject to the audit (noted with a “Y” in the summary matrix below), and then determine which of the compliance requirements that are subject to the audit are likely to have a direct and material effect on the federal program at the auditee. For each such compliance requirement subject to the audit, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions) and this program supplement (which includes any program-specific requirements) to perform the audit. When a compliance requirement is shown in the summary below as “N,” it has been identified as not being subject to the audit. Auditors are not expected to test requirements that have been noted with an “N.” See the Safe Harbor Status discussion in Part 1 for additional information.

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

**A. Activities Allowed or Unallowed**

1. *Activities Allowed*

Funds may be used to construct, enlarge, extend, or otherwise improve essential community facilities providing essential services primarily to rural residents and rural businesses. Examples of essential community facilities are fire, rescue, and public safety facilities; health services facilities; educational facilities; facilities providing community, social, or cultural services; transportation facilities such as streets, roads, and bridges; hydroelectric generating facilities; and recreation

facilities (guaranteed loans only). Funds are used to pay reasonable fees and costs associated with the loan, interest on loans for up to two years, and the costs of acquiring interest in land and rights. Under certain circumstances, funds may also be used to purchase or lease equipment, pay initial operating expenses, refinance debts, and pay obligations for construction incurred before issuance of conditional commitment. The projects (including costs) are described in the Letter of Conditions for direct loans and grants or Conditional Commitment for guarantees as prepared by USDA Rural Development (7 CFR sections 1942.17(d), 3570.61(b), and section 5001.451).

2. *Activities Unallowed*

Loan funds may not be used to finance (a) on-site utility systems or businesses; (b) industrial buildings in connection with industrial parks; (c) community antenna television services; (d) electric generation except for hydroelectric or transmission facilities and telephone systems; (e) facilities which are not modest in size, design, or cost; and (f) loan or grant finder's fee (7 CFR sections 1942.17(d)(2), 3570.63, and section 5001.116).

**N. Special Tests and Provisions**

**1. Protection and Disposition of Funds**

**Compliance Requirements** Borrowers shall establish accounts into which borrower funds, Agency loan proceeds, the revenues of the facility financed, and any other income shall be deposited in accordance with the loan resolution(s) authorizing the incurrence of indebtedness related to the Agency loan proceeds. The accounts will be maintained in accordance with the loan resolution(s) as long as the authorized indebtedness to the Agency is outstanding. Accounts may include but are not limited to the following: (a) construction account, (b) general account, (c) debt service account, and (d) reserve account.

**Audit Objectives** Determine whether the accounts were properly established, required deposits were made, and disbursements were only made for purposes authorized in the loan resolution(s).

**Suggested Audit Procedures**

- a. Ascertain if the appropriate accounts have been established either as bookkeeping accounts or as separate bank accounts.
- b. Ascertain if the funds have been deposited in institutions insured by the state or federal government or invested in readily marketable securities backed by the full faith and credit of the United States.

- c. Test a sample of deposits in each required account and ascertain the proper amount has been made to the appropriate account except when the reserve account has been fully funded.
- d. Test a sample of disbursements from the reserve account and ascertain if they were approved by the Agency and were made for the approved purpose.

#### **IV. OTHER INFORMATION**

##### *Interim Financing*

After USDA has made a commitment on the loan, the borrower may be required to 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 that 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 – Continuing Compliance*

For CF direct loans, the Agency requires a promissory note or bond and security that will adequately protect the interest of the Agency during the repayment period of the loan. In the case of a CF guaranteed loan, the borrower executes a promissory note or bond with the lender and the lender is responsible for obtaining adequate security to protect the interest of the lender, any holder, and the government. Loan terms cannot exceed 40 years, the useful life of the facility or state statute, whichever is less. The borrower is required to repay the principal and interest according to the term of the note or bond. The full outstanding balance on the note or bond should be considered federal awards expended, included in determining Type A programs, and reported as loans on the Schedule of Expenditures of Federal Awards in accordance with 2 CFR Part 200 Subpart F.

CF borrowers are required to fund reserves, maintain insurance, deposit funds in Federally insured banks, meet financial covenants, maintain sufficient debt service ratios, and in some cases comply with additional requirements established as part of the loan approval process. These requirements indicate the continuing compliance requirements that CF borrowers must meet. USDA expects borrowers to comply with the continuing compliance requirements as well as borrowers' audits to comply with 2 CFR 200, Subpart F.

Therefore, for borrowers that have expended no other federal funding but have an outstanding CF loan balance of \$750,000 or more, an audit under 2 CFR Subpart F is required. For borrowers that have expended other federal funding and that are otherwise subject to a single audit under 2 CFR Subpart F, any outstanding CF loan balance must be included on the borrower's Schedule of Expenditures of Federal Awards. The USDA's determination that continuing compliance requirements exist for all CF loans was first required to be applied to borrowers' outstanding CF loan balances for fiscal years ending on or after June 30, 2022.

This change was communicated through an Administrative Notice issued on September 19, 2022, that was posted on the USDA website (see address under Other Program Information above).