

PART 4 – AGENCY PROGRAM REQUIREMENTS

INTRODUCTION

For each federal program (except R&D and SFA) included in this Supplement, Part 4 provides I, “Program Objectives” and II, “Program Procedures.” Part 4 also provides information about compliance requirements specific to a program in III, “Compliance Requirements.” Finally, Part 4 provides IV, “Other Information,” when there is other useful information pertaining to the program that does not fit in sections I–III. For example, when a program allows funds to be transferred to another program, section IV provides guidance on how those funds are to be treated on the Schedule of Expenditures of Federal Awards and in Type A program determinations.

When any of five types of compliance requirements (A, “Activities Allowed or Unallowed;” E, “Eligibility;” G, “Matching, Level of Effort, Earmarking;” L, “Reporting;” and N, “Special Tests and Provisions”) is subject to audit and applicable to a program included in the Supplement, Part 4 always provides additional information specific to the program. The other seven types of compliance requirements, when subject to audit, generally are not specific to a program and, therefore, usually are not listed in Part 4. However, when one of these other seven types of compliance requirements has information specific to a program, that information is provided with the program in Part 4. When a requirement is marked as “Not Applicable” it means that either there are no compliance requirements specific for the program, or the auditor is not required to test compliance.

In developing the audit procedures to test compliance with the requirements for a federal program, the auditor must first look to the Compliance Requirements section of the program/cluster (summarized for all programs/clusters in Part 2 of the Supplement) to identify which of the 12 types of compliance requirements described in Part 3 have been identified as subject to audit, and then determine which of those requirements is likely to have a direct and material effect on the federal program at the auditee.

For each such compliance requirement, the auditor must use Part 3 (which includes generic details about each compliance requirement other than Special Tests and Provisions, including audit objectives, and suggested audit procedures) and the program supplement in Part 4 (which includes any program-specific requirements) to perform the audit. For N, “Special Tests and Provisions,” Part 3 includes only audit objectives and suggested audit procedures for internal control; all other information is included in Part 4.

The descriptions of the compliance requirements in Parts 3 and 4 generally are a summary of the actual compliance requirements. The auditor must review the referenced citations (e.g., laws and regulations) for the complete compliance requirements.

For 2021, only guidance to the compliance requirement areas that are designated as “Y” in the Matrix are included in part III, Compliance Requirements of the program. If the auditor is to review compliance requirement areas that are designated as “N,” the auditor must refer to the Part 3 for additional information.

UNITED STATES DEPARTMENT OF AGRICULTURE**FOOD AND NUTRITION SERVICE PROGRAMS****ASSISTANCE LISTING 10.551 SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) – Note (1)****ASSISTANCE LISTING 10.553 SCHOOL BREAKFAST PROGRAM (SBP)****ASSISTANCE LISTING 10.555 NATIONAL SCHOOL LUNCH PROGRAM (NSLP)****ASSISTANCE LISTING 10.557 SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANT, AND CHILDREN (WIC)****ASSISTANCE LISTING 10.558 CHILD AND ADULT CARE FOOD PROGRAM****ASSISTANCE LISTING 10.559 SUMMER FOOD SERVICE PROGRAM (SFSP)****ASSISTANCE LISTING 10.572 FARMER'S MARKET NUTRITION PROGRAM (FMNP) – Note (1)****Note:**

- (1) FMNP is not included in the Compliance Supplement. However, FMNP is listed in this document due to COVID-related waivers and flexibilities impacting FMNP.

The programs listed above are impacted by the COVID-19 waivers.

Pursuant to the Families First Coronavirus Response Act (the Act) (Pub. L. No. 116-127), and in light of the exceptional circumstances of this public health emergency, the Food and Nutrition Service (FNS) is granting several waivers for the aforementioned programs to ease program operations at the state and local levels and minimize the potential exposure to the novel coronavirus (COVID-19).

To view a complete portfolio of waivers, their descriptions, and states electing or requesting to implement these waivers, please go to <https://www.fns.usda.gov/disaster/pandemic/covid-19>. Each individual waiver contains a link to view the full description along with each state approved to implement the waiver. In addition, copies of individual state waivers are available at the links for each state.

For auditing purposes during this public health emergency, it is recommended that the audit community obtain the list of waivers from the audited state agency and local agency and adapt the audit test steps to reflect these flexibilities. Each waiver offered has reporting requirements that must be adhered to by the state agency. For example, pursuant to section 2202(d) of the Act, each state that elects to be subject to a waiver under section 2202(a)(b)(c) must submit a report to the secretary not later than one year after the date such state received the waiver. The report must include: (1) a summary of the use of this waiver by the state agency and local program operators; and (2) a description of whether and how this waiver resulted in improved services to program participants. Although there is no requirement for auditors to test reporting requirements for waivers applied by the state agency, auditors should be aware of this reporting requirement for each waiver exercised by the state agency. Documentation must be maintained by the state

agency summarizing the use of each waiver and how each waiver improved its services to program participants.

In addition, the 2021 Compliance Supplement for the FNS programs listed in this document contain the procedures that auditors would normally follow during customary program operations. Due to COVID-19 and the subsequent closures, as in the case of the public schools, FNS would expect instances when it is not possible to perform certain audit steps as written in the Compliance Supplement. Such instances should be documented by the auditors.

Questions regarding this document should be directed to FNS's Office of Financial Management, Office of Internal Controls, Audits, and Investigations at jon.garcia@usda.gov.

UNITED STATES DEPARTMENT OF AGRICULTURE

ASSISTANCE LISTING 10.500 COOPERATIVE EXTENSION SERVICE

I. PROGRAM OBJECTIVES

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

II. PROGRAM PROCEDURES

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

The First Morrill Act of 1862 provided for the establishment of the 1862 land-grant institutions, which are located in the 50 states, the District of Columbia, the Commonwealth of Puerto Rico, and the insular areas of American Samoa, Guam, Micronesia, Northern Marianas, and the Virgin Islands. The Second Morrill Act of 1890 provided for the support of the 1890 land-grant institutions, including Tuskegee University, West Virginia State University, and Central State University, which are located in 18 states.

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

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

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

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

The 1862 and the 1890 land-grant institutions are required to submit a 5-Year Plan of Work that describes the extension programs that they intend to administer (7 USC 344 and 3221). Final Revised Guidelines for State Plans of Work for the Agricultural Research and Extension Formula Funds (Guidelines) were published in the *Federal Register* on January 25, 2006, 71 FR 4101-4112. Information about Plans of Work, including previously approved plans, can be found at <https://nifa.usda.gov/tool/pow>.

Source of Governing Requirements

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

Availability of Other Program Information

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

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the following summary (also included in Part 2, “Matrix of Compliance Requirements”), which of the 12 types of compliance requirements 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/Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	N	N	N	Y	Y	N	N	Y	Y	N

A. Activities Allowed or Unallowed

1. Formula grant funds may be spent only for the furtherance of cooperative extension work and according to the 5-Year Plan of Work approved by NIFA (7 USC 344 and 3221(d)). This 5-Year Plan of Work may be integrated with the research component of the land-grant institution, which is funded under the Hatch Act, and/or the 5-Year Plan of Work may be a joint plan between an 1862 land-grant institution and an 1890 land-grant institution if they are both located in the same state (see Section II.A.1, of the Guidelines, 71 FR 4108).
2. No portion of Smith-Lever Act funds and Section 1444 funds of NARETPA may be applied directly or indirectly “to the purchase, erection, preservation or repair of any building or buildings, or the purchase or rental of land” (7 USC 345 and 3221(e)).
3. No portion of Smith-Lever Act funds and Section 1444 funds under NARETPA may be applied directly or indirectly in college course teaching or lectures in college (7 USC 345 and 3221(e)).

B. Allowable Costs/Cost Principles

1. *Indirect Costs* – No indirect costs or tuition remission may be charged against the formula grant funds authorized under the Smith-Lever Act or under Section 1444 of NARETPA (7 USC 3319).
2. *Retirement Contributions* – Retirement and pension contributions paid from grant funds for individuals whose salaries are paid in whole or in part with grant funds are capped at 5 percent. The deposits and contributions of federal origin must be at least equaled by the grantee (7 USC 331).

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

- a. *1862 Land-Grant Institutions in the 50 States* – All formula funds provided to the 1862 land-grant institutions in the 50 states under sections 3(b) and (c) of the Smith-Lever Act must be 100 percent matched. In-kind contributions are not allowed as match for formula funds authorized under sections 3(b) and (c) of the Smith-Lever Act (7 USC 343(e)). Funds provided under Section 3(d) of the Smith-Lever Act (7 USC 343(d)) for EFNEP do not require any matching contributions (7 USC 3175).
- b. *1862 Land-Grant Institution in the District of Columbia* – Effective December 20, 2019, Section 508 of the Agricultural Improvement Act of 2018 (Pub. L. No. 115-334) reinstated the 100 percent match requirement for funds awarded to 1862 land-grant institutions in the District of Columbia. Funds provided under Section 3(d) of the Smith-Lever Act (7

USC 343(d)) for EFNEP do not require any matching contributions (7 USC 3175).

- c. *1862 Land-Grant Institutions in the Commonwealth of Puerto Rico and the insular areas of American Samoa, Guam, Micronesia, Northern Marianas, and the Virgin Islands* – The Commonwealth of Puerto Rico and the insular areas must meet a 50 percent matching requirement of the federal formula funds (7 USC 343(e)(4) and 7 USC 301 (note)). The Secretary of Agriculture may waive the matching funds requirement for any fiscal year if the secretary determines that the government of the insular area will be unlikely to meet the matching requirement for the fiscal year (7 USC 343(e)(4)). “Matching funds” means cash contributions and excludes in-kind matching contributions. Matching funds must be used to support research and extension activities as identified in the approved 5-Year Plan of Work (7 USC 343(e); 7 CFR Part 3419).
- d. *1890 Land-Grant Institutions, including Tuskegee University and West Virginia State University* – Recipients must match 100 percent of federal funds from nonfederal sources. These land-grant institutions may apply for a waiver of the matching funds requirement in excess of 50 percent for any fiscal year. “Matching funds” means cash contributions and excludes in-kind matching contributions. Matching funds must be used to support research and extension activities as identified in the approved 5-Year Plan of Work or for approved qualifying educational activities. Matching funds must be available in the same federal fiscal year as the federal funds. 1890 Land-Grant Institutions, including Tuskegee University, West Virginia State University, and Central State University, may carryover matching funds from one fiscal year to the following fiscal year (7 USC 3222d and 7 CFR Part 3419). Funds provided under Section 3(d) of the Smith-Lever Act (7 USC 343(d)) for EFNEP do not require any matching contributions (7 USC 3175).

2. Level of Effort

Not Applicable

3. Earmarking

Not Applicable

H. Period of Performance

Smith-Lever Act formula funds distributed to the 1862 land-grant institutions may be carried forward five years from the year allocated. For Section 1444 of NARETPA funds allocated to the 1890 land-grant institutions, including Tuskegee University, West Virginia State University, and Central State University, effective beginning on December 20, 2018, Section 7114 of the Agriculture Improvement Act of 2018 (Pub. L. No. 115-334) removed language in the authorization that had previously limited institutions to

carrying over no more than 20 percent of their annual Section 1444 allocation to the following fiscal year. As a result, beginning with the fiscal year (FY) 2019 funding, institutions will be allowed to carry as much as 100 percent of their annual Section 1444 allocation over to the following fiscal year.

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 10.511 SMITH-LEVER 3(b) AND 3(c), SMITH-LEVER
SPECIAL NEEDS, and UNIVERSITY OF DISTRICT OF COLUMBIA PUBLIC
POSTSECONDARY EDUCATION REORGANIZATION ACT PROGRAM****I. PROGRAM OBJECTIVES**

The National Institute of Food and Agriculture (NIFA) provides capacity and non-capacity grant funds to the 1862 land-grant institutions and the 1890 land-grant institutions for cooperative agricultural extension work. The objective of cooperative extension work is to provide nonformal education and learning activities to people throughout the country—to farmers and other residents of rural communities as well as to people living in urban areas. It emphasizes taking knowledge gained through research and education and bringing it directly to the people to create positive changes.

II. PROGRAM PROCEDURES**A. Overview**

In 1914, the Smith Lever Act formalized cooperative extension by establishing USDA's partnership with land-grant universities (LGUs) to apply research and provide education in agriculture. Since its inception, cooperative extension has broadened its impact from rural communities to having a strong presence in America's urban and suburban areas. Extension agents continue to help farmers and ranchers achieve greater success while assisting families with nutrition and home economics and preparing today's youth to become future leaders. Cooperative extension's activities are funded by many of NIFA's capacity and non-capacity grants. These capacity grants provide support for NIFA's extension activities at land-grant institutions through grants to the states on the basis of statutory formulas. Eligibility for funding is limited to institutions that are identified in both Morrill Acts of 1862 and 1890.

The First Morrill Act of 1862 provided for the establishment of the 1862 land-grant institutions that are located in the 50 states, the District of Columbia, the Commonwealth of Puerto Rico, and the insular areas of American Samoa, Guam, Micronesia, Northern Marianas, and the Virgin Islands. The Second Morrill Act of 1890 provided for the support of the 1890 land-grant institutions, including Tuskegee University, West Virginia State University, and Central State University, which are located in 18 states. The 1862 land-grant institutions receive formula grant funds for cooperative extension work under sections 3(b) and (c) of the Smith-Lever Act (7 USC 343(b) and (c)) and the 1890 land-grant institutions, including Tuskegee University and West Virginia State University, receive formula grant funds for cooperative extension work under Section 1444 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 (NARETPA). The only exception is the District of Columbia, which receives extension funds under the District of Columbia Public Postsecondary Education Reorganization Act, Pub. L. No. 93-471, as opposed to sections 3(b) and (c) of the Smith-Lever Act. Section 7403 of the Food, Conservation, and Energy Act (FCEA) amended Section 3(d)

of the Smith-Lever Act to provide 1890 institutions and the 1862 institution in the District of Columbia full eligibility to receive funds authorized under Section 3(d) of the Smith-Lever Act (7 USC 343(d)), including Expanded Food and Nutrition Education Program (EFNEP) and Children, Youth, and Families At-Risk (CYFAR) funds.

B. Subprograms/Program Elements

The Smith-Lever 3(b) and 3(c) and Smith-Lever Special Needs Programs

The Smith-Lever 3(b) and 3(c) and Smith-Lever Special Needs Programs are authorized under The Smith-Lever Act, sections 3(b) and 3(c). These programs' purpose is to increase the level of agricultural extension activities and extend its reach to new audiences.

C. Program Funding

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

Source of Governing Requirements

The laws governing this program are codified at Smith-Lever Act of 1914 7 USC 341-346, 347a-349, Smith Lever Act of 1914 7 USC 343 (d), and Sections 3(b)(1) and 8 of the Smith-Lever Act.

Availability of Other Program Information

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

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the following summary (also included in Part 2, "Matrix of Compliance Requirements"), which of the 12 types of compliance requirements 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/Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	Y	N	Y	Y	N	N	N	Y	N	N

A. Activities Allowed or Unallowed

1. No portion of Smith-Lever Act funds and Section 1444 funds of NARETPA may be applied directly or indirectly “to the purchase, erection, preservation or repair of any building or buildings, or the purchase or rental of land” (7 USC 345 and 3221(e)).
2. No portion of Smith-Lever Act funds and Section 1444 funds under NARETPA may be applied directly or indirectly in college course teaching or lectures in college (7 USC 345 and 3221(e)).

B. Allowable Costs/Cost Principles

1. No indirect costs or tuition remission may be charged against the formula grant funds authorized under the Smith-Lever Act (7 USC 3319) (Section 1473 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977).
2. Retirement and pension contributions paid from grant funds for individuals whose salaries are paid in whole or in part with grant funds are capped at 5 percent. The deposits and contributions of federal origin must be at least equaled by the grantee (7 USC 331).

C. Cash Management

1. Grants and Cooperative Agreements to States

Applicable

2. Grants and Cooperative Agreements to Nonfederal Entities Other Than States

Applicable

3. Cost-Reimbursement Contracts Under the Federal Acquisition Regulation

Not applicable

4. Loans, Loan Guarantees, Interest Subsidies, and Insurance

Not applicable

5. All Pass-Through Entities

Not applicable

F. Equipment and Real Property Management

No portion of federal funds allotted under a Special Needs grant may be applied, directly or indirectly, to the purchase, erection, preservation, or repair of any building or buildings, or the purchase or rental of land, or in college-course teaching, lectures in college, or any other purpose not specified in the Smith-Lever Act (7 USC 345 (Section 5 of the Smith-Lever Act of 1977)) (2 CFR Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards).

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

- a. *1862 Land-Grant Institutions in the 50 States* – All formula funds provided to the 1862 land-grant institutions in the 50 states under sections 3(b) and (c) of the Smith-Lever Act must be 100 percent matched. In-kind contributions are not allowed as match for formula funds authorized under sections 3(b) and (c) of the Smith-Lever Act (7 USC 343(e)).
- b. *1862 Land-Grant Institution in the District of Columbia* – Effective December 20, 2019, Section 508 of the Agricultural Improvement Act of 2018 (Pub. L. No. 115-334) reinstated the 100 percent match requirement for funds awarded to 1862 land-grant institutions in the District of Columbia.
- c. *1862 Land-Grant Institutions in the Commonwealth of Puerto Rico and the Insular Areas of American Samoa, Guam, Micronesia, Northern Marianas, and the Virgin Islands* – The Commonwealth of Puerto Rico and the insular areas must meet a 50 percent matching requirement of the federal formula funds (7 USC 343(e)(4) and 7 USC 301 (note)). The secretary of agriculture may waive the matching funds requirement for any fiscal year if the secretary determines that the government of the insular area will be unlikely to meet the matching requirement for the fiscal year (7 USC 343(e)(4)). “Matching funds” means cash contributions and excludes in-kind matching contributions. Matching funds must be used to support research and extension activities as

identified in the approved 5-Year Plan of Work (7 USC 343(e); 7 CFR Part 3419).

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 LIVING 10.512 AGRICULTURE EXTENSION AT 1890 LAND-GRANT INSTITUTIONS PROGRAM

I. PROGRAM OBJECTIVES

The National Institute of Food and Agriculture (NIFA) provides capacity grant funds to the 1862 land-grant institutions and the 1890 land-grant institutions for cooperative agricultural extension work. The objective of cooperative extension work is to provide nonformal education and learning activities to people throughout the country—to farmers and other residents of rural communities as well as to people living in urban areas. It emphasizes taking knowledge gained through research and education and bringing it directly to the people to create positive changes.

II. PROGRAM PROCEDURES

A. History of Cooperative Extension

In 1914, the Smith Lever Act formalized cooperative extension by establishing United States Department of Agriculture's (USDA) partnership with land-grant universities (LGUs) to apply research and provide education in agriculture. Since its inception, cooperative extension has broadened its impact from rural communities to having a strong presence in America's urban and suburban areas. Extension agents continue to help farmers and ranchers achieve greater success while assisting families with nutrition and home economics and preparing today's youth to become future leaders. Cooperative extension's activities are funded by many of NIFA's capacity and non-capacity grants. These capacity grants provide support for NIFA's extension activities at land-grant institutions through grants to the states on the basis of statutory formulas. Eligibility for funding is limited to institutions that are identified in both Morrill Acts of 1862 and 1890.

The First Morrill Act of 1862 provided for the establishment of the 1862 land-grant institutions that are located in the 50 states, the District of Columbia, the Commonwealth of Puerto Rico, and the insular areas of American Samoa, Guam, Micronesia, Northern Marianas, and the Virgin Islands. The Second Morrill Act of 1890 provided for the support of the 1890 land-grant institutions, including Tuskegee University, West Virginia State University, and Central State University, which are located in 18 states. The 1862 land-grant institutions receive formula grant funds for cooperative extension work under sections 3(b) and (c) of the Smith-Lever Act (7 USC 343(b) and (c)) and the 1890 land-grant institutions, including Tuskegee University and West Virginia State University, receive formula grant funds for cooperative extension work under Section 1444 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 (NARETPA). The only exception is the District of Columbia, which receives extension funds under the District of Columbia Public Postsecondary Education Reorganization Act, Pub. L. No. 93-471, as opposed to sections 3(b) and (c) of the Smith-Lever Act. Section 7403 of the Food, Conservation, and Energy Act (FCEA) amended Section 3(d) of the Smith-Lever Act to provide 1890 institutions and the 1862 institution in the District of Columbia full eligibility to receive funds authorized under Section 3(d) of the

Smith-Lever Act (7 USC 343(d)), including Expanded Food and Nutrition Education Program (EFNEP) and Children, Youth, and Families At-Risk (CYFAR) funds.

B. Subprograms/Program Elements

The Agricultural Extension at 1890 Land-Grant Institutions

The Agricultural Extension at 1890 Land-Grant Institutions program is authorized under Section 1444 of NARETPA, enacted as Title XIV of Pub. L. No. 95–113 (The Food and Agriculture Act of 1977) on September 29, 1977, is also known as the Section 1444 Program. The capacity program assists diverse audiences, particularly those who have limited social and economic resources. Funding supports practices and opportunities that respond to the changing needs of stakeholders. It also supports training for farmers and landowners from underrepresented groups, to acquire adequate capital, adopt new technologies, and use estate planning and tax incentive programs to retain operations and increase profitability.

C. Program Funding

The purpose of this funding is to support agricultural and forestry extension activities at 1890 Land-Grant Institutions, including Tuskegee University, West Virginia State University, and Central State University. Funds are allocated to the 1890 land-grant institutions based on specified formulas. These formulas are based on the farm and rural populations of each state and include an equal portion distributed to all eligible institutions. These funds support the activities commonly referred to as “base programs.”

Source of Governing Requirements

The laws governing this program are codified at Section 1444 of NARETPA.

Availability of Other Program Information

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

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the following summary (also included in Part 2, “Matrix of Compliance Requirements”), which of the 12 types of compliance requirements 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/Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	Y	N	Y	Y	N	N	N	Y	N	N

A. Activities Allowed or Unallowed

1. Formula grant funds may be spent only for the furtherance of cooperative extension work and according to the 5-Year Plan of Work approved by NIFA (7 USC 344 and 3221(d)). This 5-Year Plan of Work may be integrated with the research component of the land-grant institution, which is funded under the Hatch Act, and/or the 5-Year Plan of Work may be a joint plan between an 1862 land-grant institution and an 1890 land-grant institution if they are both located in the same state (see Section II.A.1, of the Guidelines, 71 FR 4108).
2. No portion of Smith-Lever Act funds and Section 1444 funds of NARETPA may be applied directly or indirectly “to the purchase, erection, preservation or repair of any building or buildings, or the purchase or rental of land” (7 USC 345 and 3221(e)).
3. No portion of Smith-Lever Act funds and Section 1444 funds under NARETPA may be applied directly or indirectly in college course teaching or lectures in college (7 USC 345 and 3221(e)).

B. Allowable Costs/Cost Principles

1. *Indirect Costs* – Not allowed (7 USC 3319 (Section 1473 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977, as amended)).
2. Retirement and pension contributions paid from grant funds for individuals whose salaries are paid in whole or in part with grant funds are capped at 5 percent. The deposits and contributions of federal origin must be at least equaled by the grantee (7 USC 331).

C. Cash Management**1. Grants and Cooperative Agreements to States**

Applicable

2. Grants and Cooperative Agreements to Nonfederal Entities Other Than States

Applicable

3. Cost-reimbursement Contracts Under the Federal Acquisition Regulation

Not applicable

4. Loans, Loan Guarantees, Interest Subsidies, and Insurance

Not applicable

5. All Pass-Through Entities

Not applicable

F. Equipment and Real Property Management

Per NIFA terms and conditions, prior approval is required for general purpose equipment exceeding \$5,000; and special purpose equipment exceeding \$250,000. See also 2 CFR Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.

No portion of federal funds allotted under a Special Needs grant may be applied, directly or indirectly, to the purchase, erection, preservation, or repair of any building or buildings, or the purchase or rental of land, or in college-course teaching, lectures in college, or any other purpose not specified in Section 1444 of NARETPA (7 USC 3221 (e) (Section 1444 of NARETPA)).

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

1890 Land-Grant Institutions, including Tuskegee University and West Virginia State University – Recipients must match 100 percent of federal funds from nonfederal sources. These land-grant institutions may apply for a waiver of the matching funds requirement in excess of 50 percent for any fiscal year. “Matching funds” means cash contributions and excludes in-kind matching contributions. Matching funds must be used to support research and extension activities as identified in the approved 5-Year Plan of Work or for approved qualifying educational activities. Matching funds must be available in the same federal fiscal year as the federal funds. 1890 Land-Grant Institutions, including Tuskegee

University, West Virginia State University, and Central State University, may carryover matching funds from one fiscal year to the following fiscal year (7 USC 3222d and 7 CFR Part 3419).

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* – Awardees are required to submit a SF-425, Federal Financial Report annually no later than 90 days after the award anniversary date. The final SF-425 is due no later than 90 days after the termination date of the grant.

2. Performance Reporting

The 1890 land-grant institutions that receive funding for the Agricultural Extension at 1890 Land-Grant Institutions Program authorized in Section 1444 of NAREPTA (7 USC 3221) and administered by NIFA beginning with the fiscal year (FY) 2019 funding, will be allowed to carry as much as 100 percent of their annual Section 1444 allocation over to the following fiscal year.

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 10.514 EXPANDED FOOD AND NUTRITION EDUCATION PROGRAM (EFNEP)

I. PROGRAM OBJECTIVES

The National Institute of Food and Agriculture (NIFA) provides capacity and non-capacity grant funds to the 1862 land-grant institutions and the 1890 land-grant institutions for cooperative agricultural extension work. The objective of cooperative extension work is to provide nonformal education and learning activities to people throughout the country—to farmers and other residents of rural communities as well as to people living in urban areas. It emphasizes taking knowledge gained through research and education and bringing it directly to the people to create positive changes. The EFNEP program provides for employment and training of professional and paraprofessional aides to engage in direct nutrition education of low-income families and in other appropriate nutrition education programs. To the maximum extent practicable, program aides are hired from the indigenous target population.

II. PROGRAM PROCEDURES

A. Overview

In 1914, the Smith Lever Act formalized cooperative extension by establishing United States Department of Agriculture's (USDA) partnership with land-grant universities (LGUs) to apply research and provide education in agriculture. Since its inception, cooperative extension has broadened its impact from rural communities to having a strong presence in America's urban and suburban areas. Extension agents continue to help farmers and ranchers achieve greater success, while assisting families with nutrition and home economics and preparing today's youth to become future leaders. Cooperative extension's activities are funded by many of NIFA's capacity and non-capacity grants. These capacity grants provide support for NIFA's extension activities at land-grant institutions through grants to the states on the basis of statutory formulas. Eligibility for funding is limited to institutions that are identified in both Morrill Acts of 1862 and 1890.

The First Morrill Act of 1862 provided for the establishment of the 1862 land-grant institutions, which are located in the 50 states, the District of Columbia, the Commonwealth of Puerto Rico, and the insular areas of American Samoa, Guam, Micronesia, Northern Marianas, and the Virgin Islands. The Second Morrill Act of 1890 provided for the support of the 1890 land-grant institutions, including Tuskegee University, West Virginia State University, and Central State University, which are located in 18 states. The 1862 land-grant institutions receive formula grant funds for cooperative extension work under sections 3(b) and (c) of the Smith-Lever Act (7 USC 343(b) and (c)) and the 1890 land-grant institutions, including Tuskegee University and West Virginia State University, receive formula grant funds for cooperative extension work under Section 1444 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 (NARETPA). The only exception is the District of Columbia, which receives extension funds under the District of Columbia Public Postsecondary Education

Reorganization Act, Pub. L. No. 93-471, as opposed to sections 3(b) and (c) of the Smith-Lever Act. Section 7403 of the Food, Conservation, and Energy Act (FCEA) amended Section 3(d) of the Smith-Lever Act to provide 1890 institutions and the 1862 institution in the District of Columbia full eligibility to receive funds authorized under Section 3(d) of the Smith-Lever Act (7 USC 343(d)), including Expanded Food and Nutrition Education Program (EFNEP) and Children, Youth, and Families At-Risk (CYFAR) funds.

B. Subprograms/Program Elements

Expanded Food and Nutrition Education Program (EFNEP)

The EFNEP is authorized under Section 3(d) of the Smith-Lever Act provides that the secretary of agriculture may fund extension work in several states, territories, and possessions. Section 1425 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 (as amended) (7 USC 3175) is also known as the EFNEP. This law provides the basis for federal funding for extension activities associated with disseminating the results of food and nutrition research performed or funded by the USDA to enable low-income individuals and families to engage in nutritionally sound food purchase and preparation practices. The EFNEP program provides for employment and training of professional and paraprofessional aides to engage in direct nutrition education of low-income families and in other appropriate nutrition education programs. To the maximum extent practicable, program aides are hired from the indigenous target population.

EFNEP funding extends to state land-grant colleges and universities established under the Morrill Act of July 2, 1862, as amended, and the Morrill Act of August 30, 1890, as amended, including Tuskegee University and West Virginia State University. Further, in accordance with Section 7129 of the Agricultural Act of 2014 (House Conference Report 113-333, to accompany HR 2642), Central State University has the designation as an 1890 Institution and is eligible to receive funds under this program beginning in fiscal year (FY) 2016.

C. Program Funding

Programmatic funds are provided to the 1862 and 1890 land-grant institutions under Section 3(d) of the Smith-Lever Act for EFNEP, which is authorized under Section 1425 of NARETPA. These funds are made available to the 1862 and 1890 land-grant institutions in the 50 states, the District of Columbia, the Commonwealth of Puerto Rico, and the insular areas of American Samoa, Guam, Micronesia, Northern Marianas, and the Virgin Islands.

Source of Governing Requirements

The law governing this program is Section 1425 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 (as amended) 7 USC 3175.

Availability of Other Program Information

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

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the following summary (also included in Part 2, “Matrix of Compliance Requirements”), which of the 12 types of compliance requirements 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/Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	Y	N	N	N	N	N	N	Y	Y	N

A. Activities Allowed or Unallowed

1. EFNEP federal funding must be used on NIFA approved EFNEP projects per 7 USC 3175 (Section 1425 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977) and 7 USC 343(d) (Section 3(d) of the Smith-Lever Act).
2. No portion of Smith-Lever Act funds and Section 1444 funds of NARETPA may be applied directly or indirectly “to the purchase, erection, preservation or repair of any building or buildings, or the purchase or rental of land” (7 USC 345 and 3221(e)).

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

B. Allowable Costs/Cost Principles

1. *Indirect Costs* – Not allowed (7 USC 3319 (Section 1473 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977, as amended)).

C. Cash Management

1. Grants and Cooperative Agreements to States

Applicable

2. Grants and Cooperative Agreements to Nonfederal Entities Other Than States

Applicable

3. Cost-reimbursement Contracts Under the Federal Acquisition Regulation

Not applicable

4. Loans, Loan Guarantees, Interest Subsidies, and Insurance

Not applicable

5. All Pass-Through Entities

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.

M. Subrecipient Monitoring

Applicable

UNITED STATES DEPARTMENT OF AGRICULTURE**ASSISTANCE LISTING 10.515 RENEWABLE RESOURCES EXTENSION ACT (RREA) and NATIONAL FOCUS FUNDS (RREA-NFF)****I. PROGRAM OBJECTIVES**

The National Institute of Food and Agriculture (NIFA) provides capacity and non-capacity grant funds to the 1862 land-grant institutions and the 1890 land-grant institutions for cooperative agricultural extension work. The objective of cooperative extension work is to facilitate the development of practical applications of research knowledge and practical demonstrations of existing or improved practices or technologies in agriculture, home economics, and rural energy, and related subjects to persons not attending or resident in colleges. The purpose of the Renewable Resources Extension Act program funding is to assist states in carrying out an extension program designed to assist forest and range landowners and managers in making resource management decisions based on research findings. Forest and rangeland resources include vegetation, water, fisheries and wildlife, soil, and recreation.

II. PROGRAM PROCEDURES**A. Overview and Program Elements**

Congress passed the Renewable Resources Extension Act (RREA) on June 30, 1978, and it was signed into law as Pub. L. No. 95-306, 92 Stat. 349, 16 USC 1671 et seq. The RREA is an Act “To provide for an expanded and comprehensive extension program for forest and rangeland renewable resources.” It is intended to provide educational programs dealing with renewable resources on forest and rangeland and to develop and implement extension educational programs that give special attention to the educational needs of small, private, nonindustrial forest landowners and rangeland owners/managers. The Act is also intended to assist in providing continuing education programs for natural resource professionals working in fish and wildlife, forest, range, and watershed management, and related fields. The original Act was effective for the period October 1, 1978, ending September 30, 2000. Since then, RREA has been re-authorized as a Farm Bill program for five-year increments. The original Act authorized funding was \$15,000,000 per fiscal year. Later reauthorizations of the program increased the authorized funding level to \$30,000,000 per fiscal year.

B. Program Funding

States are eligible for programmatic funds appropriated under this Act according to the respective capabilities of their private forests and rangelands for yielding renewable resources and relative needs for such resources identified in the periodic Renewable Resource Assessment provided for in Section 3 of the Forest and Rangeland Renewable Resources Planning Act of 1974 and the periodic appraisal of land and water resources provided for in Section 5 of the Soil and Water Resources Conservation Act of 1977.

Source of Governing Requirements

The laws governing this program are codified at Renewable Resources Extension Act 16 USC 1671 et seq. and RREA of 1978 16 USC 1671 et seq.

Availability of Other Program Information

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

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the following summary (also included in Part 2, “Matrix of Compliance Requirements”), which of the 12 types of compliance requirements 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/Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	Y	N	N	N	N	N	N	Y	Y	N

A. Activities Allowed or Unallowed

RREA federal funding must be used on the strategic issues from the fiscal years (FYs) 2012–2016 RREA Strategic Plan identified in the institution’s approved 5-Year Plan of Work for FYs 2012–2016.

B. Allowable Costs/Cost Principles

1. Indirect Costs: Not allowed

C. Cash Management**1. Grants and Cooperative Agreements to States**

Applicable

2. Grants and Cooperative Agreements to Nonfederal Entities Other Than States

Applicable

3. Cost-reimbursement Contracts Under the Federal Acquisition Regulation

Not applicable

4. Loans, Loan Guarantees, Interest Subsidies, and Insurance

Not applicable

5. All Pass-Through Entities

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

Recipients have an approved five-year project in REEport.

1. Institutions must submit a REEport Project Initiation, which includes the project description, project classification, assurance form, and project proposal through the REEport System prior to the initiation of each capacity-funded project. The project must undergo a review process and be approved before it is incorporated into the program of research.

2. Each institution must submit a REEport Progress Report annually for each eligible project. All progress reports are based on the federal fiscal year and must be submitted by March 1 for the preceding fiscal year.

3. A Final Report must be submitted to NIFA through REEport for each completed or terminated project. Such reports must be submitted at the same time as are progress reports on active projects and should include a summary of accomplishments for the entire life of the project.
4. A Project Financial Report must be submitted to NIFA through REEport annually for all eligible projects from the preceding fiscal year. A Project Financial Report is also required for expenditures on all state projects that are to be included in the nonfederal funds and matching funds computation. Reports shall be made on the federal fiscal year basis.

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

Applicable

UNITED STATES DEPARTMENT OF AGRICULTURE**ASSISTANCE LISTING 10.516 RURAL HEALTH AND SAFETY****I. PROGRAM OBJECTIVES**

The Rural Health and Safety Education (RHSE) program addresses the health and well-being of rural America through supporting the development and/or implementation of projects focused on (1) individual and family health education programs with specified contents; (2) rural health leadership development education programs to assist rural communities in developing health care services and facilities and assist community leaders and public officials in understanding their roles and responsibilities; and (3) farm safety education programs to provide information and training to farm workers, timber harvesters, and farm families.

II. PROGRAM PROCEDURES**A. Overview**

Authorization for the Rural Health and Safety Education (RHSE) program is under Section 502 (i) of Title V of the Rural Development Act of 1972, as amended (7 USC 2662). Title V of the Rural Development Act of 1972 is to foster quality of life in rural communities by providing the essential knowledge necessary for successful programs of rural development, improving coordination among federal agencies, other levels of government, and institutions and private organizations in rural areas, and developing and disseminating information about rural conditions. Section 502(a) of the act authorizes that United States Department of Agriculture (USDA) may support colleges and universities as they implement extension programs.

B. Program Funding

The 1862 and 1890 Land Grant colleges and universities that are eligible to receive funds under the Act of July 2, 1862 (7 USC 301 et seq.) and the Act of August 30, 1890 (7 USC 321 et seq.), including Central State University, Tuskegee University, and West Virginia State University are eligible for funding. Applications also may be submitted by any of the tribal colleges and universities designated as 1994 Land Grant Institutions under the Educational Land-Grant Status Act of 1994, as amended.

Source of Governing Requirements

The laws governing this program are codified at Section 502 (i) of Title V of the Rural Development Act of 1972, as amended 7 USC 2662.

Availability of Other Program Information

Other program information is available from the National Institute of Food and Agriculture (NIFA) website at <http://www.nifa.usda.gov>.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the following summary (also included in Part 2, “Matrix of Compliance Requirements”), which of the 12 types of compliance requirements 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/Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	Y	N	Y	N	N	N	N	Y	Y	N

A. Activities Allowed or Unallowed

Per 7 USC 2662(i) (Section 502(i) of the Rural Development Act of 1972) and 7 USC 3310(a) and (c) (Section 1462(a) and (c) of the National Agricultural Research, Extension, and Teaching Policy Act of 1977), NIFA has determined that grant funds awarded under this authority may not be used for:

- General Purpose Equipment – Equipment that does not have a particular scientific, technical, or programmatic purpose. It includes passenger carrying vehicles, typewriters, furniture (e.g., tables, chairs, file cabinets, book cases), copy machines, fax machines, and so forth;
- Entertainment – Banquets, awards ceremonies, and meals for persons not in a travel status, tickets to shows or sporting events, and alcoholic beverages;
- Incentives – Federal funds may not be used to offer targeted program participants incentives (e.g., fast-food coupons, gift certificates) to entice participation. This is prohibited under the OMB Circulars;

- Renovation or refurbishment of research, education, or extension space;
- Purchase or installation of fixed equipment in such space;
- Planning, repair, rehabilitation, acquisition, or construction of buildings or facilities; and
- Any expense that is not directly related to the program or project would be considered unallowable. Costs such as child care services hired so that a person can attend a meeting or kitchen help hired to prepare refreshments for a field day, promotional or thank-you gifts such as T-shirts, coffee mugs, or canvas carry-all bags are unallowable because they are not directly related to the project plan.

B. Allowable Costs/Cost Principles

1. Section 713 of the Consolidated Appropriations Act, 2017 (Pub. L. No. 115-31) limits indirect costs to 30 percent of the total federal funds provided (or 42.857 percent of total direct costs) under each award. Therefore, when preparing budgets, requests for the recovery of indirect costs to the lesser of an institution's official negotiated indirect cost rate or the equivalent of 30 percent of total federal funds awarded. See Part V section 7.9 of the NIFA Grants.gov Application Guide for further indirect cost information. See webpage at <https://nifa.usda.gov/indirect-costs> for indirect cost options.

C. Cash Management

1. Grants and Cooperative Agreements to States

Applicable

2. Grants and Cooperative Agreements to Nonfederal Entities Other Than States

Applicable

3. Cost-reimbursement Contracts Under the Federal Acquisition Regulation

Not applicable

4. Loans, Loan Guarantees, Interest Subsidies, and Insurance

Not applicable

5. All Pass-Through Entities

Applicable

F. Equipment and Real Property Management

NIFA has determined that grant funds awarded under this authority may not be used for:

- General Purpose Equipment – Equipment that does not have a particular scientific, technical, or programmatic purpose. It includes passenger carrying vehicles, typewriters, furniture (e.g., tables, chairs, file cabinets, bookcases), copy machines, fax machines, and so forth (2 CFR Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (UG). Per NIFA award terms and conditions, prior approval is required for general purpose equipment exceeding \$5,000 and special purpose equipment exceeding \$250,000.).
- Renovation or refurbishment of research, education, or extension space (7 USC 2662(i) (Section 502(i) of the Rural Development Act of 1972));
- Purchase or installation of fixed equipment in such space;
- Planning, repair, rehabilitation, acquisition, or construction of buildings or facilities.

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.

M. Subrecipient Monitoring

Applicable

UNITED STATES DEPARTMENT OF AGRICULTURE

ASSISTANCE LISTING 10.517 TRIBAL COLLEGE EXTENSION PROGRAM (TCEP) and SPECIAL EMPHASIS (TCEP-SE), and FEDERALLY RECOGNIZED TRIBES EXTENSION PROGRAM (FRTEP)

I. PROGRAM OBJECTIVES

The National Institute of Food and Agriculture (NIFA) provides capacity and non-capacity grant funds to the 1862 land-grant institutions and the 1890 land-grant institutions for cooperative agricultural extension work. The objective of cooperative extension work is to facilitate the development of practical applications of research knowledge and practical demonstrations of existing or improved practices or technologies in agriculture, home economics, and rural energy, and related subjects to persons not attending or resident in colleges. The purpose of the Tribal Colleges Extension Program (TCEP) is to give reservation communities opportunities for enhanced agricultural productivity, community resilience, economic growth, and youth development by extending the reach of innovations in research and technology and enhancing informal, local educational programming. The purpose of FRTEP is to establish an extension program presence and support extension program outreach on Federally Recognized Indian Reservations and tribal jurisdictions of Federally Recognized Tribes.

II. PROGRAM PROCEDURES

A. Overview

In 1914, the Smith Lever Act formalized cooperative extension by establishing the United States Department of Agriculture's (USDA) partnership with land-grant universities (LGUs) to apply research and provide education in agriculture. Since its inception, cooperative extension has broadened its impact from rural communities to having a strong presence in America's urban and suburban areas. Extension agents continue to help farmers and ranchers achieve greater success while assisting families with nutrition and home economics and preparing today's youth to become future leaders. Cooperative extension's activities are funded by many of NIFA's capacity and non-capacity grants. These capacity grants provide support for NIFA's extension activities at land-grant institutions through grants to the states on the basis of statutory formulas.

In 1994, twenty-nine tribal colleges received land-grant university (LGU) status, giving them access to federal government resources that would improve the lives of Native students through higher education and help propel American Indians toward self-sufficiency. These resources also support innovative research, education, and extension programs that positively impact agriculture and food production.

1. *Tribal College Extension Program (TCEP) and Special Emphasis (TCEP-SE)*

The TCEP program and TCEP-SE are authorized under Section 534(b) of the Equity in Educational Land-Grant Status Act of 1994 (7 USC 301 note), as amended by the Agricultural Research, Extension, and Education Reform Act of

1998 (AREERA) (7 USC 7601). This section amends Section 3 of the Act of May 8, 1914 (Smith-Lever Act) (7 USC 341 et seq.), as amended. Under this authority, appropriated funds are to be awarded to the 1994 Land-Grant Institutions (hereinafter referred to as 1994 Institutions) for extension program work and funds are to be distributed on the basis of a competitive application process.

2. *Federally Recognized Tribes Extension Program (FRTEP)*

The FRTEP is authorized under Section 3(d) of the Act of May 8, 1914, Smith-Lever Act, ch. 79, 38 Stat. 372, 7 USC 341 et seq. Section 7403 of the Food, Conservation, and Energy Act of 2008 (FCEA) (Pub. L. No. 110-246) amended Section 3(d) of the Smith-Lever Act to require funds to be awarded competitively.

B. Subprograms/Program Elements

The purpose of the TCEP and TCEP-SE is to give reservation communities opportunities for enhanced agricultural productivity, to help supplement their existing extension capacity program, community resilience, economic growth, and youth development by extending the reach of innovations in research and technology and enhancing informal, local educational programming.

The purpose and intent of FRTEP is to establish an extension program presence and support extension program outreach on Federally Recognized Indian Reservations and tribal jurisdictions of Federally Recognized Tribes.

C. Program Funding

1. *Tribal College Extension Program (TCEP) and Special Emphasis (TCEP-SE)*

The expectation is that each 1994 institution that submits an extension capacity grant will receive funding so long as the application is of sufficient quality. Institutions will compete for the amount of funding they receive.

2. *Federally Recognized Tribes Extension Program (FRTEP)*

Section 3(d) of the Smith-Lever Act provides that the secretary of agriculture may fund extension work in the several states, territories, and possessions.

Source of Governing Requirements

The laws governing this program are codified at Section 534(b) of the Equity in Educational Land-Grant Status Act of 1994 and Smith Lever Act of 1914 7 USC 343 (d).

Availability of Other Program Information

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

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the following summary (also included in Part 2, “Matrix of Compliance Requirements”), which of the 12 types of compliance requirements 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/Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	Y	N	Y	N	N	N	N	Y	Y	N

A. Activities Allowed or Unallowed

- Neither equity nor research projects are supported under TCEP (7 USC 301 note (Section 3(b)(3) of the Smith-Lever Act, as added by Section 534(b) of the Equity in Educational Land-Grant Status Act of 1994)).

B. Allowable Costs/Cost Principles

Tribal College Extension Program (TCEP) and Special Emphasis (TCEP-SE) (7 USC 3319 (Section 1473 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977))

- Indirect costs are unallowable.
- The use of grant funds to plan, acquire, or construct a building or facility, or to acquire land, is not allowed under this program. With prior approval, in accordance with the cost principles set forth in 2 CFR 200.403(e), grant funds may be used to purchase equipment, or for improvements, alterations,

renovations, or repairs to land, buildings, or equipment, deemed necessary to retrofit existing spaces and resources in order to carry out a funded project under this grant. However, requests to use grant funds for such purposes must be aligned with the goals and objectives of the project. Any equipment purchased with federal funds is the property of the grantee or the sub-grantee, as appropriate.

Federally Recognized Tribes Extension Program (FRTEP) (7 USC 343(d) Section 3(d) of the Smith-Lever Act))

1. Pursuant to Section 1473 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977 (91 Stat. 981), indirect costs are unallowable costs under Section 3(d) of the Smith-Lever Act, and no funds will be approved for this purpose. Costs that are a part of an institution's indirect cost pool may not be reclassified as direct costs for the purpose of making them allowable. Award recipients may sub-contract to organizations not eligible to apply, provided such organizations are necessary for the success of the project.
2. Renovation and refurbishment of research, extension, and education space is not allowable.
3. Tuition remission is not allowable.

C. Cash Management

1. Grants and Cooperative Agreements to States

Applicable

2. Grants and Cooperative Agreements to Nonfederal Entities Other Than States

Applicable

3. Cost-reimbursement Contracts Under the Federal Acquisition Regulation

Not applicable

4. Loans, Loan Guarantees, Interest Subsidies, and Insurance

Not applicable

5. All Pass-Through Entities

Not allowed

F. Equipment and Real Property Management

Grant funds awarded under this authority may not be used to renovate or refurbish research, education, or extension space; purchase or install fixed equipment in such space; or to plan, repair, rehabilitate, acquire, or construct buildings or facilities (7 USC 301 note (Section 3(b)(3) of the Smith-Lever Act, as added by Section 534(b) of the Equity in Educational Land-Grant Status Act of 1994); 2 CFR Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (UG); and 7 USC 345 (Section 5 of the Smith-Lever Act of 1977)).

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.

M. Subrecipient Monitoring

Applicable

UNITED STATES DEPARTMENT OF AGRICULTURE**ASSISTANCE LISTING 10.520 AGRICULTURE RISK MANAGEMENT
EDUCATION PARTNERSHIP GRANTS (ARPA)****I. PROGRAM OBJECTIVES****Agriculture Risk Management Education Program**

Section 524(a) of the Federal Crop Insurance Act (7 USC 1524(a)), as amended by section 133 of the Agricultural Risk Protection Act of 2000 and section 11125 of the 2018 Farm Bill (Pub. L. No. 115-334), establishes a competitive grants program for educating agricultural producers and providing technical assistance to agricultural producers on a full range of farm viability and risk management activities. These activities include futures, options, agricultural trade options, crop insurance, business planning, enterprise analysis, transfer and succession planning, management coaching, market assessment, cash flow analysis, cash forward contracting, debt reduction, production diversification, farm resources risk reduction, farm financial benchmarking, conservation activities, and other appropriate risk management strategies. This program brings the existing knowledge base to bear on risk management issues faced by agricultural producers and expands the program throughout the nation on a regional and multi-regional basis.

The Agriculture Risk Management Education Partnership program is a competitive grants program to educate agricultural producers about the full range of risk management activities. These activities include futures, options, agricultural trade options, crop insurance, cash forward contracting, debt reduction, production diversification, marketing plans and tactics, farm resources risk reduction, and other appropriate risk management strategies. The Risk Management Education (RME) program brings the existing knowledge base to bear on risk management issues faced by agricultural producers and expands the program throughout the nation on a regional and multi-regional basis.

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

II. PROGRAM PROCEDURES**A. Overview**

The Agriculture Risk Management Education Partnership program is authorized under Section 133 of the Agricultural Risk Protection Act of 2000 (ARPA) (Pub. L. No. 106-224), as amended the Federal Crop Insurance Act to add section 524(a) (3); 7 USC Section 1501, as amended by Section 132(a) and Section 524; and Section 11125 of the 2018 Farm Bill (Pub. L. No. 115-334), which requires the secretary, acting through NIFA, to establish a competitive grants program to educate agricultural producers about the full range of risk management activities.

B. Subprograms/Program Elements

Agriculture Risk Management Education Partnership

As amended section 524(a) of the Federal Crop Insurance Act, 7 USC 1524(a) was further amended by Section 12026 of the Food, Conservation, and Energy Act of 2008, (FCEA) (Pub. L. No. 110-246), which requires that the secretary place special emphasis on risk management strategies, education, and outreach specifically targeted at: (a) beginning farmers or ranchers; (b) legal immigrant farmers or ranchers that are attempting to become established producers in the United States; (c) socially disadvantaged farmers or ranchers; (d) farmers or ranchers who (i) are preparing to retire and (ii) are using transition strategies to help new farmers or ranchers get started; and (e) new or established farmers or ranchers that are converting production and marketing systems to pursue new markets.

C. Program Funding

This program makes five awards, one award to each regional center (Northeast Region, North Central Region, Southern Region, and the Western Region) and one award to the Risk Management Education Electronic Support Center (RMEESC).

The purpose of the four regional RME centers is to conduct regional and multi-regional based competitive grants programs for the purpose of funding agricultural risk management organizations and individuals that are risk management experts. Also, these organizations and individuals have the knowledge and experience in developing various risk management curricula and delivering to agencies, institutions, and professionals involved in risk management serving farmers and their families.

The purpose of the RMEESC is to provide supporting services to the four regional centers. Support to the four regional RME centers will include electronic, on-line submission of proposals to the four regional centers sub-awards competitive grants programs, provision of a results verification system that includes both progress report and final report templates for the sub-awards process, national communications planning and execution for the program, assistance in coordination of events and conferences as directed, and archival support for all materials and curriculum developed through the regional center sub-awards competitive grants programs.

Source of Governing Requirements

The laws governing this program are codified at Section 524(a) of the Federal Crop Insurance Act 7 USC 1524(a).

Availability of Other Program Information

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

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the following summary (also included in Part 2, “Matrix of Compliance Requirements”), which of the 12 types of compliance requirements 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/Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	Y	N	Y	N	N	N	N	Y	Y	N

A. Activities Allowed or Unallowed

Award recipients may subcontract to organizations necessary for the conduct of the project (7 USC 1524(a)(3) (Section 524(a)(3) of the Federal Crop Insurance Act) and 7 USC 3310(a) and (c) (Section 1462(a) and (c) of the National Agricultural Research, Extension, and Teaching Policy Act of 1977, as amended)).

B. Allowable Costs/Cost Principles

1. Section 715 of the Consolidated and Further Continuing Appropriations Act, 2015 (Pub. L. No. 113-235), limits indirect costs to 30 percent of the total federal funds provided under each award. Therefore, when preparing budgets, applicants should limit their requests for recovery of indirect costs to the lesser of their institution’s official negotiated indirect cost rate or the equivalent of 30 percent of total federal funds awarded. See Part V section 7.9 of the NIFA Grants.gov Application Guide for further indirect cost information.

2. Grants awarded under this authority may not use funds to renovate or refurbish research, education, or extension space; purchase or install fixed equipment in such space; or plan, repair; rehabilitate, acquire, or construction (7 USC 1524(a)(3) (Section 524(a)(3) of the Federal Crop Insurance Act) and 7 USC 3310(a) and (c) (Section 1462(a) and (c) of the National Agricultural Research, Extension, and Teaching Policy Act of 1977, as amended)).

C. Cash Management

1. Grants and Cooperative Agreements to States

Applicable

2. Grants and Cooperative Agreements to Nonfederal Entities Other Than States

Applicable

3. Cost-reimbursement Contracts Under the Federal Acquisition Regulation

Not applicable

4. Loans, Loan Guarantees, Interest Subsidies, and Insurance

Not applicable

5. All Pass-Through Entities

Applicable

F. Equipment and Real Property Management

Grant funds awarded under this authority may not be used to renovate or refurbish research, education, or extension space; purchase or install fixed equipment in such space; or plan, repair; rehabilitate, acquire, or construction of buildings or facilities. Per NIFA's award terms and conditions, prior approval is required for general purpose equipment exceeding \$5,000; and special purpose equipment exceeding \$250,000 (2 CFR Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (UG) and 7 USC 1524(a)(3) (Section 524(a)(3) of the Federal Crop Insurance Act)).

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.

M. Subrecipient Monitoring

Applicable

UNITED STATES DEPARTMENT OF AGRICULTURE**ASSISTANCE LISTING 10.521 CHILDREN, YOUTH, AND FAMILIES AT-RISK (CYFAR)****I. PROGRAM OBJECTIVES**

The National Institute of Food and Agriculture (NIFA) provides competitive grant funds to the 1862 land-grant institutions and the 1890 land-grant institutions for cooperative agricultural extension work. The objective of cooperative extension work is to provide nonformal education and learning activities to people throughout the country—to farmers and other residents of rural communities as well as to people living in urban areas. It emphasizes taking knowledge gained through research and education and bringing it directly to the people to create positive changes. The Children, Youth, and Families At-Risk (CYFAR) program provides funding to land-grant university extension services for community-based Sustainable Community Projects (SCP) to expand statewide (and territories') capacity to support and sustain programming for at risk or high need vulnerable youth and families.

II. PROGRAM PROCEDURES**A. Overview**

The CYFAR program is authorized under Section 3(d) of the Smith-Lever Act (7 USC 341 et seq.), as amended and other relevant authorizing legislation, which provides jurisdictional basis for the establishment and operation of extension educational work for the benefit of youth and families in communities.

B. Subprograms/Program Elements**1. *Children, Youth, and Families At-Risk (CYFAR) Program***

The program's vision is a nation of strong, resilient families and communities in which children and youth lead positive, secure, and happy young lives while developing the skills, knowledge, and competencies necessary for fulfilling, contributing adult lives. The program is based on research on effective programs for at-risk youth and families and on the human ecological principle of working across the lifespan in the context of the family and community. CYFAR integrates resources of the land-grant university system to develop and deliver educational programs that equip limited-resource families and youth who are at risk for not meeting basic human needs to lead positive, productive, and contributing lives.

CYFAR subprograms include:

- Professional Development and Technical Assistance (PDTA)
- CYFAR – Sustainable Community Projects (SCP); and
- 4-H Military Partnership

C. Program Funding

Programmatic funds are provided to the 1862 and 1890 land-grant institutions under Section 3(d) of the Smith-Lever Act for CYFAR, which is authorized under Section 1425 of National Agricultural Research, Extension, and Teaching Policy Act (NARETPA). These funds are made available to the 1862 and 1890 land-grant institutions in the 50 states, the District of Columbia, the Commonwealth of Puerto Rico, and the insular areas of American Samoa, Guam, Micronesia, Northern Marianas, and the Virgin Islands.

Source of Governing Requirements

The laws governing this program are codified at Smith-Lever Act of 1914, 7 USC 343 (d); (7 USC 341, et seq.), and 7 USC 3319 (Section 1473 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977).

Availability of Other Program Information

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

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the following summary (also included in Part 2, “Matrix of Compliance Requirements”), which of the 12 types of compliance requirements 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/Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	Y	N	Y	N	N	N	N	Y	Y	N

A. Activities Allowed or Unallowed

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

Plan of Work requirements (7 USC 344 (Section 5 of the Smith-Lever Act of 1977)) for the subprograms are as follows:

- a. CYFAR – PDTA: 5-Year Plan
 - b. CYFAR – SCP: 4-Year Plan
 - c. CYFAR Military: 3-Year Plan
2. No portion of Smith-Lever Act funds and Section 1444 funds of NARETPA may be applied directly or indirectly “to the purchase, erection, preservation or repair of any building or buildings, or the purchase or rental of land” (7 USC 345 and 3221(e)).
 3. No portion of Smith-Lever Act funds and Section 1444 funds under NARETPA may be applied directly or indirectly in college course teaching or lectures in college (7 USC 345 and 3221(e)).

B. Allowable Costs/Cost Principles

1. Indirect Costs – Not allowed (7 USC 3319 (Section 1473 of the National Agricultural Research, Extension, and Teaching Policy Act of 1977, as amended))

C. Cash Management**1. Grants and Cooperative Agreements to States**

Applicable

2. Grants and Cooperative Agreements to Nonfederal Entities Other Than States

Applicable

3. Cost-reimbursement Contracts Under the Federal Acquisition Regulation

Not applicable

4. Loans, Loan Guarantees, Interest Subsidies, and Insurance

Not applicable

5. All Pass-Through Entities

Applicable

F. Equipment and Real Property Management

Grant funds awarded under this authority may not be used for the renovation or refurbishment of research, education, or Extension space; the purchase or installation of fixed equipment in such space; or the planning, repair, rehabilitation, acquisition, or construction of buildings or facilities. (7 USC 345 (Section 5 of the Smith-Lever Act of 1977) and 2 CFR Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.)

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.

M. Subrecipient Monitoring

Applicable

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/Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & 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. 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 10.579 CHILD NUTRITION DISCRETIONARY GRANTS
LIMITED AVAILABILITY****I. PROGRAM OBJECTIVES**

The objectives of the child nutrition cluster programs are to (1) assist states in administering food services that provide healthful, nutritious meals to eligible children in public and nonprofit 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 special milk program for children (SMP) and fresh fruit and vegetables program (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. 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.

- 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. *National School Lunch Program (NSLP) and School Breakfast Program (SBP)* – These programs target children enrolled in schools. For program purposes, a "school" is a public or nonprofit private school of high school grade or under, or a public or licensed nonprofit 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.
- 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 nonprofit SFAs, public or private nonprofit residential summer camps, or units of local, municipal, county, or state governments, or other private nonprofit 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.

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.

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 \$0.07 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 the NSLA Section 19.

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 Assistance Listing 10.560, which is not included in the Child Nutrition Cluster.
- b. *SFSP State Administrative (SAF) Funds* – In addition to regular SAE grants, administrative funds are made available to state agencies under Assistance Listing 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; SBP, Part 220; Special Milk Program for Children (SMP), Part 215; and Summer Food Service Program for Children (SFSP), Part 225. Regulations have been proposed but not yet been codified for the FFVP at 7 CFR Part 211; implementation via FNS policy memos and guidance manual. 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 <http://www.fns.usda.gov/cnd>. The USDA Foods site 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/Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	Y	Y	N	N	N	Y	Y	N	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, separate rates are 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.

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 an 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 nonprofit 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 nonprofit 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-aged children attending eligible elementary schools as defined in section 9101 of the Elementary and Secondary Education Act of 1965 (20 USC 7801) (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 (Assistance Listing 93.600) (42 USC 1758(b)(6)(A)), or, under most circumstances, the Temporary Assistance for Needy Families (TANF) program (Assistance Listing 93.558) (42 USC 1758(b)). A household may furnish documentation of its participation in one of these programs; or the school, institution, or sponsor may obtain the information directly from the state or local agency that administers these programs. Certain foster, runaway, homeless, and migrant children are categorically eligible for free school lunches and breakfasts (42 USC 1758(b)(5); 7 CFR section 245.6(b)).
- (3) *Direct Certification for Children Receiving Medicaid Benefits* – Section 103 of the Healthy, Hunger-Free Kids Act (HHFKA) provided for a series of demonstration projects on conducting direct certification for students in households receiving Medicaid benefits. This method is used only to certify children eligible for free school lunches and breakfasts in the seven states that are currently conducting demonstration projects. The states of California, Florida, Illinois, Kentucky, Massachusetts, New York, and Pennsylvania are authorized to conduct statewide direct certification with Medicaid data throughout all LEAs. In California, participation is limited to selected school districts.

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

- (a) The child receives, or lives in the household (as defined in 7 CFR section 245.2) with a child who receives, medical assistance under the Medicaid program, and
- (b) The child is a member of a family with an income, as measured by the Medicaid program, before the application of any expense, block, or other income disregard imposed by state Medicaid policies, that does not exceed 133 percent of the federal poverty guidelines for the family size used in the Medicaid eligibility determination. Department of Health and Human Services Poverty Guidelines are available at <https://aspe.hhs.gov/poverty-research>.

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

- (4) *Exceptions* – The following are exceptions to the requirement for annual determinations of eligibility for free or reduced price meals and free milk under the Child Nutrition Cluster programs.
- (a) *Puerto Rico and the Virgin Islands* – These two state agencies have the option to provide free meals and milk to all children participating in the School Nutrition programs, regardless of each child’s economic circumstances. Instead of counting meals and milk by type, they may determine the percentage that each type comprises of the total count using statistical surveys. The survey design must be approved by FNS (7 CFR section 245.4).
- (b) *Special Assistance Certification and Reimbursement Alternatives* – Special Assistance Certification and Reimbursement Alternatives, provisions 1, 2, 3, and the Community Eligibility Provision (CEP) are authorized by Section 11(a)(1) of the NSLA (42 USC 1759a(a)(1)) and Section 104 of HHFKA. Provision 1 may be used in schools where at least 80 percent of the children enrolled are eligible for free or reduced price meals. Under Provision 1, eligibility determinations for children eligible for free meals under the School Nutrition Programs must be made once every two consecutive school years. Children who qualify for reduced price meals are certified annually (42 USC 1759a(a)(1)(B) and (F); 7 CFR section 245.9(a)).
- For provisions 2, 3, and the CEP, extended cycles are allowed for eligibility determinations.
- (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 III.G.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 (see the definition of a “reduced price meal” in 7 CFR section 245.2).

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

Refer to 3. “Eligibility for Subrecipients” (1) and (2) below for information on area eligibility for open and restricted open sites participating in the SFSP.

3. Eligibility for Subrecipients

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

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

camp need not serve an area when poor economic conditions exist. Instead, the camp's sponsor must determine each enrolled child's eligibility for free SFSP meals through the application requirements at 7 CFR sections 225.15(e) and (f). Unlike other sponsors, the sponsor of a camp receives reimbursement only for meals served to children eligible for free or reduced price school meals (7 CFR section 225.14(d)(1)).

- b. *SBP – Severe Need Schools* – In addition to the national average payment, FNS makes additional payments for breakfasts served to children qualifying for free or reduced price meals at schools that are in severe need. The administering agency must determine whether a school is eligible for severe need reimbursement based on the following eligibility criteria: (1) the school is participating in or desiring to initiate a breakfast program, and (2) 40 percent or more of the lunches served to students at the school in the second preceding school year under the NSLP were served free or at a reduced price. Administering agencies must maintain on file, and have available for reviews and audits, the source of the data to be used in making individual severe need determinations (42 USC 1773(d); 7 CFR section 220.9(d)).
- c. *NSLP – Afterschool Snacks* – Reimbursement for afterschool snacks is made available to those school districts that (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 9101 of the Elementary and Secondary Education Act of 1965 (20 USC 7801) (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

- a. A prospective contractor that develops or drafts specifications, requirements, statements of work, invitations for bids, requests for

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

- b. Procurements by states under this program shall be conducted in a manner that prohibits the use of statutorily or administratively imposed in-state or local geographic preferences except as provided for in 2 CFR section 200.319(b) (2 CFR section 416.1(b)).
- 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), and 225.17(e)).

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. *Cost-Reimbursable Contracts*

- 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. No cost resulting from a cost-reimbursable contract may be paid from the SFA's nonprofit school food service account if (a) the underlying contract does not include the provision in paragraph (1)(a) 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)).

4. *Suspension and Debarment*

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

N. Special Tests and Provisions

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

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

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

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

- a. **Standard Sample Size.** The lesser of 3 percent or 3000 of the approved applications on file as of October 1, selected from error-prone applications. For this purpose, error-prone applications are those showing household incomes within \$100 monthly or \$1,200 annually of the income eligibility guidelines for free and reduced price meals.
- b. **Alternative Sample Sizes**
 - (1) The lesser of 3 percent or 3,000 applications selected at random from approved applications on file as of October 1 of the school year, or
 - (2) The sum of (a) the lesser of 1 percent of all applications identified as error-prone or 1,000 error-prone applications, and (b) the lesser of 1/2 of 1 percent of, or 500, approved applications in which the household provided, in lieu of income information, a case number showing participation in the SNAP, TANF, or FDPIR.
 - (3) The use of alternative sample sizes is available only as follows:
 - (a) Any LEA may qualify if its nonresponse rate for the preceding school year's verification was less than 20 percent, or
 - (b) An LEA with more than 20,000 children approved by application for free and reduced price meals may qualify if its nonresponse rate for the preceding year had improved over the rate for the second preceding year by at least 10 percent.

“Nonresponse rate” is defined as the percentage of approved household applications selected for verification for which the LEA has not obtained verification information (7 CFR section 245.6a(a)).

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

Some LEAs are required to conduct a second review of initial eligibility determinations for free and reduced price school meals and to submit the results of the reviews, including the number of reviewed applications for which the eligibility determinations changed and the type of change made. State agencies are required to submit a report to FNS using the

FNS-874, the LEA Second Review of Applications Report (OMB No. 0584-0594). Affected LEAs are those that demonstrated high levels of, or a high risk for, administrative error associated with certification, verification, and other administrative processes (7 CFR section 245.11).

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

Suggested Audit Procedures

- a. Obtain the current family size and income guidelines published by FNS.
- b. Through examination of documentation, ascertain that:
 - (1) The sampling and verification of free and reduced price applications were performed, as required, including, if applicable, the second reviews of applications.
 - (2) Changes were made to eligibility status based on documentation and other information obtained through the verification process.

2. Accountability for USDA-Donated Foods

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

Compliance Requirements

- a. Maintenance of Records

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

Distributing and subdistributing agencies shall take a physical inventory of all storage facilities. Such inventory shall be reconciled annually with the storage facility's inventory records and maintained on file by the agency that contracted with or maintained the storage facility. Corrective action shall be taken

immediately on all deficiencies and inventory discrepancies and the results of the corrective action forwarded to the distributing agency (7 CFR section 250.14(e)).

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

Suggested Audit Procedures

- a. Determine storage facility, processing, and end use locations of all donated foods, including end products processed from donated foods. Determine the donated food records maintained by the entity and obtain a copy of procedures for conducting the required annual physical inventory. Obtain a copy of the annual physical inventory results.
- b. Perform analytical procedures and obtain explanation and documentation for unusual or unexpected results. Consider the following:
 - (1) Compare receipts, distribution, losses, and ending inventory of donated foods for the audit period to the previous period.
 - (2) Compare distribution by entity for the audit period to the previous period.
- c. Ascertain the validity of the required annual physical inventory. Consider performing the following steps, as appropriate:
 - (1) Observe the annual inventory process at selected locations and recount a sample of donated food items.
 - (2) If the annual inventory process is not observed, select a sample of significant donated foods on hand as of the physical inventory date and, using the donated food records, “roll forward” the balance on hand to the current balance observed.
 - (3) On a test basis, recompute physical inventory sheets and related summarizations.
 - (4) Ascertain that the annual physical inventory was reconciled to donated food records. Investigate any large adjustments between the physical inventory and the donated food records.
- d. On a sample basis, test the mathematical accuracy of the donated food records and related summarizations. From the donated food records, vouch a sample of receipts, distributions, and losses to supporting documentation. Ascertain that activity is properly recorded, including correct quantity, proper period and, if applicable, correct recipient agency.

3. School Food Service Accounts

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

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

Suggested Audit Procedures

- a. Review the school food service accounting records and ascertain if a separate accounting is made for the school food service.
- b. Test federal reimbursement payments received monthly from the administering agency to ascertain if promptly credited to the food service account.
- c. Test transfers out of the school food service account and ascertain if the transfers were for the benefit of the school food service.

4. Paid Lunch Equity (NSLP)

Compliance Requirements Section 776 of the Consolidated Appropriations Act, 2018 (Pub. L. No. 115-141) (the Act), Congress provides that only SFAs that had a negative balance in the nonprofit school food service account as of January 31, 2018, 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). Any SFA with a positive or zero balance in its nonprofit school food service account as of January 31, 2018, is exempt from PLE requirements found at 7 CFR 210.14(e) for school year (SY) 2018-19.

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 nonfederal 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 nonfederal 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 nonfederal 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

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

2. 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 10.557 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, all WIC state agencies in the 50 states, the District of Columbia, Puerto Rico, Guam, the Virgin Islands, American Samoa, the Commonwealth of the Northern Mariana Islands, and most ITOs have implemented cost containment measures. Reducing the average food cost per person enables WIC to reach more participants with a given amount of funds. The most successful strategy has been the negotiation of competitive rebate contracts between state agencies and infant formula companies. Such contracts provide for the state agency to receive rebates on infant formula used in the program. Other cost containment measures used by state agencies include competitive bidding for infant cereal, 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.”)

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 USC 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/Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & 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)).

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 6 months of age may be certified for a period extending up to the child's first birthday, provided the quality and accessibility of health care services are not diminished. Children are certified for 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)).

IV. OTHER INFORMATION

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 10.558 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.

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 <http://www.fns.usda.gov/cnd/>. 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/Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & 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*

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

2. *Reimbursement for Sponsoring Organizations’ Administrative Costs*

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

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

3. *Use of Reimbursements*

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

C. Cash Management

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

E. Eligibility

1. Eligibility for Individuals

a. General Eligibility

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

- (1) Meets the definition of “children” or “adult participant” at 7 CFR section 226.2. These definitions are:
 - (a) “Children” means (i) persons 12 years of age and under; (ii) children of migrant workers 15 years of age and under; (iii) persons of any age who have one or more disabilities and who are enrolled in an institution or child care facility serving a majority of persons who are age 18 and under; (iv) for emergency shelters, persons age 18 and under; and (v) for at-risk afterschool care centers, persons age 18 and under at the start of the school year (see definitions of “children,” “enrolled child,” and “persons with disabilities” at 7 CFR section 226.2).
 - (b) “Adult participant” means “a person enrolled in an adult day care center who is functionally impaired...or 60 years of age or older” (definitions of “adult participant” and “enrolled participant” are available at 7 CFR section 226.2).
- (2) Receives care at a participating institution. The individual must:
 - (a) Be enrolled in a child or adult care center or other nonresidential institution that provides day care;
 - (b) Reside in an emergency shelter; or
 - (c) Attend an at-risk afterschool program or outside-school-hours care center (7 CFR section 226.15(e)(2), definitions of “enrolled child” and “enrolled participant” are available at 7 CFR section 226.2).

b. *Eligibility for Free or Reduced Price Meals*

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

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

- (a) *General Rule: Household Application* – The participant's household may submit an income eligibility statement that provides information about household size and income. The information submitted by each household is compared with USDA's published Income Eligibility Guidelines. A household is not required to furnish documentation to support the information given in its income eligibility statement; however, that information is subject to verification under 7 CFR section 226.23(h) (7 CFR sections 226.23(e)(1)(ii) and (iii), and 226.23(e)(4)).
- (b) *Exception: Categorical Eligibility* – Children and adults may be determined categorically eligible for free and reduced price meals by virtue of their participation in certain other programs. For children, such programs include the Supplemental Nutrition Assistance Program (SNAP), Food Distribution Program on Indian Reservations (FDPIR), or state programs funded through Temporary Assistance for Needy Families (TANF). Categorically eligible adults include those who receive SNAP, FDPIR, Supplemental Security Income (SSI), or Medicaid benefits. Categorically eligible participants must indicate on the income eligibility statement the other program for which they are eligible. No income eligibility statement is required for foster children or children

participating in the Head Start program or for pre-kindergarten children participating in the Even Start program, nor is any eligibility determination required beyond documenting their participation in Head Start or Even Start (7 CFR sections 226.23 (e)(1)(iv) and (v); 42 USC 1766(c)(6)).

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

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

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

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

- (3) *Children Attending At-Risk Afterschool Programs* – Eligible afterschool programs must be located in geographical areas where 50 percent or more of the children are eligible for free or reduced price meals under the School Nutrition programs (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 section 226.11(c)(4)).

- b. All institutions must meet the eligibility requirements stated in 7 CFR section 226.15 and 42 USC 1766(a)(6) and (d)(1). In addition, as applicable, institutions must meet the type definitions in 7 CFR section 226.2 and applicable additional requirements.

- Sponsoring organizations: 7 CFR section 226.16;
- Child care centers (whether independent or sponsored): 7 CFR section 226.17;
- Day care homes (which must be sponsored): 7 CFR section 226.18;
- Outside-school-hours centers: 7 CFR section 226.19;
- Adult day care centers (whether independent or sponsored): 7 CFR section 226.19a;
- At-risk afterschool programs: 7 CFR section 226.17a;
- Emergency shelters: 42 USC 1766(t).

I. Procurement and Suspension and Debarment

1. *Procurement*

- a. A prospective contractor that develops or drafts specifications, requirements, statements of work, invitations for bids, requests for proposals, contract term and conditions, or other documents for use by a state under this program shall be excluded from competing for such procurements. Such prospective contractors are ineligible for contract awards resulting from such procurements regardless of the procurement method used. However, prospective contractors may provide states with specification information related to a state procurement and still compete for the procurement if the state, and not the prospective contractor, develops or drafts the specifications, requirements, statements of work, invitations for bid, and/or requests for proposals used to conduct the procurement (2 CFR section 416.1(a)).
- b. Procurements by states under this program shall be conducted in a manner that prohibits the use of statutorily or administratively imposed in-state or local geographic preferences except as provided for in 2 CFR section 200.319(b) (2 CFR section 416.1(b)).
- 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 section 226.22(n) and Section 4302 of Pub. L. No. 110-246, 122 Stat. 1887, June 18, 2008).

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)).

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

b. Physical Inventory

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

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

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 section 200.40, definition of “federal financial assistance,” and should be valued in accordance with 2 CFR section 200.502. Therefore, recipient agencies must determine the value of donated foods used. FNS recommends that recipient agencies use the value of donated food delivered to them during the fiscal year being audited for this purpose.
- 2. 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 10.566 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. These benefits are distributed in a proportion of 80 percent for the purchase of eligible food items in certified retailers and the remaining 20 percent for purchases in eligible food items in certified retailers and noncertified retailers. Any transaction made at authorized retailers involving food purchases is at no charge to the participant. PR monitors retailer and household compliance.

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.

Benefit issuance takes the form of posting monthly increments to the client's account: 80 percent to the noncash account and 20 percent to the cash account. ATM transactions generate charges against the client's cash account. Purchases at authorized retailers generate on-line charges against the client's 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/Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & 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). A reference to the change from 75/25 to 80/20 in FY 17 for benefit/cash split may need to be dropped in here as belonging to this section of the compliance matrix.

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 10.565 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 and to eligible women, infants, and children who were certified and received benefits as of February 6, 2014. CSFP food packages are not intended to provide a complete diet, but rather provide the nutrients that are typically lacking in the diets of the target population.

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

II. PROGRAM PROCEDURES

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

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

Program Descriptions*Common Characteristics*

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

- a. USDA purchases and provides food and administrative funds to state agencies, which in turn provide the USDA Foods and a portion of the administrative funds to recipient agencies.
- b. State agencies must submit a plan of operation to the applicable FNS Regional Office and have a federal-state agreement on file. In CSFP, the plan of operation is referred to as the state plan. In TEFAP, it is referred to as the distribution plan.
- c. Public agencies and private 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 women, infants, and children and transition it to a seniors-only program. As a result, women, infants, and children who apply to participate in CSFP on February 7, 2014, or later cannot be certified to participate in the program. Women, infants, and children who were certified and receiving program benefits as of February 6, 2014, can continue to receive assistance until they are no longer eligible under the program rules than were in effect on February 6, 2014.

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

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

To gain access to its USDA Foods and administrative funds, a state agency must have a state plan and a federal-state agreement on file with the applicable FNS regional office.

The state plan must include the criteria listed at 7 CFR section 247.6(c), including a plan for the storage and distribution of USDA Foods.

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

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

At the local level, the program is operated by ERAs. ERAs include Emergency Feeding Organizations (EFOs), charitable institutions (such as hospitals and retirement homes), summer camps for children, child nutrition programs that provide food service, nutrition programs under the Older Americans Act of 1965 (Nutrition Program for the Elderly) (Pub. L. No. 89-73), and disaster relief programs. EFOs include public and private 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.

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/Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & 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) and to women, infants, and children who were certified and receiving CSFP benefits on February 6, 2014, and whose enrollment has continued without interruption (7 CFR section 247.9(a)).
- (2) **Income Eligibility.** State agencies determine income eligibility guidelines for program participants, within the parameters of the income eligibility guidelines provided in program regulations: 7 CFR section 247.9(b) for women, infants, and children who were receiving benefits as of February 6, 2014, and 7 CFR section 247.9(c) for the elderly. They must be approved in advance by FNS as part of the state agency's state plan.
 - (a) **Criteria for women, infants, and children** – The eligibility requirements in this section apply only to women, infants, and children who were certified and receiving CSFP benefits on February 6, 2014, and whose enrollment has continued without interruption. Effective February 7, 2014, no new applications from women, infants, or children may be approved. The state agency must set income eligibility limits that are at or below 185 percent of the Department of Health and Human Services Poverty Guidelines (see [2021 Poverty Guidelines | ASPE \(hhs.gov\)](#)) but not below 100 percent of these guidelines. Women, infants, and children are also considered income eligible based on their participation in the Temporary Assistance for Needy Families (TANF) program (Assistance Listing 93.558), the Supplemental Nutrition Assistance Program (SNAP) (Assistance Listing 10.551), or Medicaid (Assistance Listing 93.778). States may also choose to make these applicants automatically income eligible if they participate in one or more federal, state, or local food, health, or welfare programs that have income eligible criteria equal to or lower than the established CSFP limits (7 CFR sections 247.9(b), (d), and (e)).

- (b) Criteria for elderly persons – The state agency must set income eligibility limits that are at or below 130 percent of the federal poverty income guidelines (7 CFR sections 247.9(c) through (e)).
- (3) Eligibility Criteria at State’s Discretion – In addition to categorical and income eligibility, the state agency may also require that applicants (a) be at nutritional risk, as determined by a physician or by local agency health staff; and/or (b) reside within the service area of a local agency when applying for benefits (7 CFR section 247.9(f)).

b. *TEFAP*

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

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

Not Applicable

3. Eligibility for Subrecipients

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

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 10.582 FRESH FRUIT AND VEGETABLE PROGRAM****I. PROGRAM OBJECTIVES**

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

II. PROGRAM PROCEDURES**A. Overview**

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

The Consolidated Appropriations Act, 2008 (Pub. L. No. 110-161) and the Food, Conservation, and Energy Act of 2008 (Pub. L. No. 110-246) established the FFVP on a permanent basis to all states, the District of Columbia, US Virgin Islands, Guam, and Puerto Rico, effective July 1, 2008, by authorizing it in a new Section 19 in the Richard B. Russell National School Lunch Act (NSLA) 42 USC 1769a. No program regulations have yet been issued.

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

B. Program Funding

A state's FFVP grant is determined through an allocation formula. FNS sets aside up to \$500,000 for FNS administrative costs; FNS adds any recovered funds from the previous year and awards each state an amount equal to 1 percent from the balance; and allocates the remaining funds on the basis of population. Territories do not participate in the initial 1 percent allocation. Adjustments are made to ensure that this formula does not diminish the FFVP funding levels that the original 16 participating states received.

Availability of Other Program Information

Other program information is available on the FNS website at [Fresh Fruit and Vegetable Program | USDA-FNS](#). Resources available at this site include a FFVP Handbook, Questions and Answers, technical assistance and implementation memoranda, prototype agreement forms, and

a prototype FFVP claim for reimbursement. The FFVP Handbook is available at <https://fns-prod.azureedge.net/sites/default/files/resource-files/handbook.pdf>.

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the following summary (also included in Part 2, “Matrix of Compliance Requirements”), which of the 12 types of compliance requirements 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/Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	Y	Y	N	N	N	Y	Y	N	N	N

A. Activities Allowed or Unallowed

The school must make fresh fruits and fresh vegetables available at no charge to enrolled children during the school day, in one or more areas designated by the school. The school must use its subgrant funds for costs of purchasing, preparing, and serving the fresh fruits and fresh vegetables. FNS has issued extensive guidance on program requirements for the FFVP and allowable and unallowable costs.

The school may not offer fresh fruits and fresh vegetables before school, during afterschool programs, or during regularly scheduled meals otherwise provided at school under the NSLP and School Breakfast Program (SBP) (42 USC 1769a(b) and (g)).

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

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

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

Not Applicable

3. Eligibility for Subrecipients

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

- a. It is an elementary school as defined in section 9101 of the Elementary and Secondary Education Act of 1965 (20 USC 7801) (42 USC 1769a(d)(1)(C)).
- b. It operates the NSLP (42 USC 1769a(d)(1)(A)(i)).
- c. At least 50 percent of its enrolled children are eligible for free or reduced price meals under the NSLP (42 USC 1769a(d)(1)(A)(i)).

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

General

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

Direct Distribution

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

Recipient Agencies

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

Monetization

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

In addition to commodities, the CCC's agreement with the cooperating sponsor may provide the cooperating sponsor cash assistance to fund program administrative and operational expenses.

Program regulations also authorize cash advances for this purpose. Such cash awards may be made only after approval of a program operating budget submitted by the cooperating sponsor.

Source of Governing Requirements

Commodity donations 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.

Availability of Other Program Information

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

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the following summary (also included in Part 2, “Matrix of Compliance Requirements”), which of the 12 types of compliance requirements 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/Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & 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 85 percent of the amount of an approved program operating budget. Cash advances furnished by the CCC must be deposited in interest bearing accounts. Any interest earned on such advances must be used for the same purposes as the cash advances themselves (7 CFR sections 1499.7(f) and (g)).

2. *Commodity Monetization Proceeds*

A cooperating sponsor must deposit all proceeds from the sale of USDA-donated commodities under monetization agreements into interest bearing accounts.

Exceptions are permitted where this practice is prohibited by local law or custom of the importing country, or the CCC determines that enforcing the requirement would impose an undue burden on the sponsor (7 CFR section 1499.12(c)).

F. Equipment and Real Property Management

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

J. Program Income

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

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

L. Reporting

1. Financial Reporting

- a. *SF-270, Request for Advance or Reimbursement* – Not Applicable
- b. *SF-271 – Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable
- c. *SF-425, Federal Financial Report* – Not Applicable
- d. *Financial Statement (OMB No. 0551-0035)* – Any cooperating sponsor that receives an advance of CCC funds must file quarterly financial statements with the CCC.

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

1. *Cash on hand at beginning of the quarter*
2. *CCC advances received during the quarter*
3. *Interest earned during the quarter*
4. *Expenditures for administrative and Internal Transportation, Storage, and Handling (ITSH) costs during the quarter* – Both categories of cost must be subdivided into sub-categories identified in instructions issued by the FAS.
5. *Cash on hand at the end of the quarter*

2. Performance Reporting

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

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

1. *Commodity Delivery Table* – The following data relating to shipping of each commodity provided for in the agreement:
 - a. *Amount received at port*

- b. *Ocean losses/damages*
 - c. *Amount received at warehouse*
 - d. *Inland 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.

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.

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

Part I – Sales

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

Part II – Barter

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

Part III – Deposits to Special Funds Account

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

Part IV – Disbursements from Special Funds Account

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

Part V – Balance of Special Funds Accounts

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

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.

UNITED STATES DEPARTMENT OF AGRICULTURE

ASSISTANCE LISTING 10.607 SECTION 416(b) 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 416(b) Program (Foreign Food Aid Donation programs) 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 which 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.

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

Program Operation

General

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

Direct Distribution

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

Recipient Agencies

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

Monetization

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

In addition to commodities, the CCC's agreement with the cooperating sponsor may provide the cooperating sponsor cash assistance to fund program administrative and operational expenses.

Program regulations also authorize cash advances for this purpose. Such cash awards may be made only after approval of a program operating budget submitted by the cooperating sponsor.

Source of Governing Requirements

Commodity donations is authorized by the Section 416(b) of the Agricultural Act of 1949 (7 USC 1431(b)) (Section 416(b) Program). Implementing regulations are found at 7 CFR Part 1499.

Availability of Other Program Information

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

III. COMPLIANCE REQUIREMENTS

In developing the audit procedures to test compliance with the requirements for this federal program, the auditor must determine, from the following summary (also included in Part 2, "Matrix of Compliance Requirements"), which of the 12 types of compliance

requirements 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/Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & 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)).

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

C. Cash Management

1. *Cash Advances from the CCC*

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

2. *Commodity Monetization Proceeds*

A cooperating sponsor must deposit all proceeds from the sale of USDA-donated commodities under monetization agreements into interest bearing accounts.

Exceptions are permitted where this practice is prohibited by local law or custom of the importing country, or the CCC determines that enforcing the requirement would impose an undue burden on the sponsor (7 CFR section 1499.12(c)).

F. Equipment and Real Property Management

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

J. Program Income

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

L. Reporting

1. Financial Reporting

- a. *SF-270, Request for Advance or Reimbursement* – Not Applicable
- b. *SF-271 – Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable

- c. *SF-425, Federal Financial Report* – Not Applicable
- d. *Financial Statement (OMB No. 0551-0035)* – Any cooperating sponsor that receives an advance of CCC funds must file quarterly financial statements with the CCC.

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

- 1. *Cash on hand at beginning of the quarter*
- 2. *CCC advances received during the quarter*
- 3. *Interest earned during the quarter*
- 4. *Expenditures for administrative and Internal Transportation, Storage, and Handling (ITSH) costs during the quarter* – Both categories of cost must be subdivided into subcategories identified in instructions issued by the FAS.
- 5. *Cash on hand at the end of the quarter*

2. Performance Reporting

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

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

- 1. *Commodity Delivery Table* – The following data relating to shipping of each commodity provided for in the agreement:
 - a. *Amount received at port*
 - b. *Ocean losses/damages*
 - c. *Amount received at warehouse*
 - d. *Inland losses/damages*
- 2. *Freight Charges* – The dollar amount of claims for a reduction or recovery of freight charges in both local currency and 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.

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

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

Part I – Sales

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

Part II – Barter

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

Part III – Deposits to Special Funds Account

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

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.

Part V – Balance of Special Funds Accounts

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

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.

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 January following the close of the FY for which receipts were received. Payments are always made the year after the receipt year, which is used to calculate those payments made in the following payment year. The states verify the amount of each deposit with information received from the Forest Service, and then distribute the funds to the counties in which the national forests are situated.

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

Payment, as described above, or its share of the state payment. State payments are authorized through FY 2015 receipt year (FY 2016 payment year).

Quinault Special Payment – 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 80 counties containing Forest Service national grasslands. Payments are made directly to the counties where the national grasslands and LUPs are located.

Source of Governing Requirements

25-Percent Payment – 16 USC 500

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

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

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

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

National Grasslands Payment – 7 USC 1012

Availability of Other Program Information

Program information for the Secure Rural Schools and Community Self-Determination Act may be found at [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/Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & 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).
3. *Quinault Special Payment* funds must be used for public schools and roads of the county or counties in which the national forest is situated (Pub. L. No. 100-638, Section 4(b)(2)).
4. *Arkansas Quartz Payment* funds must be used for public roads and public schools in the counties in Arkansas in which the Ouachita National Forest is located (Pub. L. No. 100-446, Section 323).
5. *Payments to Minnesota* funds have no restrictions on use (16 USC 577g and g-1).
6. *National Grasslands Payment* funds must be used for roads or schools in the county in which the land is located (7 USC 1012).

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

Not Applicable

2. Level of Effort

Not Applicable

3. Earmarking

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

- (1) a county election to receive a formula payment;
- (2) the county election to receive a share of the state's 25-Percent Payment or a share of the state (formula) payment; and
- (3) the county election to allocate the share of the formula payment for titles II and III, will be the same elections made by the county for FY 2013 (16 USC 7112(b)(1).

A county may opt to return its allocation, in whole or part, to the US Treasury. Similar information is posted on the Forest Service website ([Secure Rural Schools Program | US Forest Service \(usda.gov\)](https://www.usda.gov/secure-rural-schools-program)).

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

- (1) For \$100,000 or less. For payments for FY 2013 and prior years, an eligible county that receives \$100,000 or less, could allocate 100 percent of its share to benefit public schools and roads under Title I. The total percentage allocated for the benefit of public schools and roads must be no less than 80 percent and no more than 85 percent. For the payments for FY 2014 and FY 2015, the county election will be the same as the elections made by the county in payment for FY 2013.
- (2) For \$100,001 but less than \$350,000. For payments for FY 2013 and prior years, if the county share of the state payment was more than \$100,000 but less than \$350,000, the county was required to allocate 15 percent to 20 percent of its share to Title II, Title III, or a combination of the two titles, or return this portion of the state payment to the US Treasury. For the payments for FY 2014 and

FY 2015, the county election will be the same as the election made by the county in payment for FY 2013.

- (3) For \$350,000 or greater. For payments for FY 2013 and prior years, if the county share of the state payment was \$350,000 or greater, the county was required to allocate 15 percent to 20 percent of its share to Title II, Title III, or a combination of the two titles, or return this portion of the state payment to the US Treasury. For these counties, the allocation for Title III projects could not exceed 7 percent. For the payments for FY 2014 and FY 2015, the county election will be the same as the election made by the county in payment for FY 2013.

H. Period of Performance

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

L. Reporting

1. Financial Reporting

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

Key Line Items – The following sections contain critical information:

1. *Expenditures*
2. *Funds Not Obligated*

2. Performance Reporting

Not Applicable

3. Special Reporting

Not Applicable

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/Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & 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****ASSISTANCE LISTING 10.780 COMMUNITY FACILITIES LOANS AND GRANTS
(Community Programs)****I. PROGRAM OBJECTIVES**

The objective of the Community Facilities (CF) direct loan, guaranteed loan, and grant programs is to provide loan or grant funds for the development of essential community facilities for public use in rural communities. Funds may be used to construct, enlarge, extend, or otherwise improve essential community facilities providing essential services primarily to rural residents and rural businesses. Funds are made available to public bodies, 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 Guaranteed Loans OneRD Guaranteed Loan Staff Instruction 7CFR Part 5001
- 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/resources>.

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/Real Property Management	Matching, Level of Effort, Earmarking	Period Of Performance	Procurement Suspension & Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	N	N	N	N	Y	N	N	Y	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).

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. *RD 442-2, Statement of Budget, Income, and Equity (OMB No. 0575-0015)* – This report covers financial operations relating to the borrower's CF project. Borrowers expending less than the threshold established in 2 CFR 200, Subpart F, "Audit Requirements" during its fiscal year should submit this report. If a borrower's Agency indebtedness is \$1,000,000 or more, an audited financial statement must be completed.
- e. *RD 442-3, Balance Sheet (OMB No. 0575-0015)* – This report presents the financial status of the borrower's CF project. Borrowers expending less than the threshold established in 2 CFR 200, Subpart F, "Audit Requirements" during its fiscal year should submit this report. If a borrower's Agency indebtedness is \$1,000,000 or more, an audited financial statement must be completed.

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. 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 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. Auditors should perform test to ascertain if the nonfederal entity complied with applicable program requirements.

In accordance with RD Instruction 1942-A, 1942.17 (q)(5), borrowers and grantees not meeting the threshold for an audit under 2 CFR 200, Subpart F, must provide financial information utilizing Form RD 442-2, Statement of Budget, Income, and Equity and RD 442-3, Balance Sheet. This ensures the verification of their balance sheet and statement of income and expenses. CF borrowers and grantees submitting financial information are also required to meet the continuing compliance requirements.

Note: Prior to this year's supplement, this compliance supplement section instructed that CF loans did not have continuing compliance requirements and thus were not required to be audited under 2 CFR Part 200, Subpart F in years after project completion. However, USDA has now changed this position and determined that CF loans have continuing compliance requirements because CF borrowers are required to fund reserves, maintain insurance, deposit funds in Federally insured banks, meet financial covenants and debt service ratios, comply with civil rights requirements, and in some cases comply with additional requirements established as part of the loan approval process.

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 will now be 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 and included in the scope of the single audit. USDA plans to inform all borrowers of this change through an Administrative Notice, which will be posted on the USDA website. USDA will also determine another method of

communicating to borrowers informing them of the Administrative Notice and the related audit implications. This change is to be applied prospectively and will be effective for borrowers' with outstanding CF loan balances for fiscal years ending on or after June 30, 2022. There is no expectation that borrowers that had existing outstanding loan balances in years prior to June 30, 2022, go back and have single audits performed of prior periods.