

UNITED STATES DEPARTMENT OF AGRICULTURE

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

I. PROGRAM OBJECTIVES

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

II. PROGRAM PROCEDURES

General Overview

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

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

Program Descriptions

Common Characteristics

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

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

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

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

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

Characteristics of Individual Programs

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

- a. *School Nutrition Programs* (NSLP and SBP) – These programs target children enrolled in schools. For program purposes, a “school” is a public or non-profit private school of high school grade or under, or a public or licensed non-profit private residential child-care institution. At the local level, a school food authority (SFA) is the entity with which the administering agency makes an agreement for the operation of the programs. A SFA is the governing body (such as a school board) legally responsible for the operation of the NSLP and/or SBP in one or more schools. A school operated by a SFA may be approved to serve breakfast and lunch. A school participating in the NSLP that also has an afterschool care program with an educational or enrichment component may also be approved to serve afterschool snacks. See also the description of the SMP below.
- b. *SFSP* – The SFSP is directed toward children in low-income areas when school is not in session. It is locally operated by approved sponsors, which may include public or private non-profit SFAs, public or private non-profit residential summer camps, or units of local, municipal, county or State governments or other private non-profit organizations that develop a special summer or other school vacation program providing food service similar to that available to children during the school year under the NSLP and SBP.

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

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

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

Program Funding

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

Funding Program Benefits

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

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

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

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

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

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

Funding State-Level Administrative Costs

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

- a. *State Administrative Expense (SAE) Funds* - These funds are granted under CFDA 10.560, which is not included in the Child Nutrition Cluster.
- b. *SFSP State Administrative (SAF) Funds* - In addition to regular SAE grants, administrative funds are made available to State agencies under CFDA 10.559 to assist with administrative costs of the SFSP (7 CFR section 225.5). The State agency must describe its intended use of the funds in a Program Management and Administrative Plan submitted to FNS for approval (7 CFR section 225.4).

Source of Governing Requirements

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

Availability of Other Program Information

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

III. COMPLIANCE REQUIREMENTS

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

Compliance Requirements											
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 and Debarment	Program Income	Reporting	Subrecipient Monitoring	Special Tests and Provisions
Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y

A. Activities Allowed or Unallowed

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

E. Eligibility

1. Eligibility for Individuals

Any child enrolled in a participating school or summer camp, or attending a SFSP meal service site, who meets the applicable program’s definition of “child,” may receive meals under the applicable program. In the case of the NSLP and SBP, children belonging to households meeting nationwide income eligibility

requirements may receive meals at no charge or at reduced price. Children who have been determined ineligible for free or reduced price school meals pay the full price, set by the SFA, for their meals. Children attending SFSP meal service sites receive their meals at no charge (7 CFR sections 225.15(f), 245.1(a), and 245.3(c); definition of “subsidized lunch (paid lunch)” at 7 CFR section 210.2; and definitions of “camp,” “closed enrolled site,” “open site,” and “restricted open site” at 7 CFR section 225.2).

a. *General Eligibility*

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

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

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

- (1) *General Rule: Annual Certification* – A child’s eligibility for free or reduced price meals under a Child Nutrition Cluster program may be established by the submission of an annual application or statement which furnishes such information as family income and family size. Local educational agencies (LEAs), institutions, and sponsors determine eligibility by comparing the data reported by the child’s household to published income eligibility guidelines. In addition to publishing income eligibility information in the *Federal Register*, FNS makes it available on the FNS website at <http://www.fns.usda.gov/school-meals/income-eligibility-guidelines>.
- (a) *School Nutrition Programs* – Children from households with incomes at or below 130 percent of the Federal poverty level are eligible to receive meals or milk free under the School Nutrition Programs. Children from households with incomes above 130 percent but at or below 185 percent of the Federal poverty level are eligible to receive reduced price meals. Persons from households with incomes exceeding 185 percent of the poverty level pay the full price (7 CFR sections 245.2, 245.3, and 245.6; section 9(b)(1) of the NSLA (42 USC 1758 (b)(1)); sections 3(a)(6) and 4(e) of the CNA (42 USC 1772(a)(6) and 1773(e))).
- (b) *SFSP* – While all SFSP meals are served at no charge, the sponsors of certain types of meal service sites must make individual determinations of eligibility for free or reduced price meals in accordance with 7 CFR section 225.15(f). See III.E.3, “Eligibility - Eligibility for Subrecipients,” for more information.
- (c) *SMP* – Eligibility for free milk in SFAs electing to serve free milk is limited to children of households meeting the income eligibility criteria for free meals under the School Nutrition Programs. The SMP has no provision for reduced price benefits (Definition of “free milk” at 7 CFR section 215.2, and 7 CFR sections 215.7(b), 245.3, and 245.6).
- (2) *Direct Certification* – Annual eligibility determinations may also be based on the child’s household receiving benefits under the Supplemental Nutrition Assistance Program (SNAP), Food Distribution Program on Indian Reservations (FDPIR), the Head Start Program (CFDA 93.600) (42 USC 1758(b)(6)(A)), or, under most circumstances, the Temporary Assistance for Needy Families (TANF) program (CFDA 93.558) (42 USC 1758(b)). A household

may furnish documentation of its participation in one of these programs; or the school, institution, or sponsor may obtain the information directly from the State or local agency that administers these programs. Certain foster, runaway, homeless, and migrant children are categorically eligible for free school lunches and breakfasts (42 USC 1758(b)(5); 7 CFR section 245.6(b)).

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

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

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

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

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

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

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

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

c. *Reduced Price Charges for Program Meals*

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

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

3. Eligibility for Subrecipients

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

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

sponsors, the sponsor of a camp receives reimbursement only for meals served to children eligible for free or reduced price school meals (7 CFR section 225.14(d)(1)).

- b. *SBP – Severe Need Schools* – In addition to the national average payment, FNS makes additional payments for breakfasts served to children qualifying for free or reduced price meals at schools that are in severe need. The administering agency must determine whether a school is eligible for severe need reimbursement based on the following eligibility criteria: (1) the school is participating in or desiring to initiate a breakfast program and (2) 40 percent or more of the lunches served to students at the school in the second preceding school year under the NSLP were served free or at a reduced price. Administering agencies must maintain on file, and have available for reviews and audits, the source of the data to be used in making individual severe need determinations (42 USC 1773(d); 7 CFR section 220.9(d)).
- c. *NSLP – Afterschool Snacks* – Reimbursement for afterschool snacks is made available to those school districts which (1) operate the NSLP in one or more of their schools and (2) sponsor or operate afterschool care programs with an educational or enrichment purpose. In the case of snacks served at an eligible site located in the attendance area of a school in which at least 50 percent of the enrolled children are certified eligible for free and reduced price school meals, all snacks are served free and are reimbursed at the free rate regardless of individual eligibility. Schools and sites not located in such an area may also participate, but they must count and claim snacks as free, reduced price and paid, depending on the eligibility status of the children served, and they must maintain documentation of eligibility for children receiving free or reduced price snacks (42 USC 1766a).

G. Matching, Level of Effort, Earmarking

1. Matching

NSLP – State Revenue Matching Requirement

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

- a. *Private School Exemption* – States that are prohibited by law from disbursing State appropriated funds to non-public schools are not required to match “General Cash Assistance” (Section 4) funds expended for meals in such schools, or to disburse to such schools any of the State revenue required to meet the matching requirements. Also, the matching requirements do not apply to schools in which the program is administered by a FNS regional office (7 CFR section 210.17(b)).
- b. *Applicable State Revenues* – State revenues, appropriated or used specifically for program purposes, are eligible for meeting the matching requirement. States use a number of methods to apply funds toward the matching requirement. For example, they may (1) disburse such funds directly to SFAs, generally on a per-meal basis; (2) pay bills that SFAs would otherwise have had to pay themselves (such as FICA payments for school food service workers); and (3) track State-appropriated funds that SFAs have indirectly applied to the program through transfers from their general funds to their school food service funds (7 CFR section 210.17(d)).

2. Level of Effort – Not Applicable

3. Earmarking – Not Applicable

I. Procurement and Suspension and Debarment

1. Procurement

- a. For procurement activity covered by the A-102 Common Rule (see Part 3 of the Supplement for effective dates), regardless of whether the State elects to follow State or Federal rules, the following requirements must be followed for procurements initiated by State agencies, SFAs, institutions, and sponsors.
 - (1) A State agency, SFA, institution, or sponsor shall not award a contract to a firm it used to orchestrate the procurement leading to that contract. Examples of services that would disqualify a firm from receiving the contract include preparing the specifications, drafting the solicitation, formulating contract terms and conditions, etc. (7 CFR sections 3016.60(b) and 3019.43).
 - (2) A State or local government shall not apply in-State or local geographical preference, whether statutorily or administratively prescribed, in awarding contracts ((7 CFR sections 210.21(g), 215.14a(e), 220.16(f) and 225.17).

- b. For procurements covered by the USDA adoption of 2 CFR part 200 and the regulations at 2 CFR section 416.1, the following applies:
- (1) A prospective contractor that develops or drafts specifications, requirements, statements of work, invitations for bids, requests for proposals, contract term and conditions, or other documents for use by a State under this program shall be excluded from competing for such procurements. Such prospective contractors are ineligible for contract awards resulting from such procurements regardless of the procurement method used. However, prospective contractors may provide States with specification information related to a State procurement and still compete for the procurement if the State, and not the prospective contractor, develops or drafts the specifications, requirements, statements of work, invitations for bid, and/or requests for proposals used to conduct the procurement (2 CFR section 416.1(a)).
 - (2) Procurements by States under this program shall be conducted in a manner that prohibits the use of statutorily or administratively imposed in-State or local geographic preferences except as provided for in 2 CFR section 200.319(b) (2 CFR section 416.1(b)).
- c. *Procurement of Unprocessed Agricultural Products* – Notwithstanding the requirements noted in paragraph 1.a.(2) above or 2 CFR section 200.319(b), an SFA, institution, or sponsor operating one or more Child Nutrition Cluster programs may use a geographical preference for the procurement of unprocessed agricultural products, both locally grown and locally raised (7 CFR sections 210.21(g), 215.14a(e), 220.16(f), and 225.17(e)).
- d. *Contracts With Food Service Management Companies* – Before awarding a contract to a food service management company, or amending such a contract, an SFA operating the NSLP and SBP and sponsors operating the SFSP must (1) obtain its administering agency’s review and approval of the contract terms; (2) incorporate all changes required by the administering agency; (3) obtain written administering agency approval of any changes made by the SFA or sponsor or its food service management company to a pre-approved prototype contract; and (4) when requested, submit procurement documents for administering agency inspection (7 CFR sections 210.16(a)(10), 210.19(a)(5), 220.7(d)(1)(ix), and 225.15(m)(4)).

e. *Cost-Reimbursable Contracts*

- (1) Cost-reimbursable contracts awarded by SFAs operating the NSLP, SMP, and SBP, including contracts with cost-reimbursable provisions and solicitation documents prepared to obtain offers of such contracts, must include the following provisions:
 - (a) Allowable costs will be paid from the nonprofit school food service account to the contractor net of all discounts, rebates and other applicable credits accruing to or received by the contractor or any assignee under the contract, to the extent those credits are allocable to the allowable portion of the costs billed to the SFA.
 - (b) Billing documents submitted by the contractor will either separately identify allowable and unallowable portions of each cost, or include only allowable costs and a certification that payment is sought only for such costs.
 - (c) The contractor's determination of its allowable costs must be made in compliance with applicable departmental and program regulations and the OMB cost principles.
 - (d) The contractor must identify the amount of each discount, rebate, and other applicable credit on bills and invoices presented to the SFA for payment and individually identify the amount as a discount, rebate, or in the case of other applicable credits, the nature of the credit. If approved by the State agency, the SFA may permit the contractor to report this information on a less frequent basis than monthly, but no less frequently than annually.
 - (e) The contractor must identify the method by which it will report discounts, rebates and other applicable credits allocable to the contract that are not reported prior to conclusion of the contract.
 - (f) The contractor must maintain documentation of costs and discounts, rebates and other applicable credits, and must furnish such documentation upon request to the SFA, the State agency, or the USDA (7 CFR section 210.21(f)).
- (2) No cost resulting from a cost-reimbursable contract may be paid from the SFA's nonprofit school food service account if (a) the underlying contract does not include the provision in paragraph (1)(a) 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)).

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

L. Reporting

1. Financial Reporting

- a. SF-270, *Request for Advance or Reimbursement* – Not Applicable
- b. SF-271, *Outlay Report and Request for Reimbursement for Construction Programs* – Not Applicable
- c. SF-425, *Federal Financial Report* – Not Applicable
- d. FNS-13, *Annual Report of State Revenue Matching (OMB No. 0584 - 0075)* – This report is due 120 days after the end of each school year and identifies the State revenues to be counted toward meeting the State revenue matching requirement (7 CFR section 210.17(g)).

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

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

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

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

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

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

Line 10.n. – *Advances only*

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

2. Performance Reporting – Not Applicable

3. Special Reporting

a. *State Agency Special Reporting*

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

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

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

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

- (a) Item 5 – *National School Lunch Program:*
- Line 5a – *Total lunches served in the NSLP*
 - Line 5b1 – *Lunches served in school food authorities that qualify the State for additional payment*
 - Line 5b2 – *Lunches served in school food authorities certified for performance based reimbursement*

- Line 5c – *Total afterschool snacks served in all approved schools and sites*
- Line 5d – *Total afterschool snacks served in area eligible schools and sites*
- (b) Line 6 – *School Breakfast Program (Include schools with severe need)*
- (c) Line 7 – *School Breakfast Program (Severe need only)*
- (d) Line 8 – *Commodity Schools (Lunches only)*
- (e) Item 9 – *Special Milk Program:*
 - Line 9a – *Schools (Include Residential Child Care Institutions)*
 - Line 9b – *Nonresidential Child Care Institutions*
 - Line 9c – *Summer Camps*
- (f) Item 10 – *No. of Meals Served in Private Schools Only:*
 - Line 10a – *National School Lunch Program*
 - Line 10b – *Afterschool snacks*
 - Line 10c – *Afterschool snacks served in area eligible schools and sites*
 - Line 10d – *School Breakfast Program (Include Severe Need)*
 - Line 10e – *Severe Need School Breakfast Program*
- (g) Item 11 – *No. of Meals Served in Residential Child Care Institutions (RCCIs) Only:*
 - Line 11a – *National School Lunch Program*
 - Line 11b – *NSLP - Snacks*
 - Line 11c – *School Breakfast Program (Include Severe Need)*
 - Line 11d – *Severe Need School Breakfast Program*

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

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

Part A - Meals Served

- (a) Lines 5 through 7 – *Breakfasts*
- (b) Lines 8 through 10 – *Lunches*
- (c) Lines 11 through 13 – *Suppers*
- (d) Lines 14 through 16 – *Snacks*
- (e) Lines 17 through 19 – *Total*

b. *Subrecipient Special Reporting*

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

(1) *Claiming – General Process*

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

- (a) *School Nutrition Programs* – The following types of service may be authorized for schools participating in these programs: breakfast, lunch, afterschool snack (if the school operates an afterschool care program), and milk (under the SMP). A school may be approved for the SMP only if it (i) does not operate any other Federal Child Nutrition meal service programs; or (ii) operates the NSLP and/or SBP, but makes milk available to children in half-day pre-

kindergarten or kindergarten programs who do not have access to the NSLP and SBP. All claims must be supported by accurate meal counts by category and type taken at the point of service or developed through an approved alternative procedure (7 CFR sections 210.7, 210.8, 215.8, 215.10, 220.9, and 220.11).

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

(2) *Claiming – Exceptions*

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

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

- (b) *Provision 3* – Provision 3 has a 4-year cycle. Cash reimbursement and donated food assistance are provided at the same level as the school received in the last year free and reduced price applications were taken and daily meal counts by category and type were made, adjusted for inflation, the number of operating days, and enrollment. Schools opting for this alternative are not required to make annual free and reduced price eligibility determinations. Free and reduced price eligibility determinations and daily meal counts by income category are only required during a base year which is not included as part of the 4-year cycle. Provisions exist for authorizing subsequent 4-year extensions if the economic condition of the school's enrollment has not improved (42 USC 1759a(a)(1)(E); 7 CFR section 245.9(d)).
- (c) *Community Eligibility Provision (CEP)* – Section 104(a) of the HRFKA provides an alternative reimbursement method for high poverty LEAs, also on a 4-year cycle. To be eligible for the CEP, schools must: (1) have a minimum of 40 percent of identified students directly certified for free meals in the school year prior; (2) agree to serve free lunches and breakfasts to all students; and (3) agree to cover with non-Federal funds any costs of providing free meals to all students that exceed the Federal reimbursement. No household applications for free and reduced price meals are collected, and reimbursement is based on claiming percentages (not to exceed 100 percent) derived from the percentage of students directly certified, multiplied by a factor of 1.6.

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

M. Subrecipient Monitoring

1. General Reviews

State agencies administering the programs included in the Child Nutrition Cluster are required to perform specific monitoring procedures in accordance with 7 CFR sections 210.18, 210.19(a)(4), 220.8(j), 220.8(o)(9), and 220.13(f) (NSLP and SBP); 7 CFR section 215.11 (SMP); and 7 CFR section 225.7 (SFSP). Section 207 of HRFKA amended Section 22 of the Richard B. Russell National School Lunch Act (42 USC 1796c) by requiring FNS to prescribe and administer a “unified system...to ensure that local food service authorities participating in the [NSLP and SBP]...comply with those Acts...” FNS developed a State

administrative review process that (1) combined elements of the existing Coordinated Review Effort (CRE) and School Meals Initiative (SMI) review processes; (2) accounted for the transition from a 5-year to a 3-year review cycle; and (3) incorporated review of the SBP for any SFA that operates both programs. The unified administrative review system is prescribed by 7 CFR section 210.18. Beginning with the 2013-14 school year, FNS authorized State agencies to either (1) adopt the new administrative review process in its entirety; or (2) continue using the existing CRE process in its entirety, plus a weighted nutrient analysis.

a. *Administrative Reviews*

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

b. *Follow-up Reviews*

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

c. *Additional Administrative Reviews (AAR)*

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

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

2. Certification Activity

In addition to the subrecipient monitoring requirements above, State agencies administering the NSLP and SBP are required to conduct certification activity. The objective of such activity is to ensure that SFAs are complying with the updated nutritional standards mandated by Section 201 of the HHFKA. Before providing the performance-based reimbursement (currently 6 cents per lunch served) to SFAs, a State agency must certify that SFAs can demonstrate that they are serving school meals that meet the updated nutritional standards. SFAs have

three options to demonstrate compliance. Options 1 and 2 entail State agency desk reviews of documentation submitted by SFAs. Option 1 documentation includes menus and nutrient analysis, while option 2 documentation consists of menus and a simplified nutrient analysis. For option 3, SFAs can be certified over the course of a regular State agency-conducted administrative review, if the State offers that option. This type of review is required only one time per SFA (7 CFR section 210.7(d)).

N. Special Tests and Provisions

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

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

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

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

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

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

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

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

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

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

Suggested Audit Procedures

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

2. Accountability for USDA-Donated Foods

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

Compliance Requirements

a. *Maintenance of Records*

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

b. *Physical Inventory*

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

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

Suggested Audit Procedures

- a. Determine storage facility, processing, and end use locations of all donated foods, including end products processed from donated foods. Determine the donated food records maintained by the entity and obtain a copy of procedures for conducting the required annual physical inventory. Obtain a copy of the annual physical inventory results.
- b. Perform analytical procedures and obtain explanation and documentation for unusual or unexpected results. Consider the following:
 - (1) Compare receipts, distribution, losses and ending inventory of donated foods for the audit period to the previous period.
 - (2) Compare distribution by entity for the audit period to the previous period.
- c. Ascertain the validity of the required annual physical inventory. Consider performing the following steps, as appropriate:
 - (1) Observe the annual inventory process at selected locations and recount a sample of donated food items.

- (2) If the annual inventory process is not observed, select a sample of significant donated foods on hand as of the physical inventory date and, using the donated food records, “roll forward” the balance on hand to the current balance observed.
 - (3) On a test basis, recompute physical inventory sheets and related summarizations.
 - (4) Ascertain that the annual physical inventory was reconciled to donated food records. Investigate any large adjustments between the physical inventory and the donated food records.
- d. On a sample basis, test the mathematical accuracy of the donated food records and related summarizations. From the donated food records, vouch a sample of receipts, distributions, and losses to supporting documentation. Ascertain that activity is properly recorded, including correct quantity, proper period and, if applicable, correct recipient agency.

3. School Food Accounts

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

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

Suggested Audit Procedures

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

4. Paid Lunch Equity

Compliance Requirement – A SFA participating in the NSLP is required to ensure that sufficient funds are provided to its nonprofit school food service accounts from lunches served to students not eligible for free or reduced price meals. A SFA currently charging less for a paid lunch than the difference between the Federal reimbursement rate for such a lunch and that for a free lunch is required to comply. This difference is known as

“equity.” There are two ways to meet this requirement: (a) by raising the prices charged for paid lunches; or (b) through contributions from other non-Federal sources. SFAs with an average weighted price at or above equity (currently \$2.65 for school year 2014-15) have already met the requirement (42 USC 1760(p); 7 CFR sections 210.14(a) and 210.14(e)).

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

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

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

Suggested Audit Procedures

- a. Verify the calculations performed by the SFA to determine whether its paid lunch price requires adjustment.
- b. Verify that the SFA adjusted its average weighted paid lunch price in accordance with the results of the foregoing calculations, and are actually charging students the adjusted price.
- c. Ascertain if the SFA met the equity requirement by furnishing additional funds from non-Federal sources.
- d. If so, verify that the amount provided was sufficient to cover the difference between the amount calculated by the SFA and the amount actually charged for paid lunches.

IV. OTHER INFORMATION

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