



United States
Department of
Agriculture

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Food and
Nutrition
Service

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SUBJECT: Issues Related to the SFSP Pilot Projects Authorized by the Consolidated Appropriations Act, 2001 (Pub. L. 106-554)

TO: Theresa Bowman
Director
Special Nutrition Programs
Midwest Region

At the request of the Indiana State agency, we are providing additional guidance on the operation of the pilot projects by eligible sponsors of the Summer Food Service Program (SFSP) in the 14 qualifying States. Questions and answers provided below address issues concerning accountability, record retention, and State agency review responsibilities.

1. Do sponsors have to maintain separate accounts and records of administrative and operating costs?

No.

2. Do sponsors have to report their costs to the State agency at any time?

Sponsors do not have to report their costs in order to receive reimbursement. Cost records, however, must be available for review by the State agency and FNS reviewers.

3. What records must be maintained to document eligible SFSP costs?

All records of expenditures to determine whether costs are allowable.

4. How will year-round operation of other Child Nutrition Programs by a SFSP sponsor affect documentation of SFSP costs?

Sponsors that operate other Child Nutrition Programs do not need to maintain a separate nonprofit food service for the SFSP. SFSP can be included in the sponsor's nonprofit food service account for other programs. Sponsors that do not operate other year-round Child Nutrition Programs must maintain documentation of a nonprofit food service. Records and supporting documentation must be maintained to permit the sponsor, reviewers, and auditors to evaluate and verify the operation of a nonprofit food service.

5. If a sponsor's operating costs are lower than the "meals x rates" reimbursement, can the sponsor use the extra operating funds for other USDA Child Nutrition Programs?

Yes, as long as the funds are only used to support a nonprofit food service. Most importantly, the sponsor must ensure that SFSP benefits to children and the quality of SFSP program administration are not diminished.

6. If a sponsor's operating costs are less than the "meals x rates" reimbursement, can the sponsor use the extra operating funds to pay for SFSP administrative costs?

Yes. However, the sponsor must maintain a nonprofit food service and must ensure that SFSP benefits to children are not diminished.

7. Is the application process for the SFSP changed at all by the sponsor's participation in this pilot project?

No, the application process remains the same. Sponsors will still submit a program budget that will show anticipated operational and administrative costs. The State agency will review the budgets to ensure the sponsor is capable of properly administering the program.

8. Will administrative costs be reimbursed at the "meals x rates" level regardless of the amount estimated in the sponsor's budget?

Yes, qualifying sponsors will receive the full reimbursement rate for both operating and administrative costs, which equals the "meals x rate" amount. We expect that most sponsors will prepare an administrative budget with this in mind.

9. How should the State agency review administrative expenses for sponsors participating in the pilot project?

The State agency should review the sponsor's operation of the program to determine the allowability of costs, consistent with FNS Instruction 796-4, Rev. 4. The sponsor's administrative expenditures should be in line with budgeted administrative costs. The State agency should determine whether the pattern of administrative expenditures shows any unusual or unexplained increases over budgeted costs, the sponsor's costs from previous years, or the costs from comparable sponsors. The State agency should ensure that the level of administrative expenditures enables the sponsor to operate a nonprofit food service and maintain a quality food service. If the food service is no longer nonprofit or if

the food service appears to be seriously harmed , the State agency should immediately notify the sponsor to correct the deficiencies. If the deficiencies are not corrected, the State agency should terminate the sponsor from the program, in accordance with 7 CFR 225.11(c) of the SFSP program regulations.

10. What types of sponsors are eligible to participate in the pilot project?

The following types of sponsors in the 14 qualifying States identified in our January 19, 2001, memorandum may participate in this pilot project:

- public or private nonprofit school food authorities;
- local, municipal, or county governments;
- public or private nonprofit sponsors of the National Youth Sports Program; and
- public or private nonprofit residential camps.

Other private nonprofit organizations are not eligible to participate in the pilot project.

11. Are there any limitations on how sponsors use the reimbursement that exceeds their costs?

There are no limitations as long as the funds are spent on allowable costs related to the SFSP, as described in FNS Instruction 796-4, Rev. 4. If excess funds still remain, they should be used to improve current program operations. If the sponsor operates other USDA child nutrition programs, excess SFSP reimbursement must be used for nonprofit food service costs associated with those programs, or maintained for use in the SFSP next year.

12. Do sponsors without year-round Child Nutrition Programs have to return unused SFSP funds at the end of the fiscal year?

No, sponsors are not obligated to return unused funds. Organizations that expect to sponsor the program next year should maintain any excess funds at the end of the summer for next year's SFSP operations.

13. To what extent do sponsors have to keep track of costs vs. rates?

Sponsors are not required to consolidate costs under this pilot project. However, sponsors should be aware of their costs in each category (operating and administrative) and take action to improve the meal service or other aspects of the food program if their operating costs are less than their anticipated reimbursement.

14. How will a sponsor or the State agency determine that the food service is nonprofit?

Maintaining a nonprofit food service requires documentation of all revenues received and expenses paid from the account. Since only allowable costs may be funded from the nonprofit food service account, these costs must be necessary, reasonable, and properly documented. The determination of a nonprofit food service account does not result from simply comparing costs and rates, but requires a determination that all costs charged to the account were allowable and all funds (reimbursement and other monies) accruing to the account were properly identified and recorded as nonprofit food service revenue.

15. How will FNS evaluate this pilot project as required by the statute?

The specifics of the evaluation are still under discussion at this time. However, we are directed by Congress to evaluate the effect of the pilot on participation by children and sponsors, quality of meals served, and program integrity. To accomplish this objective, very likely FNS will need to closely examine data on participation, costs and expenditures, and menus.

16. How can State agencies help ensure that sponsors participating in this pilot project continue to offer quality meal services?

Prior to the start of program operations, State agencies must review the budget submitted with the sponsor's application to determine whether the sponsor intends to provide a similar quality of service compared to the previous year. If the sponsor is new to the program, the State agency could compare its proposed budget to the budgets of other sponsors, similar in size, location, and type of organization. State agencies should pay particular attention to the budgets submitted by non-school sponsors.

The State agency should monitor the operations during the summer. If the quality of service appears to be low or to have diminished from previous years, the State should discuss this problem with the sponsor. If the sponsor is operating a

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program with poor quality service and is operating below the reimbursement level, the State should thoroughly investigate the situation. If the sponsor has spent SFSP funds on unallowable costs, the State should assess a claim against the sponsor for the amount of funds spent inappropriately.

The State should use review findings that demonstrate that a sponsor has inappropriately operated the program, provided poor service to children, or misused program funds to declare a sponsor seriously deficient. If the sponsor does not correct the deficiencies, the State should deny any future application in accordance with 7 CFR §225.11(c) SFSP regulations.

Please let us know of any other questions that arise as State agencies begin implementing this pilot project. We will be glad to address additional questions in future correspondence.

A handwritten signature in dark ink, appearing to read "Stanley C. Garnett". The signature is written in a cursive, flowing style.

STANLEY C. GARNETT
Director
Child Nutrition Division

cc: All other Regions