



United States
Department of
Agriculture

Food and
Nutrition Service
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SUBJECT: Fiscal Year (FY) 2008 Reallocation of State Administrative Expense
(SAE) Funds

TO: Regional Directors
Special Nutrition Programs
All Regions

State Agencies	State Agencies
Child Nutrition Programs	Food Distribution Programs
All States	All States

This memorandum and attachments provide the information needed to conduct the FY 2008 reallocation of SAE funds. Reallocation is a formal process by which State agencies (SAs) can: (1) request additional SAE funds above their initial authorized funding level; or (2) return SAE funds they do not need.

Attachments A and B provide a detailed description of the reallocation process. Attachment A discusses the major considerations and guidelines for conducting the reallocation of SAE funds. Attachment B describes the specific roles and responsibilities of the SAs, ROs, and headquarters in conducting reallocation of SAE funds.

SAs are asked to submit their request for reallocation to their respective RO by **April 4, 2008**, to facilitate the reallocation process. ROs will thoroughly evaluate the need for each request and recommend for approval only those that are essential to the administration of the Programs. RO requests and the SAE Funds Reallocation Reports (FNS-525) are due to Headquarters no later than May 2, 2008. We will not begin the review and approval process for FY 2008 reallocation of SAE funds until after the May 2, 2008, deadline for submitting requests. Due to time limitations for reallocating SAE funds, if requests are not received by this date, they may not be considered.

Headquarters will notify ROs of the reallocation awards in late July 2008, unless additional information is needed from the SA or RO.

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The SAE Funds Reallocation Report (FNS-525) form will be transmitted to each RO and may be returned to Food and Nutrition Service (FNS) Headquarters, Child Nutrition Division (CND) via e-mail. SAs should contact their RO with any questions. ROs should contact Marcus Brownrigg at Marcus.Brownrigg@fns.usda.gov.

Original Signed

CYNTHIA LONG
Director
Child Nutrition Division

Attachments

MAJOR CONSIDERATIONS AND GUIDELINES
FOR CONDUCTING REALLOCATION OF SAE FUNDS

- 1) The reallocation request should be based on the current planned use of State Administrative Expense (SAE) funds. The SAE Plan should reflect the planned use of SAE funds through the end of fiscal year (FY) 2008. The SAE Funds Reallocation Report (FNS-525) should reflect the current status of the SAE Plan, i.e., including all amendments to date.
- 2) Funds that an SA does not anticipate obligating by September 30, 2008, will be a factor in determining if an SA will receive reallocation funds. An SA must submit a description of how it intends to use these funds in FY 2009. In this description, the SA must show that all carryover funds are planned to be used for one-time only activities which are essential to the administration of the Child Nutrition Programs (CNPs) and the Food Distribution Program related to CNPs. The request for reallocation funds must be reduced by the amount of carryover funds that are not planned to be used for one-time only activities.

Any request indicating that an SA, by deferring obligation of part or all of its reallocation funds until the following fiscal year, will exceed the carryover limit will not be approved. Carryover will be limited to 20 percent of the initial FY 2008 SAE formula allocation for each SA. Funds received by an SA in addition to the initial allocation for FY 2008, including reallocation and transfer funds, do not increase the carryover limit. Only funds provided for program start-up costs are exempt from the carryover limit.

- 3) An SA must specify the fiscal year in which the SAE funds will be obligated. An amendment to the base year FY 1997 SAE Plan may be needed for reallocation funds that will be obligated by September 30, 2008, and/or an amendment may be needed for reallocation funds that will be obligated by September 30, 2009. Reallocation funds that will be obligated in FY 2009 should not be made available to an SA until the amendments to the SAE Plan, if applicable, are approved, and not before October 1, 2008.
- 4) Only requests from an SA for activities that can be demonstrated to be essential to the administration of its program(s) will be considered for approval. In keeping with FNS's continuing efforts to improve the management of SAE funds, approved requests will be limited to only those requests that, if not funded, would adversely affect an SA's ability to administer its program(s). The RO and SA justification accompanying a reallocation request must adequately describe how the CNPs will be adversely affected if an SA does not receive reallocation funds.

- 5) During the past few years, significant funds have been provided to SAs to finance **information technology projects**. Funding was approved for computer hardware and software and, in particular, for contracting programming services for website development and enhancements. Because of limited resources, future funding for these projects may not be available to the extent that it was in the past.

Information technology projects that have an impact on CACFP audit review activities may be funded or receive further consideration under CACFP audit fund reallocation process.

- 6) The reallocation is intended to fund one-time only activities that are essential to the administration of the CNPs. It is not intended to sustain the routine operations of an SA. Under ordinary circumstances, an SA is expected to operate within its allocation level. Requests funded in successive years may indicate that an SA is not attempting to limit its SAE funding use to its SAE allocation level.
- 7) The approval of the reallocation request is approval of the project and approval of the expenditure of a specific amount of money on the project activities by the end of the grant period. For example, if reallocated funds are approved to develop training materials for the National School Lunch Program, the materials would have to be developed by the end of the grant period and the amount of funds reallocated for the training materials would have to be expended by the end of the grant period.
- 8) SAs should use reallocated and carryover funds on a first-in first-out (FIFO) basis; however, FNS will recover SAE funds from any SA that fails to expend the approved amount of the reallocation request on the approved project activities by the end of the grant period. For example, if other allowable SAE costs are incurred before the costs for the development of the training materials in the second year, the SA should use the carryover and reallocated funds to pay other allowable SAE costs which are incurred first, i.e., FIFO. However, if the training materials are not completed by the end of the grant period and the amount of SAE funds expended for the materials at the end of the grant period is less than the amount of reallocated funds received to develop the materials, the remainder will be recovered from the current year SAE funds. The recovery will be the difference between the amount of the reallocated funds approved minus the approved project expenditures. The amount of reallocated funds is tied to the specific purpose for which it was reallocated. It is important that the SAs specify the fiscal year in which the reallocated funds will be obligated and request only the amount of funds that will be expended by the end of the grant period.

- 9) Projects or activities that were started prior to the request for reallocated funds will not be funded. In addition, requests for reallocation for projects that have already obligated or expended funds will not be approved.
- 10) ROs should provide guidance to SAs on the proper reporting of obligations and expenditures on the SF-269. SAs are required to report costs in accordance with OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, and maintain financial managements systems, which include documentation to support information reported in accordance with 7 CFR Part 3016, Department of Agriculture Uniform Federal Assistance Regulations.
- 11) If approved requests exceed the amount of funds available, headquarters will prioritize the requests based on RO recommendations and follow-up discussions as necessary. However, as previously stated, requests will be processed beginning in early May 2008. This could result in later requests being denied because of insufficient funds.

STATE AGENCY (SA) RESPONSIBILITIES
FOR CONDUCTING REALLOCATION OF SAE FUNDS

- 1) All SAs must complete and return a SAE Funds Reallocation Report (FNS-525) whether or not they are returning or requesting SAE funds. The RO may request that FNS-525's be submitted to them in hardcopy or electronically from the SAs.
- 2) An SA requesting SAE reallocation funds must:
 - request funds only if other funding sources are not available;
 - request only funds that will be obligated and the amount of the request expended on the approved project by September 30, 2009;
 - submit only requests which are within the 20 percent carryover limitation;
 - submit only requests which, if not funded, would adversely affect the Child Nutrition Programs (CNP) and the Food Distribution Program activities related to CNPs;
 - submit only requests which are for one-time only activities;
 - prorate requests that may include both CNP and non-CNP activities (e.g., Food Distribution Program) to include only the share of those funds that are for CNP related activities. Include a description of how the proration for the CNP's share was determined;
 - provide a justification statement for each funding request as described in the instructions to the FNS-525;
 - specify the fiscal year (FY) the requested funds will be obligated; and
 - assess its projected funding use for the current FY and make any necessary amendments to its base year FY 1997 SAE Plan to reflect the use of all funds it does not intend to carry over into FY 2009. Before a request for additional funds will be considered for approval, any anticipated carryover funds must be planned to be used for one-time only activities that are essential to the administration of the CNPs.
- 3) An SA returning funds should note the amount returned on the FNS-525, and amend its base year FY 1997 SAE Plan as necessary.

- 4) SAs should be assessing their accomplishments at midyear and evaluating the status of these accomplishments in relation to the SAE Plan activities to be achieved. This evaluation will allow the SA to determine if the SAE Plan is a reasonable projection of actual expenditures and, thus, accurately complete the FNS-525. As in the past, SAs that request additional funds at reallocation must conduct such an assessment and provide written documentation of this assessment as part of the required written justification to receive additional funds. All SAs, both those requesting reallocation and those that are not requesting such funds, must submit an FNS-525 no later than **April 4, 2008**.

REGIONAL OFFICE (RO) ROLES AND RESPONSIBILITIES
FOR CONDUCTING REALLOCATION OF SAE FUNDS

- 1) Each SA, including alternate agencies, responsible for administering the Food Distribution Program in schools, as well as the National School Lunch, School Breakfast, Special Milk, Child and Adult Care Food and Commodity School Programs should receive its own SAE Funds Reallocation Report (FNS-525).
- 2) Review with SAs any alternate funding sources, other than reallocation funds, available to meet their needs. Alternate sources may include transfer of excess SAE funds from one administering agency to another administering agency within the same State.
- 3) Recommend for approval only requests which:
 - if not funded, would adversely affect an SA's ability to administer the Child Nutrition Programs (CNPs). ROs should assist the SAs in identifying essential requests. When determining if the need for additional reallocation funds is essential, consider how an SA plans to use all available funds including reallocation funds requested. Reallocation funds may only be approved if funds which an SA intends to carry over into fiscal year (FY) 2009 (carryover funds) are planned to be used for one-time only activities which are essential to the administration of the CNPs;
 - are for projects or phases of projects that can be completed by the SA by September 30, 2009. SAs must obligate and expend the amount of the reallocation funds on the project activities by the end of the grant period (September 30, 2009); and
 - fall within the 20 percent carryover limitation. Determine whether an SA's planned use of funds for the current fiscal year is realistic. Work with SAs to assure that the estimated funds usage and subsequent carryover are realistic. In analyzing current year carryover data reported on the FNS-525, ROs should use historical levels as indicated by the fourth-quarter SF-269s and anticipated carryover levels as reported on the approved SAE Plans. The carryover limit does not change as a result of funds received by or recovered from an SA through reallocation. For example, if the SA's allocation for FY 2008 was \$1 million, the maximum amount of unobligated FY 2008 SAE funds that the SA could retain for obligation and expenditure during FY 2009 would be \$200,000 (20 percent of the formula allocation).

- If the SA subsequently receives \$100,000 in reallocation funds in FY 2008, its total SAE grant would increase to \$1,100,000, but its maximum carryover level would remain at \$200,000. If, as of September 30, 2008, the SA had \$250,000 in unobligated FY 2008 SAE funds, including funds received through FY 2008 reallocation, \$50,000 would be recovered.
 - All other requests, even if they represent legitimate uses of SAE funds, should not be recommended for approval. Any funds in excess of the carryover limitation, including reallocation and transfer funds, will be recovered.
- 4) Review and evaluate the method the SA used to prorate requests that may include both CNP and non-CNP activities (e.g., Food Distribution Program) to include only the share of those funds that are for CNP related activities. In the justification for the request, include a description of how the proration for the CNP's share was determined.
 - 5) Encourage SAs to return any funds in excess of their actual needs. Current year funds returned during reallocation will be used for the current year reallocation or reapportioned for future reallocations.
 - 6) Obtain additional justification from SAs, as warranted, to substantiate the need for reallocation funds.
 - 7) At the end of the fiscal year, ROs are to evaluate the positions of SAs that were provided additional funds at reallocation to determine if the SAs' situations changed since the midyear assessment on which the reallocation was based. If the actual amount of funds carried over by an SA is greater than the amount projected and justified at the time of the reallocation, the SA will be given the opportunity to justify the need for the reallocated funds given the increase in the carryover. Any of these funds that the SA is unable to justify, up to the amount of the reallocated funds provided, must be returned to FNS. Regardless, any amount of carryover funds exceeding 20 percent of the initial SAE allocation must be returned to FNS.
 - 8) **By May 2, 2008, ROs should forward to headquarters:**
 - all FNS-525s. The FNS-525 may be submitted in hardcopy, along with any requests for reallocated SAE funds, or transmitted as attachments to an email to Marcus Brownrigg;
 - only those SAs' reallocation requests recommended for approval by the RO and the complete justification for those SAs' requests. The justification for reallocation funds must (1) describe what activity will be performed and why the activity is needed, (2) describe how the CNPs would be adversely affected, including a description of any

functions or specific requirements that would not be accomplished if the request was denied, (3) describe how requests including non-CNP activities were prorated to reflect only the CNP's share, and (4) specify the fiscal year in which the funds will be obligated;

- the RO's justification for recommending approval of the requests. The RO must analyze the requests and provide headquarters with sufficient information on why it recommends approval. It is imperative that the RO convey in its justification the impact on CNPs if the request is not approved;
- a ranking of each SAs' request recommended for approval, from high to low priority, based on the RO's perceived needs of SAs and discussions with each SA. A discussion of the reasons for each ranking should also be included. When ranking requests of equal merit, SAs that have not received reallocation funds on a regular basis should be given priority over those that have regularly received funds.
- a brief description of all SA requests denied. (Include the name of the SA, nature of the request, dollar amount, and reason for not recommending the request.)

HEADQUARTERS' ROLES AND RESPONSIBILITIES
FOR CONDUCTING REALLOCATION OF SAE FUNDS

- 1) Review all reallocation requests recommended for approval, consulting regional offices (ROs) as necessary to obtain additional information.
- 2) To ensure that funds are not reallocated unnecessarily, FNS headquarters will evaluate the historical carryover levels and the reasons for carryover for those SAs requesting reallocated funds. Reallocation funds will be approved only to the extent that anticipated carryover funds are insufficient to cover essential one-time only activities.
- 3) Make final funding determinations based on the availability of funds and the merits of the individual requests.
- 4) Issue allowances to ROs with reallocation adjustments.
- 5) Notify RO program and financial management directors of the results of the reallocation.