



**United States
Department of
Agriculture**

Food and
Nutrition
Service

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SUBJECT: Questions Relevant to State Accounting and Reporting of Retained Funds from Additional Administrative Reviews

TO: Regional Directors
Special Nutrition Programs
All Regions

State Directors
Child Nutrition Programs
All States

As you are aware, the Richard B. Russell National School Lunch Act (NSLA), requires that State educational agencies (SAs) conduct additional administrative reviews of selected local educational agencies and outlines conditions under which they may retain a portion of improperly paid funds recovered as a result of their Coordinated Review Effort (CRE) process and the Additional Administrative Review (AAR) requirement. In accordance with this section, SAs may retain up to 25% of funds paid in error to School Food Authorities (SFAs) which are discovered during a CRE or an AAR.

Recently a number of State agencies have requested additional guidance on spending retained reimbursement funds on administrative expenses. Subsequently, this memorandum provides additional guidance regarding the proper use, accounting, and reporting of funds retained pursuant to the NSLA.

As a starting point, SAs must have their fund retention plans approved by their Regional Office. As addressed in SP 01-2009, fund retention plans must include the estimated amounts to be recovered and retained; a clear discussion of how the funds will be used to improve program integrity; and an explanation of selection criteria to determine which SFAs will receive priority assistance.

SAs may use retained funds on integrity initiatives. More specifically, states should use these funds to provide training and technical assistance, the development of materials related to improving program integrity and administrative accuracy in school meals programs, and to assist in reviewing the administrative practices of SFAs. All retained funds must be obligated in the same fiscal year in which they are retained; any unobligated funds will be recovered as part of the normal fiscal year close out process.

Retained Funds from Additional Administrative Reviews

If a SA chooses to retain funds as a result of a CRE or AAR they must account and report on the retained funds as per federal reporting requirements. Failure to properly report on the retained funds via the SF-269 could result in a discrepancy between earnings and obligations during the normal fiscal year closeout process. SAs are asked to report all retained funds in the remarks section of the SF-269, Financial Status Report. In using the remarks section, SAs should report the retained funds according to outlays, total unliquidated obligations, and unobligated balance per reporting period. A sample format is attached. Accounting and reporting of the retained funds separately via the comment section of the SF-269, Financial Status Report, will allow State agencies to track the use of these funds outside of their normal reimbursement procedures.

If you have any questions, please contact your regional office.

Original Signed

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Attachment