Nationwide Implementation of Summer Food Service Program
Simplified Cost Accounting Procedures

The following is information regarding the implementation of simplified procedures in the Summer Food Service Program. Frequently asked questions and answers are included.

The Importance of Sound Program Management

The purpose of the simplified procedures is to facilitate and encourage participation by eligible sponsors in order to reach more hungry children in the summer months and other times during the year when they do not have access to school meals. Elimination of the cost comparison reduces administrative tasks and ensures a stable per meal reimbursement rate, thus making it easier for sponsors to participate. With the implementation of these reduced program requirements, it is critical that states and sponsors practice sound program management to ensure that the integrity of the SFSP is preserved. State agencies can ensure this through careful selection of applicants, thorough training efforts especially directed to new sponsors, diligent monitoring, and prompt follow up where problems are found. Service institutions can help ensure this through maintaining high quality administrative oversight and meal service.

Other SFSP Requirements

Except for the elimination of cost comparisons to determine reimbursements, sponsors must continue to meet all other Program requirements that are contained in the regulations at 7 CFR 225 and applicable instructions, circulars, or other guidance, unless otherwise exempted by FNS. Following is a discussion of some of these requirements:

Applications

Sponsors must continue to meet all application requirements contained in §§ 225.6(c) and 225.14, except as noted below for budget submissions by experienced SFSP school sponsors. Once their applications are approved, all sponsors will participate under the simplified procedures, including private nonprofit organizations.

To safeguard the Program's integrity, especially since the cost comparisons are no longer required for sponsors, we strongly encourage State agencies to carefully review all applications to ensure that only qualified organizations are approved to participate. A critical aspect of this review, as described in §§ 225.6(b)(9) and 225.11(c), is to ensure that approval to participate is denied to any applicant that is found to be seriously deficient in the operation of any of the child nutrition programs (CN Programs). State agencies should check the national disqualified list to ensure that applicants have not been disqualified from the Child and Adult Care Food Program. Refer to § 225.11(c) for a more detailed explanation of serious deficiency as the term applies to the SFSP and denial and termination procedures for SFSP applicants or participants determined to be seriously deficient.

Budget Submissions

Except as noted below, all sponsors must continue to submit budgets with their applications for participation as specified in § 225.6(c)(2)(ii)(B) and § 225.6(c)(3)(ii)(B) and to receive start-up or advance payments as specified in § 225.9(a) and § 225.9(c)(2)(i) of the SFSP regulations. State agencies must continue to carefully review service institution budgets to ensure adequate resources will be applied to management, oversight and meal service.

Exception: State agencies may waive this requirement for public schools or private nonprofit schools that:

- Participated in the SFSP during the preceding summer or during vacation breaks in the current year for schools operating on a year-round calendar; and
- Had no operational problems during that time as reported by State agency or FNS.

FNS has retained the budget submission requirement for all sponsors except experienced school sponsors in order to underscore the importance of the budget review process, especially for new sponsors and those that have had operational problems in the prior year. In addition, the budget provides State agencies with a means for determining start-up payments for new sponsors, as described at § 225.9(a) of the SFSP regulations.

States that elect to waive the budget requirement for eligible school sponsors may use actual summer program costs from the preceding year or a reasonable projection based on planned participation to determine the appropriate level of advances.

State agencies should encourage schools to exercise caution regarding costs allocated to the Program. Unallowable costs previously identified during the budget/budget amendment process will go undetected by the State agency until a review and/or audit is conducted. Schools should be made aware of the increased liability they may incur as a result of eliminating the budget review process.

Cost Records

Although sponsors do not have to report their costs under the simplified procedures, they must continue to maintain records of their costs and make them available for review or audit purposes.

Nonprofit Food Service

Sponsors must operate a nonprofit food service for children, as required in § 225.6(e)(1) of the SFSP regulations. Benefits to children and the quality of program administration must not be diminished as a result of these simplified program requirements. Sponsors must be able to document that they have maintained a nonprofit food service by retaining copies of all revenues received and expenses paid from the nonprofit food service account. Sponsors must be informed that expenses paid from the nonprofit food service must be allowable costs that are necessary, reasonable, and properly documented.

Sponsors that operate other CN Programs do not need to maintain a separate nonprofit food service for the SFSP; SFSP funds may be included in the sponsor’s nonprofit food service account that supports the other programs. However, records and supporting documentation must be maintained to permit the sponsor, reviewers, and auditors to evaluate and verify that the SFSP was operated on a nonprofit basis.

Excess Program Funds

Under the Simplified procedures the only limitation on the use of reimbursement that exceeds costs while the program is in operation is that the funds are spent on allowable SFSP costs, as described in FNS Instruction 796-4, Rev. 4. Although sponsors are not obligated to do so, we recommend that they use any excess Program funds to improve the meal service or other aspects of the food program.

Sponsors use of excess program funds that remain at the end of the year may vary depending on whether they operate other CN Programs:

- Sponsors that operate other CN Programs throughout the year must keep the funds in the joint nonprofit food service account and use the excess SFSP funds to pay for allowable costs for the other programs or for the next year's SFSP costs.
- Sponsors that do not operate other CN Programs during the year are not obligated to return unused funds at the end of SFSP operations. However, organizations that expect to continue to sponsor the program in the next year must keep any excess funds for that year's operations.

Quality Meal Service and Administration

States agencies should work with sponsors at each phase of the Program as noted in the following points to ensure that sponsors do not reduce the meal service quality through poor management of program resources.

- Review sponsors' budgets
  Prior to the start of program operations, State agencies must review the budget submitted with the sponsor's application to determine whether the sponsor has planned to provide effective administration, oversight and a quality meal service for the children. If the sponsor is new to the program, the State agency could compare its proposed budget to those of experienced sponsors, similar in size, location, and type of organizations.
- Training efforts
  During annual sponsor training described in § 225.7(a), State agencies should discuss the importance of careful planning and management of resources in order to provide quality meal service.
- Monitoring operations
  The State agency should monitor the quality of service, using comparisons to the sponsor's efforts in previous years or comparisons to other sponsors operating in a similar environment. If the quality appears to have diminished from previous years' efforts, the State may require sponsors to amend their budgets to ensure that adequate resources are dedicated to providing a quality meal service.

Questions and Answers on the Nationwide Expansion of
Simplified Accounting Procedures

What was previously known as the “Simplified” Summer Food Service Program (SFSP) grew out of an earlier pilot project commonly known as the Lugar Pilot. As many as 26 States and Puerto Rico operated under the simplified procedures. The Omnibus Appropriations Act of 2007 extended the simplified cost accounting to all SFSP sponsors nationwide.

1. How has the Summer Food Service Program changed?

Under simplified procedures, SFSP sponsors receive the maximum amount of operating and administrative reimbursements (meals times rates) without regard to their actual or budgeted costs.

The cost comparison requirements in the SFSP regulations at §§ 7 CFR 225.9(d)(7)(i) 225.9 (d)(8)(i) and 225.9 (d)(8)(ii) will no longer apply. All sponsors may now combine their operating and administrative reimbursements to pay for any allowable program cost. Sponsors do not have to report costs in order to receive reimbursement.

2. May all SFSP sponsors participate under simplified procedures?

Yes. All sponsors will now participate under simplified procedures.

3. What is the purpose of the Simplified procedures?

By reducing reporting requirements**,** ensuring the maximum level of per meal reimbursement and providing greater flexibility in the use of Program funds, more organizations may choose to participate or to expand current operations to reach more children.

Application Requirements

4. How is the application process affected?

The application process is unaffected. Sponsors must apply each year to participate.

5. Do sponsors have to submit budgets under simplified procedures?

Yes, all sponsors must continue to submit budgets with their applications, except experienced school food authorities that State agencies have exempted (see question 7). State agencies should carefully evaluate the budget to determine whether an applicant has the administrative capability to operate the program successfully and whether the applicant will provide a quality meal service.

6. If a sponsor estimates their costs to be less than they actually are, will they be reimbursed at the “meals x rates” level, or at the amount of their submitted budget?

Sponsors will receive the full reimbursement rate for both operating and administrative costs, which equals the “meals x rates” amount.

7. What is the exception for experienced School Food Authority (SFA) sponsors?

State agencies may exempt SFA sponsors that participated successfully in the SFSP last year from the annual budget submission requirement. However, school sponsors that do not meet these criteria must submit an annual budget, including:

- First year school sponsors,
- Returning school sponsors with a break in participation of one or more years, and
- School sponsors with documented serious problems in managing the SFSP.

8. Are there any drawbacks for experienced school sponsors in not submitting an annual budget?

School sponsors that are exempted from submitting a budget will not have the advantage of State agency budget review to determine the allowability of planned expenditures. Unallowable costs that would be identified during the budget/budget amendment process will go undetected by the State agency until a review and/or audit is conducted. For this reason, States that elect to waive the budget requirement for experienced school sponsors should emphasize the importance of using funds only for allowable costs. States should remind these sponsors of their liability with regard to any costs that are subsequently determined to be unallowable.

Reporting and Recordkeeping Requirements

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

No. Sponsors must maintain records of costs, but they do not have to be separated into administrative and operating costs.

10. 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. However, sponsors must continue to maintain records of their costs and make them available for review or audit.

11. What cost records must be maintained under the simplified procedures?

All records of expenditures must be kept to determine what costs are allowable.

12. Does the operation of other child nutrition programs affect a sponsor’s documentation of SFSP costs under the simplified procedures?

All sponsors must maintain documentation of a nonprofit food service. School sponsors and other sponsors that operate multiple child nutrition programs (CN programs) on a year-round basis do not need to maintain a <u>separate</u> nonprofit food service for the SFSP. SFSP reimbursements and expenditures must be included in a single nonprofit food service account with funds from any other CN program authorized under the Richard B. Russell National School Lunch Act or the Child Nutrition Act of 1966, except for the WIC Program.

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

Under simplified procedures Sponsors do not have to consolidate costs by category type (operating or administrative). However, sponsors should be aware of their costs in each category and take action to improve the meal service or other aspects of the food program if their actual costs are less than their anticipated reimbursement.

<u>Use of Program Funds</u>

14. If a sponsor's operating costs are lower than the reimbursement received, can the sponsor use the extra operating funds for administrative costs?

Yes, the operating and administrative reimbursements may be used to pay for any allowable program cost. However, the sponsor must maintain a nonprofit food service and must ensure that benefits to children are not diminished.

15. Can the sponsor use excess operating funds for other CN 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. Please refer to Q&A 11 for more information on other CN programs.

16. 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. Excess funds must be used in the following ways, which are listed in order of importance:

1. Improve the meal service or other aspects of the summer food program,
2. Keep the excess funds for next year's SFSP operations, or
3. Pay for allowable costs of other CN Programs.

17. Do sponsors without year-round CN programs have to return unused SFSP funds at the end of the fiscal year?

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

<u>Maintaining the Nonprofit Food Service Account</u>

18. How does a sponsor ensure that the food service is nonprofit?
The sponsor must maintain 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 that the food service account is nonprofit does not result from simply comparing costs and rates. Rather, it requires a determination that all costs charged to the account were allowable and that all funds accruing to the account were properly identified and recorded as nonprofit food service revenue.

19. How is program income accounted for under simplified procedures?

Sponsors must continue to account for any income that accrues to the program, but the income will <u>not</u> be deducted from the combined operating and administrative costs to determine the amount of reimbursement the sponsor is entitled to receive.

<u>State Agency Monitoring</u>
20. How should State agencies review sponsors under simplified procedures?

During a sponsor review, the State agency should determine whether:

- The sponsor is providing a nutritious, high quality food service that uses program resources effectively,
- Costs are allowable and consistent with FNS Instruction 796-4, Rev. 4,
- Operating and/or administrative expenditures show a pattern of unusual or unexplained increase when compared to the previous year's expenditures, the expenditures of comparable sponsors, or budgeted costs, and
- The level of administrative spending is affecting the sponsor's ability to operate a nonprofit food service and provide a quality food service.

21. Clarify the State's responsibility for tracking food costs to ensure that the sponsor is maintaining a nonprofit food service account. What might trigger this level of scrutiny?

States are responsible for monitoring a sponsor's use of funds during reviews and whenever questions arise about whether the sponsor is maintaining a nonprofit food service. Triggers for increased monitoring of food costs would include:
- Poor food quality
- High ratio of "administrative" to "operational" costs
- Significant alternative funding for food and other operational costs
- Significant supply of donated food or very low cost food.

22. Are State agencies expected to add up a sponsor's actual costs during a review?

Not unless there are indications that the sponsor has not been managing program funds well. State agencies must require sponsors to maintain cost documentation in a manner that will facilitate review of actual costs should it be necessary to resolve questions about how the sponsor is using program funds.

23. Rather than assess a claim and demand repayment for unallowable costs, could the State simply require the sponsor to restore the amount in question to the nonprofit food service account?

The State agency should always assess an over claim for improperly spent funds. The State may require the sponsor to restore the funds back into the nonprofit food service account as a way of resolving the overclaim.

24. How can State agencies help ensure that sponsors continue to offer quality meal services?

State agencies should work with sponsors as noted below to ensure that sponsors do not reduce the meal service quality through poor management of program resources.

- <u>Application</u> – Except for experienced SFA's, State agencies must review the budget submitted with the sponsor's application prior to the start of program operations, to determine whether the sponsor has planned to provide a quality meal service for the children. For returning sponsors, the State should compare planned expenditures to the previous year's budget. For new sponsors, the State agency could compare its proposed budget to those of other sponsors comparable in size, location, and type of organization.
- <u>Training</u> – During annual sponsor training, State agencies should discuss the importance of careful planning and management of resources in order to provide quality meal services.
- <u>Monitoring</u> – The State agency should monitor meal quality, using comparisons to the sponsor's efforts in previous years or comparisons to other sponsors operating in a similar environment. If the quality appears to have diminished or is poor, the State may require sponsors to amend their budget to ensure that adequate resources are dedicated to providing a quality meal service. If the sponsor is operating a 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.

25. What can be done to deter mismanagement of program funds?

The State agency should use the same procedures for managing sponsor performance as were used previously. These procedures include careful screening of applications, thorough training, and diligent monitoring of both new and returning sponsors. Additionally:

- For SFA sponsors, the State agency should explain that SFSP reimbursement funds are part of the SFA's nonprofit food service account that are subject to the same expenditure requirements.

- For other sponsors, the State agency should use the budget review process to evaluate whether these sponsors will have funds remaining after all allowable costs have been paid. When the State agency anticipates that the sponsor will have remaining funds, the State agency can ask the sponsor to provide a written explanation of how these funds will be used.
- For sponsors operating other child nutrition programs, the State agency must require that the sponsors apply any remaining SFSP funds to these programs.
- For sponsors that do not operate other child nutrition programs, but do plan to operate the SFSP in future years, the State agency must require the sponsors to retain the remaining funds for future SFSP use.

Closeout of Sponsor Operations

26. Should State agencies require sponsors to provide a year-end statement of costs?

As a general practice, no. However, a State agency could require a year-end statement as a corrective action for problems noted during a sponsor review.

27. If an organization decides not to sponsor the program in the future, should there be a closeout review of that sponsor to ensure that any unused SFSP funds are returned to FNS via the State agency?

It is important to remember that under the simplified procedures, unused SFSP funds are not returned to the State agency unless unallowable meals were claimed. State agencies are always permitted to conduct closeout audits or reviews, and FNS encourages this oversight activity, particularly when the State agency has questions about how the sponsor operated the program. Consistent with the Department's regulation on audits, 7 CFR Part 3052, the State agency would be required to pay for an audit.

Although no funds would be recovered if unallowable costs are identified during a closeout review or audit, the State agency should follow appropriate audit resolution procedures. For example, when the sponsor will not operate the SFSP in the future but currently operates another CN program, the sponsor would be required to restore misspent SFSP funds to its nonprofit food service account. In cases where the organization does not intend to participate in the SFSP in the future and does not currently participate in any other CN program, the State agency should notify the sponsor of the findings and retain documentation of the findings on file. If the organization applies for participation in any CN program in the future, the State agency should ensure the organization has proper controls in place to prevent a recurrence of the improper expenditures of nonprofit food service account funds.