



United States
Department of
Agriculture

Food and
Nutrition
Service

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SUBJECT: Fiscal Year (FY) 2011 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 2011 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, Regional Offices (ROs), and Headquarters in conducting reallocation of SAE funds. Additionally, it is critical this year that all ROs complete and submit Attachment C, *FY 2010 SAE Reallocation Request*, for each SA request. Please review Attachment D, SAE Guidelines for IT procurements. It is important that this information be provided to ensure that functions and features of IT systems are not replicated.

SAs are asked to submit their request for reallocation to their respective RO by **April 5, 2011** 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, each SA's *SAE Funds Reallocation Report* (FNS-525) and Attachment C are due to Headquarters no later than **May 3, 2011**. We will not begin the review and approval process for FY 2011 reallocation of SAE funds until after the May 3, 2011 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 2011, unless additional information is needed from the SA or RO.

Each SA must transmit form FNS-525 to its respective RO and the RO in turn will send the form to Food and Nutrition Service (FNS) Headquarters, Child Nutrition Division (CND) via e-mail or hard copy.

Please note: the FNS-525s must have the current funding level and authorized funding level completed. Also, an authorized state official and a designated FNS official must sign and date. Due to time constraints associated with this process, incomplete forms will be returned to the RO.

The following table provides some key Reallocation dates:

KEY DATES

April 5, 2011	SAs submit requests to RO
May 3, 2011	ROs submit to FNS HQ all proposals and FNS-525s, and Attachment C
Late July, 2011	FNS HQ notifies ROs of results
September 30, 2012	End of grant period - Reallocated funds must be obligated and fully expended

SAs should contact their RO with any questions.

Original Signed

CYNTHIA LONG
Director
Child Nutrition Division

Attachments

SAE REALLOCATION GUIDELINES:
MAJOR CONSIDERATIONS
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) 2011. The *SAE Funds Reallocation Report* (FNS-525) should reflect the current status of the SAE Plan, i.e., including all amendments to date.

FY 2011 SAE Allocation funds that a SA does not anticipate obligating by September 30, 2011 will be a factor in determining if a SA will receive reallocation funds. A SA must submit a description of how it intends to use any **carryover** funds in FY 2012. 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

However, FNS will not approve any request in which a SA exceeds its carryover limit by deferring obligation of part or all of its reallocation funds to the following fiscal year. Carryover will be limited to 20 percent of the initial FY 2011 SAE formula allocation for each SA. Funds received by a SA in addition to the initial allocation for FY 2011, including reallocation and transfer funds, do not increase the carryover limit (please see Attachment B2, page 1 and 2 for an example). Only funds provided for program start-up costs are exempt from the carryover limit.

- 2) A 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, 2011, and/or an amendment may be needed for reallocation funds that will be obligated by September 30, 2012. Reallocation funds that will be obligated in FY 2012 should not be made available to a SA until the amendments to the SAE Plan, if applicable, are approved, and not before October 1, 2011.
- 3) Only requests from a 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 a SA's ability to administer its program(s). Therefore, the RO and SA justification accompanying a reallocation request must adequately describe how the CNPs will be adversely affected if a SA does not receive reallocation funds.

- 4) During the past few years, significant funds have been provided to SAs to finance **information technology projects**. Funding has been 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 the CACFP audit fund reallocation process.

- 5) 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 a SA. Under ordinary circumstances, a SA is expected to operate within its allocation level. Requests funded in successive years may indicate that a SA is not attempting to limit its SAE funding use to its SAE allocation level.
- 6) 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, September 30, 2012. 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.
- 7) 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.

- 8) 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.
- 9) ROs should provide guidance to SAs on the proper reporting of obligations and expenditures on the FNS-777, *Financial Status Report*. 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*.
- 10) If submitted requests exceed the amount of funds available, headquarters will prioritize the requests based on RO recommendations and follow-up discussions as necessary.

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 the FNS-525s be submitted to them in hardcopy or electronically from the SAs.

- 2) A 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, 2012;
 - 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 (CNPs) 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 2012. 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) A 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 mid-year 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 form 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 form FNS-525 no later than **April 5, 2011**.

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 a 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 a SA plans to use all available funds including reallocation funds requested. **Reallocation funds may only be approved if funds which a SA intends to carry over into fiscal year (FY) 2012 (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, 2012. SAs must obligate and expend the amount of the reallocation funds on the project activities by the end of the grant period (September 30, 2012); and
 - fall within the 20 percent carryover limitation. Determine whether a 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 FNS-777s 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 a SA through reallocation. For example, if the SA's allocation for FY 2011 was \$1 million, the maximum amount of unobligated FY 2011 SAE funds that the SA could retain for obligation and expenditure during FY 2012 would be \$200,000 (20 percent of the formula allocation).

- If the SA subsequently receives \$100,000 in reallocation funds in FY 2011, 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, 2011, the SA had \$250,000 in unobligated FY 2011 SAE funds, including funds received through FY 2011 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 a 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 3, 2011, ROs should forward to headquarters:**
 - the FNS-525s from all SAs. **The RO is responsible for ensuring that the FNS-525 is complete and accurately filled out, whether or not the SA is requesting or returning funds.** The FNS-525 may be submitted in hardcopy, along with any requests for reallocated SAE funds, or transmitted as attachments to an email to Lynn Rodgers;

- 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 RO recommended reallocation requests consulting as necessary to obtain additional information.
- 2) To ensure that funds are not reallocated unnecessarily, FNS HQ 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. FNS HQ will also evaluate past requests to determine whether the one-time only requirement has been met and to ensure that replication in purchases is not occurring. The new Attachment C is designed to facilitate this process.
- 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.

FISCAL YEAR 2010 SAE REALLOCATION REQUEST

State Agency: _____

Total amount requested by SA: _____

Ranking provided by RO: _____ (see attachment B-2, Page 3, 3rd bullet)

Amount of funds denied by RO: _____

Specify the fiscal year(s) in which requested funds will be obligated:

If any of the requested funds will be carried over into FY 2012, do they fall within the 20% carryover limitation? Yes _____ No _____

If requests include both CNP and non-CNP activities (e.g., Food Distribution Program), are CNP requests prorated? Yes _____ No _____

Previous year reallocation funds returned/recovered? Yes _____ No _____ If Yes, amount

Prior years' receipt of reallocation funds, including all IT projects		
Fiscal Year	\$ Amount Approved	Approved item(s): (bulleted form)
FY 06		
FY 07		
FY 08		
FY 09		
FY 10		

Itemization:

Please provide an itemized list of the SA requests:

- 1)
- 2)
- 3)
- 4)
- 5)

Justification for each item listed:

RO recommendation for each item requested:

SAE Guidelines for IT Procurements

The purpose of this guidance is to enable State agencies to determine their information systems (IS) needs and manage these costly projects effectively and efficiently. It is important to be familiar with the legislation, regulations, and policies that pertain to each FNS program before submitting requests for funding. This basic guidance is intended to serve as a base line for those State agencies and FNS staff that must prepare, review, and/or approve plans for the development and acquisition of State IS that support the National School Lunch (NSLP), Child and Adult Care Food Program (CACFP), Summer Food Service Program (SFSP) and the School Breakfast Program (SBP). Information technology is forever evolving, and so is the terminology used to describe the technology. For purposes of this guidance, the following terms are used interchangeably: information systems, management information systems, and automated data processing.

FNS has identified several recurring issues associated with the approval process, such as missed requirements or the need for multiple document clarifications, which may delay the approval process.

Examples of some recurring issues include the following:

- Insufficient understanding of the impact and resources involved in the anticipated data conversion strategy and schedule.
- Incomplete cost allocation methodology that excludes State-only cases or all participating Federal programs.
- Inadequate descriptions of the methodology, costs, and assignment of responsibilities for system maintenance and operations.
- Insufficient funding for user training and user support functions.
- Exclusion of State staff costs as part of the project's budget.
- Inadequate time in the project schedule to assess the full impact on business processes, change business rules where necessary, and prepare staff for the transition.
- Lack of familiarity with the dollar thresholds requiring FNS approval.
- Underestimation of the strain of new IS development on the entire organization.
- Not involving State IT and procurement staff throughout the project. State program staff may be unaware of State standards, current procurements and contracts, and even conflicts with existing development efforts.
- Lack of current technical knowledge and expertise within the State agency to write or review documents such as requests for proposals (RFP), contracts, system design, and functional requirements, which can render a State vulnerable to the contractors' idea of what would be best—and have costly consequences.

FNS Staff is available to answer questions and provide technical assistance to any State agency that requests assistance in their Information System planning process, such as the following:

- Providing guidance in developing request documents.
- Providing most up-to-date policy, procedures, and requirements.
- Reviewing hardware/software requests with focus on costs and compatibility with existing system.
- Clarifying technical terms found in documents.
- Providing current information on technology products.
- Interfacing with other Federal agencies.
- Responding to official requests regarding the SAE and CACFP Audit fund formulation process or SAE/CACFP Audit Fund reallocation requests (e.g., Freedom of Information Act (FOIA), General Accounting Office (GAO)) .
- Providing information on conferences and/or training opportunities.
- Conducting meetings and/or conference calls to discuss items of concern to one or more States.

Regardless of which System Development Life Cycle (SDLC) phase a State agency may be in, all CN State agencies should follow the same process when requesting reallocated funds to procure software, hardware, and contractual services for information technology (IT) purposes and are responsible for ensuring the allowable and effective use of these funds.