United States Department of Agriculture

Food and Nutrition Service

3101 Park Center Drive

Alexandria, VA 22302-1500

**DATE:** August 30, 2013

**POLICY NO.:** FD-131: National School Lunch Program (NSLP) and Child and Adult Care Food Program (CACFP)

**SUBJECT:** Questions and Answers Regarding the Use of State Administrative Expense (SAE) Funds and SAE Reallocation Funds in the Food Distribution Program for Child Nutrition Programs ("Food Distribution Program")

This memorandum clarifies the uses of SAE funds, regulated in 7 CFR Part 235, both as initially allocated and when reallocated, for administrative and other expenses incurred in the Food Distribution Program. The clarification provided in this memorandum is limited to the Food Distribution Program for Child Nutrition Programs and does not address the use of administrative funds in household programs such as the Commodity Supplemental Food Program, The Emergency Food Assistance Program, or the Food Distribution Program on Indian Reservations.

In general, SAE funds are allocated by the Food and Nutrition Service (FNS) to State agencies, in accordance with 7 CFR 235.4, for administrative costs incurred in the program areas of School Programs (includes the National School Lunch, the School Breakfast, and the Special Milk Programs), CACFP, and the Food Distribution Program which provides USDA Foods to applicable programs. SAE funds may be used by State agencies in any of these program areas without regard to the basis on which the funds were earned and allocated. This provides State agencies flexibility to ensure the funds are used efficiently and timely.

Reallocation is a formal process by which State agencies can request additional SAE funds above their initial authorized funding level, or return funds that they do not need. These funds are referred to as "SAE Reallocation" funds.

The clarifications provided below are in a question and answer format and are based on regulations contained in 7 CFR Part 235, legislation contained in the Child Nutrition Act of 1966, as amended through P.L. 111-296 (2010), and program policy. With regard to the Food Distribution Program, governed under 7 CFR Part 250, State agencies are encouraged to use SAE funds, to the maximum extent allowable and practicable, to minimize the charges imposed on school food authorities (SFAs) for the storage and distribution of USDA Foods, and related administrative costs.

**Q1. What Food Distribution Program expenses may SAE funds be used for as initially allocated?**

A1. SAE funds, as initially allocated, may be used to cover any allowable State-level Food Distribution Program costs incurred that are associated with the administration of

Child Nutrition Programs as prescribed in 7 CFR 235.6, *Use of Funds*, and 7 CFR 250.15, *Financial Management.* These funds can be used for both one-time and recurring costs.

Allowable administrative costs for State Distributing Agencies (SDAs) include operational expenses related to the storage and distribution of USDA Foods, including, but not limited to, State-contracted warehouse fees, salaries and fringe benefits for staff administering and ordering USDA Foods, costs for leasing office or warehouse space, the purchase, rental, or maintenance costs of equipment or vehicles used for distributing USDA Foods, and costs for attendance at conferences that have the primary purpose of disseminating technical information and/or developing staff skills necessary to administer the program at the State level.

**Q2. What expenses may SAE Reallocation funds be used for?**

A2. SAE Reallocation funds may be used to fund State-level allowable, non-routine activities, such as special one-time projects, that are essential to increasing the efficiency and effectiveness of the administration of Child Nutrition Programs. SAE Reallocation funds are not intended to sustain routine program operations of a State agency and may only be used for the purpose for which they were approved.

Examples of allowable, non-routine activities which can be paid for using SAE Reallocation funds include, but are not limited to, the intermittent purchase of a forklift, repair of a State-owned warehouse facility, costs associated with non-routine staff development, improvement of a State-owned electronic ordering system, or costs incurred in rolling down the Web Based Supply Chain Management System (WBSCM) to SFAs.

For more information, please see the Reallocation of SAE Funds memorandum, which is updated annually and made available here: http://www.fns.usda.gov/cnd/governance/policy.htm.

**Q3. SAE funds are allocated to the State agency by program area (i.e., for the School Programs, the CACFP, and the Food Distribution Program). Can these funds be transferred between these program areas if one program area has an excess and another program area needs the funds?**

A3. Yes. Funds may be transferred between program areas if one program area has an excess, and another program area is in the need of funds. FNS allocates SAE funds to State agencies by program area because legislation and regulations require it. However, both legislation and regulations provide that at the State level, SAE funds may be used to cover any allowable costs associated with the administration of the Child Nutrition Programs. This flexibility recognizes that State agencies have different organizational needs and provides them with the discretion to spend SAE funds where needed.

**Q4. If Child Nutrition Programs are administered by multiple State agencies depending on the program area, can SAE funds be transferred between State agencies within the same State? Is there a limit to the amount that can be transferred?**

A4. A State agency may transfer any amount of SAE funds that are not needed to implement its approved SAE plan to another State agency within the same State that is eligible to receive SAE funds under 7 CFR Part 235. State agencies should work together to effectuate such transfers.

If funds are transferred between State agencies in the same State, the receiving State agency must ensure that the total amount of unobligated SAE funds (initial allocation *plus* reallocation and transfers) carried over into the next FY does not exceed 20 percent of the initial SAE allocation to that State agency.

For example, an SDA receiving $300,000 as its initial SAE allocation in FY 2013 is eligible to carry over $60,000 into FY 2014 ($300,000 x 0.20 = $60,000). This carryover limit remains the same even if the SDA receives a transfer of $50,000 from the State Administering Agency (and/or receives SAE Reallocation funds) during FY 2013. Any funds over the $60,000 carryover limit that remain unobligated by September 30, 2013 must be returned to FNS. Therefore, it is important that the State agency requesting SAE Reallocation funds and/or a transfer of SAE funds carefully consider the amount of funds it can successfully use before the funds expire. For further information regarding the SAE funds carryover limit, please refer to the Reallocation of SAE Funds Memorandum which is updated annually and made available here: http://www.fns.usda.gov/cnd/governance/policy.htm.

Finally, the State agency SAE Plan should reflect the planned use of SAE funds through the end of each FY. Amendments to the SAE Plan may be needed to reflect a change in funding levels or activities.

**Q5. SAE funds are described as being nondiscretionary or discretionary; does this affect how these funds can be used?**

A5. No. These terms are not intended to describe how a State agency can use SAE funds, or whether it must use these funds in a particular program area.

The designation of "discretionary" and "non-discretionary" refer to whether or not Congress has provided FNS the discretion in legislation as to how to allocate SAE funds to State agencies. However, as noted in A3., program legislation and regulations provide that at the State level, SAE funds may be used to cover any allowable costs associated with the administration of the Child Nutrition Programs, including food distribution costs.

**Q6. Is there a limit to the amount of SAE Reallocation funds that a State agency can apply for?**

A6. No. There is no limit to the amount of SAE Reallocation funds that may be requested by a State agency. Refer to A2. for information on allowable expenses. Total funding available for SAE Reallocation varies annually. For this reason, SAE Reallocation funds available may be insufficient to fulfill all State agency requests.

State agencies requesting SAE Reallocation funds must plan accordingly to ensure that the total amount of unobligated SAE funds (initial allocation *plus* reallocation and transfers) which would be carried over into the second FY does not exceed 20 percent of the initial SAE allocation to the State agency. See the example regarding the carryover limit in A4.

**Q7. If the SDA-contracted warehouse directly invoices SFAs for the costs of intrastate storage and distribution of USDA Foods, can SAE funds be used to pay these costs?**

A7. Yes. SAE funds, to the extent available, should be used to pay the costs of storing USDA Foods, and shipping these foods from State-contracted warehouses to SFAs. Regulatory provisions under 7 CFR 235.6(a) and 7 CFR 250.15(a) authorize an SDA to fund the cost of intra-state USDA Foods distribution by either charging SFAs a fee for these services or by funding these costs entirely with SAE funds; or a combination of the two. FNS encourages SDAs to use SAE funds, to the maximum extent allowable and practicable, for these costs in order to minimize the charges imposed on SFAs for storage, distribution, and administration related to USDA Foods.

SDAs should keep in mind that while they may pay distribution costs on behalf of SFAs, they cannot provide SAE funds directly to SFAs for payment of warehouse invoices as SAE funds are to be used only for State-level administrative costs, as provided in 7 CFR 235.6(a). Further, SFAs should review their vendor agreements and invoices (e.g., with Food Service Management Companies or vended meal companies, etc.) to ensure that they are not charged for any distribution costs being paid for by their SDA with SAE funds.

SDAs must submit their system of distribution charges, and certain changes to their distribution charges, to their respective FNS Regional Office for approval in accordance with the requirements and timeframes provided in 7 CFR 250.15(a).

**Q8. How long does a State agency have to use its SAE funds? SAE Reallocation funds? Do funds have to be expended by that date or obligated? What is the difference?**

A8. Each FY, FNS allocates SAE funds to each State agency administering the School Programs, CACFP, and the Food Distribution Program and provides State agencies the opportunity to request SAE Reallocation funds. SAE funds and SAE Reallocation funds are authorized at different times of the same FY (October and July, respectively), but have the same expiration date.

SAE funds are available for use by the State agency for two FYs. SAE Reallocation funds must be obligated and fully expended by September 30 of the year after they were received (i.e., if a State agency receives SAE Reallocation funds in July 2013, they must be obligated and expended by September 30, 2014). However, there is a limitation in the amount of funds that may be carried over for obligation and expenditure in the second FY. The total amount of unobligated SAE funds (initial allocation *plus* reallocation and transfers) carried over into the second FY cannot exceed 20 percent of the initial SAE allocation to that State agency. All SAE funds not expended by September 30th of the second FY (24th month of the grant period) must be returned to FNS.

**Q9. What kind of reporting is required with the use of SAE funds? SAE Reallocation funds?**

A9. Each State agency must submit to FNS a quarterly *Financial Status Report* (FNS-777 SAE) on the use of the authorized funding level, which includes initial SAE allocation funds, SAE Reallocation funds, and any transfers, received each FY.

During the annual SAE Reallocation process, each State agency must also submit to their respective Regional Office an *SAE Funds Reallocation Report* (FNS-525). This must be completed even if the State agency is not requesting or returning funds.

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