

Danny Werfel
Deputy Controller
Office of Federal Financial Management
Office of Management and Budget
New Executive Office Building, Room 6025
725 17th Street, N.W.
Washington, D.C. 20503

Dear Mr. Werfel:

The Food and Nutrition Service (FNS), an agency of the U.S. Department of Agriculture (USDA), hereby requests that the following programs be exempted from the government-wide requirement to use the new Standard Form (SF) 425 (Federal Financial Report):

- State Administrative Matching Grants for the Supplemental Nutrition Assistance Program (SNAP)(formerly known as the Food Stamp Program)(CFDA No. 10.561)
- School Breakfast Program (SBP)(CFDA No. 10.553)
- National School Lunch Program (NSLP)(CFDA No. 10.555)
- Special Milk Program for Children (SMP)(CFDA No. 10.556)
- Special Supplemental Nutrition Program for Women, Infants and Children (WIC)(CFDA No. 10.557)
- Child and Adult Care Food Program (CACFP)(CFDA No. 10.558)
- Summer Food Service Program (SFSP)(CFDA No. 10.559)
- State Administrative Expenses for Child Nutrition (SAE)(CFDA No. 10.560)
- The Emergency Food Assistance Program (TEFAP)(CFDA No. 10.568)
- WIC Farmers' Market Nutrition Program (FMNP)(CFDA No. 10.572)
- Senior Farmers' Market Nutrition Program (SFMNP)(CFDA No. 10.576)

The concerns giving rise to this request are fully explained below.

General Concerns:

Like the SF-269 and SF-269A that it is replacing, the SF-425 is ideally suited to capturing a grantee's cumulative total program cost. This is sufficient for discretionary project and research grants that have distinct beginning and ending dates and no need for any financial reporting other than allowable costs incurred. FNS administers several discretionary grant programs, and anticipates no problem transitioning them to the new SF-425.

The problems arise with respect to the major programs FNS administers. These programs have financial reporting needs that neither the current SF-269 nor the new SF-425 can meet. Specifically, they differ from project grants along the following dimensions:

1. Mission. The programs for which FNS requests an exception do not fund unique projects with distinct beginning and ending dates. Rather, they operate year after year in order to provide the same authorized benefits and services to the same target populations throughout the United States. The intent is not to make applicants compete for a limited amount of funds, but to get State agencies in all States to make the benefits of these programs available to their eligible residents. This is reflected in a business model that differs dramatically from that of discretionary project grants; awards are determined by entitlement and/or by statutory or regulatory formulae rather than competitively.
2. Complexity. As these programs have evolved, they have grown in complexity. They consist of multiple components, transactions, or other subsets of total program activity for which cost data are needed. These are described in the attached appendices.
3. Program Size.
 - a. Delivery Systems. Rather than dealing with a score or so of universities, FNS has program agreements with over 200 State agencies. The State agencies generally award most of the funds to local-level subgrantees, which issue the program benefits to eligible beneficiaries. The subgrantees number in the tens of thousands; for example, about 20,000 school districts and other governing bodies operate the NSLP/SBP in over 100,000 schools.
 - b. Participation. Benefits issued under these programs reach very large numbers of people. During Fiscal Year 2008, monthly SNAP participation averaged approximately 12.7 million households and monthly WIC participation averaged approximately 8.7 million individuals. Also during that period, approximately 7 billion meals were served to 31 million children under the NSLP and SBP. Approximately 1.8 billion meals were served to children and 64 million to adults under the CACFP.
4. Program Cost. Program activity of this magnitude represents a multi-billion dollar investment by the Federal Government. The Federal share of State agencies' SNAP administrative costs in Fiscal Year 2008 amounted to about \$3 billion. Expenditures of Federal WIC funds during that period aggregated \$6.2 billion. Cash and commodity assistance to States that year for the NSLP, SBP, SMP, CACFP, and SFSP approximated \$14.4 billion. Federal expenditures for all programs covered by this request approached \$23.9 billion in Fiscal Year 2008.

In summary, these programs do not fit the business model for which the SF-425 is designed. The SF-425 cannot capture the financial information at the level of detail needed to manage these programs effectively. Their sheer size and complexity magnify the risks of human error, misunderstanding of program rules, and even outright fraud. The financial reports currently used in these programs have evolved in order to facilitate FNS' management control over their operation, thereby minimizing our exposure to those risks. Substituting the new SF-425, with its minimalist data gathering capability, would weaken that oversight and control, thereby rendering the Government's multi-billion

dollar investment in these programs more vulnerable. Program-specific manifestations of these concerns are outlined in the attached appendices.

Available Remedies:

We understand that OMB has recommended adopting the SF-425 for capturing total program costs, and supplementing it with supporting schedules to capture the same components thereof that we currently collect. We have the following reservations about this approach:

1. State agencies are already accustomed to reporting under the existing formats.
2. State agencies are currently able to report electronically via automated data processing (ADP) systems dedicated to financial reporting on these programs.
3. Implementing OMB's recommendation would require FNS and the States to re-tool their dedicated ADP systems. Unlike paper information systems, the creation of a new ADP system is a lengthy developmental undertaking that entails not only the design of the system itself but also its testing, de-bugging, and training of prospective users. This process will need to be replicated at all 200 or so State agencies that administer the programs covered by this request. The time and cost involved in doing so could otherwise be directed to ongoing program matters. Bearing these costs and burdens solely to capture the same data in a different format would not add value.

For these reasons, we request an exception from OMB in order to continue using the existing reporting procedures for the aforementioned programs. We believe this option would best respond to all our concerns.

My staff will be glad to meet with you at your convenience in order to discuss this matter further, and to furnish any additional information you may need. We appreciate your attention to this matter.

Sincerely,

E. Enrique Gomez
Acting Administrator

Attachments

cc: Patty Davis, SFPD
Ron Hill, OGC
Peter Laub, OCFO
Cynthia Long, CND
Rich Lucas, OANE
Cathie McCullough, FDD

Maeve Myers, Budget
Jessica Shahin, SNAP
FMDs, all regions

FNS:FM:GMD:GMB:Lipsey:jdh:01-31-2009

GMD Filing Classification: Financial Reporting, General

File Name: "Werfel FFR Concerns"

Program-Specific Concerns:
Supplemental Nutrition Assistance Program (SNAP)

SNAP's mission is to provide nutritional benefits to low-income households by enhancing their capability to buy food through the retail system. FNS pays 100 percent of the program benefit cost and 50 percent of most State administrative costs.

SNAP is an open-ended entitlement program, whose administration is composed of numerous functions and components for which cost data are needed. The program's authorizing legislation and regulations require States to perform these functions. State agencies administer SNAP in conjunction with various public assistance programs (Temporary Assistance to Needy Families (TANF), Medicaid, Foster Care, etc.), and the costs of most SNAP functions include the portions of many shared costs allocable to SNAP. The SNAP share of such costs is identified via a Public Assistance Cost Allocation Plan (PACAP) approved by DHHS. Salient examples of SNAP functions include:

1. Certification. The certification of households to receive SNAP benefits is the program's largest single cost objective. In Fiscal Year 2007, for example, certification accounted for nearly 62 percent of Federal expenditures for State agencies' SNAP administrative costs. Among other things, FNS uses the data generated by this function to evaluate State agencies' managerial efficiency by comparing them along the dimension of certification cost per case.
2. EBT Issuance. State agencies issue SNAP benefits to eligible households via an electronic benefits transfer (EBT) system.
3. Nutrition Education. SNAP's authorizing statute (at 7 USC 2013(a) and 2020(f)) authorizes State agencies provide nutrition education to persons eligible for SNAP nutritional benefits. This nutrition education component is designed to teach low-income persons to make healthy food choices on a limited budget, and to adopt a physically active lifestyle, in order to reduce the incidence of nutrition-related health problems (such as childhood obesity) over the long term. While the delivery of nutrition education services is not mandatory, most States have elected to do so. Accordingly, FNS must collect cost data on this component.
4. Fraud Control. State agencies are required to investigate and prosecute cases of households receiving SNAP benefits to which they had not been entitled. Because this function is a high priority, State agencies formerly received reimbursement for 75 percent of its cost. Such enhanced funding is no longer available, but FNS maintains a high level of interest in this function.
5. ADP Development. State agencies are required to develop and operate ADP systems to support their SNAP administration. At a minimum, such systems must maintain records on participating households, terminate a household's benefits at the end

of its certification period, and generate the information the State needs to meet Federal reporting requirements. Before a State agency can incur costs for such a system, it must obtain prior approval from its Federal awarding agencies (principally FNS and DHHS). Their approval is evidenced by their acceptance of an Advance Planning Document (APD), which spells out the system's technical capabilities, its expected cost, and the allocation of the cost among benefiting programs. While the system is in the developmental stage, its costs do not flow through the PACAP; rather, they are identified and allocated via the APD. Therefore, the State agency reports its developmental costs separately from the cost of operating existing systems. That enables FNS to monitor the actual cost *vis-à-vis* the cost allocated to the SNAP in the APD.

6. Employment and Training (E&T). State agencies are required to assist SNAP beneficiaries in overcoming barriers to their gainful employment. Examples of such services include counseling, skill training, education, job placement assistance, etc. The E&T function consists of three discrete administrative cost components and two participant reimbursement components. Each is subject to different rules, so that cost data must be reported on each E&T component individually. These components are:

- a. 100 Percent E&T. Each State agency receives an allocation of funds for the costs of providing E&T services. This allocation is one of the very few SNAP components for which FNS funds 100 percent of the allowable costs (up to the amount allocated to the State agency). Consequently, the State agency's expenditures of 100 Percent E&T funds must be separately identified.
- b. 50 Percent E&T. A State may incur E&T administrative costs in excess of its 100 Percent E&T allocation. Such incremental costs are reimbursed at the regular 50-percent rate.
- c. Able Bodied Adults Without Dependents (ABAWD). ABAWDs' eligibility for SNAP benefits expires after three months unless they are engaged in activities leading to gainful employment. A State agency receives an allocation of Federal funds for the administrative costs of providing E&T services to ABAWDs. FNS funds 100 percent of the costs charged to this allocation. This is a separate component from the 100 Percent E&T funding described above and, accordingly, must be separately accounted for and reported.
- d. Participant Reimbursement for Dependent Care. Reimbursement for dependent care is limited to the lesser of the participant's actual cost, or a state-wide limit established in accordance with the Child Care and Development Block Grant provisions of 45 CFR section 98.43. FNS reimburses the State agency for 50 percent of these costs.

- e. Participant Reimbursement for Transportation. This item actually includes not only transportation but all participant expenses other than dependent care. Participant reimbursement is limited to the lesser of actual cost or the maximum reimbursement rate set by the State agency. FNS reimburses the State agency for 50 percent of these costs.

FNS needs cost data on these and additional SNAP administrative functions for purposes of budgeting, funds control, and program monitoring and oversight. Altogether, State agencies report on 21 SNAP components, functions, etc. To provide these data, States use a former version of the SF-269 report that was superseded in 1988. This version has a columnar format that enables respondents to report on multiple programs and on multiple components and functions within programs. This form is used under an exception granted by OMB. FNS is currently repackaging this version of the SF-269 as the FNS-778 for use in the SNAP; nevertheless, the conditions outlined above necessitate OMB's renewal of that exception.

Program-Specific Concerns: Child Nutrition Programs (CNP)

The CNP consist of the meal reimbursement programs (NSLP, SBP, SMP, CACFP, and SFSP) and funding for State agencies' costs of administering these programs (SAE). The meal reimbursement programs share the following salient features: (1) The program benefits consist of prepared meals served to children in educational or institutional settings; (2) The meals may be served at no charge, at a reduced price, or at full price, depending on children's income eligibility; and (3) a State's entitlement to Federal funding under the CNP is the product obtained by multiplying the number of eligible free, reduced price, and paid meals served within the State by the respective per-meal payment rate for each category of meal. This meals-times-rates funding formula makes the CNP open-ended entitlement programs.

As with the SNAP, some CN programs consist of multiple components for which cost data are needed. For example, the CACFP (CFDA 10.558) is comprised of five components whose costs must be captured individually. These include:

1. Meal Reimbursement to Subgrantees. This is the amount generated by the meals-times-rates formula outlined above.
2. Subgrantees' Administrative Costs. Sponsors of family day care homes may receive reimbursement for their administrative costs of sponsoring the homes. This is a separate component from the meal reimbursement, and a sponsor's entitlement to these funds is driven by a different formula.
3. Subgrantees' Start-up and Expansion Costs. The CACFP authorizing statute and regulations provide for State agencies to reimburse costs incurred by organizations to initiate the CACFP or to expand their existing CACFP operations.
4. Audit Costs. The program's authorizing statute and regulations provide for resources targeted to the State agency's cost of auditing its subgrantees.
5. Cash in Lieu of Commodities. CACFP operators are required to accept food commodities donated by USDA and use them in preparing program meals. However, the program's authorizing statute and regulations allow them to opt for cash payments in lieu of part or all of their commodity entitlements. As a substitute for commodities, such payments are over and above the regular meals-times-rates reimbursement.

As in the SNAP, State agencies administering the CNP use the pre-1988 version of the SF-269 for their financial reporting. Each column of this report captures the cost of a discrete program or program component. Altogether, a CNP State agency may report on as many as 14 categorical programs and program components.

Program-Specific Concerns:

Special Supplemental Nutrition Program for Women, Infants and Children (WIC)

The mission of WIC is to provide prescribed nutritional benefits, nutrition education, breastfeeding promotion and support, and referrals to other health services to persons at critical stages of the life cycle: pregnancy, infancy, and early childhood development. The nutritional benefits are provided in the form of vouchers, checks, or electronic benefits transfer (EBT) cards (known collectively as “food instruments”), which participants use to purchase the prescribed supplemental foods at retail outlets (called “vendors”). State administering agencies incur benefit (food) costs as the vendors redeem the food instruments they’ve transacted.

The legislation authorizing WIC requires State agencies to submit monthly financial and participation reports. Therefore, less frequent reporting is not an option for this program. Further, WIC financial reporting reflects the complexity of the program itself. Program attributes contributing to this complexity include the following:

1. A State agency’s WIC grant is composed of two components: one for food costs, and the other for the costs of State/local agency nutrition services and administration (NSA). At an absolute minimum, FNS must capture data on these two components in order to monitor their integrity.
2. WIC is a closed-ended, non-entitlement program. The dollar amounts of a State agency’s food and NSA grant components are set by applying an allocation formula to the amount appropriated for WIC. This limits the number of eligible participants that can be served. Provisions of the program’s authorizing statute and regulations therefore encourage State agencies to judiciously manage their finite WIC grants in order to serve as many eligible persons as possible without over-or-under-spending. Examples of such provisions include:
 - a. Reallocations. The program’s authorizing statute requires FNS to recover WIC funds remaining unspent when the preceding year grants are closed out, and to reallocate these funds to State agencies for use in the current year. The reallocation of unspent prior year funds reduces the level of new budget authority needed to maintain program benefits for participants. To accomplish this, FNS and the State agencies need a report that captures all data necessary to continuously forecast State agencies’ funding needs, make timely funding and caseload management decisions, and ultimately identify funds available for recovery and reallocation.
 - b. Rebates. The program’s authorizing statute directs State agencies to engage infant formula manufacturers in contracts for rebates on formula used in the program. State agencies credit the rebates they receive to their food cost

accounts, thereby “recycling” them for re-use. The availability of rebates thus expands the purchasing power of a State agency’s food grant component.

c. Vendor, Participant, and Local Agency Collections. The program’s authorizing statute and regulations allow State agencies to retain amounts collected through claims against vendors, participants, and local agencies, and to use these collections for WIC food and/or NSA costs of the prior, current, or following grant period(s). Like rebates, these amounts are credited to the State agency’s WIC food and/or NSA expenditure account(s) and thereby operate as reductions of prior expenditures. As such, they may expand the purchasing power of the State agency’s WIC food and/or NSA grant component(s).

d. Conversions. A State agency may “convert” food funds for NSA costs if it meets certain criteria, such as a greater-than-planned participation increase. FNS must capture data on a State agency’s participation, NSA costs, and actual conversions in order to determine that the State agency met the criteria for conversion and kept its conversion within authorized limits.

e. Spending Options. The authorizing legislation and regulations allow a State agency to back-spend a limited portion of its WIC grant for costs of the prior grant period, and/or to spend-forward a portion for costs of the following grant period. As the result, the amount available to a State agency for its current year WIC costs may be more or less than the amount allocated for that period. FNS must collect data on amounts back-spent and/or spent-forward in order to: (1) monitor compliance with the statutory limits on this practice, and (2) account for differences between amounts allocated to each State agency and amounts the State agency actually spent for program costs.

3. Like the SNAP and certain CNP, WIC is composed of several discrete functions for which cost data are needed. Salient examples include nutrition education and breastfeeding promotion and support. The program’s authorizing statute and regulations express these two requirements in terms of percentages of the grant. For example, a State agency’s expenditures for nutrition education in a fiscal year must equal or exceed one-sixth of the total expenditures against its NSA grant component. Thus, a State agency’s compliance with these requirements is measured by allowable costs incurred; and the cost associated with each requirement represents a subset of the State agency’s total WIC NSA costs that FNS must capture in order to gauge compliance.

The SF-269 report could not accommodate the program’s complexity, and WIC State agencies use an alternative, program-specific report for their financial and programmatic reporting. This is the FNS-798 (WIC Financial Management and Participation Report) and FNS-798A (Addendum to the WIC Financial Management and Participation Report)(OMB No. 0584-0045). The FNS-798 is a monthly report that captures the

transactions intrinsic to the program. State agencies submit the FNS-798A annually in order to report the subset of their WIC NSA costs that supports each programmatic function. The program's complexity necessitates the continued use of these reports.

Program-Specific Concerns:
Farmers' Market Nutrition Programs (FMNP and SFMNP)

The WIC FMNP (CFDA No. 10.572) was created in order to provide fresh fruits and vegetables to WIC participants and to eligible persons on WIC waiting lists. The SFMNP (CFDA No. 10.576) provides parallel benefits to elderly persons. Both programs have the added mission of providing an additional market for farm products. Thus, the coupons issued to participants are redeemable for fresh produce at farmers' markets rather than for prescribed supplemental foods at retail outlets.

These programs are closed-ended, non-entitlement programs whose designs generally follow that of WIC. Accordingly, they share several of the attributes that necessitate more detailed financial reporting than the new SF-425 can provide. Specifically:

1. The grant to a State agency consists of food and administrative cost components. At an absolute minimum, therefore, FNS must collect data on both components in order to maintain their integrity.
2. The FMNP shares with WIC the back-spending option. Accordingly, a State agency's FMNP cost for a fiscal year may be supported by as many as two discrete grant awards (funds allocated for the current year and funds spent-back from the subsequent year). This means the State agency must report on two different things: the program cost of fiscal year operations, and the status of the current year grant.

State agencies meet these needs by submitting the FNS-683 (WIC Farmers' Market Nutrition Program (FMNP) Annual Financial Report)(OMB No. 0584-0447), and/or the FNS-683A (Senior Farmers' Market Nutrition Program (SFMNP) Annual Financial and Program Data Report)(OMB No. 0584-0541).

Program-Specific Concerns:
The Emergency Food Assistance Program (TEFAP)

The TEFAP mission is to issue food commodities to income-eligible households. As in the SNAP and other programs covered by this request, a State agency's TEFAP administrative costs fall into categories for which cost data are needed. Data must be gathered in sufficient detail for FNS to gauge the State agency's compliance with certain statutory requirements. For this purpose, FNS collects the following subdivisions of each State agency's TEFAP administrative cost:

1. State-Level Costs. A State agency must match each Federal dollar spent for State-level TEFAP administrative costs with a dollar from sources within the State. To monitor compliance with this requirement, FNS must collect the portion of the State agency's administrative cost grant spent for State-level costs and the amount of State matching contributions.
2. Subgrantee-Level Costs. The State agency is required to make at least 40 percent of its TEFAP administrative cost grant available for the administrative costs of its subgrantees (known as emergency feeding organizations (EFOs)). A State agency can meet this requirement by incurring costs that actually benefit TEFAP operations at the EFO level, and/or by making funds available for expenditure by the EFOs themselves. Accordingly, FNS must collect the following categories of EFO-level costs:
 - a. State-Paid EFO Costs. These are costs paid by the State agency on behalf of EFOs. The State agency is not required to match Federal funds spent for EFO-level costs, whether incurred by the EFOs or by the State agency on their behalf. Therefore, it is necessary to distinguish State-paid EFO costs from the State-paid, State-level costs that are subject to the matching requirement.
 - b. Local-Paid EFO Costs. These are administrative costs incurred by the EFOs. These costs, in combination with State-paid EFO costs, demonstrate compliance with the 40-percent pass-through requirement.

State agencies currently report this information on Form FNS-667 (The Emergency Food Assistance Program (TEFAP) Administrative Costs)(OMB No. 0584-0293). The format of the FNS-667 generally follows that of the "old" SF-269 report used in the SNAP and CNP. It has four columns: State-Level Costs, State-Paid EFO Costs, Local-Paid EFO Costs, and Total. As with the other programs described above, the single-column FFR cannot meet the financial reporting needs of TEFAP.