USDA

United States Department of Agriculture

Food and Nutrition Service

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SUBJECT: FMNP Policy Memorandum #2002-1
Women, Infants and Children (WIC) and WIC Farmers' Market Nutrition Program (FMNP) Cost Allocation

TO: Regional Directors
Supplemental Food Programs
All Regions

This memorandum provides guidance concerning allowable FMNP costs that may be covered with Federal WIC funds. It is intended to promote accuracy and uniformity in the application of allowable cost principles to decisions about FMNP-related costs, as State agencies seek to maximize Federal funding. This memorandum is effective immediately.

BACKGROUND

The FMNP was conceived as an adjunct to WIC that would provide Program participants with the additional benefit of fresh fruits and vegetables. Responsibility for administering the FMNP usually rests with either the WIC State agency (health department) or the State Department of Agriculture, with responsibilities being shared by both State agencies. While the FMNP is a separate Federal program, its close link to WIC has resulted in questions as to whether certain FMNP activities can be considered allowable costs for WIC.

FMNP regulations (section 248.9(b)) clarify that nutrition education for the FMNP is an allowable WIC cost. FMNP Policy Memorandum 93-2 approves the use of WIC nutrition services and administration (NSA) funds to cover travel-related costs for WIC staff to attend FMNP conferences and training. Questions have arisen as to whether activities such as the development and implementation of FMNP modules or subsystems for WIC Management Information Systems (MIS) can be considered as allowable costs for WIC. While the benefit of such items is unquestioned, their allowability as costs for WIC is much less clear. This policy memorandum sets forth guidelines by which these and other determinations can be made.

COSTS ALLOWABLE FOR WIC

Basic Guideline

Section 246.14(a) of the WIC Program regulations and Attachment A, section C, of OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments,* indicate that a cost must be reasonable and necessary for the fulfillment of Program objectives to be deemed allowable. This basic definition of an allowable cost should govern all decisions regarding whether an FMNP cost may be properly charged to WIC funds. If the cost fulfills a WIC Program objective or mandate, and a WIC State agency could be expected to incur such cost in the absence of the FMNP, then the cost is potentially allowable. Although other factors also affect the allowability of a cost item, application of this basic criterion is the first step in answering questions about allowable costs for

The contents of this guidance document do not have the force and effect of law and are not meant to bind the public in any way. This document is intended only to provide clarity to the public regarding existing requirements under the law or agency policies.

Other Considerations

Even when a cost is potentially allowable, a State agency may not automatically charge it entirely to WIC. Attachment A, section C of OMB Circular A-87 indicates that costs should be charged or assigned to grants in accordance with relative benefits received. In shared cost situations, each program should bear its fair share of the cost in question. Circular A-87, Attachment A, also states that any cost allocable to a particular Federal award may not be charged to other awards in order to overcome funding deficiencies or for other reasons.

When different State agencies administer WIC and FMNP, they should execute a written agreement delineating the responsibilities of each agency, describing any compensation for services and identifying the responsible agency representative. The signed agreement, a copy of which should be included in the WIC and FMNP State Plans, should specify how costs allowable under both WIC and FMNP (such as providing nutrition education for the FMNP) would be charged. It should also identify FMNP functions that State or local WIC Program staff will perform on a cost-reimbursement basis (such as conducting FMNP reviews of authorized sites). The FMNP State agency must also maintain a record identifying the source and use of funds expended for FMNP activities.

Similarly, a WIC State agency that administers both WIC and FMNP should discuss in the WIC and FMNP State Plans how it proposes to charge allowable FMNP-related costs to the two programs.

Examples of Allowable WIC Costs Related to the FMNP

Examples of FMNP-related NSA costs that are allowable costs for WIC follow:

1) The cost of providing nutrition education to FMNP participants. Section 248.9 of the FMNP regulations allows a State agency to satisfy FMNP nutrition education requirements through coordination with other agencies, including the WIC Program, that routinely offer nutrition education to participants. The regulation states that, "in cases where relevant WIC nutrition education messages are used to meet the FMNP nutrition education requirement, reimbursement to the WIC local agency shall not be permitted." Specific FMNP-related nutrition education costs that are allowable costs for WIC include:

    a. Compensation (salaries and benefits) of WIC clinic staff for time spent educating participants regarding fruit and vegetable consumption.

    b. The cost of purchasing, developing, or disseminating educational materials on fresh fruits and vegetables for WIC participants. This may include the price of purchased materials, compensation for staff engaged in developing and/or disseminating the materials, printing and other production costs, mailing and other dissemination costs, etc.

c. The cost of surveying WIC participants relative to consumption of fresh fruits and vegetables, as part of the evaluation of WIC nutrition education. This may include compensation for staff time and effort; printing and other costs of producing the survey instrument; mailing, telephoning, and other costs incurred in conducting the survey; automated data processing services required to analyze the survey results, etc.

2) The cost of WIC State and local agency staff attendance at FMNP-related meetings, conferences, and training considered to be beneficial to WIC. OMB Circular A-87, Attachment B, paragraphs 30, 40 and 41, indicate that these costs are allowable. This updates previous policy by allowing WIC to pay for staff participation in FMNP conferences and training regardless of the State WIC agency's role in administering the FMNP. Allowable training and travel costs include lodging and subsistence, registration, transportation expenses, and related salaries and benefit costs.

3) The cost of reviewing WIC certification records to verify eligibility as part of a joint management evaluation of WIC and FMNP. Section 248.6(a) of the FMNP regulations limits program participation to persons currently receiving WIC benefits or who are on a waiting list to receive WIC services. Since the FMNP imposes no certification requirements beyond those required for WIC, the cost of validating eligibility determinations during a joint review would be incurred in the absence of the FMNP. Therefore, WIC should bear the entire cost of validating eligibility.

4) The cost of desks or workstations acquired for use in performing WIC functions, but which staff may use to perform FMNP functions. If the equipment in question is fully depreciated (i.e., already paid for in full), no cost adjustment need be made to reflect charges to FMNP, as long as its use for FMNP purposes does not interfere with its use for WIC purposes. If the equipment in question has not been paid for in full, and FMNP uses the equipment for more than 10 percent of the time, then some method of cost allocation must be devised, which accurately reflects the benefit received by both Programs. This interpretation is based on Department Regulations found in 7 CFR 3016.32(c)(2) and 3019.34(d), which instructs recipients of Federal grants to make equipment acquired under one project or program available for use on others to the extent that such use "will not interfere with the work on the project or program for which [the equipment] was originally acquired."

COSTS UNALLOWABLE TO WIC

Costs that are not necessary to fulfill WIC Program objectives, and costs that WIC State agencies would not reasonably incur in administering the WIC Program, are not allowable costs

for WIC. A State agency may not use Federal WIC funds to cover a cost incurred solely to fulfill a FMNP requirement. Examples of allowable FMNP costs, no part of which may be charged to WIC, include:

1) Cost of FMNP coupon development, printing, redemption, and reconciliation;
2) Cost of issuing FMNP coupons and educating recipients on FMNP transactions;
3) Cost of FMNP market management and development;
4) Cost of designing and printing outreach materials for FMNP;
5) Cost of compensation for time staff spends recruiting, authorizing, training, and monitoring farmers on FMNP procedures;
6) Cost of reviewing local agency and clinic performance of FMNP activities, except as indicated in item 3 under Examples of Allowable WIC Costs Related to FMNP;
7) Cost of developing, installing, and operating FMNP components of State automated data processing (ADP) and electronic benefit transfer (EBT) systems;
8) Cost of developing and maintaining FMNP reports;
9) Cost of evaluating FMNP performance;
10) Cost of conducting FMNP participant surveys;
11) Cost of fresh fruits and vegetables purchased with FMNP coupons;
12) Cost of bank processing fees incurred in FMNP coupon redemption and reconciliation; and
13) Cost of supplies, such as stamps for farmers, and equipment used exclusively to perform or support FMNP activities.

As this list suggests, State agencies should not assume that a FMNP cost is allowable for WIC. States should assume that FMNP will pay its own costs, unless it is established that the cost is allowable to WIC and that all or a portion of it can be charged to WIC. Each program's share of the cost should be based on the relative benefit derived as determined by the State agency.

EXCEPTIONS FOR SHARED STAFF COMPENSATION COSTS

As a general rule, the WIC Cost Allocation Guide requires staff working on multiple programs to document the distribution of their time and effort between programs via the continuous time reporting method described in section 3010 of that document. The use of alternative methods requires the approval of the State or local agency's cognizant agency. Section 3000.C. of the Guide also provides a less rigorous standard for capturing the distribution of staff time and effort between cost objectives **within WIC** (such as nutrition education and client services). For that purpose, alternative methods of capturing staff time and effort require the prior approval of the awarding agency, rather than that of the cognizant agency. The awarding agency for a State or local agency is the applicable FNS Regional Office or the State agency, respectively.

FNS will allow the following exceptions to these general rules for **capturing the time and effort of local agency staff who perform WIC and FMNP functions only**. Application of these exceptions should reduce the paperwork and administrative burden for local WIC agencies that provide FMNP services.

Exception 1: WIC and FMNP Coupon Issuance

A local agency that operates both WIC and the FMNP may use the modified continuous time reporting method, described in section 3020 of the WIC Cost Allocation Guide, for documenting the time and effort of local agency staff engaged in issuing coupons (or other food instruments) for use in both programs and educating participants on their use. No prior approval is required to do this. Rather than attempting to identify and record the portion of this task that benefits each program, local agency staff would record the entire block of time spent on coupon issuance under a generic title such as "coupon issuance." When preparing its reports to the State agency, the local agency would then allocate the cost of all compensation for issuance time and effort on a reasonable basis, such as the ratio of total FMNP coupons issued to total coupons issued under both programs.

Exception 2: Other Shared Staff Functions

To allocate other shared staff compensation costs between WIC and FMNP, State agencies may approve the use of methods that apply the rules for distributing costs between cost objectives within WIC. For example, a State agency could approve a method other than either "regular" or modified continuous time reporting for documenting the distribution of staff time and effort spent on joint WIC and FMNP participant surveys. Such alternative methods may include, but need not be limited to, those expressly described in the WIC Cost Allocation Guide. Any method approved must, however, generate reasonable results.

The basis for these exceptions is House Report 102-540 that accompanied the original FMNP legislation and spoke to local administrative requirements. The report states that Congress intended that USDA "permit State WIC programs to select a method of administrative cost accounting that will maximize administrative efficiency and reduce unnecessary paperwork and administrative burden for local WIC agencies responsible for distributing farmers' market coupons to program recipients."

Please note that this memorandum does not preclude WIC State and local agencies from receiving reimbursement for a FMNP cost identified as an allowable cost for WIC. State cost allocation agreements or plans may continue to allocate to FMNP all allowable costs that benefit the FMNP.

MEETING COST ALLOCATION CHALLENGES

The lists of allowable and unallowable WIC costs contained in this memorandum are not exhaustive; however, they do include items or activities about which State agencies have raised allowable cost questions to FNS. The guidelines in this memorandum provide a framework for allocating FMNP costs in accordance with established cost allocation principles, and are a starting point for answering questions that arise in the future.

FNS acknowledges the difficulty of some cost allocation decisions that States (and ITOs in particular) face relative to the FMNP. The agency will address other FMNP cost issues in separate memoranda as needed.

SUMMARY

The following is a summary of the guidelines discussed in this policy memorandum:

1) Document in the WIC and FMNP State Plans how FMNP functions and related costs are to be allocated and reimbursed.

2) Determine whether the FMNP cost is reasonable and necessary for WIC. If it fulfills WIC requirements, it is potentially allowable.

3) If the cost is allowable for WIC, decide whether:
   - WIC will pay the full cost of the item or activity; or
   - WIC and FMNP will share the cost, and what percentage of the cost each program will bear based on fair share and benefit received.

   State agencies should charge to FMNP all costs that benefit the FMNP grant.

4) If a FMNP cost is not allowable for WIC (i.e., it fulfills an FMNP requirement only), then –

   - FMNP funds, or other appropriate non-WIC funding, should be used to cover the full cost of the item or activity.
   - A WIC State agency may request, in writing, FNS approval to use WIC Program income, including Welch's grant funds, for FMNP-related activities.
   - For local agency staff working only on WIC and FMNP functions, FNS allows two exceptions to the general requirement to capture staff time and effort using continuous time reporting. Application of these exceptions should reduce the paperwork and administrative burden for local WIC agencies.

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