



United States Department of Agriculture
Office of Inspector General





Recovery Act Impacts on Supplemental Nutrition Assistance Program Phase II

Audit Report 27703-0001-22

What Were OIG's Objectives

To determine if FNS had sufficient internal controls to ensure that SNAP administrative funds provided by the Recovery Act were used in accordance with the Recovery Act's provisions, Office of Management and Budget guidance, and FNS requirements for allowable program costs.

What OIG Reviewed

We randomly selected the following States for review: California, Colorado, Nevada, New York, South Dakota, and Utah. These States received \$52.2 million of the \$290.5 million in Recovery Act administrative funds for SNAP.

What OIG Recommends

FNS should recover unallowable expenditures totaling \$470,272 from three State agencies and one county.

OIG reviewed FNS' internal controls for the Recovery Act's SNAP administrative funding to ensure that funds were spent for allowable costs in accordance with applicable requirements.

What OIG Found

The American Recovery and Reinvestment Act of 2009 (Recovery Act) provided additional funds for Supplemental Nutrition Assistance Program (SNAP) administrative costs. The Office of Inspector General (OIG) found that while Food and Nutrition Service (FNS) made Recovery Act administrative funds available timely for States to use, FNS did not provide adequate accounting guidance, coordination, and oversight to ensure States fully complied with transparency and accountability requirements.

Four of six reviewed States did not separately account for Recovery Act funds for SNAP administrative expenditures. State officials indicated they either did not fully understand the accounting requirements or believed them too cumbersome. Although FNS did provide instruction on how to report Recovery Act funds used, it did not provide adequate guidance to assist States in how to maintain separate identity of Recovery Act expenditures. Also, FNS' Financial Management Review process did not disclose that States were unable to comply with transparency requirements. Due to the lack of separate accounting, we were unable to gather sufficient evidence in accordance with generally accepted government auditing standards to conclude on the propriety of State uses of Recovery Act SNAP funds for administrative costs.

We also found that two States used funds from one fiscal year to pay for expenses incurred in a different fiscal year, and a third State used funds after the obligation periods had expired. In addition, one county inappropriately used funds for payroll costs not associated with SNAP. As a result, we identified \$470,272 in unallowable expenditures. FNS agreed with our recommendations.



United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250



DATE: June 13, 2013

AUDIT
NUMBER: 27703-0001-22

TO: Audrey Rowe
Administrator
Food and Nutrition Service

ATTN: Mark Porter
Director
Office of Internal Controls, Audits and Investigations

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Recovery Act Impacts on Supplemental Nutrition Assistance Program Phase II

This report presents the results of subject audit. Your written response to the official draft report, dated May 10, 2013, is included in its entirety at the end of the report, with excerpts and the Office of Inspector General's position incorporated in the relevant Findings and Recommendations sections of the report. Based on the written response, we were unable to reach management decision on any of the report's four recommendations. Management decisions for the recommendations can be reached once you have provided the additional information outlined in the report section OIG Position.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, and timeframes for implementing the recommendations for which management decisions have not been reached. Please note that the regulation requires management decision to be reached on all recommendations within 6 months from report issuance, and final action to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report. Please follow your internal agency procedures in forwarding final action correspondence to OCFO.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This report contains publically available information and will be posted in its entirety to our website (<http://www.usda.gov/oig>) in the near future.

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Background and Objectives

Background

The Food and Nutrition Service (FNS) administers the Supplemental Nutrition Assistance Program (SNAP), formerly known as the Food Stamp Program.¹ SNAP helps low-income individuals and families by supplementing their income to purchase eligible foods at participating retail stores. SNAP, which received \$78.2 billion in Federal funds during fiscal year (FY) 2012, is the Department of Agriculture's largest domestic food and nutrition assistance program, both in number of participants and dollars spent.

FNS manages SNAP through its national office in Alexandria, Virginia, and its seven regional offices. At the State level, SNAP is administered by designated State agencies, such as a State's Department of Human Services (DHS).² Also, some States administer SNAP at the county level. These States pass Federal SNAP administrative funds through to the counties for program functions performed by county agencies. FNS promulgates program regulations and performs financial and program reviews to ensure State agencies carry out SNAP in compliance with program regulations. FNS funds the full cost of SNAP benefits and generally reimburses States for 50 percent of their direct and indirect administrative costs.

On February 17, 2009, the President signed into law the American Recovery and Reinvestment Act of 2009 (Recovery Act), which increased the amount of benefits SNAP households receive, and supplied an additional \$295 million in funding to cover SNAP administrative costs.³ The Recovery Act administrative funding exempted States from the traditional 50-percent cost matching requirement for the \$295 million in additional funds.⁴ Out of the \$295 million, \$4.5 million was designated for management and oversight activities, as well as for monitoring and evaluating the effects of the increased SNAP benefits. FNS made Recovery Act administrative funds available timely so that States could begin to draw the funds on the first day the funds were available for FYs 2009 and 2010.

The Recovery Act required an unprecedented level of transparency, oversight, and accountability. Recovery Act funds were required to be reported separately from normal funding provided through routine annual appropriations. In February and April of 2009, the Office of Management and Budget (OMB) issued guidance requiring Federal agencies to establish rigorous internal controls, oversight mechanisms, and other approaches to meet the accountability objectives of the Recovery Act.⁵ In response to OMB and the Recovery Act guidance, FNS issued a series of question and answer memoranda to regions and States to instruct them on how to handle the SNAP Recovery Act funds. The memoranda required

¹ The Food Stamp Act of 1964 established distribution of food stamps as a permanent Federal program. The Food, Conservation, and Energy Act of 2008 changed the Food Stamp Program name to SNAP, partly to help alleviate the social stigma associated with food stamps.

² SNAP programs exist in the 50 States, the District of Columbia, Guam, and the U.S. Virgin Islands.

³ This Recovery Act funding was in addition to the \$3.2 billion of regular administrative funds received in FY 2009 and the \$3.5 billion received in FY 2010.

⁴ \$144.5 million was allocated to the States for use in FY 2009 and \$146 million was allocated for FY 2010.

⁵ OMB memoranda M-09-10, dated February 18, 2009, and M-09-15, dated April 3, 2009.

grantees to account for the Recovery Act funds separately by reporting their Recovery Act administrative expenses on a separate Financial Status Report (SF-269).

Because State agencies often use the same facilities and staff (such as caseworkers) to administer many different programs, they use cost allocation plans, which are approved by the U.S. Department of Health and Human Services (HHS), to allocate administrative expenses.⁶

State and local governments must have an annual audit of their Federal awards, including the Recovery Act programs.⁷ Federal agencies use the single audit process as a key accountability tool for monitoring Recovery Act awards.⁸ FNS regional offices also conduct financial management reviews (FMR), which serve as the primary management control to ensure that State administrative expense claims are accurate and allowable.⁹ In June 2009, FNS updated its FMR guide to include a mandatory review of the Recovery Act funds. This guide emphasized that the Recovery Act required States and other entities receiving Recovery Act funds to maintain the separate identity of funds at every stage of the grant cycle, including the receipt, custody, obligation, expenditure, and reporting of the funds.

FNS increased its planned reviews to ensure that half of the State agencies in each FNS region received FMRs by the end of FY 2010. The Recovery Act made additional funds available for the second half of FY 2009 and all of FY 2010 for the increased FMRs. During this period, the FMR effort emphasized reviewing the State's custody, use, and reporting of funds made available under the Recovery Act. Through these reviews, FNS expected to obtain reasonable assurance that States met all the Recovery Act requirements.

Objectives

To determine if FNS had sufficient internal controls to ensure that SNAP administrative funds provided by the Recovery Act were used in accordance with the Recovery Act's provisions, OMB guidance, and FNS requirements for allowable program costs.

⁶ *OMB Circular A-87* requires two types of cost allocation plans. The Central Services or Statewide cost allocation plan is used to allocate costs of central services (e.g., computer centers, accounting) to the user organizations that operate Federal programs. The Public Assistance Cost Allocation Plan is used by State service agencies to allocate costs to Federal programs, such as SNAP, Temporary Assistance to Needy Families, or Medicaid. All administrative costs (direct and indirect) are normally charged to Federal awards by implementing the Public Assistance Cost Allocation Plan.

⁷ Single Audit Act of 1984, Public Law 98-502, and the Single Audit Act Amendments of 1996, Public Law 104-156.

⁸ States and local governments are required by the Single Audit Act Amendments of 1996 and *OMB Circular A-133* "Audits of States, Local Governments, and Non-Profit Organizations," June 26, 2007, to have one annual audit of their Federal awards (known as a single audit), including the Recovery Act programs. Recovery Act funds must be separately identified on single audit financial reports, including Schedules of Expenditures of Federal Awards and Data Collection Forms, by the Catalog of Federal Domestic Assistance award number.

⁹ FMRs are FNS reviews of State administrative expenses.

Section 1: Internal Controls Over SNAP Administrative Funds

Finding 1: FNS Did Not Provide Effective Tools and Oversight to Ensure States Met Recovery Act Requirements

FNS did not adequately oversee States' implementation of Recovery Act requirements for separate accounting of administrative expenditures. This occurred because FNS did not provide States adequate guidance, conduct sufficient coordination, or perform effective monitoring to ensure that States met the Recovery Act accounting requirements. An FNS official said that different accounting systems in the 53 States and territories administering SNAP were obstacles to providing uniform accounting guidance. While different accounting systems may have provided a challenge for FNS in providing specific accounting guidance to each State, it did not remove the agency's responsibility to ensure compliance with the transparency and accounting requirements of the Recovery Act. As a result of inadequate guidance, coordination, and monitoring, four of six States we reviewed did not fully comply with Recovery Act provisions for transparency and accountability. In addition, FNS' regional Financial Management Review (FMR) process did not adequately identify issues with transaction accounting, and three State FMRs did not provide reasonable assurance that States' Recovery Act funds were used in accordance with OMB and FNS requirements.

Recipients of Recovery Act funds were required to maintain records that adequately identified the source and use of the funds, including those for SNAP.¹⁰ In recognition of the Recovery Act's focus on unprecedented transparency, FNS issued an addendum to its *FMR Guide*, which stipulated that States receiving Recovery Act funds must separately identify Recovery Act funds at every stage of the grant cycle.^{11,12} FNS also created new steps in its FMR process for reviewers to obtain evidence that Recovery Act funds were kept separate from regular SNAP funds. One of the FMR procedures required reviewers to inspect records of actual transactions involving Recovery Act funds to ensure the funds and expenditures were accounted for separately throughout the grant cycle.

Separate Accounting of Recovery Act SNAP Administrative Expenditures

In the April 2009 guidance, issued 2 months after the Recovery Act was signed into law, OMB advised that grant recipients using Recovery Act funds to supplement existing grants would risk being unable to track and report the Recovery Act funds separately.¹³ In response to OMB and the Recovery Act guidance, FNS issued a series of question and

¹⁰ OMB issued several memoranda on separately accounting for Recovery Act funds (M-09-10 and M-09-15).

¹¹ FMRs are a key management control over State agencies administering FNS programs. FNS regional offices conduct FMRs in order to obtain reasonable assurance that the financial information reported by grantees is correct and complete, and that it represents proper expenditures of Federal funds.

¹² FNS, *FMR Guide, Addendum for Reviewing Funds Made Available Under the American Recovery and Reinvestment Act of 2009*, October 2009. The grant cycle, as defined in the FMR addendum, includes the receipt, custody, obligation, expenditure, and reporting of the funds.

¹³ OMB M-09-15, *Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009*, April 3, 2009, Section 4 – Budget Execution, page 38, and Section 5 - Grants and Cooperative Agreements, page 47.

answer memoranda to regions and States to instruct them on how to handle the SNAP Recovery Act funds. The memoranda required States to account for the Recovery Act funds separately by reporting their Recovery Act administrative expenses on a separate Financial Status Report (SF-269). Also, FNS issued guidance to the States on how to separately report Recovery Act SNAP benefits and administrative funds, in connection with *OMB Circular A-133* single audit requirements.

While FNS provided guidance to the States regarding Recovery Act reporting requirements, FNS did not provide States with adequate accounting guidance and coordination to help them track Recovery Act funds within their existing systems—which were not set up to handle such a detailed level of tracking. FNS personnel stated that, while they expected States to account for their Recovery Act expenditures down to the county level, they acknowledged that the agency did not provide States with adequate guidance and coordination to assist them in complying with Recovery Act transactional level accounting requirements. An FNS official stated that, because each State and territory has a different kind of accounting system, it would be difficult to issue one uniform accounting methodology for the Recovery Act. While differing State accounting systems may have provided a challenge for FNS in providing specific accounting guidance to each State, it did not relieve it of the responsibility of ensuring States complied with all transparency requirements, including separately accounting for Recovery Act expenditures at the transaction level.

Due to lack of effective guidance from FNS, four of six States we reviewed did not separately account for Recovery Act payroll expenses.¹⁴ The separate accounting issue particularly impacted States receiving Recovery Act funds as supplements to regularly-appropriated SNAP administrative funds. States routinely pooled administrative funds from several agencies in order to fund staff for programs such as SNAP, Temporary Assistance to Needy Families, and Medicaid. Thus, their payroll accounting systems were not configured to charge individual payroll expenditures to each program, but to allocate general payroll costs among many programs using methodologies approved by HHS in the States' cost allocation plans.¹⁵

To comply with Recovery Act requirements, States contended they would have had to temporarily amend their accounting systems to separately track Recovery Act payroll charges. The four States in question concluded it was too cumbersome to do so, and performed their payroll cost allocation processes as usual. States then used Recovery Act funds to pay a portion of the total payroll expense allocated to SNAP—without any capability to trace the use of the funding back to individual payroll transactions. Therefore, OIG was unable to determine the accuracy and appropriateness of payroll expenses charged to SNAP Recovery Act funds.

¹⁴ Four States did not separately account for Recovery Act expenditures: California, Nevada, New York, and Utah. South Dakota did not charge payroll expenditures to the Recovery Act, but, instead, charged individual invoices for expenses such as rent and printing that OIG could trace back to supporting invoices. Colorado tracked its Recovery Act payroll expenditures correctly at the county level.

¹⁵ *OMB Circular A-87*, Attachment D, *Public Assistance Cost Allocation Plans*.

Monitoring Recovery Act Oversight Costs

Stemming from the lack of FNS guidance on separate accounting, we identified weaknesses in FMRs used to monitor Recovery Act funds. FNS issued an addendum to the *FMR Guide*, requiring new objectives and procedures for the Recovery Act. For SNAP, review teams were to inspect records of actual transactions to determine whether Recovery Act funds were accounted for separately and used for allowable purposes. While FNS did meet its objective of reviewing 50 percent of grantees by September 30, 2010, we found that FMRs in three States were not sufficient. Specifically, the western regional office's FY 2010 FMR for the California Department of Social Services (DSS) and FY 2009 FMR for the Nevada HHS did not disclose that reviewers were unable to test Recovery Act-specific¹⁶ transactions in the amount of \$10.9 million and \$484,483, respectively. This also occurred in the northeast regional office's FY 2009 FMR for the New York Office of Temporary and Disability Assistance in the amount of \$12.1 million in transactions.

Reviewers were not able to perform tests of individual Recovery Act transactions since the States did not separately account for those transactions. As such, these FMRs did not meet their objective of ensuring grantees met the Recovery Act requirements. Since the Recovery Act administrative funding period has expired and we recognize that specific identification of Recovery Act transactions at this time would be resource intensive, assuming it is even possible, we are making no recommendations for further review of Recovery Act funds.

¹⁶ The California DSS did not allocate SNAP Recovery Act administrative funds down to the county level. Counties submitted their expense claims as normal and the State made the necessary accounting adjustments against the SNAP Recovery Act revenue code to draw down Recovery Act administrative funds.

Finding 2: Expenses Were Not Claimed in the Appropriate Fiscal Year

We found that two State agencies improperly used funds from one fiscal year to pay for expenses incurred in a different fiscal year, which Federal appropriations law does not allow. This occurred because both States did not have adequate accounting/fiscal budgetary yearend cutoff controls to ensure that expenses were charged to the correct fiscal year funding. In one State the use of a cash basis form of accounting that focused on when payments were issued, rather than when charges occurred, increased the risk for misapplication. In the other State, deficiencies in a yearend cutoff review resulted in the mischarge of transactions against the Recovery Act grant. As a result, Nevada and South Dakota State agencies improperly used FY 2010 SNAP Recovery Act administrative funds, totaling \$217,787, to pay for FY 2009 expenses.

Federal appropriations law states that an appropriation limited to a definite period (e.g., 1 year) is available only for payment of expenses properly incurred during that time period.¹⁷ Recovery Act funds were made available for obligation until September 30 of the respective fiscal year. Also, the Department's regulations stipulate that when a grant has a specified funding period, a grantee may charge only costs from that period.¹⁸

FNS awarded the Nevada Division of Welfare and Supportive Services (DWSS) over \$1.7 million in Recovery Act funds during FYs 2009 and 2010.¹⁹ DWSS used the majority of its funding for Electronic Benefits Transfer (EBT) charges.²⁰ We found that DWSS used \$201,167 of FY 2010 Recovery Act funding to pay for EBT expenses that were incurred in FY 2009.

When reviewing its EBT invoices, we found an October 2009 invoice for September 2009 costs that was paid with FY 2010 Recovery Act funds. Since the expense was incurred in FY 2009, it should have been paid with FY 2009 funds. A DWSS official agreed with this finding and stated that DWSS accounting staff missed the error when manually reviewing invoices to verify the proper period to book the expense during yearend processing. In addition, we identified this same issue, reported in DWSS FNS 2012 FMR of Non-Recovery Act SNAP funds, where 17 of 135 sampled FY 2009 expenditures, totaling \$74,683, were improperly paid as FY 2010 SNAP expenditures. While these issues occurred due to weakness in DWSS accounting cutoff procedures, we believe the risk of such mischarge is even greater, due to DWSS' cash basis accounting system, which recognizes expenditures when payment is issued, rather than when the expenditure was incurred or when it was obligated.²¹

¹⁷ 31 U.S. Code §1502(a).

¹⁸ 7 *Code of Federal Regulations* (CFR) 3016.23(a), Period of Availability of Funds.

¹⁹ Nevada DWSS was awarded \$869,322 for FY 2009 and \$878,346 for FY 2010.

²⁰ EBT is an electronic system that allows a recipient to authorize transfer of his/her government benefits from a Federal account to a retailer account to pay for products received.

²¹ FNS requires grantees to report costs in the grant period in which they are incurred, thus requiring States to report on an accrual and not cash basis. If the grantee accounting records are not normally kept on an accrual basis, the grantee shall develop accrual information through an analysis of the documentation on hand.

FNS awarded the South Dakota DSS \$524,135 in Recovery Act funds²² and DSS chose to reallocate certain expenditures to the Recovery Act. The DSS did so by using a method that bundled many transactions together in order to charge them to the Recovery Act, referring to the bundles as journal vouchers. While this action was valid, we found that in two cases, a long gap occurred between the date of the transaction and the date of the journal voucher, resulting in expenditures being charged in the incorrect fiscal year.²³ These two FY 2009 transactions, totaling \$16,620, were misapplied to the FY 2010 Recovery Act grant. A DSS manager agreed with this finding, stating that DSS should have been more careful when selecting and reviewing transactions to reallocate to the Recovery Act grants.

FNS' 2012 FMR recommended Nevada DWSS develop and implement a process to ensure that SNAP expenditures are reported in the proper fiscal year and paid for by the appropriate Federal appropriation. Since Nevada DWSS agreed with FNS' recommendation and indicated that they would develop additional procedures for the program, we make no further recommendations. In addition, since deficiencies found in South Dakota DSS activities were specific to the Recovery Act funding and that Recovery Act administrative funding period has now expired, we make no further recommendation regarding yearend cutoff control improvements for South Dakota DSS.

Because FY 2009 expenditures mischarged to FY 2010 were unallowable under Federal law, we recommend that FNS recover the total of \$217,787 in Recovery Act funds mischarged to FY 2010.

Recommendation 1

Recover \$201,167 from the Nevada Division of Welfare and Supportive Services in FY 2009 expenditures that were claimed for FY 2010.

Agency Response

In its May 10, 2013, response, FNS stated that it concurs with the recommendation and that its Western Regional Office staff will follow up with the Nevada Division of Welfare and Supportive Services to give them the opportunity to provide documentation concerning the finding. If it is determined that the cited funds were claimed improperly, the Regional office will be directed to bill the State for the appropriate amount.

OIG Position

We agree with FNS' proposed corrective action for this recommendation. However, to achieve management decision, FNS needs to provide us with documentation that a claim has been established for the agreed-upon amount.

²² South Dakota DSS was awarded \$260,714 for FY 2009 and \$263,421 for FY 2010.

²³ The audit team found two transactions in our sample that were FY 2009 expenditures paid with FY 2010 Recovery Act funds. The first transaction was for postage charges of \$16,601 that reallocated an August 2009 expenditure to the FY 2010 Recovery Act grant. The second transaction was for procurement charges of \$19 that reallocated a June 2009 expenditure to the FY 2010 Recovery Act grant.

Recommendation 2

Recover \$16,620 from the South Dakota DSS in FY 2009 expenditures that were claimed for FY 2010.

Agency Response

In its May 10, 2013, response, FNS stated that it concurs with the recommendation and its Mountain Plains Regional Office staff will follow up with the South Dakota DSS to give them the opportunity to provide documentation concerning the finding. If it is determined that the cited funds were claimed improperly, the Regional office will be directed to bill the State for the appropriate amount.

OIG Position

We agree with FNS' proposed corrective action for this recommendation. However to achieve management decision, FNS needs to provide us with documentation that a claim has been established for the agreed-upon amount.

Finding 3: Colorado Improperly Spent Recovery Act Funds

The Colorado DHS spent Recovery Act administrative funds that were not obligated by the end of FYs 2009 and 2010. In addition, a county in Colorado inaccurately used Recovery Act grant funds to pay employee salaries and benefits not associated with overtime worked on SNAP cases. This occurred because DHS did not obligate all of its funding during the appropriate time period, and then chose to use the expired funding, rather than return it to FNS as required by regulations. As for the county, it apportioned its payroll costs, instead of charging actual overtime costs to the Recovery Act. The system for apportioning resulted in overstated salaries and charges to the Recovery Act that were not attributable to overtime work. As a result, DHS and the county improperly charged \$244,633 and \$7,852 in Recovery Act funds, respectively.

For appropriated funds, Congress specifies the period of time each appropriation can be used. The period of availability for the Recovery Act funding ended on September 30 for FYs 2009 and 2010. Any funds not obligated within their period of availability are considered expired. In addition, FNS Recovery Act guidance states that all Recovery Act funds were to be obligated by September 30, and any unobligated funds returned to FNS.²⁴ As for employee compensation, charges must be for time and effort specifically devoted to work on the grant award.²⁵ In addition, State agency financial management systems that capture personnel costs must be accurate.²⁶ When planning on how to implement the Recovery Act, Colorado State officials encouraged the use of Recovery Act funds to pay for overtime charges performed by current employees, as long as the overtime was solely for SNAP work and tracked separately from regular time that was subject to cost allocation.

Colorado DHS Spent Unobligated Recovery Act Funds

In September 2009 and 2010, DHS used its regular SNAP appropriations to pay for EBT expenses. Then, in December 2009 and 2010, DHS used Recovery Act funds to reimburse the regular SNAP appropriation for these EBT expenses. However, since these Recovery Act funds were not obligated by September 30 of their respective fiscal year, they are considered expired and should have been returned to FNS. The total amount of expired Recovery Act funds used to reimburse the regular SNAP administrative funds account was \$244,633 (\$140,936 for FY 2009 and \$103,697 for FY 2010).

DHS had allocated a portion of the Recovery Act administrative funds to 11 Colorado counties, and chose not to obligate all its Recovery Act funding prior to the end of the fiscal year because it wanted to give counties first priority to use the funding.²⁷ However, some of the counties did not spend all of their allocation by the end of FYs 2009 and 2010, and, as a result, Colorado had an unobligated balance at the end of each fiscal year. Instead of returning the unobligated Recovery Act funds, DHS used the funds to

²⁴ *American Recovery and Reinvestment Act, Clarification to Administrative Funding Questions and Answers #2*, May 7, 2009.

²⁵ 7 CFR part 277, appendix A (E)(2)(a).

²⁶ 7 CFR part 3016.20(b)(1).

²⁷ Since Colorado is a county-administered State, the counties are responsible for carrying out a majority of SNAP operations.

reimburse the regular SNAP funds account for previously paid EBT expenditures. A DHS official stated that the State agency did the right thing in spending the remaining Recovery Act funding, rather than losing it. In addition, a DHS financial official agreed that it was better to use the funding, even though it would have been technically correct to return it to FNS.

In her response, a FNS Mountain Plains Region official stated that, as long as the EBT costs were incurred during the period of availability, they did not have a problem with Colorado using unobligated funds in December. While we acknowledge that the cost was incurred during September, the response does not follow FNS' own guidance, which states that funds not obligated by September 30 expire after that date. Therefore, we recommend that FNS recover the \$244,633 of Recovery Act funding.

Pueblo County Charged Inappropriate Costs to the Recovery Act Grant

The Pueblo County DSS used Recovery Act grant funds to pay for overtime work performed by full-time employees devoted solely to SNAP cases. However, rather than charge the actual costs for that overtime to the Recovery Act, the county used a labor distribution program to apportion salary and benefits between the regular cost fund and the Recovery Act fund. In the distribution programming, the apportioned costs charged to the Recovery Act included some employee salary and benefits not associated with the overtime. Since Colorado DHS only allowed overtime payroll costs, but no regular time payroll costs of full-time staff to be charged to the Recovery Act, the county should have charged only the actual costs associated with the overtime and not the apportioned costs developed by its labor distribution program.

We also found that the accounting system incorrectly rounded up the percentages used to calculate the amounts charged to the Recovery Act to the next whole percent, resulting in salary overcharges. Colorado DHS agreed that Recovery Act grants should not have been charged for benefits not associated with overtime work, as well as inflated salaries stemming from the rounding methodology. As a result of these errors, the Recovery Act was overcharged by \$7,852.²⁸ Since these charges are not attributable to SNAP work, we recommend recovery of these funds.

Recommendation 3

Recover from DHS \$244,633 of Recovery Act funding that was improperly spent in the wrong fiscal year.

³⁴ The county charged \$7,299 of ineligible benefits for all 130 payroll records for Recovery Act overtime work. In addition, we reviewed 39 of the 130 payroll records and determined that \$553 charged to salaries and expenses was ineligible.

Agency Response

In its May 10, 2013, response, FNS stated that it concurs with the recommendation and its Mountain Plains Regional Office staff will follow up with the Colorado DHS to give them the opportunity to provide documentation concerning the finding. If it is determined that the cited funds were claimed improperly, the Regional office will be directed to bill the State for the appropriate amount.

OIG Position

We agree with FNS' proposed corrective action for this recommendation. However, to achieve management decision, FNS needs to provide us with documentation that a claim has been established for the agreed-upon amount.

Recommendation 4

Recover the \$7,852 of improper charges to Recovery Act grants at the county level.

Agency Response

In its May 10, 2013, response, FNS stated that it concurs with the recommendation. In discussions with its Mountain Plains Regional Office staff, it has been determined that the amount cited was indeed improperly charged to the Recovery Act account. The Regional office will bill the State agency for \$7,852.

OIG Position

We agree with FNS' proposed corrective action for this recommendation. However, to achieve management decision, FNS needs to provide us with documentation that a claim has been established for the agreed-upon amount.

Scope and Methodology

We conducted our fieldwork from November 2011 through November 2012. Our audit focused on determining if FNS had sufficient management controls to ensure SNAP administrative funds provided by the Recovery Act were used in accordance with the Recovery Act's provisions, OMB guidance, and FNS requirements for allowable program costs. We randomly selected States for review that received a portion of the \$290.5 million of administrative funds provided to the States by the Recovery Act. To meet this goal, OIG's statistician developed a random statistical sample, including the States of California, Colorado, Nevada, New York, South Dakota, and Utah. These States received \$52.2 million of the \$290.5 million in Recovery Act funds. We reviewed FNS' oversight at its national headquarters in Alexandria, Virginia; the FNS Western Regional Office in San Francisco, California; the FNS Mountain Plains Regional Office in Denver, Colorado; the FNS Northeast Regional Office in Boston, Massachusetts; and the State agencies responsible for administering SNAP in the six States in our sample.

Three of the six State agencies selected (California, Colorado, and New York) have county-administered SNAP programs. However, only Colorado separately accounted for SNAP Recovery Act expenditures at the county level. Therefore, we did not review counties in New York and California. For the Colorado State agency, OIG's statistician selected a random statistical sample of 6 out of the 11 counties that received Recovery Act funds. Because of the scope limitation for certification expenditures reported (the majority of which were for payroll), and because no over-arching issues were found that can be applied to the entire universe, we chose not to include statistical projections in our report.

We were unable to review payroll transactions for the Recovery Act administrative costs in the States of Nevada and Utah, and the States and counties of California and New York, because these States and counties did not separately account for these expenditures.²⁹ For the State of Colorado, we reviewed all of the State-level Recovery Act administrative costs reported on the State's Recovery Act SF-269 reports for FYs 2009 and 2010, the 2 years the funds were available for obligation. For the six Colorado counties in our sample, we selected and reviewed a statistical sample of their Recovery Act administrative expenditures. We looked at how the Recovery Act funds were administered throughout the entire process, including the allocation, receipt, custody, obligation, expenditure, and reporting of the funds.

To accomplish our objectives we:

- Reviewed regulations, policies, and procedures governing SNAP administrative costs, including *OMB Circular A-87* and 7 CFR 277 appendix A.
- Interviewed FNS Headquarters and regional office and State agency officials to determine what management controls were used to monitor Recovery Act SNAP administrative costs.
- Reviewed the results of State and local audits performed under the Single Audit Act to identify issues concerning the allocation of State and local administrative costs.

²⁹ The audit team was able to review automated data processing expenditures for the State of California and electronic benefit transfer expenditures for the State of Nevada.

- Reviewed the Recovery Act modules of FNS' FMRs (sections related to SNAP administrative funds) performed at State agencies to identify problems and assess corrective actions taken by the States to address the problems.
- Reviewed automated data processing transactions in California and EBT transactions in Nevada to ensure appropriateness and accuracy of Recovery Act fund expenditures.³⁰ In South Dakota, we reviewed rental and postage transactions included as indirect expenses under the certification category on the State's SF-269 Financial Status Report. We reviewed the EBT and consulting expenses in the State of Colorado and payroll costs in the Colorado counties of Denver, El Paso, Jefferson, Larimer, Mesa, and Pueblo.

Generally Accepted Government Auditing Standards (GAGAS) require that we plan and perform our audits to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. However, four of six States we reviewed (California, Nevada, Utah, and New York) could not provide detailed accounting records to support their uses of SNAP Recovery Act administrative funding for payroll expenditures. Because we were unable to gather appropriate evidence in these four States in accordance with GAGAS, we were unable to draw a conclusion as to the propriety of the States' uses of Recovery Act SNAP funds for these expenditures. We were able to perform our audit in Colorado and South Dakota in accordance with GAGAS since we were able to audit detailed accounting records supporting the State's use of SNAP Recovery Act funds.

³⁰ The audit team was not able to review payroll related costs for the States of California and Nevada due to a scope limitation.

Abbreviations

CFR	Code of Federal Regulations
DHS	Colorado Department of Human Services
DSS	Department of Social Services
DWSS	Division of Welfare and Supportive Services
EBT	Electronic Benefit Transfer
FMR	Financial Management Review
FNS	Food and Nutrition Service
FY	Fiscal Year
GAGAS	Generally Accepted Government Auditing Standards
HHS	Department of Health and Human Services
OIG	Office of Inspector General
OMB	Office of Management and Budget
Recovery Act	American Recovery and Reinvestment Act of 2009
SNAP	Supplemental Nutrition and Assistance Program

Exhibit A: Summary of Monetary Results

This exhibit lists findings and recommendations that had a monetary result, and includes the type of monetary result and amount.

Monetary Results	Finding	Recommendation	Award Type	Amount
Questioned Cost, Recovery Recommended	2	1	Grant	\$201,167
Questioned Cost, Recovery Recommended	2	2	Grant	\$16,620
Questioned Cost, Recovery Recommended	3	3	Grant	\$244,633
Questioned Cost, Recovery Recommended	3	4	Grant	\$7,852

Exhibit B: Sampling Methodology

Objective

This sample is designed to support OIG audit 27703-0001-22. The objective is to develop a random statistical sample to review, analyze sample data collected by the audit team, and provide estimates for a variety of criteria being audited.

Audit Universe

Our universe consisted of SNAP transactions in 48 States and the District of Columbia (we excluded Alaska, Hawaii, and two U.S. territories from review, due to travel and resource considerations). The audit team provided the audit universe to OIG statisticians.

Sample Design

Given the diversity in the data factors and audit resource requirements, several design types were developed that helped us make informed decisions about which design would be appropriate. We considered simple random samples, stratified, and two-stage designs. For this audit, we used a multistage sample design.

Stage 1 – Our audit universe of SNAP transactions comprised 50 U.S. States, the District of Columbia, and 2 U.S. territories - Guam and the Virgin Islands. Based on travel resources, we excluded Alaska, Hawaii, Guam, and the Virgin Islands from the audit universe. To obtain tighter precision for our estimates, we selected a simple random sample of 10 out of the 48 remaining States and the District of Columbia (a total of 49). The selected States were Colorado, New York, Utah, California, Nevada, South Dakota, Louisiana, Idaho, Missouri, and Maine. During the initial State review, our audit team discovered that some States administer the program at the State level, while others administer the program at the county level. Also, some States were not separating Recovery Act expenditures from regular program expenditures. This scope limitation, combined with travel and resource considerations, led us to the decision to stop the sample review after the first six selected States - Colorado, New York, Utah, California, Nevada, and South Dakota - were completed. This reduction of sample size at Stage 1 would still allow us to project our findings. However, the precision of our estimates would potentially be wider.

Stage 2 – Whenever possible, within each State selected at Stage 1, we picked a simple random sample of counties for review. Specific county selections are listed in Table 1 below.

Stage 3 – Within each county selected at Stage 2, we selected a simple random sample of SNAP administrative expenditure transactions for review. Table 1 below provides details regarding Stage 3 sampled units

Table 1: Sample Design Structure

Stage 1 Sample Unit = State)	Stage 2 (Sample Unit = county)		Stage 3 (Sample Unit = transaction)	Additional Information for Units Selected at Stage 3
COLORADO	Eleven out of 64 counties in Colorado received Recovery Act funds. We selected 6 for review.	Larimer	Stratum 1: 20 out of 53	personnel costs
			Stratum 2: 25 out of 177	all other transactions
		Pueblo	Stratum 1: census	special interest selection
			Stratum 2: 6 out of 8	Salaries paid >=\$2,000. Total amount paid in this stratum was \$69,095.22
			Stratum 3: 20 out of 63	Salaries paid <\$2,000. Total amount paid in this stratum was \$36,723.66
		El Paso	Stratum 1: 15 out of 93	transactions (wages) over or equal to 1,000
			Stratum 2: 15 out of 403	transactions (wages) below 1,000
		Jefferson	Simple Random Sample of 20 out of 80	transactions
		Mesa	Stratum 1: 20 out of 81	permanent employees' transactions
			Stratum 2: 8 out of 20	temporary employees' transactions
		Denver	Stratum 1: 20 out of 217	Part-time employees
			Stratum 2: census of 5	full time employees' transactions
NEW YORK	N/A	N/A	N/A	New York merged Recovery Act funding for administration into the regular admin account; there was no separation of the Recovery Act dollars.
UTAH	Census	N/A	2 out of 2	transactions
CALIFORNIA	N/A	N/A	Census of 44 for the Automated Data Processing expenditures only. Separation of funds issue for remaining funds.	California provided Automated Data Processing expenditures but only for about \$1 million over a 2-year period. The remaining dollar amounts were separated as ARRA funding vs. regular non-Recovery Act accounts.
NEVADA	Census	N/A	9 out of 9	transactions
SOUTH DAKOTA	All transactions were at the State level	N/A	Stratum 1: census of 5	certification transactions
			Stratum 2: census of 2	EBT expenses transactions
			Stratum 3: census of 1	other transactions - special interest
			Stratum 4: 20 out of 55	other transactions - random sample

In summary, we selected six States, several counties, and numerous transactions for review. We had no historical information on which to base a sample size calculation. In particular, we did not know where to expect variance to occur. Therefore, in order to calculate a sample size, we had to make an assumption about what level of expected error rate we would find. Our desired precision level was +/- 10 percent, with a 95-percent level of confidence.

Results: The audit team completed their field work and gathered data for analysis. They determined that the issues found were isolated to specific States and regions. No over-arching issues that could be applied to the entire universe at Stage 2 or 3 of selection were found. Some of the findings related only to States at the State level (selection Stage 1). However, our sample was not designed to make a projection from stage 1 data only. We did not select enough States

at that first stage to obtain the precision we need for reporting. Based on the above, we did not use any statistical projections in our report. Our report findings are therefore based on actual issues found, as opposed to estimated values and projections

**USDA'S
FOOD AND NUTRITION SERVICE'S
RESPONSE TO AUDIT REPORT**



**United States
Department of
Agriculture**

Food and
Nutrition
Service

3101 Park
Center Drive
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Alexandria, VA
22302-1500

DATE: May 10, 2013

AUDIT
NUMBER: 27703-0001-22

TO: Gil H. Harden
Assistant Inspector General for Audit
Office of the Inspector General

FROM: /s/ <Jeffrey J. Tribiano> (for): Audrey Rowe
Administrator

SUBJECT: Recovery Act Impacts on Supplemental Nutrition Assistance Program
Phase II

This letter responds to the official draft report for audit report number 27703-0001-22, Recovery Act Impacts on Supplemental Nutrition Assistance Program Phase II. Specifically, the Food and Nutrition Service (FNS) is responding to the two recommendations in the report.

Recommendation 1

Recover \$201,167 from the Nevada Division of Welfare and Supportive Services in FY 2009 expenditures that were claimed for FY 2010.

Agency Response

FNS concurs with the recommendation. Our Western Regional Office staff will follow up with the Nevada Division of Welfare and Supportive Services to give them the opportunity to provide documentation concerning the finding. If it is determined that the cited funds were claimed improperly, the Regional office will be directed to bill the State for the appropriate amount.

Recommendation 2

Recover \$16,620 from the South Dakota DSS in FY 2009 expenditures that were claimed for FY 2010.

Agency Response

FNS concurs with the recommendation. Our Mountain Plains Regional Office staff will follow up with the South Dakota DSS to give them the opportunity to provide

Gil Harden
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documentation concerning the finding. If it is determined that the cited funds were claimed improperly, the Regional office will be directed to bill the State for the appropriate amount.

Recommendation 3

Recover from DHS \$244,633 of Recovery Act funding that was improperly spent in the wrong fiscal year.

Agency Response

FNS concurs with the recommendation. Our Mountain Plains Regional Office staff will follow up with the Colorado DHS to give them the opportunity to provide documentation concerning the finding. If it is determined that the cited funds were claimed improperly, the Regional office will be directed to bill the State for the appropriate amount.

Recommendation 4

Recover the \$7,852 of improper charges to Recovery Act grants at the county level.

Agency Response

FNS concurs with the recommendation. In discussions with our Mountain Plains Regional Office staff, it has been determined that the amount cited was indeed improperly charged to the Recovery Act account. The Regional office will bill the State agency for \$7,852.

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