U.S. Department of Agriculture
Office of Inspector General
Midwest Region
Audit Report

FOOD STAMP PROGRAM ADMINISTRATIVE COSTS FOR THE STATE OF OHIO

Report No.
27099-0020-Ch
SEPTEMBER 2000

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
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DATE: September 5, 2000

REPLY TO
ATTN OF: 27099-0020-Ch

SUBJECT: Food Stamp Program – Administrative Cost for the State of Ohio

TO: Theodore O. Bell
Regional Administrator
Food and Nutrition Service
77 West Jackson Boulevard – 20th Floor
Chicago, IL 60604

This report presents the results of our audit of the administrative costs claimed by the Ohio Department of Human Services under the Food Stamp Program. Your agency's response to the official draft report, dated July 25, 2000, is included in exhibit D, with excerpts and the Office of Inspector General's position incorporated into the Findings and Recommendations section of the report.

Based on the information contained in the response, we have reached management decisions on Recommendations Nos. 1, 2, 3, 4, 5, 7, 8, 10, 12, and 13. Please follow your agency's internal procedures in forwarding documentation for final action to the Office of the Chief Financial Officer.

We have not yet reached management decisions on Recommendations Nos. 6, 9, 11, 14, and 15. Management decisions can be reached when FNS has provided the additional information outlined in the report sections OIG Position, for the applicable recommendations.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing corrective actions you plan to take and the timeframes to address these recommendations. Please note that the regulation requires a management decision to be reached on all recommendations with 6 months of report issuance.

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EDWARD R. KRIVUS
Regional Inspector General

EXECUTIVE SUMMARY

FOOD STAMP PROGRAM
ADMINISTRATIVE COSTS FOR THE STATE OF OHIO

REPORT NO. 27099–0020–Ch

RESULTS IN BRIEF

This report presents the results of our audit of administrative costs claimed by the Ohio Department of Human Services under the Food Stamp Program (FSP). The purpose of the audit was to evaluate Food and Nutrition Service (FNS) procedures to control State FSP administrative costs and to determine if the State agency's cost allocation plan was properly reviewed and approved, if it fairly distributed administrative costs between programs (Federal and State), and if the State was allocating administrative costs already covered by State block grants.

The FNS Regional Office had reviewed the State agency cost allocation plans and provided comments to the cognizant agency. Our review at the State agency and at nine county Departments of Human Services disclosed that a statistical sampling plan was implemented by the State to measure county staff activities and distribute administrative costs to the benefiting Federal and State programs. We found that the random moment sample time study, the statistical method used by the State agency, was not operated in accordance with the approved procedures. In addition, a quality control function to verify the accuracy of the sampling plan was not always properly implemented and, even when it was, it was not effective and did not accomplish the control intended. Because of this, there was reduced assurance that the reported county staff activities represented what the staff was actually doing at the sampled moments and, therefore, the FNS reimbursement of over $18 million in administrative costs to the FSP for the third quarter of fiscal year 1999 was questionable.

The Ohio Department of Human Services had various cost allocation and reporting problems that resulted from internal control weaknesses. These problems led us to conclude that $52,111 of the FSP administrative cost reimbursements that FNS paid were questionable or incorrect.

Specifically, the State agency had:

- Claimed administrative costs from FNS even after the costs had been disallowed by another Federal agency, although the costs similarly impacted the FSP.
- Allocated contracted legal costs incurred for a specific program to an indirect cost pool when those costs should have been charged directly to the benefiting programs.
- Claimed incorrect administrative costs because of simple reporting errors and because of inaccurately compiled electronic benefit transfer program costs.
- Not followed approved operating procedures for the random moments time study even though recent Single Audits of the State of Ohio had reported that condition. Those audits also reported various internal control weaknesses similar to those reported here.

KEY RECOMMENDATIONS

We recommend that FNS require the State agency to ensure that counties operate the sampling plan as required by the State agency's Administrative Procedure Manual; strengthen the internal/statistical controls for the sample; and improve the audit trail for the sample. FNS should recover $52,111 it overpaid the State agency for FSP cost reimbursements. Finally, FNS should provide oversight to ensure that Single Audit findings that impact the FSP are corrected on a timely basis.

AGENCY RESPONSE

In its July 25, 2000, written response to the draft report, the FNS Regional Office agreed with the findings and recommendations contained in the report. We have incorporated applicable portions of the FNS response along with our position with in the Findings and Recommendations section of the report. The agency's response is included as exhibit D of the report.

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INTRODUCTION

BACKGROUND

Congress passed the Food Stamp Program (FSP) to promote the general welfare, and to safeguard the health and well being of the Nation's population. The FSP does this by raising the nutritional level of low-income families by providing monthly benefits to needy households that meet specific income, asset, and employment-related eligibility that permits the purchase of additional food items The amount of benefits received by a household is based on the household's size and income. The FSP is a Federal/State partnership with the Federal Government paying the full cost of benefits and at least 50 percent of the cost to administer the program.

In the U. S. Department of Agriculture, the Food and Nutrition Service (FNS) administers the FSP through agreements with State agencies. The Ohio Department of Human Services (State agency) is responsible for administering the program in Ohio through 88 counties that are responsible for determining the eligibility and amount of benefits issued to approved applicants.

In fiscal year (FY) 1999 the SA issued about $552 million in food stamp benefits to 293,372 households containing 639,786 people. The State agency also received $72,682,471 for the matching Federal share of the FSP administrative costs. These administrative costs were certification costs, nutritional education costs, benefit issuance costs, quality control costs, anti-fraud costs, and hearing costs. The State agency based its direct and indirect administrative costs upon a cost allocation plan (CAP) that it prepared. The cognizant Federal agency, the U. S. Department of Health and Human Services (HHS), reviewed and approved the CAP; however, FNS had an opportunity to review the CAP and provide comments to HHS. The State agency distributed county administrative costs among benefiting programs based upon random moment sample (RMS) time studies. The RMS approximated the amount of time that county personnel spent on cases related to each Federal or State program.

Congress has revised the method for funding of FSP administrative costs in recent years. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (Welfare Reform Act) replaced the Aid to Families with Dependent Children (AFDC) Program with the Temporary Assistance for Needy Families (TANF) Program. TANF is a block grant program that serves AFDC's target population. The act based each State's block grant on the State's prior AFDC spending levels, including spending for common administrative costs. Previously, much of the Nation's federally funded public assistance was delivered under three programs; AFDC, FSP, and Medicaid. States usually charged certain administrative costs considered common to all three programs – such as participant eligibility determinations – to AFDC.

The Agricultural Research, Extension, and Education Reform Act of 1998 (Ag Reform Act) reduced the Federal reimbursement for FSP administrative costs from FY 1999 through FY 2002. The act required HHS, which administers TANF and Medicaid, to determine how much of the common administrative costs for determining eligibility, that were previously charged to AFDC, could have been charged to the FSP and Medicaid in each State. The act also required USDA to reduce future Federal reimbursements of state's administrative costs for the FSP by an amount equal to the HHS determinations of the common administrative costs attributable to the FSP that had been charged by each State to AFDC. FNS began making the reductions to State FSP reimbursement claims in FY 1999 and is to continue making the reductions annually through FY 2002.

OBJECTIVES

The overall audit objective was to evaluate FNS' procedures to control State FSP administrative costs, and to determine whether allocation plans were properly reviewed and approved and that they fairly distributed administrative costs between programs. We also determined if the State was allocating administrative costs that were already covered under the State block grant.

SCOPE

We audited the State agency's claim for FSP reimbursements of administrative costs for the third quarter of FY 1999. Outlays reported for the quarter totaled $58,877,379. We also reviewed other periods as we considered necessary to achieve the audit objectives.

We performed our audit at the FNS Regional Office (FNSRO) in Chicago, Illinois, and the Ohio Department of Human Services (State agency) in Columbus, Ohio. Also, we visited County Departments of Human Services in Allen, Clark, Delaware, Franklin, Mahoning, Pickaway, Richland, and Stark Counties. The counties visited were selected judgmentally to obtain a cross-section of large and small counties from across the State, in order to assess the operation of the RMS timestudy. We performed our fieldwork from July 27 through December 20, 1999.

We performed the audit in accordance with generally accepted government auditing standards.

METHODOLOGY

To accomplish our audit objectives, we:

- Reviewed regulations, policies and procedures governing FSP administrative costs, including Code of Federal Regulation (CFR) Titles 7, and 45, and the applicable Office of Management and Budget (OMB) circulars;
- interviewed FNSRO officials;
- reviewed recent financial management evaluations of Ohio and the State agency's CAP at the FNSRO;
- reviewed the State agency's administrative procedures manual;
- reviewed internal audit reports for the State agency to identify issues concerning the allocation of State administrative costs;
- reviewed the State agency accounting records, and analyzed charges and reimbursement claims made to the FSP during FY 1999;
- reviewed the results of State and local level audits performed under the Single Audit Act to identify issues concerning the allocation of State administrative costs;
- interviewed State and county officials responsible for recording and reporting administrative costs and completing the RMS; and
- reviewed a sample of FSP case files at selected county agencies to confirm RMS data.

FINDINGS AND RECOMMENDATIONS

CHAPTER 1	RANDOM MOMENT SAMPLING PROCEDURES WERE NOT FOLLOWED

FINDING NO. 1

The State agency had not properly implemented the RMS time study used to measure county income maintenance staff activities and as the basis for distributing indirect costs to benefiting programs. RMS forms were not properly distributed to the selected sample employees and revisions to completed sample forms were made by unauthorized personnel. Control sample forms were not properly completed and the control function the sample was to accomplish was not known at either the State or county levels and thus was not properly utilized. In addition, the audit trail specified in RMS procedures did not provide for confirmation of the program entered on the observation forms that were completed for each random moment. This occurred because county officials were not always aware of approved operating procedures and because established controls were not implemented or were not effective. As a result, the State agency allocated questionable costs of about $36.3 million in the quarter ending June 1999 to the FSP and collected related reimbursement of $18.1 million from FNS.

OMB Circular No. A-87 established principles and standards for determining costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments. It provided that the distribution of the salaries of employees working on multiple activities must be supported by personal activity reports, unless a statistical sampling system had been approved by the cognizant Federal agency.

HHS approved the State agency's use of RMS techniques as the basis for allocating indirect cost to the various Federal and State programs in Ohio, including the FSP. For each 3-month period, the State agency generated a list of randomly selected minutes for each county. The random minutes, referred to as random moments, represent a statistically valid cross-section of work actually being performed throughout the entire workforce during the quarter. The randomly selected moments included the employees for each county to use in the actual sample collection process.

The State agency documented the procedures that were to be used to operate the approved RMS method in the Administrative Procedure Manual (APM). If followed, the results of the sampling process would be statistically valid, as would be the resulting cost allocations. The "moments" that were the bases of this sampling method were randomly selected dates and times (to the minute) for randomly selected income maintenance employees in each county. Each selected worker was to complete an observation form listing the program worked on, and the activity performed for that program, on the selected date and at the selected time. The data reported on the observation forms was summarized for each county and used by the State agency to allocate common administrative costs among the benefiting programs in each county. The State agency had selected some of the random moment samples in each county as a quality control group to monitor the results of the entire sample.

We visited nine counties selected judgmentally from around the State to determine how the RMS operated and if controls were effective to ensure sampling accuracy. We interviewed the RMS coordinator in each county regarding the handling of the RMS observation forms, including the distribution of the forms to the sampled income maintenance workers, and the completion of the control samples. We also reviewed recently completed RMS observation forms to determine if they were properly completed, and case information from a sample of the observation forms to determine if documentation supported the entries on the observation forms. We noted the following deficiencies that brought RMS sample results into question.

- Coordinators in five of the nine counties had not ensured the forms were distributed to the sampled workers on a timely basis. The APM specified that the observation forms were to be distributed "at or very near to the moments specified in the sample." We found that the observation forms were provided to workers hours, days, even up to a month, ahead of the sample moments. Coordinators in the five counties most commonly distributed the forms to the applicable workers at the beginning of the day or at the beginning of the week in which the moments occurred. In one county, the coordinator distributed the RMS observation forms to income maintenance supervisors, several of whom, in turn, distributed the forms to the applicable workers up to a month prior to the sample moments.

As a result, the sample may be biased because the workers had the observation forms for extended periods prior to the moment that was to be sampled. The State agency had no assurance that information provided on the observation forms represented what the sampled workers were actually doing at the selected random moments.

- We noted that previously completed RMS observation forms were revised by unauthorized individuals in four of the nine counties visited. The APM provided that "…only the individual completing the observation form may revise it if a mistake is identified." We found that some forms were revised, even completed in their entirety, by the applicable RMS coordinator in three counties and by an income maintenance supervisor in a fourth county. Revisions were not confirmed with the applicable workers. During our review of recently completed RMS observation forms in one county, we found several forms that were completely blank except for the sampled workers' initials. When we questioned what data was provided to the State in such circumstances, the coordinator stated that she would review the workers activities that day through the computer system used for case management. She stated that she could not be sure of the time in all cases. We observed that because workers handled multiple programs, the coordinator could also not always be sure of the program that should have been charged. In another county, the income maintenance supervisor who distributed some RMS observation forms stated that prior to returning completed forms to the coordinator she would review them and make changes or corrections she believed necessary.

  As a result of the unauthorized revisions to the RMS observation forms, there was reduced assurance that the information provided regarding programs and activities worked on represented what the workers were actually doing at the sampled moments.

- We noted that the RMS coordinators in five of the nine counties visited had not properly completed control samples required by the State agency as a method of quality control. Coordinators were to personally interview the selected workers at the applicable random moments and complete observation forms based on those interviews. The workers sampled had been selected as a quality control group to monitor the results of the entire sample. The APM stated that, "As a method of quality control, four percent of all income maintenance RMS samples are selected as a control group." It required that "… the coordinator asks the individual which program or activity they are working on at the specified moment and completes the observation form personally." This was to assure sampling accuracy, form completion, and quality control. The coordinators passed the control sample observation forms to the applicable workers with the regular RMS observation forms, for completion at the selected random moment. The coordinators stated that they had not completed the observation forms for control samples because they were not aware they were required to do so. One coordinator stated she did not have the time to complete the forms, so she passed them to the sampled workers for completion.

Neither the coordinators in the counties visited nor the State agency personnel responsible for the management of the RMS were aware of the purpose of the control random moments. State agency personnel stated that no analysis was performed of the results of the control random moments and could not explain how the control random moments were used to assure sampling accuracy, form completion, and quality control.

As a result, the control that was supposed to assure sampling accuracy, form completion, and quality control was not effective because it was not always used. In addition, when it was used, when the coordinators did conduct the required interviews and complete the random moment observation forms, the control accomplished nothing because the results of the control sample were not analyzed.

- The required audit trail was not sufficient to enable data on the random moment observation forms to be confirmed. The APM stated that, "Case numbers or other numbers establishing case/client identity must also be provided when applicable to form an audit trail." During our reviews at the 9 counties visited, we judgmentally selected 109 random moments from our review of recently completed observation forms that provided case numbers. We reviewed the case files or the computerized records to determine if the programs recorded on the random moment observation form could be confirmed at the moments specified. Although the APM specified that the observation forms were to be distributed at or very near to the moments specified in the sample, we considered documentation of work on the FSP up to an hour before or an hour after the random moment to be confirmation of the random moment observation form as completed.

  In 8 of the 9 counties visited, we could not confirm that employees had actually worked on the programs listed on the observation forms at the date and time specified for 89 of the 109 random moments selected. We noted three instances, involving two county agencies, where documentation indicated workers were not working on the FSP.

Representatives of the applicable county agencies, with whom we reviewed computerized records, confirmed that programs other than the FSP should have been recorded on the observation forms. We found no documentation to support work on any specific program on the day of the sample in 42 instances. In another 44 instances, we noted worker activity in the case the day of the sample, but could not confirm the time specified in the sample or the program worked on.

As a result of the inadequate audit trail, we could not confirm over 80 percent of the sample random moments reviewed. While the audit trail provided by the case number established case/client identity, it was not sufficient to establish the date and time and seldom established the program being worked on at the random moment identified. At a time when workers were responsible for only one program, this audit trail may have been sufficient. However, workers currently are responsible for a myriad of programs, both Federal and State, that each client can participate in. Without a more effective audit trail, reviewers cannot ensure that the program and activity recorded as being performed at the specified random moment are correct.

- The universe from which the quarterly RMS samples were selected included unauthorized positions. We found that county agencies reported vacant, supervisory, and other questionable positions to the State agency for inclusion in the RMS time study. The APM states that positions that were vacant and would not be filled during the reporting quarter should not be reported to the State with the employee roster. It also states that all income maintenance positions should be reported that perform "…directly related program functions, with the following exceptions: administrative, supervisory (unless a supervisor actually works a caseload), or administrative support." We found that at least five counties included vacant positions that were not going to be filled in the quarter. The coordinators told us that the counties did not want to lose the positions and so continued to report them. Vacant positions were reported on the RMS observation form as an "invalid response," which was distributed to all programs including the FSP. One county included income maintenance assistants and supervisory positions in their roster reported to the State agency, although the supervisors had no individual caseload. Another county included questionable positions such as auto mechanic, vehicle operator, and work program specialist, although none of these workers entered case/client identity information on RMS observation forms they completed. We question if they performed any functions directly related to the programs charged.

The most recent State of Ohio Single Audit report, for the year ended June 30,1999, includes similar findings regarding the RMS system. The report found that income maintenance employees had not always initialed completed RMS observation forms and those RMS samples identified for a personal interview by the coordinator were not always initialed by the coordinator. In addition, RMS coordinators in 4 of 10 counties visited had not realized that the interviews were required and therefore had not implemented control activities. The report concluded that the counties limited their ability to reasonably ensure the information contained within the RMS forms was accurate and indicative of employee activities. Previous Single Audits also reported deficiencies at the county level in complying with RMS operating procedures.

We believe the deficiencies noted in our review and the Single Audits demonstrate that RMS results cannot be relied upon to represent a valid measure of county staff activities regarding the income maintenance programs. The deficiencies would therefore impact the allocation of indirect costs to the counties for all programs. OIG's statistician confirmed that the deficiencies we noted would undermine the statistical validity of the sample for the RMS time study. Therefore, we question the costs allocated to the FSP using the RMS system for the third quarter of FY1999 that amounted to $36,393,459, of which FNS paid $18,196,729.

Because the RMS impacts all programs operated at the county level, FNS should make HHS, who is cognizant, aware of the problems identified in this audit report.

RECOMMENDATION NO. 1

Require the State agency to ensure that counties operate the RMS in compliance with the Administrative Procedure Manual.

Agency Response

In its July 25, 2000, response, FNS agreed with the recommendation and will require the State to comply with random moment sample procedures. FNS stated that they will review State level random moment sample controls and operations during a financial review that will be completed no later than May 2001. FNS also stated that they would require the State to perform a compliance review of random moment sample operations at the county level during management evaluations performed for Federal fiscal year 2001.

OIG Position

Based on FNS' corrective action, we accept management decision for this recommendation.

RECOMMENDATION NO. 2

Require the State agency to provide periodic training to all coordinators on RMS procedures to be followed. Newly appointed coordinators should be provided training in RMS procedures immediately.

Agency Response

FNS agreed with the recommendation and will require the State agency to conduct random moment sample training and will review the training efforts of the State staff during the next financial review to be completed no later than May 2001.

OIG Position

Based on FNS' response, we accept management decision for this recommendation.

RECOMMENDATION NO. 3

Instruct the State agency to strengthen the internal/statistical control for the RMS. The State agency should identify and make clear the purpose of the control sample and ensure, through its management evaluation process, that it is properly implemented for sampling accuracy, form completion, and quality control.

Agency Response

FNS agreed with the recommendation and will assess the State random moment sample internal/statistical controls during the next financial review to be completed no later than May 2001. FNS will also advise the State management evaluation staff to include a compliance review of county RMS processes, including the control sample, during their Federal fiscal year 2001 management evaluation reviews. FNS stated they would review the management evaluation efforts during the next review of State financial operations.

OIG Position

Based on FNS' response, we accept management decision for this recommendation.

RECOMMENDATION NO. 4

Require the State agency to improve the audit trail requirement in the RMS time study procedures by requiring some form of documentation to support the data on the observation form in the case file or case computer record.

Agency Response

FNS agreed with the recommendation and will require the State to strengthen the audit trail requirement. At a minimum, caseworkers will be required to document in the case record or computerized notes what the caseworker was doing during the sampled random moment. FNS will advise the State management evaluation staff to include an examination of random moment sample documentation during their Federal fiscal year 2001 management evaluation reviews. FNS stated they would review the State management evaluation review efforts during the next review of State financial operations which will be completed not later than May 2001.

OIG Position

Based on FNS' response, we accept management decision for this recommendation.

RECOMMENDATION NO. 5

Include coverage of random moment sampling procedures in all future State level operational reviews and ensure the State agency has taken timely corrective actions on the problems noted herein.

Agency Response

FNS agreed with the recommendation and will include an assessment of random moment sample procedures and corrective actions during future financial and/or operational reviews; with the first review to be completed by May 2001. FNS will also advise the State agency to include an examination of random moment sample control weaknesses during their county level management evaluations.

OIG Position

Based on FNS' response, we accept management decision for this recommendation.

CHAPTER 2	INADEQUATE INTERNAL CONTROLS

The State agency had several cost allocation problems that result from internal control weaknesses within the agency. Specifically, the State agency:

- Had not adjusted cost claims for the FSP, and other Federal programs, for costs disallowed by the Health Care Financing Administration (HCFA);
- had not allocated contracted legal expenses directly to the benefiting program; and
- had not accurately reported FSP administrative costs to FNS.

These conditions occurred because the State agency did not have sufficient internal controls to identify the conditions and, once identified, to prevent the conditions from recurring. Further, the State Auditor had identified some of these internal control weaknesses in the FSP, and in other programs, in their Single Audits for FY's 1997, 1998, and 1999. In particular, the State Auditor noted many instances where an adequate system of second party/supervisory review would have detected and prevented simple reporting errors, such as math errors and entering the wrong numbers in reports. We found similar errors in the administrative cost reports for the Ohio FSP for the third quarter of FY 1999.

FINDING NO. 2

THE STATE AGENCY DID NOT DISTRIBUTE AUDIT ADJUSTMENTS OR CORRECTIONS TO THE FSP

The State agency did not make the necessary adjustments to the accounting system and Federal financial reports to reflect audit findings that impacted the FSP and other Federal programs. HCFA had identified unallowable expenditures that had been allocated to Medicaid and other programs during the first three quarters of FY 1999. Although the unallowable expenditures were also allocated to the FSP and other programs, the State agency had made the needed adjustments to correct only the HCFA financial reports. As a result, the State agency overcharged the FSP by $96,238 and was overpaid $48,119 in Federal matching funds.

Federal regulations[1] prescribe the standards for financial management systems state agencies must meet. The standards include providing for records that identify unallowable costs as a result of FNS or other determinations, including audits and investigations, and providing for accounting procedures to prevent the claiming of these unallowable costs.

[1] CFR Title 7, Section 277.6 and OMB Circular A-87, Attachment E.

The regulations also provide that to be allowable, cost must not be allocable to or included as a cost to any other Federally-financed program.

As part of our review of the CAP and whether it fairly distributed administrative costs between programs, we examined quarterly audits of Medicaid Program expenditures performed by HCFA. The audit reports annotated corrections to cost pools and made recommendations to the State agency to adjust the accounting records for administrative costs charged to Medicaid. We observed that many of the requested adjustments to Medicaid costs would similarly affect FSP administrative costs. However, while the State agency made the required revisions to correct Medicaid financial reports, no corrections were made for the FSP.

For example, HCFA requested a revision to Medicaid for an expenditure of $99,586 that should have been a direct charge to TANF. This revision also affected the FSP because the expense was initially charged to cost pool 04; costs from which the FSP was allocated at the rate of 31.61 percent. Therefore, the FSP was overcharged $31,479 [$99,586 x 31.61 percent] resulting in the State agency being overpaid $15,740. In another instance, HCFA determined an expenditure of $683,917 had been charged to cost pool 01 but should have been charged to cost pool 06. The State agency corrected the accounting records and financial report for Medicaid, but did not make a similar adjustment for the FSP. The allocation to the FSP was 11.3 percent in cost pool 01 but only 8.0 percent in cost pool 06. We calculated the overcharge to the FSP as $22,570 [(683,917 x 11.3 percent) – (683,917 x 8.0 percent)] resulting in an overpayment to the State agency of $11,285.

In total, the State agency overcharged the FSP $96,238 because of revisions to Medicaid charges identified by HCFA and made by the State agency during the first three quarters of FY 1999. Exhibit B provides a breakdown of the unallowable expenditures and the resulting effect to the FSP. To ensure the adjustments were fair and equitable, we adjusted the errors by reflecting the correct cost pool allocation, percentage, and administrative cost. A State agency official confirmed that the revisions made for Medicaid were not similarly made to FSP and that the financial reports to FNS were not correct. Based on the 50-50 reimbursement for federal funding, the State agency was overpaid $48,119.

RECOMMENDATION NO. 6

Recover $48,119 of FY 1999 Federal funds overclaimed because the State agency had not made the necessary adjustments to reflect Medicaid audit findings that impacted the FSP.

Agency Response

In its response, FNS agreed with the recommendation. FNS will bill the State agency $48,119 within 7 days of the issuance of the audit report and will provide OIG with documentation of the billing.

OIG Position

We can achieve management decision when FNS provides documentation of the State agency billing.

RECOMMENDATION NO. 7

Require the State agency to develop accounting procedures to ensure that adjustments made for Medicaid and other appropriate audit findings are applied to the FSP.

Agency Response

FNS agreed with the recommendation. FNS will examine Medicaid adjustments during the next State level financial review to ensure that FSP accounts were properly adjusted. During the next financial review, which will be completed not later than May 2001, FNS will also assess the adequacy of the controls the State implements.

OIG Position

Based on FNS' response, we accept management decision for this recommendation.

RECOMMENDATION NO. 8

Include coverage in future financial management evaluations to ensure the State agency timely corrects Food Stamp Program financial reports when Medicaid and other audit findings impact the Food Stamp Program.

Agency Response

FNS agreed with the recommendation. FNS will consult with Health Care Financing Administration auditors and will examine Medicaid adjustments to ensure that FSP accounts are properly adjusted during the next financial review, which will be completed not later than May 2001, and all subsequent State level financial reviews.

OIG Position

Based on FNS' response, we accept management decision for this recommendation.

FINDING NO. 3

THE STATE AGENCY HAD NOT DIRECTLY ALLOCATED CONTRACTED LEGAL EXPENDITURES

The State agency had not charged contracted legal expenditures to the benefiting program, but had included them as indirect costs allocated to all programs. This occurred because the State agency had not established accounting controls and procedures to allocate legal costs to the benefiting program or cost objective as required by Federal regulations. As a result, the State agency misallocated $47,847 in direct legal expenditures, and allocated $4,283 of this amount to food stamp administrative costs. Consequently, the State agency was overpaid $2,142 by FNS for these legal expenditures for FY 1999.

OMB Circular A-87, Attachment A, is the primary guidance for determining the cost of Federal programs. Section E. 1. of that circular defines direct costs as those costs that can be identified specifically with a particular final cost objective. Section F. 1. of that circular defines indirect costs as those: (a) Incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. Additionally, CFR, Title 7, Section 277.6, provides accounting regulations for programs funded by the Federal Government.

We reviewed indirect costs by examining payment vouchers allocated to cost pool 06, the cost pool for indirect charges that could not be allocated to any other cost pools. We sampled 42 vouchers from the Central Accounting System (CAS) ledger for the third quarter of FY 1999, and noted questionable expenditures for legal services. We reviewed the attorney's contract and the source documents for the questionable costs, and determined that the contracts hired an attorney to work on specific programs, such as Medicaid or Child Care. However, the State agency had allocated the legal costs as indirect charges to cost pool 06. The Chief of the Bureau of Accounting said the State agency allocated all charges for legal services to cost pool 06 because the CAP included the costs of the Office of Legal Services in that pool. Further, the Chief said there was not a procedure in place to identify legal costs by contract, and benefiting program. Although the Office of Legal Services was an internal legal department that benefited many programs, and so should be allocated to cost pool 06; these legal contracts were not equivalent costs to the costs of that office.

We expanded our sample to include the first, second, and fourth quarters of FY 1999 and identified other payment vouchers for the same attorneys. We reviewed these payment vouchers and found the similar direct expenditures charged as indirect costs. In total for FY 1999, we identified $47,847 of direct legal expenditures that the State agency had allocated as indirect costs. As a result of these misallocations, the State agency over-allocated $4,283 to the administrative costs of the Food Stamp Program, and, so, received excess reimbursements from FNS of $2,142 for FY 1999. See exhibit C.

We had also reported that legal expenses had not been allocated correctly in our previous audit of Ohio FSP administrative costs.

RECOMMENDATION NO. 9

Recover $2,142 for the excess reimbursement of legal costs.

Agency Response

In its July 25, 2000, response, FNS agreed with the recommendation and will bill the State agency $2,142 within 7 days of the issuance of the audit report. FNS will provide OIG with documentation of the billing.

OIG Position

We can achieve management decision when FNS provides documentation of the State agency billing.

RECOMMENDATION NO. 10

Require the State agency to implement procedures to charge legal costs incurred for a specific program as direct costs to that program.

Agency Response

FNS agreed with the recommendation. FNS will assess the State's direct and indirect cost controls and procedures during the next State level financial review, which will be completed not later than May 2001.

OIG Position

Based on FNS' response, we accept management decision for this recommendation.

FINDING NO. 4

INTERNAL CONTROL PROCEDURES DID NOT ENSURE THE ACCURACY OF FSP ADMINISTRATIVE COST REPORTING

The State agency inaccurately reported administrative costs for the FSP to FNS for the quarter ending June 1999. Specifically, the State agency erroneously claimed Food Stamp Reinvestment Program costs for Federal reimbursement, used the wrong number of Title IV recipients to allocate cost pool 04 costs, and misclassified EBT costs. This occurred because the State agency did not have adequate supervisory/second party review, or similar internal control procedures, to identify and prevent cost reporting errors. The State Auditor reported similar internal control weaknesses in the FSP, and other programs, in the Single Audit reports for FY's 1997, 1998, and 1999. As a result of these reporting and allocation errors, the State agency received $1,850 in excess FSP reimbursements. Additionally, the State agency underreported total EBT costs, but not total FSP costs, to FNS by about $450,000 for the quarter ending June 1999. Thus, this EBT reporting error did not cause a reimbursement error, but did understate the cost of an activity, EBT, that FNS was tracking.

CFR Title 7, Chapter II, Part 277, Section 277.6 (b) requires State agencies to maintain accurate, current, and complete financial records of the State program activities.

<u>Food Stamp Reinvestment</u> - We tested the State agency's CAP by sampling 5 of the 19 active cost pools for the quarter ending June 1999. During this review, we found that cost pool 1 contained a $5,806 entry for Food Stamp Reinvestment, a program that should be paid only with State funds. State agency officials ascribed this mistake to a clerical error. As a result of this misallocation, the State agency overstated FSP costs $4,682 for the quarter, and received $2,341 in excess FSP reimbursement from FNS.

<u>Title IV recipients</u> – The State agency incorrectly allocated costs from cost pool 04. It made this allocation error because it posted the wrong number of Title IV recipients to the cost pool spreadsheet. The State agency then allocated costs from the pool using this incorrect number. Specifically, the State agency posted 9,532 recipients, instead of 21,532 recipients, for the third quarter. As a result of these erroneous allocations, the State agency underclaimed FSP costs by $982, and FNS under-reimbursed the State agency by $491 for the quarter.

<u>EBT Costs</u> – The State agency underreported EBT costs by $450,000 for the quarter ending June 1999. Instead of charging these cost to the EBT account, the State agency charged these costs to "other food stamp costs." The underreported accounts and amounts were:

Account Number	Account Title	Amount
Account 200-521	EBT Reissuance	$ 45,227
Account 200-522	EBT Other	59,817
Account 205-521	EBT Reissuance	52,494
Account 205-522	EBT Other	296,131
Total		$453,669

This discrepancy did not result in an overcharge to FNS.

We discussed this situation with an official from the County Finance Section of the State agency. The official said this situation was an oversight and the EBT costs should have been reported with other EBT costs, instead of as other FSP costs. Later, another official of the County Finance Section informed us that the State agency had changed the appropriate accounting practices to properly account for EBT costs.

The State Auditor of Ohio cited the State agency for various internal control problems in State administered programs, including the FSP, in the Single Audit Reports for 1997, 1998, and 1999. The internal control findings in those three audit reports cite conditions similar to the conditions that we noted in the above finding. Specifically, errors that should have been caught by an adequate supervisory/second party review process. Therefore, the State agency has an internal control problem that crosses program lines and that needs to be corrected in order for the State agency to have accurate and complete financial records, as required by Federal regulations, and to file accurate and complete reports to FNS and other Federal agencies.

RECOMMENDATION NO. 11

Recover the $1,850 in excess FSP reimbursements that resulted from misallocated FSP costs in the quarter ending June 1999.

Agency Response

In its July 25, 2000, response, FNS agreed with the recommendation. FNS will bill the State agency $1,850 within 7 days of the issuance of the audit report and will provide OIG with documentation of the billing.

OIG Position

We can achieve management decision when FNS provides documentation of the State agency billing.

RECOMMENDATION NO. 12

Require the State agency to implement internal control processes that reasonably ensure the accuracy and completeness of quarterly FSP claims and reports.

Agency Response

FNS agreed with the recommendation. FNS will require the State agency to implement internal control processes and examine these controls in subsequent financial reviews.

OIG Position

Based on FNS' response, we accept management decision for this recommendation.

RECOMMENDATION NO. 13

Verify that the State agency is now accurately reporting EBT costs, and request an accurate report of prior EBT costs.

Agency Response

FNS agreed with the recommendation. FNS will request a full accounting of EBT cost data since the system became operational. FNS will examine EBT cost reporting controls and procedures during the next financial and EBT cost neutrality review which will be completed not later than May 2001.

OIG Position

Based on FNS' response, we accept management decision for this recommendation.

RECOMMENDATION NO. 14

Require the State agency to take corrective actions in response to Single Audit findings related to administrative costs that impact the Food Stamp Program.

Agency Response

FNS agreed with the recommendation. FNS will require the State agency to take immediate corrective action on all FSP administrative cost items listed in the State's Single Audit Report for the year ending June 30, 1999. FNS will also closely review these items in the next year's Single Audit.

OIG Position

We can achieve management decision when FNS provides the date when the State was notified to ensure corrective action is taken on all FSP administrative cost items.

CHAPTER 3	THE STATE AGENCY HAD NOT INCLUDED RECURRING COSTS IN ITS CAP

FINDING NO. 5

The State agency had not included some recurring costs in its CAP, but had treated these costs as exceptions to the CAP. We identified $8,119,307 of such exceptions for FSP costs that the State agency had allocated during the third quarter of FY 1999. As a result, the FNS cannot be sure that the State agency had consistently allocated administrative costs to the FSP

Title 45 of the CFR explains that a State agency which intends to claim administrative costs for Federal reimbursement must have a CAP which describes the procedures that it used to identify, measure, and allocate all costs to each of the programs operated by the agency. The CFR states that the agency should have an adequate accounting and statistical system to support claims that will be made under the CAP. Additionally, it states the agency may amend the CAP, and the effective date of a CAP amendment will be the first day of the calendar quarter following the date of the event that required the amendment. However, the agency may implement a CAP revision at any time, at the risk of the cognizant agency disapproving the amendment, and denying cost reimbursements claimed under the amendment.

We reviewed the costs that the State agency claimed as FSP administrative costs on the financial report (SF-269) for the quarter ending June 1999. Then, we compared these costs to the State agency's CAP that FNSRO supplied to us. We reviewed $25,658,942 of allocated costs, and noted that the State agency had allocated $8,119,307 of costs differently that it had described in the CAP. If the State agency had allocated these $8,119,307 of costs as stated in the CAP, then the State agency would have received $186,258 less in FSP cost reimbursements from FNS for the quarter ending June 1999.

We discussed these differences with State agency officials responsible for preparing the CAP and the SF-269 report, and they stated that the CAP was a loose framework upon which they allocated costs to benefiting programs, not a strict plan from which they could not deviate. Also, they said that they had allocated costs to the benefiting programs properly, even if they had deviated from the CAP. Additionally, they said that they had amended the CAP as a response to reorganizations in the State agency, and that they had made many changes in their allocations in response to audit findings by the HFCA, which audited them quarterly. Finally, they said that if we reviewed the invoices and supporting documentation for the $8,119,307, then we would agree that they had properly allocated these costs to the benefiting programs.

Also, we discussed this issue with an official of HHS's Division of Cost Allocation (DCA), the cognizant agency that reviews the State agency's CAP. The DCA official said that the CAP adhered to Federal regulations for what should be in a CAP; however, the State agency should not be changing the CAP in the middle of the quarter and was deviating from the CAP more often than it needed to. He said the CAP should tell how the State agency intended to allocate recurring transactions.

After these discussions, we reviewed invoices for $7,545,957 of the $8,119,307 of questioned allocations. The purpose of this review was to determine if the State agency reasonably allocated the cost items to the benefiting programs, and if the cost items were recurring transactions that the State agency should have included in the existing CAP. We concluded that the allocations were reasonable; however, some items were recurring transactions that should have been included in the existing CAP. For example, the State agency should have allocated a $1,528,828 transaction for the Bureau of Network Support to cost pool 01, according to the existing CAP; however, the State agency had allocated this transaction to cost pool 05, County Operations, as an exception to the CAP. State agency officials explained that the county licenses and agreements expense was allocated to cost pool 05 because the expenditure benefited and was related to County Operations. We agreed; however, these expenses would recur periodically and, therefore, they should have been included in the existing CAP as an allocation to cost pool 05, not cost pool 01. Based upon our review, we concluded that the State agency was properly allocating the costs that we reviewed; however, we had two concerns. First, the CAP did not include some recurring transactions in its allocations. Second, the State agency made many changes and exceptions to the allocations stated in the CAP. These changes and exceptions increased the likelihood that the State agency was not consistently allocating similar costs from one year to another, and from one quarter to another.

The Auditor of the State of Ohio (Ohio Auditor) found similar problems, and reported them in the Single Audit report for FY 1999. The Ohio Auditor stated that the State agency's approved CAP for FY 1999 allocated approximately $170 million in indirect costs to various Federal programs. The Ohio Auditor tested five cost pools (representing approximately 80 percent of the charges from the 29 cost pools in the plan) for the quarter ending March 1999, and found numerous instances where the State agency charged spending responsibility centers that did not agree with those identified in the CAP for that particular cost pool. The Ohio Auditor concluded that, although these costs may have been allowable for allocation, there was no evidence to indicate that the Federal Government had approved these changes. As a result, there was an increased risk that the State agency could incorrectly allocate indirect costs to federal programs. The Ohio Auditor noted that this situation could result in grantor agencies questioning the State agency's costs claims and /or imposing penalties on the State agency

RECOMMENDATION NO. 15

Require the State agency to include recurring costs in the cost allocation plan and to treat these costs consistently in the future.

Agency Response

In its July 25, 2000, response, FNS agreed with the recommendation. FNS will direct the State agency to take immediate action to include recurring costs in the cost allocation plan and to apply these costs consistently from quarter to quarter.

OIG Position

We can reach management decision when FNS provides the date the State agency will be notified regarding the required actions.

GENERAL COMMENTS

In 1996, the Welfare Reform Act replaced the AFDC Program with the TANF Program. Where AFDC had been an entitlement program, TANF was a block grant program. The amount of each State's grant was based on the State's prior AFDC spending that included spending for common administrative costs. Most States allocated at least some common administrative costs related to qualifying individuals applying for or receiving benefits under multiple public assistance programs – AFDC, FSP, and/or Medicaid – to AFDC for Federal reimbursement. While there was no limit to Federal matching of State administrative costs attributable to AFDC, the amount of each State's TANF block grant is fixed. Previously, States could charge common costs, such as certification for AFDC, Food Stamps, and Medicare, to AFDC as the "primary program."

Congress based the amount of the TANF grants on State's prior AFDC expenditures that could have included common costs of AFDC, FSP, and Medicaid charged to AFDC as the primary program. With the passage of the Agricultural Research, Extension, and Education Reform Act of 1998 (Ag Reform Act), States were to use the "benefiting program" concept of cost allocation beginning in 1999. Under this concept, States were to allocate common costs to programs in proportion to the benefit received by the program. Therefore, the TANF grants included reimbursement for costs that would now be allocated to the FSP or Medicaid under the "benefiting program" concept. As a result, the States could receive double reimbursement for the FSP/Medicaid portion of administrative costs. Congress intended that the Ag Reform Act prevent such double payment by requiring HHS, which administers both TANF and Medicaid, to determine how much of the common administrative costs for determining eligibility that were previously charged to AFDC could have been charged to the FSP and Medicaid. Congress also required USDA to reduce future federal reimbursements of States' administrative costs for the FSP by an amount equal to HHS' determination for this program. The Ag Reform Act also required that the General Accounting Office (GAO) review and report on the adequacy of HHS' methodology for making its determinations.

GAO completed its review and noted that the HHS determinations of the portion of common administrative costs that could have been allocated to the FSP annually exceeded, in aggregate, the States' own estimates by $61 million. The States had estimated that about $166 million was included in their TANF block grants for common administrative costs attributable to the FSP. This contrasted with HHS' determination that this annual amount totaled $227 million. Because HHS' determinations are final, USDA reimbursements to the States under the FSP will be reduced by this amount annually, even though such determinations are subject to an administrative appeal process and 40 States have appealed HHS' determinations.

On January 15, 1999, HHS issued its determination letters to the States for each State's annual payment adjustment amount for the FSP. HHS determined this annual adjustment to be $5,840,000 for Ohio. Therefore, the

State agency will need to reduce its claims to FNS for FSP administrative cost reimbursements by $5,840,000 per year. The State agency has appealed the HHS determination; however, FNS and the State agency began making the required reductions for FY 1999 based upon the HHS determination. The Ohio appeal is still pending.

GAO reviewed HHS' determinations for 10 states, including Ohio, and found errors in 7 of the determinations that generally resulted in underestimating costs attributable to the FSP. For Ohio, GAO noted several errors that could result in the amount of FSP reimbursement to the State being reduced by an additional $5,559,763. In response to the GAO report, HHS indicated that both the States and HHS understood that the appeals process could be used to provide additional data sufficient to make determinations more precise and that the additional time provided by this process has allowed many of the initial errors in calculation to be remedied or rendered moot.

FNS is monitoring the appeals process to ensure errors noted by GAO are considered in resolving the HHS determinations and determining the reductions FNS should make to the future reimbursements of FSP administrative costs.

EXHIBIT A – SUMMARY OF MONETARY RESULTS

Finding No.	Description	Amount	Category
2	Audit Findings Not Applied to FSP	$48,119	Questioned Costs, Recovery Recommended
3	Direct Expenditures Improperly Allocated to FSP	2,142	Questioned Costs, Recovery Recommended
4	Expenditures Improperly Allocated to FSP	1,850	Questioned Costs, Recovery Recommended
	TOTAL	$52,111	

EXHIBIT B – SUMMARY OF EXPENSES THAT WERE NOT CORRECTED OR ADJUSTED FOR THE FSP

DESCRIPTION	UNCORRECTED EXPENDITURES AFFECTING THE FSP	FS ACTUAL SHARE PERCENT	FSP AMOUNT OVER-CHARGED	50-50 BASIS WITH THE SA
Depreciation expense	$ 22,122	13.33	$ 2,949	$ 1,475
Depreciated Item	$ 1,788	33.06	$ 591	$ 296
TANF expense	$ 4,505	32.20	$ 1,451	$ 725
Incorrect Cost Pool	$665,007	2 tier	$66,501	$33,250
Corrected Cost Pool	$665,007	12.18	-$80,998	-$40,499
Indirect FS costs	$ 7,433	12.18	-$ 905	-$ 453
Indirect FS costs	$ 4,615	2 tier	-$ 462	-$ 231
Incorrect Coding	$ 8,318	13.33	$ 1,109	$ 554
Corrected Coding	$ 8,318	12.18	-$ 1,013	-$ 507
TANF expense	$159,357	13.33	$21,242	$10,621
Child Care Expense	$110,780	2 tier	$11,078	$ 5,539
Child Care Expense	$ 4,296	12.18	$ 523	$ 262
Incorrect Cost Pool	$ 1,000	12.18	$ 122	$ 61
Direct FS cost	$ 1,000	50.00	-$ 1,000	-$ 500
TANF expense	$ 99,586	31.61	$31,479	$15,740
Child Welfare Cost	$216,929	2 tier	$21,693	$10,846
No supporting documents	$ 7,428	10.13	$ 752	$ 376
Child Support	$ 740	10.13	$ 75	$ 37
Incorrect Cost Pool	$106,997	10.13	$10,839	$ 5,419
Corrected Cost Pool	$106,997	2 tier	-$10,700	-$ 5,350
SETS printing charges	$ 10,034	31.76	$ 3,187	$ 1,593
Incorrect Cost Pool	$683,917	11.30	$77,283	$38,641
Corrected Cost Pool	$683,917	8.00	-$54,713	-$27,357
Incorrect Cost Pool	$222,237	8.00	$17,779	$ 8,889
Corrected Cost Pool	$222,237	2 tier	-$22,224	-$11,112
Incorrect Cost Pool	$ 20,000	8.00	$ 1,600	$ 800
Corrected Cost Pool	$ 20,000	2 tier	-$ 2,000	-$ 1,000
Total FS Overcharged			**$96,238**	
Total SA was overpaid				**$48,119**

Note – 2 tier is 40% of expenditure, then 25% of that total

EXHIBIT C – SUMMARY OF UNALLOWABLE LEGAL EXPENSES

NO.	BENEFITING PROGRAM/ACTIVITY	QTR	UN-ALLOWABLE CHARGES	QUARTERLY PERCENT	FSP OVERCHARGED	50-50 BASIS
1	Child Care Program	3rd	$ 3,115	8.00	$ 250	$ 125
2	Consultant for Medicaid	3rd	2,723	8.00	218	109
3	Consultant for Medicaid	3rd	87	8.00	7	3
4	Settlement for Employment Law	3rd	12,000	8.00	960	480
5	Departmental Reorganization	3rd	8,275	8.00	662	331
6	Disability Workshop	4th	428	8.21	$35	18
7	Child Care Program	1st	840	12.18	102	51
8	Child Care Program	4th	473	8.21	$39	19
9	Child Care Program	1st	4,253	12.18	518	259
10	Consultant for Medicaid	3rd	2,250	8.00	180	90
11	Consultant for Medicaid	1st	1 ,046	12.18	127	64
12	Consultant for Medicaid	2nd	1,052	10.13	107	53
13	Consultant for Medicaid	2nd	1,572	10.13	159	80
14	Consultant for Medicaid	4th	2,520	8.21	207	103
15	Consultant for Medicaid	4th	1,700	8.21	140	70
16	Consultant for Medicaid	4th	2,088	8.21	171	86
17	Consultant for Medicaid	1st	1,722	12.18	210	105
18	Consultant for Medicaid	1st	1,308	12.18	159	80
19	Child Support Enforcement	3rd	395	8.00	32	16
	Total for Unallowable Charges		$47,847			
	Total FSP Overcharges				$4,283	
	Total FSP Over-Reimbursement					$2,142

EXHIBIT D – FNS' RESPONSE TO THE DRAFT REPORT

USDA

United States
Department of
Agriculture

Food and
Nutrition
Service

Midwest Region

77 W. Jackson Blvd.
20th Floor
Chicago, IL
60604-3511

July 25, 2000

Edward R. Krivus, Regional Director for Audit
Office of the Inspector General, USDA
Midwest Region
111 North Canal Street, Suite 1130
Chicago, Illinois 60606-7295

Dear Mr. Krivus:

We reference the Official Draft Audit No. 27099-0020-Ch, entitled " FSP-Administrative Costs for the State of Ohio." We address each recommendation below.

Recommendation 1: Require the State agency to ensure that counties operate the RMS in compliance with the Administrative Procedures Manual (APM).

Agency Position: FNS agrees with this recommendation. FNS will advise the State to send a memo to all State and County staff reminding them that compliance with RMS procedures are required. FNS will follow up with a review of State level RMS controls and operations during the financial review that will be completed not later than May, 2001. Food Stamp Program staff will advise State officials that a compliance review of RMS operations at the County is a required management evaluation (ME) area for FFY 2001. FNS will examine State ME files during the next financial and/or State Agency Operations Reviews to ensure that the State RMS reviews are being done and that FNS can be confident that County staff are complying with APM RMS procedures.

Recommendation 2: Require the State Agency (SA) to provide periodic training to all coordinators on RMS procedures to be followed. Newly appointed coordinators should be provided training in RMS procedures immediately.

Agency Position: FNS agrees with this recommendation. FNS will require the SA to conduct RMS training and discuss RMS training issues with State staff during the next financial review, which will be completed not later than May, 2001. We will also suggest that State ME staff include an assessment of the adequacy of RMS training during their FFY 2001 ME reviews. FNS will examine the RMS training feedback State ME reviewers obtained by reviewing State ME review files during the next review of State financial operations.

Recommendation 3: Instruct the State agency to strengthen the internal/statistical controls for the RMS. The State agency should identify and make clear the purpose of the control sample and ensure, through its management evaluation process, that it is properly implemented.

Agency Position: FNS agrees with this recommendation. FNS will assess State RMS internal/statistical controls during the next financial review, which will be completed not later than May, 2001. FNS will advise the State to emphasize the purpose and importance of the control sample in their memo (see our response to Recommendation 1).

We will also advise State ME staff to include a compliance review of County RMS processes, including the control sample, during their FFY 2001 ME reviews. FNS will examine State ME review files during the next review of State financial operations.

Recommendation 4: Require the State agency to improve the audit trail requirement in the RMS time study procedures by requiring some form of documentation to support the data on the observation form in the case file or computer record.

Agency Position: FNS agrees with this recommendation. FNS will require the State to strengthen the audit trail requirement. We will advise State ME staff to include an examination of RMS documentation during their FFY 2001 ME reviews. At a minimum, case workers must document either in the case record or CRIS-E notes what the case worker was doing during the RMS moment. FNS will examine State ME review files during the next review of State financial operations, which will be completed not later than May, 2001.

Recommendation 5: Include coverage of RMS procedures in subsequent State level financial and/or operational reviews to ensure that the State agency has taken timely corrective actions on the findings cited in this report.

Agency Position: FNS agrees with this recommendation. We will include as assessment of RMS review procedures and corrective actions during future financial and/or operational reviews; with the first review to be completed by May 2001. We will also advise the State agency to include an examination of RMS control weaknesses during their County level management evaluations.

Recommendation 6: Recover $48,119 of FFY 1999 Federal funds over claimed because the State agency had not made the necessary adjustments to reflect Medicaid audit findings that impacted FSP.

Agency Position: FNS agrees with this recommendation. FNS will bill the State $48,119 within 7 days of our issuance of the Audit Report to Ohio and FNS will provide OIG with documentation that the SA was billed.

Recommendation 7: Require the State agency to develop accounting procedures to ensure that adjustments made for Medicaid and other appropriate audit findings are applied to the FSP.

Agency Position: FNS agrees with this recommendation. FNS will examine Medicaid adjustments to ensure that FSP accounts were properly adjusted during the next State level financial review. FNS will also assess the adequacy of the controls the State implements during the next financial review which will be completed not later than May, 2001.

Recommendation 8: Include coverage in future financial management evaluations to ensure the State agency timely corrects FSP financial reports when Medicaid and other audit findings impact the FSP.

Agency Position: FNS agrees with this recommendation. FNS will consult with HCFA auditors and examine Medicaid adjustments to ensure that FSP accounts are properly adjusted during all subsequent State level financial review.

Recommendation 9: Recover $2,142 for the excess reimbursement of legal costs.

Agency Position: FNS agrees with this recommendation. FNS will bill the State $2,142 within 7 days of our issuance of the Audit Report to Ohio and FNS will provide OIG with documentation that the SA was billed.

Recommendation 10: Require the State agency to implement procedures to charge legal costs incurred for a specific program as direct costs to that program.

Agency Position: FNS agrees with this recommendation. FNS will assess the State's direct and indirect cost controls and procedures during the next State level financial review.

Recommendation 11: Recover $1,850 in excess FSP reimbursements that resulted from misallocated FSP costs in the quarter ending June 1999.

Agency Position: FNS agrees with this recommendation. FNS will bill the State $1,850 within 7 days of our issuance of the Audit Report to Ohio and FNS will provide OIG with documentation that the SA was billed.

Recommendation 12: Require the State agency to implement internal control processes that reasonably ensure the accuracy and completeness of quarterly FSP claims and reports.

Agency Position: FNS agrees with this recommendation. FNS will require the SA to implement internal controls processes and examine these controls in subsequent financial management reviews.

Recommendation 13: Verify that the State is now accurately reporting EBT costs, and request an accurate report of prior EBT costs.

Agency Position: FNS agrees with this recommendation. FNS will request a full accounting of EBT cost data since the system became operational. FNS will examine EBT cost reporting controls and procedures during the next financial and EBT cost neutrality reviews.

Recommendation 14: Require the State agency to take corrective actions in response to Single Audit findings related to administrative costs that impact the Food Stamp Program.

Agency Position: FNS agrees with this recommendation. We will require the State to take immediate corrective action on all FSP administrative cost items listed in the State's Single Audit for the year ending June 30, 1999.* FNS will add an event into our calendar software to closely review these items in next year's Single Audit.

Recommendation 15: Require the State agency to include recurring costs in the cost allocation plan and to treat these costs consistently in the future.

* We consider these single audit items to be pertinent to State administrative costs: 4, 17, 28, 34, 35, 49, and 50.

Agency Position: FNS agrees with this recommendation. We will direct the State to take immediate action to include recurring costs in the cost allocation plan and to apply these costs consistently from quarter to quarter.

FNS will send a copy of next year's financial management review report, and any other material pertinent to OIG's audit findings, to your office.

We also agree with the amounts cited in Exhibit A of the OIG audit.

If you have any questions or if I may be of further assistance, please don't hesitate to call me at (312) 886-4182.

Sincerely,

Dave MacTaggart

DAVE MACTAGGART
Fiscal/State Systems
Financial Management

Attachment

cc: Ollice Holden, Director, FSP