



UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Washington D.C. 20250



DATE: April 4, 2001

REPLY TO
ATTN OF: 27601-26-Ch

SUBJECT: FSP Contracts with Private Vendors for Onsite Retailer Visits

TO: George A. Braley
Acting Administrator
Food and Nutrition Service

ATTN: Lou Pastura
Director, Grants Management Division

We have completed an Audit of Food and Nutrition Service's (FNS) contracts with private vendors for onsite visits of authorized retailers to accept food stamps. Our audit was designed to followup on the corrective action taken by FNS in response to our audit of retail stores authorized to accept food stamps, which was issued in 1995. Overall, we determined that by using contractors to perform retailer visits, FNS had met its performance goal of reducing the number of ineligible stores participating in the FSP.

BACKGROUND:

The FSP was enacted in 1964, and significantly modified in 1977 (Public Law 88-525). The Food, Agriculture, Conservation and Trade Act of 1990 provided for the periodic reauthorization of all food stores participating in the FSP. This reauthorization process includes determining the continued eligibility of stores, as well as updating the retailer database with information regarding store characteristics, ownership and related identifying information, sales information, and key eligibility factors. This database is the primary tool FNS used to monitor over 165,000 retailers and identify potential violators for investigation in FY 1999. Part of FNS' responsibility in the vendor authorization process is to (1) accept applications from retail food stores that wish to participate in the FSP, (2) review the applications in order to determine whether or not the stores meet eligibility requirements, and (3) make decisions whether to grant or deny initial or continued authorizations for stores to accept food stamp benefits. Each year an estimated 20 percent of the authorized retailers are subject to the reauthorization process--that is, their continued eligibility for participation is assessed. FNS estimates that it receives 20,000 new applicants annually.

The 1995 OIG sweeps of FNS authorized retailers (OIG Audit No. 27801-0001-Hq) disclosed significant problems with stores that FNS had authorized to accept food stamps. We visited a total of 5,162 authorized stores nationwide and found 858 stores that were not eligible to participate in the FSP and another 450 stores whose eligibility was questionable. The combined incidence rate of ineligible or questionable stores in the project areas OIG visited ranged from 20.4 to 30.3 percent. The participation of these stores occurred partly because FNS did not routinely conduct onsite preauthorization visits. Preauthorization visits seldom occurred because FNS' procedures at that time stated that visits to stores prior to authorization should be the exception rather than the rule. FNS accepted the information provided by the applicant without adequate verification. As a result, OIG recommended that FNS improve its retailer application and authorization process and followup visits to stores. Monitoring retail stores has been identified as a "High Risk" area by FNS.

In FY 1997, FNS conducted a large-scale, 4-month long demonstration project with 16 field offices from all 7 FNS regions. Each region contracted to have in-person store visits made by contractors who were to complete a checklist of the food inventory and take representative photographs of retailers' operations. FNS field offices requested that store visits be made for both new authorizations and reauthorizations on an as-needed basis. The contractors did not make eligibility determinations, but provided FNS field office staffs with written descriptions of each retailer's inventory and physical layout, and general information about the store and the neighborhood. When the demonstration project ended, the 16 field offices had ordered a total of 7,232 visits; the number of visits per field office ranged from 173 to 1,111. Using the information provided by the contractors, FNS field office staffs made the final eligibility determinations. FNS then contracted with Abt Associates, Inc (AAI), to conduct an evaluation of the results of the demonstration project conducted by the FNS field offices. Overall, AAI's evaluation indicated that retailer visits by contractors were a feasible strategy to assist FNS in ensuring that only eligible retailers were authorized to participate in the FSP.

In FY 1998, FNS began to contract with outside vendors to perform retailer store visits nationwide. FNS field office staff used the information derived from the contractors' store visits to determine store eligibility.

In March and April 1999, FNS conducted an in-house study called the Store Eligibility Accuracy Rate (SEAR) Project to determine whether retailers previously authorized to accept food stamps still met retailer eligibility requirements. FNS performed this study of 1,806 stores (1) to provide feedback on how well it was carrying out its store authorization responsibility and (2) pursuant to the requirements of the Government Performance and Results Act of 1993 (GPRA), to establish a fiscal year 1999 baseline of the percentage of authorized stores that met all requirements to accept food stamps. FNS determined that 1,775 stores (98.3 percent) met eligibility criteria and 31 stores (1.7 percent) were ineligible for participation in the FSP.

FNS' GPRA target for FY 2000, was to maintain an eligibility rate of 98.3 percent or higher. That determination was to have been based on a survey of stores in June 2000, using a statistically valid random sample from the latest universe of authorized stores. At the time we completed our fieldwork, FNS had not completed its analysis for FY 2000. Subsequent to our fieldwork completion date, FNS advised us that the May/June 2000 SEAR measurement disclosed that 1,803 stores (98.5 percent) met the eligibility criteria and 27 stores were ineligible for participation in the FSP.

OBJECTIVES:

The objective of the survey was to determine if FNS' contracting with private vendors to conduct onsite retailer visits was accomplishing the desired results of ensuring that only stores meeting FNS' eligibility requirements were licensed to accept food stamps. We also reviewed FNS' GPRA performance plan and performance goal related to reducing the number of ineligible stores participating in the FSP.

SCOPE AND METHODOLOGY OF THE SURVEY:

Five firms were awarded contracts to conduct store visits in FNS' seven regions for the fiscal year 2000 base year and 4 option years. One firm was awarded contracts for three regions; the remaining four firms were each awarded contracts for one region. We conducted the survey at FNS Headquarters, Alexandria, Virginia; two FNS regional offices in Chicago, Illinois, and Atlanta, Georgia; two private vendors in Oak Ridge, Tennessee, and Dallas, Texas; and 24 retailers in Florida and Illinois.

We selected 17 reauthorizations based on their inclusion in our previous findings when we conducted retailer sweeps and 7 new stores based on potential problems noted in their files, approval with questionable inventories, reinstatement after a disqualification period, and how recently the contractor visit was performed. Contract amounts for fiscal year 2000 to conduct an estimated 10,389 new authorizations and 21,988 reauthorizations totaled about \$2.6 million.

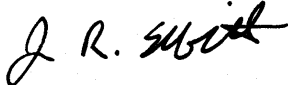
We evaluated and tested controls to determine if FNS' contracting with private vendors to conduct onsite retailer visits was accomplishing the desired results. To accomplish our objectives, we (1) evaluated FNS' policies and procedures for scheduling retailer visits, (2) reviewed the contractors' performance of the scheduled visits including the timeliness and the quality and accuracy of data provided to FNS, (3) compared the results of our visits to 24 retailers to the results reported by contractors for their most recent visits to those retailers, and (4) evaluated the retailer eligibility determinations FNS made based on the results of the contractor-provided information. We also evaluated procedures FNS used to establish its GPRA performance baseline for FY 1999 and its performance goal for FY 2000. Our audit was conducted in accordance with government auditing standards.

AUDIT RESULTS:

We concluded that the procedures FNS was using to schedule retailer visits were effective, FNS had controls to assure that contractors were performing thorough retailer visits timely, the work performed by the contractors met contract specifications, and the information the contractors provided to FNS provided an appropriate basis on which FNS could make retailer eligibility determinations. We agreed with the eligibility determinations FNS made using the contractor-provided information. We concluded that the procedures used to establish the GPRA baseline for FY 1999 were appropriate and the target established for FY 2000 was realistic.

Our visits to 24 stores did not disclose any unusual conditions that would cause us to question the contractors' work or to negate FNS' determinations that all 24 stores were eligible to participate in the FSP. We concluded that the procedures FNS is using had reduced the number of ineligible stores participating in the FSP. Based on the results of our work, we have no recommendations to offer, and

will report to the office of the Chief Financial Officer that management decision and final action on this report is achieved upon issuance.

A handwritten signature in black ink, appearing to read "J R. Ebbitt", with a stylized flourish at the end.

JAMES R. EBBITT
Assistant Inspector General
for Audit