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

FOOD STAMP PROGRAM ADMINISTRATIVE COSTS

Report No.
27601-0028-Ch
FEBRUARY 2003

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Midwest Region
111 North Canal Street - Suite 1130
Chicago, IL 60606-7295

DATE: February 27, 2003

REPLY TO
ATTN OF: 27601-0028-Ch

SUBJECT: Food Stamp Program Administrative Costs

TO: Ollice C. Holden
Acting Regional Administrator
Food and Nutrition Service
77 West Jackson Blvd. – 20th Floor
Chicago, IL 60604

ATTN: Frank Suchy
Accountant

This report presents the results of our audit of the Food Stamp Program Administrative Costs in Minnesota. The FNS response to the official draft report, dated February 6, 2003, is included in its entirety as exhibit B, 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 all recommendations and no further response to us is necessary. Please follow your agency's internal procedures in forwarding documentation for final action to the Office of the Chief Financial Officer.

/s/
EDWARD R. KRIVUS
Regional Inspector General

EXECUTIVE SUMMARY

FOOD STAMP PROGRAM
ADMINISTRATIVE COSTS FOR THE STATE OF MINNESOTA

REPORT NO. 27601-0028-Ch

RESULTS IN BRIEF

This report presents the results of our audit of administrative costs claimed by the Minnesota Department of Human Services (State agency) 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. Also, we were to determine if the States followed their cost allocation plans in claiming direct and indirect costs, and the accuracy and allowability of the administrative costs claimed.

Our review at the State agency and at four county offices disclosed that, generally, FNS had adequate controls over State agency's administrative costs; cost allocation plans were adequately reviewed and approved; administrative costs were fairly distributed between programs; and the State agency was not allocating administrative costs already covered by State block grants. While we did not note any material discrepancies with how the subject program was operating, we did note some costs claimed were not beneficial to the FSP and not all support for claimed costs was obtained.

We found the State agency had purchased gift cards to be used as an incentive for people to complete questionnaires to better the various assistance programs. The State agency inadvertently allocated $4,471 to the FSP. Since these costs did not directly benefit the FSP, we determined they were unallowable. In addition, we found a county office did not obtain support for all reimbursed charges. We found support was not obtained for $55,482 in FSP reimbursed charges.

KEY RECOMMENDATIONS

We recommend that FNS require the State agency to refund $4,471 in unallowable costs. We also recommend that FNS require the State agency to provide assurance that all costs will be adequately supported.

AGENCY RESPONSE

In its response to the official draft report, dated February 6, 2003, FNS agreed with Recommendation No. 2 but disagreed that the amount cited in Recommendation No. 1 should be recovered. This was based on a determination by FNS Headquarters that the Minnesota State Agency's use of the cited funds was in fact allowable. Applicable portions of the response are incorporated, along with the OIG's position, in the Findings and Recommendations section of the report. The full text of the response is included as exhibit B of the audit report.

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INTRODUCTION

BACKGROUND

In 1977 Congress passed public law 95-113, the Food Stamp Act, which made the Food Stamp Program (FSP) a permanent, Federal food assistance program. The FSP was created 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 Minnesota Department of Human Services (State agency) is responsible for administering the program in Minnesota through 87 counties that are responsible for determining the eligibility and amount of benefits issued to approved applicants.

Quarterly, State agencies are required to submit an SF 269 (Financial Status Report) to claim program costs. Within the SF 269 are major allowable costs categories (e.g. Employment and Training, ADP Operations, and Nutrition and Education). Employment and Training is designed to improve the employability of FSP recipients; and Nutrition and Education programs for FSP recipients in making healthy food choices in their diet. Other allowable costs are listed in the Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments."

FNS reimburses the State agencies for 50 percent of the administrative costs claimed. These administrative costs include costs for FSP certification, quality control, anti-fraud, management evaluations, ADP operations, and fair hearings. The State agency had 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.

Administrative costs are either charged directly through case counts, direct charge, staff effort, or allocated based on the results of monthly time studies and other approved methodologies. The Minnesota 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 fiscal years (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 of this audit was to evaluate FNS' procedures to control State FSP administrative costs. Also, we were to determine if the States followed their cost allocation plans in claiming direct and indirect costs, and the accuracy and allowability of the administrative costs claimed on the SF 269's.

SCOPE

We audited the State agency's FSP administrative cost reimbursements for FY 2000. We conducted our fieldwork from March 2002 through August 2002.

We performed our audit at the FNS' Midwest Regional office in Chicago, Illinois and the Minnesota Department of Human Services (State agency) in St. Paul, Minnesota. We also visited Anoka, Dakota, Hennepin, and Ramsey county offices. In FY 2000, Minnesota accounted for 7.15 percent of the regionwide total benefits issued. For administrative costs, Minnesota accounted for 9 percent of the regionwide total, or $78,114,693.

In Minnesota, administrative costs are incurred by the State agency and 87 county agencies. In FY 2000, the State agency incurred administrative costs of $20,426,563 while the counties accounted for the remainder of $57,688,130. The counties sampled were selected based on the high amount of administrative costs reimbursed. The counties visited represented four of the top five counties as far as FSP administrative costs. Our 4 sampled counties accounted for 55 percent of the countywide total, or $31,795,792. Hennepin County incurred administrative costs of $17,498,212, Ramsey County $7,820,503, Dakota County $3,429,696, and Anoka County $3,047,381.

At each of the five audit locations, we judgmentally selected invoices/transactions to review, and generally selected invoices with high dollar amounts. At the State agency, we reviewed 24 invoices totaling $2,619,464. At the four counties, we reviewed 215 invoices/transactions totaling $2,448,643.

The audit was conducted in accordance with Generally Accepted Government Auditing Standards.

METHODOLOGY

To accomplish our objectives we:

- Reviewed regulations, policies and procedures governing FSP administrative costs, including Code of Federal Regulation (CFR) Titles 7, and 45, and Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments" (August 29, 1997).

- Interviewed FNS Regional office personnel as well as Minnesota Department of Human Services personnel at the State agency and county level to determine what controls were used to monitor FSP administrative costs.

- Reviewed the results of State and local level audits performed under the Single Audit Act and identified issues concerning the allocation of State administrative costs.

- Reviewed the three Cost Allocation Plans in use in Minnesota and determined if costs were properly allocated to the FSP.

- Reviewed the State's and counties' accounting records, and analyzed their charges and claims for reimbursement to the FSP. We accomplished this by reviewing and testing the SF 269's for all quarters of FY 2000.

- Reviewed the Standards and Procedures for Random Moment Sampling and selected one quarter to verify the percentages used.

FINDINGS AND RECOMMENDATIONS

CHAPTER 1	STATE AGENCY WAS REIMBURSED FOR UNALLOWABLE AND UNSUPPORTED ADMINISTRATIVE COSTS

The State agency was reimbursed for unallowable and unsupported administrative costs totaling nearly $60,000. We noted the State agency sought and received reimbursement for $4,471 in charges that were not necessary. The State agency inadvertently used the wrong accounting line when booking this expense. We also noted one county agency did not obtain support for $55,482 in reimbursed charges. Without the required support, we were unable to verify the validity of these charges.

FINDING NO. 1

STATE AGENCY WAS REIMBURSED FOR UNALLOWABLE COSTS

The State agency was reimbursed for a cost that was not necessary or reasonable for proper and efficient administration of the Food Stamp Program (FSP). The State agency spent $25,000 on discount store gift cards to be used as incentives to complete questionnaires regarding welfare programs. Of the $25,000, the State agency allocated $8,942 to the Food Stamp Program. FNS reimbursed the State agency 50 percent of this cost, or $4,471. The allocation error occurred because the State agency inadvertently used the wrong accounting line when they processed this charge. As a result, the State agency was overpaid $4,471.

The regulations[1] state "To be allowable under the Program, costs must …be necessary and reasonable for proper and efficient administration of the Program…"

We reviewed 24 transactions at the State agency and found that 23 of these benefited the FSP. The remaining transaction was a $25,000 charge for the purchase of 1,000 $25 gift cards from a discount store chain. State agency officials told us these cards were used as an incentive for welfare recipients to fill out a survey about the various welfare programs. The FNS National office also determined this charge was not directly beneficial to the FSP and should not have been claimed. DHS

[1] 7 CFR Part 277 Appendix A, (C)(1)(a), dated April 22, 1997.

officials agreed the charge was not appropriate and believed they used the wrong accounting line when they processed the charge.

Using the State agency's Cost Allocation Plan, we found $8,942 had been allocated to the FSP. FNS had reimbursed the State agency for 50 percent of this charge, or $4,471. Based on our review, this appeared to be an isolated incident.

RECOMMENDATION NO. 1

Require FNS to recover $4,471 of funds paid to the State agency for unallowable costs.

Agency Response

Although the FNS regional office initially agreed with the finding and recommendation as presented, FNS Headquarters has taken the position that the cited expenses were in fact allowable.

OIG Position

Since FNS Headquarters has taken the position that the cited cost is allowable, we are accepting FNS' management decision. We believe that this should constitute final action as well on this recommendation.

FINDING NO. 2

STATE AGENCY DID NOT OBTAIN SUPPORT FOR REIMBURSED COSTS

The Hennepin County Department of Economic Assistance (DEA) did not obtain support for $55,482 in reimbursed charges from other county agencies. This occurred because Hennepin County DEA's management did not require the counties to submit a detailed bill to their receiving department for services received. As a result there is decreased assurance as to the allowability of charges for which there is no support.

Federal regulations state, "All financial records, supporting documents, statistical records, negotiated contracts, and all other records pertinent to program funds shall be maintained for 3 years from the date of submission of the annual financial status report of the relevant fiscal year to which they apply."[2] In addition, State agencies are to maintain source documents for its costs.[3]

[2] 7 CFR Part 277.12 (a), dated January 1, 1999
[3] 7 CFR Part 277.6 (b)(7) dated January 1, 1999

We reviewed supporting documentation for claims reimbursed in Hennepin County for Federal Fiscal Year 2000. Of the 42 transactions reviewed, Hennepin County was unable to provide support for 11 charges totaling $536,058. These charges were transactions made by other county offices against DEA's accounts for its share of countywide costs. For example, Hennepin County's Information Technology and Communications Departments will bill the other county agencies for costs related to computer support and phone bills. DEA does not receive a hard copy of the transaction or a copy of the original bill. DEA can view the transaction online but no original bill is received.

We were unable to review the online transactions related to these charges. Once the Department's FY 2000 financial statement audit was completed by an independent audit firm and no material errors were found, the county's Office of Budget and Finance purged these transactions from the accounting system.

The $536,058 in charges was allocated among many assistance programs. DEA allocated, on average, 20.7 percent of its charges to the Food Stamp Program. Based on this, we determined $110,964 of these costs was allocated to the FSP. FNS reimbursed the State for 50 percent of these charges, or $55,482. Since no support for these charges exist, we could not determine if they were necessary and reasonable for proper and efficient administration of the Food Stamp Program. However, an independent audit firm had reviewed these costs in FY 2000 and no material errors were found.

RECOMMENDATION NO. 2

FNS should require the State agency to provide assurance that all costs will be adequately supported and all support will be maintained for a period of 3 years.

Agency Response

FNS agreed with this recommendation, and stated that the Minnesota Department of Human Services Audit Department will test the county's conversion policies and procedures. The estimated date of completion for this recommendation is May 15, 2003.

OIG Position

We concur with the agency's management decision. Final action can be achieved when FNS provides documentation to the Office of the Chief Financial Officer that the cited corrective actions have been completed.

EXHIBIT A – SUMMARY OF MONETARY RESULTS

FINDING NO.	DESCRIPTION	AMOUNT	CATEGORY
1	Unallowable Costs	$4,471	Questioned Costs/Loans, Recovery Recommended
2	Unsupported Costs	$55,482	Questioned Costs/Loans, No Recovery

EXHIBIT B – 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
60604-3591

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

February 6, 2003

Dear Mr. Krivus:

We reference the official draft report entitled, "Food Stamp Program Administrative Costs for the State of Minnesota," Audit Report No. 27601-0028-Ch. We address each recommendation below.

Recommendation 1: Require FNS to recover $4,471 of funds paid to the State Agency (SA) for unallowable costs.

State Agency Response: We disagree that the $4,471 claimed for gifts used as an incentive in surveying Minnesota Family Investment Program (MFIP) and food stamp recipients is an unallowable cost. It is our position that the costs associated with our longitudinal study (LS) are allowable and allocable to the Food Stamp Program (FSP) The MFIP Longitudinal Study documents patterns of use for the cash and food stamp positions of MFIP and food stamps including case durations, the pace and pattern of welfare to work transitions, employment goal achievement, and property reduction. The study documents, evaluates, and analyzes the supports people use in gaining self-sufficiency including food stamps and examines the association of these supports with poverty reduction including better nutrition outcomes.

We offer people who participate in the MFIP Longitudinal Study a $25.00 gift certificate as a best practice to ensure that we attain a statistically ample, which ensures our data is accurate. Data from the LS is used in our overall analysis of the FSP and MFIP.

Our former Evaluation Director, Joel Kvamme, discussed the issue of gift certificates and the study with FSP officials, who provided verbal approval that the costs associated with the study would be allowable and allocable to the FSP. Additionally, Minnesota made presentations on the MFIP Longitudinal Study, including our methodology and the use of gift certificates to ensure statistical, at Food and Nutrition Service sponsored workshops, at the Big Ten Midwest Region Board of Director's meetings, and at other national conferences.

We believe the cost of the gift certificates is reasonable and justifiable as it directly benefits our analysis and evaluation of the FSP in Minnesota.

Food and Nutrition Service Response: Based upon further review of the questioned costs with our Headquarters' we have determined that the MFIP gift certificates can be viewed as a reasonable and therefore allowable cost.

Recommendation 2: FNS should require the SA to provide assurances that all costs will be adequately supported and all support will be maintained for a period of 3 years.

State Agency Response: Hennepin County's Department of Economic Assistance has informed the Minnesota Department of Human Services (Department) that the detailed support was not immediately available in paper form as requested by the USDA auditors. However, county staff stated that the information was available through an electronic database. Hennepin County has assured the Department that it has the ability to convert the electronic information to paper; this conversion would take approximately three business days. The Department will verify Hennepin County's ability to provide hard copy documentation by requesting our Internal Audits Office to test the county's conversion policies and procedures.

FNS agrees with this recommendation and the SA's response.

Estimated date of completion for this recommendation, May 15, 2003.

FNS does agree with Exhibit A – Summary of Monetary Results as to Finding 2 but does not agree with Finding 1 for the reason stated in recommendation 1.

If you have any questions, please do not hesitate to call me at (312) 353-8239.

Sincerely,

FRANK SUCHY
Chief
F/SS Financial Management

Attachment

Informational copies of this report have been distributed to:

Agency Liaison Officer, FNS	(2)
General Accounting Office	(1)
Office of Management and Budget	(1)
Office of the Chief Financial Officer	
Director, Planning and Accountability Division	(1)