USDA

United States Department of Agriculture
Office of Inspector General

SNAP Administrative Costs

Audit Report 27601-0003-22
September 2016

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What Were OIG's Objectives

OIG evaluated FNS' controls over SNAP administrative costs, with a specific focus on whether States with county-administered programs were effectively and efficiently controlling costs and minimizing variances.

What OIG Reviewed

From October 2015 to June 2016, we reviewed FNS' controls, operations, and policies for SNAP administrative costs. We visited State and county offices for county-administered food assistance programs in California, New York, and Ohio to review FY 2014 expense records and controls for monitoring and reporting costs.

What OIG Recommends

FNS needs to deobligate over $111 million of invalid obligations in California, and recover $3.6 million from Ohio. Also, FNS needs to identify the causes for the cost-per-case variances between States. Finally, the agency should issue guidance to its regional offices for conducting financial management reviews, and to the States for filing expenditure claims and reports in accordance with Federal laws.

OIG reviewed FNS and State oversight and monitoring of reimbursable SNAP administrative costs from programs administered by counties.

What OIG Found

The Department of Agriculture's (USDA) Food and Nutrition Service (FNS) and the States should strengthen financial management controls to improve efficiency and the effective use of over $3.6 billion of Supplemental Nutrition Assistance Program (SNAP) administrative funds. FNS could be more proactive in analyzing and containing variances in SNAP costs-per-case, which range from $10 per case to as high as $34 per case in States with county-administered programs, suggesting possible waste and operational inefficiencies. The agency's regional offices' financial management reviews and risk assessments are not consistent, and the national office has not developed guidance to ensure consistent results.

Weaknesses in State and county financial management controls and a lack of effective FNS oversight led to inaccurate program financial reporting and questioned costs. California did not properly establish financial obligations, resulting in $111 million in unsupported obligations for fiscal year (FY) 2014. Although required to ensure State compliance with Federal financial management regulations, FNS Western Regional Office (WRO) management allowed California to submit estimates rather than the required actual costs. In Ohio, the State and counties inappropriately commingled costs, rendering $3.6 million unallowable. States and counties reported expenditures for payment in FY 2014 for costs that were incurred in FY 2013, because FNS continues to allow States to use a process that is out of compliance with Federal law, which we identified in previous audit reports.

FNS generally concurred with our recommendations and OIG was able to accept management decision for 8 of the 14 recommendations. Further action from the agency is needed before management decision can be reached for the remaining recommendations.

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

DATE: September 29, 2016

AUDIT NUMBER: 27601-0003-22

TO: Audrey Rowe
Administrator
Food and Nutrition Service

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

FROM: Gil H. Harden
Assistant Inspector General for Audit

Gil H. Harden

SUBJECT: SNAP Administrative Costs

This report presents the results of the subject review. Your written response to the official draft is included in its entirety at the end of the report. Your responses and the Office of Inspector General's (OIG) position are incorporated into the relevant sections of the report. Based on your written responses, we have accepted management decision on Recommendations 3, 5, 6, 7, 8, 9, 11, and 14. Management decision has not been reached for Recommendations 1, 2, 4, 10, 12, and 13. The actions needed to reach management decision for these recommendations are described under the relevant OIG Position sections.

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

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

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Background and Objectives

Background

The Supplemental Nutrition Assistance Program (SNAP) is authorized by the Food and Nutrition Act of 2008, as amended.[1] It was reauthorized by the Agriculture Act of 2014 and is the nation's largest food and nutrition assistance program.[2] SNAP was designed to increase the food purchasing power of eligible low-income households and help them afford a more nutritious diet. In fiscal year (FY) 2014, State agencies issued SNAP benefits of about $70 billion to 46.5 million people participating in the program.

SNAP is administered by the Food and Nutrition Service (FNS) national office, seven FNS regional offices, and State agencies.[3] In addition, some States administer SNAP at the county level. These States pass Federal SNAP administrative funds through to the counties for program functions performed by county agencies. FNS oversees the States' implementation of SNAP to ensure they carry out the program in accordance with Federal laws and regulations. States are responsible for determining whether the recipient's household meets the program's eligibility requirements, calculating monthly benefits for qualified households, and issuing benefits to those households. FNS funds the full cost of SNAP benefits and generally reimburses the States for 50 percent of their administrative costs.

In FY 2014, the Federal share of SNAP administrative costs nationwide totaled over $3.6 billion. Half of these costs ($1.8 billion) were incurred by States that are administered at the county level. Out of the 53 States and territories that participate in SNAP, 10 are administered at the county level.[4] The FY 2014 average administrative cost per SNAP case (i.e., per household) per month for these 10 county-administered States is over $21, as opposed to under $10 per case for the State-administered States. The cost-per-case varied significantly among the 10 county-administered States in FY 2014, with costs ranging as high as $34 (California) and as low as $10 (Ohio) per case.

Federal regulations establish uniform requirements for the management of SNAP administrative funds provided to State agencies. Appendix A, "Principles for Determining Costs Applicable to Administration of SNAP by State Agencies," sets forth the principles for determining the allowable costs of administering the program.[5] In addition, the Office of Management and Budget (OMB) Circular A-87 provides cost principles for State, local, and Indian Tribal

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[1] SNAP was initially authorized as the Food Stamp Program via the Food Stamp Act of 1964. In 2008, the Food Stamp Act was renamed the Food and Nutrition Act of 2008, and the Food Stamp Program was renamed the Supplemental Nutrition Assistance Program. See Food, Conservation, and Energy Act of 2008, Pub. L. No. 110-246, § 4001, 122 Stat. 1651, 1853.
[2] Agricultural Act of 2014, Pub. L. No. 113-79, 128 Stat. 649 (2014 Farm Bill).
[3] The program is operated in 50 States, the District of Columbia, Guam, and the Virgin Islands. Puerto Rico, Northern Marianas, and American Samoa receive Nutrition Assistance Program block grants in lieu of SNAP.
[4] The 10 county-administered States are California, Colorado, Minnesota, New Jersey, New York, North Carolina, North Dakota, Ohio, Virginia, and Wisconsin.
[5] 7 C.F.R. § 277.1.

governments.[6] A State agency and its counties administering SNAP base their direct and indirect administrative costs on their cost allocation plans (CAP) approved by the United States Department of Health and Human Services, the cognizant Federal agency.[7] SNAP administrative costs are charged directly or allocated based on approved methodologies, including random moment time studies. Under random moment time studies, management selects a statistical sample of employees to indicate the programs they worked on at the sample time. The information is compiled and used to distribute costs to each program.

State agencies report their cumulative SNAP expenditures on the FNS-778 SNAP worksheet, which is then summarized and reported on the Federal Financial Report Standard Form (SF) 425. The States are reimbursed for their SNAP administrative expenditures based on the information reported on these reports. These forms are due 30 days after the end of each quarter, with a final annual report due December 30. The State agencies may amend the final report up to 3 years after the end of the fiscal year, and may receive reimbursement for expenses that are reported within 2 years after the quarter in which the expenditure was incurred. Costs claimed on SF-425 are reported in various categories including Certification, Automated Data Processing, Employment and Training (E&T), and Fraud Control. Certification typically accounts for 60 percent of all costs and includes costs related to accepting and processing the applications, salaries, benefits, travel expenses, supervisory, clerical, and other support costs.

FNS relies on its own national and regional office reviews to ensure funds provided for SNAP administration have been used as approved. FNS regional offices conduct financial management reviews, which serve as the primary management control to ensure that State administrative expense claims are accurate and allowable. Obtaining such assurance is central to validating FNS' disbursement of Federal funds to States. At least once every 5 years, an FNS regional office must perform a financial management review of SNAP for each State agency. Financial management reviews evaluate the use of Federal funds, reporting and recordkeeping, review of the claims payment process, implementation of the State agency's monitoring responsibilities, and initiation and completion of corrective action. Federal agencies also use the OMB A-133 single audit process as a key tool to drive accountability for grants awarded to States. State and local governments are required by the Single Audit Act to have an annual audit of their Federal awards.[8]

[6] Effective December 26, 2014, 2 C.F.R. Part 200, commonly referred to as the Super-Circular, replaced Federal grants management rules in 7 C.F.R. Parts 3016, 3019, and 3052; and the cost principles in 2 C.F.R. Parts 220 (A-21), 225 (A-87), and 230 (A-122) for FNS and State agencies.

[7] OMB Circular A-87 requires two types of CAPs. The Central Services or Statewide cost allocation plan is used to allocate costs of central service organizations (e.g., print shops, mail rooms, etc.) to the user organizations that operate Federal programs. The Public Assistance Cost Allocation Plan (PACAP) is a special-purpose CAP used by State and local service agencies to allocate costs to Federal programs such as SNAP, Temporary Aid to Needy Families, or Medicaid. All administrative costs (direct and indirect) are normally charged to Federal awards by implementing the PACAP.

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

Objectives

The objective of our audit was to evaluate FNS' controls over SNAP administrative costs. Specifically, our objective was to determine if States with county-administered programs were effectively and efficiently controlling costs and minimizing variances.

Section 1: FNS Reviews and Monitoring Could be Strengthened

Finding 1: FNS Should Determine Causes of Variances and Identify and Share Best Practices to Contain Costs

FNS has a responsibility to ensure SNAP administrative Federal funds are used effectively. However, we found that FNS could be more proactive in monitoring and minimizing the large variances among State and county SNAP administrative costs. The administrative costs per SNAP case per month for county-administered States in FY 2014 range from $10 per case in Ohio to $34 in California. County costs also vary significantly, with New York City and Erie County (New York) at $23 and $13 respectively, and Los Angeles and San Francisco counties at $27 and $73 respectively, per case in FY 2014. Large variances in SNAP administrative costs continue as FNS does not perform adequate monitoring or conduct sufficient coordination with States and counties to assist in containing costs, minimizing variances, and sharing best practices. As a result, FNS is unable to ensure it has efficient and effective State and county operations involving the Federal share of SNAP administrative costs, which total over $3.6 billion in FY 2014.[9]

The Federal Government has a responsibility to act as a careful steward of taxpayer dollars, ensuring Federal funds are used for purposes that are appropriate, cost effective, and important to the core mission of agencies.[10] In addition, OMB Circular A-123 requires agencies to establish appropriate internal controls to ensure the efficiency and effectiveness of their operations.[11] FNS issues an annual State Activity Report that outlines the administrative cost per SNAP case for each State. This report has shown significant variances in the SNAP administrative cost-per-case among the States, suggesting possible waste and operational inefficiencies. For example, in FY 2014, the average cost-per-case for the 10 county-administered States was over $21 per case, as opposed to under $10 per case for State-administered States. The cost-per-case for all of the States and territories in FY 2014 ranged from under $4 a case (Florida) to over $38 a case (Virgin Islands). Among the county-administered States, Ohio had the lowest cost at $10 and California had the highest cost at $34 a case (see Table 1).

[9] Of the $3.6 billion, $1.8 billion was for the 10 county-administered States. During our review, we determined that high variances of SNAP administrative costs occur in both State-administered and county-administered States. FNS officials confirmed that the cost variances for both county and State-administered programs are not reviewed.

[10] OMB, *Promoting Efficient Spending to Support Agency Operations*, Memorandum M-12-12 (May 11, 2012).

[11] OMB, *Management's Responsibility for Internal Control*, Circular A-123 (December 21, 2004).

Table 1: FY 2014 Federal Cost-Per-Case for County-Administered States

State	Federal Cost-Per-Case Per Month	Federal Share of Administrative Costs	Households Participating (Monthly)
California	$34.06	$825,316,195	2,019,272
New Jersey	$26.23	$138,400,032	439,695
North Dakota	$25.06	$7,521,986	25,011
Minnesota	$21.22	$66,304,561	260,437
New York	$18.60	$379,028,505	1,698,559
Virginia	$18.23	$97,049,140	443,607
Colorado	$16.87	$47,381,997	234,098
Wisconsin	$11.76	$59,386,007	420,833
North Carolina	$10.52	$96,058,619	761,105
Ohio	$ 9.55	$97,648,695	851,972

We also calculated the SNAP cost-per-case for FY 2014 for counties in New York, California, and Ohio, and we also identified large variances. For example, in FY 2014 the cost-per-case for counties in New York ranged from $8 to $29 per case; in California, $13 to $73 per case; and in Ohio, $2 to $17 per case. Among the counties in our audit sample, San Francisco's cost-per-case for FY 2014 was $73, while Los Angeles' and New York City's costs-per-case were $27 and $23, respectively (see Table 2).

Table 2: FY 2014 Federal Share of Cost-Per-Case for Counties in OIG Audit Sample

Counties	Federal Cost-Per-Case Per Month	Federal Share of Administrative Costs	Households Participating (Monthly)
San Francisco, California	$72.61	$27,947,139	32,074
Los Angeles, California	$27.24	$187,426,575	573,282
New York City, New York	$22.92	$273,429,818	994,004
Erie, New York	$12.51	$12,729,342	84,764
Cuyahoga, Ohio	$ 8.95	$15,247,987	141,946
Hamilton, Ohio	$ 5.70	$4,227,683	61,772

During our review of national office operations, we determined that while FNS calculates and reports the cost-per-case data for States, it is not analyzing or reviewing these data to identify trends to help reduce and contain costs. FNS officials stated it would not be useful to compare the States' SNAP expenditures as each State has significant autonomy in how it structures and implements the program. One of the common explanations FNS, State, and county officials gave to explain the high variances was that the cost of living varies significantly from State to State. While we would agree that cost of living differences could account for a portion of the variances, it does not seem reasonable that it would account for costs that are three to four times higher in some areas. For example, California's SNAP cost-per-case rate is almost twice as high as New York's, and San Francisco's rate is over three times higher than New York City's rate. In our opinion, data from the Bureau of Labor Statistics (BLS) suggests the cost of living among these areas is not as dramatically disparate. For example, BLS estimates the average wage for all occupations in San Francisco was $66,900, as opposed to $61,300 for New York City.[12] FNS officials believe that many other factors may also influence the cost variances, such as the number of offices required to serve an area, the use of different State eligibility systems, and the implementation of different policy options by States.[13]

FNS contracted for a study that was published in 2008 that determined the feasibility of assessing the States' varying rates for SNAP administrative costs.[14] This report determined that there are multiple feasible ways to assess the causes of the variances. The study outlined five approaches for identifying the causes that vary in the amount of time and resources it would take to complete. For example, according to the study the first option is a "relatively modest, low cost first step that could provide immediate insight and identify directions for future research." Since certification costs account for approximately 60 percent of all administrative costs, the five options focus on certification costs and specifically on the costs of eligibility workers.[15]

However, following the issuance of the report, there was no FNS follow-up or oversight of cost variances to determine the reasons for the variances and possibly share best practices in an attempt to reduce costs among States and counties. FNS officials stated that they never evaluated the results of the feasibility study to make a determination on whether they should pursue any of the five recommended approaches for analyzing the variances. FNS national office staff stated that reviewing and monitoring variances would most likely occur at the agency's regional offices, since the regional offices have intimate knowledge of and better relationships with the States. However, in our visits to the FNS regional and State offices, we did not identify that those offices conducted such reviews. FNS regional office officials stated it would be difficult to compare large States like New York and California to other smaller States in their regions due to the large differences in the number of SNAP participants and the cost of living.

While we believe FNS could better coordinate with States and counties to help contain costs, OIG acknowledges there are certain factors outside of FNS' control. For instance, since SNAP

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[12] Bureau of Labor Statistics, May 2015 Metropolitan and Nonmetropolitan Area Occupational Employment and Wage Estimates. The estimates are calculated with data collected from employers in all industry sectors in San Francisco-Oakland-Hayward, California; New York-Jersey City-White Plains, New York; and New Jersey Metropolitan Division.

[13] SNAP's laws, regulations, and waivers provide State agencies with various policy options. This flexibility helps States to adapt the program to target benefits to those most in need and streamline program administration and field operations.

[14] U.S. Department of Agriculture, Food and Nutrition Service, Office of Research and Analysis, *Feasibility of Assessing Causes of State Variation in Food Stamp Program Administrative Costs: Final Report*, by Christopher Logan and Jacob Alex Klerman. Project Officer: Jenny Laster Genser, Alexandria, Virginia (September 2008).

[15] Certification includes costs associated with accepting and processing SNAP applications. This includes salaries, benefits, travel expenses, supervisory, clerical, and other support costs.

administrative costs are an appropriated entitlement, States are not limited in the amount of administrative costs allowed for reimbursement. While the funding is provided in the annual appropriations acts, the level of spending for appropriated entitlements is not controlled through the annual appropriations process. Instead, the level of spending for appropriated entitlements, like other entitlements, is based on the benefit and eligibility criteria established in law, and the amount provided in appropriations acts is based on meeting this projected level. As long as the expenses are for allowable purposes and directly benefit SNAP, and as long as sufficient amounts of funding have been appropriated, then they are reimbursable. An FNS official stated that because these funds are entitlements, FNS has little control over the amount of the States' expenditures. The official stated FNS cannot force a State to reduce its expenditures if they are allowed under program regulations. The lack of limitations on the amount and use of SNAP administrative funds may be partially responsible for the high cost-per-case in some States.

In addition, the nature and structure of the reimbursement of SNAP administrative costs does not effectively encourage States and counties to reduce costs. In States that are county-administered, States, counties, and the Federal government are each typically responsible for only a percentage of the costs. For example, in California, the State and counties are typically responsible for 35 percent and 15 percent respectively, while the Federal government typically covers the remaining 50 percent of all eligible SNAP administrative costs. However, a majority of the expenditures occur at the county level. There is less financial incentive for a county office to reduce costs or staffing when it is only responsible for covering 15 percent of the cost.

The shared responsibility for the funding of SNAP expenditures, combined with States' legal autonomy in the amount of expenditures allowed for reimbursement, produces a control environment that is less conducive to the effective use of funds and containment of costs. This type of control environment increases the risk of waste and inefficient use of funds, and thus creates a greater need for FNS oversight and monitoring of costs. FNS has a responsibility to ensure SNAP administrative Federal funds are used effectively, and as such the agency should be coordinating with States and counties to control costs and minimize variances. Without proper oversight, it will not be able to ensure efficient and effective State and county operations. In addition, if appropriations for SNAP administrative costs are insufficient to cover the total needs of all of the States during a given year, then some States might receive an inequitable allocation of funding.

Recommendation 1

Use the recommendations of the 2008 feasibility study to identify the causes of SNAP administrative cost variances and share any best practices that are discovered as a result of the study with States and counties.

Agency Response

In its September 26, 2016, response, FNS concurred with this recommendation. A study that models available State-level data will be included in the FNS Research and Evaluation Plan for FY 2018. FNS estimates this corrective action will be completed by September 30, 2017.

OIG Position

We are unable to accept management decision for this recommendation. FNS' response indicates that a new study will be added to the Research and Evaluation Plan for FY 2018. FNS' proposed corrective action does not address how the 2008 study recommendations will be used to identify the causes of variances and how they plan to share any best practices that might result from the identification of those causes. To reach management decision, FNS needs to show how it plans to use the recommendations from the 2008 study to identify and share best practices, if identified, with States and counties within the next fiscal year.

Recommendation 2

Perform and document continuous monitoring and analyses on a yearly basis of State administrative cost variances to identify and share trends and any best practices to reduce SNAP costs.

Agency Response

In its September 26, 2016, response, FNS concurred with this recommendation. FNS will analyze existing State-level administrative expense data to monitor State cost-per-case variances and identify trends. FNS will share with States any identified cost containment strategies that do not negatively affect State Program performance. FNS estimates this corrective action will be completed by September 30, 2017.

OIG Position

We are unable to accept management decision for this recommendation. To reach management decision, FNS should show how it plans to conduct this review yearly and how it plans to share the identified cost containment strategies.

Finding 2: FNS Needs to Conduct Financial Management Reviews More Consistently

FNS conducts financial management reviews to ensure that the information grantees report is accurate, complete, and represents proper expenditures of Federal funds. We found, however, that FNS regional offices were conducting these reviews differently. For instance, the Northeast Regional Office (NERO) reviews its largest State and largest county, New York and New York City, every year. However, the Western Regional Office (WRO) only reviews its largest State, California, every 5 years, and it does not review individual counties. This occurred because FNS allows the regional offices autonomy in their selection of States for financial management reviews. In addition, FNS regional offices do not consistently apply risk factors when selecting States for these reviews due to lack of standard written procedures for reviewing and approving the region's selection of States. In particular, the regional offices assigned risk to States differently. Since each regional office must choose which reviews to perform based on risk, it is critical that these risk levels are assigned consistently. Unless FNS performs these financial management reviews consistently, it cannot ensure that grantees are using Federal funds appropriately.

Agencies are required to establish and maintain internal controls.[16] These internal controls help management fulfill its responsibilities and address identified risks.[17] FNS' financial management review is an "integral part of FNS's total program of management control and financial accountability."[18] This review is conducted on-site by FNS regional offices, ensuring the financial information reported by grantees is correct, complete, and represents proper expenditures of Federal funds.

Because FNS cannot review every grantee/program each year, the agency uses a risk-based approach to select those States it will review. FNS' annual risk-based approach assigns a numerical score to a grantee based on factors such as when the grantee was last reviewed, funding, prior findings, etc. All grantees are ranked from this score to determine the highest risk grantee/program to review. Based on high score, some programs could be reviewed more frequently. At a minimum, each major program area is required to be reviewed at least once every 5 years; however, FNS allows regions flexibility in determining more frequent reviews based on the region's knowledge and experience with the grantees.

NERO reviews New York annually because of the high level of funding the State receives for its SNAP program. Comparatively, California has the highest funded SNAP program in FNS' Western Region. Even though California receives twice the SNAP funds New York receives, WRO scheduled reviews of SNAP administrative costs for California no more frequently than every fifth year.[19] Based on FNS' procedures requiring regions to "create four tiers based upon funding levels that best fit their regions," New York's risk analysis for level of funding scored

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[16] OMB, *Management's Responsibility for Internal Control,* Circular A-123 (December 21, 2004).
[17] GAO-14-704G, *Standards for Internal Controls in the Federal Government* (September 2014).
[18] USDA FNS, *Financial Management Review Guide (FMR)* (March 2009).
[19] WRO's last three SNAP financial management reviews for California were conducted in 2003, 2011, and 2016. As such, WRO actually did not meet the 5 year review requirement between 2003 and 2011.

“very concerned.” Just as NERO scored New York’s funding as “very concerned,” WRO’s risk analysis should have scored California “very concerned,” as California accounts for 76 percent of the region’s SNAP funding. We found, however, that WRO did not follow FNS’ four-tier procedure. This occurred because even though this four-tier procedure for determining risk level is in writing, no written procedure exists to ensure it is followed and approved prior to selection for review.

We found that the financial management reviews are not consistent in reviewing counties for the three county-administered States we visited: California, New York, and Ohio. For instance, we found that while NERO visits both the New York State office and the State’s largest county, WRO does not review California counties and the Midwest Regional Office does not review Ohio counties due to limited resources and time constraints. During our visit to one county in Ohio, we found that the State had improperly commingled $3.6 million of SNAP E&T funding (see Finding 5 of this report). Because of this error, Ohio must return those funds to FNS. In this instance, if regional offices had been conducting financial management reviews consistently in all States, then FNS might have discovered and corrected or prevented this error.

Additionally, NERO’s own review of New York had no findings at the State agency level, but NERO had findings and questioned costs at the county level. NERO questioned SNAP E&T costs for Temporary Assistance for Needy Families (TANF) recipients since regulations exempt TANF recipients from participating in SNAP E&T work requirements. Additionally, FNS had findings regarding the county’s contracting for SNAP E&T and required additional clauses to protect federal funds. FNS should review counties in county-administrated States consistently to better ensure grantees are using Federal funds appropriately.

FNS officials acknowledged that the financial management reviews should be more consistent and FNS has been working to improve its review process. Starting in FY 2014, FNS hired contractors to review each of the agency’s regional offices. These reviews noted that standard operating procedures for the regional and national selection process were not documented. These reviews indicated that documented procedures would help ensure selections and plans were uniform, reviewed, and approved. Additionally, FNS officials stated that FNS has been rewriting its 2009 financial management review guide to provide updated guidance and plans to publish the new guide in calendar year 2016. FNS also established a quality assurance team in early 2016 to assist in the financial management review process to improve consistency and quality of reviews.

As FNS continues to improve its financial management review process, FNS must also establish written procedures for approving the regions’ selection of States for financial management reviews. Written procedures should strengthen consistency among regions when applying risk factors in ranking and selecting States and programs for review. FNS’ risk-based approach to selecting States for review is a necessary tool for the agency, and written procedures ensuring the approach is documented, reviewed, and approved would increase the accuracy and consistency of the level of risk assigned in the financial management review process. Additionally, since a majority of costs occur at the county level in county-administered States, FNS should include counties as part of the financial management review process so that it can identify and prevent administrative cost issues.

Recommendation 3

Establish standard written procedures for reviewing and approving the risk-based approach used by regions to select States for financial management reviews.

Agency Response

In its September 26, 2016, response, FNS concurred with this recommendation. FNS will formalize, in writing, the procedures for reviewing and approving the risk analyzer results used by regional offices to select State agencies for financial management reviews. FNS estimates this corrective action will be completed by September 30, 2017.

OIG Position

We accept management decision for this recommendation.

Recommendation 4

Establish written requirements and procedures for regional offices to select counties to review in county-administered States.

Agency Response

In its September 26, 2016, response, FNS stated it will establish written requirements and procedures for regional offices to assess controls of State agency oversight of counties in county-administered State agencies. FNS estimates this corrective action will be completed by September 30, 2017.

OIG Position

We are unable to accept management decision for this recommendation. FNS' response indicates that it will require the regional offices to review the States oversight of the counties, but it does not address how it will ensure counties are selected for review. To reach management decision, FNS should establish procedures requiring regional offices to select and review county offices in county-administered States during the financial management reviews.

Section 2: Deficiencies in FNS Oversight and the Lack of Effective State and County Financial Management Controls Led to Inaccurate Program Financial Reporting

Finding 3: FNS Internal Reviews Did Not Identify More Than $111 Million in Unsupported Unliquidated Obligations for California

The California Department of Social Services (CDSS) did not appropriately follow Federal regulations for the establishment and liquidation of financial obligations. This occurred because CDSS did not collect supporting obligation data from its reporting counties and, as stated by CDSS officials, did not deobligate unsupported unliquidated obligations because of concerns over access to the funds in the case of unexpected events.[20] Also, FNS' WRO did not perform adequate reviews, and the reviews lacked necessary procedures to validate these unliquidated obligations. As a result, CDSS has unsupported unliquidated obligations totaling over $111 million for FY 2014 that should be deobligated and put to better use.

Federal regulations state that an amount should only be recorded as an obligation when supported by documentary evidence, such as a written order that binds the agency to pay for goods or services.[21] Departmental regulations require agencies to review unliquidated obligations and submit a quarterly certification attesting to the validity of these obligations to the Office of the Chief Financial Officer.[22] Obligations should be deobligated unless there is a documented need for the obligation to remain open.

The Departmental regulations state that the optimum use of funds requires that all current and prior year obligations be continuously reviewed to ensure that obligated balances are not over or understated and that the obligations are properly documented and reported. Reviews and reports of unliquidated obligations are necessary to properly report obligation balances, certify the validity of obligated balances, make funds available that otherwise would not be used, and reduce the risk of misuse and theft of funds. Such reviews improve FNS' and the Department of the Treasury's ability to forecast outlay and borrowing needs. Improper reporting of unliquidated obligations impacts FNS' ability to accurately analyze expenditure data and budget for future expenses.

During our work, we found that CDSS lacked support for unliquidated obligations and WRO did not perform adequate reviews of these obligations to ensure that they were supported by appropriate documentation and represented valid needs.

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[20] Unliquidated obligations represent the balance remaining from the amount of orders placed, contracts or other binding agreements awarded, or services rendered after making any payments or processing deobligations. Unliquidated obligations consist of undelivered orders and accounts payable.
[21] 31 U.S.C. § 1501 (a).
[22] USDA Departmental Regulation 2230-001, Reviews of Unliquidated Obligations (Oct. 15, 2014).

CDSS Lacked Documentation for Unliquidated Obligations

States are required to submit quarterly and year-end Federal financial reports[23] to FNS detailing the total amount of expenditures and unliquidated obligations.[24] CDSS did not report any unliquidated obligations in its quarterly FY 2014 Federal financial reports. On the final year-end report submitted on December 29, 2014, CDSS reported $693 million in Federal expenditures and $133 million in the Federal share of unliquidated obligations. CDSS submitted 2 revisions to this year-end Federal financial report, with the latest submitted over 15 months after the end of the fiscal year, showing the total amount of Federal unliquidated obligations for FY 2014 as approximately $125 million.[25]

In our review of CDSS' FY 2014 unliquidated obligations, we identified unliquidated obligations that were not based on actual obligations representing valid needs. CDSS was unable to provide supporting documentary evidence showing the validity of at least $111 million of the approximately $125 million in unliquidated obligations.[26] CDSS is unable to determine or report the actual amount of unliquidated obligations because it does not collect unliquidated obligation data from each county.[27] CDSS officials stated that the amount reported as unliquidated obligations is an estimate based on the amount that was budgeted for the counties' expenditures. Since the unliquidated obligations were based on budgeted amounts rather than on actual obligations that have not been paid yet, there was no supporting documentation for us to review.

While the final Federal financial report is due December 30, States have 2 years to receive reimbursement for any amendments to their reports, subject to the availability of funds.[28] CDSS is overstating its unliquidated obligations to ensure funds are available to make any adjustments to its claim during this 2 year period. A CDSS official stated that she did not want to return the money to FNS because she was unsure if CDSS would be able to get the money back if needed for an unforeseen expense. The official stated that CDSS anticipates returning a large majority of the FY 2014 unliquidated obligations in September 2016. In fact, CDSS has historically returned large amounts of funds 2 years after the end of the fiscal year. For example, CDSS returned $51 million of FY 2012 funds in September and October 2014 and $62 million of FY 2013 funds in September 2015 (see Table 3).

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[23] SF-425 Federal Financial Report and FNS-778 SNAP Worksheet for the SF-425.

[24] 7 C.F.R. § 277.11 (c) requires that these reports be submitted 30 days after the end of each quarter for the quarterly reports and December 30th for the year-end reports.

[25] This was the most recent submission on file at the time of OIG's onsite fieldwork of CDSS in February and March 2016.

[26] The remaining $14 million includes E&T allocations to the counties, which CDSS officials expect to liquidate, and obligations supported by specific contracts. Therefore we are not taking exception to this amount.

[27] There are 58 counties in California.

[28] 7 C.F.R. § 277.11 (d)(2) states, "subject to the availability of funds from the appropriation for the year in which the expenditure was incurred, FNS may reimburse State agencies for an allowable expenditure only if the State agency files a claim with FNS for that expenditure within two years after the calendar quarter in which the State agency (or local agency) incurred the cost."

Table 3: CDSS Prior Years Unliquidated Obligation Activity

CDSS Reporting of Unliquidated Obligations	FY 2012	FY 2013	FY 2014
Federal Share of Unliquidated Obligations on Initial Year-end Federal Financial Report	$52,236,946	$77,063,014	$132,598,252
Total Funds Returned on Final Year-end Federal Financial Report	$51,011,576	$62,204,204	–
Percent of Unliquidated Obligations Not Used	97.7%	80.7%	–
Month the Funds were Returned by CDSS	September and October 2014	September 2015	–

The FNS Regional Office Did Not Perform Adequate Reviews of State Financial Reports

FNS' regional offices are required to obtain documentation to support any unliquidated obligations reported at grant close-out.[29] While WRO requested supporting documentation from CDSS, its review was inadequate because the documentation provided by CDSS was not specific enough. For example, the supporting documentation provided by CDSS identified $111,399,656 in FY 2014 unliquidated obligations with the payee listed as "counties" and an anticipated liquidation date listed as "September 30, 2016." There was no additional itemization or support for this amount, such as individual line items showing the specific obligation amounts, payees and purposes, dates the specific obligations were established, and individual dates of anticipated liquidation.[30] Had the office followed up with CDSS and requested a more detailed list of the obligations, it might have discovered that the unliquidated obligations are estimates based on budgeted amounts and not based on actual obligations.

In addition to not identifying these invalid obligations at grant close-out, FNS did not identify them during its required quarterly reviews of unliquidated obligations.[31] Regional offices are required to review and certify quarterly the validity of unliquidated obligations that have had no activity within the past 12 months. CDSS reported its unliquidated obligations as a lump sum, and even though a large portion of the unliquidated obligations had no activity, a small amount of funds was gradually liquidated. This kept the unliquidated obligation status as active and thus the obligations went undetected by FNS.

FNS is also required to review and certify all accounts payable (which includes unliquidated obligations) on a quarterly basis. However, FNS' guidance for these certifications only requires

[29] Grant close-out is the annual financial reconciliation of FNS program funds that determines the final grant levels for the grant period.
[30] FNS IPAS-671 Operating Procedures, *Annual Financial Reconciliation (Close-out) of Program Grants*, requires supporting documentation for unliquidated obligations to include the payee and the purpose, date the obligation was established, anticipated date of liquidation, and the amount.
[31] USDA Departmental Regulation 2230-001, Reviews of Unliquidated Obligations (Oct. 15, 2014).

regional offices to obtain supporting documentation in the form of a financial status report (such as SF-425) and a signed statement confirming the dollar amounts from the grantee.[32] There is no requirement to review additional supporting documentation such as contracts or reports from the grantee's financial system. As such, these quarterly reviews did not identify CDSS' invalid unliquidated obligations.

FNS also might have identified the practice of reporting invalid unliquidated obligations if it performed more frequent financial management reviews. Regional offices are required to perform a financial management review of each State's SNAP operations every 3 to 5 years. The last SNAP review for California was in FY 2011, and it only reviewed American Reinvestment and Recovery Act funding and not regular administrative funds. The last California review prior to 2011 was in 2003. Shortly after our fieldwork, FNS conducted another financial management review for California and identified the same unliquidated obligation issue we found. Had FNS conducted more frequent reviews of California, it might have been able to identify this issue earlier (see Finding 2 for more discussion about FNS' financial management review practices).

Amounts inappropriately recorded as unliquidated obligations represent missed opportunities to pursue other uses of funds. As a result of CDSS' invalid obligations, $111 million of Federal funds remained idle and unavailable to be used in support of FNS' program and mission goals. As such, we recommend FNS deobligate $111,399,656 in invalid obligations reported by CDSS and take steps to ensure that future unliquidated obligations are valid and appropriately documented.

Recommendation 5

Deobligate $111,399,656 in invalid unliquidated obligations reported by CDSS.

Agency Response

In its September 26, 2016, response, FNS stated it will review the $111,399,656 in unliquidated obligations reported by CDSS and determine if any of these obligations are eligible for reimbursement. If any obligations are allowable, FNS will reduce the $111,399,656 by that amount and deobligate the remainder. FNS estimates this corrective action will be completed by September 30, 2017.

OIG Position

We accept management decision for this recommendation.

[32] FNS IPAS-212 Operating Procedures, *Financial Certifications* (Dec. 31, 2014).

Recommendation 6

Review all SNAP administrative cost unliquidated obligations currently outstanding for States in the Western Region to ensure that they represent actual obligations for valid needs.

Agency Response

In its September 26, 2016, response, FNS concurred with this recommendation. FNS will identify all the State agencies in the Western Region that have outstanding unliquidated obligations for FY 2014 and FY 2015. Based on this information, FNS will contact the State agencies identified and request that they provide adequate documentation to support their outstanding unliquidated obligations. FNS estimates this corrective action will be completed by September 30, 2017.

OIG Position

We accept management decision for this recommendation.

Recommendation 7

Require CDSS to collect unliquidated obligation data from the counties and report these data on its quarterly and final Federal financial reports.

Agency Response

In its September 26, 2016, response, FNS stated that FNS program regulations at 7 CFR Part 277.11 already require State agencies to collect unliquidated obligation data to complete their financial status report. However, FNS will remind State agencies, in a memo, where they are county-administered, that they should be collecting unliquidated obligation data from their counties in order to properly report this information on their quarterly and final financial status reports. FNS estimates this corrective action will be completed by September 30, 2017.

OIG Position

We accept management decision for this recommendation.

Recommendation 8

Revise FNS IPAS-212 Operating Procedures to require the regional offices to review independent source data, such as specific contracts or reports from the grantee's financial system, during the regional office reviews of unliquidated obligations to ensure that they represent valid needs.

Agency Response

In its September 26, 2016, response, FNS stated that FNS Program Accounting Standard Operating Procedures (PASOPs) entitled Financial Certifications, Version 1.0, (which replaced FNS IPAS-212 Operating Procedures) require that all current and prior year obligations be continuously reviewed to ensure that obligated balances are not overstated or understated and that these obligations are properly documented and reported. FNS will remind regional offices, in a memo, about the requirements for validating reported unliquidated obligations on the quarterly and final financial status reports. FNS estimates this corrective action will be completed by September 30, 2017.

OIG Position

We accept management decision for this recommendation.

Finding 4: FNS Needs to Provide Adequate Oversight to Ensure Expenditures are Charged to the Appropriate Fiscal Year

We found the States and counties in our review operate without a process or accounting system in place to ensure that SNAP administrative expenditures are charged to the correct Federal appropriation. The three States charged and reported expenditures incurred in FY 2013 to FY 2014, the year in which payments were made. This occurred because FNS has not provided sufficient oversight and guidance to ensure that county-administered States are reporting and charging funds to the correct fiscal year. OIG has previously reported on the issue of fiscal year integrity at least three times in the last three decades, and FNS has not taken effective action to address this known issue. As a result, FNS has enabled States to continue to use a process that is not in compliance with Federal regulations. Specifically, the States we reviewed submitted inaccurate Federal financial reports overstating their claims for administrative expenditures in FY 2014, resulting in an over-reimbursement by FNS.

Federal appropriation law states that an appropriation limited to a definite period (e.g., 1 year) is available only for payment of expenses incurred during that time period.[33] In addition, Federal regulations stipulate that a non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance.[34] In the county-administered States we reviewed, counties submit quarterly or monthly claims to the State detailing the amount of SNAP administrative expenditures the county used. The State compiles all of the county claims, combines them with all of the State-level expenditures, and reports this on its Federal financial reports submitted to FNS.[35]

We found that all three States and the six counties in our sample improperly claimed and reported expenditures on FY 2014 financial reports that were incurred during FY 2013. All the States and counties in our sample reported expenditures on a cash basis by the payment date rather than when the expenses were incurred.[36] For example, a common exception we identified was for employee salaries: pay periods worked in September of FY 2013 were paid in October 2014 with FY 2014 funds.

In one county, we identified 14 out of 25 expenditures on the claim from the first quarter of FY 2014 that were for expenses incurred in the prior fiscal year, totaling $838,524.33.[37] The county officials stated the claiming process and system used is established by the State and that they have not received any guidance on how to report expenditures to meet Federal requirements. CDSS created a template in the accounting/reporting system that all of the counties use to submit

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[33] 31 U.S.C. § 1502 (a).
[34] 2 C.F.R. § 200.309.
[35] SF-425 Federal Financial Report and FNS-778 SNAP Worksheet for the SF-425.
[36] Cash basis accounting records expenses when they are paid. Accrual basis accounting refers to the accounting method in which expenses are recorded when incurred.
[37] San Francisco County.

expense claims. In another county[38] reviewed we identified eight expenses totaling over $11 million from FY 2014 that were incurred in the prior year.[39]

We also identified that California's FY 2014 financial reports included State operation cost adjustments for transactions in prior State fiscal years (2011-2013) in excess of $22,000. California officials stated that since the adjustments take place in the current fiscal year, they view these expenses as current and thus pay them out of the current year's funds. However, since these expenses were incurred in the prior years, the State should have amended its prior year financial reports to report and charge any allowable expenses to the correct fiscal year.[40]

In three previous audits issued in July 1993,[41] July 2002,[42] and June 2013,[43] OIG reported States had charged expenses to the incorrect fiscal year. Additionally, OIG identified three FNS financial management reviews that reported fiscal year integrity issues. FNS officials stated they have been aware of this issue since the early 2000s, and their expectation is that expenditures should be reported only for obligations that were incurred during the fiscal year. Officials added that if expenses are incurred but not yet paid, then the States should report these as unliquidated obligations in the year the expenses were incurred. FNS officials explained that, in response to this issue, they developed a draft policy memo more than 5 years ago, but it was never finalized and released. Officials did not know why the original policy memo was not released after it was drafted. FNS officials noted a similar issue was recently identified during a financial management review in Wyoming. The agency informed us it is in the process of updating the prior draft policy memo to address the issue, but is waiting to release it until they discuss it with OMB.

If FNS continues to allow States to report and charge incurred expenses from one year to the following year, States could potentially be reimbursed for more expenditures than they were approved for that year. In addition, inconsistent reporting of expenditures by States makes it difficult for management to effectively compare and analyze program data. We conclude that FNS has not properly managed and addressed the known issue of fiscal year integrity and enabled States to continue using a process that results in expenditures being charged to the improper fiscal year. FNS' awareness of this issue without an overall agency response demonstrates a management control weakness and increases risk of future, more significant violations. As such, we recommend that FNS develop guidance that addresses this problem, and require States to submit plans for ensuring the fiscal year integrity of expenditures.

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[38] Los Angeles County.
[39] OIG cannot determine how much of these amounts were eventually charged to SNAP because all of the sampled expenditures were allocated to various programs through time studies.
[40] 7 C.F.R. § 277.11 (d)(2) - Subject to the availability of funds from the appropriation year in which the expenditure was incurred, FNS may reimburse State agencies for an allowable expenditure only if the State agency files a claim with FNS for that expenditure within two years after the calendar quarter in which the State agency (or local agency) incurred the cost.
[41] Audit Report No. 27018-0004-SF, *Food Stamp Program Administrative Costs State of California*, July 1993.
[42] Audit Report No. 27099-0018-SF, *Food Stamp Program Administrative Costs California*, July 2002.
[43] Audit Report No. 27703-0001-22, *Recovery Act Impacts on Supplemental Nutrition Assistance Program Phase II*, June 2013.

Recommendation 9

Develop standardized guidance and procedures for ensuring the States utilize a process that reports expenditures in the proper fiscal year.

Agency Response

In its September 26, 2016, response, FNS concurred with this recommendation. FNS will develop and provide standardized guidance for ensuring State agencies report expenditures in the proper fiscal year. FNS estimates this corrective action will be completed by September 30, 2017.

OIG Position

We accept management decision for this recommendation.

Recommendation 10

Identify all States that do not utilize a process for reporting expenditures in the proper fiscal year and require those States to develop and submit a plan to FNS for approval detailing the process they will use to collect and report expenditures in the proper fiscal year.

Agency Response

In its September 26, 2016, response, FNS stated that the process for ensuring proper fiscal year integrity is the financial management reviews. FNS will review the past 3 years' financial management reviews and identify all State agencies whose report included a fiscal year integrity finding. Based on this list, FNS will request the State agencies to provide FNS with a plan to come into compliance with fiscal year integrity requirements, unless they have already provided this information. FNS estimates this corrective action will be completed by September 30, 2017.

OIG Position

We are unable to accept management decision for this recommendation. The FNS response does not include the process of FNS reviewing and approving applicable States' plans to ensure they will result in the reporting of expenditures in the proper fiscal year. Additionally, reviewing financial management reviews would not identify all States with fiscal year integrity issues, as each regional office is given flexibility in what review procedures it conducts. For example, the most recent financial management reviews OIG obtained for New York and Ohio did not identify fiscal year integrity issues. However, during our audit, we determined that these two States did not utilize a process for reporting expenditures in the proper fiscal year. To reach management decision, FNS should (1) document the methodology it will use that will accurately identify all States that are not utilizing a process for reporting expenditures in the correct fiscal year, and (2) document how it will review and approve applicable States plans to ensure the plans will result in compliance with fiscal year integrity reporting requirements.

Finding 5: Ohio Needs to Establish Controls to Ensure Proper Reporting of Grant Funds

The Ohio Department of Jobs and Family Services (ODJFS) did not correctly report expenditures for reimbursement from SNAP E&T funds in the counties' accounting system, resulting in approximately $3.6 million in questioned costs. ODJFS claimed that amount as E&T administrative expenditures, although the counties originally reported that amount as participation expenditures. However, since the money was commingled at the county level, ODJFS does not know if those expenditures were all participation expenditures. This occurred because ODJFS did not have adequate controls over its counties' accounting processes or its own accounting processes for recording year-end adjustments to administrative expenditures eligible for reimbursement. This uncertainty about the nature of the actual expenses undermines the integrity of Federal funds and is unallowable under FNS' E&T program funding.

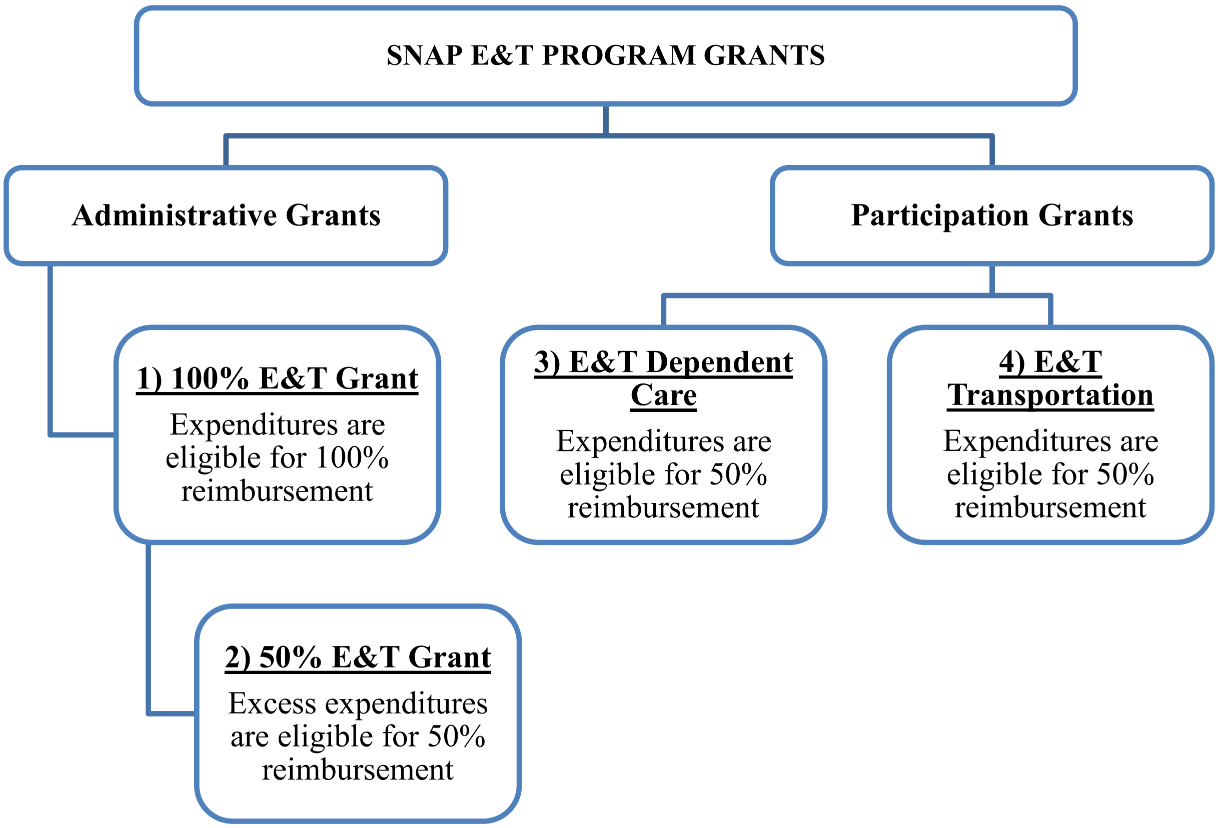
Federal regulations for financial management of grants require accurate records of program operations[44] and state that cost allocation plans "should be supported by formal accounting and other records that will support the propriety of the costs assigned to Federal awards."[45]

We found the counties did not properly account for excess administrative costs, resulting in ODJFS creating year-end adjustments to reallocate costs to several accounts. Those adjustments were made in error and resulted in invalid reimbursements and the commingling of funds intended for other specific purposes. ODJFS further commingled E&T funds at the end of the fiscal year, moving the funds claimed by the counties as participation expenditures into the administrative funds account, in violation of Federal regulations.

FNS' E&T funding program assists SNAP participants in gaining the necessary skills, training, work, or experience to increase self-sufficiency. States receive a Federally-funded, 100 percent reimbursement administrative grant (100% E&T Grant) for administrative expenditures associated with operating an E&T program.[46] If a State exhausts its 100% E&T Grant, it may receive reimbursement of additional administrative expenditures through a 50 percent reimbursement grant (50% E&T Grant).[47] Additionally, States may receive assistance from FNS for covering SNAP E&T participants' expenses such as dependent care costs, transportation, personal safety items, uniforms, etc. However, these expenditures may not be paid with E&T administrative grant funds, but instead are eligible for 50 percent reimbursement through separate Federal grants specifically for E&T participation expenditures (E&T Dependent Care and E&T Transportation).[48] E&T administrative and participation expenditures must be separately reported on FNS' financial reporting forms (see Figure 1).

[44] 7 C.F.R. § 277.6.
[45] 2 C.F.R. § 225 appendix C.
[46] 7 C.F.R. § 273.7 (d)(1)(i).
[47] 7 C.F.R. § 273.7 (d)(2).
[48] 7 C.F.R. § 273.7 (d)(4).

Figure 1: Four Types of SNAP E&T Program Grants



OJDFS policy states that expenditures that exceed eligibility for the 100% E&T Grant should be reported as 50% E&T Grant expenditures and the counties will be reimbursed accordingly.[49] However, during our visits to the counties in March 2016, we found the counties did not have an account in the county finance information system for the allocation for the 50% E&T Grant. Instead, the counties made adjustments to the E&T Transportation account to facilitate reimbursement of excess administrative expenditures, which in FY 2014 were approximately $9 million. Additionally, ODJFS' State-level finance information system recorded approximately $6 million more as E&T Transportation expenditures from the counties. Therefore, ODJFS reported total E&T Transportation expenditures of approximately $15 million on its FY 2014 4th quarter financial report, which was more than twice the amount FNS had approved in the State's budget or State plan of operations.

Upon closing its FY 2014 Federal accounts, FNS informed ODJFS that E&T Transportation expenditures exceeded the FNS-approved budget and therefore ODJFS would need to use State funds to cover the overage. ODJFS responded by filing a final financial report with adjusted expenditures, reallocating $7.8 million of the $15 million to the three other E&T grant categories; over $4.2 million was moved to the 50% E&T Grant and the 50% E&T Dependent

[49] ODJFS Fiscal Administrative Procedure Manual, 5101:9-6-09.3 (March 2013).

Care accounts, and approximately $3.6 million was moved to the 100% E&T Grant account, without ensuring that these disbursements were appropriately categorized (see Table 4).

Table 4: ODJFS FY 2014 Adjustments and Transfers for E&T Accounts

	Administrative Grant E&T 100%	Administrative Grant E&T 50%	Participation Grant E&T Dependent Care	Participation Grant E&T Transportation
4th Quarter Report	$1,662,338	$4,942,003	$32,924	$15,022,889
Adjustments/Transfers	$3,575,424	$3,176,697	$1,119,296	($7,871,417)
Final Report	$5,237,762	$8,118,700	$1,152,220	$7,151,472

These adjustments were made so that expenditures would match the FNS-budgeted funds as approved by FNS in August 2013 and additional 100% E&T funds approved in May 2014 (see Table 5).

Table 5: ODJFS FY 2014 Final Report Compared to Budget

	Administrative Grant E&T 100%	Administrative Grant E&T 50%	Participation Grant E&T Dependent Care	Participation Grant E&T Transportation
FY 2014 Budget	$5,237,762	$10,000,000	$1,152,220	$7,151,472
Final Report	$5,237,762	$8,118,700	$1,152,220	$7,151,472

In August 2015, FNS visited ODJFS to conduct a periodic financial management review of the FY 2014 State administrative costs for SNAP. The agency's review discovered an $8 million revenue discrepancy attributed to adjustment errors, which ODJFS covered with State funds. However, FNS did not report issues with the E&T accounts or discover the $7.8 million discrepancy. Since the agency's review was limited to the State office, it did not review any of the Ohio counties that administer the program. Had FNS visited the county offices, it might have discovered the counties were adjusting participation expenditures to account for administrative expenditures.

Since the 50% E&T Grant and both E&T participation grants are funded by the same apportionment, the effect of a State's commingling of these expenditures is not significant.[50] However, the 100% E&T Grant is funded through a separate apportionment, therefore claims for such expenditures must be appropriately categorized to facilitate appropriate disbursement of funds. As such, the $3.6 million reported by ODJFS as 100% E&T Grant expenditures is not allowed because that amount may include participation expenditures. FNS will need to recover the $3.6 million of commingled costs unless ODJFS, through its counties, can provide documentation of each county's adjustments for E&T administrative and/or participation expenditures.

[50] According to OMB A-11 Section 120.1, *Preparation, Submission, and Execution of the Budget* (July 2016), an apportionment is an OMB-approved plan to use budgetary resources. It typically limits the obligations that may be incurred for specified time periods, programs, activities, projects, objects, or any combination thereof.

Recommendation 11

Require ODJFS to establish adequate procedures for counties to separate and claim SNAP E&T expenditures.

Agency Response

In its September 26, 2016, response, FNS stated that it will issue a memo to Ohio that requires it to establish procedures for properly reporting SNAP E&T expenditures in the correct funding category, so that the State agency can properly report this information on its quarterly and final financial status reports. FNS estimates this corrective action will be completed by September 30, 2017.

OIG Position

We accept management decision for this recommendation.

Recommendation 12

Review the $3,575,424 in FY 2014 E&T Grant expenditures from ODJFS to determine if any of these funds are eligible for reimbursement and establish an account receivable from the State as needed.

Agency Response

In its September 26, 2016, response, FNS stated it will review the $3,575,424 in FY 2014 E&T grant expenditures reported by ODJFS on its final financial status report for FY 2014 and determine if any of these expenditures are eligible for reimbursement. Based on the results of the review, FNS will establish an accounts receivable for the balance determined not to be eligible for reimbursement. FNS estimates this corrective action will be completed by September 30, 2017.

OIG Position

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

Finding 6: California Needs to Submit Timely Reports of Actual Expenditures Instead of Estimated Expenditures

OIG identified that CDSS submitted two sets of financial reports to FNS for the year's quarters and the fiscal year during FY 2014: one set with estimated administrative expenditures, and a second set with actual expenditures. This occurred because FNS' WRO does not hold CDSS accountable for submitting the required financial reports that contain actual cost data by the required 30-day reporting deadline.[51] Rather, WRO has approved CDSS' practice of reporting estimates on the initial financial reports and supplying actual expenditures later. However, FNS uses the estimated figures from CDSS' 30-day reports when performing quarterly analyses. The use of estimated expenditures on these reports limits FNS' ability to provide adequate oversight and proper analysis of State administrative expenses because the quarterly reports being reviewed do not contain actual expenditures.

The financial reporting requirements section of the Federal regulation requires quarterly expenditure reports to be submitted up to 30 days after the end of the quarter.[52] Final fiscal year reports are due to FNS by December 30. State administrative costs for SNAP are first reported using the FNS-778 SNAP worksheet, which is then summarized and reported on the SF-425 Federal financial report. The FNS-778 instructions note that the outlays reported on this Federal form should include the sum of actual cash disbursements.[53] Additionally, the regulation provides a means for State agencies to request extensions of reporting due dates if necessary, and these requests should be the method used to accommodate States to ensure that consistent data are reported on Federal financial reports.

We found that in FY 2014 CDSS reported estimated, not actual, administrative expenses on its Federal financial reports 30 days after the close of each quarter or fiscal year and then submitted a revised report with actual figures 90 days after the end of the quarter. CDSS officials explained that they are unable to meet the 30-day reporting deadline because California's counties do not submit expenditure claims to the State until 30 days after the quarter. One county official in California stated that the process for claiming expenditures is time consuming due to the county's oversight and approval process, which involves multiple levels of county officials reviewing the claim before it is submitted to CDSS.

WRO officials stated they approved CDSS' practice of reporting estimated expenditures within the 30-day reporting requirement and then reporting actual expenditures 60 days later as a way to report costs on the financial reports by the 30-day reporting deadline. However, WRO did not communicate with FNS' national office when it approved CDSS' methodology, and the forms used for the reports did not have any identifiers to make users aware of the use of estimated expenditures instead of actuals. The FNS national office did not acknowledge awareness of the use of estimated expenditures in the reports. When we informed FNS about CDSS' use of estimated expenditures, one official stated that California is too big to compile all the data and

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[51] SF-425 Federal Financial Report and FNS-778 SNAP Worksheet for the SF-425.
[52] 7 C.F.R. § 277.11 (c)(4).
[53] FNS-778/778A SNAP Worksheet for the SF-425 – *Instructions*, Item 10b.

meet the deadline, and added that FNS uses the submitted figures because the agency needs complete data for planning each quarter, whether or not they are correct.

The use of estimated expenditures on the Federal financial reports impacts multiple areas within FNS. FNS performs quarterly analyses and oversight of the States using the States' quarterly financial reports. If the reviewed quarterly reports do not contain actual expenditures, any variance or trending analysis performed by WRO and the national office would be misleading. CDSS officials stated that estimated expenditures are within 5-10 percent of the actual expenditures reported. However, we identified variances as much as 19 percent (over $33 million) between the estimated and revised FY 2014 reports.

We note that other county-administered States meet FNS' reporting requirements. OIG reviewed two other States during this audit and found that both were able to report actual expenditures within the required deadlines. One of the states, New York, has the second highest Federal share of SNAP administrative costs and successfully reported actual expenditures within the 30-day reporting requirement. We conclude that for FNS to make timely decisions, it is imperative that FNS receives reliable data from a State that receives almost 23 percent of FNS' budget for administrative expenses. Therefore, we believe FNS needs to take immediate action to provide appropriate oversight that ensures CDSS develops the appropriate processes for timely submission of quarterly and final financial reports that use actual expenditures, as required by Federal and agency guidance and regulations.

Recommendation 13

Require CDSS to timely submit quarterly and final Federal financial reports containing actual expenditures.

Agency Response

In its September 26, 2016, response, FNS stated that program regulations at 7 CFR Part 277.11 already require timely submission of quarterly and final financial status reports. FNS will issue a memo that reiterates the need for State agencies to submit timely financial status reports that contain accurate expenditures or obligations. FNS will require approval of a State's methodology if they are unable to report actual expenditures or obligations in a county administered State. FNS estimates this corrective action will be completed by September 30, 2017.

OIG Position

We are unable to accept management decision for this recommendation. States are required to submit actual expenditures on the quarterly and final Federal financial reports and FNS should require CDSS to comply with this requirement. The regulation at 7 CFR Part 277.11 provides a means for State agencies to request extensions of reporting due dates if necessary and this should be the method FNS uses to accommodate States that are unable to report actual expenditures or obligations timely.

Recommendation 14

Develop standardized guidance and procedures for regional offices to communicate any deviations or exceptions granted to States by regional officials to the FNS national office.

Agency Response

In its September 26, 2016, response, FNS stated that it will issue a memo to the regional offices requiring them to communicate to the National Office any deviations or exceptions granted to State agencies regarding reporting expenditures on the quarterly and final financial status reports. FNS estimates this corrective action will be completed by September 30, 2017.

OIG Position

We accept management decision for this recommendation.

Scope and Methodology

We conducted this audit to evaluate FNS' controls over SNAP administrative costs for FY 2014. Specifically, we determined if States with county-administered programs were effectively and efficiently controlling costs and minimizing variances.

We conducted fieldwork at the FNS national office, three FNS regional offices, three State agencies, and six county offices from October 2015 through June 2016. We non-statistically selected the three county-administered State agencies with the highest, median, and lowest administrative cost-per-case for FY 2014: California, New York, and Ohio. Additionally, we non-statistically selected two counties for review at each State agency based on high and low cost-per-case and total SNAP program costs (see Exhibit B for audit sites visited).

At FNS' national office, we familiarized ourselves with FNS' policies, program operations, and internal controls related to SNAP administrative costs. At the agency's regional offices, we evaluated oversight responsibilities and operating policies. At the State offices, we evaluated the agencies' controls for monitoring and reporting SNAP administrative costs, including the oversight responsibilities over the county offices to ensure costs are accurate and allowable. At the county offices, we reviewed the county claim expenses to determine compliance with FNS' SNAP administrative cost regulations and policies.

To accomplish our audit, we:

- **Reviewed Criteria**: We reviewed the pertinent laws and regulations governing SNAP administrative costs. We also reviewed FNS' policies and procedures that provide guidance to State agencies and county offices. We reviewed the procedures State agencies established to ensure county office compliance with SNAP administrative costs guidance.

- **Interviewed FNS and State Agency Personnel:** We interviewed FNS and State agency officials to gain an understanding of their roles in monitoring SNAP administrative costs and to determine what controls are in place to ensure compliance with SNAP administrative cost guidance.

- **Conducted Site Visits**: We performed fieldwork at FNS, State, and county offices to evaluate FNS controls for effectively and efficiently controlling costs and minimizing variances for SNAP administrative costs.

- **Reviewed FNS Regional Office Oversight**: We reviewed the most recent SNAP financial management reviews completed for the States in our sample to verify if there were any findings related to SNAP administrative costs. We reviewed the regional offices' oversight of the State agencies' Federal financial reports (SF-425) and SNAP budget for SNAP administrative costs.

- **Reviewed State Agencies' Submission of SNAP Administrative Costs**: We reviewed the FY 2014 Federal financial reports submitted to FNS to determine if they are accurate and complete. We also reviewed the cost allocation plans to determine how the State agencies calculate the expenses submitted on their Federal financial reports. We reviewed a non-statistical sample of FY 2014 costs to determine if they were appropriate and allowable.

- **Reviewed State Agencies' SNAP Administrative Cost Review Process**: We reviewed the State agencies' SNAP administrative cost review process to identify any deficiencies related to the county offices' compliance with SNAP administrative cost laws, regulations, policies, and procedures.

- **Reviewed County Offices' Claim Expense Records**: At the county office, we reviewed a non-statistical sample of county claim expense records used to support the SNAP administrative costs included in the State agencies' Federal financial reports submitted to FNS.

During the course of our audit, we did not rely on or verify information in any agency electronic information systems and we make no representation regarding the adequacy of any agency computer systems or the information generated from them.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Abbreviations

BLS ....Bureau of Labor Statistics
CAP..Cost Allocation Plan
CDSS......................................California Department of Social Services
C.F.R. ....Code of Federal Regulations
E&T..Employment and Training
FNS ....Food and Nutrition Service
FY ....Fiscal Year
NERO.....................................Northeast Regional Office
ODJFS....................................Ohio Department of Jobs and Family Services
OIG ....Office of Inspector General
OMB ....Office of Management and Budget
PACAP...................................Public Assistance Cost Allocation Plan
SF ....Standard Form
SNAP ....Supplemental Nutrition Assistance Program
TANF ....Temporary Assistance for Needy Families
U.S.C......................................United States Code
USDA.....................................United States Department of Agriculture
WRO………………………..Western Regional Office

Exhibit A: Summary of Monetary Results

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

Finding	Recommendation	Description	Amount	Category
3	5	Unsupported unliquidated obligations	$ 111,399,656	Funds to be put to better use
5	12	FNS commingled SNAP E&T funds	$ 3,575,424	Questioned Costs, Recovery

Exhibit B: Audit Sites Visited

This exhibit lists the audit sites visited during audit fieldwork.

Audit Site	Location
FNS National Office	Alexandria, Virginia
FNS Northeast Regional Office State Office New York Office of Temporary and Disability Assistance County Offices New York City Human Resources Administration Erie County Department of Social Services	Boston, Massachusetts Albany, New York New York, New York Buffalo, New York
FNS Western Regional Office State Office California Department of Social Services County Offices Los Angeles Department of Public Social Services San Francisco Human Services Agency	San Francisco, California Sacramento, California Los Angeles, California San Francisco, California
FNS Midwest Regional Office State Office Ohio Department of Job and Family Services County Offices Cuyahoga County Job and Family Services Hamilton County Job and Family Services	Chicago, Illinois Columbus, Ohio Cleveland, Ohio Cincinnati, Ohio

USDA'S
FOOD AND NUTRITION SERVICE
RESPONSE TO AUDIT REPORT

United States Department of Agriculture

Food and Nutrition Service

3101 Park Center Drive Room 712

Alexandria, VA 22302-1500

DATE: September 26, 2016

AUDIT NUMBER: 27601-0003-22

TO: Gil H. Harden
Assistant Inspector General for Audit

FROM: Audrey Rowe /s/
Administrator
Food and Nutrition Service

SUBJECT: SNAP Administrative Costs

This letter responds to the official draft report for audit number 27601-0003-22, SNAP Administrative Costs. Specifically, the Food and Nutrition Service (FNS) is responding to the fourteen recommendations in the report.

OIG Recommendation 1:

Use the recommendations of the 2008 feasibility study to identify the causes of SNAP administrative cost variances and share any best practices that are discovered as a result of the study with States and counties.

FNS Response:

FNS concurs with this recommendation. A study that models available State-level data will be included in the FNS Research and Evaluation Plan for FY 2018.

Estimated Completion Date: September 30, 2017

OIG Recommendation 2: *(Updated by OIG on September 13, 2016)*

Perform and document continuous monitoring and analyses on a yearly basis of State administrative cost variances to identify and share trends and any best practices to reduce SNAP costs.

FNS Response: FNS concurs with this recommendation. FNS will analyze existing State-level administrative expense data to monitor State cost-per-case variances and identify trends. FNS will share with States any identified cost containment strategies that do not negatively affect State Program performance.

Estimated Completion Date: September 30, 2017

OIG Recommendation 3:

Establish standard written procedures for reviewing and approving the risk-based approach used by regions to select States for financial management reviews.

FNS Response: FNS concurs with this recommendation. FNS will formalize in writing our procedures for reviewing and approving the risk analyzer results used by regional offices to select State agencies for financial management reviews.

Estimated Completion Date: September 30, 2017

OIG Recommendation 4:

Establish written requirements and procedures for regional offices to select counties to review in county-administered States.

FNS Response: FNS will establish written requirements and procedures for Regional Offices to assess controls of State agency oversight of counties in county-administered State agencies.

Estimated Completion Date: September 30, 2017

OIG Recommendation 5:

Deobligate $111,399,656 in invalid unliquidated obligations reported by CDSS.

FNS Response: FNS will review the $111,399,656 in unliquidated obligations reported by CDSS and determine if any of these obligations are eligible for reimbursement. If any obligations are allowable, we will reduce the $111,399,656 by that amount and de-obligate the remainder.

Estimated Completion Date: September 30, 2017

OIG Recommendation 6:

Review all SNAP administrative cost unliquidated obligations currently outstanding for States in the Western Region to ensure that they represent actual obligations for valid needs.

FNS Response: FNS concurs with this recommendation. FNS will identify all the State agencies in the Western Region who have outstanding unliquidated obligations for FY 2014 and FY 2015. Based on this information, FNS will contact the State agencies identified and request that they provide adequate documentation to support their outstanding unliquidated obligations.

Estimated Completion Date: September 30, 2017

OIG Recommendation 7:

Require CDSS to collect unliquidated obligation data from the counties and report these data on its quarterly and final Federal financial reports.

FNS Response: FNS program regulations at 7 CFR Part 277.11 already require State agencies to collect unliquidated obligation data to complete their financial status report. However, we will remind State agencies, in a memo, where they are county-administered, that they should be collecting unliquidated obligation data from their counties in order to properly report this information on their quarterly and final financial status reports.

Estimated Completion Date: September 30, 2017

OIG Recommendation 8:

Revise FNS IPAS-212 Operating Procedures to require the regional offices to review independent source data, such as specific contracts or reports from the grantee's financial system, during the regional office reviews of unliquidated obligations to ensure that they represent valid needs.

FNS Response: FNS Program Accounting Standard Operating Procedures (PASOPs) entitled, Financial Certifications, Version 1.0, (which replaced FNS IPAS-212 Operating Procedures) require that all current and prior year obligations be continuously reviewed to ensure that obligated balances are not overstated or understated and that these obligations are properly documented and reported. FNS will remind regional offices, in a memo, about the requirements for validating reported unliquidated obligations on the quarterly and final financial status reports.

Estimated Completion Date: September 30, 2017

OIG Recommendation 9:

Develop standardized guidance and procedures for ensuring the States utilize a process that reports expenditures in the proper fiscal year.

FNS Response: FNS concurs with this recommendation. FNS will develop and provide standardized guidance for ensuring State agencies report expenditures in the proper fiscal year.

Estimated Completion Date: September 30, 2017

OIG Recommendation 10:

Identify all States that do not utilize a process for reporting expenditures in the proper fiscal year and require those States to develop and submit a plan to FNS for approval detailing the process they will use to collect and report expenditures in the proper fiscal year.

FNS Response: The FNS process for ensuring proper fiscal year integrity is the financial management reviews (FMRs). FNS will review the past three years FMRs and identify all State agencies whose report included a fiscal year integrity finding. Based on this list we will request the State agencies to provide us with a plan to come into compliance with fiscal year integrity requirements, unless they have already provided this information.

Estimated Completion Date: September 30, 2017

OIG Recommendation 11:

Require ODJFS to establish adequate procedures for counties to separate and claim SNAP E&T expenditures.

FNS Response: FNS will issue a memo to Ohio that requires them to establish procedures for properly reporting SNAP E&T expenditures in the correct funding category, so that the State agency can properly report this information on their quarterly and final financial status reports.

Estimated Completion Date: September 30, 2017

OIG Recommendation 12:

Review the $3,575,424 in FY 2014 E&T Grant expenditures from ODJFS to determine if any of these funds are eligible for reimbursement and establish an account receivable from the State as needed.

FNS Response: FNS will review the $3,575,424 in FY2014 E&T grant expenditures reported by ODJFS on their final financial status report for FY 2014 and determine if any of these expenditures are eligible for reimbursement. Based on the results of the review, we will establish an accounts receivable for the balance determined not to be eligible for reimbursement.

Estimated Completion Date: September 30, 2017

OIG Recommendation 13:

Require CDSS to timely submit quarterly and final Federal financial reports containing actual expenditures.

FNS Response: FNS program regulations at 7 CFR Part 277.11 already require timely submission of quarterly and final financial status reports. FNS will issue a memo that reiterates the need for State agencies to submit timely financial status reports that contain accurate expenditures or obligations. We will require approval of a State's methodology if they are unable to report actual expenditures or obligations in a county administered State.

Estimated Completion Date: September 30, 2017

OIG Recommendation 14:

Develop standardized guidance and procedures for regional offices to communicate any deviations or exceptions granted to States by regional officials to the FNS national office.

FNS Response: FNS will issue a memo to the regional offices requiring them to communicate to the National Office any deviations or exceptions granted to State agencies regarding reporting expenditures on the quarterly and final financial status reports.

Estimated Completion Date: September 30, 2017

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