



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

Food Stamp Program
Administrative Costs
State of Washington



**Report No.
27099-16-SF
June 2001**



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Western Region - Audit

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DATE: June 12, 2001

REPLY TO

ATTN OF: 27099-16-SF

SUBJECT: Food Stamp Program Administrative Costs
State of Washington

TO: Allen Ng
Regional Administrator
Western Region
Food and Nutrition Service

ATTN: Kathleen Burks
Director of Financial Management
Food and Nutrition Service

This report presents the results of our audit of the Food Stamp Program Administrative Costs - State of Washington. Your June 4, 2001, response to the draft report is included as exhibit F of the report. Excerpts from your response have been incorporated into the relevant sections of the report.

To accept your management decision on Recommendation Nos.1, 2, and 5, we will need documentation that the State was billed for the appropriate amount. To accept your management decision on Recommendation Nos. 3, 4, and 6, we will need your plan and a timeframe for determining when corrective action will be taken.

In accordance with Department Regulation 1720-1, please furnish a reply within 60 days describing the corrective action taken or planned and the timeframes for implementation of those recommendations for which management decision has not yet been reached. Please note that the regulation requires a management decision to be reached on all recommendations within a maximum of 6 months from report issuance.

We appreciate the cooperation and assistance provided by your staff during our audit.

/s/

SAM W. CURRIE
Regional Inspector General
for Audit

EXECUTIVE SUMMARY

FOOD STAMP PROGRAM ADMINISTRATIVE COSTS STATE OF WASHINGTON AUDIT REPORT NO. 27099-16-SF

RESULTS IN BRIEF

This report presents the results of our audit of the administrative costs claimed by the State of Washington Department of Social and Health Services (DSHS) under the Food Stamp Program (FSP). Our objective was to determine the accuracy of DSHS' administrative cost claims for FSP and the allowability of those costs.

We judgmentally selected 6 of 18 cost categories: certification, fraud investigation, all four employment and training categories, and other activities such as department-wide indirect costs. These categories represented \$70.9 million out of \$85.9 million in administrative costs claimed by the State of Washington on the SF-269 report for Federal fiscal years FY(s) 1998 and 1999.

Based on our review, we questioned \$4.4 million for fraud investigation, attorney general, and indirect costs. USDA reimbursed the State for about 50 percent of these costs, or \$2.2 million.

We found that DSHS' claims were not always accurate and the costs were not always supportable:

- DSHS used an unsupported method to allocate fraud investigation costs to the FSP. DSHS officials could not explain why they did not (1) use the approved plan to allocate costs or (2) reimburse FNS for the overcharge once they detected the error. Properly applying the methodology in the allocation plan would have resulted in a claim of \$1,304,575 versus the \$4,440,153 claimed by DSHS. As a result, FNS overpaid DSHS by \$1,567,789, the Federal 50-percent share of the overcharge.
- DSHS incorrectly allocated \$1,282,422 of indirect costs to the FSP by (1) charging direct costs as indirect costs, and (2) using incorrect allocation percentages to distribute

department-wide indirect costs. Due to recent attrition, DSHS officials could not explain why these errors occurred. As a result, FNS overreimbursed DSHS by \$639,873¹ the Federal share of the overcharge.

Also, DSHS did not follow Random Moment Time Study (RMTS) procedures to allocate over \$90 million in FSP administrative costs. Specifically, DSHS officials did not: (1) administer samples in a timely manner, (2) ensure sample sizes were reliable, and (3) take monthly samples on a consistent basis. This occurred because DSHS officials did not consider the importance of conducting a RMTS in accordance with requirements. These practices diminished the validity and reliability of the RMTS results and the allocation of FSP administrative costs.

KEY RECOMMENDATIONS

We recommend that FNS recover from the DSHS a total of \$2,207,662 (\$1,567,789 for fraud investigation costs; \$384,696 for attorney general costs; and \$255,177 for the incorrect allocation percentages (see exhibit A).² We also recommend that DSHS conduct reviews to ensure that they are in compliance with the RMTS instructions.

AGENCY RESPONSE

In its June 4, 2001, written response to the draft report, the FNS Western Regional Office concurred with the report findings and recommendations. FNS' response is included as exhibit F of this report.

¹ \$639,873 was not 50-percent of \$1,282,422 because some costs were 100-percent reimbursable.

² Per FNS' request at the exit conference, OIG summarized the overcharges by Federal fiscal years 1997 through 1999 (see exhibit E).

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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 that provides support to needy households. The Food and Nutrition Service (FNS) administers the program in 50 States, the District of Columbia, Guam, and the U.S. Virgin Islands.

Title 7, Code of Federal Regulations (CFR), part 277, establishes uniform requirements for the management of funds provided to the State agencies for the administration of the FSP. Appendix A of part 277, "Principles for Determining Costs Applicable to Administration of the Food Stamp Program by State Agencies," sets forth the principles for determining the allowable costs of administering the program.

States prepare a quarterly financial status report (SF 269) of their FSP administrative costs and forward this report to FNS. FNS generally reimburses 50-percent of the States' direct and indirect administrative costs for certifying households, anti-fraud and investigation activities, automated data processing operations, fair hearings, outreach, nutrition education, and electronic benefits transfer issuance.

FNS received over \$17.7 billion in fiscal year (FY) 1999 for the FSP, including \$1.9 billion for administrative costs. State agencies administer the FSP at State and local levels, including determination of eligibility and distribution of benefits. The State of Washington Department of Social and Health Services (DSHS) is responsible for various social and health programs in the State. Within DSHS, the Economic Services Administration administers the FSP through 65 Community Services Offices.

In the State of Washington, total Federal outlay for the FSP administrative costs increased from \$39 million in FY 1998 to \$46.9 million in FY 1999. This represented an increase of 20 percent in 1 year. Monthly participation decreased from 364,418 recipients in FY 1998 to 306,654 in FY 1999, or a 16 percent decrease over 1 year.

In 1999, Washington’s administrative cost per FSP participant was \$153, compared to a national average of \$107.

DSHS bases its direct and indirect administrative costs on its cost allocation plan, approved by the cognizant Federal agency, the U.S. Department of Health and Human Services (HHS). Prior to approval, FNS has the opportunity to review the cost allocation plan and submit comments and recommendations to HHS. The FSP administrative costs are charged through direct and indirect costs. Direct costs are allocated according to case counts, direct charge, staff effort, and other approved methodologies. Department-wide indirect costs (utilities, supplies, maintenance, accounting, administrative, etc.) and some direct costs (eligibility determinations, certification, etc.) are allocated according to the Random Moment Time Studies (RMTS).

Under RMTS, management selects a statistical sample of Community Services Office workers to complete a form indicating the programs they worked on at the sample time. After management summarizes the information from the sample forms, a percentage of participation is compiled for each financial program. The information is entered into the automated cost allocation system each month, and costs are allocated to each program.

OBJECTIVES

Our objectives were to determine the accuracy of DSHS’ administrative cost claims for the FSP and the allowability of those costs.

SCOPE

We performed this audit at the request of the FNS Western Regional Office, which was concerned about the high administrative costs claimed by some of the States in the region. We selected the State of Washington because it had the highest administrative cost per FSP participant.

DSHS is responsible for administering the FSP in Washington. We reviewed DSHS’ cost allocation plan that was in effect from July 1, 1997 through June 30, 1999, and another plan that was in effect from July 1, 1999 through June 30, 2001. Based on the high dollar value of certain costs, we judgmentally selected 6 of 18 cost categories—certification, fraud investigation, and all four employment and training categories—and department-wide indirect costs. These categories represented \$70.9 million out of \$85.9 million in administrative costs claimed by the State of Washington on the SF

269 reports for Federal FY's 1998 and 1999.³ After noting discrepancies in fraud investigation costs, we expanded our scope to include the last quarter of FY 1997—the earliest date that records were still available.

In addition, we reviewed the Random Moment Time Study (RMTS) used by the State to allocate administrative costs. We expanded our coverage to include FY 2000 when our review identified problems during the initial scope years.

We performed initial fieldwork from July 2000 through September 2000 and additional fieldwork in November 2000 at: the FNS Western Regional Office in San Francisco, California; Washington State Department of Social and Human Services (DSHS) in Lacey, Washington; three Community Services Offices in Tacoma, Burien and Seattle, Washington; and the attorney general's office in Olympia, Washington.

This audit was performed in accordance with generally accepted government auditing standards.

METHODOLOGY

To accomplish our objectives and support our findings, we performed the following procedures:

- We reviewed regulations, policies and procedures governing FSP administrative costs, including Office of Management and Budget Circular A-87.
- We interviewed FNS Western Regional Office officials to determine what controls are used to monitor FSP administrative costs at the State agencies and to identify any issues concerning the budget approval process.
- At the FNS Western Regional Office, we reviewed a recent FNS financial management review of the State of Washington and DSHS' cost allocation plans approved by HHS.
- We interviewed an official at HHS' Division of Cost Allocation to identify any issues relating to DSHS' cost allocation plan.

³ The State's fiscal year is July 1 through June 30.

- We reviewed the results of State and local level audits performed under the Single Audit Act to identify issues concerning the allocation of State administrative costs.
- We reviewed DSHS accounting records and analyzed charges and reimbursement claims made to the FSP on quarterly financial status reports during FY's 1998 and 1999.
- We interviewed State and Community Services Office officials responsible for recording and reporting administrative costs and completing the RMTS. We also interviewed Community Services Offices sample employees to identify whether they completed the sample form, received the RMTS sample forms timely, and understood the instructions on the sample form.
- At DSHS' Department of Fraud Investigations, we reviewed a sample of the investigation case files to determine whether the allocation methodology and resulting costs were supported by programs identified within the file. We also interviewed investigators to determine the amount of staff effort spent on a FSP investigation, and to determine if time records were being currently maintained.
- We interviewed attorneys at the attorney general's office to determine their time spent on the FSP, and we examined time reports which track the amount of staff effort spent on different programs.

FINDINGS AND RECOMMENDATIONS

CHAPTER 1	DSHS DID NOT PROPERLY ALLOCATE FRAUD INVESTIGATION COSTS
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FINDING NO. 1

From July 1997 through June 1999, DSHS used an unsupported method to allocate fraud investigation costs to the FSP. DSHS officials could not explain why they did not (1) use the approved plan to allocate costs or (2) reimburse FNS for the overcharge once they detected the error. Properly applying the methodology in the allocation plan would have resulted in a claim of \$1,304,575 versus the \$4,440,153 claimed by DSHS. As a result, FNS overpaid DSHS by \$1,567,789, the Federal 50-percent share of the overcharge (see exhibit C).

The approved allocation plans required that fraud investigation costs be based on the number of “case counts” completed by the investigators. Regulations⁴ also require that “all costs allocable to the FSP under cost allocation plans must be supported by formal accounting records, which will substantiate the propriety of eventual charges.”

During our review, we found that DSHS used an unsupportable formula from July 1997 through June 1999 to allocate its fraud investigation cost. DSHS’ formula skewed the percentages of the actual case counts so that the FSP incorrectly paid for more than half of the entire fraud investigation costs.

For example, although monthly food stamp cases averaged around 14 percent of all cases, DSHS charged the FSP a monthly average rate of 54 percent. In comparison, an HHS block grant that represented 78 percent of all case activity was charged at a rate of 42 percent.

⁴ 7CFR 277, Appendix A, section (I) dated January 1, 1997.

In July 1999, DSHS discontinued using the unsupported formula and reverted to using the approved plan to allocate costs. However, DSHS failed to reimburse the FSP for overcharges it claimed during the 2-year period that it used the formula. Due to recent attrition, DSHS officials were unable to explain why they did not use the case count method to allocate costs or reimburse FNS for the overcharges once they detected the error. We recomputed costs based on the case count method and determined that FNS overreimbursed DSHS \$1,567,789.

RECOMMENDATION NO. 1

Recover \$1,567,789 in administrative costs that were overcharged by DSHS for fraud investigations.

FNS Response

In its written response to the draft report, dated June 4, 2001, FNS concurred with this finding and recommendation.

OIG Position

To accept your management decision on this recommendation, we need documentation that the State was billed for this amount.

CHAPTER 2	DSHS INCORRECTLY CHARGED INDIRECT COSTS TO THE FSP
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FINDING NO. 2

DSHS incorrectly allocated \$1,282,422 of indirect costs to the FSP by (1) charging direct costs as indirect costs, and (2) using incorrect allocation percentages to

distribute department-wide indirect costs. Due to recent attrition, DSHS officials could not explain why these errors occurred. As a result, FNS overreimbursed DSHS by \$639,873, the Federal share of the overcharge.

According to the cost allocation plan, DSHS' administrative expenses are charged through direct and indirect costs. Direct costs, such as attorney general payroll and certification, are allocated through case counts, time sheets, and other approved methodologies. Indirect costs include utilities, supplies, maintenance, accounting, administrative, etc. These costs are allocated based on Random Moment Time Studies.

We reviewed the accuracy and the allowability of DSHS' claims from July 1997 through June 1999 for attorney general costs and department-wide indirect costs. Based on our review, we determined that DSHS had incorrectly claimed reimbursement for these costs:

DSHS charged direct costs as indirect costs.

From July 1997 through June 1999, DSHS incorrectly allocated attorney general costs as an indirect cost. DSHS officials could not explain why they did not follow the approved plan to charge the costs as direct costs. Following the approved plan would have resulted in a claim of \$155,893 versus the \$927,960 claimed by DSHS. As a result, FNS overpaid DSHS by \$384,696, the Federal share of the overcharge.

The cost allocation plan⁵ states that the attorney general's services are to be directly charged based on staff effort.

⁵DSHS' allocation plan was approved and dated by HHS' Division of Cost Allocation on July 1, 1997.

The attorney general's office, an independent agency, bills DSHS for its monthly legal services. The monthly bills identify the amount of staff time expended for FSP-related issues.

However, instead of charging the FSP for the actual amount of time recorded on the time sheets, DSHS allocated the entire bill on the same basis as it allocated department-wide indirect costs. We recomputed the attorney general's costs using the summary bills submitted to the department. The attorney general's office prepared the summary bills using the time sheets prepared by its attorneys. We determined that DSHS overclaimed \$772,067 (see exhibit D), of which the Federal Government reimbursed \$384,696.

DSHS used incorrect allocation percentages to distribute department-wide indirect costs.

DSHS overcharged FNS \$510,355 in department-wide indirect costs for 3 months because it used incorrect allocation percentages to distribute the costs. The Federal Government's 50-percent share of the overcharge amounted to \$255,177.

Regulations⁶ state, "indirect cost pools should be distributed to the benefiting cost objective on bases which will produce an equitable result in consideration of relative benefits derived."

DSHS distributed department-wide indirect costs based on the number of full-time equivalents (FTE's) assigned to a particular cost objective. From July 1997 through May 1999, the FTE's ranged from 873 to 1,395. However, for June 1999 through August 1999, the FTE's increased to 2,053. We questioned the increase for these 3 months because only a maximum of 1,800 FTE's were assigned to the FSP.

Subsequently, DSHS determined that it had used an incorrect FTE number to calculate the allocation percentages. Specifically, a DSHS official found that one of its field offices had mistakenly entered a journal voucher that used the dollar amount instead of the number of FTE's in its payroll allocation. He also found that some of the field offices had entered their journal vouchers for the cumulative total staff effort, instead of allocating the effort over a few months.

⁶ 7CFR 277, Appendix A, (F)(1), dated January 1, 1997.

Based on our discussions with DSHS officials, they recomputed the allocation percentages and determined that the total overcharge to the FSP amounted to \$510,355; the Federal share amounted to \$255,177.

From the information provided above, DSHS should reimburse FNS \$639,873 which is comprised of \$384,696 for attorney general costs, and \$255,177 for errors made in department-wide indirect cost.

RECOMMENDATION NO. 2

Recover \$384,696 in administrative costs that were overcharged by DSHS for attorney general costs.

FNS Response

In its written response to the draft report, dated June 4, 2001, FNS concurred with this finding and recommendation.

OIG Position

To accept your management decision on this recommendation, we need documentation that the State was billed for this amount.

RECOMMENDATION NO. 3

Instruct DSHS to use the time sheets provided by the attorney general's office and only charge for the services rendered to the FSP.

FNS Response

In its written response to the draft report, dated June 4, 2001, FNS concurred with this finding and recommendation.

OIG Position

To accept your management decision on this recommendation, we need a proposed completion date for implementation of the corrective action.

RECOMMENDATION NO. 4

Determine the amount of attorney general overcharges made from July 1999 to the date of the instruction (see Recommendation No. 3) and recover any additional overcharges to the program.

FNS Response

In its written response to the draft report, dated June 4, 2001, FNS concurred with this finding and recommendation.

OIG Position

To accept your management decision on this recommendation, we need a proposed completion date for implementation of the corrective action.

RECOMMENDATION NO. 5

Recover \$255,177 in administrative costs that were overcharged by DSHS for processing erroneous journal entries to the department-wide indirect costs.

FNS Response

In its written response to the draft report, dated June 4, 2001, FNS concurred with this finding and recommendation.

OIG Position

To accept your management decision on this recommendation, we need documentation that the State was billed for this amount.

FINDING NO. 3

DSHS did not follow Random Moment Time Study (RMTS) procedures to allocate over \$90 million in FSP administrative costs. Specifically, DSHS officials did not: (1) administer samples in a timely manner, (2) ensure sample sizes were reliable, and (3) take monthly samples on a consistent basis. This occurred primarily because DSHS officials did not consider the importance of conducting a RMTS in accordance with requirements. These practices diminished the validity and reliability of the RMTS results and the allocation of FSP administrative costs.

The Office of Management and Budget (OMB) Circular A-87⁷ states that DSHS may use RMTS in place of activity reports, but the sampling “must meet acceptable statistical sampling standards [in that] the results must be statistically valid and applied to the period being sampled.”

HHS approved DSHS’ use of RMTS as the basis for allocating costs to the various Federal and State programs, including the FSP. RMTS is a technique for scientifically determining the amount of effort spent by a group of employees on various activities. The sampling unit is defined as a single moment, randomly selected within the standard workday. The sample is drawn electronically from DSHS’ payroll system.

Sampled workers from the Community Services Offices completed a form showing the programs they worked on at the sample time. DSHS summarized the information and calculated a percentage of participation for each financial program. Based on this percentage, costs were allocated to the programs.

We reviewed the RMTS records from July 1, 1997, through June 30, 2000, and determined the following:

⁷Cost Principles for State, Local, and Indian Tribal Governments, Attachment B, 11h(6) revised May 4, 1995, as further amended August 29, 1997.

DSHS did not administer samples in a timely manner.

Over half of the workers we interviewed did not receive the forms in a timely manner. Lead workers stated that they had not received formal training regarding their responsibilities to administer the RMTS sample. As a result, the data used to allocate millions in program funds were invalid and biased.

The allocation plan⁸ states, “Community Services Offices Administrators are responsible for informing all financial staff that when a worker is on the job and working, the RMTS **must** be administered at the sampled time. Samples must be taken **within the hour** following the requested time to be considered valid [original emphasis].”

We interviewed 49 of 181 eligible workers⁹ from three Community Services Offices. We found that 25 (over 50 percent) of these workers participating in a RMTS did not receive their sample forms within an hour of the sample time. Some workers said that they had received the RMTS forms up to 2 weeks before or after the RMTS sample time.

At DSHS, RMTS functions were performed by RMTS coordinators, who informed us that they further delegated some RMTS activities to their lead workers. We interviewed lead workers who stated that they had not received formal training regarding their responsibilities to administer the RMTS sample and they did not realize its importance.

Alerting participants in the RMTS too early can bias the data; informing them too late, when they would have to rely on memory, can interfere with accuracy. Because samples were not taken within the hour following the sample moment, the samples are not valid according to the cost allocation plan.

DSHS did not ensure sample sizes were reliable.

From July 1997 through June 1999, DSHS did not ensure that the sample sizes were reliable. DSHS did not meet the sample

⁸The State agency’s Administrative Cost Allocation Plan was approved by the Division of Cost Allocation, of the U.S. Department of Health and Human Services and dated effective on July 1, 1997. The plan was revised July 23, 1997.

⁹ According to Washington’s RMTS Instructions dated July 1997, “Financial Service Specialists 1, 2 or 3 or Customer Service Specialist in the Community Service Division are eligible to be sampled.”

size requirement for 13 of 24 months. Because the department had undergone recent attrition, the Administrator did not know how the parameters were established and was unable to explain why the number of samples selected did not meet the minimum required by the allocation plan. These practices diminished the reliability of the RMTS results and the allocation of FSP administrative costs.

DSHS' allocation plan states, "The RMTS Administrator is responsible for accounting for every sample (approximately 1,150) for each month." We noted that the sample size ranged from 901 to 1,092 during the months when the sample size was deficient.

Although the sample size is stipulated in the allocation plan, RMTS coordinators rely on the monthly sample forms to establish the parameters of the samples. The monthly sample forms are generated by DSHS' Information Systems Service Division and mailed to the Community Service Offices, where the RMTS coordinators are stationed. Completed forms are mailed to the State office and compiled in a database. Consequently, the State office is positioned to ensure that the systems department is adhering to the required sample size.

Monthly samples were not conducted in a consistent basis.

In 1999, DSHS did not complete the RMTS for 4 months (April, August, September, and November). DSHS believed it had verbal approval from HHS to forgo conducting the RMTS every month. However, HHS informed us that there was no record of such approval and that verbal approval would not be adequate to allow a change to the RMTS procedures. Because the monthly samples were not conducted, the reliability and validity of the RMTS results were further diminished.

An official from DSHS informed us that the study was not conducted in April due to technical difficulties in printing the forms. For the other 3 months they did not conduct the studies because they believed that the allocation percentages for the program did not vary much from month to month. During these months that RMTS was not completed, DSHS used the results from a prior month instead.

However, the assumption that allocation percentages remained consistent from month to month was incorrect. We noted that during the months before the studies were discontinued, the allocation percentage for FSP administrative costs fluctuated significantly, from 24.8 to 45.2 percent, a fluctuation that continued after the monthly studies were resumed. Consequently, an inaccurate allocation percentage was likely to have been applied to the FSP administrative expenditures.

We believe the deficiencies mentioned above demonstrate that the RMTS results cannot be relied upon to represent a valid and reliable measure of activities regarding the public assistance programs, including the FSP administrative costs. The deficiencies would impact the allocation of costs for all programs in Washington State. These deficiencies may have affected the \$90 million in administrative costs charged to the FSP from October 1997 through September 2000.

DSHS has since scheduled a training session for RMTS coordinators at the regional offices during the spring of 2001. In addition, DSHS established a biweekly e-mail correspondence with RMTS coordinators to inform them of new policies and procedures.

RECOMMENDATION NO. 6

Require DSHS' State office to conduct reviews to ensure compliance with the RMTS instructions.

FNS Response

In its written response to the draft report, dated June 4, 2001, FNS concurred with this finding and recommendation.

OIG Position

To accept your management decision on this recommendation, we need a proposed completion date for implementation of the corrective action.

EXHIBIT A – SUMMARY OF MONETARY RESULTS

RECOMMENDATION NUMBER	DESCRIPTION	AMOUNT	CATEGORY
1	DSHS overcharged fraud investigation costs to the FSP	\$1,567,789	Questioned Cost, Recovery Recommended
2	DSHS incorrectly determined the attorney general costs to the FSP	\$384,696	Questioned Cost, Recovery Recommended
5	DSHS overcharged the FSP for department-wide indirect costs	\$255,177	Questioned Cost, Recovery Recommended
TOTAL MONETARY RESULTS		\$2,207,662	

EXHIBIT B – SITES VISITED

SITE	LOCATION
FOOD AND NUTRTION SERVICE WESTERN REGIONAL OFFICE	San Francisco, CA
STATE OF WASHINGTON DEPARTMENT OF SOCIAL AND HEALTH SERVICES Division of Finance, Office of Accounting Services Division of Fraud and Investigations Economic Services Administration, Division of Management & Operations Support Community Services Offices: Burien Pierce South Rainier Employee Services Division, Information Technology	Lacey, WA Lacey, WA Lacey, WA Seattle, WA Tacoma, WA Seattle, WA Lacey, WA
ATTORNEY GENERAL OF WASHINGTON	Olympia, WA

EXHIBIT C – OIG’s COMPUTATION FOR DSHS’ DIVISION OF FRAUD INVESTIGATIONS COSTS

DSHS - DIVISION OF FRAUD INVESTIGATIONS (DFI)								
JULY 1997 - JUNE 1999								
MONTHS	FSP CASES	TOTAL CASES	FSP CASES/TOTAL CASES	(2) TOTAL DFI EXPENDITURE	(3) FSP SHARE PER OIG	(4) FSP SHARE PER DSHS	OIG's COMPUTATION OF OVERCHARGE TO FSP	FEDERAL SHARE OF OVERCHARGE TO FSP
A	B	C	D=B/C	E	F=D*E	G	H=G-F	I=H*.5
Jul-97	138	1,339	10.31%	\$ 335,015	\$34,527	\$177,257	\$142,730	\$71,365
Aug-97	186	1,577	11.79%	\$ 534,017	\$62,985	\$285,112	\$222,127	\$111,063
Sep-97	229	1,845	12.41%	\$362,779	\$45,028	\$193,470	\$148,442	\$74,221
Oct-97	248	2,011	12.33%	\$342,203	\$42,201	\$182,497	\$140,296	\$70,148
Nov-97	172	1,674	10.27%	\$350,751	\$36,039	\$186,775	\$150,736	\$75,368
Dec-97	245	1,880	13.03%	\$417,218	\$54,371	\$221,960	\$167,589	\$83,794
Jan-98	206	1,508	13.66%	\$359,219	\$49,071	\$191,320	\$142,249	\$71,124
Feb-98	286	2,123	13.47%	\$339,691	\$45,761	\$180,987	\$135,226	\$67,613
(1)Mar-98	243	1,582	15.36%	\$364,594	\$56,002	\$56,002	\$0	\$0
(1)Apr-98	198	1,427	13.88%	\$348,568	\$48,381	\$48,381	\$0	\$0
(1)May-98	289	1,579	18.30%	\$354,726	\$64,915	\$64,915	\$0	\$0
Jun-98	281	1,686	16.67%	\$417,214	\$69,536	\$225,546	\$156,010	\$78,005
Jul-98	342	2,038	16.78%	\$368,033	\$61,760	\$199,694	\$137,934	\$68,967
Aug-98	352	1,875	18.77%	\$396,597	\$74,454	\$217,256	\$142,802	\$71,401
Sep-98	273	1,829	14.93%	\$380,170	\$56,745	\$208,447	\$151,702	\$75,851
Oct-98	273	1,583	17.25%	\$370,854	\$63,956	\$203,079	\$139,123	\$69,562
Nov-98	239	1,800	13.28%	\$367,777	\$48,833	\$200,622	\$151,789	\$75,895
Dec-98	262	1,796	14.59%	\$381,025	\$55,584	\$207,011	\$151,427	\$75,714
Jan-99	188	1,693	11.10%	\$381,969	\$42,416	\$206,492	\$164,076	\$82,038
Feb-99	264	2,011	13.13%	\$333,300	\$43,755	\$179,182	\$135,427	\$67,714
Mar-99	319	2,086	15.29%	\$367,122	\$56,142	\$197,475	\$141,333	\$70,667
Apr-99	320	1,887	16.96%	\$366,351	\$62,126	\$197,097	\$134,971	\$67,485
May-99	454	2,990	15.18%	\$370,760	\$56,296	\$199,877	\$143,581	\$71,790
Jun-99	449	2,360	19.03%	\$387,328	\$73,691	\$209,699	\$136,008	\$68,004
Total				\$8,997,281	\$1,304,575	\$4,440,153	\$3,135,578	\$1,567,789
Notes:								
(1) DSHS properly used the method in its allocation plan to allocate DFI costs from March 1998-May1998.								
(2) These are DFI's monthly expenditure for welfare programs in the State.								
(3) OIG calculations were based on the FSP case counts as approved in the allocation plan.								
(4) DSHS' calculations were based on an unsupportable formula.								

EXHIBIT D – OIG’s COMPUTATION OF ATTORNEY GENERAL COSTS

ATTORNEY GENERAL EXPENDITURE ANALYSIS JULY 1997 - JUNE 1999								
DATE ⁽¹⁾ A	Attorney General Costs Charge To DSHS ⁽²⁾ (Per DSHS) B	Total Time Spent on DSHS in FTE ⁽³⁾ C	Actual Time Spent on FSP in FTE ⁽³⁾ (Per OIG) D	% of Actual Time Spent on FSP (Per OIG) E = D/C	FSP Share of Total Cost (Per OIG) F = E*B	50% Federal Share of Total Cost (Per OIG) G = F*50%	Actual FSP Costs Determined (Per DSHS) H	Total Overcharges to FSP I = H-G
Jul-97	\$4,577,908	103.819	0.469	0.452%			\$33,721	
Aug-97		95.160	0.393	0.413%			25,801	
Sep-97		93.383	0.418	0.448%			25,037	
Oct-97		98.719	0.496	0.502%				
Nov-97		102.418	0.600	0.586%				
Dec-97	4,133,351	102.418	0.507	0.495%			50,154	
Jan-98	4,133,351	106.716	0.513	0.481%			13,877	
Feb-98		104.173	0.230	0.221%			17,714	
Mar-98		105.970	0.570	0.538%			15,933	
Apr-98	(381,880)	103.927	0.394	0.379%			(4,509)	
May-98		107.148	0.703	0.656%				
Jun-98	1,227,121	105.867	0.000	0.000%			14,523	
TOTAL	\$13,689,852	1,229,718	5.293	0.4309%	\$58,983⁽⁴⁾	\$29,492	\$192,252	\$162,760
Jul-98	\$3,068,537	104.582	0.015	0.014%			\$36,286	
Aug-98		104.410	0.037	0.035%				
Sep-98	4,159,601	103.632	0.000	0.000%			62,895	
Oct-98		91.943	0.632	0.687%				
Nov-98		107.818	0.757	0.702%				
Dec-98	4,052,155	106.490	0.582	0.547%			53,763	
Jan-99	342	107.756	0.612	0.568%				
Feb-99	4,159,601	103.475	0.528	0.510%			27,921	
Mar-99		102.868	0.490	0.476%			18,697	
Apr-99		102.868	0.487	0.473%				
May-99	4,940,801	102.868	0.918	0.892%			38,587	
Jun-99		105.916	0.847	0.800%			32,242	
TOTAL	\$20,381,037	1,244.626	5.905	0.4755%	\$96,910⁽⁵⁾	\$48,455	\$270,391	\$221,936
TOTAL OVERCHARGES								\$384,696

Notes:

(1) The State fiscal year was used to determine the overcharges since the Attorney General’s office and DSHS both operate by the State fiscal year.

(2) A Revolving Fund is used to make "advance" payments to the AG’s Office until the actual costs are determined and reconciled at a later time.

(3) FTE = full-time equivalent; 1 FTE = 8 hours

(4) Total amount charged for the year multiplied by percentage of actual time spent on FSP; (\$13,689,852 x 0.4309%)

(5) Total amount charged for the year multiplied by percentage of actual time spent on FSP; (\$20,381,037 x 0.4755%)

EXHIBIT E – OIG’s SUMMARY OF DSHS’ OVERCHARGES

RECOMMENDATION NUMBER / DESCRIPTION	FY1997 ¹	FY1998	FY1999 ²	TOTAL
1 Fraud Investigation Costs	\$256,649	\$662,271	\$648,869	\$1,567,789
2 Attorney General Costs ³	\$77,187	\$172,640	\$134,869	\$384,696
5 Department-wide Indirect Costs			\$255,177	\$255,177
TOTAL OVERCHARGES	\$333,836	\$834,911	\$1,038,915	\$2,207,662
<p>Notes: ¹ Only the last quarter (July 1997 – September 1997) of FY 1997 ² The first three quarters (October 1998 – June 1999) of FY 1999 ³ Attorney general costs were prorated for each Federal fiscal year because DSHS did not allocate these costs on a month-to-month basis.</p>				

EXHIBIT F – FNS' WRITTEN RESPONSE TO THE AUDIT REPORT



United States Department of Agriculture
Food and Nutrition Service

Western Region

Reply to

Attn of:

27099-16-SF

JUN 04 2001

Subject:

Official Draft - Food Stamp Program Administrative Costs State of Washington

To:

Sam W. Currie
Regional Inspector General
for Audit
Western Region

This is in reference to your May 21, 2001 memorandum requesting written response on the official draft report for the above subject audit.

We have reviewed the auditor's findings and recommendations stated in the draft report and concur with the findings and recommendations.

If you have any questions, please have your staff contact Tony Sommer at (415) 705-1330 extension 222.

Sincerely,

A handwritten signature in black ink, appearing to read "Allen NG".

ALLEN NG
Regional Administrator
Food and Nutrition Service
Western Region

ABBREVIATIONS

AG	Attorney General
CFR	Code of Federal Regulations
DFI	Division of Fraud Investigations
DSHS	Department of Social and Health Services
FY	Fiscal Year
FNS	Food and Nutrition Service
FSP	Food Stamp Program
FTE	Full-Time Equivalent
HHS	U.S. Department of Health and Human Services
OMB	Office of Management and Budget
RMTS	Random Moment Time Study