



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

Food Stamp Program  
Administrative Costs  
Arizona



Report No.  
27099-19-SF  
July 2002



UNITED STATES DEPARTMENT OF AGRICULTURE  
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DATE: July 24, 2002

REPLY TO

ATTN OF: 27099-19-SF

SUBJECT: Food Stamp Program Administrative Costs –  
Arizona

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

ATTN: Kathleen Burks  
Director of Financial Management

This report presents the results of our audit of the Food Stamp Program (FSP) administrative costs claimed by Arizona for Federal fiscal year (FY) 2000. Our objectives were to determine if Arizona followed its cost allocation plan in claiming FSP costs, and to verify the accuracy and allowability of those administrative costs. Our review did not disclose any conditions that would cause us to question the FSP administrative costs claimed by Arizona in FY 2000. We also concluded that Arizona followed its cost allocation plan.

## **BACKGROUND**

In 1977, Congress passed Public Law 95-113, the Food Stamp Act, which made the FSP a permanent, Federal food assistance program that provides support to needy households. Food and Nutrition Service (FNS) funds the full cost of food stamp benefits and generally reimburses the States for 50 percent of their direct and indirect administrative costs for implementing the program.

In Arizona, the Department of Economic Security (DES) administers the FSP. DES prepares and submits a quarterly financial status report (SF 269) to FNS to claim reimbursement for FSP administrative costs. In FY 2000, the total Federal outlay for FSP administrative costs in Arizona was approximately \$23.5 million.

DES 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). Direct costs consist of costs directly benefiting the programs, such as direct labor, rent, and utilities. Indirect costs and some direct

costs (e.g., eligibility determination) are allocated according to the Arizona Random Moment Sample (ARMS).

Under ARMS, management selects a statistical sample of employees to identify the programs they worked on at the sample time. After management summarizes the information from the sample forms, a percentage of participation is calculated for each financial program. The information is used to distribute costs to each program.

### **OBJECTIVE**

The objectives of this audit were to determine (1) if Arizona followed its cost allocation plan in claiming direct and indirect costs, and (2) the accuracy and allowability of the administrative costs claimed on the SF 269's.

### **SCOPE**

We performed this audit as part of our ongoing review of States in the FNS western region. We reviewed the SF 269 for FY 2000 and judgmentally selected 8 of 15 cost categories for more detailed examination—certification, management evaluation, fraud control, nutrition and education, ADP operations, unspecified portion of others, and both employment and training categories. These categories represented \$20.9 million out of \$23.5 million (89 percent) in administrative costs.

Fieldwork was performed in May 2002 at the FNS Western Regional Office in San Francisco, CA; and in June 2002 at DES in Phoenix, AZ.

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

### **METHODOLOGY**

To accomplish our objectives, we performed the following procedures:

- 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 the latest FNS financial management review of DES in April 1998, and Arizona's cost allocation plan approved by HHS to identify potential issues.
- We interviewed an official at HHS' Division of Cost Allocation to determine if there were any problems relating to Arizona's' cost allocation plan.

- We reviewed the U.S. Office of Management and Budget A-133 single audit report for Arizona for FY 2000 to identify issues concerning the allocation of State administrative costs.
- We reviewed DES' accounting records and analyzed the reimbursement claims made on the final Financial Status Report for FY 2000.
- We interviewed DES officials responsible for recording and reporting administrative costs and completing ARMS to verify the process and controls for ARMS.
- We reviewed ARMS records and verified the allocation ratios used to distribute administrative costs to various programs.

### **AUDIT RESULTS**

Our review did not disclose any conditions that would cause us to question the FSP administrative costs claimed by Arizona in FY 2000. After reviewing Arizona's allocation procedures and its financial records, we also concluded that Arizona followed its cost allocation plan.

Therefore, no response to this report is necessary, and we are closing our file on this audit number. Since we have no findings or recommendations to report, we will notify the Office of the Chief Financial Officer that no further action is required by FNS.

We appreciate the assistance and cooperation of your staff during our review.

/s/

SAM W. CURRIE  
Regional Inspector General  
for Audit