



United States Department of Agriculture
Office of Inspector General





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



DATE: June 7, 2012

AUDIT
NUMBER: 27703-0003-AT

TO: Audrey Rowe
Administrator
Food and Nutrition Service

ATTN: Edward Pauley
Acting Director
Office of Internal Controls, Audits, and Investigations

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Review of the Food and Nutrition Service's Controls Over the Emergency Food Assistance Program – Phase II

This report presents the results of the subject audit. Your written response to the official draft, dated April 30, 2012, is included in its entirety at the end of the report. Excerpts from your response and the Office of Inspector General's position are incorporated in the relevant Findings and Recommendations sections of the report. Based on your responses, we were able to accept management decision on all recommendations in the report, and no further response to us is necessary.

In accordance with Departmental Regulation 1720-1, final action is required to be taken within 1 year of each management decision to prevent being listed in the Department's annual Performance and Accountability Report. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer, Director, Planning and Accountability Division.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions.

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Review of the Food and Nutrition Service's Controls Over the Emergency Food Assistance Program Phase II

Executive Summary

The Department of Agriculture's (USDA) Food and Nutrition Service (FNS) operates the Emergency Food Assistance Program (TEFAP), which supplements the diets of low-income Americans by providing emergency food and nutrition assistance at no cost. In fiscal years (FY) 2009 and 2010, USDA received approximately \$498 million in general appropriated funds for TEFAP to purchase commodities and \$99 million¹ for administrative costs, while the American Recovery and Reinvestment Act of 2009 (Recovery Act) provided \$178 million in additional funds for both commodities and administrative costs during that time period. The Recovery Act did not change or add any additional TEFAP program activities; it simply provided additional commodities and administrative funds to the program. Therefore, we examined FNS' use of both general appropriations and Recovery Act funds. The Recovery Act called for a commitment to jobs creation; economic recovery for recipients; high levels of transparency, oversight, and accountability.²

During Phase I, which focused on TEFAP oversight at the national level, we recommended that FNS enhance its reviews of State operations.³ In Phase II, we examined FNS State level oversight of program delivery and internal controls, covering both regular program administration and compliance with Recovery Act provisions. Our review of nine States found that FNS and States should take additional steps to strengthen the guidance and oversight of Recovery Act reporting, food inventories, and financial compliance activities.

Eight of nine States did not adequately monitor approximately \$9.2 million of Recovery Act administrative payments made to TEFAP recipient agencies, such as food banks. This occurred because States lacked effective controls to ensure that administrative funds were spent properly. Specifically, FNS' management evaluation process did not ensure States were obtaining and reviewing documentation to support that all recipient agencies' expenses were allowable. As a result, FNS and States do not have a reasonable assurance that TEFAP administrative funds are being spent on allowable costs, or that recipient agencies are operating the program effectively and preventing waste, fraud, and abuse. Although day-to-day responsibility for the proper monitoring of recipient agencies lies primarily with the States, FNS bears the ultimate responsibility for ensuring proper operation of TEFAP through adequate oversight. As a result, FNS' oversight controls need to be strengthened to improve TEFAP operations and to detect waste, fraud, and abuse. Also, FNS did not ensure that States adhered to regulations prohibiting the delegation of monitoring responsibilities. One State improperly delegated its review functions of the second-tier recipient agencies⁴ to an organization that had a conflict of interest. The conflict arose because the reviewing organization's board of directors included executive

¹ \$49.5 million each year for FYs 2009 and 2010.

² The Recovery Act (Public Law 111-5), signed February 17, 2009, and USDA FNS, Recovery Act, May 13, 2009.

³ USDA Office of Inspector General (OIG), Audit Report 27703-0001-At, "Review of the TEFAP," March 2010.

⁴ Second-tier recipient agencies (such as food pantries, homeless shelters, and soup kitchens) are those that receive and distribute food under an agreement with another recipient agency, usually a first-tier recipient agency.

directors from first-tier recipient agencies⁵ which had entered into contracts with second-tier recipient agencies to distribute TEFAP food.

In addition, five of nine States did not have adequate controls to ensure the prevention of damage, spoilage, or loss of food at TEFAP storage facilities. FNS regulations require storage facilities to safeguard against loss and limit inventory levels to a 6-month supply.⁶ States are required to submit semiannual inventory reports to prevent excessive inventories of food.⁷ However, State controls over recipient agency warehouse practices did not ensure commodities were effectively safeguarded. In one State, we found that excessive inventory contributed to a food spoilage loss of 552 cases of commodities such as ham and turkey valued at approximately \$21,000 (10 percent of inventory on hand at this warehouse). In addition, FNS has not provided adequate guidance for determining excess inventory reporting, leaving each State to determine what constitutes an oversupply. Without adequate State controls and effective FNS monitoring at the State level, there is an increased risk that certain TEFAP foods may not be available to recipients due to spoilage and loss. While the regulations do not require FNS to review the methodology, the States are required to have a basis for determining excess inventory, such as rate of distribution, anticipated distribution, and other concerns such as logistical and economic considerations. FNS had not placed oversight emphasis on TEFAP because it considered TEFAP a low risk program based on the level of program funding, in comparison to other FNS programs. However, in our prior audit report, we concluded that FNS' low risk determination was not supported.⁸ While larger FNS programs do exist, the \$775 million in TEFAP funding, which included Recovery Act appropriations in FY 2009 and 2010, required additional oversight.⁹

Finally, three of nine States inaccurately reported the number of TEFAP jobs created and retained by Recovery Act funds. The misreporting occurred because States did not accurately report jobs created and retained in accordance with Office of Management and Budget (OMB) guidance. We found that 1 State over reported jobs by 19—incorrectly reporting 37 jobs instead of the 18 actually created—because staff continued to use obsolete, subjective criteria to calculate jobs created and retained, rather than using new objective criteria. Two other States did not verify that reports indicating zero jobs were accurate, adequately supported, and reflective of changes to job calculations. The OMB guidance for reporting Recovery Act job data changed in late 2009, requiring more exact calculations from States and their TEFAP food distributors. Though FNS provided the updated guidance to the States, these States did not ensure that the required changes to actual job calculation figures were adequately applied. As a result, the inaccurate data and weaknesses in State and FNS controls hampered FNS' achievement of the Recovery Act goals of increased transparency and accountability. We discussed the dissemination of OMB guidance and TEFAP Recovery Act oversight practices with FNS and

⁵ First-tier recipient agencies (such as food banks) are those that receive food under a direct agreement with a State agency.

⁶ 7 *Code of Federal Regulations* (CFR) 250.14 (7), "General Regulations and Policies - Food Distribution."

⁷ 7 CFR 250.17 (a), "Donation of Foods for Use in the United States, its Territories and Possessions and Areas Under its Jurisdiction."

⁸ USDA OIG, Audit Report 27703-0001-At, "Review of the TEFAP," March 2010.

⁹ OMB Memorandum – Updated Guidance for the American Recovery and Reinvestment Act of 2009 (M-09-15), dated April 3, 2009, states that, "Federal agencies are expected to initiate additional oversight...for Recovery Act funded grants, such as mandatory field visits."

found that although FNS provided the updated OMB guidance to States, it did not ensure that States understood the reporting requirements. The FNS regional office officials believed it was up to the States to read, understand, and follow the OMB guidance. Further, while OMB did not require a specific methodology for examining job reporting data quality, Federal agencies were required to establish Recovery Act data quality plans that, at a minimum, would focus on preventing significant reporting errors and material omissions.¹⁰

Recommendation Summary

Develop steps within the management evaluation process to verify that State monitoring functions are completed in accordance with TEFAP regulations, such as ensuring that States obtain and review invoices, receipts, and other documentation from recipient agencies to support expenditures of Federal administrative funds.

Develop guidance for States to formulate a risk-based review process that ensures all high risk second-tier recipient agencies are reviewed within a defined cycle period, and that every second-tier recipient agency is subject to selection in a random sample each year.

Develop guidance to help States determine what constitutes a greater than 6-month supply; require that States create and document their own methodologies for assessing their inventories to determine whether they have an excess of a 6-month supply; and incorporate an evaluation of the effectiveness of State inventory management systems into the management evaluation process. Specifically, ensure a review of both State and recipient agency warehouses, and review whether States adhere to guidelines related to stock rotation and distribution procedures.

Ensure that States have accurately verified jobs reported using the appropriate OMB methodology. If needed, States should submit updated reports of TEFAP jobs created or retained with Recovery Act funds.

Agency Response

In its written response to the official draft, dated April 30, 2012, FNS agreed with all of the findings and recommendations in the report. We have incorporated excerpts of the response, along with our position, in the applicable sections of this report. FNS' response to the official draft report is included in its entirety at the end of this report.

OIG Position

Based on FNS' response, we have accepted management decision on all 9 recommendations.

¹⁰ OMB memorandum M-10-08, Part 1, "Data Quality Requirements and Guidance for Non-Reporting Recipients," December 18, 2009.

Background and Objectives

Background

The Emergency Food Assistance Program (TEFAP) began in 1981 as the “Temporary Emergency Food Assistance Program” with the goals of providing food to low-income Americans as well as reducing Government food surpluses and associated storage costs. In 1990, the name was changed to “The Emergency Food Assistance Program,” and the program has been funded each year since its beginning. Under TEFAP, the Department of Agriculture (USDA) buys food then arranges for it to be shipped to individual States. The program operates in all 50 States, as well as U.S. territories.¹¹

The 2008 Farm Bill required USDA to spend \$250 million and \$248 million for TEFAP food purchases in fiscal years (FY) 2009 and 2010, respectively.¹² Out of these amounts, an estimated \$2 million of the funds went to commodity shipping costs, and an additional \$49.5 million was set aside each year for TEFAP administration.

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (Recovery Act) provided TEFAP with \$150 million in additional funds. Of that amount, \$50 million was allocated for administrative costs (\$25 million each year for FYs 2009 and 2010) and \$250,000 was allocated for shipping charges, leaving \$99.75 million for actual food purchases. On September 28, 2010, with approval from the U.S. Senate,¹³ the Food and Nutrition Service (FNS) transferred \$28 million in unused Recovery Act funding from the Special Supplemental Nutrition Program for Women, Infants and Children to TEFAP. The Senate approved the transfer of funds because both programs are intended to support domestic food assistance efforts. It should be noted that the Recovery Act did not change or add any additional TEFAP program activities; it simply provided additional commodities and administrative funds.

In passing the Recovery Act, Congress emphasized accountability for and transparency of funds spent. To accomplish this, the Office of Management and Budget (OMB) issued guidance in February 2009 that required Federal agencies to establish internal controls, oversight mechanisms, and other approaches to meet the Recovery Act’s accountability objectives.¹⁴ As a part of the Recovery Act provisions for unprecedented accountability and transparency, FNS was required to report on jobs created and/or retained using Recovery Act funds. In general, the Recovery Act required USDA Office of Inspector General (OIG) to oversee agency’s activities to ensure Recovery Act funds were spent in a manner that minimizes the risk of improper use.

¹¹ TEFAP also operates in the Commonwealth of the Northern Mariana Islands, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands.

¹² Public Law 111-80, The Food, Conservation, and Energy Act of 2008, also known as the Farm Bill, established the amount of funding available for TEFAP food purchases for FYs 2008 through 2012.

¹³ On September 22, 2010, the U.S. Senate Committee on Appropriations sent a letter to the Secretary of Agriculture approving the request for transfer of the funds to TEFAP.

¹⁴ OMB, Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009 (February 18, 2009).

While TEFAP is a Federal program, State level agencies are responsible for its administration.¹⁵ TEFAP funds are distributed according to a formula based on each State's population of low-income and unemployed persons. The income levels that govern program participation, as well as the details of program administration and food distribution, are established by the States. The States are also responsible for selecting first-tier recipient agencies which, in turn, either directly distribute the commodities or subcontract with second-tier recipient agencies that directly distribute food to households or serve meals in a group setting. For purposes of this discussion, first-tier recipient agencies (such as food banks) are those that receive food under a direct agreement with a State agency. Second-tier recipient agencies (such as food pantries, homeless shelters, and soup kitchens) are those that receive and distribute food under an agreement with another recipient agency, usually a first-tier recipient agency.

The Department also provides Federal funds to cover allowable administrative costs incurred by both the States and recipient agencies.¹⁶ The States are required to match every dollar of the Federal administrative funds they use. Also, States must distribute at least 40 percent of the administrative funds to recipient agencies.¹⁷

Each State agency has executed a Federal-State agreement with FNS that requires compliance with Federal statutes, regulations, and other directives, especially in regard to the use of Federal funding. Given its ongoing oversight responsibility, FNS has developed reporting and monitoring tools to oversee TEFAP at the State level. Program operations are monitored through onsite management evaluations covering a range of topics including financial management, inventory, warehousing, eligibility, and State agency reviews of local recipient agencies.

Our Phase I audit evaluated FNS' management controls over TEFAP at the Federal level. We found that the agency was not frequently and consistently reviewing State operations of the program. In fact, FNS had not performed management reviews in 25 of 55 (or 45 percent) States and territories administering TEFAP since FY 2005. Additionally, we found that FNS regional offices reviewed their States and territories inconsistently, meaning that some reviews focused on certain components and did not include others. The lack of essential oversight makes the program vulnerable to a higher risk of fraud, waste, and abuse.

FNS officials agreed with our recommendation and plan to (1) develop a risk-based tool, to be used by all FNS regional offices, to select TEFAP State agencies that will be subject to management evaluation each year and (2) develop guidance for regional offices to ensure consistency in the scope of the management evaluations.

¹⁵ Examples of State agencies that administer TEFAP include entities such as the State Department of Health and Human Services and the Department of Social Services.

¹⁶ Permitted administrative costs include transportation, storage, handling, and repacking; processing and distribution of commodities; eligibility determination, verification, and documentation reviews; publishing announcements of time and locations of distributions; and recordkeeping, audits, and other procedures required for program administration.

¹⁷ The matching requirement does not apply in cases where State agencies perform functions that would normally be performed by an eligible recipient agency (ERA). In those cases, expenditures are treated as if they were passed down to an ERA, and are counted toward the 40 percent pass-through requirement.

Objectives

The overall objective was to ensure that the Recovery Act provisions relative to TEFAP are timely and effectively administered and that FNS provides effective oversight of TEFAP. The focus for this phase was on the State agency level to evaluate overall program controls, Recovery Act implementation, financial and inventory management, and monitoring.¹⁸

¹⁸ We reviewed FNS monitoring efforts and reported on deficiencies in USDA OIG, Audit Report 27703-0001-At, "Review of the TEFAP," March 2010.

Section 1: FNS and State Controls over TEFAP Monitoring

Finding 1: FNS Needs to Ensure that States Properly Monitor Recipient Agencies

Eight of nine States in our review did not adequately monitor recipient agencies (e.g., food banks) and approximately \$9.2 million of required Recovery Act administrative payments made to them. Specifically, we found that eight States paid administrative expenses without examining sufficient supporting documentation (e.g., receipts, purchase orders, or invoices) to ensure that expenses were allowable. Four of these eight States also did not complete the number of required recipient agency reviews, and one of the eight improperly delegated recipient agency review functions to an organization that had a conflict of interest. The conflict arose because the reviewing organization's board of directors included executive directors from first-tier recipient agencies which had entered into contracts with second-tier recipient agencies to distribute TEFAP food. This occurred because FNS' management evaluation process did not ensure States were obtaining and reviewing documentation to support that recipient agencies' expenses are allowable, and that all recipient agencies were identified and reviewed. As a result, FNS and States do not have reasonable assurance that TEFAP administrative funds are being spent on allowable administrative costs, or that recipient agencies are operating the program effectively and without waste, fraud, and abuse.

TEFAP regulations require States to provide no less than 40 percent of Federal administrative funds to recipient agencies. State agencies must ensure that recipient agencies maintain records for allowable administrative costs.¹⁹ Federal regulations do not allow States to delegate their monitoring responsibilities.²⁰ Furthermore, States are required to perform (1) an annual review of at least 25 percent of all first-tier eligible recipient agencies, provided that each recipient agency is reviewed once within a 4-year cycle, and (2) an annual review of one-tenth or 20, whichever is fewer, of all second-tier recipient agencies.

We found that eight States made payments to recipient agencies for TEFAP administrative expenses without requesting, receiving, or examining sufficient supporting documentation to ensure funds were expended as described, or were allowable under Federal regulations.²¹ Five of those eight States did not review documentation at any time. The remaining three States did examine a sample of supporting documentation from the recipient agencies visited as part of the 4-year review cycles. However, these reviews were often limited to only recent expense activity (within the current review year). Because there is no policy in place requiring States to review support for recipient agency expenses throughout the 4-year review cycle, there is increased possibility that errors are missed.

¹⁹ 7 *Code of Federal Regulations* (CFR) 251.10 (a)(2). This requires State agencies to maintain records to document the amount of funds received and paid to eligible recipient agencies for allowable administrative costs incurred. States must also ensure that eligible recipient agencies maintain such records.

²⁰ 7 CFR 251.10 (e)(i), State Monitoring System.

²¹ According to 7 CFR 251.8 (e)(i)(ii) and (v), allowable administrative costs include (1) transporting, storing, handling, repacking, processing, and distribution of commodities; (2) costs associated with determinations of eligibility; and (3) costs of recordkeeping, auditing, and other administrative procedures required for program participation.

We found that State officials gathered little to no documentation that would support expense claims by recipient agencies, such as receipts or invoices. This occurred because State officials stated they focused their limited staff on programs larger than TEFAP. However, FNS regional officials noted in a 2010 management evaluation of one State that without the annual State agency review of source documents for recipient agency claims, there are not adequate safeguards to ensure TEFAP funds are properly being used for allowable costs. The regional officials noted that the source documentation could be scanned and emailed or faxed to the State agency for prompt review. Many States felt that single audits²² and FNS regional office management evaluations were adequate controls to detect improper payments. However, single audits are only required if an entity exceeds a certain spending threshold,²³ and TEFAP funding is typically small compared to spending for other FNS programs and may not be reviewed during the course of the single audit. We noted in our Phase I audit that management evaluations are conducted infrequently and inconsistently.²⁴

Four of the eight States which had not ensured recipient agency expenses were allowable, also did not complete the required number of reviews of recipient agencies. We found that two States failed to review the required 25 percent of first-tier recipient agencies annually. FNS' management evaluations detected this problem in one State.²⁵ For corrective actions, FNS required the State to develop a review schedule that would examine those recipient agencies it missed in the past. The remaining two States could not demonstrate they effectively monitored all of their second-tier recipient agencies' compliance. While both States performed annual reviews of the required 20 selected second-tier recipient agencies, neither maintained a complete and accurate list of second-tier recipient agencies or considered factors such as prior identified issues, value of commodities distributed, and operational sophistication in selecting agencies to conduct reviews. This occurred because State officials did not have a risk-based approach to selecting agencies and therefore could not ensure that all recipient agencies would be subject to selection and review during the year.²⁶ State officials explained that they were not aware that such a list needed to be maintained because there is no specific requirement in FNS guidance.²⁷ A regional FNS official stated that the regulation does not require that every ERA be reviewed. However, we believe without a comprehensive risk-based method of recipient agency selection,

²² Single audits are audits of States, local governments, and non-profit organizations that include audits of both the entity's financial statements and Federal awards for financial assistance, and Federal cost-reimbursement contracts received directly from Federal awarding agencies or indirectly from pass-through entities (e.g., passed down through the State to a county).

²³ In accordance with *OMB Circular A-133*, auditors do not necessarily audit 100 percent of Federal awards expended. Instead, they identify major programs based on the total Federal awards expended. For entities with total Federal expenditures less than \$100 million, only programs for which expenditures totaled \$300,000 or more are likely to be audited. Thus, due to the dollar value of awards made under TEFAP, these awards are usually not large enough to be audited as part of the *OMB Circular A-133* audit.

²⁴ FNS developed corrective actions to address recommendations in our Phase I report.

²⁵ Subsequent to the fieldwork we performed at one of the States, the State developed a plan for reviewing first-tier recipients and performed reviews missed in prior years.

²⁶ State agency officials in one case had characterized a first-tier recipient agency's distribution sites (run by the recipient agency's personnel) as the only second-tier recipient agencies within that State, and therefore had not recorded all second-tier recipient agencies for monitoring reviews. In the other case, the State officials did not maintain a list of second-tier recipient agencies.

²⁷ 7 CFR 251.10 (e)(2)(ii) requires an annual review of one-tenth or 20, whichever is fewer, of all second-tier recipient agencies.

State oversight activities will not effectively identify and correct agencies operating outside of accepted TEFAP practices.

Our review identified one State that improperly delegated its review functions of the second-tier recipient agencies to an organization that had a conflict of interest. The conflict of interest stemmed from the fact that the contracted organization's board of directors was composed of executive directors from first-tier recipient agencies who enter into contracts with second-tier recipient agencies to distribute TEFAP food. The monitoring of contracted second-tier recipient agencies is a primary responsibility of the first-tier recipient agency under its agreement for TEFAP with the State. Thus, the executive directors from first-tier recipient agencies have an interest in the contracted second-tier recipient agencies and may be less likely to report operational deficiencies, as it could ultimately impact the first-tier recipient agency contract for TEFAP with the State. State officials explained that they delegated the review function after a management evaluation disclosed that the State was not reviewing the required number of second-tier recipient agencies. This occurred due to staffing limitations, and therefore, the State agency requested that the non-profit trade organization use its expertise to conduct second-tier reviews.

Although day-to-day responsibility for the proper monitoring of recipient agencies lies primarily with the States, FNS bears the ultimate responsibility for ensuring proper operation of TEFAP through adequate oversight. As a result, FNS' oversight controls need to be strengthened to improve TEFAP operations and detect waste, fraud, and abuse.

Recommendation 1

Develop and disseminate guidance requiring State agencies to obtain and review invoices, receipts, and the other documentation from recipient agencies to support expenditures of Federal administrative funds. At a minimum, on a sample basis, payments should be reviewed either at time of payment for reimbursements, or at the end of the advancement period.

Agency Response

In its April 30, 2012, response, FNS stated:

FNS will develop guidance for State agencies that requires that they review a sample of first-tier Eligible Recipient Agency's (ERA) receipts on a periodic basis. FNS anticipates releasing this guidance to State agencies by September 30, 2012.

OIG Position

We accept management decision for this recommendation.

Recommendation 2

Develop and implement policies and procedures requiring States to maintain a full listing of all recipients (first and second-tier) operating in that State.

Agency Response

In its April 30, 2012, response, FNS stated:

FNS will develop guidance that clarifies the requirement that State agencies must maintain a list of all first- and second-tier TEFAP recipient agencies operating in the State. FNS will recommend that States update this list on a periodic basis. FNS anticipates releasing guidance to State agencies by July 31, 2012.

OIG Position

We accept management decision for this recommendation.

Recommendation 3

Develop guidance for States to formulate a risk-based review process that ensures all high risk second-tier recipient agencies are reviewed within a defined cycle period, and that every second-tier agency is subject to selection in a random sample each year.

Agency Response

In its April 30, 2012 response, FNS stated:

FNS will issue guidance to State agencies that will recommend that States use a risk-based approach to select a portion of ERAs to review, and choose the remainder of reviews based on a random selection of all second-tier ERAs to ensure that all such ERAs may be subject to a review in any fiscal year.

OIG Position

We accept management decision for this recommendation.

Recommendation 4

Develop steps within the management evaluation process to verify that State monitoring functions are completed in accordance with TEFAP regulations, including (1) verifying that States have a complete and accurate list of all recipient agencies and appropriately use the list to select recipients for review, and (2) verifying that monitoring functions are not being delegated.

Agency Response

In its April 30, 2012 response, FNS stated:

FNS requires that Regional Offices use the TEFAP management evaluation (ME) module for all MEs conducted under the national risk-based review process, and strongly encourages Regional Offices to use this module when conducting additional reviews. FNS will include a section in the ME module that requires the FNS reviewer to check that the State has a list of first- and second-tier agencies that has been updated per FNS guidance for use when determining the current fiscal year's schedule of reviews.

FNS will also revise Section VIII, Monitoring and Reviews, of the ME module, by including a space for the FNS reviewer(s) to note whether the ERA reviews conducted at first- and second-tier ERAs were in compliance with regulation and policy. FNS reviewers are already required to review a sample of at least 10 percent of the reviews conducted by the State agency during the review period. FNS will ensure that the name(s) of the State agency staff conducting the review are captured during the ME as a means of verifying that monitoring functions have not been delegated. As these and other audit-related updates to the ME module will require significant Regional input, FNS anticipates completing the updated TEFAP ME module by March 31, 2013.

OIG Position

We accept management decision for this recommendation.

Finding 2: FNS Needs to Ensure Stronger Inventory Controls in States and Storage Facilities

We found that five of nine States did not have adequate controls over their TEFAP commodity inventories. Specifically, two States did not adequately meet TEFAP inventory reporting requirements and three States did not follow required warehousing and storage procedures. The requirements are in place to safeguard commodities from loss, such as theft and spoilage. These problems went undetected because FNS did not provide sufficiently detailed guidance to States, or provide consistent oversight of State warehouses and food inventories. Additionally, State controls over recipient agency warehouse monitoring and practices did not ensure commodities were effectively safeguarded. This oversight resulted in an incident of food spoilage totaling \$21,000. Further, if the inventory weaknesses remain uncorrected, the States run the risk of similar incidents occurring in the future, thus hampering the purpose of the program to provide food to those in need.

FNS regulations require that State and recipient agencies provide facilities for handling, storage, and distribution of commodities that safeguard against theft, spoilage, and other loss. FNS regulations require that inventory levels for each donated food type may not exceed a 6-month supply, unless sufficient justification for additional inventory has been submitted and approved.²⁸ FNS also requires commodities to be distributed using the first in first out method.²⁹

Inventory Reporting

FNS requires that each State complete and submit to the FNS regional office semiannual reports to ensure that they do not maintain excessive inventories of food.³⁰ However, we found that two States did not meet the reporting requirements. For example, we found that one State in our review, which did not report an excess inventory to FNS, actually held excess food at a recipient agency that led to \$21,000 in food spoilage. This occurred because FNS did not provide adequate guidance to States on what should constitute a 6-month supply and did not review State methodologies for determining excesses. The State in question had no documented methodology for determining excess. While the regulations do not require FNS to review the methodology, the States are required to have a basis for determining excess inventory, such as rate of distribution, anticipated distribution, and other concerns such as logistical and economic considerations. FNS had not placed oversight emphasis on TEFAP because it considered TEFAP a low risk program based on the level of program funding, in comparison to other FNS programs. However, in our prior audit report, we concluded that FNS' low risk determination was not supported.³¹ While larger FNS programs do exist, the \$775 million in TEFAP funding,

²⁸ 7 CFR 250.14 (f), "Donation of Foods for Use in the United States, its Territories and Possessions and Areas Under its Jurisdiction."

²⁹ USDA Food Distribution National Policy Memorandum FD-107, "Storage and Inventory Management of USDA Donated Foods."

³⁰ 7 CFR 250.17 (a), "Donation of Foods for Use in the United States, its Territories and Possessions and Areas Under its Jurisdiction."

³¹ USDA OIG, Audit Report 27703-0001-At, "Review of the TEFAP," March 2010.

which included Recovery Act appropriations in FY 2009 and 2010, required additional oversight.³²

FNS instructs States to calculate excess inventory for each type of commodity by dividing the accumulated State inventory balance at the end of the reporting month by the average quantity of the commodity distributed to the recipient and/or sub-distributing agencies during a typical month.³³ One FNS regional official told OIG that the formula was difficult for States to apply because food banks distribute food at different rates and no one knew what constituted a 6-month supply of food. This is because different warehouses, depending on their location and the population they serve, have differing needs for commodities. In practice, States deviated from FNS' calculation method because they did not find the FNS formula useful and believed it did not help them accurately identify excess inventory. State officials felt their reports³⁴ did not accurately capture excess inventory because there were no instructions for addressing variances in commodities usage rates and for cases where historic consumption data did not exist.

In the State referenced above, we found that a recipient agency warehouse did not report that it had stored in excess of a 6-month supply of food. This contributed to a circumstance in which 522 cases of TEFAP commodities spoiled. These commodities, such as ham and turkey, were valued at approximately \$21,000 (10 percent of the total warehouse inventory). The warehouse had no room to store the additional commodities, so it obtained a freezer truck to store the excess food. Over a holiday weekend, the truck's freezer malfunctioned and the food spoiled.

State officials explained that they base their assessment of the Statewide 6-month supply on the amount of a commodity they have historically distributed in a 6-month period, rather than whether a commodity has been in storage for nearly 6 months or more. With clear guidance for computing excess inventory and more detailed monitoring of inventory levels, the State would be in a better position to determine its own inventory patterns, evaluate the reports of its recipient agencies, and provide guidance to recipient agencies on how to properly assess their inventories.

Warehousing Controls

At three of the States we reviewed, we found that FNS' management evaluations did not detect deficiencies in State warehousing controls and State warehouse review processes. This occurred because FNS did not require personnel conducting management evaluations to examine State warehouses or their inventory procedures. In our prior audit, we reported that FNS had determined that TEFAP was a low risk program and that FNS regional offices had not performed management evaluations consistently—sometimes omitting critical components such as inventory controls (e.g., warehousing).³⁵ We concluded, however, that FNS' low risk determination was not supported given the fact that management evaluations were not performed frequently or consistently enough to serve as a basis for such a determination. Also, State officials did not

³² OMB Memorandum – Updated Guidance for the American Recovery and Reinvestment Act of 2009 (M-09-15), dated April 3, 2009, states that, “Federal agencies are expected to initiate additional oversight...for Recovery Act funded grants, such as mandatory field visits.”

³³ Instructions for form FNS-155: Inventory Management Register.

³⁴ FNS-155: Inventory Management Register.

³⁵ USDA OIG, Audit Report 27703-0001-At, “Review of the TEFAP,” March 2010.

ensure that the State warehouse and recipient agencies were adequately monitored. As a result, we found that FNS and State officials were unaware of significant issues at entities under their supervision, such as damages to commodities and tracking procedures that violated program requirements.

FNS requires all TEFAP storage facilities to implement a system of stock rotation that assures that the oldest stock is distributed before more recent stock.³⁶ FNS also requires States to ensure that storage facilities maintain proper storage temperatures for commodities. States shall ensure that recipient agencies conduct annual reviews of their respective storage facilities.

FNS has a module that officials use when conducting management evaluations of TEFAP, which includes a checklist of areas that they should review, including warehousing controls. This module, however, is only guidance. Thus, FNS regional officials may use their own discretion when determining the depth of their reviews and are not required to review all elements present in the module. Therefore, this module does not ensure that warehousing controls are always reviewed during a management evaluation. During our prior audit, FNS national officials stated that they finalized a standardized management review module for use in the regions, and will encourage regional offices to conduct evaluations using all elements defined in the module for TEFAP.

In one State, we found that FNS' 2010 management evaluation did not include a review of the State's central warehouse where TEFAP food commodities were stored.³⁷ In our Phase I report, we identified that not all elements within the management evaluation module were being performed by each region. In this case, since FNS officials were not required to look at the warehouse's controls, they did not do so. When we examined the warehouse and inventory procedures, we found that the warehouse operators did not have an adequate inventory system to ensure that the food first received by the warehouse was the first out to the food distribution channels. This warehouse had rack identification and floor markings in place, and we did find that warehouse workers were able to locate food. However, the warehouse had no formal system to track and locate commodities to ensure that it distributed the oldest commodities first to reduce the risk of spoilage. Also, while the other warehouses in our review had their electronic inventory systems linked to a commodity's location in the warehouse, this warehouse did not have such a system in place, and instead relied on workers' personal knowledge to locate commodities. Although we did not identify any occurrences of commodity loss, this system does not comply with FNS regulations.

Warehouse officials explained that food moves quickly through the warehouse, so commodities are organized in a manner to both accommodate space restrictions and provide convenience for the limited warehouse staff. State officials also commented that distribution is generally not an issue because commodities are shipped using first in first out. However, we found instances in which the required first in first out policy was not followed. Specifically, we identified

³⁶ TEFAP module, July 2009. The TEFAP module requires the warehouse to use first in first out stock rotation.

³⁷ This warehouse was contracted by the State and served as the central warehouse for its TEFAP food storage and distribution needs. Other States have similar central warehouses or sometimes multiple central warehouses, which can either be contracted or owned by the State. Finally, some States do not have a central warehouse at all, but ship directly to food banks and/or recipient agencies.

distributions of commodities, such as cereal and applesauce, in which inventory records identified older commodities that remained in stock when newer commodities were shipped. As such, we believe that, without a formal system in place, the facility runs an enhanced risk of spoilage and waste of older commodities that may not move out as quickly as they should.

In a second State, we found that the State officials did not review one of the warehouses used for TEFAP because they were unclear as to whether the commercial warehouse was being used by the recipient. As a result, FNS and State officials were unaware that three commodities at a first-tier recipient agencies' contract warehouse had been damaged by a roof collapse caused by heavy rain and snow.³⁸ Even after the damage occurred, State officials were not aware of the loss of commodities for roughly 7 months and therefore the warehouse was not supplied with replacements for a full year.

A similar oversight issue occurred in a third State, where we found that the State did not conduct a review of a warehouse before it awarded a contract to the warehouse. Because of this, the State was not aware that the non-air conditioned warehouse was not equipped with a thermometer to monitor temperatures and ensure commodities were maintained at proper storage conditions.³⁹ The warehouse manager acknowledged the lack of a thermometer during our visit, and shortly after, a thermometer was installed. Overall, State agency officials at these sites were receptive to our findings, however, they noted that these issues had not previously been brought to their attention by FNS.

Although States are responsible for implementing controls to properly safeguard TEFAP commodities from loss, such as theft and spoilage, FNS is ultimately responsible for providing guidance and oversight to the States. Because the primary goal of TEFAP is to provide food to those in need, FNS must ensure that States have effective systems to prevent spoilage and loss incidents such as those identified in our review.

Recommendation 5

Develop and disseminate additional guidance to States to help them determine what constitutes a 6-month supply, including guidance for calculating monthly consumption for commodities for which they have no historical usage records.

Agency Response

In its April 30, 2012 response, FNS stated:

Through the FNS-155 Form, FNS has distributed guidance to State agencies to help them determine what constitutes a 6-month supply of each food item. FNS provides in the FNS-155 that States “divide the accumulated State inventory balance at the end of the report month by the average quantity of that commodity distributed to the recipient and/or sub-distributing agencies during a typical month....” Through a policy memorandum, which will

³⁸ The commodities included 476 cases of spaghetti, rotini, and apricot halves with a value of \$11,535.

³⁹ 7 CFR 250.14 (7)(b), “Warehousing, Distribution and Storage of Donated Foods.” The guidance requires recipient agencies to maintain foods at proper storage temperatures.

be released by March 31, 2013, FNS will clarify how to determine what constitutes a 6-month supply, including providing guidance to States on how to estimate inventory for products that the State does not have historical usage records for (i.e., bonus and new foods).

OIG Position

We accept management decision for this recommendation.

Recommendation 6

Require States to create and document their own methodologies for assessing their inventories to determine whether they have in excess of a 6-month supply. Once in place, include a review of State methodologies in the management evaluation process.

Agency Response

In its April 30, 2012 response, FNS stated:

FNS will urge State agencies to use the guidance that FNS publishes in response to Recommendation 5 to assess their inventories and determine if/when they have an excess supply of food. FNS prefers that all States use the same methodology to measure inventory levels to ensure consistency in measurement and warehouse management practices. Additionally, FNS will revise the TEFAP ME module, Section VI Inventory Control, to require FNS staff to review the State's compliance with the guidance provided through Recommendation 5. FNS anticipates releasing guidance on assessing inventories and updating the ME module by March 31, 2013.

OIG Position

We accept management decision for this recommendation.

Recommendation 7

Incorporate an evaluation of the effectiveness of State inventory management systems into the management evaluation process. Specifically, ensure a review of both State and recipient agency warehouses, and review whether States adhere to guidelines related to stock rotation and distribution procedures.

Agency Response

In its April 30, 2012 response, FNS stated:

Section VIII, Monitoring and Reviews of the TEFAP ME module, requires that FNS reviewers evaluate the State agency's review process and review form for monitoring State and recipient agency warehouses' compliance with storage and warehousing practices and inventory controls. FNS reviewers conducting MEs as part of the national risk-based

assessment process are required to complete all components of the ME module, which includes this warehousing section. FNS will issue updated guidance to Regional Offices by September 30, 2012, reminding them to include this section of the module in their review, within the current guidelines for risk-based MEs.

OIG Position

We accept management decision for this recommendation.

Section 2: Recovery Act Reporting

Finding 3: FNS and States Need to Improve the Reliability of Reports on Jobs Created and Retained by Recovery Act Funds

We found deficiencies in State and FNS controls over the determination and reporting of jobs created and retained attributed to Recovery Act funding. Specifically, three of nine States reviewed inaccurately reported the number of TEFAP-related jobs created or retained by Recovery Act funding. One State over reported the number of jobs by 19—incorrectly reporting 37 jobs instead of the 18 actually created—because staff continued to use obsolete, subjective criteria to calculate jobs created and retained, rather than using new objective criteria. Two other States reported no jobs were created or retained within TEFAP even though Recovery Act funds were expended for salaries using the subjective criteria. This occurred because the States (1) did not properly implement changes in job reporting as required in OMB updated guidance dated December 2009, and (2) did not have an adequate system in place to ensure the accuracy of job data reported. We also found that FNS did not ensure that State controls were in place to prevent inaccurate job reporting. As a result, the inaccurate data hampered FNS’ achievement of the Recovery Act goals of transparency and accountability.

One of the requirements of the Recovery Act is that its public benefits, such as jobs being created, be accurately reported.⁴⁰ For purposes of jobs reporting under the Recovery Act, OMB guidance issued in December 2009, defines a funded job as one in which the wages or salaries are either paid for or will be reimbursed with Recovery Act funding.⁴¹ Previously, in the June 2009 guidance, OMB had only required a subjective assessment on whether a given job would have existed without the Recovery Act.⁴² Adjustments to prior quarterly reports that used the previous methodology were not required. OMB guidance also advised that both the Federal agency and prime recipient or State agency are responsible for implementing necessary internal control measures to ensure accurate and complete reporting of all amounts funded by the Recovery Act.

We found that first-tier recipient agencies in one State reported to their State agency that between October 2009 and June 2010, 37.35 fulltime equivalents (approximately 37 jobs) had been created or retained using Recovery Act funds under TEFAP. However, we identified that

⁴⁰ OMB memorandum M-09-10, “Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009,” February 18, 2009. Guidance stated that “The Administration is committed to investing Recovery Act dollars with an unprecedented level of transparency and accountability so Americans know where their tax dollars are going and how they are being spent.” In particular it stated that a crucial accountability objective was that, “the public benefits of these funds are reported clearly, accurately, and in a timely manner.”

⁴¹ OMB memorandum M-10-08, Part 2, “Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates,” December 18, 2009.

⁴² OMB memorandum M-09-21, “Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009,” Section 5.1, June 22, 2009. Guidance stated that “A job created is a new position created and filled or an existing unfilled position that is filled as a result of the Recovery Act; a job retained is an existing position that would not have been continued to be filled if it were not for Recovery Act funding.” As noted in footnote 10, this method was changed in December 2009 by OMB M-10-08.

only 18.22 full-time equivalents (approximately 18 jobs) were supported.⁴³ Thus, the State reported approximately 19 jobs that were not actually created or retained. Our review of the jobs reported for the State disclosed that 11 of 13 first-tier agencies incorrectly reported jobs using the old subjective criteria in at least one quarter of the reporting period, while 9 of those 11 agencies used the subjective criteria in all quarters of the reporting period. We found State officials responsible for oversight of TEFAP did not take appropriate actions to review documentation from the recipient agencies to ensure that reported jobs data were valid and/or complete in accordance with Recovery Act provisions and OMB guidelines. This occurred due to the lack of agency procedures in place to review job reporting information and poor internal agency communications of the oversight responsibilities for ensuring the accuracy of Recovery Act jobs reported. Overall, the State officials offered the explanation that because TEFAP was a smaller program they prioritized their limited agency oversight resources to other programs.

Two other States understated the number of jobs reported as created and retained. Both of these States reported that no jobs were created or retained using TEFAP funding, although Recovery Act funds were used to pay salaries at recipient agencies within these States, for FYs 2009 and 2010. Officials from both States told us they were aware that Recovery Act funds were used to pay salaries for recipient agency employees. However, neither State recognized, and both overlooked the fact that it was not possible that no jobs were created or retained under the new OMB guidance. Therefore, neither State had a control in place to identify underreporting of jobs for these recipient agency employees pursuant to OMB. As stated above, in December 2009 OMB issued guidance stating that a job paid by Recovery Act funding (salaries) was a job created or retained. The reporting controls in these States did not include any analysis of supporting documentation such as expense reports and related timesheets to ensure the accuracy of ‘zero’ job reports by State sub recipients for TEFAP. FNS provided the States with the updated OMB guidance, but performed limited data quality reviews intended to identify material omissions and/or significant reporting errors. However, the States as owners of the job data submitted had the principal responsibility for ensuring the quality of job data and reliability for ‘zero’ job reports.

We discussed the dissemination of OMB guidance and TEFAP Recovery Act oversight practices with FNS and found that although FNS provided the updated OMB guidance to States, it did not ensure that States understood the reporting requirements. The FNS regional office officials believed it was up to the States to read, understand, and follow the OMB guidance. Further, while OMB did not require a specific methodology for examining job reporting data quality, Federal agencies were required to establish Recovery Act data quality plans that, at a minimum, would focus on preventing significant reporting errors and material omissions.⁴⁴

⁴³ The OIG calculated 18.22 jobs created, using definitions and methods prescribed by OMB in its December 2009 guidance. That guidance defined jobs created or retained as those funded in the quarter by the Recovery Act, where a job created is a new position created and filled, or an existing unfilled position that is filled and funded by the Recovery Act. Using these definitions, OIG examined timesheets provided by the first-tier recipients to calculate total employee hours funded by the Recovery Act, and then converted that number to full time equivalents using OMB’s conversion formula.

⁴⁴ OMB memorandum M-10-08, Part 1, “Data Quality Requirements and Guidance for Non-Reporting Recipients,” December 18, 2009.

Recommendation 8

Determine which States either did not verify jobs reported, or used the outdated OMB methodology for computing jobs, and instruct them to perform reviews of past reports and, if needed, submit updated reports of TEFAP jobs created or retained with Recovery Act funds.

Agency Response

In its April 30, 2012 response, FNS stated:

OMB issued the revised methodology in December 2009. FNS will ask State agencies if the jobs reported in each of their ARRA reports submitted after December 2009 were verified, as well as what method was used to calculate jobs for each report. Any State agency that did not verify jobs reported, or used outdated methodology will be asked to make and submit the necessary corrections. FNS will review the requested information and provide guidance to States needing to verify their reports by September 30, 2012.

OIG Position

We accept management decision for this recommendation.

Recommendation 9

Determine which States, following the implementation of the updated OMB guidance, submitted quarterly reports detailing salaries paid with Recovery Act funds but no jobs created or retained. Require those States to perform quality reviews over the quarterly reports in question and submit updated reports if needed.

Agency Response

In its April 30, 2012 response, FNS stated:

FNS will review all ARRA reports submitted after December 2009 to find any instances of State agencies indicating that salaries were paid but that no jobs were created or retained. As necessary, FNS will request that State agencies review these reports and submit updated reports if needed. FNS will review reports and provide instruction to States by September 30, 2012.

OIG Position

We accept management decision for this recommendation.

Scope and Methodology

Our review covered TEFAP State agency operations in FYs 2008 through 2010. Specifically, we focused on compliance and the effectiveness of State agencies responsible for implementing TEFAP. We evaluated FNS and State agency internal controls and program implementation for both annually appropriated and Recovery Act funds. Our fieldwork took place from April 2010 through September 2011.

We judgmentally selected three out of seven FNS regions to visit during the TEFAP Phase I audit: Midwest, Southeast, and Western Regions. Those regions were selected for the audit universe based upon the amount of TEFAP funding.⁴⁵ Within those regions, the following eight States were statistically selected:⁴⁶ California, Florida, Georgia, Michigan, South Carolina, Tennessee, Washington, and Wisconsin. Additionally, after completing the TEFAP Phase I audit and identifying concerns with the frequency of review processes in Arizona, we decided to add it to our TEFAP Phase II review within a separate statistical stratum.⁴⁷ Because of the limited, non-random, universe, we chose to report only our actual observations on the results of our procedures for the States selected, rather than making projections from the sample.⁴⁸

To accomplish our objectives, we performed the following procedures:

- Reviewed FNS and State regulations, procedures, and manuals governing TEFAP.
- Interviewed State agency officials.
- Reviewed FNS' and States' internal reports and reviews.
- Examined food storage facility records submitted to the States.
- Reviewed and analyzed individual eligibility determinations and fund requests made by State and local agencies and non-profit organizations.
- Reviewed States' Recovery Act data and reporting.

We conducted this performance review in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the review 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.

⁴⁵ We selected regions overseeing States with the most dollars allocated for TEFAP. For the three regions selected, combined administrative and food funding accounted for almost 57 percent of total program funding to all regions.

⁴⁶ The 3 regions contained 20 States. We selected eight States for the audit, using a simple random sample (equal probability of selection).

⁴⁷ Arizona was one of the 12 States not selected in the random sample. The final design had, therefore, a random stratum of 8 States out of 19 States and a census stratum of 1 State.

⁴⁸ The judgmentally-selected universe prevented us from assuming any conclusions from the sample of States would apply to other regions.

Abbreviations

CFR.....	Code of Federal Regulations
ERA.....	Eligible Recipient Agency
FNS.....	Food and Nutrition Service
FY.....	Fiscal Year
OIG.....	Office of Inspector General
OMB.....	Office of Management and Budget
Recovery Act.....	American Recovery and Reinvestment Act of 2009
TEFAP.....	Emergency Food Assistance Program
USDA.....	Department of Agriculture

**USDA'S
FOOD AND NUTRITION SERVICE
RESPONSE TO AUDIT REPORT**



**United States
Department of
Agriculture**

Food and
Nutrition
Service

3101 Park
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Alexandria, VA
22302-1500

DATE: April 30, 2012

**AUDIT
NUMBER:** 27703-0003-AT

TO: Gil H. Harden
Assistant Inspector General for Audit

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

SUBJECT: Review of the Food and Nutrition Service's Controls over The
Emergency Food Assistance Program – Phase II

This letter responds to the official draft report for audit report number 27703-0003-AT, Review of the Food and Nutrition Service's Controls over The Emergency Food Assistance Program – Phase II. Specifically, the Food and Nutrition Service (FNS) is responding to the nine recommendations in the report.

Recommendation 1:

Develop and disseminate guidance requiring State agencies to obtain and review invoices, receipts, and the other documentation from recipient agencies to support expenditures of Federal administrative funds. At a minimum, on a sample basis, payments should be reviewed either at time of payment for reimbursements, or at the end of the advancement period.

FNS Response:

FNS will develop guidance for State agencies that requires that they review a sample of first-tier Eligible Recipient Agency's (ERA) receipts on a periodic basis. FNS anticipates releasing this guidance to State agencies by September 30, 2012.

Estimated Completion Date: September 30, 2012

Recommendation 2:

Develop and implement policies and procedures requiring States to maintain a full listing of all recipients (first and second-tier) operating in that State.

FNS Response:

FNS will develop guidance that clarifies the requirement that State agencies must maintain a list of all first- and second-tier TEFAP recipient agencies operating in the State. FNS will recommend that States update this list on a periodic basis. FNS anticipates releasing guidance to State agencies by July 31, 2012.

Estimated Completion Date: July 31, 2012

Recommendation 3:

Develop guidance for States to formulate a risk-based review process that ensures all high risk second-tier recipient agencies are reviewed within a defined cycle period, and that every second-tier agency is subject to selection in a random sample each year.

FNS Response:

FNS will issue guidance to State agencies that will recommend that States use a risk-based approach to select a portion of ERAs to review, and choose the remainder of reviews based on a random selection of all second-tier ERAs to ensure that all such ERAs may be subject to a review in any fiscal year.

Estimated Completion Date: September 30, 2012

Recommendation 4:

Develop steps within the management evaluation process to verify that State monitoring functions are completed in accordance with TEFAP regulations, including (1) verifying that States have a complete and accurate list of all recipient agencies and appropriately use the list to select recipients for review, and (2) verifying that monitoring functions are not being delegated.

FNS Response:

FNS requires that Regional Offices use the TEFAP Management Evaluation (ME) module for all MEs conducted under the national risk-based review process, and strongly encourages Regional Offices to use this module when conducting additional reviews. FNS will include a section in the ME module that requires the FNS reviewer to check that the State has a list of first- and second-tier agencies that has been updated per FNS guidance for use when determining the current fiscal year's schedule of reviews.

FNS will also revise Section VIII, Monitoring and Reviews, of the ME module, by including a space for the FNS reviewer(s) to note whether the ERA reviews conducted at first- and second-tier ERAs were in compliance with regulation and policy. FNS reviewers are already required to review a sample of at least 10 percent of the reviews conducted by the State agency during the review period. FNS will ensure that the name(s) of the State agency staff conducting the review are captured during the ME as a

means of verifying that monitoring functions have not been delegated. As these and other audit-related updates to the ME module will require significant Regional input, FNS anticipates completing the updated TEFAP ME module by March 31, 2013.

Estimated Completion Date: March 31, 2013

Recommendation 5:

Develop and disseminate additional guidance to States to help them determine what constitutes a 6-month supply, including guidance for calculating monthly consumption for commodities for which they have no historical usage records.

FNS Response:

Through the FNS-155 Form, FNS has distributed guidance to State agencies to help them determine what constitutes a 6-month supply of each food item. FNS provides in the FNS-155 that States “divide the accumulated State inventory balance at the end of the report month by the average quantity of that commodity distributed to the recipient and/or sub-distributing agencies during a typical month....” Through a policy memorandum, which will be released by March 31, 2013, FNS will clarify how to determine what constitutes a 6-month supply, including providing guidance to States on how to estimate inventory for products that the State does not have historical usage records for (i.e. bonus and new foods).

Estimated Completion Date: March 31, 2013

Recommendation 6:

Require States to create and document their own methodologies for assessing their inventories to determine whether they have an excess of a 6-month supply. Once in place, include a review of State methodologies in the management evaluation process.

FNS Response:

FNS will urge State agencies to use the guidance that FNS publishes in response to Recommendation 5 to assess their inventories and determine if/when they have an excess supply of food. FNS prefers that all States use the same methodology to measure inventory levels to ensure consistency in measurement and warehouse management practices. Additionally, FNS will revise the TEFAP ME module, Section VI Inventory Control, to require FNS staff to review the State’s compliance with the guidance provided through Recommendation 5. FNS anticipates releasing guidance on assessing inventories and updating the ME module by March 31, 2013.

Estimated Completion Date: March 31, 2013

Recommendation 7:

Incorporate an evaluation of the effectiveness of State inventory management systems into the management evaluation process. Specifically, ensure a review of both State and recipient agency warehouses, and review whether States adhere to guidelines related to stock rotation and distribution procedures.

FNS Response:

Section VIII, Monitoring and Reviews of the TEFAP ME module, requires that FNS reviewers evaluate the State agency's review process and review form for monitoring State and recipient agency warehouses' compliance with storage and warehousing practices and inventory controls. FNS reviewers conducting MEs as part of the national risk-based assessment process are required to complete all components of the ME module, which includes this warehousing section. FNS will issue updated guidance to Regional Offices by September 30, 2012, reminding them to include this section of the module in their review, within the current guidelines for risk-based MEs.

Estimated Completion Date: September 30, 2012

Recommendation 8:

Determine which States either did not verify jobs reported, or used the outdated OMB methodology for computing jobs, and instruct them to perform reviews of past reports and, if needed, submit updated reports of TEFAP jobs created or retained with Recovery Act funds.

FNS Response:

OMB issued the revised methodology in December 2009. FNS will ask State agencies if the jobs reported in each of their ARRA reports submitted after December 2009 were verified, as well as what method was used to calculate jobs for each report. Any State agency that did not verify jobs reported, or used outdated methodology will be asked to make and submit the necessary corrections. FNS will review the requested information and provide guidance to States needing to verify their reports by September 30, 2012.

Estimated Completion Date: September 30, 2012

Recommendation 9:

Determine which States, following the implementation of the updated OMB guidance, submitted quarterly reports detailing salaries paid with Recovery Act funds but no jobs created or retained. Require those States to perform quality reviews over the quarterly reports in question and submit updated reports if needed.

FNS Response:

FNS will review all ARRA reports submitted after December 2009 to find any instances of State agencies indicating that salaries were paid but that no jobs were created or retained. As necessary, FNS will request that State agencies review these reports and submit updated reports if needed. FNS will review reports and provide instruction to States by September 30, 2012.

Estimated Completion Date: September 30, 2012

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