



**U.S. Department of Agriculture
Office of Inspector General**



Review of the Emergency Food Assistance Program

**Audit Report 27703-1-At
March 2010**



DATE: March 31, 2010

REPLY TO
ATTN OF: 27703-1-AT

TO: Julie Paradis
Administrator
Food and Nutrition Service

ATTN: Lael Lubing
Director
Grants Management Division

FROM: Gil H. Harden /S/
Acting Assistant Inspector General
for Audit

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

Summary

As the agency of the U.S. Department of Agriculture (USDA) responsible for providing food assistance to Americans in need, the Food and Nutrition Service (FNS) operates The Emergency Food Assistance Program (TEFAP), which is designed to supplement the diets of low-income Americans by providing emergency food and nutrition assistance at no cost. According to the 2008 Farm Bill, USDA was required to spend approximately \$248 million in fiscal year (FY) 2009 for the purchase of food for TEFAP. On February 17, 2009, \$150 million in additional funds were made available to the program under the American Recovery and Reinvestment Act of 2009 (Recovery Act).¹ Congress and the President have made it clear that they expect Federal agencies to exercise especially rigorous control of Recovery Act funds.

Based on our review of FNS' management controls over TEFAP, we found that the agency was not frequently and consistently reviewing State operation of the program. Of the 55 States and territories administering TEFAP, FNS had not performed a management review of 25 since FY 2005² and the evaluations that were performed did not necessarily focus on States and territories that were at the greatest risk of fraud, waste, and abuse. Additionally, the FNS regional offices reviewed their States and territories inconsistently, some focusing on certain components and neglecting others. This occurred because FNS believed there was a low risk of

¹ In total, for FY 2009, \$84.5 million was available for administrative costs.

² TEFAP operates in all 50 States as well as the Commonwealth of the Northern Mariana Islands; the District of Columbia; Guam; Puerto Rico; and the Virgin Islands.

fraud, waste, and abuse in the program based on the fact that TEFAP had significantly fewer dollars than other programs FNS administers, such as the Supplemental Nutrition Assistance Program (\$67.3 billion for FY 2010)³ and the Special Supplemental Nutrition Program for Women, Infants, and Children (\$7.7 billion for FY 2010), and because no material issues have been disclosed in recent management evaluations performed. We maintain, however, that FNS' low risk determination was not supported given the fact that management evaluations were not performed frequently or consistently. Moreover, given the oversight requirements of the Recovery Act, FNS needs to subject TEFAP to additional and more regular scrutiny.

Background

Under TEFAP, USDA buys, processes, packages, and ships food to individual States. TEFAP food and administrative funds are distributed according to a formula based on each State's poverty and unemployment level. States set their own income eligibility criteria and establish their own plans for program administration and food distribution. The States select local subrecipient organizations (e.g., food banks, food pantries, or homeless shelters) that directly distribute food to households, serve meals, or distribute food to other local organizations that perform these functions.

Each State agency that administers TEFAP is required to enter into a Federal-State agreement with FNS. This agreement requires that the State agency comply with Federal statutes, regulations, and other directives, especially regarding the use of Federal funding. To ensure compliance with the Federal-State agreement, FNS conducts management evaluations of TEFAP to review program operations at State agencies. Management evaluations cover a range of topics including financial management, inventory, warehousing, eligibility, and State agency reviews of their local recipient agencies.

Objectives

The objectives of our audit were to determine if FNS (1) was timely and effectively administering Recovery Act provisions regarding TEFAP, and (2) had established proper internal control procedures and effective compliance operations.

Finding 1: Implementation of Internal Control Measures for TEFAP Needs to be Strengthened to Mitigate Program Risk.

Since FY 2005, FNS regional offices have not performed management evaluations for 25 of the 55 States and territories that administer TEFAP. FNS national officials made a decision to grant regional offices the authority to determine if these evaluations were needed because they regarded TEFAP as low risk and because evaluations completed on a regular cycle in prior years did not disclose many problems. FNS national officials based their low risk determination for TEFAP primarily on the fact that the program had significantly fewer dollars than other FNS programs like the Supplemental Nutrition Assistance Program and the Special Supplemental Nutrition Program for Women, Infants, and Children. We found, however, that FNS did not perform a sufficient assessment to determine TEFAP's overall risk and that no guidance was

³ Totals for the Supplemental Nutrition Assistance Program include \$61.4 billion for regular appropriations and \$5.9 billion for Recovery Act.

provided to the regional offices to define a “need” for review. Without this information, there is an increased risk that program errors may go undetected and that TEFAP would not be managed in accordance with applicable requirements. Given the additional monitoring requirements of the Recovery Act,⁴ the Office of Inspector General (OIG) believes that FNS needs to more actively review TEFAP operations in States and territories.

Prior to FY 2007, FNS required that TEFAP management evaluations be conducted on a 3 to 5 year cycle. According to FNS national officials, prior management evaluations of TEFAP did not identify significant findings; they therefore concluded that the program was at low risk. FNS national officials considered the risk to TEFAP low due to the nature, size, and the operational realities of the program when compared to other larger FNS programs.⁵

FNS further reasoned that incremental costs (staff and funds) to standardize and increase the frequency of monitoring TEFAP activities were neither warranted nor cost-effective. The national office therefore instructed regional offices to perform management evaluations only on an “as needed” basis; however, no guidance was provided to define what constitutes a “need.” We concluded that if FNS had performed management evaluations more frequently and more consistently it would then have had a valid basis to assess TEFAP’s risk level.

Since FNS is receiving additional funding for TEFAP from the Recovery Act, it must take steps to increase its oversight of the program. However, even without additional funding, a more frequent review is needed for TEFAP to ensure compliance with program requirements. When we discussed this issue with FNS officials, they generally agreed that the frequency of management evaluations needed to be increased. FNS officials added that they would schedule management evaluations to be completed during FY 2010 for three States that receive a high percentage of TEFAP funding which have not been reviewed since FY 2005. OIG agrees that FNS should continue to focus on reviewing those States that have not been reviewed since 2005, giving priority to States receiving the most dollars in TEFAP funding.

We also found that FNS did not perform management evaluations consistently. In each of the three FNS regional offices we reviewed, we found instances in which management evaluations were conducted using an abbreviated version of the management evaluation module. For example, one FNS regional office had developed a new module, reducing the scope of the financial management review component, and had been using that revised module to conduct all TEFAP management evaluations within its region.⁶ Reviews conducted by other FNS regional offices that we visited also had situations in which critical components such as inventory controls, financial management, eligibility, and monitoring were not always included in management evaluation reviews. FNS national program officials thus lacked a consistent basis for evaluating program operations nationwide and determining relative risk. Consequently,

⁴ Office of Management and Budget Memorandum – Updated Implementing 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.”

⁵ Policy Number FD-036, August 31, 2004, “TEFAP Local Level Record Keeping and Reporting Requirements,” describes the operational realities – TEFAP depends primarily on a structure of community-based charitable services that existed long before the program. TEFAP sites are typically neighborhood organizations that receive small amounts of USDA commodities. Often they are staffed mainly or entirely by volunteers. The unit value of the benefit – the TEFAP part of either food given to a household or a meal served in a soup kitchen – is usually small.

⁶ The region left most financial management review functions to be performed during the financial management reviews, but those reviews had been discontinued for TEFAP

FNS' low risk determination was not supported given the fact that management evaluations were not performed frequently or consistently. When we spoke to FNS national officials about this problem, they stated that they have finalized a standardized management review module for use in the regions, and that they will encourage regional offices to conduct evaluations using all elements defined in the module for TEFAP. OIG concluded that FNS must take steps to make its management evaluations of TEFAP both more frequent and more consistent by requiring FNS regional offices to use all module elements when conducting TEFAP management evaluations. Considering the higher standards of accountability for Recovery Act funding, it is necessary for FNS to increase its oversight of TEFAP.

Recommendation 1

Develop and implement a schedule that details the timeframes when evaluations will be completed for the States and territories. Focus scheduling on State agencies receiving the most dollars in TEFAP funding.

Agency Response

FNS responded that due to their limited resources and the small size of TEFAP relative to other FNS programs, they could not commit to reviewing a certain number of TEFAP State agencies on a regular cyclical basis. FNS instead, agreed to explore using a standard approach to identify which State agencies needed a management evaluation based on risk factors, such as the dollar amount allocated and each State agency's potential for fraud, waste, and abuse.

OIG Position

We do not accept FNS' management decision for this recommendation. To reach management decision, FNS needs to provide the results of its examination of a risk-based approach including the specific risk factors that were considered. Additionally, provide plans for reviewing states and territories including a timetable for performing the reviews.

Recommendation 2

Develop and implement policies and procedures that specify the frequency and scope of programmatic evaluations of State agencies, including identifying criteria for selecting recipients to be reviewed and standards for deviating from scheduled review dates.

Agency Response

FNS responded that, after determining the appropriate course of action for scheduling TEFAP State agency management evaluations as described in FNS' response to Recommendation 1, they will develop guidance regarding the use of the recently updated standard TEFAP management evaluation module to avoid inconsistency in the evaluation process and content of the reviews.

OIG Position

We do not accept FNS' management decision for this recommendation. To reach management decision, FNS needs to provide a plan and timetable for issuing guidance regarding the frequency and scope of reviews.

Scope and Methodology

This review focused on how FNS allocates and distributes commodities and administrative funds for operating the program. Additionally, we evaluated the agency's internal controls and performance measures over both regularly appropriated and Recovery Act funds. We evaluated current FNS operations and programmatic management evaluations completed between FY 2005 and FY 2009. Fieldwork was conducted at the FNS national office in Alexandria, Virginia, and FNS regional offices in Atlanta, Georgia; Chicago, Illinois; and San Francisco, California. We selected regions overseeing States with the most dollars allocated for TEFAP.

To accomplish our objectives, we reviewed Federal regulations, FNS policies and procedures, the Recovery Act, and Federal and State agreements and contracts for TEFAP. We interviewed FNS national and regional office officials, and reviewed prior FNS regional office management evaluations. Additionally, we reviewed and analyzed the process for commodity ordering, program monitoring and reporting, and allocation and management of administrative funds. Fieldwork was performed from May 2009 to December 2009. 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.

Agency's Response

USDA'S

Food and Nutrition Service

RESPONSE TO AUDIT REPORT



**United States
Department of
Agriculture**

**Food and
Nutrition
Service**

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REPLY: 27703-1-AT
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Acting Assistant Inspector General for Audit

FROM: Julia Paradis /s/
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Food and Nutrition Service

MAR 30 2010

SUBJECT: Review of the Food and Nutrition Service's Controls Over the Emergency Food Assistance Program (TEFAP) Phase I

This responds to the official draft audit report #27703-1-AT, Review of the Food and Nutrition Service's Controls Over the Emergency Food Assistance Program – Phase 1.

Recommendation 1

Develop and implement a schedule that details the timeframes when evaluations will be completed for the States and territories. Focus scheduling on agencies receiving the largest dollars in TEFAP funding.

Food and Nutrition Service (FNS) Response:

FNS has limited resources available to conduct regular management evaluations (ME) of its 16 programs. Currently, FNS concentrates ME resources on its multi-billion dollar programs, such as the Supplemental Nutrition Assistance Program, the National School Lunch/Breakfast Program and the Special Supplemental Program for Women, Infants and Children. MEs are currently performed on an "as needed" basis in smaller programs such as TEFAP and Regional Offices have discretion to determine which State agencies will be subject to a TEFAP ME in a given year, using criteria identified by each Region.

With limited resources, FNS cannot commit to reviewing a certain number of TEFAP State agencies on a regular, cyclical basis. However, FNS will explore the use of a standard, risk-based approach to identifying TEFAP state agencies that should receive priority attention for MEs. We will consider the dollar value of TEFAP funding allocated to each state as part of this approach as well as other factors that would indicate potential risk for waste, fraud, and abuse by TEFAP State agencies.

Recommendation 2

Develop and implement policies and procedures that specific the frequency and scope of programmatic evaluations over State agencies, including identifying criteria for selecting recipients to be reviewed and standards for deviating from scheduled review dates.

Food and Nutrition Service Response:

After determining the appropriate course of action for scheduling TEFAP State agency MEs as described in FNS' response to Recommendation 1 above, FNS will develop guidance regarding the use of the recently updated standard TEFAP ME module to avoid inconsistency in the evaluation process and content of the reviews. As necessary and appropriate, FNS will outline

situations or standards where deviations from the scheduled review procedures would be acceptable.