



U.S. Department of Agriculture

Office of Inspector General



**American Recovery and Reinvestment Act
Spending for Food and Nutrition Service Special
Supplemental Nutrition Program for Women,
Infants, and Children Management Information
Systems**

Audit Report 27703-01-IT
August 2011



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



DATE: August 22, 2011

AUDIT
NUMBER: 27703-01-IT

TO: Audrey Rowe
Administrator
Food and Nutrition Service

ATTN: Katherine Day
Director
Office of Internal Control, Audits and Investigation

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

SUBJECT: American Recovery and Reinvestment Act Spending for Food and Nutrition
Service Special Supplemental Nutrition Program for Women, Infants, and
Children Management Information Systems

Summary

This report presents the results of our audit of the Food and Nutrition Service's (FNS) use of \$100 million authorized by the American Recovery and Reinvestment Act of 2009 (Recovery Act) for establishing, improving, and administering the Management Information Systems (MIS) used by the Special Supplemental Nutrition program for Women, Infants, and Children (WIC). FNS granted funds to advance and govern the WIC State agencies' (SA) MIS projects and meet new legislative and/or regulatory requirements, including the use of electronic benefits transfer (EBT) functionality in the WIC program.

The Office of Inspector General's (OIG) role, as mandated by the Recovery Act, was to oversee agency activities to ensure funds were expended in a manner that minimized the risk of improper use and conformed to the requirements of the Recovery Act. We conducted our audit at FNS' National Office and five WIC SAs to determine whether FNS officials and WIC SAs properly administered the Recovery Act funding. We found FNS and the reviewed WIC SAs were properly adhering to Office of Management and Budget (OMB) guidance¹ for Recovery Act obligations, expenditures, and reporting, with the following exceptions:

¹ For a list of OMB Guidance issued for the Recovery Act, please refer to Exhibit A: *Office of Management and Budget American Recovery and Reinvestment Act Guidance*.

- One of the five WIC SAs tested did not include proper documentation² on FederalReporting.gov³ supporting payments made with Recovery Act funds.
- Two of the five SAs did not have a process in place to ensure the number of jobs reported as created was accurate. Neither SA could provide support for contractor staff hours worked; therefore, we were unable to verify the number of jobs created. During the audit, the contractor for one of the two SAs provided OIG with the required supporting documentation.

These exceptions occurred because FNS' National Office did not provide detailed guidance to these WIC SAs to ensure Recovery Act compliance. As a result, there were instances where the SAs were unfamiliar with the reporting system and reporting requirements. Additionally, SAs were unaware of the methods prescribed by OMB to calculate jobs created. Generally, the Regional Offices have the primary oversight role for the SAs. However, for Recovery Act reporting, FNS' National Office was the primary lead in overseeing the SAs that received the funding.

Background

In response to the economic downturn, Congress passed the Recovery Act and the President signed it into law on February 17, 2009. It provided FNS with \$500 million for the WIC Program. WIC is a nutrition assistance program used to provide supplemental foods, health care referrals, and nutritional education for low-income pregnant, breastfeeding, and non-breastfeeding postpartum women, and to infants and children up to age five, who are found to be at nutritional risk. The Recovery Act further stipulated that \$100 million of the \$500 million was to be issued via grants to the states to modernize the WIC SA's MIS projects so they comply with new legislative and/or regulatory requirements, which include the WIC Program's use of EBT.

EBT is a system used to electronically deliver WIC benefits and reconcile payments at the state level. The use of EBT is an integral part of FNS' national strategy towards modernizing and streamlining business practices through electronic solutions. EBT improves accountability and program monitoring for WIC SAs and for FNS' monitoring of potential improper payments. EBT allows for the migration from a paper-based food benefit delivery system to an electronic benefit delivery system and enhances client services by simplifying the retail point-of-sale transaction process. FNS pays the full cost of both administering the program and the recipient benefits.⁴

² A contractor invoice for more than \$293,000 was not reported on FederalReporting.gov.

³ FederalReporting.gov is a Federal web site that recipients are required to use for Recovery Act reporting purposes. Recipients must provide invoice details to support all payments in excess of \$25,000. This requirement is defined by Section 1512 of the Recovery Act and by OMB M-09-21, Section 3.3. This information is then available to the public via the Recovery.gov website.

⁴ FNS *WIC Electronic Benefit Transfer (EBT) System Development, Implementation, and Expansion - 5 year Plan (2003 - 2008)*, dated January 2003 and Status Update March 2006, reports that through the success of WIC EBT projects to date, FNS has determined that WIC EBT is technically feasible and that it provides improvements in service to WIC participants, provides a more streamlined benefit redemption process for WIC authorized vendors, and improves accountability for WIC benefits both at the State and retailer levels.

FNS prepared a Recovery Act implementation plan defining allocation mechanisms for the WIC funds in compliance with the Recovery Act requirements and based on the WIC Program's technology goals. FNS and the WIC SAs created separate accounting codes within their current processes to track Recovery Act funds.

To be equitable, FNS awarded grants on a competitive basis, using an existing process to approve, award, report, and track the Recovery Act funding.⁵ The only two types of MIS projects funded were WIC SA Model (SAM)⁶ systems and EBT.⁷ Funding was also available for any technology needs associated with these two projects.

Congress, in enacting the Recovery Act, emphasized the need for accountability and transparency for fund expenditures. OMB issued guidance (see Exhibit A) to clarify requirements and establish steps that must be taken to facilitate the accountability and transparency objectives of the Recovery Act. FNS provided WIC SAs with guidance requiring the SAs to provide a plan to reduce risks and to ensure successful implementation of large technology projects. FNS' National Office was the lead in overseeing the SAs that received the funding and the recipient reporting on Recovery.gov.

Objectives

Our audit objective was to determine if FNS had established adequate controls over the use and reporting of the Recovery Act's \$100 million for WIC MIS funding. Specifically, our objective included evaluating FNS' efforts to ensure (1) programs were timely implemented, (2) proper internal control procedures were established, (3) program participants met eligibility guidelines, (4) participants properly complied with program requirements, and (5) agencies established effective compliance operations.

Scope and Methodology

FNS received \$100 million to fund WIC MIS projects. Our tests were developed to review how FNS spent the funds designated for system development and improvements, including furthering the use of EBT. The \$100 million was obligated by the end of September 2010. FNS issued 53 grants for projects in 41 States. We reviewed 6 of these 53 FNS Recovery Act funded grants. The grants were selected judgmentally to ensure large dollar expenditures and both of the two MIS project types were reviewed. In addition, we obtained and analyzed applicable FNS weekly reports submitted to Recovery.gov and quarterly reports submitted by recipients of Recovery Act funds to FederalReporting.gov.

⁵To prepare SAs for possible future EBT implementation, FNS made Recovery Act funds available for SAs that intended to implement EBT within the next 2 to 5 years, through the WIC EBT Planning Grants Request for Cooperative Agreement Application.

⁶ The WIC Program SAM Project is a FNS 5-year initiative to plan, develop and deploy model information systems in WIC SAs. The model system has the following features: Modern Web Technology, Standard WIC Data Elements, Open System Architecture, Modular Components, and Compliance with Federal Policy and Regulations.

⁷ These grants were for SAs that would like to explore the feasibility of EBT implementation in their State.

We assessed FNS' policies, procedures, and internal controls regarding Recovery Act spending for the MIS projects to ensure they complied with OMB guidelines. Where a tangible item was purchased, we physically verified it existed. We conducted our audit work at FNS' National Office in Washington, D.C., and six WIC SA office sites; Jefferson City, Missouri; the Chickasaw Nation in Ada, Oklahoma; New Orleans and Baton Rouge, Louisiana; Harrisburg, Pennsylvania; and St. Paul, Minnesota. Our audit period was April 2010 through April 2011.

We examined FNS' Recovery Act implementation process. We reviewed guidance provided to FNS' Regional Offices and WIC SAs on the use and reporting of Recovery Act funds. We interviewed WIC SA officials and obtained supporting documentation. We reviewed the documentation to ensure the Recovery Act requirements were met. We examined grant cooperative agreement applications, assessed FNS' grant award process, and analyzed Recovery Act financial transactions recorded by FNS. We also verified job creation data, financial reports,⁸ and recipient quarterly reports. We determined if the percentages of completion for the WIC MIS projects were reported accurately. Our review did not include testing participant eligibility determinations for WIC benefits,⁹ but did include performing limited tests of application controls to determine whether the WIC SAs' system operated as expected, based on participant eligibility criteria.

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

Finding 1: FNS Needs to Ensure Recovery Act Spending is Documented

We reviewed 6 of the 53 FNS WIC MIS Recovery Act funded grants, applicable FNS weekly reports submitted to Recovery.gov, and quarterly reports submitted by the recipients to FederalReporting.gov. These six grants, totaling \$10 million, were issued to five WIC SAs. Our review found that one of the five WIC SAs did not have the supporting documentation required for an expenditure of over \$293,000.¹⁰ This occurred because FNS did not ensure the SA had submitted supporting documentation to FederalReporting.gov as required by OMB guidance. Due to the lack of detailed procedures, the SA stated it did not know it was required to submit this information.

OMB reporting guidance requires a quarterly report to be submitted to FederalReporting.gov by all Recovery Act recipients and sub-recipients that received Recovery Act funding in excess of

⁸ The Financial Activity Report on Recovery.gov provides the obligations and expenditures of the Federal agency that received the Recovery Act funds.

⁹ We did not test participant eligibility determinations for WIC Recovery Act benefits. WIC Recovery Act funded benefits were reviewed as part of audit 27703-1-Ch.

¹⁰ FederalReporting.gov is a web site that recipients access in order to fulfill the reporting requirements as defined by Section 1512 of the Recovery Act and by OMB M-09-21, Section 2.3 and 3.1. Agencies are required to provide vendor information for payments in excess of \$25,000. Specifically, the vendor's Dun & Bradstreet number, the amount of the payment, and a description of what was obtained in exchange for the payment must be reported.

\$25,000. As a result, FNS and the WIC SA did not provide the level of transparency required in the Recovery Act. This finding was discussed with FNS' National Office personnel and they concurred that one of the five WIC SAs reviewed was unfamiliar with the prescribed reporting requirement.

Recommendation 1

FNS should develop and implement an effective process to verify that all quarterly Recovery Act recipient and sub-recipient reporting requirements are met as required by OMB M-09-21 and communicate this to the SAs.

Agency Response

FNS concurred with this recommendation, issued reporting guidance to all award recipients, and posted it on FNS' website. Also, as of April 2011, FNS officially delegated WIC's Recovery Act reporting oversight responsibilities to FNS' Regional Offices. The shift to the Regional Office review allows for closer process oversight and improved data quality.

OIG Position

We accept FNS' management decision.

Finding 2: FNS Needs to Ensure Contractor Time Charges are Documented

We examined five SAs to determine if each had a process in place to ensure the reported number of jobs created was accurate. We reviewed the number of jobs that the WIC SAs reported to FederalReporting.gov and obtained the related documentation to determine if the job calculations were properly supported based on OMB M-09-21 guidance.¹¹

We found two of the five SAs had contracts in place that did not require the contractors to provide the SAs records detailing the hours contractors worked, as required by OMB. OMB M-09-21 requires the SAs to have documented evidence of the actual hours worked, which is the basis of the FTE calculation to report the number of jobs created. Neither SA was able to provide OIG with the actual hours contractors worked; therefore, we were unable to verify the jobs created were accurately reported on FederalReporting.gov. The SAs had estimated the number of jobs created, based upon the total number of contractors working on the project. This occurred because the contracts were in place prior to the Recovery Act, and although FNS' National Office reviewed the contracts for federal procurement rules, they did not review them to ensure they met Recovery Act requirements.

¹¹ OMB M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009*, June 22, 2009, Section 5. The estimate of the number of jobs required by the Recovery Act should be expressed as "full-time equivalents" (FTE), which is calculated as total hours worked in jobs created or retained divided by the number of hours in a full-time schedule, as defined by the recipient. The FTE estimates must be reported cumulatively each calendar quarter.

Due to this oversight, FNS, WIC SAs and the contractors did not meet the Recovery Act recipient reporting requirements. We could not validate the SAs accurately reported the number of jobs created without the supporting documentation. This finding was discussed with FNS' National Office personnel and they concurred that two of the five WIC SAs reviewed were unfamiliar with the prescribed reporting requirements.

OMB Circular A-123 requires that expenditures applicable to agency operations be properly recorded and accounted for, to permit the preparation of accounts and reliable financial and statistical reports, and to maintain accountability over the assets.¹² Additionally, it states that management should have a clear, organized strategy with well-defined, documented processes that contain an audit trail. OMB M-09-21 requires recipients to track hours worked quarterly for the job creation calculation.

Recommendation 2

FNS should require that the WIC SAs include the required language in all contracts to ensure jobs reported as created or saved are properly supported by documentation, and modify existing contracts that received Recovery Act funding to integrate the necessary requirements.

Agency Response

FNS concurred with this recommendation and has provided all WIC Recovery Act funding recipients with guidance and updates on the requirements for reporting jobs created/saved. FNS will issue a memorandum to all WIC Recovery Act recipients reiterating the reporting requirements regarding jobs created, to include the requirement that all contractors must be able to provide a breakout of the actual hours worked within each quarter so that the SAs can justify the number of hours reported in FederalReporting.gov. The memorandum of instruction will be completed by August 31, 2011.

OIG Position

We accept FNS' management decision. FNS needs to ensure that the memorandum provided to Recovery Act recipients is in effect for the duration of every WIC Recovery Act contract.

¹² OMB Circular A-123, *Management's Responsibility for Internal Control*, June 21, 1995.

Exhibit A: Office of Management and Budget American Recovery and Reinvestment Act Guidance

The following is a list of OMB Memoranda that have been issued to provide guidance on the Recovery Act for agencies and recipients of Recovery Act funds.

- OMB Memorandum for Chief Acquisition Officers Senior Procurement Executives, *Interim Guidance on Reviewing Contractor Reports on the Use of Recovery Act Funds in Accordance with Federal Acquisition Regulation Clause 52.204-11*, dated September 30, 2009;
- OMB Memorandum M-09-16, Memorandum for the Heads of Executive Departments and Agencies, *Interim Guidance Regarding Communications with Registered Lobbyists about Recovery Act Funds*, dated April 7, 2009;
- OMB Memorandum M-10-14, *Updated Guidance on the American Recovery and Reinvestment Act*, dated March 22, 2010;
- OMB Memorandum M-10-08, *Updated Guidance on the American Recovery and Reinvestment Act – Data Quality, Non-Reporting Recipients, and Reporting of Job Estimates*, dated December 18, 2009;
- OMB Memorandum M-09-10, *Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009*, dated February 18, 2009;
- OMB Memorandum M-09-15, *Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009*, dated April 3, 2009;
- OMB Memorandum M-09-16, *Interim Guidance Regarding Communications With Registered Lobbyists About Recovery Act Funds*, dated April 7, 2009;
- OMB Memorandum M-09-18, *Payments to State Grantees for Administrative Costs of Recovery Act Activities*, dated May 11, 2009;
- OMB Memorandum M-09-21, *Implementing Guidance for the Reports on Use of Funds Pursuant to the American Recovery and Reinvestment Act of 2009*, dated June 22, 2009;
- OMB Memorandum M-09-30, *Improving Recovery Act Recipient Reporting*, dated September 11, 2009;
- OMB Memorandum M-10-03, *Payments to State Grantees for their Administrative Costs for Recovery Act Funding – Alternative Allocation Methodologies*, dated October 13, 2009;
- OMB Memorandum M-10-05, *Improving Compliance in Recovery Act Recipient Reporting*, dated November 30, 2009;
- OMB Memorandum M-10-17, *Holding Recipients Accountable for Reporting Compliance under the American Recovery and Reinvestment Act*, dated May 4, 2010;
- OMB Circular A-123, *Management’s Responsibility for Internal Control*, June 21, 1995; and
- Federal Acquisition Regulation FAR 52.204-11, *American Recovery and Reinvestment Act-Reporting Requirements*, dated March 2009.

Agency's Response

USDA'S

FOOD AND NUTRITION SERVICE

REPOSE TO AUDIT REPORT



**United States
Department of
Agriculture**

Food and
Nutrition
Service

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DATE: June 24, 2011

AUDIT
NUMBER: 27703-01-IT

TO: Gil H. Harden
Assistant Inspector General for Audit

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

SUBJECT: American Recovery and Reinvestment Act Spending for Food and
Nutrition Service Special Supplemental Nutrition Program for Women,
Infants, and Children Management Information Systems

This letter responds to the official draft audit report number 27703-01-IT, American Recovery and Reinvestment Act Spending for Food and Nutrition Service Special Supplemental Nutrition Program for Women, Infants, and Children Management Information Systems. Specifically, the Food and Nutrition Service (FNS) is responding to the two recommendations within the report.

OIG Recommendation 1:

FNS should develop and implement an effective process to verify that all quarterly Recovery Act recipient and sub-recipient reporting requirements are met as required by OMB M-09-21 and communicate this to the SAs.

Food and Nutrition Service Response:

FNS concurs with the stated recommendation and has completed corrective actions to comply. Reporting guidance, to include sample reporting templates, was issued to all award recipients and has been posted on FNS's website. Further, recipients are urged to review additional guidance posted on FederalReporting.gov, to include any updates and revisions to the reporting process. FNS has instituted a change in the review and oversight process for Recovery Act reporting, which has improved our ability to provide timely technical assistance and guidance to all Recovery Act recipients. As of April 2011, FNS WIC Recovery Act reporting oversight was officially delegated to the FNS Regional Offices. Prior to this change, the National Office was responsible for the review of all recipient reports. The shift to Regional Office review of quality, timeliness and completeness of the reports allows for closer process oversight and improved data quality. FNS has worked diligently with all Recovery Act recipients to ensure that all reporting requirements are met as required by OMB M-09-21 and that all required information has been communicated to the State Agencies. Completed: March 31, 2011

OIG Recommendation 2:

FNS should require that the WIC SAs include the required language in all contracts to ensure jobs reported as created or saved are properly supported by documentation, and modify existing contracts that received Recovery Act funding to integrate the necessary requirements.

Food and Nutrition Service Response:

FNS concurs with the stated recommendation and FNS has provided all WIC Recovery Act funding recipients with guidance and updates on the requirements for reporting jobs created/saved. FNS will issue a memorandum to all WIC Recovery Act recipients reiterating the reporting requirements regarding jobs created, to include the requirement that all contractors must be able to provide a breakout of the actual hours worked within each quarter so that the State Agencies can justify the number of hours reported in FederalReporting.gov. FNS will also include instruction to the State Agencies regarding all contracts funded in part or wholly by Recovery Act funding should include this language, regardless of when the contracts were awarded (even if contract award was prior to the receipt of Recovery Act funding). The memorandum of instruction will be completed by August 31, 2011.