



U.S. Department of Agriculture

Office of Inspector General



# Oversight of the Recovery Act WIC Contingency Funds

Audit Report 27703-1-Ch  
April 2010



U.S. Department of Agriculture  
Office of Inspector General  
Washington, D.C. 20250



DATE: April 22, 2010

REPLY TO  
ATTN OF: 27703-1-Ch

TO: Julie Paradis  
Administrator  
Food and Nutrition Service

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Director  
Grants Management Division

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

SUBJECT: Oversight of the Recovery Act WIC Contingency Funds

### **Summary**

This report presents the results of our audit of the Food and Nutrition Service's (FNS) use of reserve funds provided by the American Recovery and Reinvestment Act of 2009 (Recovery Act)<sup>1</sup> for the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). The Recovery Act provided \$400 million to support WIC participation for fiscal years 2009 and 2010, should cost or participation exceed budget estimates. In enacting the Recovery Act, Congress emphasized the need for accountability over the expenditure of funds.

The Office of Inspector General's (OIG) role, as mandated by the Recovery Act, is to oversee agency activities and to ensure that funds are expended in a manner that minimizes the risk of improper use. We found that FNS officials planned to place the \$400 million in reserve as a contingency fund, for use only if costs or participation levels exceed budget estimates as allowed by the provisions of the Recovery Act. Of the \$400 million provided by the Recovery Act, only \$38 million was actually used in fiscal year (FY) 2009 for budget shortfalls. FNS officials stated that no additional Recovery Act funds were anticipated to be needed in FY 2010.

We found that FNS' use of the Recovery Act's WIC reserve funds was timely and effective, that FNS had established proper internal control procedures, and that States had established effective

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<sup>1</sup> Public Law 111-5, dated February 17, 2009.

compliance procedures. We are therefore not making any recommendations and no further action or response to us is required.

## **Background**

In response to the economic downturn, Congress passed – and the President signed into law on February 17, 2009 – the Recovery Act. It provided FNS with \$500 million for the WIC Program; \$400 million of which was allocated as WIC reserve funds, with the remaining \$100 million allocated to establish, improve, or administer management information systems for WIC.

FNS, an agency within the U.S. Department of Agriculture, administers nutrition assistance programs to provide children and needy families better access to food and a more healthful diet. The WIC Program is administered by FNS through a Federal-State partnership in which the Federal government pays the full cost of recipient benefits and program administration. However, a few States voluntarily appropriate funds for the program from their own revenues. The WIC Program provides nutritious foods, nutrition education, and referrals to health and other social services to low-income pregnant, postpartum, and breastfeeding women, and to infants, and children up to age 5. These services are provided to participants who are at nutritional risk, at no charge. FNS monitors States' expenses and operations by reviewing Single Audits, budgets, and other financial reports, and by conducting on-site Financial Management Reviews.<sup>2</sup>

WIC is not an entitlement program. Congress does not set aside funds to allow every eligible participant to participate in the program. Instead, WIC is a Federal grant program for which Congress authorizes a specific amount of funding each year for program operations. The FY 2009 WIC budget was \$6.86 billion and the FY 2010 WIC budget is \$7.25 billion. FNS also had an additional \$125 million available to it as a contingency reserve fund because of the uncertainty the WIC Program faces with respect to future food costs and demand for program services. This existing contingency reserve, which is replenished to the \$125 million level annually, allows FNS to target resources to States experiencing financial shortfalls to the WIC Program during the year.

In enacting the Recovery Act, Congress emphasized the need for accountability and transparency in the expenditure of the funds. On February 18, 2009, the Office of Management and Budget (OMB) issued guidance<sup>3</sup> that requires Federal agencies to establish rigorous internal controls, oversight mechanisms, and other approaches to meet the accountability objectives of the Recovery Act. OMB issued additional guidance on April 3, 2009,<sup>4</sup> to reinforce ongoing work by clarifying existing requirements and establishing additional steps that must be taken to facilitate the accountability and transparency objectives of the Recovery Act. On June 22, 2009, OMB

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<sup>2</sup> Financial Management Reviews and Single Audits are reviews of grantees' (State Agencies and Indian Tribal Organizations) operations, which are used by FNS officials to obtain reasonable assurance that the financial information reported by grantees is correct and complete; that it represents proper expenditures of Federal funding provided; and that all other applicable financial requirements, regulations, and statutes are met.

<sup>3</sup> Office of Management and Budget Memorandum M-09-10, dated February 18, 2009.

<sup>4</sup> Office of Management and Budget Memorandum M-09-15, dated April 3, 2009.

issued guidance<sup>5</sup> for carrying out the recipient reporting requirements included in Section 1512 of the Recovery Act.

## **Objectives**

Our audit objective was to determine if FNS had established adequate processes and controls over the use and reporting of the Recovery Act's \$400 million WIC reserve funds. Specifically, our objective included evaluating FNS' efforts to (1) plan and implement provisions of the Recovery Act applicable to the WIC reserve funds, (2) identify and mitigate risks, and (3) implement controls for overseeing States.

## **Details: FNS Management Oversight**

FNS officials informed us that most of the \$400 million in WIC reserve funds provided by the Recovery Act would not be used. FNS outlays of these Recovery Act reserve funds totaled only about \$38 million in FY 2009, leaving approximately \$362 million unobligated. No additional funds were anticipated to be needed in FY 2010. FNS officials stated that they had not anticipated receiving the \$400 million authorized by the Recovery Act. Because FNS had an existing \$125 million program contingency reserve available should the demand for services exceed the WIC budget, the agency had limited need for the Recovery Act reserve funds.

Our review at the FNS National Office, one FNS regional office, and one State agency determined that FNS' use of the Recovery Act's WIC reserve funds was timely and effective. We also found that FNS had established proper internal control procedures and that States had established effective compliance procedures.

## **Scope and Methodology**

We conducted our audit of the Recovery Act's WIC reserve funds at FNS Headquarters in Alexandria, Virginia, and the FNS Mid-Atlantic Regional Office (MARO) in Robbinsville, New Jersey, as well as the Maryland Department of Health and Mental Hygiene in Baltimore, Maryland. We selected MARO because it had the largest number of State agencies (4) receiving Recovery Act funds of any FNS region, enabling us to evaluate oversight of multiple State agencies. The Maryland State agency was selected because it received a large allocation of Recovery Act funds (over \$2.6 million). We performed our audit fieldwork from September 2009 through February 2010.

To accomplish our objectives, we assessed the WIC program's policies and procedures, as well as its internal controls, and discussed them with officials at FNS Headquarters and the Mid-Atlantic Regional Office, and at the Maryland Department of Health and Mental Hygiene. We examined the FNS Recovery Act Plan,<sup>6</sup> evaluated the FNS risk management assessment, and assessed its oversight and planned Financial Management Review and Management Evaluation schedules. We reviewed guidance provided to the FNS regional offices and States on the use and reporting of Recovery Act funds. We also obtained the assistance of the OIG Office of

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<sup>5</sup> Office of Management and Budget Memorandum M-09-21, dated June 22, 2009.

<sup>6</sup> United States Department of Agriculture Food and Nutrition Service, American Recovery and Reinvestment Act Plan, dated May 13, 2009.

Counsel regarding the use of the Recovery Act funds by FNS. Our review did not include testing participant eligibility determinations for WIC benefits.

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 conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our audit objectives