



U.S. Department of Agriculture

Office of Inspector General



**Recovery Act Equipment and Facility
Assistance – Food and Nutrition Service’s
Food Distribution Program on Indian
Reservations
Phase I**

Audit Report 27703-02-HQ
September 2010

DATE: September 30, 2010

REPLY TO
ATTN OF: 27703-2-HQ

TO: Julie Paradis
Administrator
Food and Nutrition Service

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

FROM: Gil Harden /s/
Assistant Inspector
for Audit

SUBJECT: Recovery Act Equipment and Facility Assistance – Food and Nutrition Service’s
Food Distribution Program on Indian Reservations

This report presents the results of our audit of the \$5 million that the American Recovery and Reinvestment Act of 2009¹ (Recovery Act) appropriation provided to the Food Distribution Program on Indian Reservations (FDPIR), administered by the Food and Nutrition Service (FNS). We found that FNS implemented the Recovery Act provisions and provided the funding in a timely and effective manner. FNS identified high priority projects for funding, timely submitted them to the Office of the Secretary for approval, and developed a system for authorizing funds to recipient Indian Tribal Organizations (ITO). FNS developed and submitted a FDPIR Recovery Act Plan (the Plan) to the Office of Management and Budget (OMB) for approval. In order to implement the Plan, FNS issued an addendum to its internal control Financial Management Reviews (FMR) guidance (the Guide)² to ensure funds were expended for Recovery Act purposes. FNS also implemented a reallocation process to ensure unspent Recovery Act funds were spent in a timely manner.

In comparing the Plan and the Guide, we noted that FNS’ guidance was in accordance with the Plan, except in the area that relates specifically to Recovery Act projects that involve construction, such as roof repairs and cooling/heating system replacement. The Plan stated that “on-site reviews will be used to monitor” facility improvements, while the Guide permitted FNS to use discretion in making the determination whether to perform a desk review or an on-site review. The Guide did state that if severe deficiencies were discovered during a desk review, the review team should consider performing an on-site review. FNS decided to use desk reviews, rather than requiring on-site reviews; in order to focus their limited resources on higher risk programs. However, as a result, the Plan does not accurately describe FNS’ oversight of FDPIR

¹ Public Law 111-5.

² FNS issued the *Financial Management Review Guide, Addendum for Reviewing Funds Made Available Under the Recovery Act of 2009* (the Guide), in October 2009.

Recovery Act funds and there is increased risk that facility improvements will not be completed as approved and funded by FNS. FNS needs to ensure that the Guide and the FDPIR Recovery Act Plan are consistent and accurately reflect the internal controls used to monitor facility improvement projects.

In response to our recommendation, FNS agreed to pursue changing the language in the Plan with OMB but did not specify the timeframe for accomplishing this corrective action. Accordingly, we were not able to reach management decision for the report's recommendation.

Background

The President signed the Recovery Act into law on February 17, 2009. The Department of Agriculture (USDA) received \$28 billion in funding under the Recovery Act in a number of program areas, including \$5 million to purchase equipment and perform facility improvements to assist ITOs and State Agencies participating in FNS' FDPIR. FDPIR is a Federal program that provides a monthly food package to low-income individuals living on Indian reservations and to Native American families residing in designated areas near reservations and in the State of Oklahoma. FDPIR was designed to serve as an alternative to SNAP for low-income families living on or near reservations who often have limited access to SNAP services and the full range of affordable, nutritious food through local retail markets.

The process for using the Recovery Act funds for FDPIR is similar to the yearly administrative funding process. FNS administers the FDPIR and provides technical assistance and oversight to the ITOs and State agencies. FNS' policy is that regional offices (RO) monitor and control the flow of Federal funds to the ITOs and State agencies through a review of reports which detail the financial expenditures of the ITOs and State agencies. ROs are to conduct Financial Management Reviews (FMR) on a 5 year cycle. The FMRs' Recovery Act objectives are to review grantees' compliance with the financial requirements included in the Recovery Act. The FMR Guide instructed ROs to perform FMRs for 50 percent of Recovery Act recipients by the end of fiscal year 2010. Management Evaluations (ME) are programmatic reviews which evaluate the complete FDPIR program at ITOs, including participant eligibility, facilities, and equipment. MEs include a review of records, which must be updated and maintained by the ITO/State agency. MEs are scheduled to be performed when funding and personnel permit.

According to FNS' Plan, ITOs and State agencies were to use the Recovery Act funds to meet critical needs, including the repair of roofs and loading docks at warehouses, the purchase or repair of coolers and freezers, and the purchase or repair of trucks used for food delivery. ROs collected information from ITOs and State agencies regarding equipment and facility needs. They reviewed the reports to ensure the needs represented allowable costs and met Recovery Act purposes. ROs monitor ITO and State Recovery Act activities through quarterly financial reporting, monthly Letter of Credit (LOC) expenditure reviews, and FMR and ME reviews. FNS Headquarters used input from RO and ITO personnel to identify the projects to be funded and submitted the list of projects to the Secretary of Agriculture for funding approval during 2009. Approved project funds were allocated to the RO. As of August 2010, Recovery Act funds were made available to 81 ITOs through the FNS-administered LOC. The ITO can then draw against the LOC, in accordance with its agreement, to pay for approved activities. The ROs were tasked with monitoring spending through evaluations of the ITO and/or State Agency quarterly report

required by FNS' Plan. The ROs also monitor draws against LOCs, which we found to be performed at least monthly.

Objectives

The overall objective of this audit was to determine whether FNS has established proper internal control procedures to ensure that Recovery Act FDPIR funds were timely and effectively expended, program participants met eligibility guidelines, participants complied with program requirements, FNS management established effective oversight, and performance measures were properly developed and supported.

Scope and Methodology

We assessed FNS guidelines and controls governing project selection, approval, award, funding, and pre-purchase monitoring processes for equipment upgrades and facility improvements by the ITOs and State agencies. The FNS guidelines are contained in two memos, one to the FNS ROs and one to the ITOs and State agencies, both dated June 26, 2009. We performed audit work at FNS Headquarters and the Midwest, Mountain Plains, and Western ROs. We conducted interviews with key program officials and evaluated the guidelines FNS issued to the ITOs and State agencies. We also examined records and interviewed officials regarding the allocation and authorization of funds from the ROs to the ITOs and State agencies. We also evaluated FNS' planned oversight activities to ensure the ITOs and State agencies used the funding according to the FDPIR Recovery Act Plan. Fieldwork was initiated in November 2009 and concluded in July 2010.

We conducted this 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.

Finding: Facility Improvement Oversight Procedures are Inconsistent with FNS' FDPIR Recovery Act Plan.

During our audit, we noted that FNS' implemented guidance for performing facility improvement on-site monitoring was inconsistent with the Plan's facility improvement monitoring requirements. The Plan stated that "on-site reviews will be used to monitor the satisfactory completion of facility improvements, such as roof repairs and cooling/heating system replacement." However, we found that the Guide stated that FDPIR had been identified as a Recovery Act program that could be monitored using desk reviews and that if a desk review disclosed severe deficiencies, the review team should consider performing an on-site review. FNS made the decision to use desk reviews, rather than require on-site reviews as stated in the Plan, because FNS wanted to focus its limited resources on higher risk programs.

During the course of our fieldwork,³ we asked FNS National Office (NO) whether any MEs were scheduled. FNS NO responded that the set FDPIR ME schedule had been dropped, and FNS Regional Offices were allowed to perform them, based upon workload and as funding and personnel permitted. However, FNS stated that 14 MEs⁴ were conducted during FY 2010. Eleven of these MEs were done at an ITO that received Recovery Act funding.⁵ We will follow up on the scope and timing of these reviews during the subsequent internal controls testing phase of our Recovery Act work.

OMB Memorandum M-09-15, *Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009*, Section 5.4 states that Federal agencies are expected to initiate additional oversight for grants, such as mandatory field visits or additional case examinations for error measurements, to comply with grant rules and regulations. Specifically, “Agencies must take steps beyond standard practices in order to mitigate the unique implementation risks of the Recovery Act. At a minimum, agencies should be prepared to evaluate and demonstrate the effectiveness of standard monitoring and oversight practices.” We believe that the Plan, as approved by OMB, provides the additional oversight required by OMB 09-15, Section 5.4.

FNS included FDPIR oversight policies in its Recovery Act Plan, dated May 2009, and made them available on the Recovery.gov website. The policies stated:

“In addition to reviewing planned and actual expenditures, FNS conducts on-site financial and programmatic monitoring of FDPIR; these on-site efforts will now include a specific module on the review of Recovery Act activities. The programmatic review process is referred to as a ME, and encompasses FDPIR operations. MEs are used to determine that needed equipment has been procured (MEs include a review of records, such as the equipment and vehicle record, which must be updated and maintained by the ITO/State agency). On-site reviews will be used to monitor the satisfactory completion of facility improvements such as roof repairs and cooling/heating system replacement.”

FNS explained that the Plan was developed based on information known as of May 2009. Subsequent to the Plan being issued, FNS developed an alternative to performing on-site reviews of facility improvement projects, due to the agency’s limited resources and the low level of assessed risk. FNS completed a FDPIR program risk assessment in 2008 and a FNS Recovery Act agency-wide risk assessment in 2009. FNS assessed risk related to this program at a low level due to the combination of relatively low benefit levels and a reliance upon planned FMR and ME oversight mechanisms.

FNS issued the FMR Guide and stated that MEs would be performed to implement the Plan. Contrary to the Plan, the FMR Guide states that FDPIR was identified as a program subject to a “desk review,” which involves obtaining documents, such as solicitations, for bids or offers, contracts and/or purchase orders, acceptance documents, and invoices for goods delivered. The desk reviewer analyzes the identified actions and the supporting documentation to determine whether the ITO or State agencies complied with FNS instructions. The FMR Guide states that projects involving the acquisition, improvement, or renovation of real property may warrant closer scrutiny than reviews of documentation supporting equipment purchases, and could be

³ November 18, 2009.

⁴ Three of the 14 locations reviewed did not receive Recovery Act funding.

⁵ As of August 2010, 81 ITOs were provided Recovery Act funds to purchase equipment and/or make facility improvements.

used as criteria for selecting grantees to review. The FMR Guide also states that if a desk review discloses severe deficiencies, the review team “should consider that grantee for an on-site review.”

As a result, the Plan does not accurately describe FNS’ oversight of FDPIR Recovery Act funds and there is increased risk that facility improvements will not be completed as approved and funded by FNS.

Recommendation 1:

FNS needs to ensure that the Guide and the FDPIR Recovery Act Plan are consistent and accurately reflect the internal controls used to monitor facility improvement projects.

Agency Response

While FNS did not concur with the finding, it will pursue changing the language in the Plan.

OIG Position

Although the corrective action proposed by FNS addressed the recommendation, FNS needs to provide a date when the proposed corrective action will be implemented. Therefore, we are not able to reach management decision at this time. Please provide a response within 60 days, showing action taken to reach management decision on this recommendation. Please note that Departmental Regulation 1720-1 requires a management decision to be reached on all findings and recommendations within a maximum of 6 months from report issuance.

We appreciate the courtesies and cooperation extended to us by members of your staff during this audit.

Agency's Response

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
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DATE: September 29, 2010

REPLY: 27703-2-HQ

TO: Gil H. Harden
Assistant Inspector General for Audit

FROM: /s/ <Cindy Long> (for): Diane Kriviski
Acting Associate Administrator for Special Nutrition Programs
Food and Nutrition Service

SUBJECT: Review of the Food Distribution Program on Indian Reservations (FDPIR)
Recovery Act Equipment and Facility Assistance

This letter responds to the official draft audit report number 27703-2-HQ, Review of the Recovery Act Equipment and Facility Assistance Food and Nutrition Service, Food Distribution Program on Indian Reservations. Specifically, FNS is responding to the one finding and respective recommendation.

Finding 1:

During our audit we noted that FNS' implemented guidance for performing facility improvement on-site monitoring was inconsistent with the Plan's facility improvement monitoring requirements. The Plan stated that "on-site reviews will be used to monitor the satisfactory completion of facility improvements, such as roof repairs and cooling/heating system replacement." However, we found that the Guide stated that FDPIR had been identified as a Recovery Act program that could be monitored using desk reviews and that if a desk review disclosed severe deficiencies, the review team should consider performing an on-site review. FNS made the decision to use desk reviews, rather than require on-site reviews as stated in the Plan, because FNS wanted to focus its limited resources on higher risk programs.

Food and Nutrition Service Response:

While FNS understands the issue cited by the auditors, FNS does not concur with the finding that the Financial Management Review (FMR) Guide and the Recovery Act Plan are inconsistent with each other. Although a literal reading of both the Plan and the Guide may indicate an apparent inconsistency with regard to reviews, both documents are essentially in agreement with one another and FNS' standard monitoring and oversight practices. A thorough reading of FNS's FMR Review Guide, which implemented our Recovery Act Plan, explains that we believed that the objective of achieving 50-percent coverage for the ARRA programs could be more efficiently accomplished through a combination of on-site and desk reviews. The Guide went on to describe criteria Regional

offices should include in determining whether to conduct on-site or desk reviews in each case. As a result, FNS contends that actual performance of desk reviews in conjunction with on-site reviews during the fiscal year supports our position that the Plan was implemented as stated in the Plan and the Guide taken as a whole.

Recommendation 1:

FNS needs to ensure that the Guide and the FDPIR Recovery Act Plan are consistent and accurately reflect the internal controls used to monitor facility improvement projects.

Food and Nutrition Service Response:

FNS will pursue changing the Plan with OMB from “on-site reviews will be used to monitor the satisfactory completion of facility improvements, such as roof repairs and cooling/heating system replacement” to “desk or on-site reviews will be used to monitor the satisfactory completion of facility improvements, such as roof repairs and cooling/heating system replacement.” FNS believes the recommended Plan change properly qualifies the use of on-site reviews, and more accurately frames the public’s expectation.