



U.S. Department of Agriculture



**Office of Inspector General
Northeast Region**

Audit Report

Food and Nutrition Service Food Stamp Program Administrative Costs New Jersey

**Report No. 27002-25-Hy
September 2008**



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Northeast Region

Suite 2-2230

5601 Sunnyside Avenue, Stop 5300

Beltsville, Maryland 20705-5300



September 10, 2008

REPLY TO

ATTN OF: 27002-25-Hy

TO: Yvette Jackson
Regional Administrator
Food and Nutrition Service

THROUGH: Catherine Lueck
Director
Financial Management

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

SUBJECT: Food and Nutrition Service Food Stamp Program Administrative Costs, New Jersey

This report presents the results of our audit of the Food and Nutrition Service's Food Stamp Program Administrative Costs in New Jersey. Your response to the official draft, dated September 3, 2008, is included as Exhibit A. Excerpts of your response and the Office of Inspector General's position are incorporated into the Findings and Recommendations section of the report. Based on your response, we were able to reach management decision on two of the report's five recommendations. Please follow your agency's internal procedures in forwarding documentation for final action to the Office of the Chief Financial Officer.

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

Executive Summary

Results in Brief

The Food and Nutrition Service (FNS) administers the Food Stamp Program (FSP) which is intended to be the primary source of nutrition assistance for low-income people. The FSP increases their food purchasing power by providing benefits that are redeemed at retail grocery stores. State agencies administer the program and receive administrative funding from FNS to operate the FSP in each State. In New Jersey, the FNS Mid-Atlantic Regional Office (MARO) oversees the New Jersey Department of Human Services' Division of Family Development's (State agency) administration of the program. In fiscal year 2006, New Jersey received almost \$91 million in administrative funding. The Office of Inspector General (OIG) initiated this audit to determine the accuracy and allowability of administrative costs claimed by the State agency. Of the almost \$91 million in administrative funding, we selected the cost of applicant certification for review because it was almost 50 percent (\$45.3 million) of the total claim.

Based on our review at 3 of the 21 New Jersey County Welfare Agencies (CWA), we concluded that the State agency needs to improve its controls over how FSP administrative costs are allocated to the program. We reviewed payroll costs in three counties: Essex, Ocean, and Mercer. Our review included over \$10.5 million of the almost \$45 million in total payroll costs allocated in New Jersey during the period January 1, 2006, through March 31, 2006.

The three counties included in our review did not adhere to approved methods when payroll costs were allocated to the FSP. Each CWA in New Jersey has staffs that are assigned to different work units that provide assistance to applicants for welfare programs, including the FSP. Administrative costs are either allocated for each unit based on an approved method, one of which being a statistical random moment time study¹ or distributed based on employee personnel activity reports that should reflect actual activity for each employee. We found that the three counties did not ensure employees' salaries were charged to the correct work units and two counties did not ensure that all employees were included in the sample universe prior to making sample selections for the random moment time studies. This occurred because county staff misunderstood instructions from the State agency relating to requirements for the random moment time studies. The State agency had not ensured allocations were in compliance with procedures because it relied on Office of Management and Budget

¹ Under random moment time studies, management selects a statistical sample of employees to indicate the programs they worked on at the sample time.

(OMB)² Circular A-133 Single Audits³ to identify noncompliance with procedures. However, the A-133 Compliance Supplement suggests, but does not require, testing of a State agency's cost allocation plan. As a result, there is no assurance that payroll cost allocation was addressed in the Single Audits and costs were appropriately and equitably charged to the FSP.

- For all three counties included in our review, payroll costs for employees were not appropriately charged to the work units for which personnel were performing activities prior to allocating the costs to specific programs. In Essex County, we identified 42 employees whose payroll costs totaled almost \$515,000 that were not charged to the work unit for which they performed activities. In Ocean County, 32 employees' payroll costs of more than \$551,000 were charged to an incorrect unit, and in Mercer County, one employee's salary costs of about \$19,000 were charged to the wrong unit.
- Employees were excluded or improperly included in the universe for random moment time studies. Two county offices did not always include all eligible workers in the study or workers were included in an incorrect work unit. OMB Circular A-87⁴ requires that when statistical sampling methods are used, the sampling universe must include all of the employees whose salaries are to be allocated based on the sample results. This occurred in both Essex and Ocean counties. The errors we identified could invalidate the statistical results of the random moment studies.
- For one work unit in Ocean County, costs were allocated for 60 employees based on the activities of only 6 of the unit's employees. For this work unit, a statistical random moment study was not used to allocate costs. OMB Circular A-87 requires that when employees work on multiple activities, a distribution of their salaries will be supported by personnel activity reports which reflect actual activity for each employee. There is no allowance to allocate costs based on a sample of employees unless a statistical method is used. Costs should have been allocated based on each employee's activity report. However, there were no activity reports for these 60 Ocean county employees.

² The OMB, a part of the Executive Office of the President, develops and provides direction on the implementation of financial management policies and systems.

³ OMB Circular A-133 established standards for consistency and uniformity among Federal agencies for the audit of States, local governments, and non-profit organizations expending Federal awards. Independent auditors perform these audits, generally annually, with general requirements for all Federal awards and additional program specific tests established by the Federal entity providing the program funds. The Circular assigns a cognizant Federal agency, in this case the U.S. Department of Health and Human Services, to oversee the audit and ensure it complies with the general and program specific requirements.

⁴ OMB Circular A-87 established principles and standards for determining costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments and Federally recognized Indian tribal governments (governmental units). The latest revision of this Circular was dated May 10, 2004. The Circular allows for the allocation of salaries for the sampled employees' supervisors, clerical, and support staff based on the results of the sampled employees.

Even though the dollar values cited in this report relate only to employees' salaries and fringe benefits, the allocation of overhead and other support unit costs could also be affected by the identified salary and personnel misclassifications.⁵ For example, each county's rent expense is allocated to work units based on the units' staff counts; therefore, if an employee was incorrectly included in a particular unit, then the allocation of rent would be incorrect.

FNS needs to implement controls to ensure that New Jersey administrative costs are properly allocated to the FSP in accordance with Federal and State regulations and procedures.

Recommendations In Brief

FNS should instruct the State agency to develop and implement a corrective action plan to ensure that New Jersey payroll costs are properly charged to work units and allocated to benefiting programs. The State agency should also perform annual reviews of FSP administrative costs and review random moment time studies in all counties to ensure eligible employees are included in the sample universe. Lastly, the State agency should provide training to county office staff to ensure all future costs are properly allocated.

Agency Response

FNS agreed with the report's five recommendations. We have incorporated FNS' response in the Findings and Recommendations section of this report, along with the OIG position. The responses from FNS and the State agency are included in Exhibit A.

OIG Position

Based on FNS' response, we were able to reach management decision on Recommendations 2 and 5. Management decision on Recommendations 1, 3, and 4 can be reached once FNS has provided us with the additional information outlined in the report section, OIG Position.

⁵ We did not determine the specific dollar impact in the counties we reviewed due to the assumptions that would have been necessary to allocate staff counts or determine the amount of time staff performed particular activities.

Abbreviations Used in This Report

CWA	County Welfare Agency
DFD	Division of Family Development
FNS	Food and Nutrition Service
FSP	Food Stamp Program
FY	Fiscal Year
HHS	Department of Health and Human Services
MARO	Mid-Atlantic Regional Office
State agency	New Jersey Department of Human Services' Division of Family Development
OIG	Office of Inspector General
OMB	Office of Management and Budget
TANF	Temporary Assistance to Needy Families
USDA	U.S. Department of Agriculture

Table of Contents

Executive Summary	i
Abbreviations Used in This Report	iv
Background and Objectives	1
Findings and Recommendations.....	3
Section 1 New Jersey Counties Improperly Allocated Payroll Costs	3
Finding 1	3
Recommendation 1.....	7
Recommendation 2.....	8
Recommendation 3.....	8
Recommendation 4.....	9
Recommendation 5.....	10
Scope and Methodology.....	12
Exhibit A – Agency Response	14

Background and Objectives

Background

The Food and Nutrition Service (FNS), an agency of the U.S. Department of Agriculture (USDA) partners with the governments of the 50 States, the District of Columbia and the U.S. Territories to implement the Food Stamp Act, as amended. This Act was designed to improve the Nation's food security and reduce hunger by providing low-income people access to food, a healthy diet, and nutrition education. The Food Stamp Program (FSP) is part of the Federal Government's effort to meet its objective to provide for the general welfare of the Nation's population.

FNS funds the full cost of food stamp benefits and generally reimburses the States for 50 percent of their direct and indirect administrative costs. In fiscal year (FY) 2006, over \$33 billion in FSP benefits were provided to recipients. An additional \$2.5 billion was provided to States for administrative costs. New Jersey received almost \$91 million in administrative funding. In New Jersey, the FNS Mid-Atlantic Regional Office (MARO) oversees the New Jersey Department of Human Services' Division of Family Development's (State agency) administration of the program.

Title 7, Code of Federal Regulations, part 277 establishes uniform requirements for the management of FSP administrative funds provided to State agencies. Appendix A of this part, "Principles for Determining Costs Applicable to Administration of the FSP by State agencies," sets forth the principles for determining the allowable costs of administering the program. In addition, the Office of Management and Budget (OMB) Circular A-87 provides cost principles for State, local, and Indian Tribal governments. The FNS MARO primarily uses OMB standards when reviewing a State's expenses. Attachment D of OMB Circular A-87 established the Department of Health and Human Services (HHS) as the cognizant Federal agency responsible for approving cost allocation plans of State-level agencies.

The FSP is implemented at the local level through New Jersey's 21 county offices. Each county maintains a County Welfare Agency (CWA) which evaluates an applicant's needs and provides assistance to that applicant based on the assessment and eligibility determinations. Although the State agency does not require counties to adopt a specific plan to operate the assistance programs, each CWA will generally have at least two work units (i.e., a Family Services Section and a Non-Public Assistance Section) that determine applicant eligibility for the FSP. The Family Services Section will evaluate applicants' eligibility for multiple programs including Medicaid, HHS' Temporary

Assistance for Needy Families (TANF), and the FSP. The Non-Public Assistance Section will evaluate applicants' eligibility for the FSP and New Jersey's General Assistance program.

The State agency and its counties base their direct and indirect administrative costs on their cost allocation plan approved by HHS, the cognizant Federal agency. Prior to approval, FNS has the opportunity to review the plan and submit comments to HHS. FSP administrative costs are charged directly or allocated based on approved methodologies including random moment time studies. Under random moment time studies, management selects a statistical sample of employees to indicate the programs they worked on at the sample time. The information is compiled and used to distribute costs to each program. New Jersey uses random moment studies to allocate costs for all counties' Family Services Section work units and for seven counties' Non-Public Assistance work units.

State agencies use the Financial Status Report, Standard Form 269, to report quarterly program costs to FNS. Costs are either directly charged to the FSP or allocated based on the approved cost allocation plan.

Objectives

Our audit objective was to determine the accuracy and allowability of administrative costs claimed by the State of New Jersey.

In FY 2006, New Jersey received almost \$91 million in administrative funding. Of this amount, we selected the cost of applicant certification (i.e., payroll cost) for review because it was almost 50 percent (\$45.3 million) of the total claim.

Findings and Recommendations

Section 1 New Jersey Counties Improperly Allocated Payroll Costs

Finding 1

The three New Jersey counties included in our review did not adhere to approved methods when payroll costs were allocated to the FSP. The counties did not ensure employees' salaries were charged to the correct work units and two of the three counties did not ensure that all employees subject to sampling were included in the sample universe prior to making sample selections for random moment time studies. This occurred because county office staff misunderstood instructions from the State agency pertaining to personnel that should be included in the sample universe. The State agency had not ensured that allocations complied with policy and procedures but instead relied on OMB Circular A-133 Single Audits of county operations. However, the A-133 Compliance Supplement suggests, but does not require, testing of a State agency's cost allocation plan. As a result, there is no assurance that payroll cost allocation was addressed in the Single Audits and the costs charged to the FSP were appropriate.

OMB Circular A-87 states that a cost is allocable to a particular cost objective only if the services are charged in accordance with the relative benefit received. When systems use sampling methods (such as random moment time studies), they must meet acceptable statistical sampling standards and the sampling universe must include all of the employees whose salaries are to be allocated based on sample results.⁶

In New Jersey, random moment studies are used to allocate costs for all counties' Family Services Section work units and for seven counties' Non-Public Assistance work units. The State agency samples county staff using standard scientific and statistical random methods. County monitors observe a random sample of workers at randomly selected "moments" during the work period each quarter, and record the program activities the workers are involved in at the selected "moment." The observations are recorded on preprinted forms which are then submitted to the State agency for tabulation and summary. The observations are summarized into distributions of work-time to various program activities. The distributions are then converted into dollar amounts of program expenditures and allocated to specific programs including the FSP.

⁶ OMB Circular A-87 allows for the allocation of salaries for the sampled employees' supervisors, clerical, and support staff based on the results of the sampled employees.

In accordance with OMB A-87, the sampling universe must include all employees whose salaries are to be allocated to be statistically valid. In addition, since random moment time studies are used for the various work units in each county office, the salary for personnel assigned to each work unit must be included in the total payroll expenses prior to making cost allocations for the unit. If an employee works for more than one work unit during the period, salary costs should be charged to the appropriate units prior to allocating costs to specific programs.

During our audit, we reviewed payroll costs in three New Jersey counties: Essex, Ocean, and Mercer. These payroll costs were allocated to various Federal and State programs, including the FSP, based on the HHS-approved cost allocation plan. Our review included over \$10.5 million of the almost \$45 million in total payroll costs allocated in New Jersey during the period January 1, 2006 through March 31, 2006.

We found that each of the three counties did not adhere to approved methods when allocating payroll costs to the FSP. The majority of the discrepancies noted occurred in Essex and Ocean Counties. Mercer County's quarterly reconciliation by the unit supervisor of the "worker update list"⁷ to the actual employees in the unit limited the misallocation of payroll costs.

Payroll Costs Not Included In Proper Work Unit Prior to Allocation

County staff for the three counties included in our review did not ensure that payroll costs for employees were appropriately charged to the work units for which they were performing activities prior to allocating costs to specific programs. Program activities, such as determination of applicant eligibility, were assigned to specific work units; however, the salaries of the employees performing these functions were not always captured within the proper unit.

Work units in New Jersey counties, such as the Family Services Section, perform activities for multiple programs, including the FSP, TANF, and Medicaid. Employees are assigned to a primary work unit but, if necessary, salary costs may be shifted to other units based on employees' activity reports.

In Essex County, we identified 42 employees whose payroll costs totaling almost \$515,000 were not charged to the work unit for which they performed activities. County officials told us that a major

⁷ New Jersey counties use worker update lists to identify, and the State agency uses them to select, employee positions for observation as part of the random moment time studies.

reorganization occurred within the agency in February 2006 and staff inexperience resulted in costs being charged to incorrect work units.

In Ocean County, 32 employees with payroll costs totaling more than \$551,000, were identified as working in the Family Services Section work unit during the random moment time study; however, none of their salaries were charged to the unit prior to the cost allocation. These workers' salaries were charged to the Non-Public Assistance work unit which only performs activities for the FSP and the State's General Assistance program. Since the workers actually performed tasks for the Family Services Section, they also performed tasks for TANF, Medicaid, and other programs. Therefore, their payroll costs were not appropriately allocated to the benefiting Federal and State programs.

In Mercer County, one employee's quarterly salary costs of about \$19,000 were charged to the Family Services Section work unit while the employee was performing activities for the Non-Public Assistance unit. County personnel overlooked this employee's work assignment.

Employees Excluded or Improperly Included In Random Moment Time Study Universe

New Jersey counties use "worker update lists" to identify, and the State agency uses them to select, employee positions for observation as part of the random moment time studies.⁸ We found that two county offices did not always include all workers on the lists for the appropriate work units or workers were included with an incorrect work unit. Some of these workers were excluded from selection during the time studies. This could invalidate the statistical method used to allocate costs in the counties. OMB Circular A-87 requires that when statistical sampling methods are used (such as time studies), the sampling universe must include all of the employees whose salaries are to be allocated based on sample results.

As noted in the prior section, in Essex County employee payroll costs were not always charged to the correct work unit prior to allocation of costs. In addition, we identified eight employees who were listed on the Family Services Section work unit payroll all quarter, but were not included on the unit's "worker update list" and were, therefore, excluded from potential selection during the random moment study. County staff said that these employees were transferred to a different work unit in February 2006. However, the employees were performing activities for the Family Services Section unit in January 2006 and should have been included in the update for possible selection.

⁸ Identification and selection is driven by employee position numbers. If employees are not assigned a position, they are not subject to selection.

In Ocean County, not all eligible Family Services Section staffs were included in the universe for the random moment study. This eliminated them from potential observation and potentially invalidated the results of the statistical study. County personnel stated they misunderstood instructions from the State agency as to who should be included on the “worker update list” for the random moment study.

During our review period (January 1 through March 31, 2006) the Family Services Section work unit in Ocean County listed between 37 and 42 employees who determined FSP eligibility on its payroll each pay period. Based on our review of the quarter’s first pay period payroll, we noted that 10 employees were not listed on the “worker update list” submitted to the State agency for observation selections.

In addition, the county staff included 33 employees from the Non-Public Assistance work unit in the Family Services Section unit because these employees performed activities benefiting the Family Services Section programs. However, the county did not have records to show when these employees were working on Family Services Section activities as opposed to when they were working on their Non-Public Assistance activities. Only 1 of these 33 employees’ salaries was charged to the Family Services Section unit to be allocated by the random moment study results. Our review of the monitors’ observation sheets disclosed that these 32 employees worked predominately on the FSP. By including the observations of these employees in the Family Services Section without transferring the employees’ salaries, the statistical results may be invalid.

Personnel Activity Reports Were Not Maintained for All Personnel

In Ocean County, personnel activity reports were not used to distribute employee salaries in the Non-Public Assistance work unit. In addition, a statistical sampling system (random moment study) was not used to allocate the costs of this work unit. Instead, costs were allocated for 60 employees in the unit based on activities of only 6 of the unit’s employees. County personnel stated that the work of the six employees was representative of the entire work unit. Expenses were allocated to the FSP and the State’s General Assistance program based on the activity of the six employees.

OMB Circular A-87 requires that when employees work on multiple activities or cost objectives, a distribution of their salaries will be supported by personnel activity reports. The personnel activity reports must reflect the distribution of actual activity for each employee and must account for the total activity for which each employee is compensated. There is no provision to allocate costs based on a sample

of employees unless a statistical sampling methodology is used. Based on the OMB requirements, employee payroll costs for the Non-Public Assistance unit in Ocean County should have been allocated based on each employee's activity report.

The dollar values cited in this finding relate only to the employees' salaries and fringe benefits; however, the State agency allocation of overhead and other support unit costs could also be affected by the identified salary and personnel misclassifications.⁹ For example, each county's rent expense is allocated to work units based on the units' staff counts; therefore, if an employee was incorrectly included in a particular unit then the allocation of rent would be incorrect.

FNS needs to implement controls to ensure that New Jersey payroll costs are properly allocated to the FSP in accordance with OMB and State procedures. The State agency should ensure that workers are adequately trained and understand cost allocation procedures.

Recommendation 1

Instruct the State agency to develop and implement a corrective action plan to ensure that New Jersey payroll costs are properly charged to work units and allocated to benefiting programs.

Agency Response.

FNS considered the State agency's written response to the draft report, dated August 15, 2008, in preparing its comments to the report. The State agency's August 15, 2008 letter reflects information discussed during the exit conference on July 17, 2008 and outlines the corrective actions already taken and additional actions planned to address the audit finding and recommendations. However, the letter does not include a specific timeline for accomplishing the planned actions. We believe the corrective actions identified address the audit recommendations therefore FNS will issue a letter to the State agency within thirty days of the official audit's release accepting the corrective action plan outlined in the August 15, 2008 letter. Our letter will also require the state agency to provide the implementation dates for the corrective actions related to Recommendations 2 through 5.

OIG Position.

Although we agree with the approach, we cannot accept FNS' management decision until FNS provides the proposed implementation

⁹ We did not determine the specific dollar impact in the counties we reviewed due to the assumptions that would have been necessary to allocate staff counts or determine the amount of time staff performed particular activities.

dates with tasks that are a part of the State agency's corrective action plan. Specifically, FNS needs to provide dates for when the State agency will (1) review current random moment study instructions and timesheet requirements and (2) issue an official instruction to each CWA to clarify the use of timesheets.

Recommendation 2

Instruct the State agency to perform annual reviews of FSP administrative costs to ensure claims are accurate.

Agency Response.

During the July 17, 2008 exit conference, the State advised that CWA's are required to have annual audits. State auditors either conduct the actual audit or review the audit if performed by a private certified public accounting firm. The State also has the ability to change the scope of the audits. In light of these facts, and in recognition of the need to maximize all available resources, it was agreed among the attendees that the annual review of FSP administrative costs could be incorporated as part of the annual audits.

The State's August 15, 2008, letter confirmed that the Division of Family Development (DFD) has reached an agreement with their Office of Audit to review FSP administrative costs as part of the annual CWA audit. In addition, each year DFD will select up to three CWA's for the Office of Audit to perform additional agreed upon reviews of their FSP administrative costs. DFD expects to finalize the new review process within 90 days and begin implementation with the 2008 CWA audits.

FNS will request confirmation and documentation that the new review process has been finalized and the schedule for the 2008 CWA audits in which the new process will be included.

OIG Position.

OIG accepts FNS' management decision.

Recommendation 3

Instruct the State agency to ensure that New Jersey counties' random moment time studies are based on the appropriate employee positions and the salaries of the employees in these positions.

Agency Response.

The State's letter of August 15, 2008, identified and provided specific details regarding the current process of the Worker Update List prepared prior to the beginning of the quarter to be processed through the random moment study. They have also identified various changes during the process which can cause variances between the random moment study sampling list and the payroll. Although there are procedures in the random moment study manual to address the discrepancies, the State agency agreed to reinforce the random moment study procedures with the CWAs through training sessions and has already performed initial training October 10, 16, and 18, 2007.

DFD will also require that the CWAs add a certification statement to the random moment study update cover sheet attesting to the agreement by the random moment study monitor and fiscal officer as to the accuracy of the positions included in the Update List. They also committed to reviewing current random moment study instructions related to both the assignment of county staff to appropriate work units and timesheet requirements for employees assigned to multiple work units to determine any changes required and to reissue the instructions as appropriate.

FNS will request: 1) a copy of the amended random moment study update cover sheet, 2) the date when the amended random moment study cover sheet is implemented, and 3) the timeline for the random moment study instruction review. We will also request that they provide the completion date and results of the random moment study instruction review to document their efforts.

OIG Position.

To achieve management decision, FNS needs to provide the dates when the State agency will (1) implement the use of the amended random moment study cover sheet and (2) review the current random moment study instructions.

Recommendation 4

Instruct the State agency to require counties to have all employees complete personnel activity reports that reflect the distribution of actual activity for distribution of payroll costs to benefiting programs if random moment time studies are not used to allocate work unit costs.

Agency Response.

The State's August 15, 2008, letter advises that they will review current random moment study instructions and timesheet requirements for employees assigned to multiple work units to determine if changes are required to clarify the instructions. In addition, the State will issue an official instruction to the CWA's to clarify the use of timesheets for employees who split their time to multiple work units and stress that this process is not an option but rather a requirement.

We also want to note that the State agency had already taken additional corrective action while the audit was in progress. On February 21, 2008, DFD submitted changes to their Cost Allocation Plan. The State's revisions were approved by DHHS' DCA effective January 1, 2008 for: 1) the Random Moment Study of County Family Services Section Workers: Handbook For Monitor; and, 2) the Random Moment Study of County Non-Public Assistance Food Stamps/General Assistance Workers: Handbook for Monitors.

FNS will request the timeline for: 1) when the random moment study instructions and timesheet requirements will be reviewed, and 2) when the State agency will issue an official instruction to the CWA's to clarify the use of timesheets for employees who split their time to multiple work units. We will also request that the State agency advise us regarding the results of the random moment study instruction review and that a copy of the official instruction be provided to document their efforts.

OIG Position.

To achieve management decision, FNS needs to provide the dates when the State agency will (1) review current random moment study instructions and timesheet requirements and (2) issue an official instruction to each CWA to clarify the use of timesheets.

Recommendation 5

Require the State agency to provide training to county staff to ensure all future administrative costs are properly allocated.

Agency Response.

In response to problems identified during the audit, DFD has already developed a training plan. Initial training was held on October 10, 16, and 18, 2007, at which time trainers stressed the importance of the random moment study position update lists including all of the appropriate positions. Particular emphasis was placed on the

necessity for random moment study monitors to interact with the fiscal staff to ensure that the update lists reflect the current staff assignments. Future training of random moment study monitors and fiscal staff will address these issues as part of the on-going training plan.

FNS will request: 1) documentation to confirm the participants of the prior training sessions, such as sign-in sheets; 2) the proposed schedule for the additional training sessions planned for Fiscal Year 2009; and 3) the training syllabus or agenda for the future training sessions.

OIG Position.

OIG accepts FNS' management decision

Scope and Methodology

We performed our audit at FNS' MARO in Robbinsville, New Jersey, the State agency in Trenton, New Jersey, and selected CWAs. This work, both onsite and followup, was performed from January 2007 through May 2008. To accomplish our objective, we interviewed the appropriate Federal, State, and county officials; examined pertinent documentation regarding costs claimed; and reviewed applicable policies and procedures for claiming costs for reimbursement.

We selected the State of New Jersey because it consistently claimed administrative costs that were among the highest in the Nation when calculated as a percentage of benefits issued. Within New Jersey, the Department of Human Services supervises the 21 CWAs which operate the FSP, along with other Federal, State, and county programs.

For FY 2006, FNS reimbursed New Jersey's claim of almost \$91 million, the Federal share of the administrative costs. Of this amount, we selected the cost of applicant certification to test because it was almost 50 percent (\$45.3 million) of the total claim. Within FY 2006, we selected the costs claimed from January 1, 2006 through March 31, 2006 for detail examination. For this quarter, the 21 counties incurred almost \$24.6 million to certify applicants eligible for the FSP; half of this amount was eligible for reimbursement by USDA. The majority of costs assigned to the FSP were payroll costs, with other costs (e.g., building expenses, central CWA offices, etc.) allocated based on either the number of employees or total payroll expense.

We selected 3 of New Jersey's 21 CWAs for onsite review: Essex, Ocean, and Mercer. We selected the Essex CWA based on the large dollar value of their claim. The Ocean and Mercer CWAs were selected based on the percentage of costs the Public Assistance work units allocated to the FSP. Ocean County had the second highest percentage (approximately 62 percent) and Mercer had the second lowest percentage (approximately 20 percent) for the quarter. The 21 counties averaged over 37 percent of Public Assistance unit charges to the FSP.

All 21 counties have a Family Services Section which oversees the FSP along side other Public Assistance programs. New Jersey and its 21 counties selected the random moment study method to allocate cost between programs for this unit. With the assistance of our statistician, we confirmed that the statistical design of the random moment study was adequate.

For those FSP applicants who are not eligible for Public Assistance, most of the New Jersey counties have opted to create an eligibility unit titled “Non-Public Assistance/General Assistance.” Seven counties selected the random moment study method to allocate these units’ costs between programs assigned to it. Essex and Mercer counties were among these seven counties performing random moment studies. With the assistance of our statistician, we confirmed that the statistical design of the studies was adequate. Ocean County, along with 13 other counties who chose not to conduct a random moment study for this work unit, was required to adhere to FNS and OMB requirements to directly charge or allocate program costs.

We reviewed documents supporting the amounts claimed by the State of New Jersey and the Essex, Mercer, and Ocean CWAs. These documents included the CWA forms and procedures, the cost allocation plans, random moment study handbooks, payrolls of relevant units, and random moment study documents (including the worker updates which established the universe for the studies, the completed observation sheets which recorded the employee actions during the observation period, and the study result documents).

We conducted this performance audit in accordance with *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.

Exhibit A – Agency Response

Exhibit A – Page 1 of 7



United States
Department of
Agriculture

Food and
Nutrition Service

Mid-Atlantic Region

300 Corporate Blvd
Robbinsville, NJ
08691-1598

Date: September 3, 2008

Subject: Audit Report #27002-25-Hy – Official Draft: Food and Nutrition Service Food Stamp Program Administrative Costs New Jersey

To: Gil H. Harden
Regional Inspector General for Audit

This correspondence represents our response to the subject audit report. We have considered the State agency's (SA's) August 15, 2008 response and information obtained during the July 17, 2008 exit conference in preparing our comments and proposed corrective action. A copy of the SA's August 15, 2008 response is attached.

Recommendation 1

Instruct the State agency to develop and implement a corrective action plan to ensure that New Jersey Payroll costs are properly charged to work units and allocated to benefiting programs.

FNS Response

The State agency's August 15, 2008 letter reflects information discussed during the exit conference on July 17, 2008 and outlines the corrective actions already taken and additional actions planned to address the audit finding and recommendations. However, the letter does not include a specific timeline for accomplishing the planned actions. We believe the corrective actions identified address the audit recommendations therefore FNS will issue a letter to the State agency within thirty days of the official audit's release accepting the corrective action plan outlined in the August 15, 2008 letter. Our letter will also require the state agency to provide the implementation dates for the corrective actions related to Recommendations 2 through 5. Final action will occur when the letter is issued.

Based on the above actions we request management decision.

Recommendation 2

Instruct the State agency to perform annual reviews of FSP administrative costs to ensure claims are accurate.

FNS Response

During the July 17, 2008 meeting, the state advised that all County Welfare Agencies (CWA) are required to have annual audits. State auditors' either conduct the actual audit

The Food and Nutrition Service is an agency
of the Department of Agriculture

An Equal Opportunity Provider and Employer

or review the audit if performed by a private CPA firm. The state also has the ability to change the scope of the audits. In light of these facts, and in recognition of the need to maximize all available resources, it was agreed among the attendees that the annual review of FSP administrative costs could be incorporated as part of the annual audits.

The State's August 15, 2008 letter confirmed that the Division of Family Development (DFD) has reached an agreement with their Office of Audit (OOA) to review FSP administrative costs as part of the annual CWA audit. In addition, each year DFD will also select up to three (3) CWA's for the OOA to perform additional agreed upon reviews of their FSP administrative costs. DFD expects to finalize the new review process within 90 days and begin implementation with the 2008 CWA audits.

The FNS letter noted in Recommendation 1 will request confirmation and documentation that the new review process has been finalized and the schedule for the 2008 CWA audits in which the new process will be included.

We are requesting management decision based on the above planned actions.

Recommendation 3

Instruct the State agency to ensure that New Jersey counties' random moment time studies (RMS) are based on the appropriate employee positions and the salaries of the employees in these positions.

FNS Response

The State's letter of August 15, 2008 identified and provided specific details regarding the current process of the Worker Update List prepared prior to the beginning of the quarter to be processed through the RMS. They have also identified various changes during the process which can cause variances between the RMS sampling list and the payroll. Although there are procedures in the RMS manual to address the discrepancies, the State agency agreed to reinforce the RMS procedures with the CWAs through training sessions and has already performed initial training October 10, 16, and 18, 2007.

DFD will also require that the CWAs add a certification statement to the RMS update cover sheet attesting to the agreement by the RMS monitor and fiscal officer as to the accuracy of the positions included in the Update List. They also committed to reviewing current RMS instructions related to both the assignment of county staff to appropriate work units and timesheet requirements for employees assigned to multiple work units to determine any changes required and to reissue the instructions as appropriate.

The FNS letter noted in Recommendation 1 will request: 1) a copy of the amended RMS update cover sheet, 2) the date when the amended RMS cover sheet is implemented, and 3) the timeline for the RMS instruction review. We will also request that they provide the completion date and results of the RMS instruction review to document their efforts.

We request management decision based on the planned actions.

Recommendation 4

Instruct the State agency to require counties to have all employees complete personnel activity reports that reflect the distribution of actual activity for distribution of payroll costs to benefiting programs if random moment time studies are not used to allocate work unit costs.

FNS Response

The State's August 15, 2008 letter advises that they will review current RMS instructions and timesheet requirements for employees assigned to multiple work units to determine if changes are required to clarify the instructions. In addition, the state will issue an official instruction to the CWA's to clarify the use of timesheets for employees who split their time to multiple work units and stress that this process is not an option but rather a requirement.

We also want to note that the State agency had already taken additional corrective action while the audit was in progress. On February 21, 2008 DFD submitted changes to their Cost Allocation Plan. The State's revisions were approved by DHHS' DCA effective January 1, 2008 for: 1) the Random Moment Study of County Family Services Section (FSS) Workers: Handbook For Monitor; and, 2) the Random Moment Study of County Non-Public Assistance Food Stamps/General Assistance (NPG) Workers: Handbook for Monitors.

The FNS letter noted in Recommendation 1 will request the timeline for: 1) when the RMS instructions and timesheet requirements will be reviewed, and 2) when they will issue an official instruction to the CWA's to clarify the use of timesheets for employees who split their time to multiple work units. We will also request that the State agency advise us regarding the results of the RMS instruction review and that a copy of the official instruction be provided to document their efforts.

Based on the above planned actions we are requesting management decision.

Recommendation 5

Require the State agency to provide training to county staff to ensure all future administrative costs are properly allocated.

FNS Response

In response to problems identified during the audit, DFD has already developed a training plan. Initial training was held on October 10, 16, and 18, 2007 at which time trainers stressed the importance of the RMS position update lists including all of the appropriate

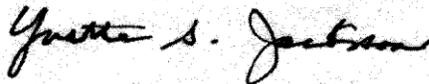
- 4 -

positions. Particular emphasis was placed on the necessity for RMS monitors to interact with the fiscal staff to ensure that the update lists reflect the current staff assignments. Future training of RMS monitors and fiscal staff will address these issues as part of the on-going training plan.

FNS' letter to the State noted in Recommendation 1 will request: 1) documentation to confirm the participants of the prior training sessions, such as sign-in sheets; 2) the proposed schedule for the additional training sessions planned for Fiscal Year 2009; and 3) the training syllabus or agenda for the future training sessions.

Based on the above planned actions we are requesting management decision.

Thank you for the opportunity to comment on the draft audit report. Please do not hesitate to contact me (609-259-5025) if you have any questions or require additional information.



YVETTE JACKSON
Administrator
Mid-Atlantic Region

Attachment (1)

cc: Marianne Dieterle
Steve Gregorowicz
William Kluxen
Karen Bowden



State of New Jersey
DEPARTMENT OF HUMAN SERVICES
DIVISION OF FAMILY DEVELOPMENT
PO Box 716
TRENTON NJ 08625-0716

JON S. CORZINE
Governor

August 15, 2008

JENNIFER VELEZ
Commissioner

JEANETTE PAGE-HAWKINS
Director
TEL: (609) 588-2000

Catherine Lueck
Regional Director
Food and Nutrition Services
300 Corporate Blvd.
Robbinsville, NJ 08691-1598

Dear Ms. Lueck:

Enclosed please find the Division of Family Development's (DFD) responses to the recommendations included in the Official Draft of the USDA Office of Inspector General (OIG) Audit 27002-25-HY. The OIG audit examined the administrative costs claimed by the State of New Jersey for the Food and Nutrition Service (FNS), Food Stamp Program (FSP).

Recommendation 1: Instruct the State agency to develop and implement a corrective action plan to ensure that New Jersey payroll costs are properly charged to work units and allocated to benefiting programs.

Agency Response: To correct the deficiencies identified in the finding, the following steps will be implemented as a corrective action plan:

- 1) The State will review current Random Moment Study (RMS) instructions for the assignment of county staff to appropriate employee work units (EMU). The State will also review current RMS instructions and timesheet requirements for employees assigned to multiple work units to determine if changes to the instructions are necessary in order to clarify timesheet requirements for employees assigned to multiple work units. If changes are necessary, we will re-issue the instructions to appropriate county staff.
- 2) The State will issue an official instruction to each County Welfare Agency (CWA) to clarify the use of timesheets for employees who split their time to multiple work units and stress that this process is not an option but rather a requirement.
- 3) Ongoing training will be scheduled for both CWA RMS monitors and fiscal staff. Initial training was previously held on October 10, 16, and 18, 2007. During previously held sessions, trainers stressed the importance that the RMS position update lists must include all positions (except supervisors and clerical staff) that the fiscal staff has assigned to the FSS and/or the NPG EWUs for purposes of federal claiming. Particular emphasis was

FSS and/or the NPG EWUs for purposes of federal claiming. Particular emphasis was placed on the necessity for RMS monitors to interact with the fiscal staff to ensure that the update lists reflect the current staff assignments.

Recommendation 2: Instruct the State agency to perform annual reviews of FSP administrative costs to ensure claims are accurate.

Agency Response: Currently, each CWA is required to have an annual audit. In order to maximize available staff resources to perform reviews of FSP administrative costs at the CWA, the Division has reached an agreement with the Department of Human Services Office of Audit (OOA) to perform annual reviews of the FSP administrative costs as part of the annual CWA audit. In addition, each year DFD will select up to three (3) CWA's for the OOA to perform additional agreed upon procedures of their FSP administrative costs.

We expect to finalize the new review process within 90 days and begin implementing the new review process beginning with the 2008 CWA audits.

Recommendation 3: Instruct the State agency to ensure that New Jersey counties' random moment time studies are based on the appropriate employee position and the salaries of the employees in these positions.

Agency Response: Approximately two months before the reporting quarter, the State generates a list of workers who were included in the prior quarters sample and asks the County Welfare Agencies to update the list to reflect changes. The CWA returns the list approximately one and a half months prior to the quarterly report period. This means that the list of workers is generated anywhere from 6 weeks to 4 ½ months prior to the time that such staff may be sampled. For example, in August the CWA forwards their updated list to DFD which generates the RMS samples for October through December. During this time, the following changes can cause variances between the RMS sampling list and the payroll:

- New hires;
- Separations for various reasons;
- Transfers;
- Leaves of absences both paid and unpaid, with unpaid resulting in removal from the payroll;
- Suspensions; and
- Name changes.

There are procedures contained in the RMS manual to address these discrepancies. However, we will reinforce with the CWAs that every effort must be made to ensure the accuracy of this process through regular training sessions.

In addition, DFD will require a certification statement be added to the RMS update cover sheet to be returned by the CWAs. Both the RMS monitor and the fiscal officer must sign the certification that there was coordination between the two offices and the positions listed on the

Recommendation 4: Instruct the State agency to require counties to have all employees complete personnel activity reports that reflect the distribution of actual activity for distribution of payroll costs to benefiting programs if random moment time studies are not used to allocate work unit costs.

Agency Response: The State will review current RMS instructions and timesheet requirements for employees assigned to multiple work units to determine if changes are required to the instructions in order to clarify timesheet requirements for employees assigned to multiple work units

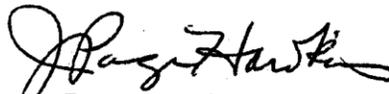
In addition, the state will issue an official instruction to the CWA's to clarify the use of timesheets for employees who split their time to multiple work units and stress that this process is not an option but rather a requirement.

Recommendation 5: Require the State agency to provide training to county staff to ensure all future administrative costs are properly allocated.

Agency Response: As noted in our corrective action plan, under our response to recommendation 1, training was previously held on October 10, 16 and 18, 2007 for both CWA RMS monitors and fiscal staff. The importance that the position update lists include all positions (except supervisors and clerical staff) that the fiscal staff has assigned to the FSS and/or the NPG EWUs for purposes of federal claiming was emphasized. Also stressed was the necessity for RMS monitors to interact with the fiscal staff to ensure that the update lists reflect the current staff assignments. Future training of RMS monitors and fiscal staff will address these issues as part of our on-going training plan.

Thank you for the opportunity to respond to the Audit Recommendations. If you need any additional information please contact Nicholas Butkewicz at 609-588-2045.

Sincerely,



Jeanette Page-Hawkins
Director

c: Stephen J. Gregorowicz
William M. Cutti
Robert Sacknovitz