



U.S. Department of Agriculture



Office of Inspector General
Western Region

Audit Report

Food and Nutrition Service Special Supplemental Nutrition Program For Women, Infants, and Children Administrative Costs - Oregon

Report No. 27099-33-SF
November 2005



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Western Region - Audit

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November 16, 2005

REPLY TO

ATTN OF: 27099-33-SF

TO: Allen Ng
Regional Administrator
Western Region
Food and Nutrition Service

ATTN: Charles Hendricks
Acting Director
Financial Management

FROM: Frederick San Buenaventura /s/
Regional Inspector General
for Audit

SUBJECT: FNS Special Supplemental Nutrition Program for Women, Infants, and Children
Administrative Costs – Oregon

This report presents the results of our audit of Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) administrative costs claimed by Oregon for Federal fiscal year (FY) 2004. Our objectives were to evaluate the adequacy of the Food and Nutrition Service's (FNS) and the Oregon Department of Human Services' (DHS) controls over WIC administrative costs, and to verify the accuracy and allowability of those costs. Our review disclosed that the costs claimed by DHS were allowable. However, we found that DHS used inaccurate or outdated information to complete its FY 2004 final closeout report to FNS. As a result, DHS miscategorized \$207,102 in administrative costs on the report. See exhibit A for a summary of monetary results.

BACKGROUND

Public Law 92-433, as an amendment to the Child Nutrition Act of 1966, authorized the WIC program on September 26, 1972. The WIC program provides nutritious foods, nutrition counseling, and referrals to health and other social services to participants at no charge. It serves low-income pregnant, postpartum, and breastfeeding women, and infants and children up to age 5 who are at nutrition risk.

FNS administers the WIC program at the Federal level and provides WIC funds to State agencies to pay for WIC foods, nutrition counseling and education, and administrative costs. FNS regional

offices monitor and oversee program operations through Federal/State agreements. WIC program services are usually provided by local agencies, such as county health departments and nonprofit organizations. WIC is a Federal grant program for which Congress authorizes specific amounts of funds each year. In FY 2004, about 7.9 million individuals participated in the WIC program nationwide at a total estimated cost of \$4.9 billion, of which about \$1.3 billion was administrative costs.

In Oregon, DHS is responsible for WIC program operations, serving all 36 counties through 30 county health departments, 2 Native American tribal organizations, 1 migrant health center, and 1 Head Start organization.¹ During FY 2004, Oregon had over 100,000 WIC participants and total program costs of \$62 million, with about \$17.3 million in administrative costs.² Although relatively small in relation to the dollar amount spent on food benefits, administrative costs represent a significant and increasing share of total WIC costs.

At the end of each FY, DHS is required to submit its annual closeout reports to FNS. DHS completes the report using a combination of information drawn from its management information systems and information submitted by local agencies, including quarterly expenditure reports. When possible, local agencies charge direct costs to the four WIC reporting categories: "Program Management," "Nutrition Education," "Breastfeeding Promotion," and "Client Services." For indirect costs, the agencies prepare time studies³ on a quarterly basis. DHS then summarizes the time studies and calculates percentages to allocate the indirect costs into the appropriate categories.

OBJECTIVES

Our audit objectives were to (1) evaluate the adequacy of FNS' and DHS' management and accounting controls over WIC administrative costs, and (2) determine if those costs were accurate and allowable.

SCOPE

Our audit covered WIC administrative costs claimed by Oregon during FY 2004. We selected Oregon because (1) its WIC grant was one of the largest in FNS' Western Region, (2) it had a high percentage of administrative costs compared to its program costs, and (3) FNS had not conducted a financial management review of Oregon since 2002.

We reviewed \$1.9 million of \$17.3 million in administrative costs at DHS and three of its local agencies. We selected Washington and Lane Counties because they received the second and third largest amounts of WIC grant funds in Oregon.⁴ We also selected Salud Medical Center because it was the largest community-based nonprofit organization in Oregon. We judgmentally selected

¹ This totals to 34 because 2 counties are serviced by 1 health department.

² Administrative costs are also referred to as "nutrition services and administration costs."

³ Time studies are a method of allocating costs that calculates allocation percentages using staff time.

⁴ We did not select the top ranking county because it had been frequently reviewed and audited.

a sample of administrative costs under each of the four categories based on the amount and risk of error, including payroll and services and supplies costs.

Audit fieldwork was conducted from February through April 2005 at the FNS Western Regional Office (located in San Francisco, California), DHS, the three selected local agencies, and one clinic under each of the local agencies. See exhibit B for a list of sites visited. The audit was performed in accordance with generally accepted government auditing standards.

METHODOLOGY

To accomplish our objectives, we performed the following procedures:

- Interviewed officials at the FNS Western Regional Office, DHS, two local agencies, and one nonprofit organization to evaluate the controls used to monitor WIC administrative costs.
- Reviewed the results of the FY 2002 FNS financial management review of the Oregon WIC program, and State and local-level audits of WIC administrative costs.
- Reviewed DHS' management evaluations of local agencies to determine if DHS adequately monitored its local agencies.
- Visited two local agencies and one nonprofit organization and examined their records and other documents to determine how WIC administrative costs were categorized and allocated.
- Traced a sample of administrative costs back to supporting documents—such as payroll records, receipts, invoices, and purchase orders—to ensure costs were accurate, allowable, and adequately supported.
- Visited three clinics to verify the number of WIC employees and to review WIC operations.

AUDIT RESULTS

FINDING 1: Local Agency Errors Affect the State's Final Closeout Report

Two local agencies did not accurately report their administrative costs to DHS. This occurred because one local agency's accounting system lacked controls to ensure that all of its WIC administrative costs were allocated into FNS' four reporting categories, and another local agency improperly included paid leave in its time studies. As a result, DHS understated two cost categories by \$162,518 and overstated two others by \$162,518 on its FY 2004 closeout report.

Local agencies must allocate their administrative costs under four categories: "Program Management," "Client Services," "Nutrition Education," and "Breastfeeding Promotion." This information is transmitted quarterly to DHS, which then summarizes the information for the final closeout report to FNS. During our review, we found the following errors:

- *In FY 2004, Lane County did not allocate \$297,135 of \$1,198,872 (nearly 25 percent) in administrative costs on the expenditure reports it submitted to DHS. This occurred due to an oversight by county staff. During the preparation of the closeout report, DHS re-allocated these costs based on time studies. We determined that \$134,617 of the \$297,135 had been correctly allocated; however, the remaining \$162,518 was incorrectly allocated to “Program Management” and “Client Services.”⁵ Correspondingly, “Nutrition Education” and “Breastfeeding Promotion” were understated by \$99,637 and \$62,881, respectively.*

According to WIC regulations,⁶ “State agencies shall require local agencies to report such financial...information as is necessary for the efficient management of food and nutrition services and administration funds.” FNS guidelines⁷ require State agencies to report annually the “total payments...made for [administrative] costs...[which] are divided into...functional categories (program management, client services, nutrition education, and breastfeeding).”

Lane County officials told us that the county’s previous financial accounting system used a single cost center to collect WIC administrative costs. At the end of each quarter, county staff were supposed to manually allocate those expenditures into FNS’ four reporting categories. To prevent oversights as discussed above, Lane County officials told us that they planned to modify their accounting system to automatically allocate WIC administrative costs into the four categories beginning July 1, 2005.

- *Salud Medical Center included paid leave in its time studies. Salud Medical Center incorrectly included paid leave such as holidays, vacation, and sick leave in its FY 2004 time studies. This occurred because the local agency did not follow a DHS memorandum⁸ that informed all local agencies to exclude paid leave from their time studies. Instead, the local agency continued using an outdated DHS policy,⁹ which did not prohibit the inclusion of paid leave. As a result, DHS overstated the FY 2004 time studies by 754 hours for “Client Services” and 180 hours for “Program Management.” Total hours are used to allocate statewide local costs for “Program Management” and “Client Services.” Because these hours represent only a portion of the total hours, the monetary effect for this issue is included in Finding 2.*

The most recent local agency WIC time study forms¹⁰ explicitly prohibit the inclusion of holiday, sick, or vacation leave hours in the time studies. Although DHS sent a memorandum to local agency coordinators, it had not updated its official policy manual.

DHS should ensure that Lane County correctly allocates administrative costs on the quarterly expenditure report after July 2005. We also recommend that DHS resubmit its FY 2004 final

⁵ We do not have the information necessary to allocate \$162,518 between “Program Management” and “Client Services.”

⁶ 7 CFR 246.25(b)(1), dated January 1, 2004.

⁷ WIC Reporting System Guide, sections 3020 and 3030(B)(1)(a), dated January 2002.

⁸ Memo from State agency to WIC local agency coordinators, dated April 17, 2003.

⁹ Oregon WIC Program Manual Policy 316, Annual Breakout of Staff Time, dated September 7, 1994.

¹⁰ WIC Local Agency Time Study Summary Sheet and Local Agency WIC Time Study Form, revised in 2003.

closeout report to correct the \$99,637 understatement in “Nutrition Education” and the \$62,881 understatement in “Breastfeeding Promotion.”

Recommendation 1:

Direct DHS to ensure that Lane County modifies its accounting system to accurately allocate administrative costs to the four WIC reporting categories.

Agency Response:

In its written response to the draft report, dated November 15, 2005, FNS concurred with this finding and recommendation.

OIG Position:

To achieve management decision, FNS needs to specifically address the corrective action planned or taken and the proposed or actual completion date of the action.

Recommendation 2:

Direct DHS to resubmit its final closeout report for FY 2004 to correct the \$99,637 and \$62,881 understatements in the “Nutrition Education” and “Breastfeeding Promotion” categories, and the resulting \$162,518 overstatement in the “Program Management” and “Client Services” categories.

Agency Response:

In its written response to the draft report, dated November 15, 2005, FNS concurred with this finding and recommendation.

OIG Position:

To achieve management decision, FNS needs to specifically address the corrective action planned or taken and the proposed or actual completion date of the action.

Recommendation 3:

Require DHS to update its official policy on WIC time studies regarding paid leave for local agencies.

Agency Response:

In its written response to the draft report, dated November 15, 2005, FNS concurred with this finding and recommendation.

OIG Position:

To achieve management decision, FNS needs to specifically address the corrective action planned or taken and the proposed or actual completion date of the action.

FINDING 2: DHS Used Some Outdated Time Studies To Allocate Costs

DHS did not accurately allocate all costs for 5 of its 34 local agencies on the FY 2004 closeout report. This occurred because DHS (1) used some outdated time studies for four local agencies to allocate costs, and (2) incorrectly entered time study data in its system for the other local agency. As a result, the summary of the State's time studies, which totaled 85,525 hours, was understated by 2,096 hours for FY 2004. This caused the "Program Management" category to be overstated by \$44,584 and the "Client Services" category to be understated by that same amount on DHS' FY 2004 closeout report.

Direct costs are those that can be identified specifically with a particular cost category. Indirect costs are those incurred for a common purpose benefiting more than one cost category but not readily assignable to the categories. To allocate the indirect costs among WIC's four cost categories, FNS requires States to conduct time studies of local WIC employees' work hours at least one week a month or one month a quarter. During our review of the time studies, we found the following problems:

- *DHS did not collect all quarterly time studies from Columbia, Umatilla, Klamath, and Union Counties.* Instead, DHS used some outdated time studies from prior quarters on the year-end closeout report. As a result, WIC program costs were not properly categorized. "Client Services" hours were understated by 397 hours while "Program Management" hours were overstated by 365 hours.¹¹

Although the DHS official responsible for summarizing time study data believed that the data did not change significantly between quarters, the WIC Cost Allocation Guide¹² specifies that time studies "need to be conducted at least one week a month or one month a quarter."

- *DHS did not correctly enter Salud Medical Center's time study data for 2 quarters in FY 2004 into the DHS system.* These transcription errors were undetected even though DHS had a second party review process. As a result, DHS understated the FY 2004 time studies by 2,698 hours for "Client Services" and 300 hours for "Program Management."

DHS should submit an adjusted final closeout report for FY 2004 to FNS that decreases the "Program Management" category by \$44,584 and increases the "Client Services" category by \$44,584.¹³ In addition, DHS needs to establish better controls over the receipt of time studies to ensure the integrity of its data.

¹¹ These hours are based on the time studies that we subsequently collected from the counties.

¹² WIC Cost Allocation Guide, Section 3030.A2(b), revised in 2002.

¹³ These amounts include the monetary effect of Salud Medical Center incorrectly including paid leave in its time studies, described in Finding 1.

Recommendation 4:

Require DHS to resubmit its final closeout report for FY 2004 to correct the \$44,584 overstatement in “Program Management” and the \$44,584 understatement in “Client Services.”

Agency Response:

In its written response to the draft report, dated November 15, 2005, FNS concurred with this finding and recommendation.

OIG Position:

To achieve management decision, FNS needs to specifically address the corrective action planned or taken and the proposed or actual completion date of the action.

Recommendation 5:

Require DHS to establish controls to ensure that it obtains quarterly or monthly time studies from its local agencies to complete the closeout report.

Agency Response:

In its written response to the draft report, dated November 15, 2005, FNS concurred with this finding and recommendation.

OIG Position:

To achieve management decision, FNS needs to specifically address the corrective action planned or taken and the proposed or actual completion date of the action.

CONCLUSION AND REQUIRED AGENCY ACTION

Your November 15, 2005, response to the draft report has been included as exhibit C of this report. We cannot reach management decision for Recommendations 1 through 5 for the reasons cited above.

Department Regulation 1720-1 requires a reply within 60 days describing the corrective action taken or planned and the timeframes for implementation of those recommendations for which management decision has not been reached. The regulation also requires a management decision to be reached on all recommendations within a maximum of 6 months from report issuance and final action to be taken within 1 year of the management decision.

We appreciate the cooperation and assistance provided by your staff during our audit.

Exhibit A – Summary of Monetary Results

Exhibit A – Page 1 of 1

FINDING	RECOMMENDATION	DESCRIPTION	AMOUNT	CATEGORY
1	2	<p>Lane County did not allocate all of its administrative costs, resulting in an overstatement of the local-level “Program Management” and “Client Services” categories.</p> <p>This also resulted in an understatement of \$99,637 and \$62,881 for the local-level “Nutrition Education” and “Breastfeeding Promotion” categories.</p>	\$162,518	Other – Accounting Classification Errors
2	4	<p>DHS used outdated time studies and incorrectly entered time study data in its system, resulting in an overstatement of the local-level “Program Management” category.</p> <p>This also resulted in an understatement totaling \$44,584 for the local-level “Client Services” category.</p>	\$44,584	
TOTAL MONETARY RESULTS			\$207,102	

Exhibit B – Sites Visited

Exhibit B – Page 1 of 1

AGENCY NAME	LOCATION
Federal Agency: Food and Nutrition Service Western Regional Office	San Francisco, California
State Agency: Oregon Department of Human Services Office of Family Health (WIC Program Office) Central Accounting Office	Portland, Oregon Salem, Oregon
Local Agencies/Clinics: Washington County Health Department Hillsboro Clinic Lane County Health Department Eugene Clinic Salud Medical Center ¹⁴ Woodburn Clinic	Hillsboro, Oregon Hillsboro, Oregon Eugene, Oregon Eugene, Oregon Toppenish, Washington Woodburn, Oregon

¹⁴ Although this local agency operates in Oregon, it keeps its accounting records in Toppenish, WA.

Exhibit C – FNS Response to the Draft Report

Exhibit C – Page 1 of 1



United States Department of Agriculture
Food and Nutrition Service

Western Region

Reply to

Attn of: 27099-33-SF

NOV 15 2005

Subject:

Special Supplemental Nutrition Program for Women, Infants, and Children

To:

Administrative Costs – Oregon

Frederick San Buenaventura
Regional Inspector General for Audit
Office of Inspector General

We are responding to your November 2, 2005, memorandum, requesting our written response to the subject official draft audit report. We have consulted with our WIC program staff and collectively have no further comments; and, we concur with the two (2) findings and five (5) recommendations contained in the official draft audit report.

The courtesy and cooperation extended to our WIC and Financial Management staffs by Barbara Gladfelter and Larry Gee are greatly appreciated.

If you have any questions, please call Dave Gott of our financial management staff at (415) 705-1332, extension 231.

A handwritten signature in black ink, appearing to read "Allen NG".

ALLEN NG
Regional Administrator

cc: Cordelia Fox, RD, SSNP, WRO