

USDA



U.S. Department of Agriculture
Office of Inspector General
Southeast Region
Audit Report

Food Stamp Employment and Training
Program - Tennessee



**Audit Report No.
27601-12-At
MARCH 2003**



UNITED STATES DEPARTMENT OF AGRICULTURE
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DATE: March 31, 2003

REPLY TO
ATTN OF: 27601-12-At

SUBJECT: Food Stamp Employment and Training Program - Tennessee

TO: Virgil L. Conrad
Regional Administrator
Food and Nutrition Service, Southeast Region

This report presents the results of the subject audit. The Food and Nutrition Service's (FNS) March 31, 2003, response to the draft report is included as exhibit D, with excerpts and the Office of Inspector General's (OIG) position incorporated into the Findings and Recommendations sections of this report.

This report illustrates serious, systemic deficiencies in the State of Tennessee's administration of this program over a period of several years. Further review by your office is necessary to fully determine the extent of the deficiencies and the resulting overclaims to FNS. Examples of these deficiencies are as follows.

- In FY 1999 the State claimed over 76,000 offered job slots when it only appraised 5,575 individuals. The State received \$1,872,579 in excess reimbursements based upon this inflated claim.
- In the largest counties, the State charged FNS 100% of many employees' salaries even though they did little, if any, work for this program during our review period. From our interviews with and observations of a sample of these workers, and our analysis of their client assessment reports, we concluded that these workers sat idle during most of their workdays.
- In smaller counties, employees worked on multiple programs. Although the State's program coordinator estimated that it took about two hours to appraise and enroll a client for this program, we found that the State charged FNS up to about 54 hours per client. Our own interviews with State workers disclosed that they actually spent from ½ to 1½ hours on this function.

Clearly, an increased level of oversight of the State's actions in administering this program is warranted, and prompt action by your office to prevent further overclaims and recover those already incurred, is needed.

We accept management decisions on Recommendations Nos. 3, 8, and 12 as the response addressed adequate corrective action. Management decision can be made

on the remaining recommendations once the agency has provided the additional information outlined in the report sections, OIG Position, for those recommendations.

In accordance with Department Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned and the timeframes for implementing corrective actions on each recommendation. Please note that the regulation requires a management decision to be reached on all findings and recommendations within 6 months of report issuance.

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



RAYMOND G. POLAND
Regional Inspector General

EXECUTIVE SUMMARY

FOOD STAMP EMPLOYMENT AND TRAINING PROGRAM - TENNESSEE

AUDIT REPORT NO. 27601-12-AT

RESULTS IN BRIEF

This report presents the results of our self-initiated audit of the administration of the Food Stamp (FS) Employment and Training (E&T) Program by the Food and Nutrition Service's

Regional office (FNSRO) in Atlanta, Georgia, and the State of Tennessee. In Tennessee, the State's Department of Human Services (DHS) administered the program and contracted with the Department of Labor and Workforce Development (DLWD) until June 2000 to provide E&T work and training components. In June 2000, FNS contracted directly with the DLWD to administer the program while DHS continued to identify clients to be served.

The E&T Program provides funds to assist or train FS recipients to find employment opportunities. The audit objectives were to determine whether FNSRO was adequately monitoring States to ensure their E&T Program complied with Federal guidelines, and that the State agency (SA) who administered the E&T Program and fiscal activities was in compliance with those guidelines.

Our review of FNSRO's monitoring of SA's compliance with E&T requirements and our on-site review of one selected State, Tennessee, disclosed significant fiscal and program management deficiencies. Tennessee claimed reimbursement for E&T Program expenses in excess of the actual cost of operating the program. The claims were for program administration such as salaries, benefits, and rent. The State did not have adequate documentation to support actual operating costs. For fiscal year (FY) 2000, Tennessee claimed \$2,468,348 reimbursement for expenses incurred in operating the program. Our statistical review, however, disclosed that the State claimed \$1,280,152 in excess of actual costs. This was the first year that the State participated under FNS' study of alternatives to the nationally prescribed fixed reimbursement rates.

In the prior year, the State received fixed rate reimbursement for each able-bodied adult without dependants (ABAWD) served. However, the State over-reported the number of ABAWD's served and claimed excessive funds of \$1,872,579. This resulted, in part, because the State

claimed 76,016 orientation/assessment call-in letters as job offers when their internal reports showed only 5,575 face-to-face assessments for ABAWD's.

Tennessee had not developed workfare contracts and related worksites to assure that every ABAWD had a bona-fide work opportunity and a means of maintaining FS benefits. Instead, the State focused on job search activities that cost the State less and required less staff involvement than workfare, training, and educational activities. For FY 2000, the SA claimed that job search was tied to workfare and reported 23,234 offered and 3,677 filled workfare positions but only 57 ABAWD's were actually placed in workfare. Without workfare contracts, the State was not able to provide the level of service needed to adequately serve ABAWD's and justify the costs claimed.

FNSRO has not adequately monitored and evaluated the States E&T Programs including the study of alternative reimbursement methods. In addition, it had not provided sufficient reviews of States' actual operating costs, staffing levels, and other administrative expenses. FNSRO had not fully evaluated program costs to determine if States' reimbursement claims were necessary and reasonable. As a result, FNSRO did not have adequate information available for monitoring participation, evaluating success, and assuring that cost reimbursements to States had not exceeded the cost of providing services.

KEY RECOMMENDATIONS

We recommend that FNSRO (1) recover the cited excessive claims of \$1,280,152 for FY 2000 and \$1,872,579 for FY 1999; (2) provide general guidance for establishing and claiming costs; (3) review the criteria that the State is using for reporting positions offered and filled and require development of workfare sites; and (4) ensure during the management evaluation process that adequate records are established, and the claimed costs are supported.

AGENCY RESPONSE

In its March 31, 2002, written response to the draft report, FNSRO was in general agreement with the findings and recommendations. However, for Recommendation No. 1, FNS agreed with only a portion of the recommendation. Consequently, to facilitate the management decision and resolution process, we revised Recommendation No. 1 into two recommendations. Therefore, the recommendation numbers in the agency response, shown in exhibit D, does not correspond to those in our final report.

OIG POSITION

Our position for each recommendation is presented in the relevant sections of the report for each finding. We agreed with management decisions for Recommendations

Nos. 3, 8, and 12, and asked for additional information on the remaining recommendations.

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INTRODUCTION

BACKGROUND

The Food Stamp (FS) Program allows low-income households the opportunity to buy food necessary for their nutritional well-being. Monthly benefits are based on income, assets, and employment-related eligibility requirements. State and local welfare offices, with the Federal Government providing over-sight and funding, operate the program.

The Food Security Act of 1985 required each State to implement an Employment and Training (E&T) Program to ensure that FS recipients are involved in a meaningful work-related activity that will eventually lead to paid employment and a decreased dependency on assistance programs. States may choose to operate one or more components as part of their E&T Program. Components may consist of job search, job search training, self-employment activities, workfare, vocational, and basic education training. States may contract components with private-for-profit and nonprofit organizations such as employment agencies, training contractors, and local community-based nonprofit organizations.

The Food and Nutrition Service (FNS) of the U.S. Department of Agriculture administers the program through agreements with State agencies (SA). States receive 100-percent, federally funded grants for E&T Programs. If a State exceeds all of its 100-percent grant, FNS will match dollar-for-dollar the amount that the State spends of its own funds. The Balanced Budget Act (BBA) of 1997 provided appropriated unmatched grant funds for fiscal years (FY) 1998 through 2002. Total available funds were \$242 million in FY 1999, \$330 million in FY 2000, and \$426 million in FY 2001. Tennessee had available \$8.6 million in FY 1999; \$6.1 in FY 2000; and \$8.0 million in FY 2001.

The E&T process begins when an application for FS benefits is received. Unless otherwise exempted, all FS households are required to register for work. Work registrants form a pool from which States assign participants to their E&T Program. The SA must limit FS benefits to 3 months in a 3-year period for able-bodied adults without dependents (ABAWD) who are not working or participating in a work program for 20 hours or more each week, or were not participating in an E&T Program.

Individuals are exempt from this requirement if they are:

- under 18 or over 50 years of age;
- a parent or other member of a household with responsibility for a dependent child;
- medically certified as physically or mentally unfit for employment, pregnant; or
- already exempt from the work requirements under existing provisions.

Also, the work requirement may be waived for those ABAWD's who live in an area with an unemployment rate over 10 percent or an area with an insufficient number of jobs. In addition, FNS allows States to exempt 15 percent of their ABAWD's, as the State deems necessary.

FNS established reimbursement rates for servicing ABAWD's at \$175 for every E&T slot filled and \$30 for each offer of an E&T slot for FY 1999 through FY 2001. States could apply for FNS' study of alternatives to the nationally prescribed fixed reimbursement rates (alternative reimbursement method) in which reimbursement is not limited, but participating States had to pledge to provide an opportunity to all ABAWD's and establish management controls to ensure that ABAWD's are served.

The BBA of 1997 required that 80 percent of the Federal E&T funds be spent on ABAWD's. The remaining 20 percent could be spent on non-ABAWD work activities or E&T activities that did not meet the requirements of the Act, such as job search. States could expend some or all of the 20-percent allocation. The 20-percent allocation could be spent at any point during the year and is not subject to the reimbursement rates.

The FS Reauthorization Act of 2002 removed the requirement that 80 percent of funds be spent on ABAWD's; however, it did authorize additional funding for States that pledge to serve ABAWD's. Also, the Act eliminated the reimbursement rates for offered and filled slots.

In FY 2000, Tennessee was approved for reimbursement under FNS' alternative reimbursement method. The State's Department of Human Services (DHS) administered the program and contracted with the Department of Labor and Workforce Development (DLWD) to provide E&T work and training components. In June 2000, FNS contracted

directly with DLWD to administer the program while DHS continued to identify clients to be served.

OBJECTIVES

The objective of the audit was to determine if the FNS Regional office (FNSRO) Atlanta, Georgia, had sufficient controls over the program to monitor State compliance with Federal guidelines and that the State was satisfactorily performing their E&T responsibilities.

SCOPE

The Office of Inspector General (OIG) performed the audit work at the FNS National office in Alexandria, Virginia; FNSRO Atlanta, Georgia; and the State of Tennessee. Our review of FY 1999 and FY 2000 program in Tennessee included the Tennessee DHS, DLWD, and statistically selected county offices. We statistically evaluated the time DLWD employees charged to the program. Fieldwork was performed from April 2001 to February 2002. The audit was conducted using generally accepted government auditing standards.

METHODOLOGY

We accomplished our audit objectives by:

- Review of the FS Act of 1977, including amendments, and Federal regulations related to the E&T Program.
- Interviews with FNS officials and review of program policies, procedures, and pertinent correspondence.
- Assessment of FNS' monitoring of States' fiscal and program management related to E&T activities.
- Review of external and internal reports, studies, and performance reports.
- Review of SA's E&T plan of operation.
- Review of SA's system for allocating costs to the E&T Program.
- Review of SA's E&T Program accounting records, reports, and expenditures.
- Statistical test of employee's time charged to the program at the State and county levels. Details of our statistical sampling plans and projection results are shown in exhibit B.

FINDINGS AND RECOMMENDATIONS

CHAPTER 1	TENNESSEE DID NOT HAVE ADEQUATE CONTROLS OVER REIMBURSABLE COSTS AND CLAIMED EXCESSIVE FEDERAL FUNDS FOR PROGRAM ADMINISTRATION
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Tennessee did not have adequate controls over reimbursable E&T cost claims. In FY 1999, the SA counted letters sent to ABAWD as offered slots. The SA claimed 76,016 offers for FY 1999 but actually appraised 5,575 individuals. This overstated ABAWD offers by 70,441 and resulted in excessive cost reimbursements. In FY 2000, the SA was no longer limited to being reimbursed based on slots but under an alternative reimbursement rate where there was no limit on spending levels. For FY 2000, the SA claimed expenses in excess of costs because employees charged time based on budgeted time instead of time spent serving E&T participants. Also, workfare slots were not available to allow job search activities for ABAWD's. As a result of these inadequate controls, the State was reimbursed \$3,151,731 for cost claims in excess of the actual operating costs in FY's 1999 and 2000.

FINDING NO. 1

TENNESSEE OVERCLAIMED \$1.9 MILLION IN FY 1999 BY OVERSTATING OFFERS

Tennessee reported excessive FY 1999 ABAWD participation by counting call-in letters as offered slots. FNSRO approved orientation/assessment call-in letters as offers provided States include job search and work assignments, with reporting dates and times, in the letter. However, we found that specific work assignments were generally not listed

because the State had not developed workfare sites. DLWD only assessed 5,575 individuals but they claimed 76,016 offers. This overstated ABAWD offers by 70,441 and resulted in excess cost reimbursements of \$1,872,579 for FY 1999.

For FY 1999, FNS established funding caps for E&T slots. The caps limited SA's reimbursement claims to \$30 for offered slots and \$175 for filled slots. FY 1999 was the first year that FNS established these caps. In FNS' questions and answers dated April 23, 1998, FNS established that an offer must inform ABAWD of the location of the work assignment, the date, and time to report. Also, in an FNS memorandum to regional administrators dated February 20, 1998, FNS defined an offered slot as a

bona-fide workfare or training opportunity that is made available to ABAWD, but the participant either refuses the assignment or does not report.

DHS sends a list of individuals between the ages of 18 and 50 to DLWD. From this list, DLWD selects those individuals coded as ABAWD's, and sends letters that establish an appointment with an interviewer. During the face-to-face meeting, the interviewer completes an appraisal of ABAWD's education and work experience to determine which component or activity to assign ABAWD (i.e., job search, workfare, training, or education). The "call-in" letters do not offer a bona-fide workfare or training slot, but only established an appointment with an interviewer. Interviewers are not aware of the needs of the participant until the appraisal. Also, workfare sites had not been developed and therefore the location, date, and time to report could not be included in the letters (see Finding No. 3).

For FY 1999, Tennessee counted one offered slot for each letter sent, rather than counting participants appraised and offered a component. The State reported on Program Activities Report, Form FNS 583 that 76,016 offers were made. However, the State's internal report (FS ABAWD Report) showed the total number of participants' appraised for FY 1999 as only 5,575 (ABAWD offers should not be higher than appraised). The internal report also showed 5,031 ABAWD's in filled slots with 3,512 of these ABAWD's in job search. In FY 1999, the State did not have workfare contracts in place before establishing job search. Thus, the 3,512 job search slots would not qualify for reimbursement.

The 76,016 offers to ABAWD's are greater than the 11,591 potential ABAWD's it planned on serving as shown in the SA's FY 1999 State Plan. Also, DLWD, as of December 4, 2001, appraised the individual prior to determining if the participant is counted as an "offer" or a "filled". In FY 2001, DLWD reported only 2,856 offered slots for the first 2 quarters.

The State reported on Form FNS 583, for FY 1999, that the cost of serving ABAWD's (80-percent funding) was \$2,305,654. However, based on the DLWD internal reports and FNS' reimbursement rates, of \$30 for offered and \$175 for filled slots, the FY 1999, 80-percent funding is calculated below:

Table 1 ABAWD Funding

Description	State Reports	Slot Cap Rate	Totals
Offered Slots	5,575	\$30	\$167,250
Filled Slots*	1,519	\$175	265,825
Funds Earned			\$433,075

* 5,031 slots were reported, but 3512 of the filled slots were job search.

The State over-claimed reimbursement for FY 1999 by \$1,872,579 as follows:

Total Expenditures for ABAWD's	\$2,305,654
Less funds earned	<u>433,075</u>
Overpayment	<u>\$1,872,579</u>

FNSRO's management evaluation (ME) of the DLWD program in November 2000, did not disclose the inflated ABAWD participation. However, the review did note that DLWD's process for compiling information for the Form FNS 583 was "an extremely complex manual process." This factor likely limited FNSRO's success in identifying the inflated costs and related excess cost reimbursements.

Our original draft report contained one recommendation to recover \$1,872,579 in excessive Federal funds. Based on FNS's response, we changed the one recommendation into two different recommendations since FNS's response agreed with part but not all of the recommendation. Therefore, recommendation numbers in FNSRO's response will not relate to our recommendation numbers.

RECOMMENDATION NO. 1

Recover the \$1,257,979 in excessive Federal funds the State claimed in FY 1999 by reporting excessive ABAWD offers.

FNS Response

In it's March 31, 2003, response, FNS concurred " * * * with this recommendation to the extent that excessive funds will be recovered from the [SA]. * * * With OIG concurrence, FNS will bill the [DHS] for \$1,257,979."

OIG Position

We agree with FNS in recovering the excessive Federal funds. To reach management decision, FNS should provide a copy of the bill for collection and support that the amount has been entered as a receivable on the agency's accounting records.

RECOMMENDATION NO. 2

Recover the \$614,000 (3,512 x \$175) in unsupported Federal funds the State claimed in FY 1999 by reporting ABAWD filled slots when only job search activities were

performed.

FNS Response

In its March 31, 2003, response, FNS stated:

** * * FNS concurs with this recommendation to the extent that excessive funds will be recovered from the [SA]. We are concerned that there may be some misunderstanding about whether the State is entitled to \$614,600 in reimbursement for filled ABAWD slots. OIG states that 3,512 slots claimed by the [SA] are not subject to Federal reimbursement because the [SA] did not have workfare contracts in place prior to the beginning of the component, which consists of job search and job search training activities; however, Federal regulations do not require that workfare contracts exist prior to commencing the component. 7 CFR 273.7(d)(1)(ii) states that ". . . Lastly, a [SA] may establish a job search period of up to 30 days following initial certification prior to making a workfare assignment. This job search activity is part of the workfare assignment and not a job search 'program.' Participants are considered to be participating in and complying with the requirements of workfare, thereby meeting the work requirement for ABAWDs." The report did not identify any instance in which a client completed the job search phase of the workfare component, wanted to continue participation in the program with a workfare assignment, and the [SA] was unable to fulfill its obligation. Oral clarification of this issue was shared with OIG at two meetings conducted with FNSRO staff on October 1, 2002 and January 21, 2003. Written concurrence with this regulatory interpretation was provided by the FNS National office and was provided to OIG on February 6, 2003.*

Including reimbursement for these filled slots would reduce the [SA's] monetary liability by \$614,600. With OIG concurrence, FNS will bill the [DHS] for \$1,257,979.

OIG Position

FNSRO officials provided an email as written evidence of concurrence by a FNS National Office official that stated, "If Tennessee's workfare program is organized under 7 CFR 273.7(f)(1)(iii), then OIG is correct in saying that there should be contracts with job providers. If Tennessee's workfare program is organized under 7 CFR 273.7(f)(1)(iv), then the Southeast Regional Office is correct that no requirement for contract applies." However, it is unclear why contracts would be required under the optional workfare program as defined in 7 CFR 273.7(f)(1)(iii), and not under a regular workfare program. In addition, it was also unclear whether Tennessee was operating the regular or optional workfare program since this issue was not specifically addressed in their State Plan of Operation. FNSRO officials stated that Tennessee's State Plan of Operations did not specify an optional workfare program and thus, they considered it to be a regular workfare program.

To reach management decision on this recommendation, FNSRO officials should request and obtain an official written clarification from the FNS National Office on whether contracts or agreements with job providers are required to establish a valid workfare program. Also, written clarification should be obtained on whether Tennessee could establish a 30-day job search period prior to commencing any component other than workfare, and whether this action constitutes a job search program. The Office of the General Counsel (OGC) concurrence should be obtained on any written clarification. Lastly, FNS officials should review Tennessee's job search activities and determine whether its reimbursed claims were in accordance with regulations. If not, FNS should bill the SA for \$614,600 for FY 1999's excessive reimbursed costs.

RECOMMENDATION NO. 3

Review the criteria that the State is using to report ABAWD participation to ensure that offers are not claimed unless a bona-fide workfare or training slot is available.

FNS Response

In its March 31, 2003, response (see exhibit D, formerly Recommendation No. 2), FNS stated:

** * * FNS concurs with the recommendation in part. FNSRO cannot concur in entirety because we are concerned that regulations and policy regarding workfare contracts was not clarified in enough detail for OIG. Current regulations do not require State agencies to have workfare contracts in place prior to commencing that component; therefore, we cannot*

require that States have contracts and agreements in place prior to approving E&T plans or authorizing E&T funding. We concur with OIG that it is desirable for States to have agreements and contracts in place before commencing the component; therefore, we will strengthen our review of E&T plans to include a more vigorous examination of States' efforts in this area, and will follow up with States where potential weaknesses in this area are noted.

FNSRO is in the process of revising the checklist for reviewing E&T State Plans to ensure that the State has provided a detailed explanation of the offer and placement procedure for ABAWDs. We will also review the State's procedures for counting a slot as offered and filled, and ensure that a detailed explanation of how clients matriculated through components, particularly Workfare, is provided. As indicated in the response to Recommendation No. 1, the State is not required by law to have Workfare contracts and agreements in place prior to an ABAWD beginning the component; however, FNSRO will ensure that the E&T Plan clearly outlines what the State how the State will process those ABAWDs placed in the Workfare component when there are not agreements and contracts established beforehand. These areas for E&T Plan review will be incorporated into the current checklist by August 1, 2003, so that the new checklist can be utilized for the review of FY 2004 State Plans. A copy will be provided to OIG no later than August 1, 2003.

FNSRO will also revise the current E&T review instrument to ensure that the State is accurately reporting offered and filled slots. The questions on the review instrument will require comparative analysis of internal State reports, data submitted on the FNS 583 report, and estimates projected on the State plan. The review instrument will be revised no later than April 15, 2003, so that it can be utilized for the E&T review schedule in Tennessee in FY 2003.

OIG Position

We agree with the management decision. The portion of FNS's response regarding workfare contracts will be resolved in Recommendations Nos. 1 and 7.

FINDING NO. 2

TENNESSEE'S FY 2000 COST REIMBURSEMENTS WERE NOT SUPPORTED AND EXCEEDED ACTUAL COSTS

Tennessee DLWD claimed reimbursement for E&T Program expenses in excess of actual costs of operating the program. The State did not have adequate documentation to support actual costs. DLWD employees charged time according to budgeted hours instead of actual hours spent serving E&T participants. Therefore, the E&T Program was charged a disproportionate share of costs by employees in multi-program county offices. The SA had not conducted studies or periodically monitored participation to determine proper staffing levels to make adjustments, as applicable. For FY 2000, Tennessee claimed \$2,468,348 for expenses incurred in operating the program. However, our review disclosed that the State over-claimed costs of \$1,280,152.

Title 7 Code of Federal Regulations (CFR) 277, (appendix A) provides principles for determining allowable cost for administering the FS Program by the SA. The cited cost principles are designed to assure that all federally-assisted programs bear their fair share of costs recognized under these principles. The principles provide that a SA is responsible for the efficient and effective administration of the program through the application of sound management practices. Profit by the State or other increment above cost is not allowed.

The State did not have adequate records to support their claims for salaries, benefits, and other administrative expenses for the E&T Program. For FY 2000, DLWD claimed \$2,468,348 in costs (see table 2):

Table 2

Administrative cost item	Total claimed
Direct personal services	\$ 1,184,567
Other personal services	188,493
Personal benefits	594,521
Non-personal services	369,315
Other Administrative	131,452
Total cost	\$ 2,468,348

For direct personal services, the State established 60 full-time equivalent (FTE) staff positions for the E&T Program. However, it did not maintain adequate records to document that the FTE's charged to the program were necessary and reasonable for the number of participants served. DLWD's Time and Attendance procedures state that proper hours should be entered on the labor distribution screen based on how the employee spent his or her day. However, employees generally charged time as budgeted and did not document the relationship of time used to participants served.

Employees in multi-program county offices worked other programs such as unemployment insurance claims, thus additional controls should have been established to ensure that the E&T Program was not charged for costs that benefited other programs. In addition, the State did not have studies, performance measures, baselines, or other means to determine hours needed or to justify the FTE's and related reimbursement claims.

States were required by the BBA of 1997 to document funds spent for ABAWD and non-ABAWD categories. To comply with the law, the State should document the actual time (hours) that employees use serving each category of individual participants. Such documentation would serve to substantiate the SA's reimbursement claims. Because the SA did not have accounting methods to document or capture the hours or money spent on each population, the SA arbitrarily reported \$2.3 million (92 percent) spent on ABAWD's and \$194,345 (8 percent) spent on non-ABAWD's.

Because the DLWD did not have adequate documentation that FTE's charged were necessary and reasonable, we reviewed a random sample of 120 employee time charges out of 1,181 time charges by employees in FY 2000. Out of 95 counties in Tennessee, E&T Programs are operated in 61 counties. The 120 employees worked at the State office and 40 different county offices, of which we visited 10 and received records by mail from 30 offices.

Twenty out of 23 county employees interviewed stated that the time spent appraising and enrolling a client took from 30 minutes to an hour. However, the State coordinator said if employees served clients correctly, it should average two hours. Therefore, we used the two-hour timeframe to give the State the benefit of the doubt. (See exhibit C.)

- Retrieving a list from the DHS computer system (online).
- Sending the participant a preprinted form letter with a date and time for an interview.
- Providing the participant with a face-to-face meeting that includes an appraisal of job skills, development of an employability plan, and letter for the participant to take to potential employers. (The letter is to be completed and returned to DLWD as verification of the participant's efforts).
- Handling referrals and followup for job search, workfare, education, and training. However, staff did not indicate that these activities involved a substantial amount of time. According to the State internal reports, in FY 2000, 4,488 ABAWD's and 4,750 non-ABAWD's were in E&T activities but only 57 had been placed in workfare and 325 in jobs. The remaining participants

were in job search and related activities, which was not staff intensive.

The 120 sampled charges of \$118,038 were based on employee claims of 8,266 hours used serving E&T participants. Overall, DLWD claimed 83,839 staff hours, costing \$1,184,567 for placing 4,488 ABAWD's and 4,750 non-ABAWD's in E&T activities.

Based on the projection of the selected time charges, we concluded that the State overcharged the E&T Program for 52,643 staff hours or \$739,012 (point estimate) or 44,052 staff hours or \$614,385 (lower confidence limit) in direct personal services (see table 3). Our calculations for the projection allowed staff 2 hours for serving each participant (ABAWD and non-ABAWD). Hours were counted as excessive only when the time charges exceeded 2 hours per participant. In addition, because of the variability of their duties, we did not count management staff charges as excess hours at county service locations or at the State headquarters (see exhibit B).

DLWD charged administrative costs to the E&T Program in proportion to salary costs. Therefore, we used the percentage of over-claims disclosed in the sample (51.86 percent) to calculate the total excess cost reimbursement for Tennessee as follows:

Table 3

Administrative cost item	Total claimed	Multiplier	Excess cost
Direct personal services (projected)	1,184,567	N/A	\$614,385
Other personal services	188,493	.5186	97,752
Personal benefits	594,521	.5186	308,318
Non-personal services	369,315	.5186	191,526
Other Administrative	131,452	.5186	68,171
Total excess cost			\$1,280,152

Over claims resulted because DLWD initially assigned an excessive number of staff (60 FTE's) based on their budget but did not adjust staffing downward when participation did not materialize. In addition, the SA had not conducted studies or periodically monitored participation to determine correct staffing levels and make adjustments as applicable. SA officials were unable to explain how the budgeted FTE's were computed.

Also, the State generally did not enroll participants in more staff intensive activities such as workfare and other employment and training activities, which would have required contract development and staff followup. Instead the States' E&T activities concentrated on job search that required minimal staff time. Job search activities comprised 81% of all components that clients were placed in. The clients were appraised and given a blank

form to complete for contacts made with prospective employers. The majority of all job search clients never returned to DLWD after the first contact.

The following table shows examples of disparities between monthly numbers of participants served and time charged by individual workers.

TABLE 4

Employee / Month FY 2000	ABAWD's	Non ABAWD's	Total Served	Time Allotted	Hours Charged	Difference	Employee Comments
A / March	2	3	5	10	69	59	Multiple programs
B / June	2	0	2	4	116.1	112.1	Multiple programs
C / March	2	11	13	26	148.1	122.1	Multiple programs
D / April	6	1	7	14	119.5	105.5	Dedicated - Stated no other duties
E / March	0	0	0	0	166.3	166.3	Dedicated - Stated no other duties

Two examples where employees charged excessive time to the E&T program follow:

- An employee charged 166 hours to the E&T program for one month, but did not see any clients for that month. When interviewed, the employee stated that she worked at least 8 hours on preparing a class. Also, the employee stated that she had interviews established and a course to instruct, but nobody showed up for the course or interviews. The employee added that no other E&T duties were performed during the month even though 166 hours were charged to the program. Thus, the State charged FNS for nearly an entire month where no work was performed.
- An employee in a multi-county office charged 3 days a week for the E&T program, but stated that she only spent 12 hours a week working E&T and the rest on unemployment claims. Because she was an employee in a multi-program office, she often would fill-in for other employees. However, she never adjusted her time to show the correct program in which she was working. Therefore the State charged FNS for days where the employee was working on other programs.

We questioned a State official regarding the disparities between employees as shown in Table 4. The State official stated that the staff must be available to respond to the letters mailed to clients and had the planned participation showed up, the employees would have serviced the clients.

The number of cases that the average caseworker served, of both ABAWD's and non-ABAWD's, was about 10 clients a month in the major metropolitan counties. Caseloads in smaller counties where employees worked in multiple programs were much larger than the metropolitan counties that had dedicated employees devoted solely to the E&T program. The table below shows the average monthly cases per employee for the four major Tennessee counties and three smaller counties:

TABLE 5

County	Per Employee ¹			Total Employees ¹	Total Idle Hrs./ Mo.
	Average Monthly Clients	Allotted Hrs./ Mo. (2 per client)	Excessive Hrs./Mo. (160 Allotted)		
Davidson ²	9	18	142	8	1,136
Shelby ²	4	8	152	14	2,128
Hamilton ²	12	24	136	6	816
Knox ²	13	26	134	5.8	777
Hamblen	19	38	122	1	122
Montgomery	74	148	12	2	24
Madison	25	50	110	1	110

¹ FTE's budgeted in FY 2000.

² Major Metropolitan County

The SA's own data shows excessive time was charged to the E&T program. DLWD obtained data about staff time charges during its FY 2001 on-site evaluations as shown in Table 6. The results of their reviews support our statistical findings that staff were using the assigned FTE's without regard to the number of participants served. The following schedule shows data from the reviews in Tennessee counties. The number of months reviewed varied from county to county and ranged from one to six months. The data in Table 6 is for our review period.

TABLE 6

ABAWD Counties	Staffing Allocations *	Number of ABAWD's responding to letters	Total Time Charged	Average Time Charged to Serve an ABAWD **	Allotted Hrs. per State Coordinator	Excessive Hours claimed per ABAWD
Bedford	0.40 FTE's	36	479.40 hrs	13.32	2	11.39
Warren	0.40 FTE's	28	372 hrs	13.29	2	11.29
Tipton	0.20 FTE's	53	297 hrs	5.60	2	3.6
Carter	0.20 FTE's	33	180.8 hrs	5.48	2	3.48
Smith	0.20 FTE's	3	161.5 hrs	53.8	2	51.8
Weakly	0.20 FTE's	23	172.5 hrs	7.5	2	5.5
Williamson	0.20 FTE's	4	63.60 hrs	15.90	2	13.9
Dickson	0.20 FTE's	5	43.7 hrs	8.74	2	6.74
Fayette	0.2 FTE's	0	21.5 hrs	21.5	2	19.5
Sumner	0.60 FTE's	11	221.5 hrs	20.14	2	18.14
Rutherford	0.50 FTE's	8	30.5 hrs	3.81	2	1.81
Robertson	0.20 FTE's	6	12 hrs	2.0	2	0

* 1 FTE equals about 160 HRS per month

** Average Time Charged to Serve an ABAWD is the average for the period covered by the review (Source – DLWD on-site evaluations).

State officials said that FTE staffing levels were established during the yearly E&T budget process. FTE's were based on the anticipated program level at each service location. State officials said that there was no periodic comparison of staffing levels to participation and that FTE staffing levels were not considered again until the next budget. Also, staffing levels and participation were not monitored during the State conducted reviews except to identify locations that were not serving enough participants in order to encourage staff to increase participation.

FNS should not have approved the alternative reimbursement method in FY 2000, since the E&T plan showed no additional controls necessary to serve all ABAWD's compared to the FY 1999 plan. The plan showed that the E&T Program consisted primarily of job search activities and did not show any planned increases in service to clients or in participation from the FY 1999 plan. Also, the State's plan did not address controls to ensure that adequate record keeping systems would be used and claimed costs would be necessary and reasonable. FY 2000 data shows that total ABAWD participation decreased by 364 participants from 4,852 in FY 1999 to 4,488 in FY 2000.

If the State had been limited to the slot cap rate method for FY 2000, the State would have earned and received only \$932,580. Therefore, the calculated overpayment to the State using this method would be \$1,341,423 as shown in Table 7.

Table 7

Description	State Reports	Slot Cap Rate	Totals
Offered Slots	4,906	\$30	\$147,180
Filled Slots	4,488	\$175	785,400
Funds Earned			\$932,580

Total Expenditures for ABAWD's	\$2,274,003
Less funds earned	<u>932,580</u>
Overpayment	<u>\$1,341,423</u>

Also, DLWD provided only 47 percent of the services contracted for by DHS. The FY 2000 contract required DLWD to place 19,260 food stamp clients in E&T components. Giving DLWD credit for each ABAWD and non-ABAWD slot filled, including job search, it only placed 9,238 food stamp clients in components during FY 2000. The contract provided for a maximum of 60 field staff (\$2,776,511) and other expenses of (\$356,600) totaling \$3,093,111. The majority of the amount budgeted for staff was 3,600 filled workfare slots (\$1,868,962) and 1,800 life skills training participants (\$609,289) totaling \$2,478,251. However, only 57 participants started workfare and 371 started life skills training.

The DLWD did not provide the level of service that would justify or earn the \$2.4 million reimbursement claimed under the alternative reimbursement method. In addition, it did not fulfill the participation level requirements of the contract with DHS. Instead of placing participants in workfare as required in the contract and the E&T plan, it placed 81 percent of all E&T participants in low-cost job search. Of the 3,620 ABAWD's placed in job search, only 57 (1.6 percent) actually went into workfare. The State continued the alternative reimbursement method for FY's 2001 and 2002. The State continued to use the same accounting controls over E&T claims that were used in FY 2000. FY 2001 expenditures, as reported on the SF-269, totaled \$2.7 million and budgeted expenditures for FY 2002 totaled \$4.3 million.

RECOMMENDATION NO. 4

Recover the cited \$1,280,152 of FY 2000 Federal funds that the State claimed for excessive reimbursable program costs.

FNS Response

In its March 31, 2003, response (see exhibit D, formerly Recommendation No. 3), FNS stated:

** * * FNS will bill the [SA] \$1,280,152. However we will provide the [SA] an opportunity to submit additional*

documentation which may alter the amount of the claim. If the State chooses to submit additional documentation, we will review that as a part of our FY 2003 review of E&T costs.

OIG Position

To reach management decision FNS should provide a copy of the bill for collection and support that the amount has been entered as a receivable on the agency's accounting records.

RECOMMENDATION NO. 5

Perform a comprehensive review of the State's allocation procedures for E&T activities, validate its FY 2001 and FY 2002 E&T cost claims (\$2,665,565 in FY 2001 and budgeted for \$4,337,061 in FY 2002) and recover ineligible costs charged to E&T activities.

FNS Response

In its March 31, 2003, response (see exhibit D, formerly Recommendation No. 4), FNS stated:

** * * FNS will conduct a Financial Management Review at the [SA] during the month of July 2003. The scope of this review will include the validation of E&T costs claimed in FY 2001 and FY 2002. We will also review the [SA]'s cost allocation procedures. Any unallowable E&T charges cited during the review will be recovered by FNS.*

OIG Position

To reach management decision for this recommendation we need the results of the Financial Management Review, along with evidence of the billing and associated accounts receivable, if necessary.

RECOMMENDATION NO. 6

Require the SA to develop procedures and controls to ensure the propriety of the costs allocated to the E&T Program and maintain documentation to support actual costs claimed.

FNS Response

In its March 31, 2003, response (see exhibit D, formerly Recommendation No. 5), FNS stated:

** * * During our Financial Management Review in July 2003, we will determine if the [SA] has procedures in place to ensure the appropriateness of costs charged to E&T activities. We will also determine if they have procedures for maintaining documentation supporting E&T costs. If procedures are not in place, we will require the [SA to] develop them.*

OIG Position

To reach management decision for this recommendation, we need the results of the review along with evidence that requires the SA to develop additional procedures and controls.

FINDING NO. 3

TENNESSEE DID NOT ESTABLISH WORKFARE CONTRACTS AND WORKSITES TO PROVIDE WORK OPPORTUNITIES

Tennessee had not developed workfare contracts and related worksites to ensure that every ABAWD has a bona-fide work opportunity and a means of maintaining FS benefits. Instead, the State focused on job search activities that cost the State less and required less staff involvement than workfare, training, and educational activities.

Nevertheless, the SA claimed that job search was tied to workfare and reported 23,234 offered and 3,677 filled workfare positions for FY 2000. We question whether there is an actual connection because the SA had not obtained contracts or agreements for worksites prior to the end of the 30-day job search period. In addition, without workfare contracts or agreements, DLWD was not able to provide the level of service needed to serve ABAWD's and justify the costs claimed. For FY 2000, only 57 ABAWD's were actually placed in workfare although the SA charged FNS almost \$2.5 million for E&T services, it only placed 57 ABAWD's in the workfare.

FNS policy provides that a slot is "filled" when a participant reports to a work or training site to begin his or her work activities. FNS' policy further provides that a slot is "offered" when a bona-fide workfare or training opportunity is made available to a participant (i.e., the participant is told to report to a worksite at a given date and time) but the participant either refuses the assignment or does not report.

To meet the Personal Responsibility and Work Opportunity Reconciliation Act, FS work requirements, ABAWD's must be employed or participate in a qualified work activity or training program for an average of 20 hours per week or participate in and comply with a workfare program. Qualifying E&T activities include workfare, education, vocational training, the Job Training Partnership Act, and the Trade Adjustment Act Programs. Job

search was specifically excluded from the law. However, FNS administratively determined that job search could count as a qualifying component if it occurs during the first 30 days of a workfare assignment. Title 7 CFR 273.22 provides that the SA may establish a job search period of up to 30 days prior to making workfare assignments. Further, FNS policy provides that the job search period is allowed only in workfare components that guarantee the participant a slot at the end of the 30-day job search period.

The State's FY 2000 E&T plan, which was approved by FNS, provides that staff will make a specific offer of participation and develop worksite agreements. However, we found that staff did not always follow the E&T plan. According to the plan:

- Staff will review availability of opportunities in the county project prior to a "call-in". The call-in letter (scheduling an appointment for a face-to-face meeting with a DLWD employee) will make a specific offer of participation to the individual ABAWD.
 - During our review we determined the "call-in" letters sent to participants did not contain a specific employer's location, report time or offer of workfare participation. The letters generally identified the E&T office location and scheduled an appointment to discuss the E&T Program opportunities.
- Staff will call-in eligible participants, perform individual assessments, develop worksite agreements, and place and monitor participants at the sites.
 - Our review disclosed that the SA did not have workfare contracts or agreements in place for all counties that were not exempted from the work requirements, i.e., labor surplus or high unemployment counties (un-waived counties). We found that 27 of 52 (52 percent) un-waived counties did not have a workfare contract or agreement in place at any time during FY 2000. None of these counties had any actual participation in workfare.

We concluded that job search was not connected to workfare in Tennessee as required in the CFR 273.7 because there was no workfare contracts or agreements in place at over half of un-waived counties. In addition, the SA had not complied with its E&T plan and only 57 participants actually began workfare in FY 2000. The SA claimed 23,234 offered and 3,677 filled workfare slots. Of the 3,677 filled, the State counted 3,620 in job search and 57 slots for ABAWD's that reported to worksites.

For FY 1999, the State had not developed workfare contracts except for individual contracts for the 35 participants who actually began workfare. Nevertheless, the State claimed 56,360 offered workfare slots and 3,604 filled workfare slots. The SA was operating under the slot cap rates in FY 1999 that allowed up to \$30 for each offered position and \$175 for each filled position.

DLWD staff said that it was policy to develop workfare worksites for each participant that wanted to participate in workfare. Individual sites would be developed, even if no general site contracts were available. However, participants often agreed to participate in job search but would not show at the workfare site. Therefore, workers generally would not develop a workfare site contract, when a general contract was not already available, until they were sure that the participant actually wanted to participate in workfare. DLWD staff said that participation was low because the work was unpaid. During FY 2000, they said that they instructed all counties to develop general workfare site contracts in order to make sure the State was meeting requirements.

FNSRO officials stated that they agreed that some clients did not want to participate, except for the first month of job search, because workfare was unpaid. Also, they said that many of the participants had just turned 18, and would participate during the job search period because not much effort was required and then find a job on their own or quit the FS Program.

The State's FY 2001 E&T plan provided that job search activities were to be tied to workfare and that workfare contracts were to be developed. However, we did not note a significant increase in total numbers of contracts for FY 2001 over FY 2000. The need for additional contracts was also identified by the State-conducted FY 2001 program evaluation.

RECOMMENDATION NO. 7

Require the SA to develop workfare contracts or agreements to ensure that participants have a bona-fide work opportunity and a means of maintaining FS benefits. In addition, the State's approved E&T plan should identify worksite contracts, agreements, and locations and should specify that job search activities will be conducted for only those participants in eligible components.

FNS Response

In its March 31, 2003, response (see exhibit D, formerly Recommendation No. 6), FNS stated:

** * * FNS agrees with the recommendation in part. FNSRO*

*will continue to include in its evaluation of E&T plans a review of the State's explanation of its plans to establish or develop workfare contracts and agreements. Questions on the E&T checklist utilized by FNSRO will be amended * * * to ensure that the State has a plan in place to ensure that locations will be available for ABAWDS placed in the Workfare component. These areas for E&T Plan review will be incorporated into the current checklist by August 1, 2003, so that the new checklist can be utilized for the review of FY 2004 State Plans. A copy will be provided to OIG no later than August 1, 2003.*

FSRO maintains that it would be a misapplication of Federal regulations to require the SA to develop workfare contracts or agreements prior to placement in the component. Optional workfare, listed under 7 CFR 273.22 does require that contracts and agreements be established at the beginning of the program, unlike the workfare program described by Tennessee in the E&T plan. Tennessee's Workfare component is categorized in the FNS Plan Handbook as an "Additional Component," and is described by 273.7(f)(1)(iv) of the regulations. This was discussed at the meeting with OIG on October 8, 2002 and January 21, 2003. Confirmation from FNS National Office verifying that the [SA] is not required to have workfare contracts and agreements in place prior to an ABAWD beginning the component was provided to OIG on February 6, 2003.

The [SA] acknowledges that no workplace contracts were in place in FY 1999. When DLWD assumed the administration of the program during FY 2000, the [SA] made diligent efforts to increase the number of workfare contracts through training of staff and technical assistance in this area. While contracts were not in place for every county, OIG did acknowledge this effort in the report. The [SA] includes in its E&T plan that it intends to develop workfare contracts and agreements with appropriate sources every year, and continues to make demonstrated efforts to accomplish this, without the regulatory requirement to do so.

OIG Position

The CFR effective during this period at 7 CFR 273.7(f)(1)(iii) states exclusively that the State will operate a workfare program "as described in 273.22." As FNSRO stated in their response, this section does require

contracts and agreements be established. As noted in our OIG position response to Recommendation No. 1, 7 CFR 273.7(f)(1)(iv) was silent on whether contracts were required, and no official policy statement other than a National office official has been issued on this subject. Therefore, FNSRO should request from the National office through the OGC an official policy statement on whether contracts or agreements are required in a regular workfare program. In addition, FNS should validate during its upcoming financial and program management reviews that the SA's program is in accordance with Federal regulations.

RECOMMENDATION NO. 8

Include evaluation of the States' workfare contracts, agreements, and sites in future FNSRO conducted ME's.

FNS Response

In its March 31, 2003, response (see exhibit D, formerly Recommendation No. 7), FNS stated:

** * * FNS concurs with this recommendation. Review instruments will be revised to ensure that when States commit to establishing workfare contracts, agreements, and sites in the E&T plan, the level of activity approved in the plan is evaluated on site. The review instrument will be revised no later than April 15, 2003, so that it can be utilized for the E&T review scheduled in Tennessee in FY 2003.*

OIG Position

We accept management decision for this recommendation.

CHAPTER 2**FNS' OVERSIGHT WAS NOT ADEQUATE FOR EVALUATING COSTS AND ENSURING THAT FUNDS HAD BEEN USED FOR PROPER PURPOSES**

FNSRO had not adequately monitored and evaluated States' E&T Programs including the study of alternatives to the nationally prescribed fixed reimbursement rates. In addition, they had not provided sufficient guidance to States for documenting actual operating costs, establishing staffing levels, and handling other administrative expenses. Furthermore, FNSRO had not fully evaluated program costs to determine if States' reimbursement claims were necessary and reasonable. As a result, FNSRO did not have adequate information available for monitoring participation, evaluating success, and for assuring that cost reimbursements to States had not exceeded the cost of providing service.

FINDING NO. 4**FNSRO HAD NOT FULLY EVALUATED E&T PROGRAM COSTS**

FNSRO had not fully evaluated E&T Program costs to determine if State's reimbursement claims were necessary and reasonable. Tennessee overstated its reimbursable salary and benefit costs by budgeting too many workers for the number of participants served. Also, the State's reimbursement for salaries, premises rent, and other related costs were

not supported by verifiable records. Since the States' costs have not been adequately evaluated, FNSRO does not have assurance that program payments have not exceeded actual costs.

The Office of Management and Budget Circular A-87 (August 29, 1997) provides principles and standards for determining allowable costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local Governments. To be allowable under Federal awards, costs must meet the following general criteria:

- The cost must be adequately documented.
- The cost must be necessary and reasonable. A cost is considered reasonable if, in its nature and amount, the cost does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost.

Title 7 CFR 273.7 provides that the SA shall ensure that records are maintained which support the financial claims being made to FNS. The regulations provide further that reimbursement to States is limited to the actual amount paid. The regulation also provides that FNS monitor expenditures of E&T funds including the cost of individual program components.

FNS Headquarters' guidance to regions for conducting FY ME's recommended that monitoring include an examination of source documents supporting reimbursement claims. Headquarters' guidance specifically provided that FNSRO must ensure that SA's are expending Federal funds in accordance with BBA requirements. However, guidance used by FNSRO for the financial part of the review had not been updated since 1996 and did not include guidance for reviewing the E&T Program.

FNSRO had not adequately monitored States' E&T Programs. None of the four ME's conducted in the past 2 years included an in-depth review of States' claimed costs of salaries and benefits. One review, however, contained observations and questions about Tennessee's cost allocation procedures but contained no evidence of any in-depth review. Based on the results of that review, FNSRO recommended that Tennessee review its own cost allocation procedures in upcoming county evaluations. However, the State-conducted reviews did not include coverage or verification of costs or have any cost-related findings (see Finding No. 2).

Also, FNSRO had not provided sufficient reviews of staffing, rent, and other administrative cost allocations. In Tennessee, for instance, officials told us that E&T rental costs were equitably shared with other programs. However, for selected locations, they were not able to specifically identify from their accounting records why amounts were allocated to the various programs including the E&T Program.

In order to evaluate FNSRO's monitoring of States' reimbursement claims, we selected the E&T Program in Tennessee for review (see Finding No. 2). Also, the State was 1 of 12, nationwide, that participated under the alternative reimbursement method in FY 2000. Reimbursement of costs for States participating under the alternative method was not limited by slot cap rates of \$175 per position filled and \$30 per position offered. We found that the nationwide cost claims for ABAWD's, by States participating under the alternative method, exceeded the slot cap rates by \$8,540,834.

As shown in Finding No. 2, Tennessee did not have adequate records to verify the States' \$2.4 million reimbursement claim (total claim for ABAWD's and non-ABAWD's); therefore, we statistically sampled the SA' cost records. Our statistical review of FY 2000 staff time charges, disclosed that the State established more FTE positions than actually needed to operate the program and serve E&T Program participants. Charges for the extra FTE's were included in the States' cost reimbursements. Overall, the State over-claimed \$1,280,152 for FY 2000.

FNSRO had not established adequate oversight mechanisms such as monitoring of charges, time studies, or periodic reviews of actual costs versus claimed costs. In addition, FNSRO had not developed specific cost allocation guidance. Such guidance should instruct States that costs incurred must be necessary and reasonable and that reimbursement claims must be based on actual costs. Such guidance could be in a question and answer format such as the general program guidance provided by FNS during the implementation of the BBA of 1997.

RECOMMENDATION NO. 9

FNSRO should ensure during the ME process that adequate records are established, maintained, and readily available for claimed costs and reconcilable with cost data reported on the SF 269 and FNS 583 reports, and that sufficient tests of claimed costs are conducted to determine if the costs reflect actual costs.

FNS Response

In its March 31, 2003, response (see exhibit D, formerly Recommendation No. 8), FNS stated:

* * * In accordance with our Financial Management Review Guide, we conduct reviews to obtain reasonable assurance that the financial information reported by grantees is correct and complete; that it represents proper expenditures of Federal funds made available to grantees and that grantees have complied with applicable requirements. Appropriate tests of claimed costs are conducted to determine if costs reported represent actual costs expended. Tests are performed to verify that costs are allowable.

OIG Position

We cannot accept management decision at this time. None of FNS's ME reviews in the past two years included in-depth reviews of claimed salaries and benefit costs, and its relationship to program accomplishments. To accept management decision, FNS needs to update and improve its review

of States' claimed costs in future ME reviews, and include a timeframe for implementation.

RECOMMENDATION NO. 10

FNSRO should review States' staffing, rent, and other administrative costs to ensure they are reasonable, necessary, and represent actual costs.

FNS Response

In its March 31, 2003, response (see exhibit D, formerly Recommendation No. 9), FNS stated, " * * * Based on *OMB Circular A-87, Costs Principles For State and Local Governments*, FNS Financial Management staff does review administrative costs to ensure they are reasonable and necessary. Our review of administrative costs will determine if these costs are valid."

OIG Position

We cannot accept management decision at this time. Specific details should be provided on how future ME reviews will adequately assess administrative costs, and include a timeframe for implementation.

FINDING NO. 5

**FNSRO HAD NOT
MONITORED SUCCESS OF
ALTERNATIVE
REIMBURSEMENT STATES**

FNSRO had no method to measure success or monitor progress of alternative reimbursement States. ME's or reports have not been designed to review States that are operating under the alternative reimbursement method. Thus, FNSRO had no assurances that SA's were achieving program objectives.

The FS Act of 1977 as amended requires that the U.S. Department of Agriculture "shall determine that the amounts spent or planned to be spent on components reflect the reasonable cost of efficiently and economically providing components appropriate to recipient employment and training needs * * *." FNS detailed in its memorandum to regional administrators (February 20, 1998) its guidance for establishing component reimbursement rates. FNS created two methods to reimburse SA's for the cost of the FS E&T Programs. The first method is to limit reimbursement to \$175 per filled component slot and \$30 for any valid offer of a component slot. The second, the alternative reimbursement method, did not limit reimbursement to any dollar cap, but must require States to provide opportunities to all ABAWD's.

To be approved for the alternative reimbursement method, States submitted, in their annual plans, the capacity, and ability to serve ABAWD's and a description of the management controls that would be implemented to meet the requirements of the alternative reimbursement method. Once a State was approved; however, there was no criteria to determine if the alternative method was successful in serving those ABAWD's.

Section 4121 of the FS Reauthorization Act, effective May 13, 2002, reauthorizes the E&T Program through FY 2007 and also:

- Eliminated the 80 percent use of funds requirement effective May 13, 2002. State agencies may now spend their 100-percent Federal E&T funds without earmarking at least 80 percent to serve ABAWD's.
- Provided for an additional amount - up to \$20 million - to reimburse State agencies that guarantee to serve all their at-risk ABAWD's in the last month of their 3-month eligibility period.
- Eliminated the slot rate method of reimbursing States for the E&T Program costs.

FNS approved Tennessee for alternative reimbursement for FY 2000, although, the State's plans showed no change in the number of participants from FY 1999 to FY 2000, or in the cost of components. Also,

the FY 2000 plan didn't address appropriate management controls to insure that ABAWD's were served. Furthermore, the FNSRO ME of Tennessee's E&T Program in February 2000 didn't show coverage of management controls to meet the requirements of the alternative reimbursement method.

FNS also approved Alabama as an alternative reimbursement State after a ME dated November 2000 revealed that job search and work placements were the only significant components to which ABAWD clients were assigned. Also, the review determined that the State did not accurately report offered slots, which jeopardized \$716,800 in FY 2000 funding. Although an evaluation of the State showed these significant problems with the State's program, FNS still approved the State for the alternative method.

FNS approved four States for the alternative reimbursement method in FY 2001 compared to three in FY 1999. Nationwide, 16 States have been approved for FY 2001. Since the new Act eliminates the slot funding caps, the need for evaluations and reports to monitor the States' success in providing E&T services increases.

RECOMMENDATION NO. 11

Conduct ME reviews of States approved for additional ABAWD funding as permitted in the FS Reauthorization Act. Evaluations should include a review of management controls to

ensure that all ABAWD's are served as required by the Act.

FNS Response

In it's March 31, 2003, response (see exhibit D, formerly Recommendation No. 10), FNS stated, "* * * FNS concurs with this recommendation. E&T reviews in Florida, Mississippi, and Tennessee will be conducted in FY 2003. An E&T review in Alabama will be scheduled for FY 2004."

OIG Position

We cannot accept management decision at this time. FNS should provide specific details on how controls will be reviewed to ensure that all ABAWD's are served as required, and a timeframe for implementation of these reviews.

RECOMMENDATION NO. 12

Establish or clarify reporting requirements, particularly on actual participation data in workfare, to determine if the additional ABAWD funding was successful.

FNS Response

In its March 31, 2003, response (see exhibit D, formerly Recommendation No. 11), FNS stated:

** * FNS concurs with this recommendation. Proposed reviews to the FNS-583 report were published on October 18, 2003 (67 FR 64348). Interim instructions based on Food Stamp Reauthorization Act, effective May 13, 2002, were provided to SA's to clarify reporting responsibilities until the proposed changes to the FNS-583 are implemented. A copy of the Federal Register notice and the interim instructions disseminated to States will be provided to OIG no later than April 15, 2003.*

As part of the E&T plan review, FNSRO will also conduct comparative analysis of the number of workfare participants reported on the most recent 583 reports and the number of workfare filled slots estimated in the plan to ensure that State has utilized actual workfare participation data to make projections for the impending FY. These areas for E&T Plan review will be incorporated into the current checklist by August 1, 2003, so that the new checklist can be utilized for the review of FY 2004 State Plans. A copy will be provided to OIG no later than August 1, 2003.

OIG Position

We agree with the management decision for this recommendation.

EXHIBIT A – SUMMARY OF MONETARY RESULTS

FINDING NUMBER	DESCRIPTION	AMOUNT	CATEGORY
1	Reimbursed Claims Exceeded Actual Costs	\$1,257,979	Questioned Costs, Recovery Recommended
1	Reimbursed Claims Exceeded Actual Costs	\$614,600	Unsupported Costs, Recovery Recommended
2	Reimbursed Claims Exceeded Actual Costs	1,280,152	Questioned Costs, Recovery Recommended
Total		\$3,152,731	

EXHIBIT B – STATISTICAL SAMPLING PLAN

Page 1 of 2

The purpose of this statistical sampling test was to evaluate the Tennessee SA's compliance with funding requirements. The sampling design was a simple random sampling, without replacement, where employees were selected from lists obtained from the SA. A two-sided confidence level was used for all statistical estimates.

- I. Sample Approach
 - Record File – We obtained computer printouts for each month of FY 2000 from the State that listed monthly the employees that charged time for working on the E&T Program.
 - Universe – The universe for all 12 months of FY 2000 comprised of 1,181 monthly employee charges by Tennessee employees.
 - Sample Unit – A sampling unit was defined as time charged to the program by an employee.
 - Sample Size – A random sample of 120 of the 1,181 monthly time charges.
 - Sample Selection - The universe printouts of 1,181 monthly charges were sequentially numbered. Using a list of random numbers for each month furnished by an Office of Inspector General statistician, we selected the corresponding sample unit for the universe printouts. The selection was without replacement.
- II. Review procedures – We developed pro forma worksheets to standardize the review and collection of data and to facilitate summary and analysis of results. For each sample unit, we reviewed the employees hours charged and the number of ABAWD's served for the selected month for the period October 1, 1999, through September 30, 2000 (FY 2000).
- III. Statistical Analysis and Projections – Statistical analyses were accomplished using SAS software. The statistical estimates used for projections along with their standard errors were produced with the SAS software, SUDAAN, which analyzes sample survey data gathered from complex multi-stage sample designs. SUDAAN was written at the Research Triangle Institute, Research Triangle Park, North Carolina. The sample design and sample selections used in this audit were determined using SAS.

After the results were summarized, a computer software package was used to generate projections from the sample results. A two-sided confidence limit was used to give the upper and lower bounds of the projections at the 95-percent level. The sample precision is the difference between the point estimate and the lower confidence level divided by the point estimate and expressed as a percentage. The following schedule shows the projection results.

Classification	Projections			
	Point Estimate	Lower Limit	Upper Limit	Precision
Excess Hours Charged	52,643	44,052	61,235	.163
Excess Cost	\$739,012	\$614,385	\$863,640	.169

EXHIBIT C – COUNTY EMPLOYEES RESPONSES ON TOTAL TIME SPENT SERVING E&T CLIENTS

The following table shows the responses of county employees to the time necessary to serve E&T clients:

Employee	Time Spent (minutes)	Sample Hits (months)
A	30	1
B	30	1
C	30	1
D	30 to 60	1
E	30 to 60	2
F	30 to 60	1
G	60 to 90	None ¹
H	60 to 90	None ¹
I	60	2
J	45 to 60	1
K	60	1
L	60 to 90	2
M	60	None ¹
N	60	5
O	60	1
P	60	2
Q	60	1
R	30 to 60	2
S	30 to 60	2
T	30 to 60	2
U	30	3
V	30	1
W	30	2

¹These employees were interviewed as part of our survey work prior to obtaining our sample employees

EXHIBIT D – FNS REGIONAL OFFICE RESPONSE TO DRAFT REPORT ¹

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**U.S. DEPARTMENT OF AGRICULTURE
FOOD AND NUTRITION SERVICE - SOUTHEAST REGIONAL OFFICE
RESPONSE TO AUDIT NO. 27601-12-AT
FOOD STAMP PROGRAM EMPLOYMENT AND TRAINING - TENNESSEE**

RECOMMENDATION NO. 1: Recover the \$1,872,579 in excessive Federal funds the State claimed in FY 1999 by reporting excessive ABAWD offers.

FNS Response: FNS concurs with this recommendation to the extent that excessive funds will be recovered from the State agency. We are concerned that there may be some misunderstanding about whether the State is entitled to \$614,600 in reimbursement for filled ABAWD slots. OIG states that 3,512 slots claimed by the State agency are not subject to Federal reimbursement because the State agency did not have workfare contracts in place prior to the beginning of the component, which consists of job search and job search training activities; however, Federal regulations do not require that workfare contracts exist prior to commencing the component. 7 CFR 273.7(d)(1)(ii) states that "...Lastly, a State agency may establish a job search period of up to 30 days following initial certification prior to making a workfare assignment. This job search activity is part of the workfare assignment and not a job search 'program.' Participants are considered to be participating in and complying with the requirements of workfare, thereby meeting the work requirement for ABAWDs." The report did not identify any instance in which a client completed the job search phase of the workfare component, wanted to continue participation in the program with a workfare assignments, and the State agency was unable to fulfill its obligation. Oral clarification of this issue was shared with OIG at two meetings conducted with FNSRO staff on October 1, 2002 and January 21, 2003. Written concurrence with this regulatory interpretation was provided by the FNS National office and was provided to OIG on February 6, 2003.

Including reimbursement for these filled slots would reduce the State agency's monetary liability by \$614,600. With OIG concurrence, FNS will bill the Department of Human Services for \$1,257,979.

RECOMMENDATION NO. 2: Review the criteria that the State is using to report ABAWD participation to ensure that offers are not claimed unless a bona-fide workfare or training slot is available.

FNS Response: FNS concurs with the recommendation in part. FNSRO cannot concur in entirety because we are concerned that regulations and policy regarding workfare contracts was not clarified in enough detail for OIG. Current regulations do not require State agencies to have workfare contracts in place prior to commencing that component; therefore, we cannot require that States have contracts and agreements in place prior to approving E&T plans or authorizing E&T funding. We concur with OIG that it is desirable for States to have agreements and contracts in place before commencing the component; therefore, we will strengthen our review of the E&T plans to include a more

¹ We revised Recommendation No. 1 into Recommendations Nos. 1 and 2 after we received this response to facilitate management decision and closure actions. Therefore, the recommendation numbers in this response no longer correspond to recommendation numbers in the report.

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vigorous examination of States' efforts in this area, and will follow up with States where potential weaknesses in this area are noted.

FNSRO is in the process of revising the checklist for reviewing E&T State Plans to ensure that the State has provided a detailed explanation of the offer and placement procedure for ABAWDs. We will also review the State's procedures for counting a slot as offered and filled, and ensure that a detailed explanation of how clients matriculate through components, particularly Workfare, is provided. As indicated in the response to Recommendation No. 1, the State is not required by law to have Workfare contracts and agreements in place prior to an ABAWD beginning the component; however, FNSRO will ensure that the E&T Plan clearly outlines what the State how the State will process those ABAWDs placed in the Workfare component when there are not agreements and contracts established beforehand. These areas for E&T Plan review will be incorporated into the current checklist by August 1, 2003, so that the new checklist can be utilized for the review of FY 2004 State Plans. A copy will be provided to OIG no later than August 1, 2003.

FNSRO will also revise the current E&T review instrument to ensure that the State is accurately reporting offered and filled slots. The questions on the review instrument will require comparative analysis of internal State reports, data submitted on the FNS 583 report, and estimates projected on the State plan. The review instrument will be revised no later than April 15, 2003, so that it can be utilized for the E&T review scheduled in Tennessee in FY 2003.

RECOMMENDATION NO. 3: Recover the cited \$1,280,152 of FY 2000 Federal funds that the State claimed for excessive reimbursable program costs.

FNS Response: FNS will bill the State agency \$1,280,152. However we will provide the State agency an opportunity to submit additional documentation which may alter the amount of the claim. If the State chooses to submit additional documentation, we will review that as part of our FY 2003 review of E & T costs.

RECOMMENDATION NO. 4: Perform a comprehensive review of the State's allocation procedures for E&T activities, validate its FY 2001 and FY 2002 E&T cost claims (\$2,665,565 in FY 2001 and budgeted for \$4,337,061 in FY 2002) and recover ineligible costs charged to E&T activities.

FNS Response: FNS will conduct a Financial Management Review at the State agency during the month of July 2003. The scope of this review will include the validation of E&T costs claimed in FY 2001 and FY 2002. We will also review the State agency's cost allocation procedures. Any unallowable E&T charges cited during the review will be recovered by FNS.

RECOMMENDATION NO. 5: Require the SA to develop procedures and controls to ensure the propriety of the costs allocated to the E&T Program and maintain documentation to support actual costs claimed.

FNS Response: During our Financial Management Review in July 2003, we will determine if the State agency has procedures in place to ensure the appropriateness of costs charged to E&T activities. We will also determine if they have procedures for maintaining documentation supporting E&T costs. If procedures are not in place, we will require the State agency develop them.

RECOMMENDATION NO. 6: Require the SA to develop workfare contracts or agreements to ensure that participants have a bona-fide work opportunity and a means of maintaining FS benefits. In addition, the State's approved E&T plan should identify worksite contracts, agreements, and locations and should specify that job search activities will be conducted for only those participants in eligible components.

FNS Response: FNS agrees with the recommendation in part. FNSRO will continue to include in its evaluation of E&T plans a review of the State's explanation of its plans to establish or develop workfare contracts and agreements. Questions on the E&T checklist utilized by FNSRO will be amended to included to ensure that the State has a plan in place to ensure that locations will be available for ABAWDS placed in the Workfare component. These areas for E&T Plan review will be incorporated into the current checklist by August 1, 2003, so that the new checklist can be utilized for the review of FY 2004 State Plans. A copy will be provided to OIG no later than August 1, 2003.

FNSRO maintains that it would be a misapplication of Federal regulations to require the SA to develop workfare contracts or agreements prior to placement in the component. Optional workfare, listed under 7 CFR 273.22 does require that contracts and agreements be established at the beginning of the program, unlike the workfare program described by Tennessee in their E&T plan. Tennessee's Workfare component is categorized in the FNS Plan Handbook as an "Additional Component," and is described by 273.7(f)(1)(iv) of the regulations. This was discussed at meetings with OIG on October 8, 2002 and January 21, 2003. Confirmation from the FNS National Office verifying that the State agency is not required to have workfare contracts and agreements in place prior to an ABAWD beginning the component was provided to OIG on February 6, 2003.

The State agency acknowledges that no workplace contracts were in place in FY 1999. When DLWD assumed the administration of the program during FY 2000, the State agency made diligent efforts to increase the number of workfare contracts through training of staff and technical assistance in this area. While contracts were not in place for every county, OIG did acknowledge this effort in the report. The State agency includes in its E&T plan that it intends to develop workfare contracts and agreements

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with the appropriate sources every year, and continues to make demonstrated efforts to accomplish this, without the regulatory requirement to do so.

RECOMMENDATION NO. 7: Include evaluation of the States' workfare contracts, agreements, and sites in future FNSRO conducted ME's.

FNS Response: FNS concurs with this recommendation. Review instruments will be revised to ensure that when States commit to establishing workfare contracts, agreements, and sites in the E&T plan, the level of activity approved in the plan is evaluated on site. The review instrument will be revised no later than April 15, 2003, so that it can be utilized for the E&T review scheduled in Tennessee in FY 2003.

RECOMMENDATION NO. 8: FNSRO should ensure during the ME process that adequate records are established, maintained, and readily available for claimed costs and reconcilable with cost data reported on the SF 269 and FNS 583 reports, and that sufficient tests of claimed costs are conducted to determine if the costs reflect actual costs.

FNS Response: In accordance with our Financial Management Review Guide, we conduct reviews to obtain reasonable assurance that the financial information reported by grantees is correct and complete; that it represents proper expenditures of Federal funds made available to grantees and that grantees have complied with applicable requirements. Appropriate tests of claimed costs are conducted to determine if costs reported represent actual costs expended. Tests are performed to verify that costs are allowable.

RECOMMENDATION NO. 9: FNSRO should review States' staffing, rent, and other administrative costs to ensure they are reasonable, necessary, and represent actual costs.

FNS Response: Based on *OMB Circular A-87, Cost Principles For State and Local Governments*, FNS Financial Management staff does review administrative costs to ensure they are reasonable and necessary. Our review of administrative costs will determine if these costs are valid.

RECOMMENDATION NO. 10: Conduct ME reviews of States approved for additional ABAWD funding as permitted in the FS Reauthorization Act. Evaluations should include a review of management controls to ensure that all ABAWD's are served as required by the Act.

FNS Response: FNS concurs with this recommendation. E&T reviews in Florida, Mississippi, and Tennessee will be conducted in FY 2003. An E&T review in Alabama will be scheduled for FY 2004.

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RECOMMENDATION NO. 11: Establish or clarify reporting requirements, particularly on actual participation data in workfare, to determine if the additional ABAWD funding was successful.

FNS Response: FNS concurs with this recommendation. Proposed revisions to the FNS-583 report were published on October 18, 2002 (67 FR 64348). Interim instructions based on the Food Stamp Reauthorization Act, effective May 13, 2002, were provided to State agencies to clarify reporting responsibilities until the proposed changes to the FNS-583 are implemented. A copy of the Federal Register notice and the interim instructions disseminated to States will be provided to OIG no later than April 15, 2003.

As part of the E&T plan review, FNSRO will also conduct comparative analysis of the number of workfare participants reported on the most recent 583 reports and the number of workfare filled slots estimated in the plan to ensure that State has utilized actual workfare participation data to make projections for the impending FY. These areas for E&T Plan review will be incorporated into the current checklist by August 1, 2003, so that the new checklist can be utilized for the review of FY 2004 State Plans. A copy will be provided to OIG no later than August 1, 2003.

ABBREVIATIONS

ABAWD	
Able-bodied Adults Without Dependents	1
BBA	
Balanced Budget Act	1
<u>CFR</u>	
Code of Federal Regulations.....	10
DHS	
Department of Human Services	2
DLWD	
Department of Labor and Workforce Development	2
E&T	
Employment and Training	1
FNS	
Food and Nutrition Service.....	1
FNSRO	
Food and Nutrition Service Regional Office	3
FS	
Food Stamp	1
FTE	
Full-Time Equivalent.....	10
FY	
Fiscal Year	1
ME	
Management Evaluation	6
OGC	
Office of the General Counsel	8
OIG	
Office of Inspector General	3
SA	
State Agency	1