



U.S. Department of Agriculture



Office of Inspector General  
Southeast Region

# Audit Report

## WIC Administrative Costs in Georgia

Report No. 27002-2-At  
March 2006

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UNITED STATES DEPARTMENT OF AGRICULTURE

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March 31, 2006

REPLY TO

ATTN OF: 27002-2-At

TO: Donald E. Arnette  
Regional Administrator  
Food and Nutrition Service – Southeast Region

FROM: John W. Pepper /S/  
Acting Regional Inspector General

SUBJECT: WIC Administrative Costs in Georgia

This report presents the results of our audit of WIC administrative costs incurred by the Georgia Department of Human Resources (GDHR). The FNS response to the report, dated March 29, 2006, is included as exhibit D, with excerpts and the Office of Inspector General's position incorporated into the relevant Findings and Recommendations sections of the report.

Based on the responses, we were unable to reach management decision on any of the report's recommendations. Management decisions can be reached once you have provided us with the additional information outlined in the report sections OIG Position following each recommendation.

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

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

# **Executive Summary**

## **WIC Administrative Costs in Georgia (Audit Report No. 27002-2-At)**

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### **Results in Brief**

The Food and Nutrition Service (FNS) administers the Special Supplemental Food Program for Women, Infants, and Children (WIC), which provides low-income women and children with nutritious foods, counseling, and referrals to healthcare and other social services. In Georgia, the FNS Southeast Regional Office (FNSRO) oversees the Georgia Department of Human Resources' (GDHR) administration of the program. In fiscal years (FY) 2003 and 2004, grants for Georgia WIC nutrition service and administrative costs totaled about \$38.6 million and \$40.8 million, respectively. The Office of Inspector General (OIG) initiated this audit to determine if GDHR's controls over WIC administrative costs were adequate to ensure that costs claimed were accurate and allowable.

Based upon our review of 2 of 19 Georgia district health offices<sup>1</sup> and 8 clinics, we concluded that GDHR needs to improve its controls over how it allocates WIC administrative costs to FNS.

### **GDHR Needs to Improve its Sampling Methodology for Determining Georgia WIC's Administrative Costs**

GDHR did not have adequate controls in place over the sampling methodology used to determine what percentage of its administrative costs it may allocate to WIC. Rather than trying to account for every minute spent by each employee on each different task, GDHR uses a random moment sample study (RMSS) to determine, through statistically sound methods, how much time its employees devote to WIC-related tasks. Although this method requires that employees whose salaries are fully paid by WIC be separated from other employees, we found that these groups were, due to a lack of adequate procedures, combined in the Savannah District Office. As a result, inaccurate sampling would inflate WIC administrative costs charged to the WIC Program.

In addition, we found that GDHR had no controls in place to verify the accuracy of its sampling methodology. RMSS involves selecting several moments during the workday and asking randomly selected employees what task they are engaged in at that moment. Since employees are sampled by telephone, verification procedures are necessary to attest (usually in writing) to the accuracy of the sample. Verifying the accuracy of these samples is especially important since relatively large sums are allocated based on each "strike" (i.e., each time employees state that they are working on a WIC-

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<sup>1</sup> These two district offices had combined administrative costs totaling \$5.2 million in FYs 2003 and 2004. For a fuller discussion of how we selected these offices, see Scope and Methodology.

related task). In FY 2004, for example, each time RMSS recorded a WIC-related “strike,” GDHR charged \$45,002 to WIC. Overall, in FY 2004, GDHR charged \$40.8 million in administrative costs to WIC without any procedures to verify the results of its sampling methodology.

### **GDHR Needs Controls to Ensure that Independent Audit Findings Are Resolved**

GDHR did not have adequate management controls to ensure that corrective action was taken in response to independent audits. Between May and December 2004, independent auditors provided GDHR 15 audit reports including numerous findings relating to WIC administrative costs. Altogether, these 15 reports recommended that GDHR recover about \$5.7 million from its district offices. However, GDHR had taken no action to recover these funds nor has it corrected the deficiencies identified. Without adequate management controls to ensure that problems identified during independent audits are resolved in a timely manner, deficiencies that may be detrimental to program integrity will likely continue.

### **District Office Claimed Undocumented WIC Administrative Costs**

Although district offices are required to document expenses passed on to the Federal Government, we found that the Savannah District Office charged the WIC program for salary costs that it did not document and may not have incurred. This occurred because a district official applied unspent year-end WIC funds to help pay salary costs of non-WIC employees whose time was already accounted for under RMSS. As a result, the WIC program was charged \$111,303 in costs that could not be supported.

We concluded that GDHR could strengthen its controls over how it claims WIC-related reimbursement by (1) improving how it conducts random moment sampling; (2) developing and implement procedures for verifying the results of its random samples; (3) developing and implementing controls to resolve independent audit findings; and (4) recovering any undocumented WIC administrative costs that district offices may have charged.

## **Recommendations in Brief**

FNS should instruct GDHR to improve its procedures for random moment sampling, including developing and implementing RMSS verification procedures, and require GDHR to assess the monetary impact of improperly classified employees at its districts and nonprofit organizations.

FNS should instruct GDHR to develop and implement procedures for resolving independent auditors’ findings, including the \$5.7 million in questioned costs identified between May and December 2004.

Finally, FNS should instruct GDHR to recover \$111,303 in undocumented WIC expenses from the Savannah District Office, and determine if recoveries need to be made at the other districts and nonprofit organizations.

**Agency Response** In their response dated March 29, 2006, FNS officials expressed general agreement with the findings and recommendations as presented. For one recommendation, No. 4, FNS officials stated that they could not require GDHR to amend an approved cost-allocation plan for which FNS was not the cognizant agency.

**OIG Position** We generally concurred with the corrective actions proposed by the agency, although additional information as outlined in the report sections **OIG Position** will be needed to reach management decisions. For Recommendation No. 4, while we agree that FNS cannot override determinations made by the cognizant agency, HHS, a representative of that agency expressed agreement with **OIG's** position. Therefore, we believe that FNS officials need to consult with HHS and take action as appropriate.

## ***Abbreviations Used in This Report***

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AGP	Administration Grant Per Participant
APD	Advanced Planning Document
CFR	Code of Federal Regulations
DCA	Division of Cost Allocation
HHS	Department of Health and Human Services
FY	Fiscal Year
FMR	Financial Management Review
FNS	Food and Nutrition Service
FNSRO	Food and Nutrition Service Regional Office
GDHR	Georgia Department of Human Resources
NSA	Nutrition Services and Administration
OMB	Office of Management and Budget
RMSS	Random Moment Sample Study
SA	State Agency
WIC	Special Supplemental Food Program for Women, Infants, and Children

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# ***Background and Objectives***

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## **Background**

In 1972, the Food and Nutrition Service's (FNS) Special Supplemental Food Program for Women, Infants, and Children (WIC) was authorized by an amendment to the Child Nutrition Act of 1966.<sup>2</sup> WIC provides pregnant, postpartum and breastfeeding women, infants, and children with nutritious foods, nutrition counseling, and referrals to health and other social services for participants.

WIC is not an entitlement program: i.e., Congress does not set aside funds to allow every eligible individual to participate in the program. Instead, WIC is a Federal grant program for which Congress authorizes a specific amount of funding each year for program operations. FNS, which administers the program at the Federal level, provides these funds to WIC State agencies to pay for WIC foods, nutrition counseling and education, and administrative costs.

The program is available in all 50 States, 33 Indian Tribal Organizations, American Samoa, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands. These 88 WIC State agencies administer the program through 2,200 local agencies and 9,000 clinic sites. The average monthly participation for FY 2003 was approximately 7.63 million.

Annually, Federal funds are appropriated and allocated to support WIC program delivery. Under the Federal funding formula, each State agency's current year food grant is divided by its average per person food cost for the prior April through March time period and adjusted for inflation to project the number of participants it can serve in the upcoming year. Once the number of projected participants is determined, nutrition service and administration (NSA) grants are calculated on a per participant grant basis. NSA grants are funds provided to the States to cover administrative costs associated with the WIC program.

Congress appropriated \$5.24 billion for WIC in FY 2005. By comparison, the WIC program appropriation was \$20.6 million in 1974, \$750 million in 1980, \$1.5 billion in 1985, and \$2.1 billion in 1990.

The FNS National Office, along with seven FNS Regional Offices (FNSRO), is responsible for overall WIC program policies and procedures. The Southeast FNSRO, located in Atlanta, Georgia, provides oversight of WIC program administration for Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina, and Tennessee. In FY 2004 the

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<sup>2</sup> Public Law 92-433, September 26, 1972.

combined NSA costs for these eight States were \$228.4 million, representing 17 percent of the national total.

FNSRO administers the Georgia WIC program through an agreement with the Georgia Department of Human Resources (GDHR). GDHR administers the program through agreements with 21 local agencies (19 district health offices and 2 nonprofit organizations).

The 19 district health offices maintain their own separate accounting and payroll systems and submit monthly claims to GDHR for reimbursement of administrative costs. Services are provided to eligible participants in these health districts through county health departments and clinics located in the State's 159 counties. The district health offices either pay for administrative services directly or pay the county health departments for services.

In FYs 2003 and 2004, GDHR incurred total WIC costs of about \$292.6 million to provide services to an average of 253,144 participants each month. Of this amount, food costs were about \$213.3 million and administrative costs were about \$79.3 million.

## **Objectives**

The objectives of this audit were to evaluate the adequacy of FNSRO's and GDHR's management and accounting controls over WIC administrative expenditures, including costs incurred by the State and local agencies, and determine if WIC administrative costs claimed were accurate and allowable.

At the Southeast FNSRO, we reviewed FNS' controls over GDHR's WIC administrative costs. The controls consisted primarily of financial management reviews performed at the State and district offices. We found that FNS has completed these reviews as required and determined that these reviews were adequate to identify any major weaknesses with GDHR's WIC-related financial operations.

# Findings and Recommendations

## Section 1. WIC Cost Allocation

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We found that GDHR's procedures for determining what portion of its administrative costs can be passed on to WIC need improvement. In particular, we found two problems with the random moment sampling methodology GDHR uses to determine FNS' share of these costs:

- GDHR lacks procedures to separate different categories of employees when conducting its random samples. Without such procedures, the results of its random samples are not statistically valid and cannot be said to accurately represent the work being performed by different categories of employees. In one instance, we found that a district office had allowed six full-time WIC-only employees to be sampled alongside other employees who spend only a portion of their time on WIC. Since salaries for WIC-only employees are already charged fully against the program, this error would effectively inflate the reported percentage of WIC-related work reported for the district's employees as a group and consequently inflate salary costs charged to the WIC program.
- GDHR also lacks procedures to verify the results of its random samples. As a result, it was allocating \$89.8 million annually without taking reasonable steps to verify that its random samples are correct.

Until these problems are resolved, GDHR's random sampling methodology cannot be said to accurately and reliably allocate costs to the WIC program.

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### Finding 1

#### **GDHR Needs to Improve Its Sampling Methodology for Determining Georgia WIC's Administrative Costs**

We found that the Savannah District office, of the two we visited, included six of its nine full-time WIC employees in the sample of employees who work only part-time for WIC. This occurred because GDHR did not have procedures in place to separate different categories of employees. As a result, inaccurate sampling would inflate WIC administrative costs charged to the WIC program.

As part of allocating WIC-related administrative costs to FNS, GDHR must determine what percentage of its employees' work has actually been devoted to WIC-related tasks. Rather than accounting for each minute spent by each employee, GDHR uses a random moment sample study (RMSS)—a method of randomly determining the activities of a group of employees and the

percentage of time those employees spend on various activities.<sup>3</sup> After selecting several moments during the workday and asking randomly-selected employees what activity they are engaged in at that moment, RMSS results are used to determine how employees spend their time. On the basis of such a sample, GDHR may then allocate administrative costs to the various programs they operate.

For these projections to be statistically valid, the sampled personnel must be classified correctly.<sup>4</sup> GDHR collects two sets of samples to determine total WIC administrative costs at the county departments. The first set of samples consists of employees whose salaries are paid wholly from WIC funds and who work exclusively for the WIC program (“WIC sample”). The second set of samples consists of employees whose salaries are not paid directly by WIC, but work in an integrated environment in which they could perform WIC duties (“county public health sample”). If these sample sets are not kept separate, the sample results cannot be considered statistically reliable and accurate.

We found, however, that the Savannah District Office included in the “county public health sample” six of nine county public health employees<sup>5</sup> whose salaries were paid 100 percent by WIC. Since these employees’ salaries were entirely WIC-funded, they should have been removed from the “county public health sample” and placed in the “WIC sample.” The inclusion of full-time WIC employees in the “county public health sample” increased the number of “strikes” (i.e., the number of times that employees stated that they were performing WIC-related tasks) for this sample and, in turn, increased the percentage of WIC administrative costs allocated to county public health departments.

We found that GDHR did not have any policies or procedures in place to ensure that county public health employees whose salaries were paid 100 percent by WIC funds were excluded from the “county public health random sample.” Without such procedures in place, errors like the one we identified in the Savannah District office could compromise the random moment sampling methodology and cause inaccurate costs to be allocated to the WIC program.

So long as a random moment sampling study continues to be used to determine the costs that may be passed on to WIC, GDHR must develop and implement policies to ensure that those samples are statistically valid.

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<sup>3</sup> *GDHR Cost Allocation Plan*, Appendix B, Revision No. 00-7, Section I, “RMSS Policy and Procedures,” effective July 1, 2002.

<sup>4</sup> RMSS is based on the sampling theory that a relatively small number of chance observations, taken at random, exhibit the same distribution of characteristics that exists in the entire population or universe. Sampling theory is a mathematical concept with rigid and controlling precepts that determine the procedures that must be implemented in order to produce statistically valid results.

<sup>5</sup> The Chatham County Board of Health agreed to pay 100 percent of the salaries for nine full-time county public health employees at the Savannah District office to provide WIC services at the Midtown Health Center and Eisenhower Drive Clinic. Initially these employees’ salaries were paid with county public health funds, but later the district reimbursed the county with WIC program funds.

## Recommendation 1

Instruct GDHR to obtain a listing of Savannah District county public health employees whose salaries are paid wholly from WIC funds and ensure that those employees are removed from the county public health sample and placed in the WIC-only sample.

**Agency Response.** In its March 29, 2006, response, FNS stated,

We will require that the State agency provide adequate documentation supporting that all full-time WIC employees were removed from this district's county public health sample and placed in the WIC-only sample. They will be required to make these adjustments for \* \* \* [FY] 2003 and 2004.

**OIG Position.** We agree with FNS' proposed corrective action for this recommendation. To achieve management decision, FNS needs to provide us with the timeframes for implementing the corrective action.

## Recommendation 2

Instruct GDHR to determine the impact of the improper classification of employees on WIC administrative costs for all districts and non-profits in FY 2004 and recover any overcharges identified.

**Agency Response.** In its March 29, 2006, response, FNS stated,

The State agency will be required to review all districts and non-profits and determine if, during FY 2004, there were full-time WIC employees that should not have been in the county public health samples. If there are instances where full-time WIC employees were in the county public health samples, we will request documentation to support adjustments of any overcharges to WIC.

**OIG Position.** We agree with FNS' proposed corrective action for this recommendation. To achieve management decision, FNS needs to provide us with a time-phased plan for implementing the corrective action.

## Recommendation 3

Instruct GDHR to develop and implement statewide procedures to ensure that all county public health employees whose salaries are paid wholly from WIC funds are removed from the county public health random sample universe and placed in the WIC-only sample universe.

**Agency Response.** In its March 29, 2006, response, FNS stated,

These procedures will be required and they should include assurance that the State agency, during their fiscal reviews, will verify that WIC employees are in the correct sample.

**OIG Position.** We agree with FNS' proposed corrective action for this recommendation. However to achieve management decision, FNS needs to provide us with the timeframes within which GDHR will be required to implement the corrective action.

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## Finding 2

### GDHR Needs Controls for Verifying the Accuracy of its Samples

GDHR had no verification procedures in place to attest to the accuracy of RMSS observations. This occurred because GDHR officials do not believe they are required to implement a verification procedure for this sampling methodology. As a result, during FY 2004, about \$89.8 million of administrative costs was allocated based on the results of RMSS, without any procedures for verifying that those results accurately represented how employees allotted their time.

Although a State or local agency may use a system such as RMSS to determine the time employees spend on various programs and other cost objectives, the agency must also, according to FNS' WIC Cost Allocation Guide, include a statement, to be signed by both the interviewer and the employee, attesting to the accuracy of each RMSS observation.<sup>6</sup>

Currently, GDHR conducts sample observations by means of a telephone exchange between the interviewer and the employee being sampled. The interviewer's computer screen displays the randomly selected employee's name, the employee's telephone number, and the date and time the observation is to be made. The interviewer calls the employee at the predetermined time and asks the employee what task is being performed at that moment. The interviewer then records the observation to an activity code based upon the employee's response.

We found, however, that the interviewer and the employee do not attest in writing to the response. GDHR officials explained that they were not required to follow this requirement for verifying data because their approved Public Assistance Allocation Plan relieves them of this responsibility.<sup>7</sup> Although it is true that the WIC Cost Allocation Guide states that the "instructions given

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<sup>6</sup> FNS' WIC Cost Allocation Guide, dated September 1999.

<sup>7</sup> GDHR's cost allocation plan, which includes the use of RMSS, was reviewed and approved in 1998 by HHS-DCA as the cognizant agency for the State's cost allocation procedures.

in this guide apply to WIC direct costs, and to shared costs assigned to WIC in situations *not* covered by an APD (Advanced Planning Document),”<sup>8</sup> we do not believe that this provision relieves GDHR of its responsibility to maintain effective internal controls over its cost allocation plan.

When we discussed this problem with officials at the Southeast FNSRO, they agreed that GDHR should implement a procedure for verifying the results of its random samples. In January 2002, FNSRO completed a Financial Management Review of the WIC program in Georgia. In its report, FNSRO stated that random moment sampling methodology should include statements signed by the interviewer and the employee and recommended that the State “provide written assurance/procedures that employees in all district and county offices, as well as the State office employees, will verify the validity of RMSS strikes charged to them.” GDHR disagreed with FNS’ recommendation and stated that it would be impractical to have each employee sign a form attesting to the accuracy of the observations. At the time of our review this issue had not been satisfactorily resolved.

Because GDHR’s cost allocation plan was approved by the Department of Health and Human Services – Division of Cost Allocation (HHS-DCA), we contacted a HHS-DCA representative for State and local governments. The representative stated that a telephone call without any form of verification or validation is not adequate. He informed us that the State should have a method by which it verifies the activities of the sampled employees.

We determined that during FY 2004, GDHR allocated about \$89.8 million of administrative costs to various programs based on the results of the county public health and WIC RMSS studies. Each time the RMSS interviewer contacted an employee and recorded a “strike” in the county public health sample, GDHR allocated \$45,002 of administrative costs to the corresponding program as recorded at the time of the sample. It did so without any procedures to attest to the validity of these strikes.

Given the significant financial ramifications of each “strike”, we concluded that GDHR should implement a verification process requiring a statement to be signed by the interviewer and the employee at the time a sample is taken and a strike recorded.

#### **Recommendation 4**

Instruct GDHR to develop and implement a verification procedure for RMSS sample results. This procedure should include a method by which interviewers and employees, at the time of the observation, sign a statement attesting to the accuracy of the observation.

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<sup>8</sup> Emphasis added.

**Agency Response.** In its March 29, 2006, response, FNS stated,

Although this was a finding in our \* \* \* FY 2002 financial management review of the Georgia WIC Program, the current FNS position does not support this audit recommendation. First, since our cognizant agency, Health and Human Services-Division of Cost Allocation (HHS-DCA), approved this time study, FNS cannot require the State to make changes to it. If we disagree with the methodology, we need to contact HHS-DCA and raise the objection. Second, FNS does not disagree with the current methodology. One of the benefits of a RMSS is that it is simple and easy to administer. Requiring workers and supervisors to validate the strikes on the time study makes the methodology more time intensive and complicated, therefore, defeating the purpose of the RMSS.

**OIG Position.** We agree that FNS cannot unilaterally require GDHR to amend a cost allocation plan that was approved by the cognizant agency, HHS-DCA. However, as noted in the finding, a representative of that agency agreed with our position that GDHR was not performing adequate verification. To reach a management decision on this recommendation, FNS officials need to provide us with written documentation that they have consulted with the HHS-DCA to determine whether GDHR should be required to strengthen its verification procedures. If so, agency officials need to provide us with a time-phased plan for corrective action.

## Section 2. Resolution of Audit Findings

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### Finding 3

#### **GDHR Needs Controls to Ensure that Independent Audit Findings Are Resolved**

Although GDHR received 15 audit reports from independent auditors from May to December 2004, it has yet to resolve any recommendations. This occurred because GDHR does not have adequate management controls to address concerns raised by external audits. Due to this control weakness, corrective actions have not been taken to recover \$5.7 million in questioned WIC-related costs, and identified program weaknesses have not been corrected.

Each State is required to arrange for independent reviews of its financial operations,<sup>9</sup> including all activities conducted for the purpose of administering WIC programs. Federal regulations also require State agencies to implement procedures ensuring the timely and appropriate resolution of claims and other matters resulting from audit finding and recommendations.<sup>10</sup>

In FY 2002, FNS reviewed Georgia's WIC operations and found that Georgia was not conducting systematic financial management reviews of local and contracted agencies. Accordingly, FNS recommended that GDHR develop a comprehensive process for reviewing local and contracted agencies. This review would include all direct, allocated and indirect costs charged to the WIC Program. In response to this recommendation, GDHR began contracting with independent certified public accounting firms to perform annual financial reviews of its district offices and to present their findings to GDHR for resolution.

We reviewed the last 15 audit reports, which were issued between May and December 2004. These reports found numerous problems with how the district offices charged WIC administrative costs, including:

- \$2.7 million in invalid interagency agreements;
- \$5,824 in prohibited travel reimbursement;
- \$22,490 in WIC funds used for non-WIC services; and
- \$53,906 in unallowable compensation for personnel services.

In sum, these 15 audit reports recommended the recovery of \$5.7 million from the district offices (see exhibit B).

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<sup>9</sup> 7 CFR 246.20(b)(1).

<sup>10</sup> 7 CFR 246.13(f).

However, at the time of our review, GDHR had taken no action to recover these funds, or to address the recommendations presented in these reports. WIC administration officials stated that since the requirement to conduct these audits is relatively new, they are still working to establish procedures for resolving these recommendations.

Without adequate management controls to resolve the issues identified by these reports, deficiencies detrimental to WIC program integrity will likely continue. We concluded that GDHR must implement procedures to ensure that the problems identified by these audit reports are resolved.

## **Recommendation 5**

Instruct GDHR to develop and implement management controls that will effectively ensure that recommendations resulting from independent CPA financial reviews are resolved.

**Agency Response.** In its March 29, 2006, response, FNS stated,

We will request that the State agency provide written procedures or policies explaining how they will address their outstanding review issues.

**OIG Position.** We agree with FNS' proposed corrective action for this recommendation. However to achieve management decision, FNS needs to provide us with the timeframes within which GDHR will be required to implement the agreed-upon corrective action.

## **Recommendation 6**

Instruct GDHR to establish a timeframe for resolving the 15 independent audit reports and addressing \$5.7 million in questioned costs.

**Agency Response.** In its March 29, 2006, response, FNS stated,

We will require the State agency to provide adequate support regarding the resolution of the audit report issues and the questioned costs.

**OIG Position.** Although we agree with the proposed actions, the response does not address the recommendation in that it does not provide the requested timeframes. To reach a management decision, FNS officials need to provide these.

### **Section 3. Administrative Costs**

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#### **Finding 4**

#### **District Office Claimed Questionable Administrative Costs**

The Savannah District Office charged the WIC program for salary expenses that it did not document and may not have incurred. This occurred because a district official applied unspent year-end WIC funds to help pay salary costs of non-WIC employees whose time was already accounted for under RMSS. As a result, the WIC program incurred \$111,303 in questionable costs.

Federal regulations establish principles for determining allowable costs incurred by State Governments under grants, cost reimbursement contracts and other agreements with the Federal Government. These principles require that these costs be necessary, reasonable, and adequately documented.<sup>11</sup>

We found, however, that, during FYs 2004 and 2005, a district official made undocumented charges to Georgia's WIC Program for "personnel costs":

- In June 2004 (the end of the State's fiscal year), the official charged the WIC program \$27,270.
- In September 2004 (the end of the Federal fiscal year), the same official charged the WIC Program \$25,209.
- In June 2005, the same official again charged the WIC Program \$58,823.

These three charges totaled \$111,303. The related journal entries stated that these funds were used "to provide funding to non-WIC personnel providing WIC services."

When we asked this official why these charges had been made, the official stated that these allocations were made to support health department personnel who had provided WIC services to participants. According to this official, funds left over at the end of the year are allocated based upon internal district office time studies of non-WIC personnel performing WIC services. Since the Savannah District Office had unspent WIC funds remaining at the end of its fiscal year, these entries were made to charge these funds to WIC. The official further explained that the amounts were decided upon based on a time study conducted during one week of each quarter. The results of this time study were assumed to correspond to the entire quarter, though no support was provided to verify that assumption. Despite several

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<sup>11</sup> OMB Circular A-87, dated May 2004.

attempts by OIG and GDHR officials to obtain supporting documentation for these entries, none was provided.

When we spoke to GDHR officials about these entries in the Savannah District Office, they said that they compare costs incurred at the districts to WIC funds received by the State and make adjusting entries to compensate for any WIC-related work performed by non-WIC employees, so the journal entries made by the district official were therefore unnecessary. Also, they told us that the year-end adjusting entries to the WIC fund account is based on RMSS results. They agreed that the questioned costs should be returned to the WIC Program and stated that they would work to develop statewide procedures to prevent this from occurring in other districts.

We concluded that, given the absence of documentation, the year-end expenses charged to WIC by the Savannah District Office were not allowable.

## **Recommendation 7**

Recover \$111,303 from GDHR for unsupported administrative costs charged to the WIC Program.

**Agency Response.** In its March 29, 2006, response, FNS stated,

The State agency will be required to submit documentation supporting that appropriate adjustments were made to credit the WIC Program for this amount.

**OIG Position.** We agree with FNS' proposed corrective action for this recommendation. However to achieve management decision, FNS needs to provide us with documentation that a claim has been established for the agreed-upon amount.

## **Recommendation 8**

Instruct GDHR to review year-end accounting adjustments made by all 19 districts and 2 nonprofit organizations in FY 2004 and FY 2005 and recover all questionable administrative costs charged to the WIC Program.

**Agency Response.** In its March 29, 2006, response, FNS stated,

We will instruct GDHR to make all appropriate adjustments in the remaining districts and nonprofit organizations. They will be required to provide documentation supporting all adjustments made relating to FY 2004 and FY 2005.

**OIG Position.** We agree with FNS' proposed corrective action for this recommendation. However to achieve management decision, FNS needs to provide us with the timeframes for implementing the corrective action.

# Scope and Methodology

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Audit fieldwork was performed at (1) the Southeast FNSRO in Atlanta, Georgia; (2) GDHR's Office of Financial Services and the WIC section of the Maternal and Child Health Office in Atlanta, Georgia; (3) district offices located in Augusta and Savannah, Georgia; and (4) eight public health clinics where WIC services are provided (see exhibit C). We performed audit work from April through September 2005.

The audit primarily covered FY 2003 and 2004 expenditures; however, costs for other periods were reviewed as necessary. Georgia WIC nutrition service and administrative grants in FYs 2003 and 2004 totaled about \$38.6 million and \$40.8 million, respectively. The two district offices reported combined administrative costs totaling about \$2.5 million in FY 2003 and \$2.7 million in FY 2004.

To accomplish the audit objectives, our examination consisted of the following:

- We selected one State for review. We selected Georgia based on input from FNSRO personnel and a relatively high level of WIC administrative costs (second highest in the region with almost \$41million in NSA grants during FY 2004);
- We reviewed the following controls:
  - FNS controls, including Financial Management Reviews and Management Evaluations,
  - State and local agency accounting controls,
  - State management evaluation reports, and independent financial reviews, and
  - the State auditor's and single audit reports on the State and local agencies' financial activities and compliance;
- We evaluated compliance with OMB Circular A-87 and 7 CFR 246, 3015, and 3016 principles and standards;
- We interviewed Federal, State, and local agency officials and staff;

We selected 2 of the 19 district offices for review. The district offices were selected because they offered a range of administrative costs.<sup>12</sup> Other considerations were whether or not the local agency had clinics that provided WIC services exclusive of other public health services;

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<sup>12</sup> For FYs 2003 and 2004, the Savannah District claimed administrative costs below the State average, while the Augusta District's administrative costs were slightly higher than the State average.

- We selected a total of eight clinics in the two districts for review. Our selection of clinics was based on proximity to the district offices;
- We reviewed documentation supporting judgmentally selected administrative expenditures incurred by the State agency and two local agencies which were claimed in FYs 2003 and 2004. The expenditures were selected based on the type of expenditure recorded (e.g., equipment) and transaction date and amount. Primary emphasis was directed at reviewing personal service costs and associated fringe benefit costs, which represented a substantial percentage of total administrative costs claimed for these fiscal years.

The audit was performed in accordance with generally accepted government auditing standards.

# **Exhibit A – Summary of Monetary Results**

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<b>FINDING NUMBER</b>	<b>DESCRIPTION</b>	<b>AMOUNT</b>	<b>CATEGORY</b>
4	Unsupported administrative costs	\$111,302.80	Questioned Costs – Recovery Recommended

## **Exhibit B – Summary of Independent Financial Review Results**

Exhibit B – Page 1 of 1

<b>District</b>	<b>Date of Review</b>	<b>Finding(s)</b>	<b>Recommended Recovery Amount</b>
Waycross 9-2	6/23/04	<ul style="list-style-type: none"> <li>• Prohibited travel reimbursement</li> <li>• Interagency agreements lacked proper certification and validity</li> </ul>	\$1,139,064
Albany 8-2	6/28/04	<ul style="list-style-type: none"> <li>• Invalid/unallowable interagency transfer</li> </ul>	\$95,336.61
Grady 12-0	7/19/04	<ul style="list-style-type: none"> <li>• WIC funds used for non-WIC services</li> </ul>	\$22,490
Athens 10-0	7/19/04	<ul style="list-style-type: none"> <li>• Unsupported interagency agreement costs</li> <li>• Unallowable compensation for personnel services</li> </ul>	\$228,527.52
Rome 1-1	7/30/04	<ul style="list-style-type: none"> <li>• Interagency agreements lacked validity</li> </ul>	\$2,664,134.65
Columbus 7-0	9/7/04	<ul style="list-style-type: none"> <li>• Unsupported interagency agreement costs</li> <li>• Unsupported administrative costs</li> </ul>	\$919,347
Gwinnett 3-4	9/13/04	<ul style="list-style-type: none"> <li>• Unallowable non-WIC salary compensation</li> </ul>	\$1,571.64
Dekalb 3-5	9/15/04	<ul style="list-style-type: none"> <li>• Unsupported employee compensation</li> <li>• Unallowable compensation transfers</li> </ul>	\$145,093
Dublin 5-1	9/15/04	<ul style="list-style-type: none"> <li>• Invalid/unsupported interagency agreements</li> <li>• Unaccounted WIC source funds</li> </ul>	\$234,137.36
Augusta 6-0	11/09/04	<ul style="list-style-type: none"> <li>• Failed to report unliquidated obligations</li> <li>• Unsupported WIC fund transfers</li> </ul>	\$249,112.32
Savannah 9-1	12/07/04	<ul style="list-style-type: none"> <li>• Unsupported employee compensation</li> <li>• Unallowable WIC expenditures</li> </ul>	\$43,427
<b>TOTAL RECOMMENDED RECOVERY AMOUNT</b>			<b>\$5,742,241.10</b>

**Exhibit C – Sites Visited**

DISTRICT	COUNTY	CLINIC
AUGUSTA	RICHMOND	SOUTH AUGUSTA HEALTH DEPARTMENT
		LANEY WALKER
	MCDUFFIE	MCDUFFIE COUNTY HEALTH DEPARTMENT
SAVANNAH	CHATHAM	EISENHOWER CLINIC
		MIDTOWN CLINIC
		CURTIS V. COOPER CLINIC
		DEPARTMENT OF FAMILY AND CHILDREN’S SERVICES
		CURTIS V. COOPER PRIMARY CARE CENTER

# Exhibit D – Agency Response



United States  
Department of  
Agriculture

Food and  
Nutrition  
Service

Southeast Region

61 Forsyth St. S.W.  
Room 8T36  
Atlanta, GA  
30303-3415

March 29, 2006

Mr. John W. Pepper, Acting Regional Inspector General  
United States Department of Agriculture  
Office of Inspector General  
Southeast Region – Audit  
401 West Peachtree Street, Suite 2328  
Atlanta, Georgia 30308

Dear Mr. Pepper:

In a letter dated March 24, 2006 FNS responded to the official draft audit report (#27002-2-AT) pertaining to the WIC administrative costs in Georgia. After further discussions with the auditor, Mr. Joe Holmes, we have revised our response to Recommendation 4. That change is reflected in this letter. We have not made any other changes to our letter of March 24<sup>th</sup>. We appreciate Mr. Holmes' commitment to a timely resolution of this audit.

#### **Recommendation 1**

Instruct GDHR to obtain a listing of Savannah District county public health employees whose salaries are paid wholly from WIC funds and ensure that those employees are removed from the county public health sample and placed in the WIC-only sample.

#### **FNS Response**

We will require that the State agency provide adequate documentation supporting that all full-time WIC employees were removed from this district's county public health sample and placed in the WIC-only sample. They will be required to make these adjustments for Fiscal Year (FY) 2003 and FY 2004.

#### **Recommendation 2**

Instruct GDHR to determine the impact of the improper classification of employees on WIC administrative costs for all districts and non-profits in FY 2004 and recover any overcharges identified.

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Mr. John W. Pepper

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**FNS Response**

The State agency will be required to review all districts and non-profits and determine if, during FY 2004, there were any full-time WIC employees that should not have been in the county public health samples. If there are instances where full-time WIC employees were in the county public health samples, we will request documentation to support adjustments of any overcharges to WIC.

**Recommendation 3**

Instruct GDHR to develop and implement statewide procedures to ensure that all county public health employees whose salaries are paid wholly from WIC funds are removed from the county public health random sample universe and placed in the WIC-only sample universe.

**FNS Response**

These procedures will be required and they should include assurance that the State agency, during their fiscal reviews, will verify that WIC employees are in the correct sample.

**Recommendation 4**

Instruct GDHR to develop and implement a verification procedure for RMSS sample results. This procedure should include a method by which interviewers and employees, at the time of the observation, sign a statement attesting to the accuracy of the observation.

**FNS Response**

Although this was a finding in our Fiscal Year 2002 financial management review of the Georgia WIC Program, the current FNS position does not support this audit recommendation. First, since our cognizant agency, Health and Human Services-Division of Cost Allocation (HHS-DCA), approved this time study, FNS cannot require the State to make changes to it. If we disagree with the methodology, we need to contact HHS-DCA and raise the objection. Second, FNS does not disagree with the current methodology. One of the benefits of a RMSS is that it is simple and easy to administer. Requiring workers and supervisors to validate the strikes on the time study makes the methodology more time intensive and complicated, therefore, defeating the purpose of the RMSS.

Mr. John W. Pepper

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**Recommendation 5**

Instruct GDHR to develop and implement management controls that will effectively ensure that recommendations resulting from independent CPA financial reviews are resolved.

**FNS Response**

We will request that the State agency provide written procedures or policies explaining how they will address their outstanding review issues.

**Recommendation 6**

Instruct GDHR to establish a timeframe for resolving the 15 independent audit reports and addressing \$5.7 million in questioned costs.

**FNS Response**

We will require the State agency to provide adequate support regarding the resolution of the audit report issues and the questioned costs.

**Recommendation 7**

Recover \$111,303 from GDHR for unsupported administrative costs charged to the WIC Program.

**FNS Response**

The State agency will be required to submit documentation supporting that appropriate adjustments were made to credit the WIC Program for this amount.

**Recommendation 8**

Instruct GDHR to review year-end accounting adjustments made by all 19 districts and 2 nonprofit organizations in FY 2004 and FY 2005 and recover all questionable administrative costs charged to the WIC Program.

# Exhibit D – Agency Response

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Mr. John W. Pepper

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**FNS Response**

We will instruct GDHR to make all appropriate adjustments in the remaining districts and nonprofit organizations. They will be required to provide documentation supporting all adjustments made relating to FY 2004 and FY 2005.

Thank you for the opportunity to respond to this draft report. Should you or your staff have any questions regarding this matter, please contact Sara Harding of my Financial Management staff at (404) 562-1919.

Sincerely,



DONALD E. ARNETTE  
Regional Administrator