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

Special Supplemental Nutrition Program
For Women, Infants, and Children—
Nutrition Services and Administrative Costs
In Ohio

Report No.
27004-0004-Ch
JANUARY 2001
DATE: January 25, 2001

REPLY TO
ATTN OF: 27004-0004-Ch

SUBJECT: Supplemental Food Program for Women, Infants, and Children Administrative Costs in Ohio

TO: Theodore O. Bell
Regional Administrator
Food and Nutrition Service
77 West Jackson Boulevard – 20th Floor
Chicago, IL 60604

This report presents the results of our audit of the administrative costs of the Supplemental Food Program for Women, Infants, and Children in Ohio. Your December 6, 2000, response to the draft report is included as exhibit B, with excerpts and the Office of Inspector General’s position incorporated into the relevant sections of the report.

Based on the information contained in the response, we have reached management decisions on all three recommendations in the report. Please follow your internal agency procedures in forwarding final action correspondence to the Office of the Chief Financial Officer.

EDWARD R. KRIVUS
Regional Inspector General
EXECUTIVE SUMMARY

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN-NUTRITION SERVICES AND ADMINISTRATIVE COSTS IN OHIO

REPORT NO. 27004-0004-Ch

RESULTS IN BRIEF

This report presents the results of our audit of administrative and accounting controls over nutrition services and administrative (NSA) costs claimed for Federal reimbursement by the Ohio Department of Health, the State agency responsible for administering the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) in Ohio. The purpose of the audit was to evaluate the adequacy of administrative and accounting controls over WIC expenditures and to determine whether NSA expenditures submitted were accurate and allowable.

Our reviews at the Food and Nutrition Service Regional Office (FNSRO) in Chicago, the Ohio Department of Health, and four local agencies, disclosed that the State agency did not adequately control fiscal year (FY) 1999 WIC Program grant funds as well as prior year grant funds. We found that during FY 1999, the State agency has advanced funds to the local agencies based on budgets rather than actual expenditures. As a result, local agencies maintained excessive cash on hand of up to $1.1 million. This problem has existed since FY 1995.

The State agency’s lack of control over prior year grant funds has resulted in a cash balance from FY’s 1996 through 1998 totaling $283,638 remaining in the State agency’s cash account, rather than being returned to FNS. This occurred because of a lack of communication between the State agency’s Grants Management staff and Cash Management staff. A preliminary review of the prior years’ cash balance by the Grants Management staff, initiated as the result of our audit, has indicated that the Cash Management staff has improperly carried over grant funds from one grant year to the next, made inaccurate accounting entries to the WIC grant fund, and allowed excess funds received from local agencies to remain in the State agency’s cash account.

KEY RECOMMENDATIONS

We recommend that the Food and Nutrition Service (FNS) require the State agency to correct its procedures for advancing grant funds to the local agencies by requiring it to offset the
advances against incoming claims each month in order to ensure that the funding levels reflect the actual expenditures reported by the local agency, to open communication between the Grants Management and Cash Management staffs by implementing procedures that require the immediate return of any unused funds from prior year grants, and to return the unspent funds from prior fiscal years totaling about $283,700.

AGENCY RESPONSE

In its December 6, 2000, written response to the draft report, the FNS Regional Office agreed with the findings and recommendations contained in the report and provided evidence that the $283,638 cited in Recommendation No. 2 had been returned to FNS. We have incorporated applicable portions of the FNS response along with our position in the Findings and Recommendations section of the report. The agency’s response is included as exhibit B of the report.

OIG POSITION

Based on the corrective actions planned and already taken, we accept FNS’ management decisions on all three recommendations.
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INTRODUCTION

BACKGROUND

The Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) provides food, nutrition counseling, and access to health services to low-income women, infants and children. Established as a pilot program in 1972 and made permanent in 1974, WIC is administered at the Federal level by the Food and Nutrition Service (FNS). WIC is not an entitlement program as Congress does not set aside funds to allow every eligible individual to participate in the program. WIC is a Federal grant program for which Congress authorizes a specific amount of funds each year.

WIC Program regulations\(^1\) state that “each State agency’s funds will be provided by means of a letter of credit unless another funding method is specified by the Department. State agencies shall use funds to cover those allowable and documented program costs, which are incurred by the State agency and participating local agencies within their jurisdictions.” The regulations also state that “the State agency shall ensure that each local agency has funds to cover immediate disbursement needs, and the State agency shall offset the advances made against incoming claims each month to ensure the funding levels reflect the actual expenditures reported by the local agency.”

The two kinds of allowable costs under the program are “food costs” and “nutrition services and administration (NSA) costs.” NSA costs include the direct and indirect expenses of: (1) Nutrition education and breastfeeding promotion and support; (2) program certification procedures; (3) outreach services; (4) administering the food delivery system; (5) translators for materials and interpreters; (6) fair hearings; (7) monitoring and review of program operations; (8) screening for drug and other harmful substance use and making referrals for counseling and treatment services; and (9) breastfeeding aids.

The WIC Program is administered in Ohio by the Ohio Department of Health and 76 local agencies. The local agencies provide program benefits through clinics located in all of Ohio’s 88 counties. The State’s total NSA expenditures for Fiscal Year (FY) 1999 were about $35.8 million. The State agency draws down funds from the U.S. Treasury through a letter of credit. The local agencies receive their operating funds through advances.

\(^1\) Title 7 Code of Federal Regulations (CFR), Section 246.16
The State agency's portion of the NSA expenditures for FY 1999 was about $4.6 million, while the local agencies' portion was about $31.2 million.

**OBJECTIVES**

The objectives of the audit were to:  
1. Evaluate the adequacy of FNS' and the State agency's administrative and accounting controls over WIC expenditures, including costs incurred by local agencies;  
2. determine whether NSA expenditures submitted for Federal reimbursement were both accurate and allowable;  
3. determine whether accounting and administrative controls were adequate to ensure that administrative costs included provisions for nutrition education; and  
4. to determine if at least one-sixth of the NSA costs were for nutrition education related expenses.

**SCOPE**

Audit work was performed at the FNS Midwest Regional Office, Chicago, Illinois; the Ohio State Agency, Columbus, Ohio; and four judgmentally-selected local agencies located in Hamilton, Clark, Portage/Columbiana, and Scioto counties. These four local agencies received about $4.6 million of the total $35.8 million of NSA funding in FY 1999. The audit period was FY 1999. It also included FY 1996 through 1998 as it related only to grant funds on hand at the State agency. We performed the fieldwork from May through July 2000.

We conducted this audit in accordance with generally accepted government auditing standards.

**METHODOLOGY**

We reviewed the applicable program policies, procedures, and regulations at the FNSRO. In addition, we reviewed recent single audit reports for the State agency and the local agencies that were selected for review, as well as recent management evaluations conducted of the State agency by FNSRO, and conducted by the State agency of the local agencies selected for review.

At the State agency, we performed an analysis of the letter of credit drawdowns in order to determine if the State agency minimized the time elapsing between receipt of Federal funds and the disbursements of these funds for program costs. We reviewed the State agency's Cash Daily Reports to determine if the State agency maintained excessive cash balances on hand for the current and prior fiscal years. In addition, we compared the local agency's expenditures reported to the State agency on their monthly Certified Expenditure Reports with the amount of funds advanced by the State agency, as detailed on the Monthly Detailed Disbursement Report from the State agency's accounting system, to
determine if the local agencies’ funding levels reflect their actual expenditures.

We selected samples of State and local agency NSA expenditures and traced them back to the agency’s supporting documents such as payroll records, receipts, invoices, and purchase orders in order to determine if the expenditures reported were accurate and allowable. We also conducted interviews with FNS, State agency, and local agency officials, and other individuals as deemed necessary.
FINDINGS AND RECOMMENDATIONS

CHAPTER 1  THE STATE AGENCY DID NOT ADEQUATELY CONTROL WIC PROGRAM GRANT FUNDS

During FY 1999, the State agency advanced funds to the local agencies quarterly and based the advances on their budgets rather than their actual expenditures, which allowed them to maintain excessive cash on hand. Also, the State agency’s lack of control over prior year grant funds has resulted in unspent funds totaling about $283,700 remaining in the State agency’s bank account, rather than being returned to FNS. These conditions were caused by the State agency’s poor cash handling procedures, and the lack of communication between their Grants Management and Cash Management staffs. This lack of communication allowed the State agency to disregard Federal regulations regarding the control of WIC Program grant funds. This problem has existed since FY 1995 when the State agency had to return almost $537,000 in advances that it had made to local agencies in excess of their needs.

The State agency did not disburse funds to local agencies based on their actual expenditures. This occurred because the State agency’s procedures for advancing funds to local agencies are inadequate to ensure that the local agencies’ funding levels reflect their actual expenditures. The State agency procedures require quarterly advances based on the local agency budgets rather than actual expenditures. The funds that are being advanced to the local agencies in excess of their expenditures each month should remain in the control of the State agency until they are needed. The State agency procedures encourage the State agency to transfer control of the funds from the State agency to the local agencies. As a result, the local agencies maintained excessive funds on hand of up to almost $1.1 million.

WIC Program regulations\(^2\) state “the State agency shall offset the advances made against incoming claims each month to ensure that funding levels reflect the actual expenditures reported by the local agency.” However, the State agency’s procedures for advancing funds to the local agencies\(^3\) state

\[\text{\(7\ CFR\ 246.16\ (d)\)}\]

\[\text{\(\text{Ohio State Plan of Operations, FY 1999}\)}\]

FINDING NO. 1
THE STATE AGENCY DID NOT ADVANCE FY 1999 GRANT FUNDS TO LOCAL AGENCIES ACCORDING TO THEIR ACTUAL EXPENDITURES
that “advances are initiated upon receipt of monthly financial reports based on a formula which incorporates past expenditures.” Their procedures also state “claims are reconciled on a monthly basis against the advance.” Other State agency procedures state that the advances for the first 2 quarters are based on budgets rather than actual expenditures, and that the last 2 quarterly advances are based on the budget plus obligations less cash balance on hand. The State agency’s procedures are inadequate because they do not include specific procedures for adjusting subsequent advances based on the monthly reconciliation and therefore, do not ensure that funding levels reflect actual expenditures.

We performed an analysis of local agency advances made by the State agency. We interviewed staff in the Grants Management section at the State agency and obtained their written procedures. They state that the advances for the first two quarters are based on budgets rather than actual expenditures, and that the last two quarterly advances are based on the budget plus obligations less cash balance on hand. These procedures indicate that the local agencies could be operating with a deficit at times, and have excess cash at other times, contrary to the requirement in the regulations for the advances to reflect actual expenditures. Therefore, we did a further analysis at the local agencies to determine if either or both of these conditions existed, and also to determine if advances are being made according to the Grants Management staff at the State agency.

We looked at the funds on hand at the 4 local agencies for all 12 months of FY 1999 to determine how the advances are actually being made. We compared the amount of funds advanced, per the State of Ohio warrants and other local agency records, with the amount of the local agency’s expenditures each month, per the Certified Expenditure Reports submitted to the State agency each month, in order to determine whether the local agency advances reflected their actual expenditures or whether the local agency had to operate with a deficit or surplus.

Our reviews at the four local agencies identified excessive cash on hand at all four. We also found that two of the local agencies had excess funds on hand at the end of the fiscal year that had to be paid back. Hamilton County had almost $257,000 left over and Clark County had almost $26,000 left over at the end of the fiscal year.

Specific details of our reviews at the local agencies follows.

• The local agency in Hamilton County had excessive cash balances in 11 months ranging from over $107,000 to almost $1.1 million, when their average monthly expenditures were approximately $205,000.

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4 Grants Administration Unit, Subgrantee Payment Formula
• The local agency in Clark County had excessive cash on hand during all 12 months of FY 1999 ranging from almost $20,000 to over $177,000, when their average monthly expenditures were approximately $43,000.

• The local agency in Portage/Columbiana Counties had excessive cash balances for 5 months ranging from over $67,000 to over $193,000, when their average monthly expenditures were approximately $68,000.

• The local agency in Scioto County had excessive cash balances for 5 months ranging from over $33,000 to over $106,000, when their average monthly expenditures were approximately $37,000.

The local agencies also were forced to operate at deficits at times, but we determined that this was due to the unavailability of the State agency’s letter of credit at the beginning of the fiscal year rather than the State agency’s poor cash handling procedures.

The problem with excessive local agency advances has existed since FY 1995. The FNS Regional Office (FNSRO) identified, in an FY 1997 management evaluation, that the State agency made excessive advances to the local agencies. As a result, the State agency was required to pay back almost $537,000 in FY 1995 local agency advances which were in excess of their actual expenditures, but had never been returned. FNSRO was aware of problems in this area and had already recommended that the State agency take corrective actions; however, the agreed-to-corrective actions had not been implemented.

State agency officials stated that, since the local agencies spend 95 to 100 percent of their grant amount, their goal is to get the money out to the local agencies. They are not concerned with whether they have too much money during the year. While the State agency has corrected this problem by returning excessive local agency advances more timely, they continue to advance excessive funds during the year without regard to whether the local agency actually needs all of the funds. The Chief of the Women, Infants, and Children bureau at the State agency agreed with our finding.
RECOMMENDATION NO. 1

Require the State agency to correct their procedures, requiring them to offset the advances made to local agencies against incoming claims each month in order to ensure the funding levels reflect the actual expenditures reported by the local agency.

Agency Response

In its December 6, 2000, response, FNS agreed with the recommendation. The State agency will review procedures for payments to WIC local agencies to ensure that advances made against incoming claims reflect actual expenditures reported by the local agencies. In addition, the State agency is in the process of implementing the Grants Management Information System (GMIS), a new, electronic system for the overall management of subgrants, which will facilitate improved monitoring of payments and expenditure reporting of all subgrant programs at the State agency. With the conversion of WIC local agencies to GMIS, the State agency will have an effective tool that can provide an instantaneous report of actual reported expenditures upon which to base subsequent payments. FNS will review the functionality of GMIS and the elements for payments and identify adjustments required to ensure that payments are not in excess of immediate disbursement needs of WIC local agencies. The revised procedures for quarterly payments to WIC local agencies will include specific procedures for adjusting advances and will be forwarded to FNS by January 31, 2001.

OIG Position

Based on the corrective action planned, we accept FNS' management decision on this recommendation.

FINDING NO. 2

THE STATE AGENCY DID NOT RETURN PRIOR YEAR GRANT FUNDS

The State agency has excessive funds on hand from fiscal years 1996 through 1998. This occurred because of a lack of communication between the two State agency staffs that currently handle all State agency grants. Neither staff has taken responsibility to ensure that grant funds on hand in excess of expenditures are returned for reallocation. As a result, prior year grant funds on hand at the State agency, totaling about $283,700, were not reallocated for other WIC Program needs.
The Federal regulations governing grants to State and local governments\(^5\) state that the “grantee must immediately refund to the Federal agency any balance of unobligated (unencumbered) cash advanced that is not authorized to be retained for use on other grants.” WIC Program regulations\(^6\) state that “in any fiscal year unused amounts from a prior fiscal year that are identified by the end of the first quarter of the fiscal year shall be recovered and reallocated not later than the beginning of the second quarter of the fiscal year. Unused amounts from a prior fiscal year that are identified after the end of the first quarter of the fiscal year shall be recovered and reallocated on a timely basis.”

Our reviews of the letter of credit drawdowns made by the State agency for the FY 1999 WIC NSA grant included a review of the State agency’s Cash Daily Report. This daily report shows the balance of cash on hand for each grant that the State agency manages, per the State agency accounting records. We noted that the Cash Daily Report, as of June 28, 2000, indicates that the State agency has cash on hand from the FY 1996 WIC grant of almost $140,000, the FY 1997 WIC grant of over $135,300, and the FY 1998 grant of almost $8,400, for a total of almost $283,700.

The Grants Management staff manages the grants while the Cash Management staff handles the accounting entries. The two staffs have no communication and neither has been given the responsibility to ensure that any balance of cash in excess of expenditures for a prior fiscal year grant is returned immediately, as is required by Federal regulations. The lack of communication has allowed this problem to develop and continue while neither staff has performed reviews and followup actions to correct the problem. Prior to the WIC grant being handled by two different State agency staffs, it was handled by an exclusive WIC fiscal staff that was able to maintain exclusive control over WIC grant funds and accounting entries.

We are unable to determine whether there are excess funds from the FY 1999 grant because FNSRO has not completed the closeout process yet for this grant. FNSRO was unaware of the cash balances shown on the State agency’s accounting records for prior fiscal years until we informed them. FNSRO officials agreed that the State agency must return any leftover funds from prior fiscal years that are already closed and finalized.

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\(^5\) 7 CFR 3016, Subpart D—After-the-Grant Requirements, Section 3016.50 (d) (2)
\(^6\) 7 CFR 246.16 (a) (5)
The director of the Grants Management staff stated that they have always balanced the amount of their drawdowns each FY with the amount of their expenditures, but the Cash Management staff has improperly handled the accounting records for the WIC grant. As a result of our audit, the director reviewed prior year cash balances and found that the Cash Management staff had a policy to carry over any leftover cash from one fiscal year to the next, made inaccurate accounting entries in the WIC grant’s cash account, and allowed excess funds received from the local agencies to remain in the State agency’s cash account instead of being returned at the time of grant closeout.

We asked the State agency staff about the source of these leftover funds. They indicated that some funds probably were returned to the State agency by local agencies after the grant was closed, and some funds may be the result of a previously canceled warrant being reissued. The State agency has agreed that they have responsibility to reconcile and return any excess funds. They also stated that when WIC had an exclusive fiscal staff, they were instructed by FNSRO to return unspent grant funds from prior fiscal years by sending a check along with a letter explaining the return. FNSRO instructed them not to amend their expenditure reports. FNSRO is unaware of any excess funds from prior fiscal years until they receive the letter and the check from the State agency.

RECOMMENDATION NO. 2

Require the State agency to return the unspent funds from prior fiscal years totaling $283,638.

Agency Response

In its December 6, 2000, response, FNS agreed with the recommendation. Subsequently, FNS provided us a copy of a check for the $283,638 which the State agency had sent to FNS.

OIG Position

We have reached management decision on this recommendation.
RECOMMENDATION NO. 3

Require the State agency to implement procedures that require the immediate return of any unused funds from prior year grants.

Agency Response

FNS agreed with the recommendation. The Ohio Office of Financial Affairs will revise internal procedures for the closeout of the WIC Program grant and preparation of the FNS 498 and FNS 227 reports. The revised WIC closeout procedures will specify timeframes for the return of prior year funds to FNS. The revised procedure will also incorporate instructions for payment of prior year claims. In addition, the Chiefs of the Accounting Section and the Federal Reporting Unit will be required to provide a quarterly summary report identifying receipt of unspent funds from a prior fiscal year, as reconciled to the Cash Monthly Report. The summary report will also document the return of prior year’s funds to FNS on a quarterly basis and the adjustment to the Chief of Financial Affairs at the end of each quarter as verification of compliance with Federal regulations for the return of prior year funds. These corrective actions were to have been implemented by December 31, 2000.

OIG Position

We have accepted FNS’ management decision on this recommendation.
GENERAL COMMENTS

Our reviews at the State and local agencies included objectives to determine whether NSA costs include provisions for nutrition education, and whether the State agency and the local agencies spent at least one-sixth of their NSA grant funds on nutrition education, as required by WIC regulations. We did not find any problems in either of these areas.

In addition, we conducted interviews with State and local agency officials, and performed reviews at the local agencies to determine whether the local agencies offered education to WIC participants relating to the effects of drug and alcohol use by pregnant, postpartum, or breastfeeding women on developing children, as required by Public Law 105-336, Section 203. State agency officials stated that initial assessment of potential WIC participants includes questions regarding drug and alcohol use. If the information provided is affirmative, the nutritionist explains the dangers of substance abuse on the developing child. If the nutritionist feels there may be an abuse problem, he/she refers the person to an outside substance abuse agency. They do not get involved in actual substance abuse counseling. The State agency does not perform an accounting of costs associated with screening and referring participants. The State agency official stated that this process takes less than 5 minutes and would be very cumbersome to calculate the expense of 5 minutes of a nutritionist’s time for each woman or child certified. The State agency official also stated that the screening of participants included questions about drug and alcohol use prior to Public Law 105-336. Our reviews at four local agencies determined that the procedures for providing education on the dangers of substance abuse during certification, and making referrals to an outside agency for substance abuse counseling, as detailed above, are being carried out. None of the local agencies identified any additional costs to the WIC Program associated with these procedures.
## EXHIBIT A – SUMMARY OF MONETARY RESULTS

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<th>FINDING NO.</th>
<th>DESCRIPTION</th>
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<td>Unspent funds from prior fiscal years not returned</td>
<td>$283,638</td>
<td>Questioned Costs, Recovery Recommended</td>
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</tbody>
</table>
EXHIBIT B – FNS’ RESPONSE TO THE DRAFT REPORT

Edward R. Krivus, Regional Director for Audit
Office of the Inspector General
Midwest Regional Office
111 North Canal Street, Suite 1130
Chicago, Ill. 60606-7295

December 6, 2000

Dear Mr. Krivus:

We have received the Official Draft Report 27004-0004-Ch, “Special Supplemental Nutrition Program for Women, Infants, and Children - Nutrition Services and Administrative Costs in Ohio.” We address each recommendation below.

Recommendation 1: Require the State agency (SA) to correct their procedures, requiring them to offset the advances made to local agencies against incoming claims each month in order to ensure the funding levels reflect the actual expenditures reported by the local agency.

FNS agrees with this recommendation.

The Ohio Department of Health (ODH) will review procedures for payments to WIC local agencies to ensure that advances made against incoming claims reflect actual expenditures reported by the local agencies.

ODH is in the process of implementing a new, electronic system for the overall management of subgrants - Grants Management Information System (GMIS) - which will facilitate improved monitoring of payments and expenditure reporting of all subgrant programs in ODH.

With the conversion of WIC local agencies to GMIS, ODH has an effective tool that can provide an instantaneous report of actual reported expenditures upon which to base subsequent payments. The combination of GMIS with other automations in the State’s accounting system will drastically shorten processing time of payments, minimize the potential for local agency cash flow problems and strengthen ODH’s compliance with federal regulations.

Implementation time frames: The Department will review the functionality of GMIS and the elements for payments and identify adjustments required to ensure that payments are not in excess of immediate disbursement needs of WIC local agencies. The revised procedures for quarterly payments to WIC local agencies will include specific procedures for adjusting advances and be forwarded to FNS by January 31, 2001.

Recommendation 2: Require the SA to return unspent funds from prior fiscal years totaling $283,638.

FNS agrees with this recommendation.

AN EQUAL OPPORTUNITY EMPLOYER
The Department will return unspent funds from prior fiscal years totaling $283,638.26. A warrant for payment has been initiated through the State’s accounting system and will be forwarded to FNS.

Recommendation 3: Require the SA to implement procedures that require the immediate return of any unspent funds from prior years grants.

FNS agrees with this recommendation.

The Office of Financial Affairs (OFA) will revise internal procedures for the close out of the WIC Program grant and preparation of the FNS 498 and FNS 227 reports. The revised WIC close out procedures will clearly delineate responsibilities of each work unit of the OFA in reconciliation and preparation of the reports, as well as specify time frames for the submission of requests for payments and returns of prior year funds to FNS. The revised procedure will also incorporate instructions for payment of prior year claims.

The Chiefs of the Accounting Section and of the Federal Reporting Unit will be required to provide a quarterly summary report identifying receipt of unspent funds from a prior fiscal year, as reconciled to the Department’s Cash Monthly Report. The summary report will also document the return of prior year’s funds to FNS on a quarterly basis and the adjustment to the Chief of Financial Affairs at the end of each quarter as verification of the Department’s compliance with federal regulations for the return of prior year funds.

Implementation time frame: ODH procedures for the close out of the WIC program grant will be revised to include prior years claims and implemented by January 1, 2001.

The summary report of the unspent prior year funds for the quarter ended September 30, 2000 is due to the Chief of Financial Affairs by December 31, 2000.

FNS agrees with exhibit A - Summary of Monetary Results in the audit report.

If you have any questions, please contact Frank Suchy at (312) 353-8239 or e-mail him at frank.suchy@fns.usda.gov.

Sincerely,

[Signature]

DAVE MACTAGGART
Chief
Fiscal/State Systems
Financial Management

Enclosure

cc: Sandra Slayton, Director, WIC